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Beneficiary Designation Under Plan Trumps Divorce Decree Waiver

In Kennedy v. DuPont Savings and Investment Plan*, the Supreme Court ruled that a spouse's waiver of her right to pension benefits in a divorce decree did not invalidate the participant's beneficiary designation made in accordance with the terms of the plan.*

Background

ERISA prohibits a participant from assigning or alienating benefits under covered pension plans except when a participant assigns benefits to an alternate payee (such as a former spouse) through a qualified domestic relations order (QDRO). However, many divorce decrees include waivers of rights to pension or retirement benefits that are not QDROs, and courts have disagreed as to whether these waivers override a beneficiary designation made by the former spouse. The Supreme Court has now decided this issue in *Kennedy v. DuPont Savings and Investment Plan*.

The Kennedy Litigation

William Kennedy designated his wife, Liv, as beneficiary under his employer's savings and investment plan (SIP). When they later divorced, the divorce decree provided, among other things, that Liv was divested of all her rights to any proceeds from William's retirement or pension plans or other benefit programs. Although the SIP had a process for changing for beneficiaries, William never changed his SIP beneficiary designation form. Upon his death, the employer paid the benefits to Liv, the designated beneficiary.

William's estate filed suit, and the district court ruled in favor of the estate. The U.S. Court of Appeals for the Fifth Circuit reversed, reasoning that Liv's waiver was a prohibited assignment or alienation under ERISA.

The Supreme Court Decision

The Supreme Court found that ERISA does not prohibit a spouse from waiving rights to a participant's benefits, and in fact, the waiver of rights to pension benefits in a divorce decree could be recognized under federal common law. However, the Court found that the SIP set out clear terms for paying out benefits, and the plan administrator fulfilled its fiduciary duty by paying the benefits to the designated beneficiary in conformity with those terms. Because the waiver was not in accordance with the terms of the plan, the plan administrator was not required to recognize it.

> ***BUCK COMMENT.*** *In reaching its conclusion, the Court noted that it could be an undue burden on employers to have to search for external documents that could affect the payout of benefits.*

Conclusion

The Kennedy decision underscores the need to clearly spell out the beneficiary designation process under a plan and to communicate to plan participants both the process and the consequences of a failure to follow it. Buck's consultants would be pleased to discuss how this decision may impact your plan, to help you develop and implement a clear designation process, if necessary, and to communicate the process to participants.