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PENSION REFORM CASE STUDY: RHODE ISLAND



by
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Executive Summary

In 2011, the Rhode Island General Assembly passed a major pension-reform bill that suspended cost-of-living-adjustments for retirees, increased the retirement age and introduced a hybrid defined-benefit/defined-contribution funding system.

Rhode Island has a history of underfunding its pension system. As early as 1993, the net present value of the State Employees' pension fund represented only about 72 percent of the expected liabilities. The Teachers' fund was in worse shape. Although funding levels improved through the 1990s, they rapidly deteriorated after 2000.

Some modest attempts were made by the General Assembly to improve the situation in the mid-2000s, such as raising state employees' minimum retirement age. While these changes slowed the decline of Rhode Island's pension fund stability, they did not adequately address the unfunded liabilities already built into the system.

In 2011, State Treasurer Gina Raimondo commissioned an independent actuarial assessment of the pension system because of the threat it posed to the state's

finances. This assessment showed an unfunded pension liability of \$6.8 billion, implying that the system was less than 50 percent funded relative to its obligations.

Rhode Island Governor Lincoln Chafee and Treasurer Raimondo worked with leaders in the state legislature to highlight the problem and make the case for reform. They also engaged the state's various communities and key stakeholders before making detailed proposed reforms. The subsequent Rhode Island Retirement Security Act of 2011 (RIRSA) combined conventional methods for adjusting labor contracts with some innovative approaches.

While Rhode Island still faces challenges in the wake of its historic reform effort, the reform effort offers lessons for other states and municipalities facing significant unfunded pension liabilities:

- **Policymakers must be determined to drive reform.** Attempts at pension reform in Rhode Island did not start with Treasurer Raimondo, but she was the driving force in the development and implementation of the most sweeping change, the RIRSA. Starting with her campaign for the Treasurer's office, she was a critical voice in educating the public about the need for pension reform.
- **Policymakers must realistically assess liabilities.** The case for pension reform in Rhode Island was grounded on a realistic assessment of the Employees' Retirement System of Rhode Island's unfunded liabilities and a culture of underfunding the pension system. Pension funds must not try to hide their liabilities behind actuarial assumptions that do not align with real performance.
- **Coalitions can reduce the complexity of legislative debate.** The coalition approach of Gov. Chafee, Treasurer Raimondo, House Speaker Gordon D. Fox and Senate President M. Teresa Paiva Weed ensured that a procedural fight would not hamstring the legislative process of reform.

Clear communication over the elements of reform also helped the legislative process avoid a major delay.

- **Educating the public matters.** In a state with strong support for public-sector unions, the Pension Advisory Group's approach to holding informational town halls all over the state to hear concerns, answer questions and gather information was helpful in educating the public about the need for and benefits of pension reform.
- **There are many roads to \$0 unfunded liability.** Given the numerous people who have been promised pensions with defined benefits, it would have been enormously challenging to shift everyone immediately to a defined-contribution system. State leaders identified a compromise that allows pension members to retain a significant portion of their promised benefits while also reducing long-term liabilities. The new hybrid system combines a much more limited defined-benefit plan with a defined-contribution plan.
- **Pension reform is more than defined-benefit reform:** Rhode Island wisely adjusted not only its defined-benefit structure to reduce contribution costs, but also the benefit levels by freezing cost-of-living adjustments in the face of high unfunded liabilities and by raising the retirement age to reduce long-term costs.

It remains to be seen whether the reform effort will achieve the savings projected under the RIRSA plan. But Rhode Island appears to have made significant strides in pension reform as long as its future leaders do not return to past practices, and its experience offers an example for other states and municipalities to learn from.

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Part 1

The Problem: A Systemically Underfunded Pension

On May 23, 2011, Rhode Island State Treasurer Gina Raimondo released a report entitled *Truth in Numbers* that detailed problems with the state’s pension system.¹ This was not the first time a state official had warned Rhode Island about such problems, nor the first claim of honest accounting from offices in Providence. But *Truth in Numbers* told a story so stark and unambiguous that the truth was clear to all: the Ocean State was facing “unsustainable costs” in the form of spiraling unfunded liabilities that would either drain the public-employee pension system or force taxpayers to fill a large fiscal gap.

The numbers bore out the depth of the problem: Contributions to the pension system were consuming 10 percent of tax revenues and were on pace to hit 20 percent by 2018.² The \$14.8 billion pension system had more than \$6.8 billion in unfunded liabilities, brought on by perennial mismanagement and exacerbated by the economic recession.³ The bottom line in Treasurer Raimondo’s report was a simple choice: the state could continue to ignore these facts with insufficient reforms as it had for the previous 10 years, or it could make the hard choices necessary to prevent the pension system—and by extension the state government—from collapsing.

A. Brief History of Rhode Island Pensions

Rhode Island founded a pension system for state employees in 1936 to provide retirement, disability, survivor and death benefits.⁴ In 1949, the state added a pension plan for teachers, jointly managed with the State Employees’ fund, and called it the Employees’ Retirement System of Rhode Island (ERSRI).⁵

Nearly four decades later, the state created the State Police Retirement Benefits Trust (1987) and the Judicial Retirement Benefits Trust (1989).⁶ These pension funds are substantially smaller than the ERSRI. In addition, the state has a small Teachers Survivor Benefits Fund that is operated separately from the Teachers' Retirement System. And the state manages a local pension system known as the Municipal Employees' Retirement System.⁷

Today, Rhode Island is home to just over one million people. The median age is 39.4, and 73 percent of the population is at least 21 years old.⁸ About 150,000 of the Ocean State's residents are over 65, but few retirees are former government workers. Most Rhode Islanders do not work for the state and never will. These demographics create a situation familiar to many states, where a large portion of the population has not paid attention to challenges with public-employee pensions or efforts to reform them.⁹

In addition to a declining population between 2000 and 2010, Rhode Island also has the lowest birth rate in the nation, with 51.5 births for every 1,000 females compared with the national average of 63.2 births per 1,000 females.¹⁰ This situation means Rhode Island will increasingly rely on households moving to the Ocean State if it is to maintain a stable population of taxpayers in the future.

