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Court Holds That HRA Is Not Commensurate With Promised Lifetime Retiree Health Benefits

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Kaiser v. Alcoa USA Corp., 2024 WL 1283535 (S.D. Ind. 2024)

A group of retirees (and their spouses and dependents) sued their former employer after it replaced its existing retiree health coverage with a health reimbursement arrangement (HRA). They claimed that implementing the HRA reduced their benefits, violating a guarantee of lifetime health care benefits under the applicable collective bargaining agreement (CBA). Due to previous litigation about these benefits, it was already established that these retirees had a right to lifetime benefits from the employer, and the employer was prohibited from arguing otherwise.

The employer argued that it met its obligation to provide lifetime benefits by providing the HRA, which it said was "reasonably commensurate" with the old plan. But the court pointed out three reasons why this was not the case. First, the HRA expressly provided that the employer could terminate the benefits at any time, which the court said was a substantial decrease from lifetime benefits. Second, some retirees were not eligible for the HRA and thus were receiving no benefits. And third, implementing the HRA shifted the risk of rising health care costs from the employer to the retirees. The court held that the employer's unilateral actions significantly reduced the benefits available to retirees and breached the CBA.

EBIA Comment: Employers that previously committed to providing lifetime benefits are in a tough spot when faced with rising health care costs. Unfortunately for this employer, its attempt to limit its financial exposure did not produce the desired result. For more information, see EBIA's ERISA Compliance manual at Section XII.E ("Certain Benefits May Be Vested and Thus Protected From Amendment"). See also EBIA's Consumer-Driven Health Care manual at Section XXI.C.2 ("Permitted HRAs: Retiree-Only HRAs").

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