

Detroit's Emergency Manager Weighs Pension-Fund Takeover

Monday, December 9, 2013 | Matthew Dolan, The Wall Street Journal

DETROIT—This city's emergency manager, in the midst of reorganizing the finances of America's most troubled large city, is threatening to take over one of Detroit's pension funds after a report found that retirees received extra payments while the funds lost value. Kevyn Orr said in a recent interview that at the current pace, the city's General Services System pension fund could lose its ability to pay pensions owed to current and future retirees within 12 years. A takeover is a "right, if not an obligation, that I have to consider under the statute, and we're considering that right now," he said.



PHOTO: BILL PUBLIKOWSKI/GETTY IMAGES

Representatives of the pension board said Mr. Orr's figures were faulty. The talk of takeover comes as struggling cities and states across the country are watching to see how Detroit will fare in cutting its \$18 billion in debt, including pension payments, as part of the nation's largest municipal bankruptcy case. The Oct. 25 draft report by the city's auditor general and inspector general, which was reviewed by The Wall Street Journal, found that during the 12 years ended in fiscal year 2012, the pension funds paid \$1.22 billion of interest credits into retirees' savings accounts while the funds had losses of \$2.05 billion, or 29% of their net asset value.

Earlier this year, Mr. Orr unveiled a proposal calling for the city to pay 20 cents on the dollar for the \$3.5 billion that the city says it owes its two pension funds, one for 20,500 nonuniformed retirees and one for 12,700 retired police and firefighters. Pension-board representatives said that their systems are sufficiently funded to be run independently, and that Mr. Orr inflated the estimated shortfall in future funding. They have argued that the funds are underfunded by about \$650 million, not \$3.5 billion. "The only people we have heard that from is the press," said Michael VanOverbeke, general counsel for the General Retirement System, referring to the possibility of the unseating of the pension trustees. The funds also say the practice of paying a fixed interest rate on pension holders' annuities when the funds lost money had been approved by city government and was ended in 2011.

Such guaranteed interest payments from pension funds losing value might be without precedent, said Keith Brainard, research director at the National Association of State Retirement Administrators. On Tuesday, U.S. Bankruptcy Judge Steven Rhodes said that Detroit's public pension holders aren't entitled to special protection from potential cuts—despite a Michigan state constitutional provision aimed at shielding pensions. Unions and pension funds moved to appeal the judge's groundbreaking ruling that granted the city eligibility for bankruptcy protection. "When workers in Chicago and L.A. realize that their pension benefits are no longer inviolate, unions are going to say what they really want is not bigger benefits but better funding. And that's going to put enormous pressure on current budgets," said Robert Novy-Marx, associate professor of finance at the Simon Business School at the University of Rochester.

For years, the city borrowed millions to meet its pension obligations in a series of complicated deals involving swaps. But state and city officials have also recently blamed the pension system for poor management and generous benefits that contributed hundreds of millions of dollars to the city's debt. Earlier this year, Mr. Orr stopped making payments into the system, including a scheduled \$39 million July payment. A person familiar with the matter said Mr. Orr would like to engineer a takeover of the city's General Retirement System for nonuniformed employees and retirees. Mr. Orr's office estimates that the fund has only 64% of what it needs to meet its obligations, while fund officials put the figure at 80%. The separate fund for the city's police and firefighters is in better shape, both Mr. Orr and fund officials say. Michigan's emergency-manager law allows for the takeover of a municipal pension system that is less than 80% funded.

In a takeover of the General Retirement System, Mr. Orr could run into criticism for trying to cut city payments to the very funds he would now control. "It might be a little awkward at that point" if Mr. Orr became both the representative for the city as debtor, as well as the person in charge of the city's largest creditor, according to Mr. VanOverbeke. Juanita Sailes-Jackson, 64 years old, a Detroit retiree who worked as a typist and parking enforcement officer, said she opposed the idea of any takeover of the city's pension funds, because she believes the system works well. Ms. Sailes-Jackson, who collects \$500 a month in pension, said, "I can't have any cuts because I wouldn't be able to pay most of my bills."

Next Generation Sunshine State Standards adapted from floridastandards.org. Standards specifically addressed in this edition are strategically aligned with state standards and annotated adjacent to the respective inquiry.

