

CLIENT ALERT

Supreme Court Invalidates “Inference” of Vesting of Retiree Medical Benefits

JANUARY 27, 2015

In a decision of great significance to employers, the U.S. Supreme Court held this week, in unanimous decision, that courts interpreting collective bargaining agreements should use ordinary contract principles, rather than special inferences or presumptions, to determine whether retirees have a “vested” right to lifetime healthcare benefits. *M&G Polymers USA, LLC v. Tackett*, No. 13-1010, (1/26/15), opinion available [here](#). The Court’s decision invalidates the Sixth Circuit’s so-called *Yard-Man* inference that retiree healthcare benefits are vested (i.e., unchangeable) absent specific language to the contrary in the applicable plan document or collective bargaining agreement. Justice Clarence Thomas, writing for the Court, explained that union contracts are to be interpreted according to “ordinary principles of contract law, at least when those principles are not inconsistent with federal labor policy.” Accordingly, citing “the traditional principle that ‘contractual obligations will cease, in the ordinary course, upon termination of the bargaining agreement,’” the Court held that, “when a contract is silent as to the duration of retiree benefits, a court may not infer that the parties intended those benefits to vest for life.”

The case arose after the company, M&G Polymers, announced that it would require retirees who had worked at its Apple Grove, West Virginia Point Pleasant Polyester Plant, and the retirees’ surviving spouses and dependents, to begin contributing to the cost of their healthcare coverage. The retirees (and their union) filed suit in Ohio, arguing that this decision to require contributions violated their right to cost-free benefits for life, which (they claimed) vested when they retired. The benefits at issue were outlined in a collective bargaining agreement, and M&G argued that certain side letters and cap letters modified the agreement for its Apple Grove plant.

The district court initially ruled that the CBA unambiguously did *not* create a vested right to such benefits, but the Sixth Circuit, applying its *Yard-Man* presumption, reversed. That court found the parties’ agreement ambiguous and (as the Supreme Court would later explain), “it relied on the ‘context’ of labor negotiations to resolve that ambiguity in favor of the retirees’ interpretation.” On remand, the district court concluded the cap letters and side letters did not apply to the collective bargaining agreement and, per the Sixth Circuit’s prior ruling, that language in the master agreement evidenced an intent to vest lifetime retiree healthcare benefits. The Sixth Circuit affirmed.

The Supreme Court vacated that decision, ruling that the Sixth Circuit’s *Yard-Man* presumption “has no basis in ordinary principles of contract law,” and, indeed, “violates ordinary contract principles by placing a thumb on the scale in favor of vested retiree benefits in all collective-bargaining agreements.”

The Court further faulted “*Yard-Man*’s assessment of likely behavior in collective bargaining” as “too speculative and too far removed from the context of any particular contract to be useful in discerning the parties’ intention,” explaining that the Sixth Circuit erred by relying on “its own suppositions about the intentions of employees, unions, and employers negotiating retiree benefits,” rather than record evidence of “known customs or usages in a particular industry.” The Court then proceeded to offer a series of examples of how the Sixth Circuit’s approach departed from “ordinary principles of contract law.”

First, under *Yard-Man* and its progeny, parties to collective bargaining were deemed to have intended retiree benefits to vest for life simply because such benefits are not necessarily mandatory in collective bargaining agreements and are “typically understood as a form of delayed compensation or reward for past services.” “Parties, however, can and do voluntarily agree to make retiree benefits a subject of mandatory collective bargaining” (as this very case shows). And, the Court explained, the “deferred compensation” characterization is inconsistent with the specific definitions of pension plans and welfare plans under ERISA.

Second, the Court questioned Sixth Circuit precedent “refus[ing] to apply general durational clauses to provisions governing retiree benefits,” explaining that such decisions “distort the text of the agreement and conflict with the principle of contract law that the written agreement is presumed to encompass the whole agreement of the parties.”

Third, the Court rejected the Sixth Circuit’s treatment of provisions benefiting only certain classes of retirees as “illusory,” as a clear misapplication of the illusory promises doctrine: “If [a provision] benefits some class of retirees, then it may serve as consideration for the union’s promises.” The Court further instructed that *Yard-Man*’s application of this doctrine to collective bargaining agreements is “particularly inappropriate” because such agreements “often include provisions inapplicable to some category of employees.”

Finally, the Court criticized the Sixth Circuit’s “fail[ure] even to consider” two traditional principle[s]”: “courts should not construe ambiguous agreements to create lifetime promises,” and “contractual obligations will cease in the ordinary course upon termination of the bargaining agreement.” The Court underscored that the parties certainly can provide for vested lifetime benefits for retirees. “But when a contract is silent as to the duration of retiree benefits, a court may not infer that the parties intended those benefits to vest for life.”

In a concurring opinion, Justice Ginsburg, joined by Justices Breyer, Sotomayor, and Kagan, underscored that ambiguities in the agreement should be resolved by looking to the entire agreement and ascertaining the intent of the parties. In addition, Justice Ginsburg advised, “when the contract is ambiguous, a court may consider extrinsic evidence to determine the intentions of the parties”—and, if that is the case here, the Sixth Circuit may consider extrinsic evidence on remand in this case, including the parties’ “bargaining history.”

On remand, the Sixth Circuit will now reconsider this matter using ordinary principles of contract interpretation to determine whether the collective bargaining agreement at issue granted free lifetime healthcare benefits. Going forward, the Supreme Court’s decision directs that disputes over retiree healthcare benefits be resolved on a fact-specific, case-by-case basis under ordinary contract principles.

Winston & Strawn submitted an amicus brief in *Tackett* on behalf of the United States Chamber of Commerce and Business Roundtable, and in support of the employer’s position. Warning that upholding the Sixth Circuit “threatens to impose enormous and unforeseen retroactive funding liabilities on American companies,” the amici urged the Court to adopt a clear rule—as it now has done—that silence may not be treated as an agreement that retiree health benefits shall extend beyond the end of a collective bargaining agreement.

4 Min Read

Related Locations

Charlotte

Chicago

Los Angeles

New York

Paris

San Francisco

Washington, DC

Related Topics

Employment and Labor Law

Appellate and Critical Motions

Related Capabilities

Labor & Employment

Appellate & Critical Motions

Related Regions

North America

Europe

Related Professionals



Derek G. Barella



Shane Blackstone



Linda Coberly



Joan Fife



Aviva Grumet-Morris



Deborah S.K. Jagoda



Laura Petroff



Michael Roche



Stephen Sheinfeld



Cardelle Spangler



William Sunkel



Emilie Woodhead