

U.S. Supreme Court Rebukes Reliance on Yard-Man In Retiree Health Benefit Dispute

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The U.S. Supreme Court ruled that the Sixth Circuit's reliance on retiree-friendly inferences set forth in *UAW v. Yard-Man* are incompatible with ordinary principles of contract interpretation and should not be used when determining whether a collective bargaining agreement promises vested, unalterable lifetime retiree health insurance benefits.

In *M&G Polymers USA v. Tackett*, a unanimous Court vacated and remanded a Sixth Circuit decision that the company was required to continue to pay the full cost of the retirees' health benefits. Although the dispute in *Tackett* will continue in the lower courts, the Supreme Court outlined several interpretive principles to guide contract interpretation:

- Placing a "thumb on the scales" in favor of vesting retiree healthcare benefits has no basis in ordinary principles of contract termination.
- A court should determine the parties' bargaining behavior from record evidence and not from "its own suppositions about the intentions of employees, unions, and employers negotiating retiree benefits."
- Retiree health care benefits are not a form of deferred compensation.
- Prior decisions that rejected reliance on general durational clauses and required a specific durational clause for retiree health care benefits to prevent vesting distort the contract and conflict with the principle that the written agreement is presumed to encompass the entire agreement.
- A promise to provide retiree health insurance benefits is not illusory merely because all retirees might not benefit from the promise.
- A court should not construe ambiguous writings to create lifetime promises.
- Contractual obligations ordinarily cease at the termination of the agreement.

The Court acknowledged that parties can intend to create vested benefits and that an agreement may do so by containing explicit language. The opinion did not, however, expressly require that a party seeking to establish that benefits vested rely on "clear and express" language. Ultimately, the Court concluded that "when a contract is silent to the duration of retiree benefits, a court may not infer that the parties intended those benefits to vest for life."

What does this mean for employers who provide retiree health benefits? The Supreme Court's decision alters the playing field for employers located in Sixth Circuit states by removing an interpretive aid that for years made it difficult to defend a lawsuit challenging unilateral changes to union retiree insurance benefits. The ruling does not, however, automatically validate employer unilateral action. Instead, courts will need to interpret the relevant bargaining agreements and apply ordinary rules of contract interpretation to determine whether and to what extent retirees are entitled to health insurance. Employers considering changes to union or non-union retiree insurance benefits should consult counsel.

Brian Schwartz
+1.313.496.7551
schwartzb@millercanfield.com