B. Rhode Island's Historically Underfunded Pension System

In retrospect, it is easy to say that Rhode Island was right in making some tough decisions, but during the change effort a successful reform was far from preordained. The Raimondo report was dropped into a political environment with a record of inaction in the face of crises.

In 1991, Rhode Island borrowed \$20.9 million from its own pension funds to address a fiscal crisis. The state was facing a budget shortfall at the same time that 45 credit unions with deposits guaranteed by the state failed and depositors demanded access to their money.¹¹ Rhode Island also chose to defer some of its annually required contributions to state pensions. Since then, the state has been

slowly paying back the loan, but the action created a precedent for mismanaging the state's pension system.¹²

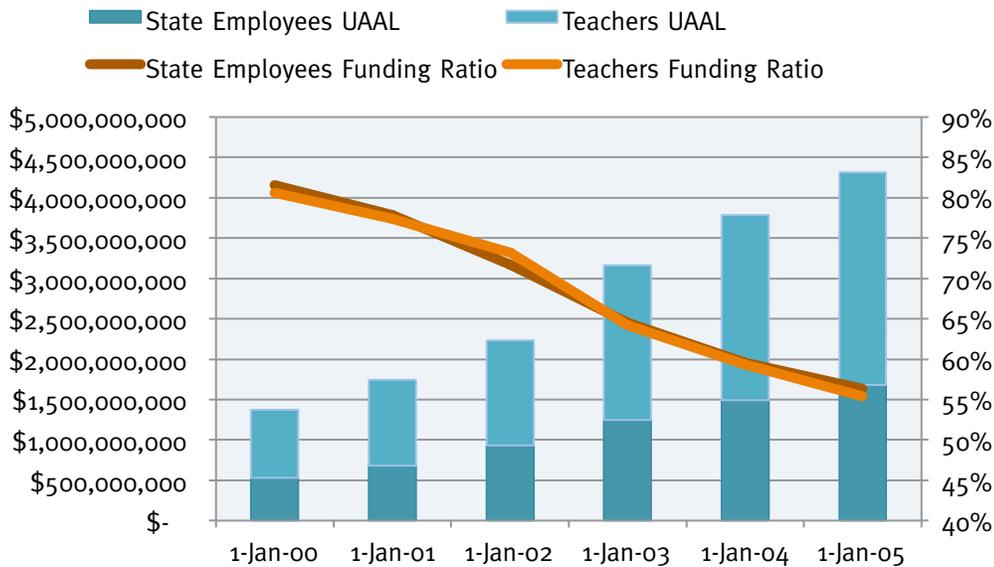
By 1993, the earliest date for which there are publicly available data, the State Employees' pension fund had a funding ratio of 72.6 percent, while the Teachers' fund was funded at a mere 66.7 percent.¹³ The funding ratio is the ratio of the actuarial value of assets to the actuarial accrued liability of a system—in other words, the difference between the value of a pension fund's assets and how much it will owe in benefits. While the funding ratio is not the only measure of a pension fund's health, it is nevertheless a widely accepted barometer for how healthy a system is at any given time.¹⁴

From 1993 to 1999, the ERSRI's funding ratios improved; in 1999, the State Employees' fund was 84.4 percent funded and the Teachers' fund was 82.1 percent funded. This improvement was due in part to the state meeting most of its “annually required contributions” at 100 percent, with the exception of 1995.¹⁵

Unfortunately, things started to get worse the following year, and the combined funding ratio fell to 81.1 percent in 2000.¹⁶ Even then, the \$5.8 billion pension system for state employees and teachers had an unfunded accrued actuarial liability (UAAL) of \$1.4 billion.¹⁷ From there the system's health began rapidly to erode.

By 2002, the ERSRI's funding ratio was down to 72.5 percent and its UAAL had risen to \$2.2 billion.¹⁸ In 2005, the funding ratio of the ERSRI's \$5.4 billion system had fallen to 55.9 percent and the unfunded liability had climbed to \$4.3 billion—more than three times the unfunded liability at the start of the decade (see Figure 1).¹⁹

Figure 1: UAAL & Funding Ratio, 2000 to 2005



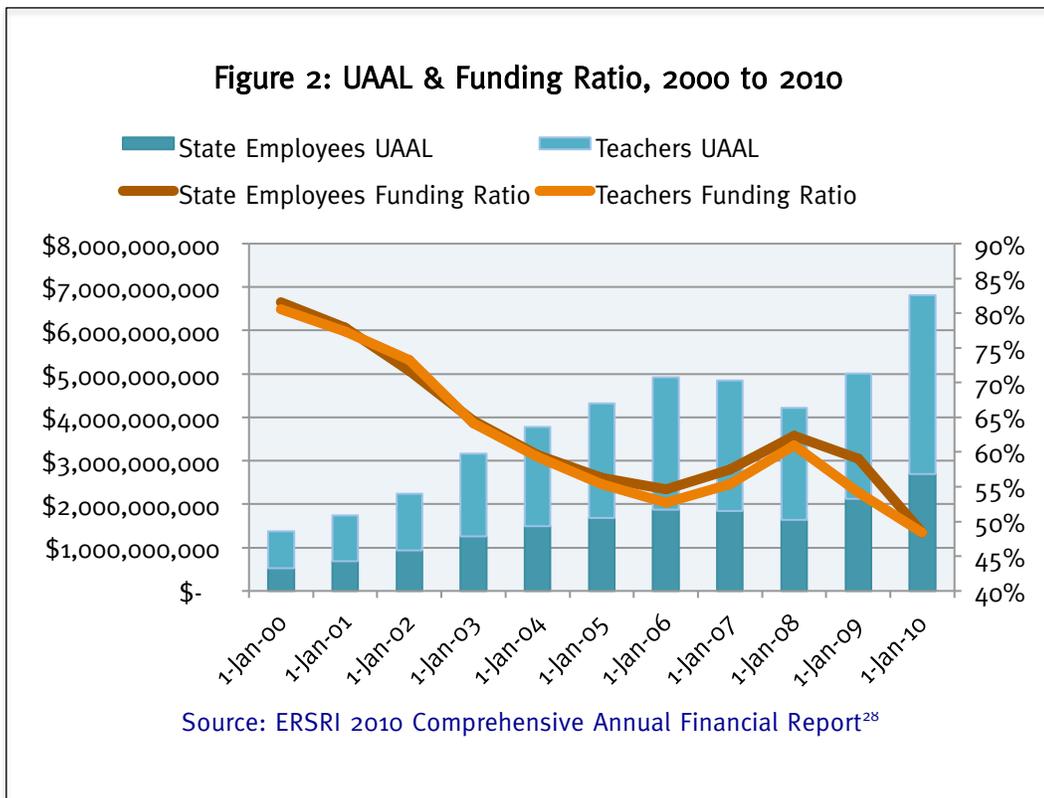
Source: ERSRI 2005 Comprehensive Annual Financial Report²⁰

