The ERISA Trustee: Saying “No” to a Tender Offer

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NOTES

THE ERISA TRUSTEE: SAYING "NO"
TO A TENDER OFFER

The threat of a tender offer continues to influence modern business practice. In addition, the amount of assets held in employee-benefit plans continues to expand. Sponsor stock constitutes a significant portion of such assets. When a tender offeror directs his efforts at the sponsor corporation, plan trustees must decide whether to retain or tender plan-held shares. Whatever their response, the trustees must comply with the fiduciary standards contained in The Employee Retirement Income Security Act (ERISA).

This Note considers the propriety of refusing to tender plan-held shares. Part I highlights ERISA's purpose and structure. Part II explains ERISA's fiduciary standards. Part III examines the proper trustee response, recommends that trustees conduct a two-step analysis in responding to a tender offer, and argues that courts should show great deference to ERISA trustee decisions to retain plan-held shares.


4. Most employee benefit plan assets must be held in trust by one or more trustees. Subject to stated exceptions, the trustees must possess exclusive authority and discretion over such assets. ERISA § 403(a), 29 U.S.C. § 1103(a) (1982). A "defined contribution" plan may permit a participant to exercise control over assets in his account and thereby relieve the trustee from liability. Id. at § 404(c), 29 U.S.C. § 1104(c) (1982). In a tender offer context, target companies have amended plans to provide for participant direction. See Davis & Daniel, Limiting the Potential Liability of a Plan Trustee in the Event of a Takeover Attempt, 9 J. PEN. PLAN. & COMP. 269, 276 (1983). For the definition of "defined contribution" plan, see infra note 15.

I. Structure and Purpose

Congress enacted ERISA in response to the substantial growth in size, scope and numbers of employee benefit plans in recent years. Congress intended to protect plan beneficiaries from abuse and financial instability. To accomplish this goal, Congress included specific standards governing fiduciary conduct. A plan trustee must comply with these standards in distributing benefits and determining trust investment policy. ERISA imposes liability for failures to comply with fiduciary responsibilities.

In addition to fiduciary standards, Congress included other provisions designed to protect beneficiaries in ERISA and the corresponding Internal Revenue Code sections. For example, coverage provisions require the sponsor to allow a minimum percentage of employees to participate in the plan. Minimum participation standards prohibit the sponsor from conditioning participation on burdensome age and service requirements. Congress also required that an employee's right to benefits must vest within a stated number of years. Congress did not, however, require a sponsor to provide a minimum level of benefit. ERISA's protec-

11. I.R.C. § 410(b)(1) (1982) requires that 70% of all employees, or at least 80% of all eligible employees if at least 70% of all employees are eligible to participate, must benefit. A plan need not comply with the percentage tests if the coverage it provides does not favor the group consisting of officers, shareholders and highly compensated employees. I.R.C. § 410(b)(2) (1982).
13. I.R.C. § 411(a) (1982) establishes alternative vesting schedules limiting the number of years over which an employee's accrued benefit must become nonforfeitable. Id. See also ERISA § 203(a), 26 U.S.C. § 1053(a) (1982). Internal Revenue Code sections 410 and 411 impose minimum

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Employee-benefit plans derive funds from two sources—required contributions and investment return. The type of established plan determines the significance of each fund source. In a "defined-contribution" plan, employer contribution levels are fixed. The investment return on these fixed contributions significantly affects the ultimate employee benefit. In a "defined-benefit" plan, employee benefit levels are predetermined on the basis of a set formula. The investment return on employer contributions does not affect the ultimate benefit received. Rather, in a defined-benefit plan, a successful investment strategy serves only to reduce employer contribution amounts.

II. ERISA's Fiduciary Standard

Common-law trust principles provide the foundation for ERISA's fiduciary standards. The common law requires a trustee to manage trust assets in a "prudent" manner. In addition to prudence, the common law demands that a trustee act with complete loyalty. The trustee must
administer the trust solely in the interest of the income beneficiaries and trust remaindermen.

