

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MASSACHUSETTS

MADALINE S. KEROS, WILLIAM J. )  
KEROS, and THE GEORGE W. KEROS )  
IRREVOCABLE TRUST AGREEMENT )  
f/b/o WILLIAM J. KEROS dated )  
JUNE 24, 1994, ON BEHALF OF )  
THEMSELVES and ALL OTHERS )  
SIMILARLY SITUATED, )  
Plaintiffs )

v. )

C.A. No. 12-cv-11294-MAP

MASSACHUSETTS MUTUAL LIFE )  
INSURANCE COMPANY, THOMAS C. )  
BARRY, CRISTOBAL I. CONDE, )  
KATHLEEN A. CORBET, ROGER W. )  
CRANDALL, JAMES H. )  
DEGRAFFENREIDT, JR., PATRICIA )  
DIAZ DENNIS, ROBERT A. ESSNER, )  
ROBERT M. FUREK, RAYMOND W. )  
LEBOEUF, CATHY E. MINEHAN, MARC )  
F. RACICOT, WILLIAM T. SPITZ, )  
and H. TODD STITZER, )  
Defendants )

MEMORANDUM AND ORDER REGARDING  
DEFENDANTS' MOTIONS TO DISMISS  
(Dkt. Nos. 21 & 23)

August 5, 2013

PONSOR, U.S.D.J.

I. INTRODUCTION

In this one-count class action complaint, Plaintiffs, who own life insurance policies issued by Defendant Massachusetts Mutual Life Insurance Company ("MassMutual") on the lives of persons other than themselves, allege that for at least the past fifty years Defendants have breached

their fiduciary duty. The alleged breach lies in Defendants' affording voting rights only to persons whose lives are insured, and not (in the unusual case where there is a difference) to policy owners such as themselves. Plaintiffs argue that Mass. Gen. Laws ch. 175, § 94 requires that voting rights should not be allocated to individuals whose lives are insured by life insurance policies but, instead, (where there is a difference) to individuals like them who own the life insurance policies on others. Plaintiffs' argument, if it were successful, would disenfranchise hundreds of thousands of persons whose lives are insured by Defendant MassMutual and shift voting rights to persons who are owners of policies but whose lives are not insured under the policies' terms.

For starters, as will be seen below, Plaintiffs' interpretation of § 94 is doubtful. Equally important, Plaintiffs concede that the language of the relevant insurance policies explicitly contradicts Plaintiffs' position. These contracts, since at least 1963 (Defendants say since the mid-nineteenth century), have unambiguously allocated voting rights to persons whose lives are insured, and not, where a difference exists, to policy owners. Plaintiffs do not allege any deception or self-dealing on the part of Defendants in their construction of the

statutory and contractual terms, or indeed any misbehavior of any kind beyond a possible, but hardly manifest, misinterpretation of the law. Indeed, none of the individual Defendants, current directors of MassMutual, is even alleged to have held his or her position in 1963, when Plaintiffs allege the current practice of allocating voting rights was adopted. Significantly, the policies have for many decades been subject to scrutiny by the Massachusetts Insurance Commissioner and have never been disapproved. Everything has been above board; no one is alleged to have taken advantage for personal gain.

Despite the interesting questions relating to § 94, and the maze-like arguments Plaintiffs weave, the determinative question in this case lies below any dispute about the import of a confusing statute and on a much simpler level. In order to state a claim for breach of fiduciary duty, Plaintiffs must plausibly allege that Defendants' continuation of the longstanding allocation of voting rights has not only been incorrect but has constituted a species of misbehavior substantially more profound than a mere error of statutory interpretation. While Plaintiffs' reading of § 94 may -- with the head tilted and one eye closed -- appear to have some force, Defendants' contrary construction comports more comfortably with the normal usage of the term "insured"

and is certainly reasonable. Under these circumstances, even in the unlikely event that Defendants' construction of the statute were found to be incorrect, the actions taken by them in reliance on that interpretation fall far short of the level of misconduct necessary to make out a claim for breach of fiduciary duty. For this reason, Defendants' motions to dismiss will be allowed.