Faced with such a rapid decline, in 2005 the Rhode Island General Assembly responded by increasing the minimum age for a state employee to retire with a “full” pension and by reducing the retirement benefits for workers with fewer than 10 years of service.²¹ For instance, prior to the change, a worker hired at 25 years old could retire with a full pension at 53. Now the same worker would need to wait until they were 59 to receive the full pension package. These changes slowed the decline of Rhode Island’s pension fund stability, but they did not adequately address the unfunded liabilities already built into the system.

By 2009, the ERSRI’s funding ratio was mired at an unhealthy 58.55 percent and its unfunded liability had risen to \$4.7 billion.²² The General Assembly again raised the retirement age for a full pension, but this change again ignored that fundamental problem: the defined state benefits were more than the state could afford.²³ The next year, the ERSRI’s funding ratio fell to a low of 54.3 percent, and its unfunded liability climbed to \$5.4 billion.²⁴

As bad as those numbers were, the reality was likely worse. Those numbers relied on optimistic investment-return assumptions, expecting an 8.25 percent rate of return when the actual average annual return on the market value of the ERSRI’s assets from 2000 to 2010 was 2.28 percent.²⁵ This average return was not an outlier: A March 2011 study on the investment performance of defined-benefit plans found that the national average-weighted median rate of return was 3.68 percent during the decade 1999 to 2008.²⁶

In 2011, the state’s actuary recommended adjusting assumed rates of return. As a result, the 2010 numbers were revised down to give a funding ratio of 48.4 percent and an unfunded liability of \$6.8 billion (see Figure 2). The Pew Center on the States reports that in 2010, Rhode Island’s combined funding ratio was the second worst in the United States, behind only Illinois.²⁷



If that wasn’t bad enough, a few months after the revision, a working paper from researchers at the Mercatus Center at George Mason University applied more realistic actuarial assumptions to the ERSRI’s assets. They assumed the return on Treasury bonds as the discount rate and estimated that if Rhode Island

accounted for its pension fund like a private-sector company would, its unfunded liability might be as high as \$12 billion.²⁹

In the end, Rhode Island passed some kind of pension reform in five of the six legislative sessions between 2005 and 2010.³⁰ Yet, these reforms were insufficient to address the state's growing unfunded pension liabilities. Small changes papered over the real problems, while the numbers grew increasingly worse.

Rhode Island's history of pension-fund mismanagement set the stage for the election of Gina M. Raimondo to the office of State Treasurer in November 2010. Raimondo, a native of Smithfield, Rhode Island, and a successful venture capitalist, campaigned on a platform of dealing with the state's unsustainable pension promises.³¹ Where many public sector union leaders and other opponents of pension reform were blaming the stock-market crash for pension-funding problems, Raimondo argued that the state had long been overpromising on its pension benefits while depending on unreasonably high actuarial assumptions about the rate of return on assets to create the illusion that unfunded liabilities were lower than they were in reality.³²

True, the state's pension funds had seen a sharp decline in the value of their assets due to the 2008 financial crisis: between June 2008 and February 2009 the market value of the ERSRI's assets fell from nearly \$8.5 billion to \$5.5 billion.³³ But even before the decline in value—which by 2010 was already returning with a reinvigorated stock market—the state's pension assets were billions behind its liabilities. Furthermore, while the state had stagnating population growth from 2000 to 2010, a demographic trend that made it hard for the state to catch up on properly funding its pension, it also had a growing economy.³⁴ Rhode Island's per capita GDP increased 11 percent during the same decade, more than triple the national growth rate in GDP per capita of 3.5 percent.³⁵ Hence, the primary factor driving such a low ratio of assets to liabilities was that the pension system was being systematically underfunded.

C. Rhode Island's Political Environment

In 2011, all of the key figures pushing pension reform were politically aligned, creating a cooperative environment for pension reform. Gov. Chafee was an Independent (former Republican) whom public-sector unions had endorsed over his Democratic opponent, and he enjoyed good relations with the rest of the government.³⁶ Treasurer Raimondo was a Democrat, as were House Speaker Fox and Senate President Weed. Both Fox and Weed had blue-collar constituencies and pro-labor political values.³⁷ In fact, Democrats held all other elected state offices and overwhelmingly controlled both houses of the state's General Assembly. At the time, the state House of Representatives weighted 65–10 toward Democrats, and the state Senate 29–8–1 for the Democrats (with one Independent).

In this environment, many involved with reform had much to lose politically (given their close ties to union groups) if the pension-reform process stumbled. Roughly 62 percent of state employees are union members, meaning lawmakers in the General Assembly are generally wary of pushing too hard on publicly unpopular policy reforms that affect unionized labor.³⁸ However, the majority of policymakers were convinced that substantive reform was necessary to address the growing unfunded liabilities in the state pension system. Further, Raimondo had made pension reform a key plank in her campaign platform and had received 60 percent of the vote in her race for State Treasurer.

