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TO: The Honorable Detroit City Council

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: July 11, 2023

RE: **REPORT ANALYZING THE IMPACT OF PENSION CUTS ON DETROIT RETIREES AND EXPLORING POTENTIAL REMEDIAL STRATEGIES.**

Council Member Fred Durhal III requested that the Legislative Policy Division (LPD) prepare a report analyzing the impact of pension cuts on Detroit retirees and exploring potential remedial strategies.

1. Impact of Pension Cuts on Detroit Retirees

As of June 30, 2014, the Plan of Adjustment (POA) froze retirement benefits for the General Retirement System (GRS) legacy pension plan for nonuniform employees, reduced pension benefits by 4.5%, and eliminated future 2.25% cost-of-living adjustments. Also, certain benefits provided by the Annuity Savings Fund and benefits paid from the Annuity Reserve fund were subject to a separate "claw-back" reduction. In addition, the Plan of Adjustment froze retirement benefits for the Police & Fire Retirement System (PFRS) legacy pension plan for uniform employees and reduced future 2.25% cost-of-living adjustments by 55% to 1%[1].

Perhaps most significantly, approximately 90% of retiree health care costs were eliminated during the bankruptcy process[2], leaving retired employees who were not old enough (i.e., under 65 years of age)

[1] Police and fire pensions were not reduced since retired uniform employees do not receive federal social security benefits.
[2] Under the POA, approximately 90% of retiree health care costs (a/k/a other post-employment benefits, "OPEB" costs) were eliminated during the bankruptcy process, amounting to $3.8 billion in savings to the general fund ($4.3 billion OPEB liability minus $493 million for the establishments of the Voluntary Employee Beneficiary Associations (VEBAs). The monthly stipends are paid from the VEBAs. When retired employees turn 65 years old, the VEBAs either help pay for the Medicare and/or private health care insurance premiums or provide a Medicare Advantage Plan.

to receive Medicare benefits to pay significant out-of-pocket costs for health care. Under the POA, retirees under 65 years old only receive a monthly stipend of approximately $125 to help pay for private health care coverage[3].

According to the 2022 GRS Summary Annual Report, the average annual allowance from the Legacy Pension Plan is $19,980.66. That means that nonuniform Detroit retirees, on average, receive about $1,665 from their pension each month. The average cost of rent for a one-bedroom apartment in Detroit is $1,322 as of January 2023 according to market trends from Rent.com. Therefore, the average renting nonuniform retiree would only have a meager $343 to cover all non-housing costs for the month such as groceries, utilities, car insurance, homeowner's/rental insurance, property taxes, gas and vehicle-related costs, prescriptions, medical bills, home maintenance and repairs, etc.

Similarly, the 2022 PFRS Summary Annual Report, the average annual allowance from the Legacy Pension Plan is $31,149.18. That means that uniform Detroit retirees, on average, receive about $2,596 from their pension each month. The average renting uniform retiree would only have $1,274 to cover all non-housing costs for the month.

According to 2021 Census data, the average mortgage payment in Detroit is only marginally better than rental costs at $1,177. Therefore, it is extremely unlikely that retirees who pay rent or a mortgage are able to cover their basic costs of living, let alone set any money aside for emergencies or necessary home repairs. Retirees without significant retirement savings and/or without the ability to return to work are likely to be financially distressed or impoverished, and it is unlikely that many retirees set aside substantial retirement savings when they reasonably expected to receive their pension benefits on the terms that were promised prior to the POA.[4]

Inflation in the US rose rapidly during the pandemic starting in 2021, and it has yet to return to pre-pandemic levels.[5] In 2023, inflation for all items (food, energy, new vehicles, rent, medical care, etc.) increased by 4% over a 12-month average.[6] Inflation for food alone increased by 6.7% in 2023 over a 12-month average.[7] Because retirees lost their cost-of-living adjustments in the bankruptcy, their retirement benefits have diminished appreciably in addition to the massive cuts that they already received. Therefore, Detroit retirees are particularly vulnerable to increases in inflation and must make do with less each year.

