Supreme Court Holds That ERISA Plan Documents Control in Death Benefit Waiver Dispute

The U.S. Supreme Court held in Kennedy v. Plan Administrator for DuPont Savings and Investment Plan, No. 07-636 (U.S. January 26, 2009) (slip op.) (Souter, J.), that the former wife of a deceased retirement plan participant legally waived her right to receive benefits from the participant’s retirement plan pursuant to a divorce decree; nonetheless, plan administrators were correct to disregard her waiver and distribute benefits to her upon the participant’s death. The Court held that plan administrators are duty-bound under ERISA to pay benefits in accordance with the governing plan documents and should not be required to search outside those documents for evidence of a purported waiver.

The Facts

In Kennedy, a participant in the DuPont employee savings plan designated his then-wife as the sole beneficiary under the plan. Several years later, when the participant and his wife divorced, the divorce decree specified that the wife agreed to be divested of her rights under her former spouse’s retirement plans. A qualified domestic relations order (QDRO) providing disbursement instructions for the participant’s benefits under various DuPont employee benefit plans was issued; however, the QDRO did not apply to the savings plan. In addition, the participant did not complete a new beneficiary designation for the savings plan after the divorce.

Upon the participant’s death, his estate sought to invalidate the participant’s designation of his former spouse as the sole beneficiary under the savings plan, citing a Texas state law that invalidated a spouse’s designation as a retirement plan beneficiary upon divorce. The DuPont plan administrator refused to apply the Texas law and distributed the account balance to the former spouse pursuant to the beneficiary designation.

The estate filed suit in federal district court under ERISA § 502(a)(1), asserting that the former spouse waived her right to the savings plan account balance by executing the divorce decree.

The Lower Court Decisions

The district court held that, under federal common law, the divorce decree constituted a valid waiver of the former spouse’s rights under the savings plan and granted summary judgment to the estate. The Fifth Circuit of the U.S. Court of Appeals reversed, holding that the savings plan account was properly distributed to the former spouse. The court held that the federal common law was displaced in this case by ERISA’s anti-alienation provision (§ 206(d)(1)), which prohibits the assignment or alienation of benefits held in a qualified pension plan, and that ERISA’s QDRO provisions supply the sole exception to the anti-alienation provision in the context of the dissolution of a marriage. According to the court, since the divorce decree did not qualify as a QDRO as to the savings plan, it could not be honored as a “waiver” of the former spouse’s rights under that plan, and the DuPont plan administrator was bound to follow the participant’s valid beneficiary designation.
The Supreme Court Opinion

In a unanimous decision, the Supreme Court agreed with the Fifth Circuit court that the DuPont administrator was correct in paying benefits according to the participant's beneficiary designation, but based its decision on much different reasoning. First, the Court held that the former spouse's waiver was valid. It criticized the Fifth Circuit's classification of the waiver as an assignment or alienation of benefits under ERISA, rejecting the notion that the reversion of a participant’s benefits to himself or to his estate can ever amount to such an assignment or alienation. The Court stated that "it would be odd to speak of an estate as the transferee of its own decedent's property or of the decedent in his lifetime as his own transferee.” The Court also noted that certain waivers that are not affected by the anti-alienation provisions of ERISA, such as a surviving spouse's ability to waive a survivor's annuity or lump-sum payment, would be invalidated under the Fifth Circuit’s reasoning. Relying in part on the treatment of spendthrift trusts and disclaimers at common law, the Court decided that the former spouse’s renunciation of savings plan benefits, with no attempt to direct her interest in those benefits to any other person, was not an assignment or alienation or otherwise impermissible under ERISA.

After acknowledging the former spouse's waiver as valid, the Court went on to hold that the plan administrators nonetheless properly disregarded the waiver and distributed the benefits to her. The Court noted that ERISA requires a plan administrator to adhere to the relevant plan documents without exception when distributing benefits. The Court called this mandate "a straightforward rule of hewing to the directives of the plan documents” that offers administrators clear instructions in paying out benefits. A less-clear rule would require a plan administrator to pore through “a multitude of external documents that might purport to affect the dispensation of benefits” and likely would require an administrator to go to court to determine the proper dispensation of participants' benefits. Such a result would be costly and contrary to ERISA’s preference for certainty and efficiency in plan administration, according to the Court.

The Practical Effect of Kennedy

The Kennedy decision resolves two splits among various federal Courts of Appeals and/or state Supreme Courts: (1) whether a spouse may waive the right to pension benefits through a divorce decree that does not qualify as a QDRO and (2) whether such a waiver is effective if it conflicts with the plan documents. The decision highlights the importance of ensuring that plan participants timely update their beneficiary election forms when going through a divorce and that any benefit disclaimers comport with plan procedures. Additionally, the opinion reiterates a principle fundamental to ERISA and its purposes — that plan administrators are ruled by the governing plan documents when making benefit determinations, including with respect to a QDRO. Sponsors and administrators should review: (1) their plan documents to ensure that they include clear procedures with respect to beneficiary designations and revocations of such designations and (2) set forth procedures for a proper benefits waiver in the plan document.

Additionally, it should be noted that the Court's decision does not appear to apply to instances in which the participant is murdered by his beneficiary. Under state “slayer” statutes, such beneficiaries generally are not entitled to benefits as a result of the death that they caused. The Court expressly did not address whether a plan administrator would be bound by a deceased participant’s beneficiary designation in such a case.

The Court’s decision does suggest, however, that an estate may be able to recover paid benefits directly from a former spouse in a situation similar to Kennedy. In a footnote, the Court states that its opinion is limited to the issue of benefit distribution, and it does not address whether the estate could have sued the former spouse to recover the benefit payments once she had received them.
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