

Seventh Circuit Rules Attempted Retirement Plan Beneficiary Change Failed Compliance Test

Key Takeaways for Plan Sponsors

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A recent decision from the US Court of Appeals for the Seventh Circuit involving the retirement plan account of a deceased participant usefully illustrates the importance of following plan procedures when updating beneficiary designations.

In *Packaging Corporation of America Thrift Plan for Hourly Employees v. Langdon*, the court reversed a district court's application of the "substantial compliance" doctrine to an informal beneficiary change request and awarded a substantial retirement account to an ex-spouse, despite the clear intentions of the participant.

Case Background

The case involved a plan participant, Carl Kleinfeldt, who had designated his wife, Dena Langdon, as the primary beneficiary of his retirement account. Mr. Kleinfeldt and Ms. Langdon later divorced, and Ms. Langdon received a portion of Mr. Kleinfeldt's plan account through a Qualified Domestic Relations Order (QDRO). After the divorce was concluded, Mr. Kleinfeldt then sent a fax to the plan's benefits center requesting the removal of his ex-wife as beneficiary.

One would think that such actions would be sufficient to end Ms. Langdon's interest in Mr. Kleinfeldt's retirement plan benefits. In this case, however, Mr. Kleinfeldt failed to properly follow all of the plan's designated procedures for changing a beneficiary. He did not update the beneficiary online, and he failed to complete any official plan paperwork (other than the QDRO and his fax).

When Mr. Kleinfeldt passed away, his ex-wife was still listed as the primary beneficiary according to the plan's records. Representatives of his estate, however, believed that his remaining retirement account should be issued

to his heirs rather than to the ex-wife and filed a claim requesting to receive the account. That triggered an interpleader action, with competing claims to receive the same account from Ms. Langdon (listed as primary beneficiary) and Mr. Kleinfeldt's estate.

The Court's Ruling

The court ultimately found that Mr. Kleinfeldt did not satisfy the federal common law "substantial compliance" doctrine, which requires a participant to both express intent to change beneficiaries and undertake a positive action that is, for all practical purposes, similar to the action required by the plan documents.

While the court acknowledged that Mr. Kleinfeldt's fax clearly expressed his intent to remove his ex-wife as beneficiary, his actions fell materially short of the plan's required procedures. The court distinguished prior cases in which participants had obtained and completed the appropriate forms but made minor clerical errors, emphasizing that, in its view, Mr. Kleinfeldt did not even attempt to utilize the proper procedures and that his method deviated from the plan's written terms. The ex-wife thus walked away with the entire account.

Compliance Recommendations for Plan Sponsors and Employers

Plan sponsors should take this ruling as an opportunity to review and strengthen their beneficiary designation procedures using the following practical suggestions:

1. **First, ensure that plan documents clearly articulate the methods by which participants may designate or change beneficiaries**, and that these procedures are prominently communicated in participant notices.
2. **Second, train HR personnel to recognize informal beneficiary change requests**—such as faxes, emails, or verbal communications—and promptly direct participants to the proper procedures, all while documenting these interactions.
3. **Third, consider implementing confirmation systems that notify participants when beneficiary changes have been successfully processed**, reducing the risk that participants mistakenly believe informal requests are sufficient.
4. **Fourth, consider conducting a beneficiary designation review and audit** to ensure that each participant has identified a designated beneficiary and confirmed their choice.

Working with participants to ensure compliance with plan documents and ERISA requirements when designating a beneficiary will help plan sponsors avoid litigation and distributions from retirement accounts that are contrary to the deceased participant's intentions.

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