

**MEMO# 13346**

April 5, 2001

## **SUPREME COURT RULES THAT ERISA PREEMPTS STATE LAW ON BENEFICIARY DESIGNATION**

[13346] April 5, 2001 TO: PENSION COMMITTEE No. 19-01 RE: SUPREME COURT RULES THAT ERISA PREEMPTS STATE LAW ON BENEFICIARY DESIGNATION The U.S. Supreme Court recently ruled that ERISA preempted a Washington state statute that provides that the designation of a spouse as the beneficiary of a nonprobate asset, including pension assets and life insurance benefits, is revoked automatically upon divorce. *Egelhoff v. Egelhoff*, U.S. No. 99-1529 (March 21, 2001). This 7 to 2 Supreme Court decision reversed a decision of the Washington Supreme Court.<sup>1</sup> In an opinion written by Justice Clarence Thomas, the U.S. Supreme Court held that the Washington statute has an impermissible connection with ERISA plans in that it “binds ERISA plan administrators to a particular choice of rules for determining beneficiary status” and because “it interferes with nationally uniform plan administration.” Justice Stephen Breyer, joined by Justice John Paul Stevens, filed a dissenting opinion stating that the court should have applied “normal conflict preemption and field preemption principles where, as here, a state statute covers ERISA and non-ERISA documents alike.” Breyer wrote that he could find “no plausible preemption principle” to support the majority’s conclusion that ERISA preempts the Washington state statute. The case was brought by the children of David Egelhoff who sought to recover life insurance and pension benefits following their father’s death. Egelhoff married Donna Rae Egelhoff and named her beneficiary of his life insurance plan and pension plan benefits. The Egelhoffs subsequently divorced, but Donna Rae Egelhoff remained the named beneficiary under both plans. Two months after the divorce, David Egelhoff died. David Egelhoff’s children brought suit under the Washington state statute that provides that if a marriage is dissolved, the payment or transfer of nonprobate assets granted in favor of the decedent’s former spouse is revoked. The statute, in effect, treats the former spouse as having predeceased the decedent. Donna Rae argued that the children’s claims under the state statute were preempted by ERISA. The trial court agreed with Donna Rae Egelhoff concluding that the pension plan and life insurance benefits should be administered in accordance with ERISA and that Donna Rae Egelhoff, as named beneficiary, was entitled to the benefits of both plans. The Washington Court of Appeals reversed, determining that the heirs of David Egelhoff were entitled to the both plans’ benefits reasoning that the Washington statute did not have reference to or a connection with an ERISA plan and was not preempted by ERISA. The Washington Supreme Court affirmed the state appellate court, finding that ERISA did not preempt the Washington statute. In reversing the Washington Supreme Court, the U.S. Supreme Court found that the state statute threatened a goal of ERISA – to enable “employers to establish a uniform

administrative scheme, which provides a set of standard procedures to guide processing of claims and disbursement of benefits.” The state statute prevents plan administrators from making payments under plans by “simply identifying the beneficiary specified by the plan documents. Instead, they must familiarize themselves with state statutes so that they can determine whether the named beneficiary’s status has been ‘revoked’ by operation of law.” A copy of the Supreme Court case is attached. Kathryn A. Ricard Associate Counsel  
Attachment Attachment (in .pdf format)

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