When the Plan of Adjustment was implemented, retirees who were subject to the annuity claw back could choose to either pay up front in a lump sum or to pay it back over time with interest (set at 6.75%). Retirees who could not afford to pay back the annuity payment in a lump sum continue to make payments out of their retirement benefits, and with accruing interest it is likely that many retirees will pay this debt for the duration of their pension/life.

Detroit retirees only receive a small monthly stipend of approximately $125 for medical costs through the VEBAs. Because of the limited budgets of retirees, particularly those who rent or still pay a mortgage, they are forced to pay for medical costs out-of-pocket and either dip into their savings or return

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[3] Ibid (footnote 2).

[4] Retirees reasonably relied on receiving their retirement pensions on the original terms prior to the POA, many of whom worked for decades under the assumption that they would receive their pension benefits in exchange for their years of public service. Retirees had little reason to expect that the city would undergo an unprecedented municipal bankruptcy that would result in massive pension cuts, especially given that Article 9, Section 24 of the Michigan Constitution states that "[t]he accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby." Therefore, many retirees do not have significant alternative sources of retirement savings due to their reliance on receiving the benefits that they were promised.

[5] https://data.bls.gov/timeseries/CUUR0000SA0L1E?output_view=pct_12mths

[6] https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category.htm

[7] Ibid

to work.[8] Even for the lowest tier of health insurance under the Affordable Care Act, the monthly premiums are $300-400 per month meaning that the retired employees' VEBA stipend will not cover the cost of premiums.[9]

Detroit retirees belong to the age groups that are most vulnerable to COVID-19, and the cost of an extended hospital stay would put many retirees in a financially disastrous situation. The financial stress on retiree households because of the POA has likely had a negative impact on the mental and physical health of many retirees, as stress is known to be a triggering or activating factor for many diseases and pathological conditions.[10]

Additionally, many retirees may be putting off regular medical care or compromising their health by seeking less expensive and less effective treatments if they are forced to choose between paying for medical care and making ends meet for other household costs, which is likely to exacerbate health conditions that are left untreated. According to a report from the U.S. Department of Health and Human Services, the price increases of prescription drugs in recent years has far outpaced inflation, with an average price increase of approximately 32% from 2021-2022.[11] As a result, retirees who lost their health benefits may have to resort to generic prescription drugs and/or less effective treatments that will result in worse health outcomes over time.

The pension and benefit cuts resulting from the POA have placed many retirees in a financially precarious situation. The POA deprived retirees of the standard of living they earned through years of service to Detroit. In the years when retirees expected to be enjoying their retirement and spending time with their families, they are instead struggling to meet their basic needs. While there is no doubt that Detroit had to take drastic measures to address its pension obligations during the time of the bankruptcy, the health and welfare of Detroit retirees reflects on the City as a whole and should be addressed urgently.

2. When is it possible to establish concessions for retirees without the Financial Review Commission's oversight?

The duties and authority of the Financial Review Commission ("FRC") are established under the Michigan Financial Review Commission Act, MCL 141.1631 *et seq.* ("MFRCA"). Pursuant to the Act, the FRC was granted the authority to directly oversee Detroit's finances to ensure that the city is in compliance with the terms of the Plan of Adjustment on December 10, 2014. Therefore, the FRC is responsible for monitoring the City's compliance with the provisions of the Plan of Adjustment regarding pension payments and pension restoration.

Section 8 of the MFRCA allows the FRC to grant a waiver to cities who adhere to a deficit-free budget for 3 consecutive years. In April of 2018, the FRC granted a waiver to the City and ended direct oversight of the City's finances. However, the City is still under FRC oversight and must regularly report financial information to the FRC. These reporting requirements include quarterly reports on the payments made to the City's pension plans and payments to the City's Section 115 Trust (i.e., Retiree Protection