Raimondo's win did not mean that pension reform had a smooth road ahead. After the Treasurer's office released the *Truth in Numbers* report, state public-employee unions began to marshal support around a counternarrative: a recent change in actuarial assumptions for return on assets—from 8.25 percent to 7.5 percent—was the cause of the ERSRI's \$6.8 billion unfunded liability. In other words, there was no pension crisis.³⁹ Treasurer Raimondo countered that she had not manufactured the crisis with the report and argued that dealing with the unsustainable pension system was “about the truth and about doing the right thing.”⁴⁰

Rhode Island also had to consider the demands of state bondholders concerned about insolvency related to pension woes. The state could have negotiated with bondholders, reminding them that lenders share risks with borrowers in any loan transaction. However, with a large enough fight with pension reform itself, the General Assembly passed a law in 2011 that would give bondholders first rights to tax revenue, or senior creditor status.⁴¹ Through this law the General Assembly effectively tied its own hands, as well as the hands of municipal governments, in addressing debt burdens.

D. The Threat Becomes Real

Raimondo was barely one month into her term as Treasurer when her office was served with notice that the Securities and Exchange Commission was opening an investigation into the state's financial statements and disclosures.⁴² At that time, the state's actuary, Gabriel Roeder Smith & Company (GRS), estimated that there was only a 30 percent chance that the state would hit its assumed return on assets of 8.25 percent and recommended a reduced goal of 7.5 percent.⁴³ Treasurer Raimondo approved the reduction in assumed investment returns in April 2011 and also accepted new mortality tables and adjusted wage forecasts from GRS. Taken together, these changes yielded the jump in unfunded liability for fiscal year 2010 from \$4.7 billion to \$6.8 billion.⁴⁴

State employee unions did not receive the numbers well, and they argued that the growth in the state's economy would always be able to cover any missed targets in investment returns.⁴⁵ In the boom years before the financial crisis, such a rosy outlook was almost ubiquitous. However, over the preceding few decades, there were serious economic and demographic shifts that belied this optimism, including a decline in manufacturing and textile jobs, which should have given pause to those assessing the state's finances.

Nonetheless, Rhode Island's government-employee unions claimed that Treasurer Raimondo and state leaders were manufacturing the pension crisis with the change in investment-return assumptions. The idea that the pension system might be bankrupt was unthinkable for most state employees, who had

assumed that their pensions were fully funded.⁴⁶ Meanwhile, as noted earlier, Rhode Island’s private citizens were mostly unaware of the problem.

But in August 2011, the intangible warning became stark reality. The city of Central Falls, Rhode Island, weighed down by unfunded pension liabilities of its own, put forward a plan to reduce benefits in order to address an \$80 million deficit between assets and promised outlays.⁴⁷ The city’s annual expenditures were about \$21 million in 2010 and \$27 million in 2011, but revenue was around \$16 million each year.⁴⁸ The state put the small city into receivership and appointed a mediator who asked Central Falls’ retirees to take a cut in their pensions to keep the city from financial collapse. The city pensioners did not believe the threat was real, though, and resoundingly voted down a voluntary reform proposal. In response, the city’s receiver filed for bankruptcy on August 1, 2011.⁴⁹

At a Glance: ERSRI 2011

24,614	Active and Inactive Members
21,618	Retirees
58.6%	Funding Ratio for State Employees and Teachers
92.4%	Funding Ratio for State Police and Judges
\$6.2 Billion	Total Actuarial Value of Assets
\$4.4 Billion	Total Unfunded Liability

Source: Reason Foundation, ERSRI CAFR 2011, Police CAFR 2011, Judges CAFR 2011.

In bankruptcy, the city’s 133 pensioners were forced to accept even steeper cuts than they were first offered, with benefits being slashed by as much as 55 percent,⁵⁰ despite the state government contributing \$2.6 million to the city pension fund in order to decrease the speed at which retirees would be hit with pension benefit cuts.

Central Falls was not the only municipality in trouble in 2011. *Business Insider* reported that “combined, the state’s municipal pension plans are only 41 percent funded and face an aggregate unfunded liability of \$2 billion.”⁵¹ One of the worst was Providence, the state capital, which had an unfunded pension liability

of nearly \$600 million.⁵² Another city, West Warwick, with only 17,750 households, borrowed \$11 million to meet its pension obligations.⁵³

The threat to the state pensions was now tangible. Treasurer Raimondo would later reflect, “You can never say any bankruptcy is fortuitous, since it involves a lot of fiscal strain and human suffering. But having said that . . . people realized it wasn’t just a theoretical possibility.”⁵⁴

On September 18, 2011, Treasurer Raimondo wrote in the *Providence Journal*, “We are all angry and disappointed to be faced with this massive problem. It is not the fault of the state employees or the taxpayers.” She tried to address a growing narrative that pension reform was about “going after” retirees, countering that it was about trying to account for failed governance in the past, the mismanagement of yesterday that was forcing action today. She would also later argue that if there was a moral case, it was about how the state should use its tax dollars: the state could use taxpayers’ dollars to pay for schoolbooks, transportation and Medicare *or* it could fully fund the state pension system—it could not do both.⁵⁵

After the bankruptcy of Central Falls, there was a grudging acceptance throughout Rhode Island that change was necessary. The focus shifted to making the reforms as humane and cost-effective as possible.⁵⁶ Rhode Island’s citizens—and particularly its retirees—recognized the need for reform. The question was no longer whether substantive reform was needed, but what form it should take.

Part 2

The Numbers: Rhode Island’s State Pension System before Reform

In 2011, there were 51,571 members of the ERSRI, with 49 percent in the State Employees pool and 51 percent in the Teachers’ fund. About 42 percent of combined members were retirees drawing benefits (21,618) and about 48 percent were active workers drawing benefits (24,614). The ERSRI’s State Employees’ and Teachers’ funds had a combined \$6.2 billion in actuarially valued assets, compared with the Police pension fund’s \$73.2 million and \$40.1 million in assets for the Judges’ fund.⁵⁷ The combined funding ratio of the ERSRI funds was 58.6 percent in 2011 and considered unhealthy. The Police and Judges’ systems had funding ratios of 98.6 percent and 86.1 percent, respectively.