ERISA binds an employee benefit trustee to similar duties.\(^{22}\) ERISA section 404(a)(1)(A) requires a plan trustee to discharge his duties for the exclusive purpose of providing benefits to participants and their beneficiaries.\(^ {23}\) This rule does not disallow incidental benefits to a third party. It does, however, prohibit the use of plan assets for the primary benefit of a party other than the plan itself.\(^ {24}\) In adopting the "exclusive purpose" rule, Congress codified the common-law trustee's duty of complete loyalty.\(^ {25}\)

ERISA section 404(a)(1)(B) contains a modified version of the common law duty of prudence.\(^ {26}\) An ERISA trustee must act "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."\(^ {27}\) In adopting the ERISA "prudent man" rule, Congress indicated that courts interpreting this rule should consider "the special nature and purpose of employee benefit plans."\(^ {28}\)

III. THE TRUSTEE RESPONSE

A. Proper Procedure

Courts applying ERISA's fiduciary standards do not consider the outcome of the chosen investment policy. Rather, courts test the trustee's

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(1) ... a fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and—
   (A) for the exclusive purpose of:
      (i) providing benefits to participants and their beneficiaries; and
      (ii) defraying reasonable expenses of administer ing the plan;
   (B) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims . . . .


25. \(\text{See supra note 21 and accompanying text.}\)


27. \(\text{Id. See text of statute, supra note 22.}\)

decisionmaking process for evidence of loyalty and prudence.\textsuperscript{29} Thus, the procedures employed in formulating a tender offer response will, in part, determine the legal sufficiency of the response.\textsuperscript{30} Courts have developed standards that provide procedural guidance for trustees.

In \textit{Donovan v. Bierwirth},\textsuperscript{31} the Second Circuit addressed the propriety of trustee action in response to a tender offer. The trustees had refused to tender plan-held shares,\textsuperscript{32} and the Department of Labor challenged the trustees' action as a breach of fiduciary duty. The court held that the trustees' failure to conduct a thorough and independent evaluation violated section 404.\textsuperscript{33} Thus, \textit{Bierwirth} requires a trustee formulating a plan response to a tender offer to consider independently the best interests of the beneficiaries apart from the sponsor's tender offer policy and response.\textsuperscript{34}

In \textit{Bierwirth}, the trustees decided not to tender after a mere half hour discussion.\textsuperscript{35} The court found that the trustees had acted imprudently in failing to investigate thoroughly the merits of the tender offer.\textsuperscript{36} In \textit{Withers v. Teachers' Retirement System},\textsuperscript{37} a non-tender offer case, the court

\begin{footnotesize}
\textsuperscript{29} See, e.g., Donovan v. Cunningham, 716 F.2d 1455, 1467 (5th Cir. 1983); Marshall v. Glass/Metal Ass'n & Glaziers, 507 F. Supp. 378, 384 (D. Hawaii 1980); Leigh v. Engle, 727 F.2d 113, 122 (7th Cir. 1984) (even an extraordinary investment return does not shield an imprudent trustee).


\textsuperscript{31} 680 F.2d 263 (2d Cir. 1982), cert. denied, 459 U.S. 1069 (1983).

\textsuperscript{32} \textit{Id.} at 268. In \textit{Bierwirth}, LTV Corp. offered $45 per share for Grumman Corp. stock. At the time of the offer, the stock sold for between $23 and $27 on the New York Stock Exchange. \textit{Id.} at 266. Grumman's plan was a defined benefit plan holding about 3.8% of Grumman's outstanding shares. \textit{Id.} at 269.

