

7TH CIRCUIT HOLDS RETIREE MEDICAL COVERAGE VESTED FOR LIFE BASED ON UNAMBIGUOUS DURATIONAL LANGUAGE IN COLLECTIVE BARGAINING AGREEMENT

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It is well established that welfare plans are not subject to the vesting requirements of ERISA. Therefore, if vesting occurs, it must be found in the express language of the applicable plan document or collective bargaining agreement.

Decades of jurisprudence on the issue of vested lifetime retiree medical benefits in the context of collective bargaining has yielded two U.S. Supreme Court rulings rejecting the notion that a presumption exists in favor of vesting in the absence of unambiguous language in the governing agreement. *M&G Polymers USA, LLC v. Tackett*, 574 U.S. 427 (2015) and *CNH Industrial N.V. v. Reese*, 138 S.Ct. 761 (2018) together stand for the propositions that ordinary contract interpretation principles apply to retiree medical continuation cases, and that such benefit obligations cease upon the termination of the collective bargaining agreement absent specific durational language indicating the benefit obligation survives the agreement.

Applying these precedents, the Seventh Circuit recently upheld the vested status of retiree medical benefits based on language in a collective bargaining agreement providing for continuation of coverage “notwithstanding the expiration” of the underlying agreement. In *Stone v. Signode Industrial Group LLC*, retirees sued after a successor employer to a 2002 collective bargaining agreement terminated their retiree medical coverage in 2015. The federal appeals court found the unambiguous promise that health benefits would survive expiration of the agreement required a decision in favor of the retirees: “The entire purpose of the ‘notwithstanding expiration’ language is to establish that termination of the Agreement *would not* extinguish the benefits it promised.”

Where the terms of a collective bargaining agreement are unambiguous as to whether retiree medical benefits are vested, the judicial inquiry ends. However, if the collective bargaining agreement is ambiguous, courts will consider extrinsic evidence. Finding the underlying agreement unambiguous, the Seventh Circuit panel nonetheless discussed the extrinsic evidence in support of its holding, including the significant testimony of a former benefits manager who participated in

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negotiating the 2002 agreement, and advised participants that their medical benefits were vested for life if they retired under that agreement.

Despite prior retiree medical rulings appearing to favor employers, this case indicates that plan sponsors must analyze all the relevant language in plan documents and collective bargaining agreements before terminating such coverage. While the obligation to continue retiree medical coverage may expire with the bargaining agreement, an employer may be exposed to the risk of a lawsuit if it terminates retiree medical coverage that vested based on specific durational language. *Stone v. Signode Industrial Group LLC*, (7th Cir. 2019)