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TOPIC: Beneficiary Changes and a Rare Exception to the Strict Compliance Rule

CITATION: The Prudential Insurance Company of America v. Jean Kopp et al, No. 15-14085; 2016 WL 3688944 (11th Cir. July 12, 2016).

SUMMARY: This case involves a dispute about who is entitled to death benefits under a life insurance policy. On one side of the dispute is the insured's wife at the time of his death. On the other side are his children from a prior marriage and co-trustees of the insured's irrevocable life insurance trust. Both sides claimed they are the rightful beneficiary of the policy and thus entitled to the death benefits.

Faced with these competing claims, the insurer filed an interpleader action to have the court determine the rightful beneficiary. The question in this case was whether, in an interpleader context, a written request to change the beneficiary of the policy to the insured's wife—submitted to the insurer and signed by the insured and a trustee of the trust—was sufficient to show that the wife was the rightful beneficiary, even though the insurer did not process the request.

The district court had concluded that the insured's and trust's action was not sufficient because it neither strictly nor substantially complied with the carrier's requirements for beneficiary changes. The wife argued that the district court applied too strict a standard of compliance and that, as an equitable matter, she is entitled to receive the death benefits from the policy.

This appeals court vacated the lower court's decision and sent the case back to the lower court for further proceedings.

RELEVANCE: This is one of those rare cases where a court ruled that strict compliance with the insurer's rules on beneficiary changes was not required, and stated that "the court is permitted to use its equitable powers to determine which claimant should receive the benefit." In other words, under this very seldom invoked exception, a court may award interpleaded funds to a party who is not in fact the designated beneficiary of the policy.

The court concluded that—in an interpleader situation—a change-in-beneficiary request is effective where it is clear the requesting party:

- has a right to make a change,
- intends a change, and
- takes reasonable steps to bring about a change.

Of course, mere expression of intent to change a beneficiary—without some overt act—is never sufficient to effectuate such a change.

The court here ruled that equitable relief is appropriate if the requesting party "did substantially all that he could do to effectuate a change of the beneficiary." So in the case of interpleaded funds, a "substantial" (rather than strict) compliance with the terms of the policy respecting a change in beneficiary could be enough to effect a change of beneficiary.

We are again reminded that strict compliance with policy requirements to change the beneficiary is always the preferred course of action and the failure to carefully, fully, and timely comply with the manner of change prescribed in the insurance contract will almost inevitably be fatal to a beneficiary change or at the very least lead to litigation. See for example WRNewswire 15.3.09 describing the Fox case.

“Substantial compliance” with the method prescribed in the policy to change the beneficiary should be considered only as a last resort “fall-back” position. Furthermore, substantial compliance requires an insured to make every reasonable effort to effect a change of beneficiary. That mandates (1) "a clear expression of the insured's intention to change beneficiaries," and (2) a concrete attempt by the insured to carry out his intention as far as was reasonably in his power, i.e., undertaking positive action which is for all practical purposes similar to the action required by the change of beneficiary provisions of the policy.

Note that there are some strange and unexplained facts in this case. For instance, the trustees, without any authority mentioned in the court’s records, returned the policy to the insured. This appears to be a breach of trust and may even be treated as a gift by the trust’s beneficiaries, the children, to him. Furthermore, it’s unclear why a trustee of the irrevocable trust believed it was consistent with his fiduciary obligation to name the insured’s spouse as the beneficiary of the trust-owned policy.

FACTS: Jean and Gerald were married from 1969 until 2012 when Gerald died. Gerald had two sons, Gregory and Steven, from a prior marriage. In 1973, Gerald obtained the policy at issue from the Prudential and named Jean the sole beneficiary of the policy.

In 1998, Gerald established The Gerald A. Kopp Irrevocable Trust. The trust named Gerald’s son Gregory and Ron Jones, Gerald’s accountant, as trustees with his son Steven as a replacement if either Gregory or Ron Jones ceased to serve. In 2000, Gerald, Gregory, and Ron Jones executed and submitted a form to Prudential changing the owner and beneficiary of the policy to the trust.

In July 2012, Prudential received a standardized form requesting a change in beneficiary and ownership for the policy. The 2012 form purported to change the owner of the policy from the trust to Gerald and the beneficiary of the policy from the trust to Jean. The 2012 form was signed by Gregory (in the blank designated for the “[c]urrent owner’s signature”) and Gerald. Instructions on the form state that “[i]f the owner of the policy is a trust, each trustee must sign unless the trust itself or state law provides otherwise and must insert the title ‘trustee’ after the signature.”

