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TOPIC: Unusual Circumstances Create Equitable Interest in Life Policy, Which Allows Non-Beneficiary to Recover Death Benefit

CITE: *Hartford Life and Annuity Co. v. Farris, et al.* No. 12-C-1320 (N.D. Illinois, Eastern Division June 19, 2014).

SUMMARY: In an interpleader action filed by Hartford, an Illinois federal court ruled that a non-beneficiary's payment of policy premiums, along with several other factors, created an equitable interest in the policy and entitled the non-beneficiary to recover the death benefit.

BACKGROUND: A beneficiary's rights to the proceeds of a life insurance policy do not normally vest until the insured dies. However, some courts have ruled that, in certain instances, a non-beneficiary can acquire an equitable interest in a policy before the insured dies that would entitle them to the death benefit. In order to acquire this interest, a non-beneficiary must satisfy very specific criteria.

FACTS: In 1986, the insured, Thomas Walkowiak, purchased a life insurance policy insuring his life and named his wife, Natalia Nebel, as beneficiary. The premiums were paid with marital funds from a joint account shared by the couple. In 2008, the insured and his wife separated, but Nebel continued to pay the premiums from the joint account. Later that year, Walkowiak stopped depositing money into the joint account, but Nebel continued to transfer her personal funds into the joint account in order to pay the premiums.

Over subsequent years, Walkowiak continued to rely on Nebel for financial assistance (including the payment of the policy premiums) and continually told her she was still the beneficiary of the policy. He went so far as to email her stating that "I will always try my hardest to help and support you until I die, and then you will get the life insurance."

Despite these representations, in September 2011, unbeknownst to Nebel, Walkowiak removed Nebel as the beneficiary and replaced her with his sister (Anne Farris) and his business partner (Hongjiao Hu). Nebel, however, continued to pay the premiums.

In December 2011, Nebel filed for divorce and Walkowiak represented to Nebel and her divorce attorney that Nebel would remain the policy beneficiary. He even listed the policy as a marital asset to be distributed in the divorce. The divorce was never finalized, since Walkowiak committed suicide in December 2011.

Nebel paid for all of the memorial and burial arrangements for Walkowiak's funeral since she expected to receive the life insurance proceeds to reimburse her for these expenses.

When Nebel attempted to recover the proceeds from Hartford she learned for the first time that she was not the beneficiary. After she contested the payment of the policy proceeds to Farris and Hu, Hartford initiated an interpleader action. Nebel and Hu subsequently filed cross motions for summary judgment. In her motion, Nebel argued that by paying the premiums she acquired a vested interest in the policy proceeds and, therefore, Walkowiak could not remove her as beneficiary without her consent.

RESULT: The court agreed with Nebel, holding that she acquired an equitable interest in the proceeds of the policy before Walkowiak died. Specifically, the court ruled that, while a beneficiary's rights in a life insurance policy do not normally vest until an insured dies, Illinois law "recognizes that someone other than a named beneficiary can acquire equitable rights in an insurance policy." In order to do so, a plaintiff must establish the four elements of promissory estoppel: (1) an unambiguous promise; (2) reliance on such promise by the promisee; (3) the promisor expects and foresees such reliance; and (4) the promisee relies on the promise to her injury.

The court ruled that the Nebel met all of these criteria since:

> (1) Walkowiak promised and assured Nebel on several occasions she would remain the beneficiary;
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> (2) Nebel demonstrated her reliance by continuing to pay the premiums and spending thousands of dollars on Walkowiak's funeral;
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> (3) Walkowiak knew Nebel was paying the policy premiums and continued to expect her to do so; and
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> (4) Nebel relied on his promises and suffered financial injury by paying the premiums and funeral expenses.

Because Nebel's rights in the proceeds vested, Walkowiak could not remove her as beneficiary without her consent, which she did not give. Consequently, the court awarded Nebel the policy proceeds.

RELEVANCE: Non-beneficiaries who pay premiums should not expect to recover policy proceeds in all circumstances. To the contrary, this case appears to be the exception. Indeed, it is apparent from the court's opinion that it was persuaded by the very specific facts of this case. In most cases, insureds and named beneficiaries can expect beneficiary designations to be honored regardless of who pays the premiums.

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