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1. In appropriate paragraph form, compare and contrast the pros and cons synonymous with maintaining a long-term commitment to one specific employer; thereby, enabling said organization to control an individual's future financial security. Identify the courses of action, which allegedly attributed to the infamous Detroit's pension crisis. Provided the increased familiarity of domestically mismanaged funds ultimately equating to victimizing retirees as opposed to mammoth investment firms charged with fiscal management, outline a series of necessary proactive measures one may employ to protect his future retirement interests. Thoroughly explain your reasoning and provide specific artifacts and evidence *not* limited solely to article above to support your response. Create and illustrate a Venn Diagram to effectively explore relationships and patterns and to make arguments about relationships between sets. **(LA.910.3.2.2; LA.910.1.6.2; MA.912.D.7.2; MA.912.A.10.1)**
2. Overnight low temperatures in Detroit, Michigan are reportedly approximately 17 degrees Fahrenheit. Employ the following function to convert a temperature, x , in degrees Fahrenheit ($^{\circ}\text{F}$), to a temperature, $f(x)$, in degrees Celsius ($^{\circ}\text{C}$). **(MA.912.A.10.1; MA.912.A.2.13; MA.912.A.2.3)**
3. In light of inevitable unwelcome pension reductions, retirees in Detroit are forced to make multiple unprecedented adjustments to their budget. A single child's attendance at an academic superior childcare facility charges \$600 per month for preschool and \$7.50 per hour for each hour of childcare thereafter. The function below may be employed to evaluate the $f(h)$, the monthly fee for childcare and preschool, where h represents the number of hours spent in childcare after preschool. $f(h) = 600 + 7h$. If the one-month charges for a single child equated to \$1650, what was the total number of hours the child spent in childcare after preschool? **(MA.912.A.10.1; MA.912.A.2.13; MA.912.A.2.3)**
4. Assuming a reduction in his pensions was not enough, Joe Lunchmeat is encountering insurmountable automotive issues interestingly enough, in a vehicle manufactured within plain view of his current dilemma. Joe estimates he is approximately 40 to 60 miles from the nearest repair facility. He desperately calls a towing company that charges an initial fee of \$80 in addition to \$3 per mile to tow his vehicle. If Joe elects to pursue assistance with this towing company, which is the best estimate for the amount of money, m , designated for services rendered? Express your answer as a compound inequality and graph. Decide whether your solution is reasonable in the context of the original situation. **(MA.912.A.3.5; MA.912.A.10.2; MA.912.A.3.13)**
5. Although currently 17 degrees, in an attempt to impress the automotive specialist with his command of geometric knowledge, Joe initiates conversation and conveys the measurements: The interior wheel represented as circle Q has a diameter of 10 units and therefore, radius of 5 units with center $Q(3.7, -2)$. The following equation defines circle Q $(x + 3.7)^2 + (y - 2)^2 = 25$. As a former student and current subscriber of *The Daughtry Times*, the mechanic detects a mathematical error. Identify the mistake made coupled with the accurate response. **(MA.912.G.1.2; MA.912.G.6.6; MA.912.G.6.7)**
6. Identify and thoroughly support your reasoning regarding which of the following that best describes the author's attitude toward the increased probability of an inevitable reduction in pensions: flippant disregard, mild frustration, passive resignation or an informed citizen. Explain the intended purpose of this article and identify any indicators or supporting evidence, which suggest the author may possess a bias for or against a reduction or outright revocation of one's hard-earned pension. What is the central idea and what conclusion might one obtain? Provide an inference an employee investing heavily in retirement may derive from this material. The point of view assumed throughout the passage is best described as first person, second person, third person, or a combination of first and third person. How may this article be referenced for an independent student research project addressing individual retirement and wealth management? **(RI.9-10.1 - 10.6)**
7. Using contextual clues only, determine the most complete and accurate definitions of following italicized terms: *statute*, *unveiled*, *annuity*, *precedent*, *inviolable*, *municipal*, *shielding*, *constitutional*, *provision*, *obligations*, and *pension* as obtained from the passage above. Additionally, use each word in a complete sentence to demonstrate further comprehension. **(LA.910.1.6.3; LA.910.1.6.1)**
8. **SARASOTA MILITARY ACADEMY WORD-OF-THE-WEEK** Create a concluding paragraph aligned with the passage above incorporating the following italicized terms: *Panache* adj. Dashing elegance of manner or style **(LA.910.1.6.1; LA.910.1.6.5)**

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