[8] Detroit media outlets have repeatedly reported on the difficulty many retirees have had due to pension cuts - https://www.freep.com/story/money/personal-finance/susan-tompor/2023/06/29/retired-librarian-studies-old-detroit-bankruptcy-papers-to-find-hope/70318472007/https://www.detroitnews.com/story/news/local/detroit-city/2023/04/10/some-detroit-retirees-say-bankruptcy-concessions-have-been-devastating/69985389007/; https://www.freep.com/story/money/personal-finance/susan-tompor/2018/07/18/detroit-bankruptcy-retirees-pension/759446002/; https://wdet.org/2015/11/15/for-detroit-retirees-bankruptcy-still-part-of-daily-life/

[9] https://www.healthmarkets.com/resources/health-insurance/health-insurance-cost-per-month/

[10] Yaribeygi H, Panahi Y, Sahraei H, Johnston TP, Sahebkar A. The impact of stress on body function: A review. EXCLI J. 2017 Jul 21;16:1057-1072. doi: 10.17179/excli2017-480. PMID: 28900385; PMCID: PMC5579396.

[11] https://aspe.hhs.gov/reports/prescription-drug-price-increases

Trust Fund) for legacy pension obligations. Additionally, the City is required to provide analysis and forecasts for the legacy pension plans by March 31st of each year.

The FRC reviews its waiver on an annual basis and makes a determination as to whether to renew the waiver by July 1 of each year. Section 12 of the MFRCA provides that the FRC shall dissolve if it grants waivers for 10 consecutive fiscal years and the Plan of Adjustment has expired. The FRC has continually renewed its waiver since 2018. Assuming that the City continues to receive waivers, it will be released from FRC oversight at the end of the 10th fiscal year, which would be the end of June 2028.

In addition to the FRC, the State Contribution Agreement which was part of the "Grand Bargain," established an Investment Committee to oversee the GRS Board of Trustees. The investment committee has the authority to oversee the GRS Board for a period of 20 years after the effective date of the Plan of Adjustment, which is December 10, 2034. As part of its investment management duties, the Investment Committee is responsible for:

> Reviewing and affirming or rejecting the correctness of any and all calculations, actuarial and/or assessments used by the Plan Actuary including, but not limited to, (i) those underlying the restoration of pension benefits, funding levels and amortization thereof, all in accordance with the Pension Restoration Program attached to the City's Plan of Adjustment, (ii) those underlying the determination of annual funding levels and amortization thereof, and (iii) on or after fiscal year 2024 the recommended annual contributions to GRS in accordance with applicable law.
>
> In accordance with approved actuarial work as provided in the immediate preceding paragraph and based on the annual actuarial valuation reports and any other projections or reports as applicable from the Plan Actuary or other professional advisors, the determination of the extent of restoration of pension benefits, including but not limited to the payment of a portion of the 4.5% reduction in base monthly pension amounts and the payment of lost COLA payments, all in conformance to the Pension Restoration Program between the City and the Board attached to the Plan of Adjustment.

Although the Investment Committee's authority is over the GRS Board of Trustees and not the City directly, it is another layer of oversight, and it has the explicit duty to supervise the Pension Restoration Process.

3. **What strategies could the city employ to rectify the impact of pension reductions on its retirees?**

    a. **Providing funding to trigger pension restoration.**

The Plan of Adjustment fixed the pension benefits payable to each holder of a GRS pension claim until June 30, 2023. However, the Plan of Adjustment states that "[r]estoration of all or a portion of the modified pension benefits will be provided in accordance with the methodology set forth [in the Pension Restoration Process]." Therefore, pension restoration measures must adhere to the Pension Restoration Process under the Plan of Adjustment.

The Pension Restoration Process allows for the potential restoration of accrued retirement benefits, and it is in effect for 30 years from the effective date of the Plan of Adjustment, which would be until June 30, 2043.

i. GRS Pension Restoration Through June 30, 2023[12].

Each year until June 30, 2023, the GRS Plan actuary must project the GRS funded ratio as of 2023. The GRS funded ratio, known as the Projected Funded Level, is based on the value of plan assets relative to the Actuarial Accrued Liabilities. Through 2023, the Projected Funded Level is 70%. If the actuary projects that the Projected Funded Level will exceed 75%, those funds will be credited to a Restoration Reserve Account. (It should be noted that the GRS's funding level as of June 30, 2022 was 62.73%, based on GRS's June 30, 2022 actuarial report.)

