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US SUPREME COURT REJECTS LONG-STANDING PRESUMPTION FAVORING LIFETIME RETIREE MEDICAL BENEFITS

The US Supreme Court has unanimously rejected a long-standing presumption in the Sixth Circuit that retiree medical benefits in collective bargaining agreements are vested lifetime benefits that cannot be changed.

In reaching their decision in *M&G Polymers USA, LLC v. Tackett*, the justices overturned a legal presumption that has stood for more than 30 years in the Sixth Circuit (Michigan, Kentucky, Ohio and Tennessee). The justices said the presumption of vested benefits for life went against fundamental principles of contract law and may have ignored the intent of the parties who negotiated the contract.

At issue in *M&G Polymers* was the company's decision to require retirees to pay a portion of their health benefits costs. Under a collective bargaining agreement in effect from 2000 through 2003, the company paid 100% of retiree healthcare costs. In 2006, the company announced retirees would have to contribute to the health plan.

The Sixth Circuit applied a presumption from its decision in *UAW v. Yard-Man, Inc.* 716 F.2d 1476 (6th Cir. 1983), in which it determined that if a contract providing for retiree medical benefits was ambiguous, it is presumed the parties intended the benefits to vest for life. Thus, in order to modify those benefits, employers would have to prove otherwise, such as through extrinsic evidence regarding the contract negotiations.

The Supreme Court has now held that no presumption of lifetime medical benefits should apply. Instead, ordinary contract interpretation principles should apply, which are inconsistent with the presumption first created by *Yard-Man*. This approach would seem to lead to the opposite presumption – i.e., that the retiree benefits were promised only for the duration of the contract. If that is so, the positions of the parties in litigation over this type of issue will have dramatically shifted. To overcome that presumption, retirees will have to introduce legal arguments based on other language in the contract and/or extrinsic evidence to show that the parties intended the medical benefits to be lifetime benefits.

In a concurring opinion joined by four justices, the justices indicated that evidence of a lifetime promise of benefits might be derived from commonly seen bargaining agreement provisions that tie receipt of retiree medical benefits to entitlement to a company pension, or that provide lifetime benefits for surviving spouses. Both the majority and concurring opinions also pointed to "industry practice" as being potentially relevant extrinsic evidence.

While the Supreme Court did not interpret the actual contract at issue in *M&G Polymers* or determine whether those benefits could be changed, it remanded the case to the Sixth Circuit with instructions to apply ordinary contract interpretation rules. Thus, the actual outcome of that case, like all others, will eventually be decided on the specific language in the contract at issue, and the facts and circumstances related to the underlying negotiations.

The decision in *M&G Polymers* may make it a good time for employers who are providing retiree medical benefits to do a legal review of their obligations. For more information please consult one of the Squire Patton Boggs lawyers listed in this publication.

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