\textsuperscript{33} \textit{Id.} at 273. The trustees relied on a letter from Grumman directors to shareholders as a basis for their decision. The court found that the letter contained significant omissions relating to LTV's pension plans which an independent investigation would have revealed. \textit{Id.}

\textsuperscript{34} Compare \textit{Bierwirth} with \textit{Withers v. Teachers' Retirement Sys.}, 447 F. Supp. 1248, 1258-59 (S.D.N.Y. 1978), aff'd, 595 F.2d 1210 (2d Cir. 1979) (finding a speculative investment as prudent partly because trustees personally reviewed reports and financial figures). Trustees may obtain the aid of independent counsel to provide some measure of protection. See Comment, \textit{Prudent Response}, supra note 30, at 861.

\textsuperscript{35} \textit{Bierwirth}, 680 F.2d at 268.

\textsuperscript{36} \textit{Id.} at 273.

\end{footnotesize}
approved trustee investment in speculative bonds.\textsuperscript{38} The court reached this result in part because the trustees had conducted an extensive investigation.\textsuperscript{39} Thus, the ERISA trustee must make a thorough assessment of the offer's merits.

Courts have not indicated which substantive factors a prudent trustee must consider in formulating a response. Some commentators suggest that resignation provides the only practical solution for a trustee serving in the dual role as corporate officer.\textsuperscript{40} Although such suggestions lack practicality, the absence of judicial guidance may force this result.

B. Substance: An Argument for Wide Latitude

Courts traditionally interpret the common-law prudence standard to require a trustee to promote two investment goals: assurance of adequate return and protection of the trust corpus.\textsuperscript{41} Common-law trustees must balance these interests to assure financial security for the current income recipients and trust remaindermen.\textsuperscript{42} The traditional test of prudence requires the trustee to consider the possibility of investment gain and loss in deciding to purchase or sell an asset.\textsuperscript{43}

An ERISA trust does not create competing tensions between life beneficiaries and remaindermen.\textsuperscript{44} However, an ERISA trustee faces analogous conflicts between current income recipients and future income

\textsuperscript{38} In \textit{Withers}, the pension plan covering employees of New York City purchased over $2.5 billion of city bonds. New York City, threatened with bankruptcy, would have had to default on its obligations to fund the plan. To avoid bankruptcy, the trustees agreed to purchase the speculative bonds. \textit{Id.} at 1252-53.


\textsuperscript{40} See Comment, \textit{Prudent Response, supra} note 30, at 870 (despite all precaution, “a corporation trustee has a duty to resign . . . when his corporation is a target of a hostile takeover attempt”).

\textsuperscript{41} See A. SCOTT, \textit{supra} note 20, at §§ 176 & 181.

\textsuperscript{42} See, e.g., Dennis v. R.I. Hosp. Trust Nat. Bank, 744 F.2d 893 (5th Cir. 1984) (holding a trustee liable who had managed property so as to maximize income at the expense of property deterioration); Peoples Trust Co. v. United States, 311 F. Supp. 1197 (D.N.J. 1970), \textit{aff’d}, 444 F.2d 193 (3d Cir. 1971) (holding that under state law a trustee owes equal duties to life beneficiary and remaindermen); Commercial Trust Co. v. Barnard, 27 N.J. 332, 142 A.2d 865 (1958) (noting that a trustee should preserve the trust estate while receiving reasonable income).

\textsuperscript{43} See Note, \textit{supra} note 18, at 966-67. \textit{See also} Note, \textit{The Regulation of Risky Investments}, 83 HARV. L. REV. 603, 616-17 (1970) [hereinafter cited as \textit{Risky Investments}] (the risk of loss runs throughout the various legal approaches).

\textsuperscript{44} Pension trusts are designed to provide only income benefits. The trust corpus does not pass to remaindermen. \textit{See Note, supra} note 18, at 967 (“the central problem shaping the development of

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beneficiaries. The trustee must provide current retirement payments in an impartial manner and guard the actuarial soundness of the fund for future retirees. Current investment income does not directly affect payments to current retirees. Thus, in responding to a tender offer, the trustee must focus on the potential effects on future beneficiaries.

