Detroit city worker pensions on the chopping block

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The livelihoods of more than 20,000 retired city workers and their dependents in Detroit are under threat, as Emergency Manager Kevyn Orr prepares to gut their pensions and health care as a part the “restructuring” of the city by the Wall Street banks. Orr is expected in coming days to make his announcement of whether to throw Detroit into bankruptcy, making it the largest municipal failure in US history.

The city has been brought to the brink of collapse after decades of deindustrialization, a sharp reduction in federal and state funding and corporate tax cuts. The crisis was exacerbated by the 2008 crash, which led to a wave of home foreclosures and the loss of tens of thousands of jobs.

The big banks and municipal bondholders exploited the crisis and extracted a quarter of a billion dollars in debt servicing each year, around 20 percent of the city’s budget.

Orr has blamed the city’s financial disaster on supposedly unsustainable “legacy costs—the pension and health care benefits owed to city workers, which he claims make up about 65 percent of Detroit's budget. The city's largest creditors consider these benefits a waste of money which must be eliminated in order for the financial elite to be paid in full.

Orr's impending attacks follow the actions of another Michigan emergency manager, Lou Schimmel, in nearby Pontiac, another devastated industrial town. Schimmel, who was installed in 2009, announced earlier this week a plan to suspend for two years the health care benefits for all retired city employees. He also ordered an increase in pension payments by $400 per month as supposed compensation. To add insult to injury this will be charged as taxable income.

Orr wants to go further and gut pensions and health care benefits. Benefits are already meager, just $19,213 for general city workers a year and $30,607 for firefighters and police. This is considered an unacceptable deduction from money that could be going to banks or other financial institutions. Orr is attacking pensions even though they are protected by Michigan's state constitution, which defines pensions as“contractual obligations”that“shall not be diminished or impaired.”

Orr is challenging this with the combined firepower of Public Act 436—the state’s dictatorial emergency manager law—which gives the unelected official the “discretion” to take any actions necessary“to achieve the objectives”of his financial plan. Additionally, Orr is arguing that Chapter 9 municipal bankruptcy would trump state law. Such a maneuver would set a precedent for employers across the nation, municipal or not, to attack pensions with impunity.

A recent editorial in the *Detroit Free Press* argued that Detroit's bondholders should be given preference to pensioners in any restructuring plan. The editorial entitled, “A promise is a promise,” was written by Peter J. Hayes, the head of the Municipal Bonds Group at BlackRock, the world’s largest asset manager, which manages $114 billion in municipal assets, including a good portion of Detroit's general obligation (GO) bonds.

Hayes argues that GO bonds are “first budget obligations,” and when they were issued, Detroit “irrevocably pledged the 'full faith, credit and resources' of the city to repay them.” He categorizes pensions and retiree health care benefits as “unsecured debt,” and says no such pledge was made to back them up. Indeed, Public Act 436, the Michigan law defining the powers of emergency managers, explicitly demands the “payment in full” to all the bondholders and creditors of a municipality under state receivership.

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A municipal specialist confirmed to the WSWS that Hayes' argument was “part of a conversation happening all across the country” about whether or not pensions and retiree healthcare benefits are fair game for massive cuts or elimination. While historically these entitlements, which workers earned over a lifetime of employment, have been considered sacrosanct, today their viability“is being decided through litigation,” she said.

In recent years and months, pensions and health benefits in municipalities across the country have been placed in peril. The city of Stockton, California went into bankruptcy in April of this year. The courts are currently deciding whether the city can repudiate the $900 million it owes to the state pension fund, CalPERS. A recent recalculation of unfunded liabilities in California places a number of that state's cities in insolvency. Los Angeles' assets only cover 50 percent of its $64 billion in pension liabilities. San Francisco, San Jose, Azusa and Inglewood all face similar situations.

Like pensions, healthcare benefits have been under broad attack by the private sector as well. Recent corporate bankruptcies have resulted in the gutting of pensions and the elimination of company-provided retiree health care benefits. Earlier this week, Patriot Coal, which was thrown into bankruptcy after being spun off from Peabody Energy in 2007, eliminated its retiree healthcare program entirely, and was allowed make a tax-exempt contribution of just $15 million into a newly created retiree health care trust fund administered by the United Mine Workers (UMW), which was given a 35 percent stake in the company as a part of the deal.

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