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MUNICIPAL LAW ALERT

New York's Highest Court Halts School District's Effort to Modify Retirees' Health Coverage

The New York Court of Appeals recently held that retirees of the Newfane Central School District in Niagara County have a vested right under expired labor contracts to a continuation of the same health coverage under which they retired, until the age of 70, and that the New York Insurance Moratorium Law did not provide a basis for abrogating their vested contractual rights (*Kolbe v. Tibbetts*, 2013 WL 6499307, 197 LRRM 2794 (Dec. 12, 2013)). However, because issues of fact remained as to the intended scope of the retirees' right (i.e., whether the retirees had the right to receive the "same coverage" or "equivalent coverage"), the Court remanded the case to the trial court for further factual development.

Four retired school district employees brought an action against the school district, superintendent, and its board of education, asserting a claim for breach of contract and seeking a declaration that their rights to health insurance benefits were governed by each collective bargaining agreement (CBA) that was in effect at the time each employee retired. Specifically, the retired employees argued that increases in co-payments for prescription drugs under the school district's health benefit plans violated the terms of the CBAs in effect when the employees retired. Those CBAs contained a provision stating that "coverage provided shall be the coverage which is in effect for the unit at such time as the employee retires." The school district argued that the CBAs in effect when the plaintiffs retired had expired and were superseded by subsequent CBAs, and that the modifications in benefits were permissible under New York Insurance Moratorium Law because corresponding changes were made to the benefits of active employees.

The Court of Appeals found that, contrary to the Appellate Division majority's conclusion, the plain meaning of the provision at issue in the CBAs unambiguously establishes that the retirees have a vested right to the "same coverage" during retirement (until age 70) as they had "at such time as the employee[s] retire[d]." The Court also noted that because the provision was in close proximity to contract language affording retirees the right to use accumulated sick leave as a credit against health insurance premiums until the age of 70, a clear inference can be

drawn that the parties intended the right to continued coverage to operate for the same period, and it also served as evidence of an intent that the right should vest upon retirement rather than terminate with the expiration of the CBA.

As to the school district's argument that unilateral modifications to the retirees' health coverage were permissible under the New York Insurance Moratorium Law, the Court of Appeals found that the law did not provide a basis for abrogating retirees' vested contractual rights, noting that the primary purpose of that law "was to prevent school districts from eliminating or reducing retiree health insurance benefits that were voluntarily conferred as a matter of school district policy, not rights negotiated in the collective bargaining context."

This alert can also be read on our Municipal Law blog: <http://www.hancocklaw.com/municipal-law-blog/>

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