

# Collectively Bargained Retiree Health Benefits for Life? U.S. Supreme Courts Says Ordinary Contract Principles Apply

## Labor & Employment Law Update

By Kelly Haab-Tallitsch on February 19, 2015

On January 26, 2015, the U.S. Supreme Court established a new standard for the vesting of collectively bargained retiree medical benefits, holding in *M&G Polymers USA, LLC, et al. v. Tackett, et al.*, that collective bargaining agreements (CBAs) must be interpreted using ordinary principles of contract law and rejecting the presumption that collectively bargained retiree welfare benefits vest for life. *M&G Polymers*, No. 13-1010 (U.S. Jan. 26, 2015).

In *M&G Polymers*, a group of retirees brought suit against their former employer after the announcement that retirees would be required to begin making contributions toward their retiree health coverage premiums. The plaintiffs argued that a CBA provision requiring the employer to pay 100% of retiree medical premiums created a vested right to contribution-free health care benefits beyond the expiration of the CBA's three-year term. The Sixth Circuit Court of Appeals found in favor of the retirees based on an "inference" that collectively-bargained retiree health benefits were intended to vest for life, absent language to the contrary.

The Supreme Court expressly rejected the Sixth Circuit's "inference" of lifetime benefits, stating that the inference placed a "thumb on the scale in favor of vested retiree benefits in all collective-bargaining agreements," and distorted attempts to ascertain the parties' real intent. Relying on the Employee Retirement Income Security Act (ERISA), the Court found 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," but must use ordinary contract principles to determine whether retiree health benefits continue past the expiration of a CBA.

The concurring opinion in *M&G Polymers* cautioned that clear and express language is not required to demonstrate intent that retiree benefits vest, intent may arise from the implied terms of an agreement. As such, employers must be cautious in negotiating and drafting CBA provisions relating to retiree welfare

benefits. If the inclusion of an express term that retiree benefits do not survive the expiration of the agreement is not possible, employers must take care to avoid any language that could be interpreted (under ordinary contract law) as demonstrating the intent to provide vested or lifetime retiree medical benefits.

Further, employers should review all retiree benefit plan documents and communications to ensure the contractual term of the benefit is clearly explained and consider how best to include language that will reserve the right to amend or terminate the arrangement, wherever possible.

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