This Note proposes that a trustee employ a two-step analysis in responding to a tender offer. First, consistent with the common law, the trustee should consider the possibility of direct gain or loss. The nature of ERISA trusts, however, diminishes the importance of these considerations. Second, in a departure from the common law, the trustee must consider the effect on the plan and future income beneficiaries. The trustee must guard participant expectations.

I. Gain or Loss

An ERISA trustee must consider the possibility of gain or loss should he decide to tender plan-held shares. The trustee must independently evaluate the adequacy of the offered price. He must consider current sponsor dividend policy and determine the potential for future increases in stock value. If the bidder offers stock or other securities, the trustee

45. See, e.g., Winpisinger v. Aurora Corp. of Ill., 456 F. Supp. 1455, 1466 (N.D. Ohio 1978) ("a fiduciary is forbidden from granting preference as between plan's participants or as between plan's beneficiaries").


47. At retirement, the benefit level generally is not subject to change. See supra notes 16 & 18. An employee's right to 100% of his accrued benefit must be nonforfeitable upon reaching normal retirement age. ERISA 203(a), 29 U.S.C. § 1053(a) (1982). This is true without regard to the vesting schedule employed. See supra note 13 and accompanying text. Thus, even benefits payable under a defined contribution plan generally will not be affected by current investment income.

48. See infra notes 51-53 and accompanying text.

49. See infra notes 54-73 and accompanying text.

50. See infra notes 74-91 and accompanying text.

51. Labor regulations interpreting ERISA's fiduciary standards require the trustee to consider the possibility of investment gain or loss. See 29 C.F.R. § 2550.404a-1(b)(2) (1985). Cf. A. SCOTT, supra note 20, at § 231 (trustees may have a duty to sell if asset values rise and retention is imprudent).

52. See Note, Trustee Duties, supra note 30, at 1713. Inside information may also support a finding that the offered price is inadequate. Id. at 1717 n.89.
must evaluate the strength of such assets relative to current holdings. In short, the trustee must conduct a traditional common-law trust investment analysis.

The trustee should bear in mind, however, the unique role that sponsor stock plays as a plan asset. Congress allowed plan investment in sponsor stock because it recognized the "symbiotic relationship" existing between an employer and the company benefit plan. This relationship benefits both the employee and employer. Plan ownership of sponsor stock represents employee ownership and functions to distribute corporate wealth, improve employee production and facilitate labor relations. Sponsor stock also provides limited plan protection in the form of voting rights. In tendering sponsor stock, the trustee forfeits a friendly voice in corporate governance. Thus, the benefits available from plan ownership of sponsor stock militate against sale of that stock.

In addition, a trustee should consider that a successful ERISA trust strategy does not depend on significant investment return premiums. Annual employer contributions lessen the need for investment income as a means to satisfy current payment obligations. Moreover, the distribution and contribution predictability of ERISA trusts reduces the re-

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54. Private Pension Plan Reform: Hearings Before Subcomm. on Private Pension Plans of Senate Comm. on Finance, 93rd Cong., 1st Sess. 446 (1973) (statement of Labor Dept.). Common-law trust principles concerning trust holding of close corporation stock provides an analogous situation. Courts more readily find a grantor intention to prohibit a trustee from selling family stock held in trust. See A. SCOTT, supra note 20, at § 190.3.
55. See Herald Co. v. Seawell, 472 F.2d 1081 (10th Cir. 1972), where the court noted that a stock ownership plan has the effect of (1) causing greater employee pride in work, (2) reducing employee turnover, (3) pinning down key personnel at a young age, and (4) aiding in production and labor relations. Id. at 1096.
56. Trustees often exercise the voting rights of plan-held shares. In so doing, the trustees must act in accordance with their fiduciary duties. See Davis & Daniel, supra note 4, at 270. In Dimond v. Retirement Plan for Emp. of Michael Baker, 582 F. Supp. 892 (W.D. Pa. 1983), the court recognized the importance of the plan vote. The plan trustees purchased sponsor stock with voting rights vested in the employer. Id. at 898. The court found the trustees liable partly because the employer would "be able to block any Plan's proposal or successfully vote against any proposal which the Plan supports . . . ." Id. See also Note, Restraints, supra note 30, at 744 (courts will look to whether voting control of ESOP shares is vested in trustees or employees as a factor in determining motivation for establishing an ESOP in the face of a tender offer).
requirement for cash reserves.\textsuperscript{58} These factors allow a trustee to strive for long-term growth rather than short-term premium yield.\textsuperscript{59} A trustee should, therefore, find the tender premium less attractive than would other investors. At a minimum, the trustee should compare the offered premium with his estimation of the stock's current and potential market value rather than considering only the immediate, realizable gain.\textsuperscript{60}

