

not violate ERISA. The court also found that Xerox's disclosure of the method had been inadequate in documents issued in 1993, but that the Employees were not entitled to any remedy for that deficient disclosure because they had neither relied on that disclosure nor been prejudiced by it. The Employees timely filed this appeal.

Xerox's method of accounting for prior distributions in calculating the Employees' final retirement benefits violates the substantive requirements of ERISA. The Income Guarantee Plan phantom offset violates ERISA by overestimating the value of distributions made upon a previous separation from employment, and the corresponding reduction in benefits at retirement. ERISA requires actuarial equivalence between the actual distribution and the accrued benefit it replaces.

As a hybrid defined benefit plan with some features of a defined contribution plan, the Income Guarantee Plan (both before and after amendment, and including the Cash Balance Retirement Account component) must satisfy the actuarial rules ERISA applies to defined benefit plans. It is well settled that ERISA allows so-called "floor-offset" plans, in which the participant takes the greater of a defined benefit or a defined contribution benefit amount. However, the defined benefit and defined contribution portions of a combined floor-offset plan must satisfy the ERISA requirements applicable to the respective types of plans.

The trouble arises in integrating the distributions with Xerox's obligations under the defined benefit portion of its pension plans. The Income Guarantee Plan guaranteed the Employees a minimum total retirement benefit, and provided benefits to the extent the Profit Sharing Plan failed to satisfy that minimum. The Income Guarantee Plan's promise of a defined benefit amount triggered ERISA's defined benefit plan rules, which require that any lump-sum substitute for an accrued pension benefit be the actuarial equivalent of that benefit. Some reduction of future pension benefits to account for the prior distributions is appropriate, but only to the extent that the future benefit is "attributable to the distribution."

The applicable regulations permit a plan to subtract from a final defined benefit only the "accrued benefit attributable to the [prior] distribution." Xerox's "phantom account" offset exaggerates the amount of "accrued benefit" under the Income Guarantee Plan attributable to the Employees' Profit Sharing Plan distributions, in violation of those regulations, by deducting from the Employees' benefits the distribution's hypothetical value at final retirement, rather than the benefit attributable to the distribution itself. The Employees—and all other plan participants subject to similar benefit adjustments—are entitled to a calculation of benefits that subtracts from their final Income Guarantee Plan benefit only the benefit actually attributable to the Profit Sharing Plan distributions.

Because Xerox improperly overstated the benefit attributable to the Profit Sharing Plan distributions the Employees received in 1983, we reverse the judgment of the district court. Reversed and Remanded.

Case Commentary

The Ninth Circuit held that Xerox violated ERISA because its reduction in pension benefits to the plaintiffs was greater than the accrued pension benefit from the earlier distributions.

Case Questions

1. Do you agree with the decision of the court?
2. Was there any justification for Xerox's scheme?
3. Is there an ethical resolution to this matter?

industry retiree health benefit Act v. ...
Jericol Mining Company (Jericol). The
Commissioner to assign retired mine
tory operators. The United States Cou
We affirm.

The Coal Act reconfigured the sy
in the coal industry. In restructuring th
tury of collective-bargaining agreemen
of America (UMWA), the coal miners'
had often led to lengthy strikes with se
employees. Confronted with an indust
ficult task.

In 1974, in order to comply with
(ERISA), the UMWA and the BCOA i
NBCWA (National Bituminous Coal V
the 1950 fund.

These benefit plans quickly dew
cuted another NBCWA. This agreeme
retired employees to the respective c
NBCWAs, and left the 1974 Benefit Pla
were no longer in business.

Nonetheless, financial problems
players who had signed the 1978 NIB
business with nonunion employees o
coal operators abandoned the Benefit
increasing cost of covering retirees le
NBCWA, the UMWA and the BCOA i
posing withdrawal liability on NBCWA.

Despite these efforts, the plans
120,000 individuals who received hea
benefits. About 60% of these individu
employers were no longer contributi
that were no longer UMWA-represen
aggravated by rising health care costs.

Congress considered these and
tion of health benefits for coal miner
islative solution to the crisis, however
Benefit Plans into a new multiemp
Combined Benefit Fund (Combined
minums assessed against signatory co
or any other agreement requiring con
signatory is no longer in business, 1
group of "related persons." The Coal
signing each eligible beneficiary to a
tifies specific categories of signator
Commissioner to assign beneficiary
Act also ensures that if a beneficiar
within the aforementioned categori
either with funds transferred from