



Third Circuit Upholds Dismissal of ERISA Class Action Seeking \$65 Million in Drug Rebates

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On September 25, 2024, in a precedential opinion, the Third Circuit affirmed the dismissal of a putative class action under the Employee Retirement Income Security Act, 29 U.S.C. § 1001 *et seq.* ("ERISA"), because the plaintiffs failed to allege the financial harm necessary to establish Article III standing.

In *Knudsen v. MetLife Grp., Inc.*, the plaintiffs, former employees of defendant MetLife Group ("MetLife"), alleged they were forced to pay higher health insurance premiums because MetLife retained \$65 million in drug rebates. The savings from those rebates, according to the plaintiffs, should have been directed to the MetLife-sponsored benefits plan (the "MetLife Plan"). Had they been, the plaintiffs, along with a proposed class of participants and beneficiaries of the MetLife Plan, would have benefited through: (1) reducing their "ongoing contributions on account of the rebates collected by the [MetLife] Plan[;]" (2) realizing savings in their "co-pays and co-insurance for pharmaceutical benefits[;]" and (3) obtaining drug rebates "in proportion to [participants'] contributions to the [MetLife] Plan."

In July 2023, the district court granted MetLife's motion to dismiss under Federal Rule of Civil Procedure 12(b)(1), holding that the plaintiffs failed to show they were owed the drug rebates. Specifically, the plaintiffs did not establish a "concrete stake in the outcome of this lawsuit and have not pled facts to demonstrate an individualized injury." The plaintiffs appealed.

Writing for the Panel in *Knudsen v. MetLife Grp., Inc.*, Judge McKee began by reciting the familiar requirements of Article III standing: (1) an injury-in-fact; (2) that is fairly traceable to the challenged conduct of the defendant; and (3) that is likely to be redressed by a favorable judicial decision. To establish an injury-in-fact, Judge McKee observed, a plaintiff must allege "an invasion of a legally protected interest which is (a) concrete and particularized and (b)

actual or imminent, not conjectural or hypothetical.”

While acknowledging that the bar to plead an injury-in-fact is not high at the motion-to-dismiss stage, the Panel nonetheless agreed that the plaintiffs’ theory of standing—that they “paid more for their health insurance because MetLife illegally kept \$65 million in rebates instead of using those rebates to reduce Plaintiffs’ out-of-pocket expenses”—was insufficient to plead an injury-in-fact because the plaintiffs failed to “allege financial harm that is ‘actual or imminent,’ as opposed to theoretical, conjectural or hypothetical.” In other words, the plaintiffs failed to allege that MetLife’s purportedly unlawful retention of drug rebates actually caused MetLife Plan participants and beneficiaries to pay more for their health insurance.

The Court, however, recognized that plan participants can plead an actionable injury-in-fact under certain circumstances. In particular, a participant in a “self-funded healthcare plan,” like the MetLife Plan, may bring “an ERISA suit alleging that mismanagement of plan assets increased his/her out-of-pocket expenses” if (s)he alleges adequate financial harm – for example, if the sponsor of a self-funded healthcare plan charges plan participants “more in premiums than is allowed” under the plan. In such a case, plan participants may successfully bring a ERISA class action against the plan’s sponsor for that violation.

Knudsen v. MetLife Grp. reaffirms and clarifies what plaintiffs must allege to establish Article III standing in an ERISA class action against a sponsor of a self-funded health insurance plan. ERISA plaintiffs and defendants alike can make use of this holding.

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