If the GRS actuary determines that there are sufficient funds in the Restoration Reserve account, funds will be distributed to retirees based on which "Waterfall Class" that they belong to. The GRS Waterfall classes are:

> Class 1 – Retirees in retirement benefit pay status as of June 30, 2014, and their surviving spouses and beneficiaries.
>
> Class 2 – Retirees who entered into retirement pay status after June 30, 2014, and their surviving spouses and beneficiaries, who are in pay status as of the end of the GRS Fiscal Year prior to the year in which the restoration decision is made.
>
> Class 3 – All other GRS participants who as of June 30, 2014 are not in retirement benefit pay status.

The first part of the restoration is the 4.5% across the board pension cuts. The 4.5% cuts will be reduced by minimum 1/2% increments for Waterfall Class 1 until the 4.5% cut is fully restored. Restoration can only occur if the funded level of the Restoration Reserve account can fund 100% of the incremental increases over the projected lives of the eligible recipients in the Waterfall Class. Once the 4.5% cut is restored for Waterfall Class 1, the same process is applied to Waterfall Class 2 followed by Waterfall Class 3.

If the 4.5% pension cuts are restored for all three Waterfall Classes, additional assets will be used to fund and restore a portion of the Cost-of-Living Adjustment (COLA) that were eliminated under the Plan of Adjustment. COLA will be restored by minimum 10% increments up to 50% starting with Waterfall Class 1, then Waterfall Classes 2 and 3. If there are sufficient funds to restore 50% COLA to all Waterfall Classes, the same process is repeated for the remaining 50%.

If the funds in the Restoration Reserve Account are sufficient to fully fund the 4.5% pension cut restoration and the 100% COLA restoration for all three GRS Waterfall Classes, additional assets shall be used to increase the frozen accrued benefits of GRS participants whose Annuity Savings Fund ("ASF") were diminished by ASF Recoupment (claw back). Starting with Waterfall Class 1, reductions to pensions from ASF Recoupment (claw back) will be reduced by minimum 1/2% increments until fully restored. Then, the same process applies to Waterfall Classes 2 and 3.

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[12] GRS pension restoration information is from Exhibit II.B.3.r.II.C, entitled "Terms of GRS Pension Restoration" from the Plan of Adjustment.

According to the GRS Annual Actuarial GRS Reports, the GRS funded ratio has not been sufficient to trigger the restoration process since the beginning of the Plan of Adjustment.

ii. GRS Pension Restoration from July 1, 2023 to June 30, 2033.

From July 1, 2023 through June 30, 2033, the same rules for pension restoration payments and credits apply. However, the Projected Funded Level will be 82% and the Restoration Target will be 85%. To determine whether the 2033 Restoration Target is satisfied, the Plan actuary shall project investment returns through June 30, 2033. The GRS Actuary shall assume that the annual City contribution amount shall be the annual amount of contributions necessary to fund the GRS based on the amortization of the actual 2023 unfunded actuarial accrued liability ("UAAL") at market value over 30 years.

iii. GRS Pension Restoration from July 1, 2033 to June 30, 2043.

During this period, the Projected funded Level will be 90%, and the Restoration Target shall be 93%. Otherwise, the same rules apply.

iv. City contributions to GRS legacy pension system after FY 2023.

Part of the Plan of Adjustment is the "Grand Bargain," which used funds from philanthropic organizations, the DIA, and the state of Michigan to relieve the city of Detroit from having to pay pensions contributions until FY 2024. According to the OCFO's Long-Term Forecast Report for FY 2022-2031, the City will resume making annual pension contributions to the GRS legacy pension system totaling $135 million per year until 2035. In 2035, Grand Bargain funds expire, and it is projected that the City will contribute $154 million to the pension system from the General Fund and the reserves from the Retiree Protection Trust Fund ("RPTF").

In preparation for the resumption of annual pension contributions, the City has been contributing funds into the RPTF. The RPTF will have over $473 million by the end of FY 2023.

