



CLIENT NEWS BRIEF

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CALIFORNIA SUPREME COURT HOLDS THAT COUNTY MAY BE BOUND BY IMPLIED CONTRACTUAL TERMS REGARDING RETIREE HEALTH BENEFITS

In *Retired Employees Association of Orange County v. County of Orange* (November 21, 2011) __ Cal.4th __ (2011 WL 5829598), the California Supreme Court concluded that a county may form a contract with implied terms obligating the county to provide certain health benefits to retired employees. However, the Supreme Court cautioned that a “clear basis in the contract or convincing extrinsic evidence” must be shown before a court will find that such implied contractual obligations exist.

In 1966, the County of Orange (County) began offering group medical insurance to retired employees. Premiums for active and retired employees were calculated separately. In 1985, County began combining active and retired employees into a single unified pool for purposes of calculating premiums. Pooling lowers the cost of premiums for retirees, who are on average older and more expensive to insure than active employees. In 2007, due to financial concerns, County passed a resolution splitting the pool of active and retired employees, effective January 1, 2008.

In 2007, the Retired Employees Association of Orange County, Inc. (REAOC) filed a lawsuit in federal court seeking a court order prohibiting County from splitting the pool. While REAOC conceded that there was no express agreement regarding the unified pool, REAOC alleged that the County’s longstanding practice of pooling active and retired employees, along with County’s representations to employees regarding the unified pool, created an implied contractual right to a continuation of the unified pool for all employees who retired before January 1, 2008.

The district court found for County, holding that it could be liable only for obligations explicitly assumed by board resolution. REAOC appealed to the Ninth Circuit, and the Ninth Circuit asked the California Supreme Court to decide, as a matter of California law, whether “a California county and its employees can form an implied contract that confers vested rights to health benefits on retired county employees.”

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The Supreme Court found that there are certain circumstances in which a county may be bound by terms implied into an existing contract. In response to REAOC's contention that its members' entitlement to the lower premium costs associated with a unified pool was a form of deferred compensation, the Supreme Court noted that matters regarding county employee compensation must be addressed in an ordinance or resolution passed by the board. However, the Supreme Court held that additional contractual terms, such as a term conferring a vested right to health benefits on retired employees, may be implied from the language or circumstances accompanying the ordinance or resolution.

While the Supreme Court was not asked to decide the merits of REAOC's claim, it emphasized that courts should "proceed cautiously" in identifying implied contractual obligations, and that "as with any contractual obligations that would bind one party for a period extending far beyond the term of the contract for employment, implied rights to vested benefits should not be inferred without a clear basis in the contract or convincing extrinsic evidence."

The Supreme Court returned the matter to the Ninth Circuit for determination of the remaining issues in the case. We will keep you updated as to any significant developments as this case continues to work its way through the courts. In the meantime, we recommend that you consult legal counsel if you are considering changes to the structure of your retiree benefits.

If you have questions about the implications of this decision on your district, please contact one of our [eight offices](#) located statewide, visit our [website](#), or follow Lozano Smith on [Facebook](#).

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