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**TOPIC: Beneficiary Change Submitted After Insured Declared Legally Incapacitated Voided for Lack of Competency**

**CITATION:** [\*Metropolitan Life Ins. Co. v. Michelle Austin, et al.\*](#), 2015 WL 7770659, No. 14-CV-12005 (U.S.D.C. E.D. Mich. December 3, 2015).

**SUMMARY:** A federal court in Michigan recently voided a beneficiary change on the grounds that the insured policy owner lacked the capacity to make the change at the time it was completed. The carrier initiated this interpleader action seeking to have the court declare the rightful beneficiary of an ERISA governed life insurance policy.

The original beneficiary, the insured’s granddaughter, successfully challenged a subsequent online beneficiary change designating the insured’s great niece and legal guardian as the new primary beneficiary. The granddaughter argued that since the beneficiary change was completed after the insured had been declared legally incapacitated and the great niece was appointed to serve as guardian, the insured lacked the mental competency to make or authorize the change.

The court agreed with the granddaughter and voided the beneficiary change thus awarding the policy proceeds to the granddaughter.

**RELEVANCE:** *Regularly review your beneficiaries.* While the court ultimately ruled that the insured lacked the capacity to change the beneficiary to her great niece, it was not clear from the opinion whether or not it was the insured's true intention to have her great niece named as beneficiary. It was equally unclear as to whether the insured truly desired to have her granddaughter remain as beneficiary. Instead, the beneficiary was determined based upon a technical legal analysis of the timing concerning the beneficiary change. While these types of situations cannot be avoided altogether, a simple and routine annual review of the policy beneficiary may have helped mitigate any uncertainty as to the insured's desired beneficiary. Indeed, had the insured truly intended for her great niece to become beneficiary, she may have made the change during an annual review prior to her incompetency. Such a review also presents a great opportunity for agents to reach out to clients and remain in contact with them.

**FACTS:** The policy insured, Clara Austin, was a retired General Motors employee and a participant in the General Motors Life and Disability Program, an ERISA regulated employee welfare benefit plan. The plan was funded by a group life policy issued by MetLife. As of October 17, 2005, Michelle Austin, the adult granddaughter of the insured, was the sole listed beneficiary on the policy.

In September 2007, a petition for guardianship was filed identifying Clara Austin as legally incapacitated and in November 2007, Laura Brown, the insured's adult great niece, was appointed as her guardian. On March 21, 2008, while still serving as Clara Austin's guardian, Laura Brown submitted an online beneficiary change request to MetLife removing Michelle Austin and naming herself as sole policy beneficiary. According to the opinion, the beneficiary change was made online by Laura Brown but apparently made to look like it was done directly by Clara Austin. Laura Brown later admitted that she made the change herself but claimed it was completed at the direction of the insured. It does not appear from the language of the opinion that the change was made pursuant to any power of attorney or in Laura Brown's legal capacity as Clara Austin's guardian.

Laura Brown remained Clara Austin's guardian until Clara Austin's death on May 22, 2013. At the time of her death, Clara Austin's policy had a death benefit of \$16,813.00. After Clara Austin died, Michelle Austin and Laura Brown submitted competing claims for the death benefit. In submitting her claim, Michelle Austin "filed an allegation of fraud with MetLife, contesting [Laura Brown's] beneficiary designation." MetLife subsequently filed an interpleader action seeking to have the court resolve the competing claims.

During the course of the interpleader action, Michelle Austin alleged that the designation naming Laura Brown as beneficiary was void because Clara Austin lacked the mental capacity to change the beneficiary of the policy. While Laura Brown alleged that she completed and submitted the form making herself the primary beneficiary “to comport to Clara Austin’s wishes,” the court ruled that, by March 2008, “Clara Austin was incompetent to change the beneficiary” and therefore, “Ms. Brown lacked the authority to make this change.” The court specifically stated that “[s]ince an ordinary agency is terminated by the insanity of the principal, the authority given to his or her agent by an insured to change the beneficiary of an insurance policy as directed, which was not exercised until after the insured was declared a mental incompetent and was placed under guardianship both as to person and estate, does not survive the adjudication of incompetency, and may not thereafter be exercised by the agent.”

Consequently, the court held “that the purported designation of Ms. Brown as a beneficiary of the life insurance policy of Clara Austin is invalid and, therefore, ineffective for purposes of paying any benefits under the policy.” The court further held that the controlling beneficiary form was the one naming Michelle Austin as beneficiary and she was subsequently awarded the plan benefits.

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