The following tables provide summary statistics for the Employees’ Retirement System of Rhode Island’s membership, actuarial assumptions and metrics defined by the Governmental Accounting Standards Board (GASB):

ERSRI: State Employees (FY 2011)⁵⁸

Total Members:	25,154
○ Active Members:	11,233
○ Retirees:	11,271
○ Inactive Members:	2,650
State Contribution:	23.05%
Employee Contribution:	4.33%
As a % of Annual Covered Payroll: ⁵⁹	
○ Normal Cost:	5.16%
○ Amortization of Unfunded Actuarial Liability:.....	17.89%

Market Value of Assets: \$2.3 billion
Actuarial Value of Assets: \$2.4 billion
Actuarial Accrued Liability: \$4.3 billion
Unfunded Actuarial Accrued Liability: \$1.8 billion
GASB Funding Ratio:57.4%

Accounting Assumptions:

- Assumed Investment-Return Rate: .. 7.5%, compounded annually
- Assumed Real Return Rate:4.75%
- Assumed Payroll Growth Rate:3.75%
- Assumed Inflation Rate:2.75%
- Projected Salary Increase: 4% to 7%

ERSRI: Teachers (FY 2011)⁶⁰

Total Members:26,417

- Active Members: 13,381
- Retirees: 10,347
- Inactive Members:2,689

State Contribution: 8.42% (local employer contribution 12.26%)

Employee Contribution:3.75%

As a % of Annual Covered Payroll:⁶¹

- Normal Cost:5.02%
- Amortization of Unfunded Actuarial Liability:15.66%

Market Value of Assets: \$3.6 billion

Actuarial Value of Assets: \$3.8 billion

Actuarial Accrued Liability: \$6.3 billion

Unfunded Actuarial Accrued Liability: \$2.6 billion

GASB Funding Ratio:59.7%

Accounting Assumptions:

- Assumed Investment-Return Rate: .. 7.5%, compounded annually
- Assumed Real Return Rate:4.75%
- Assumed Payroll Growth Rate:3.75%
- Assumed Inflation Rate:2.75%
- Projected Salary Increase: 4% to 12.75%

As of May 2011, the Employees' Retirement System and the Teachers' Retirement System each had a multi-tiered structure. Schedule A employees were those with least 10 years of service as of June 30, 2005, but who were not eligible to retire on September 30, 2009. Grandfathered Schedule A employees were those with at least 10 years of service as of June 30, 2005, but who would be at least 60 years old by September 30, 2009, and thus eligible for retirement.

Schedule B employees were all other members, those with fewer than 10 years of experience working for the state as of June 30, 2005, and who were eligible to retire after the age of 65. Schedule B employees with at least 29 years of service could retire at age 62 with full benefits. There were slight differences in each schedule for correctional officers and nurses.

Schedule A employees had a maximum benefit of 80 percent of final average compensation and a cost-of-living adjustment of 3 percent if grandfathered and 2.35 percent if non-grandfathered. Schedule B employees had a cost-of-living adjustment of 2.35 percent with a maximum benefit of 75 percent of final average compensation.

Part 3

The Reform: A Hybrid Defined Benefit/Defined Contribution Approach

Treasurer Raimondo's *Truth in Numbers* report condemned the status quo of the state's pension system in no uncertain terms: "Today Rhode Island's pension plans provide neither retirement security nor financial sustainability and are in dire need of re-design," the report opened.⁶² Treasurer Raimondo argued that the rate-of-return assumptions over the previous decade had been unrealistic. She approved the GRS recommendation of slightly lowering the actuarially assumed rate of return on assets from 8.25 percent to 7.5 percent, while suggesting that the more appropriate rate might be closer to 4 percent.⁶³

Using GSR's projections for salaries, the *Truth in Numbers* report estimated that by 2018, 20 percent of Rhode Island tax revenue would be required to support the state's pensions.⁶⁴ At the same time, the number of active employees contributing to the State Employees' and Teachers' funds was shrinking on an annual basis, while the number of retirees was growing in relative terms.⁶⁵ Rhode Island could promise its retirees anything it wanted, but the assumed returns on assets were not coming in. Attempting to fund the pension system would drain state resources in coming years if lawmakers did not make major changes.

A. The Coalition and Campaign Approach

Pension-reform allies decided that before they could effectively move pension reform through the General Assembly, they needed to ensure that everyone was

clear on the risks to the system and on what reform was trying to accomplish. In addition, they determined that forming coalitions of the interested parties in advance of the legislation would effectively lay the groundwork for reform specifics. Finally, they chose to campaign for the reform ideas they settled on throughout the state to gain buy-in from stakeholders prior to any legislative debate.

The *Truth in Numbers* report was the first step in achieving clarity.⁶⁶ The report was simple, straightforward and unambiguous about the financial trouble Rhode Island was in. Then, when it came time to promote the reform process, Treasurer Raimondo and her allies outlined their case directly. Gov. Chafee argued that there were three groups that any reform legislation should consider to ensure that all were treated fairly: retirees, current public employees and taxpayers.⁶⁷ The pension-reform effort was not about taking benefits away from retirees but about providing a secure and sustainable system for retirees and public employees to draw pensions from while not bankrupting the taxpaying community at large.

The simple reality was that the pension system had been underfunded, and previous state leaders had permitted overly optimistic assumptions on investment returns to allow them to use funds elsewhere in government that should have been allocated to properly funding the state employee and teacher pensions.⁶⁸

Treasurer Raimondo and Gov. Chafee did not try to tackle pension reform alone. In addition to working closely with the house speaker and the senate president, they formed the Pension Advisory Group to “vet and organize information for the Governor and the Treasurer as they work toward a comprehensive solution to submit to the General Assembly in October for the special session on pension reform.”⁶⁹

Working with the University of Rhode Island’s College of Business Administration, the Pension Advisory Group collected and organized ideas from constituents around the state. The group included five union officials from across the state, three academics, two representatives of the business

community, and both the director of the Rhode Island Department of Administration and the Mayor of Cranston.⁷⁰ The twelve-member panel met regularly for two months to examine approaches and solutions to the pension problems.⁷¹ The group also held open-to-the-public hearings to listen to various experts about the nature of the problems and the viability of possible solutions.⁷²

The Pension Advisory Group did not just serve as a coalition force, but also as an advertising tool. It held meetings statewide and publicized every one. Group members appeared on radio and television to discuss the issues they were considering, and they took time to interact with the public at large. The open-to-the-public meetings allowed the Pension Advisory Group to also hear from pensioners, state workers and other Rhode Island citizens. A report from the State Legislative Leaders Foundation (SLLF) found that “it was critical to have a robust public conversation about the challenges facing the system and to explore the many possibilities associated with reform. The open dialogue was important as everyone worked toward a solution.”⁷³

The reform effort was aided by a nonprofit organization called EngageRI made up of local business and community leaders in order to assist in “enacting comprehensive Pension Reform and advocating for sound policy decisions in the Rhode Island General Assembly.”⁷⁴ (Disclosure: EngageRI was funded in part by the Laura and John Arnold Foundation, which has also contributed to Reason Foundation.)

