



It'll be Motown blues for taxpayers when Uncle Sam bails out Detroit

By Shikha Dalmia – August 1st, 2013

Fifty years ago, Detroit's Motown music enthralled America, but future generations of federal taxpayers will be singing the Detroit blues as other cities follow its example by dumping their health care liabilities onto Uncle Sam.

Detroit became the largest city yet to announce plans for bankruptcy two weeks ago. This came as no surprise to anyone who had watched for years as it -- by turns -- raided its retiree funds to pay its creditors and borrowed from its creditors to fund its retiree plans.

Its accumulated debt now approaches \$20 billion -- about 16 to 18 times its annual budget. About half of this is owed to private lenders. Of the rest, about \$3.2 billion consists of pension and \$5.7 billion health care costs of retirees.

Detroit's bankruptcy plan would give unsecured private lenders -- who include creditors backed by general obligation bonds -- only pennies on the dollar. It'll pay a considerably greater portion of the pension benefits of its 19,000-plus retirees. But their health care costs it plans to make Uncle Sam's problem.

The city currently pays for the coverage of retirees under 65 who don't qualify for Medicare. And there are plenty of them because city workers habitually take early retirement after about 25 years of service -- and either take on other jobs or do their existing job for the city as contractors. They are allowed to work for 1,000 hours annually without jeopardizing benefits.

The city will hand these young retirees an unspecified "monthly stipend" to help defray coverage costs -- and still save some \$27 to \$40 million annually. The balance they will obtain from Obamacare's exchange since it must subsidize everyone up to 400 percent of the poverty level.

Detroit officials regard this as a "win-win" for Detroit and its retirees. True. But what they don't say is that it'll be "lose-lose" for the country and federal taxpayers. Detroit is hardly the first city to think of having Obamacare subsidize its retirees.

Chicago, which is in financial difficulty but not bankruptcy, announced a similar plan even before Detroit. Other cities -- some not even financially distressed -- are contemplating doing the same thing.

And why not? Obamacare imposes no penalties on governments that offload their retirees -- in contrast to large employers who offload their active employees.

So for how much would Uncle Sam potentially be on the hook?

The Pew Center for the States recently looked at 61 major cities across the country and found that, taken together, they had promised \$118.2 billion in unfunded health care benefits. But that doesn't even begin to scratch the surface.

A 2006 study by Jagadeesh Gokhlae and Chris Edwards of the Cato Institute estimated that the average unfunded health cost per government employee is \$135,313. Since about 10.3 million workers are covered by state and local government health care plans on retirement, that works out to \$1.4 trillion.

Other studies published around the same time by Credit Suisse and J.P. Morgan confirmed this estimate. Gokhlae believes that the \$1.4 trillion likely hasn't changed much one way or the other given that health care inflation has moderated.

But the question is from where will the federal government get the money for city retirees? Its own unfunded Medicare and Medicaid obligations over the next 75 years add up to \$58 trillion, according to the Heritage Foundation. And that was before Obamacare -- which adds another \$17 trillion in unfunded liabilities.

Detroit and her sisters are not dipping into an existing pool of federal money to pay for their retirees. They are simply deepening Uncle Sam's well of debt -- and hastening the day when future generations will drown in it.

If Uncle Sam's plan so far was to rob Paul's grandchildren to pay for Paul, Detroit and its sisters will now push him to rob Paul's children.

A family that saddled its children with crippling debt would be regarded as reprehensible. But when our national and local governments collude to rob future Americans, it's just a nifty fiscal move.