



U.S. Supreme Court Affirms that Collective Bargaining Agreements Must be Interpreted According to “Ordinary Principles of Contract Law”

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In a recent opinion, the U.S. Supreme Court emphatically reaffirmed the requirement that collective bargaining agreements (“CBAs”) must be interpreted according to “ordinary principles of contract law” when deciding whether retired employees are entitled to health care benefits. *CNH Industrial N.V. v. Reese*, No. 17-515, 2018 WL 942419 (U.S. Feb. 20, 2018). The Supreme Court once again rejected the analysis used by the U.S. Court of Appeals for the Sixth Circuit (including federal courts in Michigan) that placed a “thumb on the scale” in favor of holding that CBAs provided lifetime health care benefits to retirees. The result is that employers in Michigan will now have greater certainty in negotiating and modifying the terms of health care benefits provided to their employees and retirees under CBAs.

Background of the Case

The case involved a dispute over union retiree health benefits. In 1998, CNH entered into a CBA which provided group health care benefits to certain employees set to retire under the company’s pension plan. After the CBA expired, a class of CNH retirees and surviving spouses initiated a lawsuit in federal court asking for declaratory judgment that they were entitled to health care benefits for life and seeking to enjoin CNH from modifying those benefits.

While the case was pending, the U.S. Supreme Court decided *M&G Polymers USA, LLC v. Tackett*, 135 S. Ct. 926 (2015). In *Tackett*, the Supreme Court held that CBAs must be interpreted according to ordinary principles of contract law. It also explicitly rejected the analysis used by the Sixth Circuit, which relied on the so-called “Yard-Man inferences.” Under a Yard-Man analysis, which was not used in any other federal circuit, courts in the Sixth Circuit would infer that an employer agreed to provide retirees with lifetime health care benefits unless there was a specific provision in the CBA stating that those benefits had a limited duration or could not be modified. The

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Supreme Court held that the Yard-Man inferences were inconsistent with ordinary contract principles.

After *Tackett* was decided, the district court ruled in favor of the retirees. The Sixth Circuit affirmed the district court's holding that the retirees had vested lifetime health care benefits.

The Decision

The Supreme Court unanimously reversed, holding that the Sixth Circuit had failed to follow *Tackett's* directive to apply ordinary principles of contract law. Instead, the Sixth Circuit had relied on the Yard-Man inferences to find that CBAs were ambiguous and therefore, extrinsic evidence beyond the contract language could be considered in deciding whether the CBAs provided retirees with lifetime health care benefits. The Supreme Court held that the Sixth Circuit erred by failing to enforce the CBA's general durational clause to health care benefits (i.e., that the contractual obligation to provide health care benefits ends when the CBA's term expires). In order to provide lifetime benefits, the parties must include a specific provision to that effect in the CBA.

The Supreme Court's decision should end the uncertainty and confusion for employers, employees, and retirees in the four states within the Sixth Circuit, including Michigan.

If you are an employer that provides health care benefits to union retirees, contact one of the Foster Swift employee benefits attorneys to discuss the impact of this decision on your business.