

A yellow triangle pointing downwards, located to the left of the 'BLOGS' header.

BLOGS

Despite a Contract Disclaimer, Could Parts of Your Employee Handbook Be Legally Binding?

By now, we are all familiar with the routine employee handbook disclaimer:

This Handbook is provided for informational purposes only and is not a contract between the Company and any employee.

Even with such a disclaimer in place, though, employers should be thoughtful when drafting and implementing detailed policies, particularly wage-related policies, as highlighted by a recent case out of Minnesota. In Minnesota, courts have often refused to construe an employee handbook as a contract when it contains a conspicuous contract disclaimer. In *Hall v. City of Plainview*, though, the Minnesota Supreme Court recently held that a disclaimer in an employee handbook did not preclude a breach of contract claim over a Paid Time Off (PTO) policy within a handbook.

In 2017, the City of Plainview terminated an employee who had accrued 1,778.73 hours of PTO. The PTO provision in the City's employee handbook stated that departing employees would be paid for up to 500 hours of their accrued, unused PTO if they give sufficient notice of their resignation. The handbook also included the usual disclaimers that it "should not be construed as contract terms," and that it was "not intended to create an express or implied contract of employment between the City of Plainview and an employee." Despite these disclaimers, the employee sued for breach of contract, arguing that the PTO policy in the handbook entitled him to payout of his accrued PTO. The state district court dismissed the claim based on the handbook's contract disclaimer and the Minnesota Court of Appeals affirmed.

In a pivotal decision, the Minnesota Supreme Court reversed and held that it could not, as a matter of law, hold that the PTO policy was not a contractual promise. The Court held that the PTO policy was sufficiently detailed to potentially create a unilateral employment contract as it relates to PTO. The Court held that the general handbook disclaimers were not sufficiently clear to override the specific terms of the PTO policy. The Court remanded the case for the district court to determine whether (1) a contract existed, and (2) if so, whether the employee satisfied the requirements of the PTO payment provision to be contractually owed payment.

Fortunately for employers, the Minnesota Supreme Court did not disturb its 2007 holding in *Lee v. Fresenius Medical Care*. In that case, the Court held that the question of whether an employee is owed PTO upon termination of employment is a matter of contract between the employee and the employer. As such, under the *Fresenius* and *Hall* decisions, an employer in Minnesota can have a policy that does or does not provide for the pay-out of unused PTO on termination. If, however, an employer adopts a pay-out policy, the *Hall* decision likely solidifies an employer's obligation to pay out PTO.

Following *Hall*, employers should review their handbook disclaimers and revisit any policies in their handbooks that may appear contractual in nature. The Court was clear that it only viewed the PTO policy as creating a contract, not the entire handbook. It also held, "We express no opinion today about the impact of a general disclaimer on non-compensation conditions of employment." However, the decision lays the groundwork for future decisions to find contractual promises



lurking in handbooks where employers may not have intended them to be. In addition, policies or plans issued outside of a handbook, particularly pay related documents like bonus or commission plans, could also be impacted by the *Hall* ruling, so employers would be wise to ensure that such policies and plans are drafted in a sufficiently clear manner and contain contract disclaimers.