B. The Open Legislative Process

Information gathered by the Pension Advisory Group and Treasurer Raimondo’s team was reviewed and honed into a concrete set of proposals that would become the proposed Rhode Island Retirement Security Act of 2011. House Speaker Fox and Senate President Weed prepared the General Assembly to discuss the legislation before it even arrived by directing their respective Committees on Finance to hold joint hearings about the pension crisis. Between September 12, 2011, and October 14, 2011, the joint House and Senate Committees on Finance held four hearings with nearly 30 hours of public

testimony. Citizens could watch the debate live on public access television and online.⁷⁵

The joint committee approach ensured that both House and Senate members would have the same information and that experts would not have to testify twice. The SLLF report argues that by the time the pension bill “was introduced in October, members of the House and Senate had a full grasp of the challenges, the pitfalls and the possible solutions.”⁷⁶

C. The Final Bill: The Rhode Island Retirement Security Act of 2011

Gov. Chafee and Treasurer Raimondo presented a proposed overhaul of the Ocean State’s pension system to a joint session of the General Assembly on October 14, 2011.⁷⁷ The Rhode Island Retirement Security Act of 2011 (RIRSA) had five major planks:

1. A suspension of cost-of-living adjustments until the pension system reaches a combined 80 percent funding level;
2. A new defined-contribution plan to work in tandem with the current defined-benefit pension plan;
3. An increase in retirement age for current employees;
4. A change to the amortization rate of liabilities, and
5. A plan to help local governments bring their unfunded pension liabilities under control.⁷⁸

The bill was not without enemies in the General Assembly; however, the joint sessions held prior to receiving the legislation had convinced enough lawmakers that reform was necessary in principle. This translated into sufficient support for RIRSA in particular. On November 17, 2011, the House and Senate passed the legislation out of both chambers—57–15 in the House and 35–2 in the Senate—and Gov. Chafee signed the bill the following day.⁷⁹

The bill's major provisions included the following changes to the ERSRI:

(1) Cost-of-Living Adjustment Suspension

The RIRSA made two major changes to cost-of-living adjustments (COLAs). First, COLAs for all state workers—including general state employees, teachers, state police and judges—are suspended until the funding ratio for the whole pension system reaches 80 percent. The legislation allows for the General Assembly to consider a COLA adjustment every five years while this suspension is in place. Second, once the pension system reaches a healthy funding level, COLAs will be calculated between 0 and 4 percent and will only apply to the first \$25,000 of an individual's annual pension, rather than the first \$35,000.⁸⁰ The legislation also directs municipal pensions to suspend COLAs if they are not above an 80 percent funding level.⁸¹

(2) A Hybrid DB and DC Plan

The RIRSA created a defined-contribution (DC) fund to operate in tandem with the present defined-benefit (DB) system. The goal of the hybrid DB/DC plan is to reduce defined-benefit liabilities with a DC fund while also maintaining support from union groups who desire the security of a DB system.

The defined-contribution system requires employees to contribute 5 percent of their base pay automatically into a defined-contribution fund, in addition to the contributions required for the defined-benefit fund.⁸² The state also contributes 1 percent of employee salaries into the defined-contribution fund to be distributed among the workers.⁸³

Workers will receive a defined benefit out of one fund, which the state will have to ensure is properly funded with a healthy ratio of assets to liabilities. But the exact amount of a pension will depend in part on the asset growth of a worker's defined-contribution fund.⁸⁴

Employees are automatically enrolled in a defined-contribution account, and TIAA-CREF was selected to manage the funds. Individuals have a menu of

mutual funds to select from, mostly low-fee index funds, which gives them control over how their money is managed.⁸⁵

(3) Increased Retirement Age

The RIRSA increased the retirement age for receiving a full pension so that it matched Social Security's age thresholds.⁸⁶

(4) Extended Amortization Rate of Liabilities

The RIRSA reduced pressure on unfunded accrued liabilities by extending the fixed ERSRI amortization rate from 19 years to 25 years. This reamortization smoothed out the unfunded liability so that taxpayer payments needed to ensure solvency would be easier for the state budget to handle.⁸⁷

(5) An Eye toward Municipal Pension Reform

The RIRSA did not provide wholesale changes to the municipal pension system, since the patchwork system is so complicated that there is no straightforward solution to addressing problems in locally administered plans. However, Gov. Chafee, Treasurer Raimondo and state lawmakers recognized that a string of municipal bankruptcies would have a negative effect on the state budget and on the state pension system.⁸⁸ To that end, the RIRSA established a local pension commission to study ways local governments could improve the solvency of their pensions. The law also set deadlines for cities whose pensions have funding ratios of 60 percent or less to enact substantive reform.⁸⁹

D. RIRSA Signed into Law

On November 18, 2011, Gov. Chafee signed the Rhode Island Retirement Stability Act of 2011 into law.⁹⁰ Upon the bill's passage, Treasurer Raimondo praised the final text, saying, "On one of the toughest, most financially complicated, politically charged issues we face, we did something right."⁹¹

After the law passed, Treasurer Raimondo estimated that the RIRSA would save the state \$4 billion over the next 24 years.⁹² Around \$1 billion of this sum is estimated to come from suspending COLAs until the pension system reaches an 80 percent funding level.⁹³ Much of the rest is estimated to come from

increasing retirement ages and reducing defined benefits with the new hybrid system.