## II. FACTS

Plaintiffs own life insurance policies issued by MassMutual that insure the lives of someone other than themselves, pay premiums, and receive dividends. They contend that approximately twenty-five percent of MassMutual policyholders (over 300,000) hold policies that insure the lives of others.

Named Plaintiffs purchased policies that were originally issued by Connecticut Mutual Life Insurance Company, which merged with MassMutual in 1996. Plaintiffs allege that the class, comprised of policy owners who are not so called "life-insureds," has been denied its right to vote in the election of the directors for MassMutual since at least 1963.

MassMutual is a mutual insurance company organized

under the laws of Massachusetts. The individual Defendants are the current directors of MassMutual.

A mutual insurance company is an insurer "whose policyholders are its owners, as opposed to a stock insurance company owned by outside shareholders." Black's Law Dictionary 876 (9th ed. 2009). Like a stock corporation, a mutual insurance company relies on outside equity owners to finance the firm. However, the equity owners -- so called "policyholders" -- are also customers who contract with the company for a service. One treatise explains the main feature of a mutual insurance company as follows:

Mutual insurers . . . are owned by their policyholders. This is the primary difference between the mutual insurance companies and stock insurers. The owners of a stock insurance company are not necessarily insureds of the company; the owners of a mutual insurance company are always insureds of the organizations. Mutual insureds become owners merely by purchasing insurance from a mutual company.

Herbert S. Denenberg, Risk & Insurance 172 (1964).

MassMutual's current by-laws provide that "[a]ll directors shall be elected by the members of the Company at the annual meeting." (Dkt. No. 1, Compl. ¶ 53.) It is undisputed that MassMutual has for many decades interpreted "members" to be the life-insureds, and (where there is a

difference) not the policy owners.

It is also undisputed that MassMutual's policies have always provided clear notice of this allocation of voting rights. The complaint offers no allegation of any deception or ambiguity about the company's longstanding practice. The policy endorsement states: "The Insured/Annuitant is hereby notified that by virtue of this policy/contract he or she is a member of Massachusetts Mutual Life Insurance Company and is entitled to vote in person or by proxy at any and all meetings of said Company." (Dkt. No. 25, Avery Decl. Exs. B & D.) In the policies, the "insured" is listed as the person whose life is insured by the policy (the life-insured) and the policyholder is referred to as the "owner." As noted, usually these two positions are occupied by the same flesh-and-blood person.

Plaintiffs as policyholders, but not life-insureds, allege that they each have been denied at least 19 votes annually based on MassMutual's grant of voting rights to the life-insured. They contend that, as a result of MassMutual's allocation of voting rights, they have not been

able to hold the Board of Directors accountable.<sup>1</sup>

Plaintiffs argue, in essence, that as policyholders they have suffered losses as equity owners but have been unable to hold MassMutual's Board accountable because of the allegedly improper allocation of voting rights.

The verified class action complaint offers only one cause of action, breach of fiduciary duty, against all Defendants. Plaintiffs allege that the individual Defendants breached their fiduciary duty to the Company and policyholders by precluding policyholders who hold policies insuring the lives of others from voting in the election of MassMutual's Board of Directors. Plaintiffs ask the court for orders granting: (1) declaratory relief holding that Defendants violated Massachusetts law in denying policyholders voting rights for MassMutual's Board of Directors; (2) declaratory relief holding that Defendants

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<sup>1</sup> Plaintiffs allege that this deprivation is material given that MassMutual allegedly agreed to pay \$1 billion to settle claims arising from its participation in the Ponzi scheme orchestrated by Bernard L. Madoff Investment Securities, LLC. Defendants appear to contest Plaintiffs' claim about this supposed payment. For a description of the Ponzi scheme, see In re Bernard L. Madoff Inv. Sec., LLC, 424 B.R. 122, 126-33 (S.D.N.Y. 2010).

violated Massachusetts law in giving only individuals who are life-insureds voting rights for MassMutual's Board of Directors; (3) preliminary and permanent injunctions prohibiting MassMutual from denying policy owners the right to vote; (4) preliminary and permanent injunctions prohibiting MassMutual from allowing life-insureds the right to vote; (5) preliminary and permanent injunctions prohibiting Defendants from allowing anyone other than policyholders to serve on the Board of Directors; (6) compensatory damages for all losses and damages suffered as a result of the wrongful deprivation of voting rights; and (7) costs and disbursements, including attorneys' fees.