A defined-benefit plan trustee also must recognize that the tender premium serves only to decrease employer contributions.\textsuperscript{61} Because only the employer benefits, the tender premium offers a less significant advantage. In addition, without regard to the type of established plan, all investment income becomes part of the plan's assets.\textsuperscript{62} Economic factors and overall investment policy influence the trust's performance over the course of many years. Thus, the tender premium plays an uncertain long-term role in determining ultimate employee or plan benefit.

Trustees also should consider the "promise" of a successful benefit plan when deciding whether to tender plan-held shares. Congress did not intend such plans as vehicles for maximizing participant wealth.\textsuperscript{63} Rather, Congress designed employee-benefit plans to provide reasonable

\textsuperscript{58} See Fiduciary Responsibility and the Employee Retirement Income Security Act of 1974, 12 REAL PROP., PROB. & TRUST J., 285, 298 n.7 (noting that actuarial tables allow trustees to determine the likelihood and timing of events) [hereinafter cited as Responsibility and ERISA]; Note, Risky Investments, supra note 43, at 622 (noting that a young and expanding labor force decreases the trustees' need to consider liquidity). But see 29 C.F.R. § 2550.403a-1 (1985) (liquidity considerations are a part of the Dept. of Labor's investment regulations).


\textsuperscript{60} See Welch, Investment For and Management of Employment Benefit Trusts—Waiver and Modification of the Prudent Man Rule, 110 TR. & EST. 350 (1971). Welch notes that there is no "virtue" in realized gain as compared to unrealized gain. \textit{Id.} at 350-51. Thus, cash does not provide an advantage over appreciated stock or stock with a true value higher than the market reflects.

\textsuperscript{61} See supra note 18 and accompanying text.

\textsuperscript{62} See supra note 4.

\textsuperscript{63} Cf. Elliot Knitwear Profit Sharing Plan v. Comm., 614 F.2d 347 (3d Cir. 1980) (recognizing that "investment activity is a means to accomplish the purpose of deferred compensation—it is not the purpose itself of the Plan").
post-retirement income. Tendering plan-held shares may represent a trustee’s misguided attempt at maximizing current trust income and participant wealth.

Finally, the trustee must consider the possibility of plan termination after a successful acquisition. A defined-benefit plan termination allows the new sponsor to recapture plan funds in excess of the amounts needed to satisfy the current plan liability to participants. If the sponsor plan currently contains an excess, amounts received on tender increase this excess and are subject to recapture. The attractive premium thus becomes a benefit only to the new sponsor.

Thus, ERISA’s focus on providing reasonable income rather than maximum yield, the resulting lack of dependence on high-yield returns, and the interplay of long-term economic forces on overall trust performance, justify great judicial deference to a trustee’s decision concerning any particular investment. These factors, coupled with the unique role of plan-held sponsor stock and the danger of plan termination, should persuade courts to allow trustees wide discretion in their

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65. ERISA § 4042, 29 U.S.C. § 1342 (1985) allows a sponsor to terminate a plan when the sponsor determines that any of the stated conditions exist.