The effects on individual pensioners will vary depending on their job and on how many service years they accumulate. The Pew Center for the States estimates that a worker hired today at age 25 will have to wait five more years to retire (from 62 to 67), as long they work at least 29 years for the state.⁹⁴

Assuming the worker retires with an average salary of \$65,000 and the defined-contribution fund yields a 7.5 percent return, they will receive an annual total benefit of \$40,824, which is about \$7,000 less than they would have received under the old system.⁹⁵

Part 4

The Outcome: A Winding Road Ahead

The RIRSA officially went into effect July 1, 2012, and there are reasons to be optimistic that it will put Rhode Island on the path to a more sustainable pension system, particularly because the suspension of COLAs, the increase in retirement age, and the introduction of a defined-contribution element all are likely to generate cost savings.

However, the first valuation report to include an assessment of the state pension system under the new legislation will not be available until the spring of 2014. Therefore, it remains to be seen what the immediate effect of the RIRSA will be on the financial health of the state's pension funds. Also, extending the amortization rate of liabilities from 19 to 25 years could wind up papering over some deficiencies in the system by dragging out the time frame in which the state realizes the unfunded liability in its accounting.

Table 1 summarizes the most recent valuation reports for the Ocean State's pension assets and liabilities through June 30, 2012.

Plan	Actuarial Liability	Actuarial Value of Assets	Unfunded Liability	% Funded	# of Employees	# of Retirees
Employees' Retirement System of RI	\$4.3B	\$2.4B	\$1.9B	56.3%	13,841	11,200
Teachers' Retirement System of RI	\$6.4B	\$3.8B	\$2.6B	58.8%	16,020	10,622
State Police Retirement Benefits Trust	\$94.0M	\$84.3M	\$9.7M	89.6%	235	10
Judicial Retirement Benefits Trust	\$52.1M	\$43.4M	\$8.7M	83.4%	53	12
Total	\$10.85B	\$6.3B	\$4.5B	72.03%	30,149	21,844

Source: ERSRI.org Actuarial Valuation Reports⁹⁶

Part of the RIRSA's future will be decided by the court system. Some union groups have followed through with threats to mount legal challenges to the reform effort. In June 2012, a coalition of unions filed suit against Rhode Island, arguing that the RIRSA violates the state constitution by contravening contract rights.⁹⁷ At press time, this court challenge was still outstanding.⁹⁸

In the meantime, it will be important to monitor whether the estimated cost savings from the RIRSA pan out and whether the crisis with local pension systems metastasizes into a problem that the legislature must address further.

A. Cost Saving Questioned

The Washington, D.C.-based Economic Policy Institute (EPI) has called into question Treasurer Raimondo's cost-saving claims by citing concerns about the DB/DC hybrid model. EPI estimates that "the projected long-term normal cost to the state for the DB portion of the new system will be around 2.43 percent of payroll."⁹⁹ As previously noted, Rhode Island will also be contributing 1 percent of its payroll to the new DC plan. In 2012, reported payroll for state employees, teachers, state police and judges was \$1,638,360,451, slightly higher than 2011's combined payroll of \$1,611,197,833. These numbers mean that the Ocean State's budget would have needed to add around \$16 million to its contribution to the pension system in either of those years. As payroll continues to rise, this 1 percent contribution could become significant, with every dollar required to make this contribution reducing the savings from suspending COLAs and increasing the retirement age. If the state manages its payroll, however, it can reduce the risk of this element of the RIRSA undermining the reform project.

There have also been concerns about the reliance of the defined-contribution plans on investment returns.¹⁰⁰ One of the supposed values to retirees of a DB pension is the guaranteed payout being promised by the state, whereas a DC pension operates more like a 401(k) and its value is dependent on the assets into which it is invested. However, in reality, the value of defined-benefit pensions also depends on the assets into which they are invested. Part of the reason for the large unfunded liability Rhode Island faces is that the operators of that scheme

assumed actuarial returns on the investment that were unrealistically high. So, while both DB and DC systems rely on investment returns for operational solvency, DB systems place the burden of risk on the state—and thus taxpayers—if the returns fail to meet their targets.

B. Municipal Governments in Trouble

Second, trouble with municipal pensions has only grown worse, with one city even claiming that the state is on the hook if municipalities default on benefit payments.¹⁰¹ The requirement in the RIRSA that municipal governments investigate the viability of their pensions has turned up a number of large unfunded liabilities, which collectively are threatening to add to the state government's liabilities.

The city of West Warwick has been negotiating with local unions and retirees on amending pension benefits, as the town budget is chronically in peril. The town's pension fund is only 20 percent funded and has an unfunded liability of \$115 million. If negotiations with unions fail, the state may be politically pushed to offer up some compensatory funds like it did for Central Falls, with a \$2.6 million gift to soften the blow of pensions being cut nearly in half in bankruptcy.¹⁰²

The city of Woonsocket has warned its retirees that the municipality will run out of money in 2021 to pay pension benefits.¹⁰³ Its police and firefighter pension fund pays out \$8.4 million a year in benefits, but only draws about \$1 million each year from current member contributions.¹⁰⁴ Failure in Woonsocket may also pressure the state to keep former police and firefighters from losing their pensions completely.

Most frightening to Rhode Island is a claim from the town of Coventry that language in a labor contract signed in 1977 absolves the town of responsibility for paying out pension benefits if the fund runs out of money.¹⁰⁵ The town of 35,000 has three pension funds with a combined funding ratio of around 19 percent and unfunded liabilities of nearly \$100 million.¹⁰⁶ The funds are projected to be empty by 2025.

The 1977 contract between the Coventry School Committee and school workers states that the town only has to pay 12.75 percent of its payroll into the pension fund. The town claims that it is therefore not responsible for additional costs, leaving the state to cover any unfunded liability or to allow the pensioners to take a reduced annual benefit. The state has rejected the claim, but the matter was unresolved as this publication went to print.