While the City was heavily restricted from using surplus dollars for pension contributions through FY 2023 under the Plan of Adjustment, the City could conceivably use surplus dollars to fund the GRS pension to the point that it would trigger the Pension Restoration Process as long as it did not compromise the City's finances to the point where the FRC would cease to continue waiving its direct oversight authority over City finances. There are some serious concerns about the City being able to meet its obligation to make pension contributions as Grand Bargain contributions are phased out, therefore the City should take care to determine the long-term impact of any changes with regard to pension contributions so as not to trigger FRC oversight.[13]

For example, it would require enormous City resources to trigger the GRS Pension Restoration Process. Now that the City is under the July 1, 2023 through June 30, 2033 pension restoration process timeframe, as outlined previously, LPD estimates the City would need to contribute approximately $561 million to the GRS pension system to meet the Restoration Target of 85% and fund 1/2% of the 4.5% pension cut, based on the following calculations (this estimate could change based on investment returns and actuarial experience):

[13] https://crcmich.org/the-end-of-detroits-reprieve-from-pension-payments-brings-new-budget-pressures; https://www.pewtrusts.org/-/media/assets/2018/03/challenge_of_meeting_detroits_pension_promises_report_v6.pdf

- GRS's Market Value of Assets (MVA) of $1,529.8 M/Actuarial Accrued Liability (AAL) of $2,438.6 M=62.73% GRS funding ratio as of June 30, 2022 (based on GRS June 30, 2022 actuarial report).
- GRS's projected MVA of $2,072.8 M/AAL of $2,438.6 M=projected GRS funding ratio of 85%.
- The City would have to contribute $543 M for the GRS to reach a projected funding ratio of 85%.
- The City is projected to save $161.2 M from the 4.5% pension cut[14]. .5% of 4.5%, or 1/9th, of $161.2 M equals approximately $18 M.
- The total estimated City contribution to the GRS pension system to reach a funding level of 85% plus fund 1/9th of 4.5% pension cut equals approximately $561 M ($543 M plus $18 M).
- Please note that any City contribution to the GRS pension system to trigger pension restoration would have to be calculated by an actuary.
- It is important to note that the use of an enormous amount of City resources to trigger pension restoration could negatively impact the City's credit ratings since the City's ability to fund its long-term projected pension payments is already a concern for the rating agencies.

Because the GRS Board and the Investment Committee are required to oversee pension restoration, the City should coordinate with the GRS Board and the Investment Committee on any efforts to provide additional funding to trigger pension restoration.

v. PFRS Pension Restoration Through June 30, 2023[15] .

Each year until June 30, 2023, the PFRS Plan actuary must project the PFRS funded ratio as of 2023. The Projected Funded Level is 75%. If the actuary projects that the Projected Funded Level will exceed 78%, those funds will be credited to a Restoration Reserve Account. (It should be noted that the PFRS's funding level as of June 30, 2022 was 74.86%, based on PFRS's June 30, 2022 actuarial report.)

If the PFRS actuary determines that there are sufficient funds in the Restoration Reserve account, funds will be distributed to retirees based on which "Waterfall Class" that they belong to. The PFRS Waterfall classes are:

> Class 1 – Retirees in retirement benefit pay status as of June 30, 2014, and their surviving spouses and beneficiaries.
>
> Class 2 – Retirees who entered into retirement pay status after June 30, 2014, and their surviving spouses and beneficiaries, who are in pay status as of the end of the GRS Fiscal Year prior to the year in which the restoration decision is made.
>
> Class 3 – All other GRS participants who as of June 30, 2014 are not in retirement benefit pay status.

[14] LPD's report entitled "Exploring the Restoration of Pension Cuts" https://detroitmi.gov/sites/detroitmi.localhost/files/migrated_docs/legislative-policy-reports/2017/Restoration%20of%20Pension%20Cuts.pdf. The $161.2 M savings figure could be lower based on current actuarial experience.
[15] PFRS pension restoration information is from Exhibit II.B.3.q.II.C, entitled "Terms of PFRS Pension Restoration" from the Plan of Adjustment.

