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Volume 38 | Issue 17 | January 27, 2015

Court Strikes Down Inference Favoring Lifetime Retiree Health Benefits

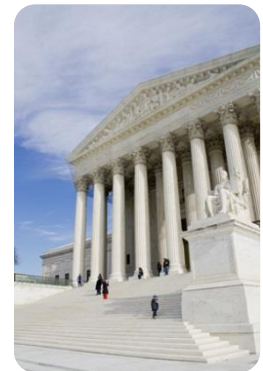
Yesterday, a unanimous Supreme Court struck down the Sixth Circuit's longstanding "Yard-Man inference," under which retiree health benefits vest for life unless a collective bargaining agreement expressly provides otherwise. Ruling that "ordinary principles of contract law" apply in determining the parties' intentions where a CBA is silent on the duration of retiree health benefits, a court may no longer infer that those benefits vest for life. This decision will provide employers with more flexibility in their efforts to contain rising retiree medical costs.

Background

Because ERISA does not impose automatic vesting requirements for retiree health benefits, the collective bargaining agreement (CBA) between an employer and a union governs the duration of any such benefits. However, when CBAs that provide for retiree health benefits are silent as to their duration, what the silence means can become a contested issue when an employer eliminates or modifies the benefits.

The circuit courts of appeal were split on how to construe the duration of retiree health benefits when the CBA is silent on the issue. In the 1983 UAW Yard-Man, Inc. case, the Sixth Circuit Court of Appeals adopted an inference in favor of lifetime retiree health benefits. Under the so-called "Yard-Man inference," retiree benefits vest — and outlive the duration of the CBA — unless the CBA contains explicit language to the contrary. Other circuit courts have rejected the Yard-Man inference.

Last year, the Supreme Court [agreed to review](#) the [Sixth Circuit's decision](#) in *M&G Polymers USA, LLC v. Tackett*, where M&G Polymers was a party to a CBA that promised a "full Company contribution toward the cost of benefits" to employees meeting certain age and service requirements, but did not state how long the company had to pay for these benefits. Following the expiration of the agreement, the employer announced that it would require retirees to contribute to their healthcare costs. The retirees and their union filed a lawsuit claiming that the CBA gave them a right to lifetime contribution-free health benefits. Guided by Yard-Man, the Sixth Circuit agreed. (See our *For Your Information* from [May 23, 2014](#).)



No Special Inference for Retiree Health Benefits

On review, the Supreme Court considered whether courts construing CBAs should presume, as the Sixth Circuit did, that silence about the duration of retiree health benefits means that the parties to the CBA intended for those benefits to continue for life. Yesterday, a unanimous Court [ruled](#) they may not do so.

In striking down *Yard-Man*, Justice Clarence Thomas found that “*Yard-Man* violated ordinary contract principles by placing a thumb on the scale in favor of vested retiree benefits in all collective-bargaining agreements. That rule has no basis in ordinary principles of contract law.”

By favoring vested retiree benefits in CBAs, the Court held, the *Yard-Man* inference violates ordinary contract principles — including the rule that ambiguous writings should not be construed to create lifetime promises, and the rule that ordinarily contractual obligations stop when the CBA ends. In assuming that parties to a CBA would not leave retiree benefits to the contingencies of future negotiations, the Sixth Circuit in *Yard-Man* inappropriately injected its own assumptions about the parties’ intentions without regard to record evidence. Doing so both distorted the text of the CBA and undermined the concept that a written agreement represents the entire agreement between the parties.

The Court also highlighted the contradiction between the Sixth Circuit’s position that collectively bargained retiree health benefits are inferred to create lifetime promises, but other employment contracts do not. The Sixth Circuit’s different treatment of these two scenarios, the Court found, illustrates *Yard-Man*’s diversion from ordinary principles of contract law.

The Court sent the case back to the Sixth Circuit, with instructions for that court to apply ordinary principles of contract law analyzing the duration of retiree health benefits provided for in the CBA at issue.

In Closing

The death of the *Yard-Man* inference provides flexibility to employers struggling to manage mounting retiree health expenses. As a result of this decision, a court may not infer that the parties intended retiree benefits to vest for life when a CBA is silent as to the duration of those benefits.

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