

Dansey v. MetLife: Why Participant Education On QDRO's Is Important

Recently, a federal district court in Virginia issued an opinion that highlights the importance of obtaining a qualified domestic relations order (QDRO) as part of a divorce decree or settlement. As explained below, plan administrators should consider educating participants and making materials available that will enable them to become aware of the implications of failing to obtain them during or in connection with divorce proceedings.

Background

Dansey v. Metropolitan Life Insurance Co., which was decided on October 4, 2012, by the United States District Court for the Western District of Virginia, involved a dispute between a deceased participant's family members over life insurance benefits in an ERISA-covered benefit plan. The participant, his wife and his two children lived in New York, but in 1999 the participant separated from his family and moved to Virginia, where he lived sometimes with his niece. In 2003, the participant's wife obtained a divorce decree from the New York Supreme Court requiring the participant's wife to "designate the parties' children as beneficiaries for one half of the proceeds of the life insurance policy." Only the participant had authority under the benefit plan to make beneficiary designations, but he nevertheless complied with the decree by naming his two children as beneficiaries each of 25 percent of the insurance proceeds. In 2005, however, a change in beneficiary was filed electronically that named participant's niece the beneficiary of 100 percent of the insurance proceeds. Subsequently, the participant reconciled with his wife and children.

After the death of the participant in 2010, his niece attempted to collect the insurance proceeds. MetLife, the insurer, initially denied her claim as to one half of the proceeds after it received correspondence from participant's former spouse regarding the divorce decree. MetLife later also argued that it was unable to determine whether the change in beneficiary had been "properly executed." MetLife therefore refused to pay any of the proceeds to the participant's niece. Participant's niece argued that she was present at the time her uncle filed the change in beneficiary form electronically. She also argued that her uncle complied with the decree by initially naming his children as beneficiaries and that the divorce decree did not require the participant to name his children as beneficiaries indefinitely. The participant's children, on the other hand, argued that the niece had access to the insurance account information and that beneficiary change was made without the participant's knowledge or consent. They also argued that the change could not "be effective" in any event, at least with respect to 50 percent of the proceeds, because of the divorce decree.

Court Decision

In its decision, the district court ruled that the divorce decree required participant's spouse to irrevocably name the children beneficiaries of at least half of the insurance proceeds and that under the decree the participant only retained the right to name a beneficiary for the other half of the proceeds.

Declining to decide whether the divorce decree constitutes a valid QDRO (discussed further below), the district court then addressed the validity of the 2005 change in beneficiary that named participant's niece as sole beneficiary. The district court noted that participant's niece offered significant evidence that her uncle knowingly named her as beneficiary, including an affidavit by the participant's attorney stating that the participant had made his niece sole beneficiary of his will and had disinherited his children, and that the attorney had advised the participant to change beneficiaries under the insurance policy in order to affect participant's desire to make his niece sole beneficiary of the insurance policy. Nevertheless, the district court found that the weak evidence offered by participant's wife and children – namely that the participant's niece had the means and opportunity to make the change in beneficiary herself and that participant had made subsequent attempts to remove his niece as heir to his estate after his reconciliation with his wife and children – was sufficient to create a genuine dispute. The district court ordered a trial over whether the participant knowingly changed the beneficiary designation.

The district court decision to forego a ruling on the issue of whether the New York State divorce decree constituted a valid QDRO seems peculiar. That divorce decree giving participant's wife authority to name beneficiaries was very likely contrary to the ERISA plan and is at odds with ERISA's anti-assignment and anti-alienation provisions, which generally prohibit a participant from assigning his or her interest in benefit plan to another person. Indeed, as the district court itself noted, ERISA's broad preemption provision, under which ERISA explicitly preempts all state law insofar as it "relates to" an ERISA plan, ordinarily acts as a bar to enforcement of state law domestic relations orders against ERISA-covered plans. As the court also acknowledged, ERISA only carves out domestic relations orders that qualify as QDRO's from the broad reach of the preemption provision. It would seem, therefore, that whether the divorce decree constitutes a valid QDRO is a threshold issue that should have been decided, if possible, at the first instance. Indeed, regardless of the outcome at trial on the validity of the beneficiary change, the court will have to decide the QDRO issue. Even if there is a finding that the beneficiary change was knowingly made by the participant, the court will have to decide whether the divorce decree is a QDRO that invalidates the beneficiary change as to some, or even all, of the insurance proceeds. If, on the other hand, the court rules at trial that the beneficiary change was not knowingly made, the court similarly will have to decide whether the divorce decree is a QDRO that supercedes any prior beneficiary designation or any plan provisions that apply when a beneficiary change is not validly made.

Importance of Participant Education

Dansey highlights the importance of educating plan participants on the need to obtain a valid QDRO during divorce proceedings. Divorce decrees and settlements routinely are the byproduct of hard-fought and painful proceedings or contentious negotiations. Participants and their former spouses, however, often are not aware that plan administrators of ERISA-covered plans and courts deciding benefit issues will not abide by decrees or settlements that are contrary to the terms of a plan, a standing beneficiary designation, or ERISA. Moreover, in *Dansey*, the plan at issue was an ERISA-covered insurance plan and the plan administrator named as a party in the suit was MetLife, a large insurer. Often, however, the plan administrator of an ERISA-covered plan, particularly a pension or 401(k) plan, is the employer. Ensuring that valid QDRO's are in place will minimize needless and contentious litigation that can strain personnel and resources of a plan and its sponsoring employer. Consequently, plan administrators and sponsors should educate participants on the importance of obtaining QDRO's in connection with divorce decrees and settlements, and should consider providing educational materials that describe the components of a valid QDRO.

To see the *Dansey* opinion in its entirety go [here](#). If you have any questions on this article or QDRO's, please feel free to contact the Amadeo Law Firm.

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