Fisher Phillips

Insights, News & Events

7TH CIRCUIT'S RECENT RULING IN ERISA CHANGE-OF-BENEFICIARY DISPUTE OFFERS KEY TAKEAWAYS FOR EMPLOYERS AND RETIREMENT PLAN FIDUCIARIES

Insights
Mar 3, 2026

7th Circuit's Recent Ruling in ERISA Change-of-Beneficiary Dispute Offers Key Takeaways for Employers and Retirement Plan Fiduciaries

Love may fade, but beneficiary designations do not. That was the hard lesson learned in a legal dispute between a man's estate and his ex-spouse over his retirement plan proceeds – ultimately, a federal appeals court in Chicago refused to honor a man's attempt to remove his ex-wife as beneficiary of his retirement account and ruled that the ex was entitled to receive the entirety of the account. The decision, which was based on a legal test courts have long recognized in ERISA cases, produced a harsh outcome for the estate's intended beneficiaries, despite the participant's clear expression of intent. In this Insight, we'll explain what happened in the recent 7th Circuit case and provide three takeaways for employers and retirement plan fiduciaries.

What Led to the Beneficiary Dispute in the PCA Case

For more than 30 years, a man worked for Packaging Corporation of America (PCA) and participated in the company's 401(k) plan. When the participant got married in 2006, he designated his then-wife as the primary beneficiary of his account and his sisters as contingent beneficiaries.

Following his divorce in 2022, the participant directed his secretary to fax a request to his PCA' s Benefits Center

Related People

Robert C. Christenson

Partner

404.240.4256

Service Focus

Counseling and Advice

Employee Benefits and Tax

Litigation and Trials

Copyright © 2026 Fisher Phillips LLP. All Rights Reserved.

requesting removal of his ex-wife as a beneficiary of his 401(k) and other benefit plans and "any necessary paperwork" to complete the change. Despite this request, the employer left the ex-spouse in place as primary beneficiary of the 401(k) account.

When the participant died in 2023, his estate and the ex-spouse filed competing claims for his retirement funds through the plan's internal claims process. Rather than making a final determination as to the proper beneficiary, PCA filed an "interpleader" action in federal court – leaving it to the court to resolve the dispute.

PCA's 401(k) Plan, ERISA, and the Substantial Compliance Test

- **PCA's 401(k) Plan.** The plan's governing documents provided the PCA's Benefits Administration Committee with discretion and authority to administer the plan, including interpreting and applying its terms. The plan documents required beneficiary changes to be made by calling the company's Benefits Center or updating designations online.
- **ERISA.** The Employee Retirement Income Security Act of 1974 (ERISA), which governs PCA's 401(k) plan, requires plans to be operated in accordance with the documents and instruments governing the terms of the plan, so long as those terms are consistent with ERISA rules. However, ERISA does not provide procedures or guidance to address disputes between claimants to plan benefits or the efficacy of an attempted beneficiary designation change.
- **The "Substantial Compliance" Test.** When ERISA preempts state law but is silent on an issue, federal courts have applied a "substantial compliance" test to resolve the issue. In essence, if a participant's actions do not comply with the plain terms of the plan, courts will consider upholding their actions if they demonstrate "substantial compliance" with the plan's requirements. In the context of beneficiary designation changes, courts consider whether the participant's actions (1) demonstrate an intent to make the change, and (2) are similar to the change-of-beneficiary mechanisms required by the plan.

Lower Court Ruled Participant's Fax Request Met Substantial Compliance Test

Copyright © 2026 Fisher Phillips LLP. All Rights Reserved.

The district court found that the participant's fax in 2022 showed clear intent to make the beneficiary change and was very similar to the change of beneficiary provisions in the plan. Thus, the district court ruled against the ex-spouse, holding that the fax effectively changed the participant's beneficiary designation.

7th Circuit Reversed, Said Participant's Actions Not Similar Enough to Plan's Rules

In a February 2 decision, the 7th Circuit Court of Appeals reversed and ruled in favor of the ex-spouse. While the court agreed that the "intent" prong was met, it found that the participant's actions were not similar enough to the plan's required mechanism for changing beneficiaries, pointing out that:

- Cases finding substantial compliance usually involve minor typographical or clerical errors in the completion of a plan-designated form.
- The participant did not attempt to follow the plan's procedures, procure the appropriate form, or inquire into the proper methods.
- The participant's fax requested that his employer "fax any necessary paperwork [he might] need to complete" the change, suggesting that the participant understood further steps were necessary to make the change.

As a result, the court held that the participant did not substantially comply with the plan's beneficiary designation change process and ruled that the ex-spouse was the primary beneficiary of the retirement benefit. This result left the participant's intended beneficiaries empty-handed.

3 Key Employer Takeaways

The 7th Circuit's recent decision highlights the severe consequences that can arise from procedural mistakes related to beneficiary designations. For employers that sponsor ERISA-governed retirement plans, here are three steps you can take to help ensure that the intentions of participants are ultimately honored and reduce the risk of costly disputes:

1. Tighten and publicize beneficiary-change procedures. Ensure your plan document provides specific procedures for change of beneficiary designation requests. Confirm that

Copyright © 2026 Fisher Phillips LLP. All Rights Reserved.

the summary plan description and any materials available to participants state *exclusive* methods for completing the change. Consider removing references suggesting that informal methods (e.g., fax, email, verbal) of requesting changes will be accepted.

2. Train benefits staff on handling of "off-channel" requests. When participants inevitably send informal and improper requests for beneficiary changes, staff should (1) promptly direct them to the formal process and (2) document that communication to insulate the plan against potential liability for providing erroneous information.

3. Expect beneficiary change requests following major life events. Consider reminding employees to review and update beneficiaries through official channels on a regular basis. One simple way is including explanatory language in your form qualified domestic relations orders and divorce response letters.

Conclusion

We will continue to monitor developments related to ERISA litigation and all aspects of employee benefits and other workplace law topics, so make sure you are subscribed to Fisher Phillips' Insight System to get the most up-to-date information directly to your inbox. If you have questions, feel free to reach out to your Fisher Phillips attorney, the authors of this Insight, or any attorney in our Employee Benefits and Tax Practice Group.

Copyright © 2026 Fisher Phillips LLP. All Rights Reserved.