

COURT UPHOLDS DENIAL OF RETIREMENT PLAN BENEFITS TO CHILDREN OF DECEASED EMPLOYEE

O’Shea v. UPS Retirement Plan (1st Cir., 2016)

Hodgson Russ Newsletter

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The U.S. Court of Appeals for the First Circuit recently upheld a lower court decision that the denial of benefits by a company retirement plan to the children of an employee who died one week before his retirement benefits were scheduled to begin was reasonable. The employee in this case was diagnosed with cancer in 2008. He became eligible for retirement in 2009, and decided to retire at the end of the year. He was advised by a company human resources supervisor that he could “maximize his time on payroll” by taking his accrued paid time off after his last day of work and delaying his official retirement date. The employee took the supervisor’s advice, commenced taking his leave in January, 2010, and submitted his official retirement date as February 28, 2010. He selected as his payment option under the retirement plan a single life annuity with a 10-year guarantee, and named his four children as his beneficiaries. Under this annuity choice, the employee would receive a monthly benefit for his lifetime, with a guarantee of monthly payments for 10 years.

The retirement benefits application stated that if the employee were to die within the 10-year guarantee period, his beneficiaries would continue to receive the same monthly payments for the remainder of the guarantee period. Although the benefits application did not explicitly state (and the supervisor did not explain) that the employee must survive until the annuity starting date of March 1, 2010, to receive the 10 years of guaranteed payments, the application did refer to payment according to “the terms of the Plan.” The only plan provision that explicitly provides for a retirement benefit if a participant dies prior to the annuity starting date states that a “preretirement survivor annuity” would then be paid to the participant’s spouse or domestic partner.

Unfortunately, the employee died eight days before his annuity starting date. About a month later, the plan administrator informed the intended beneficiaries that they were not entitled to the 10 years’ of payments they were expecting, because only a spouse or domestic partner is able to recover benefits under the plan when a participant dies before benefits commence. After exhausting the appeals process under the plan, the beneficiaries filed suit, seeking recovery of the ten years of

Attorneys

Peter Bradley

Michael Flanagan

Richard Kaiser

Ryan Murphy

Practices & Industries

Employee Benefits

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annuity payments allegedly “guaranteed” to them under the plan. The district court found in favor of the retirement plan, concluding that the plan administrator’s construction of the plan terms was correct. The court also found that any potential claim based on alleged misrepresentations of a benefit guaranty would have been released under the terms of a release of claims signed by the employee shortly before his death in return for a payment of \$98,800.

Describing the case as “highly sympathetic,” the First Circuit nevertheless agreed on appeal that the company’s interpretation of the plan terms is “more than reasonable,” and that, because the employee did not live past the annuity starting date, he did not meet a mandatory precondition that would entitle his beneficiaries to the 10-year guaranteed benefits payments. The court also agreed that any equitable claims based on allegations that the employee was “misled” about the terms of the plan are barred, because they existed at the time he signed the release of claims. *O’Shea v. UPS Retirement Plan* (1st Cir., 2016)