

Detroit emergency manager prepares to attack pensions

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Media reports indicate that Detroit's newly installed Emergency Manager, Kevyn Orr, is reviewing pensions and health care benefits of 20,000 retired city workers with the aim of making draconian cuts.

Orr, sent in to make sure the banks and wealthy bondholders who hold the city's debt are paid in full, has said his "toughest challenge" would be dealing with the benefits promised to workers after decades of service.

Over the past several weeks, conflicting data has been presented concerning the solvency of the pension funds. A recent report issued by Milliman, a Seattle-based global consulting and actuarial firm, claimed pensions were only funded at 50 percent for police and 32 percent for the general system for the fiscal year that ended in June of 2010. Detroit Financial Review Board—a body set up by Michigan's Republican governor Rick Snyder and led by Democrat and State Treasurer Andy Dillon—cited the firm's findings as one of the reasons for the emergency manager takeover.

These figures have been challenged by Gabriel, Roeder Smith & Co.—a company that has performed the actuarial studies for the pension fund for 70 years. GRS found that the general retirement system for Detroit workers was funded at 89 percent and the police and fire pensions funded at 102 percent. It is questionable whether workers can place confidence in either report.

According to the Public Act 436—the emergency manager law rushed through the lame duck session of the Republican state legislature after Michigan voters overturned the previous law—if pensions are not funded at the 80 percent level, "the emergency manager may remove 1 or more of the serving trustees of the local pension board." Last week the EM in Pontiac, Michigan reduced the city's pension board from 11 to five members. Orr has the power to install his own

trustees, thereby paving the way to gut the pensions.

There are 10,000 current city employees and 20,000 retirees, of which 8,000 former police and firefighters are on pensions. Retired police and fire fighters average a little less than \$30,000 a year in pensions, while nearly 12,000 former city workers draw an average less than \$20,000 a year.

Orr has threatened that he is prepared to go to bankruptcy court and warned city workers. "I am very competent in the bankruptcy courts of this country.....These things are very painful. One thing everybody needs to know, if you go into bankruptcy, Chapter 9 of the bankruptcy code is weighted toward municipalities. I don't want to pull that cudgel out unless I have to."

The attack on workers' pensions has gotten the full backing of the corporate and media establishment. Stephen Henderson, the editorial page editor of the *Detroit Free Press* and a supporter of Orr, says that the Milliman report justifies massive cuts by the EM, proving that the pension benefits make a city's budget unmanageable.

"Think about it: 83 cents of every Detroit police and fire payroll dollar is spent on pensions, leaving the city with 17 cents, at current budgeted amounts, to staff departments that are already understaffed and overworked."

Henderson complains that legalities have gotten in the way of gutting retiree benefits. "Because pensions are protected in the state constitution, an emergency manager lacks the authority to cut or redirect funds. It's not even clear whether a bankruptcy filing would give a court that power--"

The commentator claims there is no money for pensions or social programs under conditions in which big banks—like JP MorganChase and Bank of

America—have milked the city for hundreds of millions of dollars in debt servicing. After slashing wages, the auto companies made \$11 billion in profits and handed over millions in bonuses to their CEOs. Moreover, Dan Gilbert, the multi-billionaire owner of Quicken Loans, is buying up historic buildings in downtown Detroit for pennies on the dollar so he can cash in from the state subsidized restructuring of the city.

Public Act 436, Sec. 11 says, “An emergency manager shall develop and may amend a written plan for the local government...the financial and operating plan shall provide for the following:

“(b) The payment in full of the scheduled debt service requirements on all bonds, notes, and municipal securities of the local government, contract obligations in anticipation of which bonds, notes and municipal securities are issued, and all other uncontested legal obligations.”

In other words, while the emergency manager ensures the payment of the bonds and security notes to the banks, the obligations owed to city workers and their families are considered fair game to be looted.

Matt Gnatek, chairman of the Police and Fire Retirement System, said, “Let me state emphatically that the pension fund is on solid ground and is projected to do very well,” stated Gnatek in a press statement. “The PFRS fund is 96.1 percent funded,” Gnatek stated, adding that it is in the top 10 percent of funds with \$1 billion and was better than 90 percent of public pension funds in the US.

Gnatek told the media that he expects Orr to thoroughly review the pensions with the eye on making cuts. However, because of the challenges with the courts, he expected current employees to primarily bear the brunt of the changes. In 2011, the police union accepted a 401(k) defined contribution plan for all new hires in the place of a pension

In the immediate period, while Orr cannot cut pensions at will without going through state court procedures, he can attack retiree health care benefits. A report issued by Michigan State University economics professor Eric Scorsone estimated Detroit faces \$4.9 billion in future retiree health costs.

In 2006 former Detroit Mayor Kwame Kilpatrick attempted to slash retiree benefits but lost a lawsuit. If Orr goes after the pensions in a bankruptcy hearing it is expected that he will also include health care benefits

for retirees.

Even if the pensions were currently underfunded it would be the result of the raiding of the funds by Democratic Party mayors in the city, who used the money to finance other operations of the city because of the collapse of the stock market in the aftermath of the 2008 crash and outright corruption.

Detroit Mayor Dave Bing placed a one-year freeze on pension credits beginning February 1 for employees under the General Retirement System in compliance with the Finance Review Team who were demanding more cuts.

Last year former Detroit Mayor Kilpatrick and ex-city Treasurer Jeffrey Beasley, the mayor’s former college fraternity brother, were charged with soliciting gifts in exchange for directing pension funds into various schemes. The gifts included private jet trips and entertainment in Bermuda, Florida and Las Vegas. One of the schemes involved \$84 million from the pension fund invested into an airline that went bankrupt.

In a separate corruption case involving police and fire pensions and Kilpatrick, the long-term general counsel for the Police and Fire Pension Fund board, Ronald Zajac, was finally suspended without pay from the board after it was disclosed that he secured bribes for Beasley.

Zajac, involved with the Police and Fire Retiree Pension from 1982 to the present, was fired from the Police and Fire Pension board last November after it was disclosed he was being investigated, although he remained in employment by the General Fund. Among the accusations he faced was the charge that he solicited more than \$70,000 in donations for Kilpatrick’s Civic Fund, a slush fund used by Kilpatrick personally, from people looking to do business with the pension funds.

Last week another Trustee in the Police and Fire Retirement system, Paul Stewart, was indicted on charges that he was a part of a bribery and kickback scheme involving over \$200 million in investments.



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