SCOTUS weighs in on lifetime health benefits for employees

January 29, 2015 | **ARTICLES**

Healthcare in the United States is a confusing, contentious, and occasionally a combative topic. This week the United States Supreme Court took on the issue of how courts should decide whether healthcare benefits provided by employers to their employees have "vested" so that an employer must pay them for the life of the retired employee where the governing contract is silent (or ambiguous) on the issue.

Although the Court did not decide whether the benefits in the case before it actually vested for life, the decision in M&G Polymers USA v. Tackett, No. 13-1010, provides guidance to lower courts on how to interpret whether healthcare benefits vest for life and provides a not-so-gentle reminder to healthcare benefits drafters to be clear when drafting their contracts.

For myriad reasons, many employers provide healthcare benefits to their employees. In relationships involving long-term employees, these healthcare benefits are often intended to last until the retired employee dies. Sometimes, however, the employers do not intend for the healthcare benefits to continue until the retiree's death, but if there is any ambiguity in this regard, the employer is nevertheless required to continue paying the employee's healthcare benefits post-retirement until death.

Prior to Tackett, many courts have treated healthcare benefits as having vested for life unless the governing agreement included clear language to the contrary.

The Tackett case concerned a union contract that, like many other collective bargaining agreements, did not directly say whether health benefits for retirees would vest for life. The Sixth Circuit, from which the case emerged, had adopted a rule – commonly called the Yard-Man presumption – under which courts treat healthcare benefits as vested unless the collective-bargaining agreement clearly specifies otherwise.

In a ruling that appears to eviscerate such a presumption, Justice Clarence Thomas wrote this week that "retiree healthcare benefits are not a form of deferred compensation" and that "courts should not construe ambiguous writings to create lifetime promises."

Instead, courts should use ordinary principles of contract interpretation to determine whether the contract at issue had granted free lifetime healthcare. Justice Thomas added that "when a contract is silent as to the duration of retiree benefits, a court may not infer that the parties intended those benefits to vest for life."

Although the long-term implications of the Tackett decision are not yet known, it is clear that all employers intending to provide lifetime retirement benefits to its employees (union or otherwise) should state its intentions clearly in the contract setting forth such benefits.

Attorey advertising. Prior results do not guarantee a similar outcome.

Conversely, if an employer does not intend healthcare benefits for its retirees to vest for life, best practices dictate that any contract conferring healthcare benefits on employees should delineate clearly when and for how long such health benefits vest.

Attorey advertising. Prior results do not guarantee a similar outcome.