

Tackett Redux: Ordinary Principles of Contract Interpretation Mean No Inference of Vesting

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In an opinion released yesterday, the Supreme Court reaffirmed that collective bargaining agreements (CBAs) must be interpreted according to “ordinary principles of contract law.” *CNH Industrial N.V. v. Reese*, No. 17-515, 2018 WL 942419 (U.S. Feb. 20, 2018). In so ruling, the Court again rejected the Sixth Circuit’s inference from silence that CBAs vested retiree benefits for life.

Three years ago, the Supreme Court decided *M&G Polymers USA, LLC v. Tackett*, 135 S. Ct. 926 (2015). In that decision, the Court unanimously held that CBAs must be interpreted according to ordinary principles of contract law, and the Court rejected the Sixth Circuit’s so-called “*Yard-Man*” inference that if a CBA did not specify that retiree medical and other welfare benefits had a limited duration, the benefits were presumed to be vested. The Court held that the *Yard-Man* inference was inconsistent with the application of ordinary principles of contract law and that the inference improperly placed a thumb on the scale in favor of vested retiree rights.

The present dispute arose between retirees and their former employer about whether an expired CBA created a vested right to lifetime health care benefits. In 1998, the Company agreed in a CBA to provide health care benefits to certain “[e]mployees who retire under the . . . Pension Plan.” Under the CBA, “[a]ll other coverages,” such as life insurance, ceased upon retirement. The health care benefit was “made part of” the CBA and “r[an] concurrently” with it. The CBA contained a general durational clause stating that it would terminate in May 2004. The CBA also stated that it “dispose[d] of any and all bargaining issues, whether or not presented during negotiations.”

After years of litigation, both before and after the *Tackett* decision, the Sixth Circuit concluded that the CBA’s general durational clause did not apply to retiree health care benefits. In a split decision, the Sixth Circuit inferred from the CBA’s specific termination provisions for “other coverages” that the parties must have intended to vest health care benefits for life.

The Supreme Court unanimously reversed the Sixth Circuit, holding that the Sixth Circuit's inference of vesting could not be squared with *Tackett* because it did not comply with *Tackett's* direction to apply ordinary contract principles. According to the Supreme Court, the CBA's general durational clause applies to all benefits, unless the CBA provides otherwise. Here, no provision specified that the health care benefits were subject to a different durational clause. The only reasonable interpretation of the CBA was thus that the health care benefits expired when the CBA expired.

The Supreme Court's decision reaffirms that a court interpreting a CBA should not infer from silence that a retiree welfare benefit is vested for life. We expect that litigation over reductions to retiree medical benefits will continue (both for union employees and non-union employees), particularly in light of skyrocketing health care costs; but the Court's decision affirms that retirees will bear the burden of demonstrating an intent to vest based on affirmative documentary evidence.

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