If the funds in the Restoration Reserve Account are sufficient to restore a portion of the Cost-of-Living Adjustment (COLA) that were eliminated under the Plan of Adjustment, then to COLA will be restored by minimum 10% increments up to 66% starting with Waterfall Class 1, then Waterfall Classes 2 and 3. If there are sufficient funds to restore 66% COLA to all Waterfall Classes, the same process is repeated for the remaining 34%.

vi. PFRS Pension Restoration from July 1, 2023 to June 30, 2033.

From July 1, 2023 through June 30, 2033, the same rules for pension restoration payments and credits apply. However, the Projected Funded Level will be 85% and the Restoration Target will be 88%. To determine whether the 2033 Restoration Target is satisfied, the Plan actuary shall project investment returns through June 30, 2033. The PFRS Actuary shall assume that the annual City contribution amount shall be the annual amount of contributions necessary to fund the PFRS based on the amortization of the actual 2023 unfunded actuarial accrued liability ("UAAL") at market value over 30 years.

vii. PFRS Pension Restoration from July 1, 2033 to June 30, 2043.

During this period, the Projected funded Level will be 92%, and the Restoration Target shall be 95%. Otherwise, the same rules apply.

viii. City contributions to PFRS after FY 2023.

While the City was heavily restricted from using surplus dollars for pension contributions through FY 2023, the City could conceivably use surplus dollars to fund the PFRS pension to the point that it would trigger the Pension Restoration Process as long as it did not compromise the City's finances to the point where the FRC would cease to continue waiving its direct oversight authority over City finances. There are some serious concerns about the City being able to meet its obligation to make pension contributions as Grand Bargain contributions are phased out, therefore the City should take care to determine the long-term impact of any changes with regard to pension contributions so as not to trigger FRC oversight.[16]

For example, it would require significant City resources to trigger the PFRS Pension Restoration Process. Now that the City is under the July 1, 2023 through June 30, 2033 pension restoration process timeframe, as outlined previously, LPD estimates the City would need to contribute approximately $498 million to the PFRS pension system to meet the Restoration Target of 88% and fund 10% of the 55% PFRS COLA reduction, based on the following calculations (this estimate could change based on investment returns and actuarial experience):

- PFRS's Market Value of Assets (MVA) of $2,442.1 M/Actuarial Accrued Liability (AAL) of $3,262.3 M=74.86% PFRS funding ratio as of June 30, 2022 (based on PFRS June 30, 2022 actuarial report).
- PFRS's projected MVA of $2,870.8 M/AAL of $3,262.3 M=projected PFRS funding ratio of 88%.
- The City would have to contribute $428 M for the PFRS to reach a projected funding ratio of 88%.

[16] https://crcmich.org/the-end-of-detroits-reprieve-from-pension-payments-brings-new-budget-pressures; https://www.pewtrusts.org/-/media/assets/2018/03/challenge_of_meeting_detroits_pension_promises_report_v6.pdf

- The City is projected to save \$697 M from the 55% PFRS COLA reduction[17]. 10% of \$697 M equals \$69.7 M.
- The total estimated City contribution to PFRS pension system to reach a funding level of 88% plus fund 10% of COLA reduction equals approximately \$498 M (\$428 M plus \$69.7 M).
- Please note that any City contribution to the PFRS pension system to trigger pension restoration would have to be calculated by an actuary.
- It is important to note that the use of an enormous amount of City resources to trigger pension restoration could negatively impact the City's credit ratings since the City's ability to fund its long-term projected pension payments is already a concern for the rating agencies.

Because the PFRS Board and the Investment Committee are required to oversee pension restoration, the City should coordinate with the PFRS Board and the Investment Committee on any efforts to provide additional funding to trigger pension restoration.

b. Allocating ARPA funds to provide relief to retirees.

Detroit received \$826 million in federal funds as part of the American Rescue Plan Act (ARPA). Under ARPA, local governments have broad flexibility to appropriate these funds for uses meant to mitigate the impact of the COVID-19 pandemic. Although ARPA funds cannot be used to make direct payments in the GRS/PFRS pension systems, ARPA funds represent a unique opportunity for the City to aid retirees without having to rely on the General Fund. There are various ways that the City could appropriate ARPA funding to help retirees who have struggled financially during the pandemic.

