MI Court Clarifies Test for When Retiree Health Benefits Vest for Life

06.05.2018

CASE BRIEF

EASTERN DISTRICT OF MICHIGAN CLARIFIES TEST FOR WHEN RETIREE HEALTH BENEFITS VEST FOR LIFE

INTRODUCTION

Following decision by the U.S. Supreme Court and the 6th Circuit, a Michigan federal court has held the retiree health benefit terminate when the CBA under which they were obtained ends, absent a specific provision stating that the benefits last until a specific date beyond the CBA's expiration, or for life.

DISCUSSION

The UAW local filed suit against Honeywell International, Inc. ("Honeywell") alleging that the company impermissibly reduced benefits guaranteed under the CBA that were guaranteed for life. The UAW also claimed that health benefits were promised for a period beyond the CBA December 2011 expiration date.

Applying ordinary principles of contract interpretation (as opposed to the now defunct "*Yardman*" principle which presumed such benefits were guaranteed) the Court handed the retirees only partial victory. The Court could not cite to any language that would support the position that payment of the full cost of retiree coverage was guaranteed beyond the duration of the CBA. However, because it was clear this payment was guaranteed during the CBA's duration, it found benefit reductions that occurred while the CBA was still in effect to be improper.

CONCLUSION

After a series of inconsistent decisions from the 6th Circuit that culminated in a rebuke from the U.S. Supreme Court, it appears that at least on this issue case law has finally stabilized. When analyzing collectively bargained retiree health benefits, ordinary principles of contract interpretation apply. Absent clear language in the contract to the contrary, these benefits endure only for as long as

PROFESSIONALS

Paul O. Catenacci

Michael A. Novara

PRACTICE AREAS

Employee Benefits/ERISA

Labor & Employment

the contract remains in force.

CASE BRIEF – WHEN A SERVICE PROVIDER ACTS A FIDUCIARY

DUGGAN V. TOWNE PROPS. GROUP HEALTH PLAN.

In Duggan, plant participants filed suit against MedBen, Inc., the plan administrator, claiming a failure to comply with ERISA's rules on notices of benefits denials.

In reviewing the claims, The Court held that MedBen was a general fiduciary, as it had discretionary authority to make final benefit determinations. However, the Court went on to explain that the proper inquiry in determining fiduciary breach under ERISA is not whether MedBen was a fiduciary in general, but whether it was "acting as a fiduciary" (that is, performing a fiduciary function) when it took the allegedly improper action.

The Court concluded that the administrator was not acting in a fiduciary capacity because the sending of the notices was a ministerial act, which are never fiduciary in nature. A ministerial action is one that an entity must preform in accordance with established rules, with no discretionary authority. Issuing denial letters is always a ministerial act, as all that is required is for an administrator to follow plan direction regarding participant communication.

CONCLUSION

Fiduciary status under ERISA is always centered on the function being performed. Even named fiduciaries may not always be acting in a fiduciary capacity. The key element to consider is whether the action at issue involves the exercise of discretion over some aspect of plan operation or plan assets. If it does not, the action is very likely not going to be fiduciary in nature.

THE 2018 BUDGET BILL STEERS CLEAR OF PENSION & HEALTH CARE REFORM

Despite pre-passage rumblings to the contrary, the 2018 spending bill made no mention of retirement benefits. Legislation proposed in this area was expected to be contained within the spending bill, however, Congress left out all provisions related to pension reform, including:

- The Retirement Enhancement and Savings Act;
- The RETIRE Act
- The GROW Act;

All of these proposed laws would have altered the Americans save for retirement, and in some cases how they are notified of their retirement options. Exclusion from the Budget Bill does not necessarily mean the end for these legislative efforts. However, without a budget bill to latch onto, they will have to clear legislative hurdles on their own, or as part of a smaller overall package. In today's Congress, that is no small feat.

IRS DECREASES MAX CONTRIBUTION LIMIT ON HSAs; UNINTENDED CONSEQUENCES APPEAR

The maximum contribution level of $6,900 for families in 2018 was reduced by the IRS to $6,850 in early March. The change was made because the Tax Cuts and Jobs Act required a move to the chained consumer price index to calculate inflation.

This Chance bumped thousands of accounts above the threshold allowed by the IRA. The result of these HAS overfunding is that providers could charge employers thousands of dollars on correction fees passed on by vendors. Employers will also face excise tax penalties until they pull excess contributions out of the account.