

Updating Designations and Avoiding Disappointed Beneficiaries

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After a significant life event such as marriage, separation, or divorce, it's important to update beneficiary designations on life insurance policies. Or, the intended beneficiary may become "the disappointed beneficiary" (as referred to in numerous court cases). This was the situation in *Knowles v. LeBlanc*.¹ The policy owner (and the life insured under the policy) failed to update a beneficiary designation from his ex-spouse to his common-law spouse. The common-law spouse was successful in her legal claim for the insurance proceeds under the legal concept of "unjust enrichment" (discussed below). If the policy owner had updated the beneficiary designation before his death, the litigation in this case could have been avoided.

Facts

In 1987, Peter Knowles (Peter) purchased a life insurance policy and named his spouse, Barbara Knowles (Barbara) as beneficiary. Peter and Barbara separated shortly after and they eventually divorced in 1991. Peter and Barbara entered into a settlement agreement (consent order), which provided that each party would retain their own property. However, the consent order did not deal with the insurance policy.

After the separation, Peter met Marie LeBlanc (Marie). She was Peter's common-law spouse for twenty-six years until his death in 2019. Peter paid the premiums on the policy from his joint account owned with Marie. When Peter passed away, Marie made a claim for the insurance proceeds. To her surprise, the insurer advised Marie that she was not the named beneficiary of the policy. Barbara was the beneficiary on file. Marie and Barbara then made competing claims for the life insurance proceeds. The insurer paid the money into court for the court to decide whether Marie or Barbara would receive the proceeds.

¹ 2021 BCSC 482. (*Knowles*)

Issues

The court considered these issues:

- What were Peter's intentions on the beneficiary designation?
- Did Peter attempt to change the beneficiary designation?
- Did the consent order prevent Barbara from claiming the proceeds?
- Can Marie receive the proceeds by way of an unjust enrichment claim and a constructive trust remedy?

Decision

What were Peter's intentions on the beneficiary designation?

The court considered the surrounding circumstances. The divorce was clearly acrimonious. Peter had hostile feelings toward Barbara after their separation and was estranged from their two children. In 2012, Peter disinherited Barbara and their two children. He left his entire estate to Marie in his will. Marie received all of Peter's other assets by right of survivorship. She was also the designated beneficiary of Peter's other insurance policies as well as a mutual fund, a health and welfare plan, and pension plans. The court concluded that these circumstances showed that Peter:

- wished to leave all of his property to Marie,
- believed he had changed the beneficiary designation from Barbara to Marie, and
- must have forgotten or neglected to change the beneficiary designation.

Also, Peter's actions and verbal comments to others indicated that he did not want Barbara or their children to receive any of his assets.

Did Peter attempt to change the beneficiary designation?

Marie argued that she and Peter were under the impression that Peter had filed a change of beneficiary form after Peter's separation. Therefore, the court ought to infer that she was the beneficiary because the insurer lost or misplaced the change of beneficiary form. The court rejected this argument because there was insufficient evidence to infer that Peter revoked or attempted to revoke Barbara as the policy's beneficiary.

Did the consent order prevent Barbara from claiming the proceeds?

Marie argued that the consent order barred Barbara from claiming the proceeds. Also, Barbara was breaching the consent order by claiming the proceeds. The court disagreed because the consent order did not:

- explicitly refer to the life insurance policy,
- specifically revoke Barbara's designation as the policy's beneficiary, or
- refer to a "full and final" settlement or a relinquishment of all claims.

Thus, the court concluded that the consent order did not prevent Barbara from claiming the proceeds.

Can Marie receive the proceeds by way of an unjust enrichment claim and a constructive trust remedy?

The unjust enrichment issue was the most important issue in this case. Marie argued that Barbara would be unjustly enriched in receiving the insurance proceeds. Marie, therefore, asked the court to impose a constructive trust in her favour equivalent to the value of the insurance proceeds.

The court was satisfied that Marie met all three elements of the unjust enrichment test:

1. the enrichment of one person,
2. a corresponding deprivation of the other, and
3. an absence of a "juristic reason" (such as a contract) for the enrichment.

The court easily found that Marie satisfied the first two tests. Marie was deprived because she paid for the life insurance premiums for many years from her joint account with Peter. Correspondingly, Barbara was enriched by receiving the life insurance proceeds.

The third element involves examining whether there is a reason why the unjust enrichment claim cannot succeed in law or by contract. The court referred to the case of *Moore v. Sweet*² which dealt with the reverse situation. In *Moore*, the insured (Larry) and his ex-spouse (Michelle) entered into an oral agreement upon their separation where Michelle would remain the beneficiary on the policy as long as she continued to pay for the premiums. Subsequently, Larry named his common-law spouse (Risa) as irrevocable beneficiary without informing Michelle. As such, Michelle continued to pay the premiums, believing that she would receive the insurance proceeds as the policy's beneficiary. The Supreme Court of Canada (SCC) ruled that Michelle was entitled to the proceeds – despite the irrevocable beneficiary designation.

The SCC found that all three unjust enrichment tests had been met because Michelle (who paid the premiums) suffered a deprivation at the enrichment of Risa (who was to receive the proceeds). On the third test, the SCC determined that the *Insurance Act (Ontario)*³ (the relevant statute in *Moore*) does not provide for a juristic reason and thus, did not bar Michelle's claim. The court in *Knowles* concluded that the *Insurance Act (Ontario)* is similar to *British Columbia Insurance Act*⁴ (BCIA – the relevant statute in *Knowles*). Therefore, as in *Moore*, the BCIA also did not bar Marie's unjust enrichment claim. The court therefore

² 2018 SCC 52. (*Moore*)

³ R.S.O. 1990, CHAPTER I.8.

⁴ [RSBC 2012] CHAPTER 1.



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imposed a constructive trust in Marie's favour to the full amount of the insurance proceeds. The insurer was directed to pay Marie the proceeds.

Finally, the court cautioned the insurer to consider updating its records from time to time, and reminding its long-standing policyholders of their designated beneficiaries to avoid similar disputes in the future.

Key takeaways

Here are some of the key takeaways from *Knowles*:

- Life insurance is an important asset in an estate plan. As such, it's really important to update all life insurance beneficiary designations when a Client remarries, separates or divorces.
- The time, stress and uncertainty of litigation could have been avoided in this case if Peter had updated the beneficiary designation.
- It's important to remind Clients about updating their beneficiary designations to circumvent possibilities for a "disappointed beneficiary" as in Marie's case.

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