Individual Defendants and Defendant MassMutual have filed separate motions to dismiss pursuant to Fed. R. Civ. P. 12(b)(6). (Dkt. Nos. 21 & 23.) For the reasons summarized above and discussed in greater detail below, these motions will be allowed.

### III. DISCUSSION

#### A. Breach of Fiduciary Duty.

As noted, Plaintiffs plead only one count against Defendants, breach of fiduciary duty. To survive a motion to dismiss, the complaint must contain "sufficient factual



matter” to state a claim for relief that is actionable as a matter of law and “plausible on its face.” Ashcroft v. Iqbal, 556 U.S. 662, 678 (2009) (quoting Bell Atl. Corp. v. Twombly, 550 U.S. 544, 570 (2007)); Fed. R. Civ. P.

12(b)(6). While the court must accept all well-pleaded facts as true and draw all reasonable inferences in favor of a plaintiff, “[t]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice” to state a plausible claim for relief. Id. Dismissal is appropriate if the complaint does not set forth “factual allegations, either direct or inferential, respecting each element necessary to sustain recovery under some actionable legal theory.” Centro Medico del Turabo, Inc. v. Feliciano de Melecio, 406 F.3d 1, 6 (1st Cir. 2005) (internal citation omitted).

To establish a breach of fiduciary duty, a party must show three things: (1) that a fiduciary relationship existed that created a duty, (2) that a defendant breached that duty, and (3) that the breach caused damage. Hanover Ins. Co. v. Sutton, 705 N.E.2d 279, 288-89 (Mass. App. 1999).<sup>2</sup>

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<sup>2</sup> While Plaintiffs claim to offer this count against all Defendants, the complaint, in fact, appears to lack even

It is undisputed that a company director stands as a fiduciary in relation to both the company's members and the company itself. "It is a basic principle of our corporate law that a director has a fiduciary relationship with the corporation. This relationship includes duties of loyalty and of care -- that is, of 'reasonable intelligence' in the oversight of corporate business." Blackstone v. Cashman, 860 N.E.2d 7, 17 (Mass. 2007).<sup>3</sup>

A director's standard of duty is also well established:

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an allegation that Defendant MassMutual had a fiduciary relationship with Plaintiffs. Count I only mentions the individual Defendants, not MassMutual. (Dkt. No. 1, Verified Compl. ¶¶ 68-73) This omission alone would probably support allowance of MassMutual's motion to dismiss (Dkt. No. 21). The apparent pleading defect need not, however, be pursued given the substantive deficiency of the complaint.

<sup>3</sup> Both parties cite to corporate fiduciary duty standards, and there is no argument that these principles are inapplicable to mutual insurance companies. The court will thus treat them as such. Massachusetts Insurance Law provides that "[t]he general principles of law relative to the powers, duties and liabilities of corporations shall apply to all incorporated domestic [insurance] companies." Mass. Gen. Laws ch. 175, § 30. Statutory provisions defining the powers of corporate directors are applicable to domestic mutual insurance companies. Id. Massachusetts state and federal courts have applied corporate law concepts to mutual insurance companies, boards of directors, and policyholders. See Pomerantz v. Clark, 101 F. Supp. 341 (D. Mass. 1951); Harhen v. Brown, 730 N.E.2d 859 (Mass. 2000); Silverman v. Liberty Mut. Ins. Co., 2001 WL 810157 (Mass. Super. July 11, 2001).

