

IN RE ESTATE OF RILEY: BENEFICIARY CONSENT IN COURT-APPROVED SETTLEMENTS

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The Arizona Supreme Court recently decided in *In re Estate of Riley* that all beneficiaries of an estate must execute a settlement agreement if the agreement affects the beneficiaries' interests in the estate and the parties to the agreement seek court approval.¹ The Court narrowed the Arizona Court of Appeals' ruling and effectively mitigated a number of negative implications arising from the lower court's decision.²

In *Riley*, Mary Riley left her estate to her thirteen children, appointing two children, Joseph Riley and Mary Benge, as co-personal representatives of the estate. In 2006, Joseph and Mary resigned from their positions after their sibling, R.J. Riley, petitioned for their removal, alleging that they had breached their fiduciary duty and improperly administered the estate.³ The probate court appointed John Barkley as the new personal representative and ordered Mary and Joseph to provide an accounting of the estate; Barkley objected to the accounting.⁴

Before trial, Barkley reached an agreement to settle the estate's claims against Mary and Joseph.⁵ The terms of the settlement bound all of the estate's beneficiaries, however all beneficiaries did not execute the agreement.⁶ The agreement also included language that required it to be presented for court approval under Arizona Revised Statutes sections 14-3951 and 14-3952.⁷

Nine of the beneficiaries objected to the agreement; the probate court, however, found that the terms were reasonable and approved the compromise.⁸

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1. 295 P.3d 428, 429 (Ariz. 2013).
 2. See generally Hadar L. Avraham & Raphael J. Avraham, *In re Estate of Riley: Protecting Beneficiaries' Rights in a Probate Estate*, 54 ARIZ. L. REV. 567, 572-75 (2012).
 3. *Riley*, 295 P.3d at 429.
 4. *Id.*
 5. *Id.*
 6. *Id.* at 429–30.
 7. *Id.*
 8. *Id.* at 430.

The objectors appealed to the Arizona Court of Appeals, which voided the agreement and held that Arizona probate law requires “all estate beneficiaries to sign [a] settlement agreement”⁹ affecting the estate’s distribution.¹⁰

On appeal, the Arizona Supreme Court vacated the court of appeals’ ruling and remanded the matter to the trial court. The Court explained that sections 14-3951 and 14-3952 “act together to permit parties to resolve estate controversies with finality”¹¹ and “allow parties to enter into settlement agreements that, upon court approval, bind all interested parties.”¹²

The Court rejected Barkley’s argument that the agreement merely settled an administrative dispute and did not affect the estate’s distribution.¹³ Even though the settlement terms did not lessen the beneficiaries’ stakes in the estate, they still affected the distribution scheme.¹⁴ Rather, the Court determined that because the settlement affected all beneficiaries’ interests, and because the settlement called for court approval, all beneficiaries were required to sign the agreement.¹⁵ Because only Joseph, Mary, and Barkley signed the settlement, “the probate court’s approval under § 14-3952 was invalid to make the agreement binding on those who did not sign it.”¹⁶

Despite the Court’s holding, however, the signature requirement is not mandatory for every settlement agreement. While all beneficiaries are required to execute an agreement when an estate seeks court approval, the Court explained that an agreement that is otherwise valid does not necessarily require court approval.¹⁷ The Court agreed with Barkley that requiring all beneficiaries to sign a court-approved settlement may increase costs, cause delay, and impede resolution; but, the Court emphasized that the law does not require estates to use the procedures outlined in sections 14-3951 and 14-3952.¹⁸ Instead, estates and beneficiaries can freely enter into agreements in order to quickly and economically settle disputes. The Court’s holding mitigates some of the potential negative implications arising from the court of appeals’ decision that all agreements—court-approved or not—must be executed by all beneficiaries because estates retain the option of settling without court approval.¹⁹

9. *Id.*

10. *In re Estate of Riley*, 266 P.3d 1078 (Ariz. Ct. App. 2011).

11. *Riley*, 295 P.3d at 430.

12. *Id.*

13. *Id.* at 430–31.

14. *Id.* at 431.

15. *Id.* at 431.

16. *Id.*

17. *Id.* at 431–32.

18. *Id.* at 432.

19. *See Avraham & Avraham*, *supra* note 2, at 573–75 (discussing personal representatives’ diminished role in negotiating settlements; increases in cost and time to resolve disputes; beneficiaries holding the estate and other parties hostage by refusing to agree to a compromise; and soliciting, selling, or trading settlement approval).