67. See supra notes 63-64 and accompanying text.

68. See supra notes 57-60 and accompanying text.

69. See supra note 62 and accompanying text.

70. See supra notes 54-56 and accompanying text.

71. See supra notes 65-67 and accompanying text.
decision to tender or retain plan-held shares.\textsuperscript{73}

2. \textit{Effect on Plan Participants: Protecting Expectations}

An ERISA trustee must act solely in the interest of plan participants.\textsuperscript{74} Apart from the direct gain or loss associated with a particular investment, the trustee must consider the effect his actions will have on participant expectations. In \textit{Eaves v. Penn},\textsuperscript{75} the Tenth Circuit held a plan fiduciary liable for encouraging a plan amendment that jeopardized participants' "legitimate expectations"\textsuperscript{76} in the form and value of retirement payments.\textsuperscript{77} Thus, in considering a tender offer, the trustee must evaluate the bidder's policy toward employee benefit plans.\textsuperscript{78}

The first option available to a successful bidder, plan termination, jeopardizes benefit expectations. ERISA contains safeguards protecting only accrued employee benefits.\textsuperscript{79} ERISA does not protect ancillary benefits,

\textsuperscript{73} The Department of Labor's "safe harbor" provisions are consistent with an approach allowing great deference to a trustee in a tender offer. 29 C.F.R. § 2550.404a-1 (1985) provides that appropriate trustee considerations include:

(i) A determination \ldots that the particular investment \ldots is reasonably designed, as part of the portfolio \ldots to further the purposes of the plan, taking into consideration the risk of loss and the opportunity for gain \ldots, and

(ii) Consideration of the following factors as they relate to such portion of the portfolio:

(A) The composition of the portfolio with regard to diversification,

(B) The liquidity and current return of the portfolio relative to the anticipated cash flow requirement of the plan, and

(C) The projected return of the portfolio relative to the funding objectives of the plan. \ldots

"Portfolio theory" focuses on the value of the portfolio as a whole as a proper test of prudence. See Responsibility and ERISA, supra note 58, at 293. Although courts generally have rejected portfolio theory, portfolio concerns are weighed in judging the prudence of a particular investment. See, e.g., In re Bank of New York, 35 N.Y.2d 512, 323 N.E.2d 700, 364 N.Y.S.2d 164 (1974). This Note does not advocate portfolio theory, but argues that the portfolio value of sponsor stock should influence judicial treatment of a decision to retain such shares.

\textsuperscript{74} See supra notes 22-25 and accompanying text.

\textsuperscript{75} 587 F.2d 453 (10th Cir. 1978).

\textsuperscript{76} Id. at 463.

\textsuperscript{77} In \textit{Eaves}, the employer converted a profit sharing plan into an ESOP with the goal of having the plan purchase 97\% of the stock of Glen's Inc. Penn, the plan trustee, purchased the remaining shares of Glen's Inc. \textit{Id.} at 455. Under the new plan, distributions were made in company stock. This stock was unmarketable and the beneficiaries held no right to have the company repurchase the stock. The court noted that expectations of beneficial retirement income were jeopardized through this arrangement. \textit{Id.} at 463.

\textsuperscript{78} Accord \textit{Comment, Prudent Response, supra} note 30, at 860 (trustee should thoroughly assess the bidders' pension fund to determine how a merger or acquisition will affect the target plan).

\textsuperscript{79} An "accrued benefit" in a defined-benefit plan is a benefit in the form of an annual benefit commencing at normal retirement age or the actuarial equivalent of the same. An "accrued benefit"
such as medical and disability payments. In addition, termination effectively prevents further benefit accrual in defined contribution plans and defined benefit plans which base benefits on years of participation. Moreover, because salary levels at the time of plan termination are likely to be lower than salary levels at retirement age, termination of a defined benefit plan may freeze employee benefits at a level below the employee's expectation.

Alternatively, a successful bidder may choose to continue the sponsor plan. The trustee, however, must evaluate the terms of plans currently maintained by the bidder for evidence of the bidder's intentions. The trustee must anticipate possible bidder actions toward the target's current plan. ERISA generally prohibits only retroactive plan amendments altering accrual rates and vesting schedules. The employer can prospectively amend such provisions. In addition, the bidder may change future benefit levels and participant options. All of these actions nec-

in a defined-contribution plan is the employee's account balance. \textit{Id.} at § 1.411(a)-7 (1985). \textit{See supra} note 66 and accompanying text.

