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Detroit Defeats Pensioners' Appeal Over Bankruptcy Cuts.

(Reuters) – A divided federal appeals court on Monday rejected claims by Detroit retirees that their pensions were unfairly cut to help the city end the largest U.S. municipal bankruptcy.

The 6th U.S. Circuit Court of Appeals in Cincinnati said restoring the pension cuts would “unavoidably” unravel Detroit’s reorganization plan, which helped the city shed \$7 billion of debt and end its 17-month bankruptcy in December 2014.

“This is not a close call,” Circuit Judge Alice Batchelder wrote for a 2-1 majority.

“The harm to the city and its dependents – employees and stakeholders, agencies and businesses, and 685,000 residents – so outweighs the harm to these appellants that granting their requested relief and unraveling the plan would be impractical, imprudent, and therefore inequitable,” she added.

Thousands of retired Detroit city workers were subjected to 4.5 percent pension cuts, the end of cost-of-living increases, and reduced insurance coverage to help the city close a \$1.88 billion pension plan funding gap.

Cuts could have been deeper had Detroit not set up a \$816 million fund financed by taxpayers, charities and private donors, in what became known as the “Grand Bargain.”

Monday’s decision upheld a September 2015 ruling by U.S. District Judge Bernard Friedman in Detroit.

The appeals court, like Friedman, said the retirees’ claims were subject to “equitable mootness,” a legal doctrine intended to prevent some bankruptcy reorganizations from being undone, which could harm those who agreed to them in good faith.

Circuit Judge Karen Nelson Moore dissented. She said the retirees deserve their day in court, and questioned the wisdom of applying equitable mootness to municipal bankruptcies.

“I fear that using such a justification to brush aside the retirees’ legal claims will leave them with the impression that their rights do not matter,” Moore wrote.

Jamie Fields, a lawyer for many retirees who challenged the pension cuts, said his clients may ask the full appeals court to reconsider the decision.

“Being a split decision, I feel somewhat vindicated,” he said in a phone interview. “I think we were on good legal footing.”

Lawyers for Detroit did not immediately respond to requests for comment.

By REUTERS

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(Reporting by Jonathan Stempel in New York; Editing by David Gregorio and Tom Brown)

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