Detroit pension cuts looming

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Out of Detroit's nearly 20,000 retirees, 23 reportedly receive more than $100,000 per year in their retirement, including Wayne County Sheriff and mayoral candidate Benny Napoleon, the city's retired police chief. Another 59 retirees, mostly former department heads or their deputies, get more than $90,000. Citing such figures, Emergency Manager Kevyn Orr is arguing that pensions for all city workers should be cut.

These figures are being used to gloss over the fact that the average pension is $30,607 for retired firefighters and police and $19,213 for general city workers. The US poverty level for a family of four is $23,050. Additionally, retirees are increasingly forced to help children and grandchildren, in many cases being the only steady income in an extended family.

The bogus campaign over supposedly exorbitant pensions is also being used to pit retirees against the general population of the city. Citing Napoleon's aggregate pension income since 2001, Orr's spokesman Bill Nowling said, "That is kind of an irrational benefit structure in a city that can't afford it." According to their logic, pensions must be sacrificed so that city services can be maintained.

This is a fiction. From the beginning of the emergency manager's term, a high priority of Detroit's "restructuring" has been to transfer as much money from pension funds, which were once considered untouchable, to the banks and hedge funds who hold Detroit's debt.

One of earliest reports resulting from Detroit's financial crisis concerned the solvency of the city's two pension funds, questioning whether they were each funded to an 80 percent level. Michigan State Treasurer Andy Dillon once cited a report issued by Millman, a Seattle-based global consulting and actuarial firm, which claimed pensions were only funded at 50 percent for police and 32 percent for the general system for fiscal year 2010. He then used this figure as one of the reasons for state takeover of Detroit.

These figures have since been disputed both by the pension boards themselves and by the city worker unions, claiming figures much higher than 80 percent. They are well aware that if the pension funds are determined to be insolvent, they will lose control over how the money is disbursed and the perks that entails.

However, even if the pension funds are not insolvent, Orr has declared many times that the city cannot maintain retiree pension and health care benefits, which are almost 65 percent of Detroit's budget, and must slash them. "There must be significant cuts in accrued, vested pension amounts for both active and currently retired persons," Orr stated in his "Proposal to Creditors" last month.

He has also challenged the Michigan State Constitution, which protects city worker pensions from being looted. Despite the fact that Orr supposedly acknowledges the state constitution, he still has plans for cuts, to make pensions and health care "affordable" for the city and "to restructure governance of pension arrangements." Concurrently, Orr has outright stated that if necessary, he will simply get Michigan's constitution changed.

The problems in emptying the coffers of the pension funds for Wall Street financiers could also be mitigated by Chapter 9 bankruptcy. As Orr himself said at the one public meeting he's held, "I have a very powerful statute. I have a more powerful Chapter 9. … I'm going to accomplish this job." This would be aided, Orr has said, by transforming the meaning of insolvent pensions into unsecured bonds, meaning that in bankruptcy court, the pension payouts could simply be ended.

The emergency manager has already made the first moves. Last month, he defaulted on a $39.7 million payment into the pension funds, declaring that the city needed the money for operating costs. This is one of the potential triggers to declare bankruptcy. He has also not ruled out freezing current payments and/or moving the retirees over to a 401(k) plan.

The attacks on pension funds coincide with a provocative “corruption and fraud” investigation into the pension funds and the trustees. No doubt corruption exists, but such an investigation is a tried and true tactic of big-business politicians to attack workers’ benefits. It could potentially be used as the excuse to fire the trustees of the city pension boards and have Orr install himself as the sole trustee, which he is authorized to do under Public Act 436.

What is at stake is not simply a Detroit issue, but part of a broader shift nationally. Pensions, like Social Security and Medicare, were once considered sacrosanct. Now, the money once considered locked away is being clawed back by the banks and hedge funds. Kevyn Orr is spearheading the pension destruction process in Detroit and if successful, it will be used as a model for all other workforces nationally.