

Supreme Court: Ordinary Contract Principles do not Allow Inference of Vesting Rights Absent Clear and Express Language

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In 2000, M&G Polymers purchased the Point Pleasant Polyester Plant in Apple Grove, WV. At that time, M&G entered into a collective-bargaining agreement and a related Pension, Insurance, and Service Award Agreement (P & I Agreement) with the union. The P & I Agreement provided for medical coverage with a full employer contribution to be provided for the duration of the agreement, subject to future negotiations. When those agreements expired, M&G announced that it would require retirees to contribute to the cost of their health care benefits. Several retirees sued M&G in federal district court, alleging that the P & I Agreement created a vested right to a lifetime contribution of free healthcare benefits.

The district court initially dismissed the retiree's case, concluding that the P & I Agreements had no language creating a vested right to such benefits that would continue beyond the expiration of the original agreements. On appeal, however, the Sixth Circuit Court of Appeals held in favor of the retirees. The Sixth Circuit applied the holding from a previous case, *Int'l Union, United Auto, Aerospace, & Agricultural Implement Workers of Am. v. Yard-Man, Inc.* ("Yard-Man"), which created a presumption in favor of vesting retiree medical benefits. The Sixth Circuit reasoned that those vesting rights from the retiree's original contract would have been considered illusory if they could be taken away. As such, the Sixth Circuit reasoned that the retiree's medical benefits vested for life.

The United States Supreme Court unanimously rejected the Sixth Court's decision, holding that **ordinary contract principles do not support an inference that the parties intended benefits to vest for life**. The Supreme Court explained that collective bargaining agreements, including those establishing ERISA plans, are interpreted according to the general principles of contract law. When the Sixth Circuit inferred vesting rights that were not included in the original P & I Agreement, the Supreme Court found that this "distorted" the agreement's texts. Further, the Supreme Court rejected the *Yard-Man* approach, which it considered to place "a thumb on the scale in favor of vested retiree benefits in all collective-bargaining agreements." Vesting rights, according to the Supreme Court, are not inferred lightly, and the intent to vest must be found in the plan documents and must be

stated in clear and express language. Therefore, the Sixth Circuit’s judgment was vacated and the case was remanded with direction for the Sixth Circuit to apply ordinary principles of contract law.

Employers currently drafting or negotiating collective bargaining agreements must be explicit about whether they intend to create vesting rights for employee benefits that will leave them liable for such benefits for the employee’s lifetime. The Supreme Court’s decision also makes it easier for employers to renegotiate retiree health plans for unionized employees. With questions, please contact your Hinshaw employment attorney.

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