[Directors] are bound to act with absolute fidelity and must place their duties to the corporation above every other financial or business obligation. They must act, also, with reasonable intelligence, although they cannot be held responsible for mere errors of judgment or want of prudence. They cannot be permitted to serve two masters whose interests are antagonistic. They are liable if, through their bad faith, financial loss to the corporation results. They are responsible if they unlawfully divert the assets of the corporation. If directors, acting in good faith, nevertheless act imprudently, they cannot ordinarily be held to personal responsibility for loss unless there is 'clear and gross negligence' in their conduct.

Spiegel v. Beacon Participations, 8 N.E.2d 895, 904 (Mass. 1937)(emphasis added).

Directors, in sum, must use their reasonable judgment, but as long as they are acting in good faith they do not breach their fiduciary duties unless they act with clear and gross negligence. "The business judgment rule protects directors and officers from liability for conduct they have taken in good faith, with the care that a person in a like position would reasonably believe appropriate in similar circumstances, and in a manner the director or officer reasonably believes to be in the best interests of the corporation." Halebian v. Berv, 931 N.E.2d 986, 991 n.11 (Mass. 2010).

Plaintiffs allege that individual Defendants breached their fiduciary duties by precluding policy owners from voting and by allowing only life-insureds to vote. (Dkt. No. 1, Compl. ¶¶ 70-72.) To employ the adverb used in the complaint, according to Plaintiffs these Defendants “incorrectly” interpreted the controlling statute. (Id. at ¶ 52). This act of incorrect interpretation is alleged in purely conclusory terms to constitute a failure to act in good faith. (Id. at ¶ 72). This failure, Plaintiffs say, ipso facto constituted a breach of fiduciary duty.

A close look at the statute in question makes it clear just how debatable this argument is and, as a result, how vaporous the claim of breach of fiduciary duty is.<sup>4</sup> The reasonableness of the directors’ actions requires an examination of the statute.

B. Mass. Gen. Laws ch. 175, § 94.

The preliminary question in this case, as noted, is whether Massachusetts law clearly demands that voting rights at MassMutual’s annual meetings be granted to individuals

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<sup>4</sup> As Defendants point out, Plaintiffs clearly have not offered a Caremark claim. See In re Caremark Int’l Inc. Deriv. Litig., 698 A.2d 959 (Del. Ch. 1996). This is not a case about the absence of an oversight system that amounted to “a sustained and systematic failure of the board to exercise oversight.” Sachs v. Sprague, 401 F. Supp. 2d 159, 165 (D. Mass. 2005). Plaintiffs, in any event, do not argue that their claims are viable under Caremark.

whose lives are insured (life-insureds) or to individuals who own the life insurance policies (policyholders). While in at least three-quarters of the life insurance policies the life-insured is the policyholder, an individual can hold an insurance policy that insures the life of another person. In fact, as noted, Plaintiffs have alleged that over 300,000 of MassMutual's policy owners hold policies that insure the life of another person. Named Plaintiffs in this case own life insurance policies on their father and sister. The goal of this litigation is apparently to remove the voting rights from the father and sister and transfer them to the children and siblings.<sup>5</sup>

Section 94 provides that "every person insured under a policy of life or endowment insurance issued by a domestic mutual life company shall be a member thereof and entitled to one vote . . . ." Mass. Gen. Laws ch. 175, § 94 (emphasis added).

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<sup>5</sup> This is only the "apparent" goal, since the complaint does not specify whether Plaintiffs propose to acquire voting rights by supplanting their father and sister or in addition to them. Significantly, there is no allegation that the father and sister exercised their voting rights in a manner different than Plaintiffs would have, that Plaintiffs attempted to obtain their father's and sister's proxies to enable them to vote, or even that the father and sister voted at all.

Common usage and abundant authority support the conclusion that "person insured" in the quoted statutory passage most likely refers to the person whose life has been insured, i.e., the life-insured. This is, first of all, the most intuitively resonant meaning of the term. One more naturally speaks of being "insured" when one has a policy of life insurance on one's own life, not when one has a policy of life insurance on someone else.

In Couch's Cyclopedia of Insurance Law, the definition of "insured" begins with general language: "The party who enters into the contract of insurance . . . with the insurer is called the 'insured.'" 2A Ronald Anderson, Couch's Cyclopedia of Insurance Law § 23.1 (2d ed. 1984). This treatise follows, however, by making clear that in the life insurance context the word "insured" "means the person whose life is insured and whose death matures the obligation of the insurer to pay." Id.