80. \textit{Cf.} Treas. Reg. § 1.411(a)-7(a)(1)(ii) (1985). The definition of "accrued benefit" does not include ancillary benefits not directly related to retirement payments such as medical benefits, disability benefits, life insurance benefits payable in lump sums or current life insurance protection. \textit{Id.}

81. Amounts credited to an employee's account at the time of plan termination must be nonforfeitable. Treas. Reg. § 1.411(d)-2(a) (1985). After termination, however, additional amounts are not contributed on the employee's behalf.

82. A defined-benefit plan may provide, for example, that for each year of participation the employee will receive a retirement benefit equal to 1% of the employee's average salary for the final 3 years of service. If termination occurs after the employee has completed 10 years of participation, his benefit percentage is effectively frozen.

83. \textit{See} Sheppard, \textit{supra} note 66, at 1328. Sheppard cites the example of a plan termination when an employee is age 45. The plan based benefits on a percentage of salary. Because the employee's salary is likely to be lower at age 45 than at normal retirement age, he will receive amounts less than he would have had the plan continued. \textit{Id.}

84. A third option is plan merger. ERISA § 208, 29 U.S.C. § 1058 (1982) allows a benefit plan to merge with another if the benefit available immediately after the merger is equal to or greater than the premerger benefit. Assuming this requirement is not violated, merger with an underfunded plan will allow a tender premium to be diverted to that plan. The premium thus provides no benefit to the target plan. The trustees in \textit{Bierwirth} recognized this danger, but the court found their fears unjustified. Donovan v. Bierwirth, 680 F.2d 263, 273 (2d Cir. 1982), \textit{cert. denied}, 459 U.S. 1069 (1983).

85. \textit{Accord Comment, Prudent Response, supra} note 30, at 860.


87. ERISA does not mandate minimum funding levels. \textit{See supra} note 14 and accompanying text.

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essarily affect employee expectations.

Finally, the trustee must ascertain the bidder’s intentions as to the target company. For plan participants, the continuation of the sponsor’s business and continued employment with the sponsor provides the only means to insure continued plan participation. In *Wither v. Teachers’ Retirement Systems*,\(^8^9\) the court held that a trustee’s investment in speculative city bonds was a prudent means to insure the city’s continued viability as plan sponsor.\(^9^0\) The court recognized the link between the financial health of the plan and that of the sponsor.\(^9^1\) Likewise, threatened cessation or reduction of the sponsor’s affairs, or likely employee terminations, militate against a tender of plan-held shares. The trustee must protect the participants’ expectations of continued participation.

IV. CONCLUSION

An ERISA trustee faces a difficult dilemma in responding to a tender offer. Tendering plan-held shares may be disadvantageous to the plan. The trustee must conduct a thorough and independent evaluation. He must consider the direct investment gain and loss associated with his decision. He must also determine the likely effect of tendering on the plan and participant expectations. In many instances, retention of plan-held shares may offer the best course of action. Courts should show great deference to a trustee’s decision to withhold plan-held shares.

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\(^8^8\) Ancillary benefits are not accrued benefits subject to protection. See supra note 80. See, e.g., *Pierce v. NECA-IBEW Welfare Trust Fund*, 620 F.2d 589 (6th Cir. 1980), cert. denied, 449 U.S. 1015 (1980) (amendment reduced extended health care coverage from 6 months to 31 days).


\(^9^0\) Id. at 1259. See supra note 38.

\(^9^1\) Id. at 1256 (noting that the importance of the city’s solvency lay in the city’s role as major contributor to the pension fund and guarantor of future benefit payments). *Accord Note, Trustee Duties*, supra note 30, at 1696 (noting that trustee must be concerned with the financial health and history of the bidder corporation).