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The *WRNewswire* is created exclusively for AALU Members by insurance experts led by Steve Leimberg, Lawrence Brody and Linas Sudzius. The *WRNewswire* provides timely reports and commentary on tax and legal developments important to AALU members, clients and advisors, delivered to your inbox as they happen

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TOPIC: Federal Courts Decide Two Disputed Beneficiary Cases

CITES: *Hearing v. Minnesota Life Insurance Company*, 2014 WL 3587406 (U.S.D.C. N.D. IA 2014); *The Lincoln National Life Insurance Company v. Ruybal*, 2014 WL 3560293 (U.S.D.C. D. CO 2014).

SUMMARY: Two federal district courts considered challenges to life insurance beneficiary designations where the insured's prior divorce created uncertainty with regard to the intended beneficiary.

In *Lincoln National v. Ruyball*, a Colorado federal circuit court affirmed that the named beneficiary was entitled to the policy proceeds, despite language in the insured's separation agreement earmarking existing policy benefits for the insured's children.

In *Hearing v. Minnesota Life*, the insured failed to maintain life insurance for the benefit of his daughter, as required by his dissolution agreement. An Iowa federal court ruled that the proceeds of a life policy were nevertheless payable to the named beneficiary, and not to the insured's child.

BACKGROUND: In the first case, Rudolpho Ruybal was employed by the City of Brighton, Colorado, from before 2001, until his death on March 28, 2012. As part of his employment, Rudolpho participated in a group term life insurance plan, under which the death benefit coverage was $100,000.

In 2002, Rudolpho divorced his wife, Valerie Gomez. As part of their marriage dissolution, the parties entered into a separation agreement, which provided in part:

> Each of the parties hereby releases and waived any interest, beneficial or otherwise, that he or she may have acquired in or to life insurance policy or policies owned by the other. There is no (cash) value on any life insurance policies. *The parties agree they shall both keep their current policies in effect and naming the children as beneficiaries.* (Emphasis added).

After the divorce, Rudolpho's employer continued to provide group term coverage, but changed the carriers issuing such coverage three times, once in 2004, again in 2007, and finally in 2009. The provider of group term coverage at the time of Rudolpho's death was Lincoln National.

Rudolpho submitted a change of beneficiary form in 2007 naming his sister Jacqueline the beneficiary of the $100,000 of coverage.

After Rudolpho's death, Jacqueline and Rudolpho's children made competing claims on the policy's death benefit, which gave rise to the court case.

In the second case, Jon Holloway bought a $100,000 life policy from Minnesota Life in 1998. Jon was also divorced in 1998 and the dissolution decree required him to maintain $100,000 of life insurance for his daughter Nikole's benefit. Nikole was nine years old at the time.

Despite the requirements of the decree, Jon named his sister Joetta Hearing the beneficiary of the life policy from its inception, apparently intending to keep his ex-wife from exercising any control over the death benefit if he died while Nikole was a minor.

About nine months prior to his death, Jon sent Nikole a note saying he intended her to get most of the policy's death benefit; however, he never filed a change of beneficiary form with Minnesota Life.

Jon died on June 28, 2013. Joetta and Nikole both made claims for the policy death benefits, and the court action resulted.

FACTS: In the *Ruybal* case, the Colorado district court focused on the divorce decree language requiring the spouses to keep *existing* insurance policies payable to the children. The court observed that while Rudolpho participated in his group term life plan from the time of his divorce to the time of his death, the actual policy providing the insurance coverage changed several times. Rudolpho's change of beneficiary in favor of his sister was actually made on a policy that was not in force at the time of his divorce.

Since the group term policy in effect at the time of the change of beneficiary was not the same policy in force during the divorce agreement, the court ruled that the settlement agreement could not affect the valid beneficiary designation. That result is based on a technical reading of the divorce decree, and seems like a harsh result for Rudolpho's children.

In the *Holloway* case, the court applied Iowa law, which provides that a beneficiary designation is valid unless, in this case:

- Jon expressed a clear intention to change his beneficiary designation and
- He did all he could to notify Minnesota Life of his intention to change beneficiary.

The court found that the second part of the test was clearly not met.

RESULT: The courts ruled in both cases that the named beneficiaries were entitled to the death proceeds, despite the competing claims arising from the obligations originally created during the divorce proceedings of each insured.

RELEVANCE: These federal court decisions continue a long line of cases where the parties litigated the issue of proper beneficiary following the death of the insured. In both cases, the named beneficiary's claim for the death proceeds was found to be superior to claims of the insured's children.

Are these decisions fair? Were the results what the insured really intended? Arguments can be made on both sides. The plaintiffs in these cases may have been able to pursue relief in other courts based on breach of contract or other legal theories.

The main lesson from the cases is that there is a very strong presumption that the named beneficiary will get the proceeds of a life policy at the insured's death—no matter what other facts exist.

The advice Steve Leimberg gave in *WRNewswire 14.5.*13 also applies here. Clients should be told:

- If you want to change your life insurance or retirement plan beneficiaries, do it. Do it in strict and complete compliance with the appropriate contract and instructions. Get it done – in writing – and get it approved in writing.

- If you've done everything you could have reasonably done to comply, in many states, that substantial compliance might be enough. But why take the chance?

- If you are thinking about making a change, but can't make up your mind, don't leave the papers lying around to create false hopes, bitter disappointment, and needless litigation.

***WRNewswire* #14.8.04 was written by Linas Sudzius of Advanced Underwriting Consultants.**

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