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Supreme Court Upholds Contract Law for ERISA Plans

Today the Supreme Court upheld ordinary notions of contract law in interpreting ERISA plans, thereby apparently defeating the so-called “Yard-Man Inference.”

In Yard-Man, the Sixth Circuit found a provision governing retiree insurance benefits ambiguous as to the duration of those benefits using two major theories. First, the court inferred an intent to vest those benefits for life, under an illusory promise theory. Second, the court relied on the context of labor negotiations to resolve ambiguities about vesting the benefits for life.

The Supreme Court stated that the inferences applied in Yard-Man and its progeny do not represent ordinary principles of contract law. The Court went on to say that Yard-Man distorts the attempt to ascertain the intention of the parties by placing a thumb on the scale in favor of vested retiree benefits in all collective-bargaining agreements. Rather than relying on known customs and usages in a particular industry as proven by the parties, the Yard-Man court relied on its own suppositions about the intentions of parties negotiating retiree benefits. It then compounded the error by applying those suppositions indiscriminately across industries.

This case can only be seen as win for ERISA plan sponsors. You can view the Supreme Court case by clicking here.