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Employee Benefits Alert: Supreme Court Rules on ERISA Plan Beneficiary Designations

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From time to time over the past decade, the federal courts have been called upon to settle competing claims under welfare and pension benefit plans where the plan terms are at odds with some other purportedly controlling document. By way of example, an employee might get a divorce and remarry but neglect to change beneficiaries under his or her employer's group life insurance plan. Further, the divorce decree might explicitly recognize the employee's right to change his or her beneficiary. Upon the employee's subsequent death, the ex-spouse and the current spouse will both claim the insurance proceeds.

Similar issues arise where retirement benefits are concerned, although the rules differ slightly. Both the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code contain provisions requiring plans to follow the orders of state courts overseeing domestic disputes that meet certain requirements. These orders are referred to as "qualified domestic relations orders" (QDROs).

Until recently, the federal courts have failed to adopt a reliable and uniform set of rules for adjudicating disputes among beneficiaries with competing claims. Some courts, adopting a strict reading of ERISA, simply pay the benefit based on the express terms of the plan; while others, with a nod to such concepts of "federal common law," look to documents extraneous to the plan (*e.g.*, the divorce decree, a waiver, or some other document) to make the call. In *Kennedy v. Plan Administrator for DuPont Savings and Investment Plan*, the U.S. Supreme Court settled the matter, coming down squarely on the side of the plan document.

The facts in *Kennedy* are straightforward: A plan participant and his wife divorced. Under the terms of the divorce decree, the participant's spouse surrendered her claim to any portion of the benefits under the participant's 401(k) plan. As sometimes happens, the participant neglected to change his beneficiary designation under the plan. As a result, his ex-spouse remained as his 401(k) plan beneficiary. Upon the death of the participant, the plan administrator, following the terms of the plan and the beneficiary designation, paid the participant's account to the ex-spouse. Predictably, the participant's heir (his daughter in this instance) sued on behalf of the estate.

The essence of the claim by the heirs is that the ex-spouse waived her rights for benefits. Therefore, she had no rights under the plan, despite the beneficiary designation. Central to the heir's case is the claim that there are ways other than a valid QDRO by which the terms of a plan might be influenced. Therefore, the express terms of the plan could be ignored in this instance. The Justices (this was a unanimous decision) disagreed. In their view, there was no reason to ignore the plan documents, particularly where they contained a specific procedure for changing the beneficiary, which the participant failed to follow. The Justices were particularly concerned that, if they sided with the heirs, plan administrators would have no reliable way of knowing who should receive plan benefits. Citing these and other concerns, the Supreme Court held that the plan administrator acted correctly: benefits should be paid in the manner prescribed by ERISA by following the express terms of the plan documents and the accompanying beneficiary designation. This is so despite that the plan administrator had knowledge of the terms of the divorce decree. The Court grounded its decision on the need for plan administrators to be able to rely on plan terms, without having to consult extraneous documents, which they may or may not be aware of. While the result seems harsh, the Court noted that the participant had plenty of time to change his beneficiary.

The *Kennedy* decision is advantageous to plan sponsors and plan administrators, but it requires greater attention on the part of participants. There are steps that plans can take to make the process less prone to error. For example, a plan can provide that divorce automatically revokes beneficiary designations with respect to a divorced spouse. It also behooves plans to review their communications materials to ensure that participants are made aware of the rules that apply to the designation of beneficiaries.

For assistance in this area, please contact one of the attorneys listed below or any member of your Mintz Levin client service team.

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