



One Minute Memo®

Sixth Circuit Refuses To Vest Health Care Benefits Before Active Union Workers Actually Retire

In a rare Sixth Circuit retiree benefits decision favorable to employers, the Court refused yesterday to find that a long-expired labor contract (CBA) between Caterpillar Inc. and the United Automobile Workers of America ("UAW") vested (i.e., guaranteed) lifetime retiree health care benefits for active workers when they became eligible for pensions and years before they actually retired. *Winnett v. Caterpillar Inc.*, 2009 WL 170598 (6th Cir. 2009).

The lower court denied a motion to dismiss, finding that a 1988 CBA demonstrated the parties' intent to vest lifetime retiree health care benefits for UAW-represented active employees while they continued to work for Caterpillar. On interlocutory appeal, the Sixth Circuit reversed and directed the lower court on remand to dismiss any claims that turned exclusively on the theory that retiree health care benefits vested before actual retirement. Since most of the 4000-member plaintiff class became pension-eligible before the CBA expiration but retired after the CBA expiration, the Sixth Circuit's ruling should dispose of the claims of the vast majority of the *Winnett* plaintiffs. The ruling should also affect the scope of the preliminary injunction issued by the lower court in the belief that plaintiffs would likely succeed on the merits of their claims.

Plaintiffs claimed that the 1988 CBA provided all employees with lifetime retiree health care benefits as soon as they became eligible for pensions, even as to those who chose to remain employed by Caterpillar, were represented by the UAW in subsequent labor contract negotiations, and were covered under subsequent labor contracts affording different retiree benefits. Documents accompanying the 1988 CBA stated that the employer would provide retiree health care benefits at no cost to a "retired employee" if the employee had at least five years of credited service under a pension plan and was eligible for commencement of a pension. After the expiration of the 1988 CBA, Caterpillar subsequently implemented health care network provisions for retired employees and instituted caps on the amount that Caterpillar would pay for retiree health coverage for employees who retired after January 1, 1992. A new CBA entered into between Caterpillar and the UAW in 1998 did not grant the same retiree medical benefits as the 1988 CBA.

Caterpillar and its amici argued that the Sixth Circuit should not extend its so-called "*Yard-Man* presumption" of vested lifetime retiree benefits to workers who chose to remain employed, rather than retire, at labor contract expiration. In *UAW v. Yard-Man, Inc.*, 716 F.2d 1476 (6th Cir. 1983), the Sixth Circuit became the first federal appeals court to infer that the parties to a labor contract intended retiree health care benefits to vest at the levels set forth in the contract upon retirement before the contract had expired.

Rejecting the lower court's contractual analysis, the Sixth Circuit held in *Winnett* that the plain language of the controlling documents did not vest retiree health care benefits while the individuals remained in active employment and still represented by their union. The documents provided that retiree health care benefits would be provided to "retired employees," not to current employees contemplating retirement at some point in the future, even if those employees were currently eligible to retire. The distinction in labor law between retirees and employees in active employment who were "contemplating retirement" informed the Court's refusal to extend the *Yard-Man* inference of lifetime retiree health care benefits to pension-eligible active employees before they actually retired. Still, under the Court's decision, a particular CBA *could* vest health care benefits before actual retirement absent any inference of vesting, if the plan language so compelled that conclusion. Employers should review each and every collectively bargained benefit agreement, and plans providing retiree health care and other welfare benefits, in consultation with experienced ERISA and labor law counsel, before reaching any conclusion about pre-retirement vesting.

If you have any questions about the Winnett decision, please contact the Seyfarth Shaw attorney with whom you work, or any ERISA Litigation or Employee Benefits & Executive Compensation attorney on our website (www.seyfarth.com).



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