Detroit Looks to Obamacare to Cover Pensioners' Health Care

By Kate Rogers – July 29th, 2013

Detroit is hoping to lean on the Affordable Care Act to pick up its massive retiree health care tab as it tries to dig it out of bankruptcy.

The Motor City is reportedly considering shifting its unfunded $5.7 billion in health-care costs of retired workers that aren't yet eligible for Medicare to the health insurance exchanges that are set to hit the market next year under Obamacare.

The $9 billion in pension liabilities to 21,000 retirees is the greatest cost to the city, which is currently $18 billion in debt, according to the *Detroit Free Press*.

If the current pension health-benefits are cut, the majority of retirees will either receive care via Medicare if they are at least age 65, or through online insurance exchanges. Those who are at or below 400% of the federal poverty limit will be eligible for subsidies.

"It will actually be discriminatory," says Gary Burtless, labor expert at the Brookings Institute. "Suppose you are a retiree and you believe you had access to Detroit-provided health insurance plans, but your family income is over four-times the poverty line. You will not get any subsidy and will have to pay for the full cost of the plan without any help of the government, in any form, whatsoever."

He adds that Detroit retirees are lucky in one sense, since they are Social Security-eligible. In some states, including Massachusetts, public workers cannot collect Social Security benefits because they do not pay into the system. With that said, Detroit retirees depending on a pension might be forced to claim Social Security benefit early, and thus reducing their payments.

But what may be good news for Detroit retirees who are eligible for the health-care subsidy, is bad news for taxpayers, who are helping pay for this coverage for an unnamed amount of pensioners in the city who are not yet Medicare eligible, says Michael Tanner, Cato Institute senior fellow.

“It’s a shift of the cost to these [retired] workers and to the taxpayers at large,” Tanner says. “If Detroit went to Congress and asked them to pay for their plans, Congress would say, ‘no.’ They are getting a bailout from taxpayers.”

The average pension check, per month for a retiree in Detroit is under $1,200 according to the *Detroit Free Press*. Using the Kaiser Family Foundation’s subsidy calculator, a single, 63-year-old worker receiving a $1,200 check per month, or $14,400 pre-tax per year, would be at 125% of the federal poverty level. This worker seemingly does not smoke, and has no children or other family members on the health-care plan.

Kaiser’s calculator has the unsubsidized annual premium for our fictional worker at $3,018, and the worker paying $288 for care per year.

Other cash-strapped cities and municipalities are watching the situation in Detroit closely, as it may provide financial options to unfunded pension systems, says Tanner.

“This is being talked about in a number of cities,” he says. “The fact is that Detroit will have to cut its health-care plans and this is a way of shifting those costs.”

And if Detroit pulls this off successfully, Burtless thinks many other cities will follow suit.

“If Detroit pulls this off, why shouldn’t other cities and states not evade their responsibilities and commitment?”

Whether this is the solution the city opts for will all depend on its bankruptcy restructuring plan, Tanner says. City Emergency Manager Kevyn Orr has discussed a potential $120 allowance for retirees who were set to receive full health-care benefits before the Chapter 9 filing, says Steven Kreisberg, director of collective bargaining at Detroit’s AFSCME union.

Kreisberg says if the shift occurs, it will bring a reduction in benefits for retirees.

“The ACA has various ranges of coverage, but it will depend on what the retirees are willing to pay,” he says. “You are moving from a situation where employees earned the right to retiree health care to [a situation] where that will be completely withdrawn.”

Solutions to the city’s pension and retiree benefits are still very much in the “discussion” phase, says Kreisberg.

“It’s a significant loss,” he says. “The coverage employees had was seamless from employment to retirement and was very comprehensive. “