Emergency manager steps up blackmail of Detroit pensioners

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After releasing his bankruptcy restructuring plan late last month, Detroit's emergency manager is blackmailing the city's 23,500 retired municipal workers to accept unprecedented pension and health cuts.

Under the terms of the so-called Plan of Adjustment, released February 21, general retires will face a staggering 34 percent cut in pensions, while firefighter and police retirees will be cut by 10 percent. The actual cuts will be far deeper because cost-of-living increases are also being eliminated. Retiree groups say this could add 18 percent to the total benefit cut over the next several years.

On top of this, Emergency Manager Kevyn Orr is dumping retirees into Medicare or Obama's private health care exchanges, which will tack on thousands of dollars in additional out-of-pocket expenses each year for inferior coverage.

Michael Smith, who retired from the Department of Transportation 12 years ago after 31 years with the city, told the WSWS that he was among the better-off sections of pensioners and received $3,000.00 per month. The proposed cut would be a "terrible hit" of $1000 per month, he said, which, when combined with the cuts to health coverage, would make it "difficult to survive."

Smith has a mortgage, car notes and insurance and he and his wife will lose their coverage under city health insurance. Orr's plan provides an insulting stipend of $125.00 per month to find health insurance. "Everybody wants to get their piece of the action and screw over the working class."

Joanna Jackson's husband retired from the public lighting department. "If health care is included in the cuts," she told the WSWS, "it would be more than half his pension. We cannot live on that. He has been on dialysis since 2002."

The average pension for most retirees in Detroit is $19,000 a year while the average for public safety employees, who generally do not receive Social Security, is $34,000 a year. All told, the pensioners association says, the cuts will throw 20 percent of retired city workers into poverty over the next decade.

This attack is blatantly illegal under terms of the state constitution, which explicitly prohibits the "reduction or impairment" of public employee pensions. The trampling of the state constitution, however, was sanctioned by US Judge Steven Rhodes, setting the stage for a nationwide assault on the pensions of tens of millions of retired teachers, firefighters and other federal, state and municipal workers.

In addition to the pension attacks, the restructuring plan calls for the privatization of city assets, including the Detroit Institute of Arts, the gutting of city worker jobs and the shrinking of the city by shutting off essential services to areas deemed to poor or underpopulated for investment. Meanwhile, large tracts of land and state subsidies are being handed to billionaire real estate developers.

In order to push through this plan, Orr has said pension reductions would be lowered to 26 percent for general retirees and six percent for firefighters and police, if unions drop their legal challenges to the bankruptcy plan and signed onto a so-called grand bargain crafted by a federal mediator.

Under the terms of the deal several private foundations, including Ford, Kellogg and Kresge, the state of Michigan and the DIA have agreed to come up with $815 million to pay into the union pension funds. In addition, a half-million retiree health care trust fund, known as a Voluntary Employees' Beneficiary Association or VEBA, is being offered to city unions in exchange for their support for the deal.

In an interview with the *Detroit Free Press*, Orr threatened that this money would dry up if the unions did not quickly back the plan. “This has never happened anywhere else. People need to realize this is a heck of a gift, and you should not in any way think that it is unconditional or that it can’t go away. It can.”

Addressing the union bureaucracy, he said, “You’re not at the penny-ante table, you’re at the high-stakes table. But you’re playing with somebody else’s money. If you lose, you’re providing a net loss to your beneficiaries, people who are dependent on you.”

Officials from the American Federation of State, County and Municipal Employees (AFSCME) and other unions have no differences in principle with slashing the pensions and benefits of workers, something they have done for decades. Their chief concern appears to be the demand by Snyder and state Republicans for a change in governance over the retiree trust funds. This threatens the control of these multibillion-dollar funds by union trustees and the well-paid jobs and business opportunities that flow from it.

The most aggressive creditors opposing Orr’s plan of adjustment are the bond insurers, like Syncora, which would have to make up any losses big bond investment firms suffered in a bankruptcy settlement. Last week Snycora filed a motion demanding that the entire collection of the DIA be appraised so that its paintings and sculptures could be sold off to pay off wealthy investors.

The bond insurer complained that Christie’s auction house had only appraised five percent of the art collection—the pieces owned by the city outright, not those donated by benefactors with the caveat that they be entrusted to the people of Detroit and never sold.

Syncora requested a three-month delay in the schedule of hearings, saying that litigation surrounding the art would be time-consuming because of the “City’s odd decision to value just 5% of the entire collection and its repeated failure to provide ownership information.” The bond insurer also reportedly demanded that the Detroit Water and Sewerage Department—one of the largest publicly owned water systems in the United States—be sold off to private investors to pay the bondholders.

Significantly, the United Auto Workers union has also filed for a delay complaining of the extent of the pension cuts. Demonstrating their hostility to the working class and the right of workers and their families to have access to culture, the unions previously joined the bond insurers to demand the “monetization” of the full collection of the DIA.

US bankruptcy Judge Steven Rhodes has set an aggressive timeline for the proceedings, giving creditors until April 1 to file objections before he holds a confirmation hearing in mid-June on the plan of adjustment. This would set the city to emerge from bankruptcy around the first anniversary of the initial filing on July 18, 2013.

To exit bankruptcy, the city must win the approval of creditors representing two-thirds of its total debt and half of its creditor base, a scenario, which may be unlikely given that many creditors are being offered as little as 20 cents on the dollar. If they cannot agree to the terms, the city—which is “represented” by Orr’s former law firm, Jones Day—can request that Rhodes order a “cram down” and unilaterally impose a settlement.

The city reportedly needs just one creditor to sign on to the plan to appeal for a forced restructuring. This should not be problem since the state of Michigan—whose Republican governor spearheaded the drive to throw the city into bankruptcy—is listed as a creditor.