Black's similarly confirms that "insured" in the life insurance context can refer to the "life-insured," though it recognizes that the term may sometimes refer to the policyholder as well. An "insured" is a person "who is

covered or protected by an insurance policy." Black's Law Dictionary 879.

The Supreme Court has recognized that "insured" may, depending on the context, refer to the person whose life is covered. The Court noted that "[t]he application of either ['assured' or 'insured'] to the party for whose benefit the insurance is effected, or to the party whose life is insured, has generally depended upon its collocation and context in the policy." Connecticut Mut. Life Ins. Co. v. Luchs, 108 U.S. 498, 504 (1883).

Significantly, at least one instance exists in the Massachusetts insurance statute where "insured" can only refer to a life-insured and not to the policy owner. Mass. Gen. Laws ch. 175, § 120E forbids genetic discrimination in the issuance of life insurance, unless there is "reliable information relating to the insured's mortality or morbidity." Obviously, the term "insured" here can refer to no one other than the person whose physical body enjoys the coverage.

Defendants have also pointed to instances where, when the Massachusetts legislature explicitly wanted to confer

voting rights on someone other than the life-insured, it made this intent manifest. For example, chapter 175, § 132D provides that "[u]nder any group annuity contract issued by a domestic mutual life company, the holder only shall be a member of the company, and entitled to one vote by virtue of such contract at the meetings of the company." Ch. 175, § 137 provides that "[u]nder any group policy issued by a domestic mutual life company, the employer only shall be a member of the company, and entitled to one vote by virtue of such contract at the meetings of the company."

In sum, various authorities provide credible support for Defendants' conclusion that § 94 intended "insured" to refer to the person whose life is insured and not, where there is a difference, to the policyholder. Based on this, the inclusion of language in MassMutual's insurance policies sixty years ago adopting this approach can hardly be described as a breach of fiduciary duty. Still less can the current directors' continuing tacit approval of this clearly disclosed contractual allocation of voting rights constitute misconduct rising to the high level of egregiousness required to support a jury in concluding that such a breach



has occurred. Cf. Spiegel, 8 N.E.2d at 904.

In reaching this conclusion it is proper to acknowledge that Plaintiffs' interpretation of the term "insured" does have some support. With respect to the election of directors, § 94 provides that: "After the first election, the directors shall be chosen by and from the policyholders; provided, that in case of a company having outstanding a guaranty capital, one third of the directors may be chosen by and from the stockholders thereof. No person shall be qualified to serve as a director after he ceases to be such a policyholder or stockholder, as the case may be." Id. (emphasis added).

It may be plausibly argued that the term "policyholders" in this passage refers to the individual who purchased and holds the insurance policy. On the other hand, the insertion of the word "policyholder" in this context may simply reflect imprecision on the part of the legislature, based on the assumption, usually correct, that the policyholder and the life-insured are the same person. As Defendants suggest, the insertion of this language by amendment in 1930 may have reflected an emergency response

to the recent stock market collapse and the decision to make clear the role of stockholders in the company.

Plaintiffs lean heavily on policy reasons for aligning equity ownership with voting rights. Mutual insurance companies are set up so policyholders have an equity interest in the company, and Plaintiffs contend that their equity interest entitles them to rights similar to stockholders. See, e.g. E.R. Holdings, Inc. v. Norton Co., 735 F. Supp. 1094, 1100 (D. Mass. 1990) (“[O]ne of the most sacred rights of any shareholder is to participate in corporate democracy.”)

