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# Supreme Court Strikes Down Sixth Circuit's Presumption of Vested Retiree Health Benefits

By Nancy L. Farnam / Jan 29, 2015

The Supreme Court's recent opinion in *M&G Polymers USA, LLC v Hobert Freel Tackett*, 574 US \_\_\_\_ (2015), strikes down the Sixth Circuit's "Yard-Man" inference of vesting with respect to retiree health benefits established through collective bargaining, stating "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." This is welcome news for employers in the Sixth Circuit facing a challenge to the reduction or elimination of retiree medical benefits for former union employees. According to the Supreme Court's decision, to determine whether retiree health benefits survive the expiration of a collective bargaining agreement, courts should apply ordinary contract principles, rather than the existing inference that parties to collective bargaining would intend retiree benefits to vest for life.

The *M&G Polymers* case arose out of a disagreement between a group of retired employees and their former employer about the meaning of certain expired collective bargaining agreements. The relevant collective bargaining agreement provided for retiree health care benefits for certain retirees who were eligible for and receiving a monthly pension benefit under the employer's retirement plan with a full company contribution. The portion of the collective bargaining agreement describing the health benefits stated that the employer would provide the health benefits "for the duration of" the agreement. After the expiration of the collective bargaining agreement, the employer modified the retiree benefits. The retirees sued, alleging that the employer promised to provide lifetime benefits, creating a vested right to benefits that continued beyond the expiration of the collective bargaining agreement, and modifying those benefits breached the agreement in violation of the Labor Management Relations Act and the Employee Retirement Income Security Act.

The Sixth Circuit ruled in favor of the retirees, based on the reasoning in *International Union, United Auto, Aerospace, Agricultural Implement Workers of Am. v Yard-Man, Inc.*, 716 F2d 1476 (6th Cir 1983). In *Yard-Man*, the Sixth Circuit found that in the context of labor negotiations the parties to collective bargaining would intend retiree benefits to vest for life, concluding that these inferences outweighed any contrary implications about the termination of retiree benefits derived from general termination clauses.

The Supreme Court ruled that the Yard-Man inference conflicts with ordinary principles of contract law, stating that:

- Placing a thumb on the scale in favor of vested retiree benefits in all collective bargaining agreements has no basis in ordinary principles of contract law;
- Refusing to apply general durational clauses to provisions governing retiree benefits distorts the text of the agreement and conflicts with the principle of contract law that the written agreement is presumed to encompass the whole agreement of the parties;
- Failing to consider the traditional principle that courts should not construe ambiguous writings to create lifetime promises, noting that the Sixth Circuit previously applied this principle in the non-union setting in *Sprague v General Motors Corp.*, 133 F3d 388 (6th Cir 1998) ("Because vesting of welfare plan benefits is not required by law, an employer's commitment to vest such benefits is not to be inferred lightly; the intent to vest must be found in the plan documents and must be stated in clear and express language.");
- Failing to consider the traditional principle that contractual obligations will cease, in the ordinary course, upon termination of the bargaining agreement.

The Supreme Court returned the case to the appeals court telling it to apply ordinary principles of contract law to determine whether the collective bargaining agreement granted free lifetime health benefits. We must await the Sixth Circuit's opinion in *M&G Polymers* to determine what standard the court might apply. However, employers, who provide retirees with health insurance, should review their collective bargaining agreements to determine if it is possible to modify or eliminate these benefits. If the current collective bargaining agreement does not contain a durational clause, the employer should determine if it wants to bargain such a clause into the next agreement.

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