Detroit pension deal sets stage for unions to push through bankruptcy plan

Jerry White
16 April 2014

A mediator in the federal bankruptcy proceedings in Detroit announced yesterday that the retiree association representing 6,500 former policemen and firefighters had reached an agreement with the city on pension and health care cuts.

The deal, the first to be reached with the union-affiliated retiree association, sets the stage for a broader agreement with the city's largest public sector union, the American Federation of State, County and Municipal Employees (AFSCME), to implement the sweeping attacks on workers and public services contained in the Detroit bankruptcy plan.

Under the agreement reached with the Retired Detroit Police and Fire Fighters Association (RDPFFA) Tuesday, monthly pension checks will be frozen at the current level and the annual Cost of Living Adjustments (COLA) of 2.25 percent will be reduced to 1 percent. The move, which will further erode already meager pension checks, will deal a hard blow to retirees who do not qualify for Social Security.

Even more devastating, the RDPFFA agreed to the city's plan to end retiree health care payments and dump its obligations onto a union-run Voluntary Employees' Beneficiary Association (VEBA), which, in the words of the *Detroit Free Press*, "is expected to deliver significantly reduced benefits to retirees." The city has already forced retirees over 65 onto Medicare and those younger to purchase private insurance through Obama's exchanges—a move that means tens of thousands of additional dollars in medical expenses for inferior coverage.

Announcing the deal, federal mediator Gerald Rosen glossed over the attacks on retirees and declared that, "uniformed retirees would experience no cuts to their current pension benefits." This claim was loudly echoed in the local and national news media.

Emergency Manager Kevyn Orr had originally demanded retired police and firefighters accept a six percent cut in pensions and an end to all cost of living adjustments. He threatened to increase the pension cut to 14 percent if retirees rejected a deal.

If Orr pulled back from his first demands it was only to secure a deal with RDPFFA in order to divide the city's workforce and set the stage for more draconian cuts from the remainder of the city's 23,500 retirees. Orr has demanded that non-uniformed retirees accept pension cuts of 26 percent, or 34 percent if they refuse to reach a deal.

As part of the terms of the agreement, the association will drop its lawsuit challenging the bankruptcy and will call on its members to vote for the restructuring plan when ballots go out on May 1.

"Obviously, everyone deserved all of their benefits," RDPFFA President Don Taylor told reporters Tuesday after board members voted unanimously for the deal. "But sooner or later reality sinks in. The city's in bankruptcy so you have to do the best you can for the majority of your members."

Orr offered several sweeteners to the RDPFFA to reach the agreement. The deal will allow the RDPFFA to retain a seat on the revamped Police and Firefighters Retirement System, which oversees investments by the $3.4 billion fund. This was a decisive issue for the union executives, as these positions offer paid jobs, influence over investment strategy and other moneymaking opportunities.

Federal mediator Gerald Rosen praised the "professionalism" of the RDPFFA board members, saying mediators "hope that this settlement will encourage all the remaining 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."

The Detroit news media is reporting that the city is close to reaching a settlement with its Official Committee of Retirees and two independently run pension fund boards, which represent the remainder of the retired city workers. AFSCME officials—who have overseen decades of concessions and job losses—are more than willing to sign onto a deal.

A major concern of AFSCME Council 25 President Al Garrett and his special assistant Ed McNeil, however, is retaining union seats on the pension board. As the *Detroit News* noted, "All sides were reportedly in negotiations Tuesday morning, with talks focused on future governance and management of the pension funds."

At the same time, Garrett & Co. hope there will be some reductions in pension cuts so they can sell the deal to current and retired workers as the "best we could get."

From the beginning, the unions have fully accepted the framework of the bankruptcy and the demand that the working class pay for the financial crisis it did not cause. The union and their affiliated retiree associations functioned as one of the business entities competing with big bondholders and other creditors for a share of the spoils.

The unions aligned themselves with bond insurers to demand the selloff of the priceless artwork of the Detroit Institute of Arts, claiming this would save pensions. This has always been a lie, as the banks and financial institutions and the big business politicians behind them have been determined to gut pensions and sell off public assets like the DIA.

The deals with the unions are predicated on a so-called "Grand Bargain" that includes $820 million funding from the state, the DIA and several private foundations, which will take over the art museum. If any of these entities fail to come up with money, pensions will immediately be cut further.

On the eve of the deal with the RDPFFA, Orr filed a court motion saying negotiations with three suburban communities over operations of the Detroit Water and Sewerage Department have "run their course." The plan for regionalization appears to have been largely a smokescreen for the emergency manager to hand over one of the nation's largest publicly owned water and sewerage systems to private investors who will hike up rates and rake in billions. In preparation for the sell-off, the workforce at DWSD is being slashed and tens of thousands of households are having their water service terminated for late payments.

Detroit has already privatized street lighting, garbage collection and, according to the *Detroit News*, is also "investigating whether to privatize the Water and Sewerage Department, municipal parking, tax revenue collection and some operations at Coleman A. Young Municipal Airport."

What is taking place in Detroit is a social crime, which has the backing of the entire political establishment, from the Democrats and Republicans in Lansing and Detroit to the Obama White House, which is using the bankruptcy as a model for attacking the pensions of firefighters, teachers and other public sector workers around the country.

While pensions and other public assets are being looted, last week US Bankruptcy Judge Steven Rhodes approved the payoff of $85 million to Bank of America and UBS to unwind a semi-legal if not openly criminal interest rate swap deal that has already cost the city hundreds of millions since 2008.

The entire framework of the bankruptcy must be rejected and the working class mobilized to defend pensions, the DIA and all other public resources. Such a fight is possible only if it is conducted independently of the unions and the Democratic Party, and on the basis of a socialist program. The debts to the banks must be repudiated and the ill-gotten gains of the financial elite confiscated to rebuild the city in the interests of working people, not the super-rich.