Detroit retirees denounce plan to raid city workers’ savings accounts

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17 June 2014

In addition to deep cuts in pensions and health care benefits, nearly 5,000 retired Detroit city workers will be forced to pay back tens of thousands of dollars in earnings from their retirement savings accounts, according to the city’s bankruptcy restructuring plan.

The “claw-back” of annuity savings has received little coverage in the mass media, which has sought to create the impression that 23,500 retired city workers are being protected by the “grand bargain” worked out between the state government, wealthy corporate and private interests and the city worker unions.

Under Emergency Manager Kevyn Orr’s Plan of Adjustment, nearly half a billion dollars in annuity payments will be robbed from general retirees, who will see hundreds of dollars in monthly deductions from their meager pension checks. This is in addition to a 4.5 percent cut in pensions, the elimination of the 2.25 percent annual cost-of-living increase and staggering out-of-pocket expenses the city is imposing.

Two retired workers told the *World Socialist Web Site* that they must pay back $90,000 each, plus a 6.75 percent annual interest rate charge on their savings. “If I live to be 80 years old, that will be a total of $180,000,” said John, a former Detroit Public Works civil engineer. “And after I die my spouse is still responsible to keep paying.”

Mike, who retired from the Detroit Water and Sewerage Department (DWSD) after 30 years of service, said, “I’ll have to pay $600 a month back for the next 25 years. The interest rate they are charging us alone is more than you pay on college loans or for a home mortgage.”

City workers contributed 3, 5 or 7 percent of their after-tax wages into the annuity savings plan, which operates separately from their pension fund. They were guaranteed a rate of return of 7.9 percent a year by the city’s General Retirement System (GRS), which invested the money.

In part to pay pensioners who had sustained years without pension increases, the GRS distributed earnings that exceeded 7.9 percent as bonuses in some years. For active workers, the bonuses went back into the annuity fund; and for retirees, bonuses were paid by way of a “13th check” mailed out at the end of the year, John explained.

Orr claims the “excess” interest payments were illegitimate and undermined the stability of the city’s pension funds. Orr used the supposed under-funding of pension funds—based on gross underestimations of the real figures—as the central pretext for throwing the city into bankruptcy a year ago.

The city plans to recover alleged “overpayments” from June 2003 to June 2013. In a statement to the media, Orr spokesman Bill Nowling said, “There has to be a reckoning of what was legitimate interest for those annuity funds, and what was largess added by the pension board. There is some argument that that money belongs to the city, and creditors could try to claim it.”

In fact, in several of the selected years the actual GRS rate of return far exceeded the amount paid out to retirees. “Orr and Jones Day are suggesting that the annuity fund was some kind of Ponzi scheme, and that we were a bunch of Bernie Madoffs,” John said. “Does he plan to compensate us for the system’s prosperous years?”

“In 2004, when we only got 7.9 percent, the returns were as high as 15.6 percent. In 2011 they were as high as 20.2 percent, but we only got the standard payment.” (See chart). John added that retirees like he and Mike are seeing their earnings taken even “when our money isn’t there,” because they took their annuity money out when they retired in 2007-08 and invested it in an Individual Retirement Account.

The media has consistently echoed official claims that Detroit’s financial crisis is the result of overly generous and unsustainable benefits. It has concealed the role of the real culprits: the big banks and financial institutions, which entangled the city in a series of semi-legal if not outright criminal financial schemes, and the large corporations, including the auto industry, which have left the city in ruins after extracting billions in profits and tax abatements.

Typical is the *Detroit Free Pres* s report on the annuity plan, one of only a few on the subject at all. “The savings

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plan paid out a guaranteed rate of return of 7.9% in many years," the article states. "Some years the rates were higher. One shocker: The high returns were even paid out during the stock market collapse of 2008-09.

"For example, in 2009, the general retirement system lost 24.1% of the value of its assets, the bankruptcy filing stated. Yet the annuity fund paid out 7.9% that year to participants."

The working class was not responsible for the crash. Yet the media does not demand a "claw-back" of the trillions handed out to the Wall Street banks, not to mention the ill-gotten gains of bankers like JPMorgan Chase CEO Jamie Dimon.

"The annuity was something the city offered when we first accepted the job," John said. "We decided how much we would deduct from our paychecks. We have families, kids and payments for college and loans on our homes. I've calculated that with this cut there is no way I can make it. I'd have to sell my home at a loss and try to get another job."

"I've been applying everywhere, but no one will hire us now at our age," John said, with Mike interjecting, "Except maybe WalMart."

Both workers were hired in 1977-78 and immediately began investing in the annuity fund. In the 1980s, bank interest rates went above 20 percent. "Instead of giving it to the city we could have invested our money in a bank and earned a far higher interest rate. But it was a guarantee that came with our employment. I did not steal the money."

John said the city was not just clawing back interest payments but also money workers invested in the fund from their paychecks. In calculating how much each worker had to pay back, the city was using the highest balance retirees had accumulated in the fund--both principal and interest--over 30 years, not just the "excess interest" payments made during the 10 years in question. Moreover, some retirees have offered to pay the full amount in five years or in a lump sum by taking out a home equity loan, which would be far less than 6.75 percent. "The city is saying 'no,' they want us to keep on paying and paying the higher interest rate forever."

Facing widespread opposition to pension cuts of 30 percent and more originally demanded by Orr, the American Federation of State, County and Municipal Employees and the union-affiliated retiree associations endorsed this attack on annuity payments so Orr could reduce his across-the-board pension cuts to "only" 4.5 percent. This was a calculated effort to split the ranks of Detroit workers—the annuity cuts affect approximately 9,900 out of 30,000 current and retired workers—and allowed the media, the unions and the city to crow that pensions had been "saved."

In reality, the cuts sanctioned by the unions—if pension, cost-of-living, annuity and health care cuts are all added—amount to more than half of retirees' income. By giving their blessing to this attack on pensions, which, under the Michigan state constitution, are legally protected from being "reduced or impaired," the unions have set a precedent for the Obama administration and state and local Democrats and Republicans to launch a nationwide attack on public sector workers.

In exchange for their collaboration, the unions are being given control of a half-billion retiree health care trust fund, known as a Voluntary Employees' Beneficiary Association, or VEBA, which will essentially be a slush fund for the union executives.

"The VEBAs are nothing but bank trusts, which do not guarantee payment of any health care benefits," John said. "This is clearly what is behind the endorsement of the plan of adjustment by the Detroit Retired City Employees Association and the Retired Detroit Police and Fire Fighters Association."

As a result, the city is ending all future obligations for retiree health care benefits. Retirees under 65 are being dumped into Obama's private health insurance exchanges with a derisory $125 per month "stipend" paid by the city, while older retirees will be forced to enroll in Medicare.

John, pointing to the premiums retirees will be charged, said, "For one person it will cost $1,303 a month; for my family it will be $3,911 a month. That's $47,000 a year, and I only make $19,000 a year with my pension.

"I have a medical condition, but I can't go to the doctor because it will cost too much. I've got a dumb phone, and I rely on my children to drive me around because we can't afford another car. I've had stomach problems and have been on medicine for 20 years. I've had to stop taking it and now all I can afford is an antacid.

"I live in a nice home and with my health care paid for and an annuity I figured I could have a relatively nice retirement. Now, almost overnight, everything has been turned upside down."

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