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Moody's: Detroit's Current Plan of Adjustment Favors Pensioners over Bondholders.

New York, July 17, 2014 — Under Detroit's proposed plan of adjustment, recovery rates are likely to favor pensioners over bondholders, says Moody's Investors Service. In the report "Detroit's Proposal Favors Pensioners over Bondholders" Moody's estimates the recovery on the unfunded portion of the city's pension liabilities could reach 52%, which would likely exceed the recoveries on other unsecured claims.

Recoveries on unfunded pension liabilities, however, could be as low as 18% should the proposed special pension funding deal fall through. The recoveries on certificates of participation issued to fund pensions could be as low as 0% should the bankruptcy court allow the city to repudiate them.

Moody's says pension recoveries as measured by aggregate liabilities, that is both funded and unfunded pension claims, could reach 82%, higher than 74% settlement announced for general obligation unlimited tax, or GOULT, bonds.

"The proposed plan of adjustment provides evidence that pension obligations are a substantial source of competition among creditors in Chapter 9 bankruptcy," says Moody's Assistant Vice President Tom Aaron.

Under the proposed plan, recoveries for pensioners get a boost from numerous sources, including dedicated outside funding and some contingent restoration of benefits. For example, state and privately donated funds exceeding \$800 million over 20 years nearly triples the recovery rate. These funds would be in return for shielding the city's art collection from creditors' claims and for pensioners accepting the plan.

Detroit's plan of adjustment calls for a number of reductions to pension benefits that affect both current employees and retirees. If pensioners do not vote to accept the proposal, outside funding is not available, or both, then the benefit reductions proposed in the plan of adjustment become more severe.

Moody's notes Detroit assumes significant risk by taking on responsibility for any unfunded pension liability after 2023. Moody's estimates of unfunded pension liabilities after benefit reductions range as high as \$1.6 billion, using the city's assumptions. However, the liability remains highly influenced by the assumptions used in its calculation.

For more information, Moody's research subscribers can access this report at

https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBM_PBM172662