After receiving the 2012 form, Prudential sent a notice stating that it did not process the change-in-beneficiary request for the following reason: “A trust is currently listed as the owner of this policy. The trustees of the trust must sign the enclosed form, insert the title ‘trustee’ after the signatures, and initial the insertion.” That letter was sent to the trustees on August 1, 2012 but they never sent a completed and compliant form back to the Prudential.

Gerald died August 11, 2012. About $400,000 in death benefits were payable under the policy. Jean claimed to be the beneficiary of the proceeds. Likewise, the trust, through Gregory and Steven, claimed to be the beneficiary of the policy.

Faced with conflicting demands for payment of the death benefits, Prudential filed this interpleader action, disclaiming any ownership of the subject funds and asking the district court to determine the rightful recipient. The district court granted judgment on the pleadings to Gregory and Steven and denied summary judgment to Jean. The court first found that the 2012 form did not strictly comply with Prudential's requirements and therefore was not legally effective to change the beneficiary of the policy. Specifically, the court ruled that the 2012 form did not contain either (1) the signatures of both trustees or (2) a trustee designation after Gregory's signature.

The district court also rejected Jean's argument that the 2012 form substantially complied with the contractual requirements because "additional steps could have been taken to effectuate the change in accordance with the Policy requirements." For instance, Ron Jones could have, but did not, sign the 2012 form [and they could have responded to the August 1 letter]. So the district court found as a matter of law that the 2012 form failed to change the beneficiary of the policy to Jean.

In this appeal, the court focused on state (Georgia) law, which governs this dispute. It noted that, where the insurer "stands indifferently as to the parties in an interpleader action," strict compliance with the insurer's regulations is not required, and "the court is permitted to use its equitable powers to determine which claimant should receive the benefit." Under this rationale, an insurer's regulations are made solely for its benefit and protection. So if the insurer is not an interested party, "the court may award the fund on equitable principles, and without regard to the technical defenses open to the insurer under regulations made by it for the change of such beneficiary." This court is saying that the insurer's regulations "merely serve as an indication of the possible intent" of the insured or other party authorized to request a change in beneficiary. Thus, courts may award interpleaded funds to a party who is not the designated beneficiary of the policy.

The appeals court held that (applying Georgia law) a change-in-beneficiary request is effective where it is clear the requesting party has a right to make a change, intends a change, and takes reasonable steps to bring about a change. In other words, substantial compliance with the terms of the policy respecting a change in beneficiary is sufficient.

So the appeals court held the district court erred to the extent it required strict compliance with the insurer's regulations. The policy's regulations merely served as an aid to ascertain the intention of the trust—the owner and beneficiary of the policy when the 2012 form was filed.

But, did Jean prove substantial compliance? Or did she fail to establish substantial compliance because "additional steps could have been taken to effectuate the change in accordance with the Policy requirements?" Jean contended on appeal that Ron Jones need not have signed the 2012 Form because "the trust itself ... provides otherwise" than the policy requirement that each trustee must sign. Jean argued that the trust instrument authorized Gregory to change the policy's primary beneficiary unilaterally. ("Notwithstanding anything in this Trust agreement to the contrary[,] GREGORY A. KOPP[ ] shall have the power at any time and from time to time, to make gifts of the principal of this Trust, in whole or in part and in any manner and in such proportions as [he] see[s] fit, to whomever [he] desire[s], ...") She also contended that other provisions in the trust instrument gave Gregory the right as co-trustee to unilaterally execute the 2012 form. If Gregory had the right to unilaterally execute the 2012 form, Jean contended, his signing and submission of the 2012 form is sufficient to establish substantial compliance for purposes of this equitable interpleader action.

Steven and Gregory responded that both Georgia law and the trust instrument make clear that Gregory was not authorized to give away trust property unilaterally – citing a provision in the Trust instrument stating that unanimous consent of the trustees is required if one of Gerald's children is serving as trustee and the action proposed to be taken involves trust property valued at $50,000 or more.

The bottom line of this case was this: Although it was clear the 2012 form did not substantially comply with the insurer's regulations, the district court never addressed Jean's arguments that the trust agreement provided something different from the policy's default requirement that each trustee sign the form. So an unresolved question existed concerning whether Gregory had the power to unilaterally effect a change in beneficiary. Assuming Gregory had such authority, the appeals court reasoned it could not be said as a matter of law (based on the information available) that the 2012 form could not show both intent and reasonable overt actions sufficient to effect a change in beneficiary. So the case was sent back to the district court.
