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# BOND INFORMATION MEMO

## School Districts and Municipalities

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### Court of Appeals Issues Decision Regarding Vesting of School District Retiree Health Insurance Benefits

On December 12, 2013, the New York Court of Appeals issued a decision in *Kolbe v. Tibbetts*, in which the Court addressed whether the Newfane Central School District could unilaterally alter the health insurance benefits of certain retirees of the District. The Court held that the retirees had a vested right to the same health insurance coverage until they turned 70 years of age that was in place under the collective bargaining agreements (CBAs) that were in effect at the time of their retirement. The Court also rejected the District's contention that it was entitled to change retiree health insurance benefits under the New York Insurance Moratorium Law, holding that the Insurance Moratorium Law does not apply to health insurance benefits that have vested under CBAs.

While they were employed by the District, the plaintiffs were part of a non-instructional bargaining unit represented by the CSEA. The CBAs in effect at the time of their retirement provided for certain health insurance benefits, including a two-tiered prescription drug coverage co-pay system and an option to participate in a flexible spending benefit program. Each of the plaintiffs' CBAs contained an identical section related to health insurance benefits for retirees, stating that "[t]he coverage provided shall be the coverage which is in effect for the unit at such time as the employee retires" and "full-time employees who retire . . . shall be entitled to receive credit toward group health insurance premiums" until they reach age 70. In January 2010, after each of the plaintiffs had retired, the District executed a successor CBA which implemented changes to the co-pay system and flexible spending benefit program, and the District informed the retirees that those changes for current bargaining unit employees would also be applied to the retirees.

The plaintiffs commenced an action against the District alleging breach of contract and seeking declaratory relief. The plaintiffs moved for summary judgment on their claims and the District cross-moved for summary judgment, arguing, in part, that its modification to the retirees' health insurance benefits was permitted under the Insurance Moratorium Law. The Supreme Court granted the plaintiffs' motion for summary judgment. The Appellate Division reversed the Supreme Court's decision (with two judges dissenting), and granted the District's cross-motion for summary judgment.



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The Court of Appeals reversed the decision of the Appellate Division. Although the Court recognized that contractual obligations do not ordinarily survive beyond the termination of a collective bargaining agreement, the Court held that “[r]ights which accrued or vested under the agreement will, as a general rule, survive termination of the agreement.” In considering the specific language set forth in the CBAs, the Court held that the plaintiffs had a vested right “to the ‘same coverage’ during retirement as they had when they retired, until they reach 70.”

The District argued that it was permitted under the Insurance Moratorium Law to modify the retirees’ health insurance benefits because a corresponding modification was made to the health insurance benefits for active employees. The Insurance Moratorium Law provides, in relevant part, that a school district is prohibited from “diminishing the health insurance benefits provided to retirees . . . unless a corresponding diminution of benefits or contributions is effected . . . from the corresponding group of active employees for such retirees.” The Court held that the Insurance Moratorium Law only applies in those instances where a school district attempts to change health insurance benefits that were voluntarily conferred, not where the benefits were “negotiated in the collective bargaining context.” Accordingly, the Court held that the Insurance Moratorium Law did not permit the District to reduce retiree health insurance benefits simply because it negotiated a corresponding change to the health insurance benefits of active employees.

In light of the Court’s decision in *Kolbe v. Tibbetts*, school districts and municipalities should make sure to review the retiree health insurance provisions in their CBAs before making a decision that could impact the health insurance benefits of retirees, and should consult with their legal counsel before implementing changes to retiree health insurance benefits.

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