According to the US Treasury Department, state, and local recovery funds (SLRF) can be used to aid groups of people who were "disproportionately impacted" by the pandemic.[18] The Treasury will presume that certain groups of people have been disproportionately impacted by the pandemic, including low-income households and communities with income below 185% of the Federal Poverty Guidelines or income below 40% of the area median income (AMI) for their county.[19]

Also, the Treasury will presume that individuals have been disproportionately impacted by the pandemic if they already qualify for certain government programs, including Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), school lunch and breakfast programs (NLSP and SPP), Medicare Part D Low-Income Subsidies, Supplemental Security Income (SSI), Head Start, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Section 8 Vouchers, Low-Income Home Energy Assistance Program (LIHEAP).

The Treasury has also enumerated various types of projects that may be implemented under ARPA to respond to the impact of the pandemic on households and communities, including health insurance coverage expansion, home repair and home weatherization, and cash assistance.[20] Many cities, such as Ann Arbor, Chicago, Pittsburgh, and Los Angeles, have allocated ARPA funds to provide direct guaranteed income payments to various vulnerable populations over a number of months or years.

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[17] LPD's report entitled "Exploring the Restoration of Pension Cuts" https://detroitmi.gov/sites/detroitmi.localhost/files/migrated_docs/legislative-policy-reports/2017/Restoration%20of%20Pension%20Cuts.pdf. The \$697 M savings figure could be lower based on current actuarial experience.
[18] https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf
[19] https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-Overview.pdf
[20] https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-Overview.pdf

For example, Los Angeles used ARPA funds to implement BIG:LEAP program, which provided assistance to 3,200 LA residents with direct cash payments of $1,000 per month for 12 months. The city allocated $35 million to provide cash assistance to families with children who had income below the federal poverty level and who experienced hardship due to COVID-19. Recipients of the funds were able to use the funds for any purpose in order to address their most pressing needs. Given that there are approximately 27,000 legacy Detroit retirees, implementing a similar program in Detroit would cost significantly more depending on the amount of benefits allocated to each individual, whether the benefits would be a one-time payment or take place over time, and whether the benefits will be provided to all retirees.

As Detroit retirees are primarily above the age of 55, they are in the age groups that are most vulnerable to death or serious complications from COVID-19. In addition, retirees lost the vast majority of their retiree health care benefits that they would have relied on during the pandemic, especially if they do not yet qualify for Medicare. Many retirees have likely struggled to cover household costs if they have to pay for medical care largely out-of-pocket, especially considering the large cuts to their pensions and their vulnerability to inflation. Therefore, Detroit retirees are a group that has been disproportionately impacted by the pandemic, especially if their income is below the level specified by the Treasury.

The City could likely use ARPA funds to provide aid to Detroit retirees in a variety of ways. For example, the City could potentially create a program that provides some type of direct payment or payments to retirees to supplement their income and/or provide direct payments to help pay utilities. The City could also potentially provide housing aid to retirees who have insecure housing and/or home repair subsidies to Detroit retirees who cannot afford essential repairs.[21] Additionally, the City could potentially use ARPA funds to expand medical coverage to retirees who do not yet qualify for Medicare. The City should determine whether to provide ARPA funds to all GRS and PFRS retirees or to limit the use of funds to retirees who fall below a certain income threshold.

An important consideration when providing direct payments to households is that responses to the negative economic impacts of the pandemic must be reasonably proportional to the impact that they are intended to address.[22] If the City allocates ARPA funds to aid retirees, it should meet with retirees and what their greatest needs are before developing a plan with sufficient funding to address those needs.

Please let us know if we can provide any further assistance.

[21] The City has already set aside $30 million in ARPA funding for home repairs for seniors, low-income households, and the disabled community - https://detroitmi.gov/departments/office-chief-financial-officer/how-detroits-arpa-funds-are-being-spent/intergenerational-poverty-1

[22] https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf