

Fourth Circuit Explains How Burdens Should be Allocated for Objections to Class Settlement

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Explaining for the first time “who bears what burdens when a class member objects to a proposed settlement,” the U.S. Court of Appeals for the Fourth Circuit affirmed in an insurance case a district court’s order approving a proposed class settlement and overruling objections to the settlement. *1988 Trust for Allen Children Dated 8/8/88 v. Banner Life Insurance Co.*, No. 20-1630 (4th Cir. Mar. 16, 2022).

The Fourth Circuit has jurisdiction over Maryland, North Carolina, South Carolina, Virginia, and West Virginia.

Background

The parties in the long-running class action reached a proposed \$40 million settlement that would provide a minimum of \$100 recovery in partial premium refunds for each member of the class of life insurance policyholders. The federal district court in Maryland granted preliminary class certification and preliminary settlement approval. Eighty-nine class members opted out (less than one percent of the class) and one class member objected to the settlement.

The district court overruled the objection, certified the class for settlement purposes, and granted final approval to the settlement agreement. The objector appealed, contending the court abused its discretion in certifying the class and in finding the proposed settlement fair, reasonable, and adequate. The objector also argued the court improperly shifted the burden to the objector to demonstrate that the parties seeking approval *failed* to show class certification requirements were met and the settlement was fair.

Fourth Circuit Ruling

The Fourth Circuit affirmed the district court’s ruling. The panel’s decision explained “who bears what burdens when a class member objects to a proposed settlement” under Federal Rule of Civil Procedure 23(e)(5).

The court explained:

- The objector must state the basis for the objection with sufficient specificity to allow the parties seeking settlement approval to respond and the court to evaluate the issues in dispute.
- The parties seeking approval of the class settlement have the usual burdens to show that the proposed class satisfies Rule 23(a) requirements for certification, and also that the proposed settlement is “fair, reasonable, and adequate.”
- The parties seeking approval bear the burden of showing that the objection does *not* demonstrate that the class failed to satisfy the above burdens. The extent of this showing will vary “with the strength of the objection itself.”
- Finally, as the fiduciary of the class, the court must protect the class both from parties (and their counsel) that are overeager to settle and from frivolous objectors.

A district court has discretion to allow the objector to conduct discovery to aid the court in evaluating the merits of the objection, the Fourth Circuit said. (Here, the district court continued the final fairness hearing to allow interim discovery — “an extremely unusual occurrence,” the appeals court pointed out, particularly where there had already been protracted discovery.)

In this case, the appeals court held the district court correctly applied the respective burdens and did not improperly place the settling parties’ burdens on the objector.

The Fourth Circuit also held the district court did not abuse its discretion in certifying the class after evaluating the objector’s arguments (noting the “substantial deference” given to trial courts, which have greater experience than appellate courts “managing the practical problems of a class action”) or in concluding that the proposed class settlement was fair, reasonable, and adequate.

Workplace class actions frequently end in settlement, often after lengthy negotiations and a delicate balancing of the parties’ interests. Objections to a settlement can make it significantly more challenging to resolve the dispute. Contact your Jackson Lewis attorney if you have questions about the requirements for obtaining court approval of a proposed class action settlement when faced with a class member objector.

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