Detroit bankruptcy blueprint would gut pensions

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Details about a 99-page plan of adjustment for restructuring Detroit’s finances began emerging late this week. The plan, drawn up by Emergency Manager Kevyn Orr, will establish a union-controlled retiree “health care trust,” lease the water department to a regional authority and impose deep reductions in pensions, according to the *Detroit Free Press*, which obtained the document.

On Friday, the US District Court for the Eastern District of Michigan sent out a statement announcing a tentative agreement with union-affiliated objectors, who had filed a court challenge to Orr’s plan to eliminate city-paid retiree health benefits altogether. The statement read, “The Detroit Bankruptcy Mediators are pleased to announce that all of the parties to the bankruptcy lawsuit concerning health insurance and other post-employment benefits for Detroit’s retirees (so-called OPEBs) last night reached a settlement-in-principle of all issues in the case covering such benefits through the end of 2014. Following completion and signing of a Mediation Agreement, the parties will submit a stipulation to the Bankruptcy Court dismissing the lawsuit.”

The statement continued, “The Mediators hope that this settlement will provide a foundation for all of the parties to the bankruptcy to re-double their mediation efforts to reach meaningful agreements which can be incorporated into a fair and balanced agreed-upon Plan of Adjustment to be presented to the Bankruptcy Court for confirmation.”

Closed-doors talks overseen by federal mediator Gerald Rosen—selected as point man for the negotiations by US Bankruptcy Judge Steven Rhodes—are ongoing, aimed at piecing together a deal which would convince the trade unions and their affiliated retiree committees to drop all lawsuits against the city and support the adjustment plan. A tentative agreement on retiree health benefits through the end of 2014 has already been reached, according to *MLive*, and the lawsuits filed by union affiliated retiree groups are set to be withdrawn.

The initial adjustment plan, which is not publicly available, calls for the creation of the Detroit Voluntary Employees Beneficiary Association (VEBA), into which the city will pay $524 million over 10 years. The VEBA arrangement is designed to gain the support of the American Federation of State, County and Municipal Employees (AFSCME), the United Auto Workers (UAW), and other trade union affiliated forces for the bankruptcy process.

An unnamed source cited by the *Free Press* said city worker pension funds will receive only 25 percent of what is owed to them, while other creditors will receive 22 percent under Orr’s adjustment plan. These figures are by no means certain. The *Wall Street Journal* cited a source familiar with the details who said that “the recovery rate for the pension funds could end lower than the balance sheet shows.”

The VEBA has been proposed as a bribe to the unions to support pensions cuts and other attacks contained in the adjustment plan. The VEBA will give the unions control of a multi-million-dollar investment fund and all of the privileges and income opportunities that arise from establishing close relations with Wall Street investors as well as private health care providers. While relieving the city of any further obligations to pay retiree benefits, the task of cutting benefits and increasing out-of-pocket costs of the retirees will now be in the hands of the unions.

The social function of the VEBA arrangement becomes clear in light of the 2009 bankruptcy of General Motors and Chrysler as part of the Obama administration’s restructuring of the US auto industry. The United Auto Workers union was given control of a multi-billion-dollar fund in exchange for agreeing to historic wage cuts. GM and Chrysler were effectively allowed to renege on contractual obligations to their workers, paying only half of what was owed in the form of cash and GM and

Chrysler stock. The UAW-controlled VEBA then proceeded to cut benefits to retirees and their families in the name of keeping the VEBA solvent.

Orr's tentative adjustment plan also transfers the water department to a regional entity, the Great Lakes Water and Sewer Authority (GLWSA), for 40 years in exchange for annual payments of $47 million, the *Detroit News* reported. The GLWSA will include board members from Oakland, Macomb, and Wayne counties as well as an appointee selected by Governor Rick Snyder. The new water board will also take over responsibility for Detroit Water and Sewerage Department (DWSD) pension liabilities, while closing the department's pension plan to future workers and freezing employee benefits at their present level.

The suburbs rejected a previous demand of $9 billion for control over Detroit's water and sewerage infrastructure. As the *Detroit News* reported in its article, the suburbs are now set to pay $1.88 billion for control over the DWSD. Several analysts have suggested that the regionalization plan is the first step toward outright privatization. The municipally owned water system—which sits astride one of the highest concentrations of fresh water on the planet—is being eyed by private equity firms as long as they are free to raise water rates.

According to the *Free Press*, the adjustment plan includes "placeholder language" indicating that Orr may exercise the powers granted to him under Public Act 436 to modify the governance of the pension funds. This is a crucial factor, and likely a major obstacle in reaching a quick agreement, as the overriding goal of the unions' legal challenge to the Chapter 9 filing has been to retain their control over these multi-billion-dollar investment vehicles.

The big business media has churned out a spate of articles presenting the adjustment blueprint as a major victory for Detroit pensioners over the banks and corporate creditors. The *Free Press* immediately responded with an article titled, "Detroit bankruptcy blueprint gives edge to retirees over bankers, bondholders." The *Wall Street Journal* published a very similar report titled "Detroit Debt Proposal Favors Pension Funds."

In its article , "Detroit Bankruptcy Plan Favors Pensioners Over Bondholders," *Bloomberg* peddled the claim that the adjustment plan unfairly benefits the pensioners over the various financial interests. "Detroit's pensions would get more than twice what creditors who loaned the city money for those funds would receive under a proposal to restructure," *Bloomberg* wrote. "Pension funds would get 45 to 50 cents on the dollar, though retiree health-care liabilities would recoup just 13 cents, according to the plan," Bloomberg wrote.

Bloomberg quoted leading corporate spokesmen warning that Michigan may face financial punishment as a result of the deal, suggesting that the state's credit-worthiness would suffer. "If you're a bondholder in the state of Michigan, every pledge should be viewed as a subordinate pledge going forward," Adam Mackey of PNC Capital Advisors LLC told *Bloomberg*. "Ultimately you're going to see Michigan debt be penalized."

Under the heading "Stiffing Banks", *Bloomberg* fretted that Bank of America and UBS may not be paid the full amount owed to them as a result of the 2005-6 interest rate swaps deal.

In fact, not a dime should be paid for these deals, which Judge Rhodes and Orr acknowledged were likely illegal. The adjustment plan is a carefully crafted deal in which multi-billionaire investors, many of whom are protected bond insurers in any case, are taking a small haircut, while pensioners who have labored their whole lives face savage cuts. This will be presented as "equal sacrifice," if not a great deal, by the trade unions, which are essentially profiting from the impoverishment of the working class.

Orr's plan outlines savage attacks against Detroit workers. Whatever the specific percent reduction turns out to be, the clear implications of the plan are the destruction of pensions and the further impoverishment of Detroit workers and retirees.