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Detroit Pension Cuts From Bankruptcy Prompt Cries of Betrayal.

(Bloomberg) — Pension checks will shrink 6.7 percent for 12,000 Detroit retirees beginning in March. Making matters worse, many also must pay back thousands of dollars of excess interest they received.

It's a bitter outcome of Detroit's record $18 billion municipal bankruptcy for David Espie, 58, who will repay the city $75,000 in a lump sum while his $3,226 monthly pension is cut by $216.

As retirement costs swallow larger portions of U.S. city budgets, Detroit's bankruptcy plan resolved a pension crisis with creative strokes, though at a cost to retirees who thought their benefits were untouchable.

"I feel betrayed," said Espie, who may abandon plans to move to Alabama. He recounted family get-togethers he missed during the 30 years he spent in the Department of Public Works picking up trash and plowing snow. He also pays $500 a month more for health insurance than a year ago.

"It's devastating to me; it's affecting my health," Espie said.

In addition to absorbing pension cuts, almost 11,000 retirees and current employees must repay an estimated $212 million in excess interest they accrued in a city-run savings plan, which is separate from the pension fund. The annuity plan guaranteed a 7.9 percent annual return even when the pension lost money, and employees also received bonus interest in some years.

Not Unprecedented

They can either pay the money back in a lump sum or have it deducted gradually from their monthly pension check with 6.75 percent interest.

The savings plan drained $756.2 million from the pension fund from 1985 through 2007 to pay for what former Detroit emergency manager Kevyn Orr said was excess interest. The savings fund produced six-figure nest eggs for some — on top of their pensions — including at least two $1 million accounts. Pensions for general employees, or workers other than police and firefighters, averaged about $19,000 a year.

The clawback is unusual but not unprecedented. About 28,000 Oregon public retirees have had to pay back a combined $156 million after the state Supreme Court ruled in 2011 that the retirement system overpaid them in 1999 with a 20 percent return, instead of 11.3 percent, said David Crosley, a spokesman for the Oregon Public Employees Retirement System.

More Soup

To make do, Detroit retiree Elaine Williams, 63, said she'll buy more soup and eat cheaper food when her $1,200 monthly pension check is cut by $158. That includes $78 to pay back almost

$10,000, a monthly debt she'll face for 17 years.

Williams, who was a customer-service representative in the water department, said she retired in 2012 to a $950-a-month apartment in Phoenix near her children. She worries about medical costs, having endured several surgeries.

"It's wrong that they would mess with our pensions," she said in a phone interview.

Henry Gaffney, 61, a retired bus driver, said he'll pay back $56,000 of the $300,000 he saved by deducting $428 from his monthly $3,100 pension check for 19 years. He said he pays $375 more for health insurance each month.

"I may have to find a part-time job," said Gaffney, former president of Detroit's bus-driver union. "I guess the city wants us to work until we're dead."

Detroit's bankruptcy erased $7.2 billion of debt, of which $1.7 billion was pension liabilities. The city will pay $100 million toward pensions until 2023, while $900 million comes from the Water Department, foundations, the state of Michigan and the Detroit Institute of Arts.

Art Collection

The deal, dubbed the grand bargain, reduced cuts in pension checks and shielded the city's valuable art collection from a forced sale to pay creditors.

The result is a 4.5 percent pension cut for general employees and rollback of a 2.25 percent annual cost-of-living increase that took effect last year while the bankruptcy was pending. Police and fire retirees get no pension cut, though they'll lose half of their cost-of-living benefit.

Detroit is an extreme situation that's unlikely to establish a precedent, said Jean-Pierre Aubry, assistant director of state and local research at the Center for Retirement Research at Boston College.

"The benefit cuts in Detroit are being made in the context of municipal bankruptcy, a very different legal and fiscal environment than that of most cities or towns making pension reforms," Aubry said in an e-mail.

Court Challenge

A group of Detroit employees and retirees is challenging the cuts in federal court.
"It's a clear violation of the state constitution," said William Davis, head of the Detroit Active and Retired Employee Association, which filed the appeal.

U.S. Bankruptcy Judge Steven Rhodes ruled that Detroit's pensions could be cut, even thouth the state constitution prohibits reducing retirement benefits.

The bankruptcy plan created new investment committees for Detroit's pension funds, appointed by the pension boards and the state. The funds now assume a 6.75 percent annual rate of return on investments, instead of the 7.9 percent and 8 percent rates that were used, respectively, by the general and police and fire funds.
While the pension funds are now more secure, the cost to retirees stirs resentment.

Louis Ali, 64, said his monthly $1,775 pension check will be reduced by $345, mostly to pay back $38,200 he owes in excess interest. Ali, who was a water department technician, said the city should have sold some of its art rather than cut pensions.

“If it comes down to my check being cut or that painting staying on the wall, give me my money,” he said.

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February 4, 2015

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