

Pennsylvania – Pennsylvania Court Holds ERISA Preempts Pennsylvania Law Revoking Ex-Spouse's Benefits

May 29, 2008

On May 9, 2008, the Pennsylvania Superior Court, in a 2-1 decision, ruled that the Employee Retirement Income Security Act ("ERISA") preempts a Pennsylvania law that mandates the revocation of beneficiary designations upon divorce. *In re Estate of Sauers*, Pa. Super. Ct. (No. 1060 MDA 2007). At issue in the case was a 1997 policy of life insurance that was issued to certain employees of C.S. Davidson, including Paul Sauers. In June 1998, following the issuance of the policy, Paul Sauers married Jodie Sauers.

By *Marla N. Presley*

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In June of 2002, Paul and Jodie were divorced by a Pennsylvania court. Following the divorce, Paul never removed Jodie as the primary beneficiary of his policy. In September of 2006, Paul died. Upon his death, the insurance company paid the proceeds of the policy to Jodie as the primary beneficiary. The administrator of Paul's estate sued Jodie for recovery of the funds.

Before the lower court, the Estate contended that under Pennsylvania law, Paul's designation of Jodie as the primary beneficiary was revoked upon the couple's divorce in 2002. Section 6111.2 of the Pennsylvania Probate, Estate, and Fiduciary Code (20 Pa C.S.A. §6111.2) states, in effect, that if a person living in

Pennsylvania at the time of his death is divorced after designating his spouse as beneficiary of a life insurance policy (or other contractual arrangement providing for payments to his spouse), any designation in favor of the former spouse which was revocable after the divorce shall become ineffective. Instead, the policy will be construed as if such former spouse had predeceased that individual, unless there is a court order or a written contract between the person and the former spouse that the designation was intended to survive the divorce.

Jodie, on the other hand, argued that she was not required to return the payment of benefits, as the state law was preempted by ERISA, a federal statute. The lower court found in favor of the Estate and ordered Jodie to return the payment of benefits. That decision was reversed on appeal to the Pennsylvania Superior Court.

On appeal, the parties did not dispute that the C. S. Davidson policy was an ERISA plan. Relying on the United States Supreme Court's decision in *Egelhoff v. Egelhoff*, 532 U.S. 141 (2001), Jodie then maintained that Section 6111.2 has an impermissible connection with ERISA-regulated plans and operates in a manner inconsistent with ERISA's objective of uniform plan administration. She argued that, if Section 6111.2 applied, then an ERISA plan administrator could not make payments to a beneficiary in accordance with the plain language of the plan document, as required by federal law, but instead, would have to refer to state law (Section 6111.2). Therefore, Jodie argued, ERISA preempts Section 6111.2.

In *Egelhoff*, the United States Supreme Court examined a similar Washington state law and held that "ERISA's pre-emption section, 29 U.S.C. § 1144(a), states that ERISA shall supersede any and all State laws insofar as they may now or hereafter relate to any employee benefit plan covered by ERISA. We have observed repeatedly that this broadly worded provision is clearly expansive. But at the same time, we have recognized that the term 'relate to' cannot be taken to extend to the furthest stretch of its indeterminacy, or else for all practical purposes pre-emption would never run its course."

Applying preemption principles, the U.S. Supreme Court concluded that the Washington statute had impermissibly "connection with" ERISA plans for two primary reasons. First, the Court found that the express language of the Washington statute compelled ERISA plan administrators to determine beneficiary status, not according to the plan's documents, but instead, based upon the statute at issue. Because the statute would bind ERISA plan administrators to a particular choice of rules for determining beneficiary status, rather than to those identified in the plan documents, that statute impermissibly implicated an area of core ERISA concern, and preemption was appropriate.

Secondly, the Court found that the Washington statute interfered with ERISA's goal of nationally uniform plan administration. One of the principal goals of ERISA is to enable employers to establish a uniform administrative plan, which would provide a set of standard procedures to guide processing of claims and disbursement of benefits on a national basis. The Washington statute at issue threatened that uniformity, and would have required plan administrators to become familiar with multiple state statutes. Based upon this reasoning, the Supreme Court concluded that the Washington statute had an impermissible "connection

with” ERISA plans and, therefore, was expressly preempted on the ground that it “directly conflicts with ERISA’s requirements that plans be administered, and benefits be paid, in accordance with plan documents.”

Guided by the rationale employed by the U.S. Supreme Court in *Egelhoff*, the Superior Court concluded ERISA preempts 20 Pa.C.S.A. § 6111.2. Accordingly, the Superior Court ruled Jodie was entitled to retain the life insurance policy benefits payable to her by her ex-husband.