In Massachusetts, no federal or state court has directly addressed the proper allocation of voting rights in mutual life insurance companies. Some decisional law discussing mutual life insurance companies appears to assume that “policyholders” possess the right to vote under Mass. Gen. Laws ch. 175, § 94. Pomerantz v. Clark, 101 F. Supp. 341, 345 (D. Mass. 1952) (“Nothing of legal significance . . . is to be attributed to the mere fact that plaintiff is a policyholder rather than a shareholder. He has voting rights of the character set forth in Mass. G.L. (Ter. Ed.) c. 175, Sec. 94.”); Harhen v. Brown, 710 N.E.2d 224, 803

(Mass. App. Ct. 1999), rev'd on other grounds 730 N.E.2d 859 (Mass. 2000) (determining that when the common law of corporations is applicable to mutual insurance companies, "stockholders" should be read as "members," "i.e. policyholders"); Silverman v. Liberty Mut. Ins. Co., 2001 WL 810157, at \*12 n.9 (Mass. Super. July 11, 2001) ("In a mutual company, all policyholders are Members. In this context, the term, 'Members,' is simply another characterization of policyholders.")

None of these cases, however, attempts to address any distinction between a life-insured and a policyholder, and none of them significantly undermines Defendants' decision to allocate voting rights to life-insureds. Certainly no Massachusetts case law even hints that allocating voting rights to life-insureds would constitute the sort of egregious misconduct that would provide the basis for a claim of breach of fiduciary duty.

In the end, Plaintiffs' policy argument is weak. It is difficult to discern, for example, how the allocation of voting rights to persons whose lives are insured, rather than to policy owners, would compromise the company's

governance. First of all, as this memorandum has repeatedly noted, most of the time the policy owner and the life-insured will be the same person. Even where there is a difference, however, a person who is depending on insurance proceeds to support his or her loved ones after death will surely have a strong interest in the competent management and financial health of the insurance company upon whom his or her family's material security may in the course of years depend. The complaint certainly offers no allegation that the would-be voters here would have done a more vigorous or effective job in participating in corporate democracy than their father and sister.

At most, the complaint describes a supposed error made fifty years ago as to the proper reading of the statute. Other than perpetuating MassMutual's longstanding and openly disclosed voting protocol, the current Board of Directors is not alleged to have done anything wrong. A borderline claim for a mistake in judgment is insufficient to make out a breach of fiduciary duty. Nothing alleged is sufficient to suggest bad faith or "clear and gross negligence." Spiegel, 8 N.E.2d at 904.

To put the capper on the analysis, the Massachusetts

Insurance Commissioner must review each domestic company every five years to inspect and examine its affairs including "whether it has complied with the law . . . and the equity of its dealings with its policyholders." Mass. Gen. Laws ch. 175, § 4. The Commissioner also "administer[s] and enforce[s] the provisions of [chapter 175]." Ch. 175, § 3A. The Commissioner may refer facts to the attorney general for prosecution "if upon complaint, examination or other evidence exhibited to him he is of the opinion that any provision of said chapters has been violated." Id. No such action has ever been taken, or so far as the complaint discloses, even contemplated by the Insurance Commissioner. While this absence of administrative action does not establish the practice's legality, the longevity of MassMutual's voting allocation, its clear disclosure, and the lack of complaint for so many decades supports the reasonableness of Defendants' actions.<sup>6</sup>

#### IV. CONCLUSION

In the end, the disposition of this case derives from a

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<sup>6</sup> Blasius Indus. v. Atlas Corp., 564 A.2d 651 (Del. Ch. 1988), which suggests that a business judgment rule does not apply to a denial of voting rights, does not support a different ruling here. First, Blasius has not been adopted by any federal or state court in Massachusetts. Second, the facts of that case involved action by the defendants aimed at "preventing the effectiveness of a shareholder vote." Id. at 660. Nothing of the kind is alleged here.

straightforward comparison of the allegations of the complaint with the well-established elements for a claim of breach of fiduciary duty. This exercise makes it manifest that the allegations of the complaint are flatly insufficient as a matter of law to support the asserted cause of action. For the foregoing reasons, Defendants' Motions to Dismiss (Dkt. Nos. 21 & 23) are hereby ALLOWED.

The clerk is ordered to enter judgment for Defendants. This case may now be closed.

It is So Ordered.

/s/ Michael A. Ponsor  
MICHAEL A. PONSOR  
U. S. District Judge