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Dec. 08, 2013

For 34 years, Gwendolyn Beasley worked as a clerk at the Detroit Public Library and paid a portion of her salary into a fund that would someday help pay for her pension.

Now retired, Beasley, 67, receives \$1,500 a month from that pension. But she's cutting back on spending after a judge ruled last week that Detroit's pension funds, like other city creditors, may have to take a hit as the city reorganizes its finances under bankruptcy.

"I think it's so very unfair," Beasley said. "We retired expecting to get a certain amount of benefits. Now you've pulled the rug out from under us."

It's not just Detroit retirees who are worried about their pensions. Financially troubled cities in California, Illinois and Pennsylvania will soon face decisions on what to do with chronically underfunded pension funds, and experts say the Detroit ruling has made it easier for cities to argue that pensions must be cut.

"If I were a retired public-sector pensioner, I'd be worried today," said Olivia Mitchell, a professor at the Wharton School of Business and the director of the Pension Research Council.

For decades, representatives of public-sector pensions have depended on constitutional provisions in various states, including Michigan and Illinois, that protected pensions. Now, U.S. Bankruptcy Judge Steven Rhodes' ruling has shown that federal bankruptcy laws preempt those state provisions. Any city that has underfunded pensions and troubled finances could soon look to bankruptcy as a way out of paying pensions, experts say, as long as their state allows them to file for Chapter 9 protection.

“This is really the first time that there's been a clear decision by a judge that, yes,

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ability to collectively bargain.

Rhodes' ruling, issued Tuesday, could have implications in California cities such as San Bernardino, which was deemed eligible for bankruptcy this year but is still battling with the California Public Employees' Retirement System over what it owes the pension fund and what it will pay into it in the future. The ruling may also give more bargaining power to the city of Vallejo, which emerged from bankruptcy protection two years ago but is again struggling with rising pension costs.

Cities in upstate New York, including Syracuse, and towns in Pennsylvania, such as Scranton, could look at Rhodes' decision and be influenced to file for bankruptcy, said Robert Novy-Marx, a professor of finance with the Simon School of Business at the University of Rochester.

“This ruling is just enormously important. It's a total sea change,” he said. “The threat of bankruptcy now gives municipalities a little more power at the bargaining table.”

There are more than a dozen states where pensions are, in theory, protected by laws that bar municipalities from filing for bankruptcy. But even in those states, some pensioners are worried. Rick Reimer, who represents the Illinois Public Pension Funds Assn., says that although cities aren't allowed to file for Chapter 9 in Illinois, there is some concern that the Legislature will change this law.

“The people of Illinois that I represent are worried that this might have some sort of domino effect,” he said.

Pensions for retirees are undergoing changes too: On the same day that Rhodes declared Detroit eligible for bankruptcy, the Illinois Legislature voted to cut back retirees' cost-of-living adjustments to slightly reduce pension costs. Oregon did the same thing earlier this year, and Rhode Island reduced benefits in 2011.

Unions are fighting a perception that because private-sector employees don't have

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In reality, Novy-Marx said, many pension funds face such shortfalls now because the accounting standards for public employee pensions are lax, which allowed governments to stop payments to pension funds whenever they had budget troubles. Rather than raising taxes or balancing budgets, governments borrowed from pension funds, he said.

Now eyes will be on Detroit as it decides how to pay its pensioners and other bondholders while still providing essential city services.

“We have yet to have a case that really governs how the court is supposed to divvy up what's available among creditors when there's not enough to go around,” said Mark Kaufman, a bankruptcy attorney who was the lead counsel in restructuring Harrisburg, Pa., which altered its finances without filing for bankruptcy. “That's now about to unfold in Detroit.”

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