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High Court Once Again Refuses to Infer Lifetime Retiree Health Benefits

A unanimous Supreme Court recently increased flexibility for employers struggling to manage retiree health costs. It ruled that, absent specific language to the contrary, retiree health benefit rights expire along with the collective bargaining agreement containing them — meaning that an employer can modify those benefits after the CBA expires. This ruling follows the Court's 2015 decision to strike down the longstanding "Yard-Man inference," under which retiree health benefits were presumed to vest for life unless a collective bargaining agreement expressly provided otherwise.

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. When a CBA provides for retiree health benefits but is silent as to the duration of those benefits, what that silence means can become a contested issue when an employer wants to eliminate or modify the benefits.

In 2015, a unanimous Supreme Court in *M&G Polymers USA, LLC v. Tackett* struck down a longstanding presumption that the Sixth Circuit Court of Appeals dubbed the "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. (See our January 27, 2015 *FYI Alert*.)

Silence Does Not Mean Ambiguity

On February 20, 2018, the Supreme Court relied on *Tackett* to find no ambiguity in an expired CBA's silence on the duration of retiree health benefit rights — meaning that the employer can modify the retiree healthcare benefits provided in the old CBA.

CNH Industrial N.V. et al. v. Jack Reese involved a group of retirees contending that the CBA effective between 1998 and 2004 created a vested right to lifetime retiree health benefits even though it was silent on the duration of those benefits. The Sixth Circuit sided with the retirees, finding the contract's general durational clause inconclusive because the CBA (1) provided that certain benefits like life insurance were subject to a different duration, and (2) tied health benefits to pension eligibility. Because it determined that the CBA's language was ambiguous, the Sixth Circuit looked at evidence outside the contract to find support for lifetime vesting of the retiree medical benefits.

The Supreme Court disagreed with this conclusion. Noting that the CBA could be considered ambiguous only if it could be reasonably read as vesting healthcare benefits for life, it rejected the Sixth Circuit's reasoning as contrary to established rules of contract interpretation. All provisions of the CBA were effective between 1998 and 2004 unless otherwise specified, and no provision stated that retiree health benefits were subject to a different duration. The parties to the CBA could have explicitly agreed to vest retiree health benefits for life — but they did not do so. Thus, according to the Court, the only reasonable interpretation is that the retiree health benefits expired in 2004 when the CBA as a whole expired.

The Court sent the case back to the Sixth Circuit in light of its finding that the CBA's silence on the duration of retiree health benefits means that those benefits expired in 2004.

Conclusion

Building on *Tackett*, the Supreme Court increased flexibility for employers struggling to manage mounting retiree health expenses. Following this decision, absent specific language providing otherwise, retirees will be hard pressed to argue that health benefit rights outlast the general duration of a CBA.

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