



A Warning from the Motor City

The bankruptcy of Detroit-the largest municipal bankruptcy in U.S. history-was the result of a long history of poor economic policies including high taxes, business crushing regulations, unfunded pensions, and a debt between \$18 and \$20 billion. This should serve as a lesson-and a warning-to all governments that wish to avoid Detroit's fate.[\[1\]](#)

For starters, Detroit has some of the highest municipal taxes in the country. Motor City property owners pay the highest property tax rate in the nation on residential and commercial properties, and the second highest on industrial properties.[\[2\]](#) Detroit residents pay a 2.4 percent *local* income tax, and Detroit imposes an excise tax on utility users (the only city in Michigan to do so).[\[3\]](#)

Apart from taxes, Detroit's regulations have made it extremely difficult for businesses to operate. There is \$11.03 an hour "living wage" that increases to \$13.78 an hour if other benefits are not provided, and an exhaustive list of licensing requirements strangling small business.[\[4\]](#)

Yet the biggest contributor to the city's bankruptcy was their \$9.2 billion in unfunded pension and retiree health care liabilities.[\[5\]](#) Incredibly, 99.6 percent of the retiree health care liabilities-which pay between 80 and 100 percent of retiree medical costs-are unfunded;[\[6\]](#) all this in a city where 1 in 15 residents work for the government and the salaries and benefits for those employees consume 36 percent of incoming revenue.[\[7\]](#)

Nebraska is fortunate that none of its municipalities are experiencing such dire fiscal issues as Detroit. But state and local governments in Nebraska can learn from the Motor City's failure, especially when it comes to public employee pensions.

Past research by the Platte Institute on the state pension system has shown that reforms are needed to make Nebraska public sector pensions solvent. Data from the Platte Institute's May study conducted by pension expert and economist Andrew Biggs using fair market valuation calculations show that as a whole, Nebraska's major pension plans are 57 percent unfunded, with state and local governments facing an \$11.8 billion shortfall for pension liabilities.

These shortfalls have the potential to wreak financial havoc on the state, and by extension, on taxpayers who would either have to pay higher taxes to make up the shortfall or deal with the loss of services like the citizens of Detroit did, where the average response time to a 911 call was 58 minutes.[\[8\]](#)

There are several ways that Nebraska-and Omaha in particular-could put its pension system on the path to solvency and avoid Detroit's fate. The first would be to do what the Legislature did 30 years ago for some smaller Nebraska cities and convert the plans for Omaha, Lincoln, and the state into Defined Contribution plans, which are more transparent and straightforward.^[9] Other options would be to change the actuarial estimates from the overly optimistic 8 percent to more reasonable levels based upon market conditions.

If Nebraska is to avoid the financial troubles of Detroit, it must reform its pension system in a way that is fair to taxpayers and recognizes the realities of the market. Without such reform, we will surely face hard fiscal times in the future, which will hurt citizens, pensioners and taxpayers alike.

[1] Kate Rogers, "Detroit's Bankruptcy: Pensions, Taxes and City Service Implications," *Fox Business*, July 19, 2013. Accessed August 8, 2013, <http://www.foxbusiness.com/personal-finance/2013/07/19/detroits-bankruptcy-pensions-taxes-and-city-service-implications/>.

[2] Minnesota Taxpayers Association and Lincoln Institute of Land Policy, "50-State Property Tax Comparison Study," April 2011. Accessed August 8, 2013, http://www.lincolninst.edu/subcenters/significant-features-property-tax/upload/sources/ContentPages/documents/MTAdoc_NewCover.pdf.

[3] Citizen's Research Council of Michigan, "Detroit City Government Revenues," April 2013, Report 382. Accessed August 8, 2013, <http://www.cremich.org/PUBLICAT/2010s/2013/rpt382.pdf>; Michael Tanner, "Government, Not Globalization, Destroyed Detroit," Cato Institute July 24, 2013. Accessed August 8, 2013, <http://www.cato.org/publications/commentary/government-not-globalization-destroyed-detroit>.

[4] Michael Tanner, "Government, Not Globalization, Destroyed Detroit," Cato Institute July 24, 2013. Accessed August 8, 2013, <http://www.cato.org/publications/commentary/government-not-globalization-destroyed-detroit>.

[5] Heidi Moore, "Detroit, tip of a vast pensions liability iceberg," *The Guardian*, July 18, 2013. Accessed August 8, 2013, <http://www.theguardian.com/commentisfree/2013/jul/18/detroit-pensions-liability-iceberg>; Michael Tanner, "Government, Not Globalization, Destroyed Detroit," Cato Institute July 24, 2013. Accessed August 8, 2013, <http://www.cato.org/publications/commentary/government-not-globalization-destroyed-detroit>.

[6] City of Detroit, "Proposal for Creditors," June 14, 2013. Accessed August 8, 2013, <http://www.freep.com/assets/freep/pdf/C4206913614.PDF>; Michael Tanner, "Government, Not Globalization, Destroyed Detroit," Cato Institute July 24, 2013. Accessed August 8,

2013, <http://www.cato.org/publications/commentary/government-not-globalization-destroyed-detroit>.

[7] Michael Tanner, "Government, Not Globalization, Destroyed Detroit," Cato Institute July 24, 2013. Accessed August 8, 2013, <http://www.cato.org/publications/commentary/government-not-globalization-destroyed-detroit>.

[8] Kim Peterson, "A 911 response in Detroit takes how long?" *MSN Money*, July 9, 2013. Accessed August 8, 2013, <http://money.msn.com/now/post--a-911-response-in-detroit-takes-how-long>.

[9] David J. Kramer, "Nebraska's Public Pension System," Platte Institute for Economic Research, June 2013. Accessed August 8, 2013, http://www.platteinstitute.org/docLib/20130621_Kramer_Pension_Paper.pdf; Andrew G. Biggs, "Public Sector Pensions in Nebraska," Platte Institute for Economic Research, December 2011. Accessed August 8, 2013, http://www.platteinstitute.org/docLib/20111212_Public_Sector_Pensions_in_Nebraska.pdf

