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Supreme Court Rules Plan Documents, Not Divorce Decree, Control in ERISA Beneficiary Dispute

On January 26, 2009 in a unanimous decision, the United States Supreme Court ruled that under ERISA, a plan administrator must distribute benefits in accordance with plan documents, even in the face of an inconsistent waiver by a beneficiary contained in a divorce decree that was not a qualified domestic relations order ("QDRO"). In Kennedy v. Plan Adm'r for DuPont Sav. and Inv. Plan, No. 07-636, 2009 WL 160440 (U.S. Jan. 26, 2009), the Supreme Court upheld a plan administrator's payment of savings and investment plan benefits to a decedent-participant's ex-wife, who waived her right to any plan benefit in their divorce decree, but who had not been removed by the participant as his designated beneficiary under the plan at the time of his death. The Supreme Court's decision in Kennedy was highly-anticipated because it addressed two different conflicts among federal and state courts regarding (i) whether administrators must look to extrinsic documents to identify a beneficiary, and (ii) the validity of waivers contained in divorce decrees that do not constitute QDROs.

The Kennedy decision turned on the resolution of the first issue, with the Supreme Court ruling that plan documents must govern a plan administrator's distribution of plan assets. Citing ERISA Section 404(a)(1)(D)'s mandate that administrators act "in accordance with the documents and instruments governing the plan" to the extent they comply with ERISA, the Supreme Court noted that "giving a plan participant a clear set of instructions for making his own instructions clear" reduces the administrative and financial burdens of plan administration and obviates the need for plan administrators to "figure out whether a claimed federal common law waiver was knowing and voluntary, whether its language addressed the particular benefits at issue, and so forth, on into factually complex and subjective determinations." Id. at *9. In Kennedy, DuPont's plan documents set forth the methods for designating and removing beneficiaries, and for disclaiming an interest in plan benefits. The ex-wife's waiver did not conform to these procedures, and the decedent-participant similarly failed to follow them to remove her as beneficiary before his death. For these reasons, the Supreme Court found that the waiver was properly disregarded by the plan administrator because it conflicted with the decedent-participant's beneficiary designation, which was made pursuant to the plan's terms.

Resolving another conflict among the federal Courts of Appeals and state Supreme Courts, the Supreme Court held that a waiver by an ex-spouse in a divorce decree that does not constitute a QDRO is not necessarily invalid under ERISA's anti-alienation provisions. In the case below, the United States Court of Appeals for the Fifth Circuit upheld the plan administrator's distribution to the ex-wife on the grounds that her waiver was a prohibited alienation or assignment under ERISA. Though it affirmed the Fifth Circuit's decision to uphold the distribution of plan benefits to the ex-wife, the Supreme Court rejected the Fifth Circuit's rationale because the ex-wife's waiver did not transfer her ownership interests to another, it merely effectuated the release of her own interest in plan benefits. As such, according to the Supreme Court, her waiver was neither an "alienation," nor an "assignment." In reaching this holding, the Supreme Court also rejected the preemption argument proffered by DuPont.

Lessons You Can Take Away From This Ruling

The Kennedy decision provides much-needed guidance for plan administrators faced with conflicting instructions for distributing benefits to beneficiaries, and it reinforces the primacy of plan documents. However, the Supreme Court itself acknowledged that it has left open numerous questions, and poorly drafted plan documents could leave plan administrators with significant administrative problems. Plan sponsors would be wise to ensure that plan language regarding designation and removal of beneficiaries is clear and consistent across all plan documents. For sponsors who choose to include disclaimer provisions in their plans, the plan's documents should provide beneficiaries clear procedures and limited time frames for notifying the plan administrator of their desire to disclaim after the triggering event has occurred. In sum, as frequently occurs in litigation, the Kennedy case has highlighted the important connection between clarity and specificity in plan documents and smooth and efficient plan administration.