Pensions and Budget Inflexibility

Underfunded pensions are not only a problem when they threaten bankruptcy for a state or municipal government. The weight of having to catch up on funding pension liabilities can create budget crunches that make the use of taxpayer dollars less flexible. For example, Woonsocket asked city officials to accept across-the-board pay cuts in order to try to close a budget gap this year. The city had been depending on aid from the state to help fund its operations, but that money has disappeared from the most recent state budget. The city claims it has nowhere else to cut, one reason why it has tried to renegotiate its pension obligations. “We’ve run out of places to maneuver to,” City Council President John Ward said, “and because of our tax caps and other legislative restrictions put on cities these days, they’ve stripped us of our maneuvering room.”¹⁰⁷

C. Complaints of Crony Capitalism

Finally, former Securities and Exchange Commission (SEC) attorney Edward Siedle has authored a half dozen blog posts for *Forbes* claiming Treasurer Raimondo is engaged in crony capitalism, mismanaging Rhode Island’s pension fund assets and being overly generous to firms in her former industry.¹⁰⁸ In June 2013, Siedle was retained by a coalition of union groups to investigate the RIRSA’s asset-management practice. On July 9, 2013, the SEC closed its investigation into the state’s financial statements and disclosures and indicated it found no wrongdoing in the state treasurer’s office. Siedle’s investigation was ongoing at press time and had yet to produce evidence.

Part 5

Lessons and Conclusion

The process of reforming the ERSRI provides a number of lessons for policymakers who face similar challenges to their retirement systems.

A. Achieving Reform Goals

1. **Policymakers must be determined to drive reform.** Attempts at pension reform in Rhode Island did not start with Treasurer Raimondo, but she was the driving force in the development and implementation of the most sweeping change, the RIRSA. Starting with her campaign for the treasurer's office, she was a critical voice in educating the public about the need for pension reform.
2. **Policymakers must realistically assess liabilities.** The case for pension reform in Rhode Island was grounded on a realistic assessment of the ERSRI's unfunded liabilities and a culture of underfunding the pension system. Pension funds must not try to hide their liabilities behind actuarial assumptions that do not align with real performance.
3. **Coalitions can reduce the complexity of legislative debate.** The coalition approach of Gov. Chafee, Treasurer Raimondo, House Speaker Gordon D. Fox and Senate President M. Teresa Paiva Weed ensured that a procedural fight would not hamstring the legislative process of reform. Clear communication over the elements of reform also helped the legislative process avoid a major delay.
4. **Educating the public matters.** In a state with strong support for public-sector unions, the Pension Advisory Group's approach to holding informational town halls all over the state to hear concerns, answer

questions and gather information was helpful in educating the public about the need for and benefits of pension reform.

5. **There are many roads to \$0 unfunded liability.** Given the numerous people who have been promised pensions with defined benefits, it would have been enormously challenging to shift everyone immediately to a defined-contribution system. State leaders identified a compromise that allows pension members to retain a significant portion of their promised benefits while also reducing long-term liabilities. The new hybrid system combines a much more limited defined-benefit plan with a defined-contribution plan.
6. **Pension reform is more than defined-benefit reform:** Rhode Island wisely adjusted not only its defined-benefit structure to reduce contribution costs, but also the benefit levels by freezing cost-of-living adjustments in the face of high unfunded liabilities and by raising the retirement age to reduce long-term costs.

One lesson that Rhode Island lawmakers may not have learned is to always make legally required contributions. In mid-2013, state lawmakers nearly reverted to old form by skipping a \$12.9 million required payment into the pension system because of budget concerns.¹⁰⁹ The state House tried to pass a budget that diverted the \$12.9 million in revenue for other purposes, but the vote failed, forcing lawmakers to amend the budget and ensure that the pension system would not lose out on the funds.¹¹⁰ The unexpected budget debate highlighted how lawmakers continue to struggle with a desire to use present funds for programs and services in the short term, rather than ensure a pension fund that is properly funded for the future.

B. Conclusion: Testing the Hybrid Approach

After a decade of avoiding action on the state's growing unfunded pension liabilities, leaders in Rhode Island made 2011 a watershed year for reform, making sure a wide variety of stakeholders were involved in the process and

then executing the steps necessary for legislative change. The reform process would not likely have taken the same shape without the leadership of Treasurer Raimondo in addressing the Ocean State's pension problems.

It remains to be seen whether the reform effort will achieve the savings projected under the RIRSA plan. The hybrid defined-benefit/defined-contribution plan, combined with changes to COLAs and more reasonable investment assumptions, could be the right mix of reform for Rhode Island to get back on the path to fiscal stability. However, the plan has some potential flaws. The hybrid plan's structure might raise costs or neutralize any COLA savings over the long term. Local governments might pose a greater fiscal challenge than was expected in 2011 when the plan passed. And ongoing legal challenges to the RIRSA could force the state back to the drawing table.

The worst thing that could happen to Rhode Island would be future leaders returning to the practice of underfunding the pension system and pushing the need for responsible financial management onto future governments. The state must continue making its annual contributions and watching its investment returns to make sure assumptions are lining up with reality and not creating unfunded liabilities. Rhode Island appears to have made significant strides in pension reform as long as its future leaders do not return to past ways, and its experience offers an example for other states and municipalities to learn from.

About the Author

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59 According to the ERSRI actuarial reports, the employer contribution rate is the sum of two pieces: the employer normal cost rate and the amortization rate. The normal cost rate is determined as a percent of pay. The employer normal cost is the difference between this rate and the member contribution rate. The amortization rate is also determined as a level percent of pay.

60 “Employees’ Retirement System of Rhode Island Actuarial Valuation Report as of June 30, 2011.”

61 See note 56.

62 Office of the General Treasurer Gina M. Raimondo, *Truth in Numbers*.

63 Ibid.

64 Ibid.

65 Ibid.

66 Left out of the discussion, at least in the public record, was a clear discussion of the inherent challenges with defined-benefit (DB) pension systems for state budgets. Because DB systems preset the amount a retiree will be able to annually withdraw at the end of his career, the state *has* to properly fund the system. Any shortfall requires either a large contribution of state taxpayer resources to catch up or a cut in the promised benefits. However, there was little appetite in the state to shift completely from a DB system to a 401(k)-styled defined-contribution (DC) system similar to private pension plans. So this distinction was likely moot.

67 Little, Morton and Lakis, *Tackling the BIG Issue*.

68 Further, the benefits that had been promised in the past were deemed affordable based on overly optimistic assumptions about investment returns. An actuarial report issued in May 2011 showing investment returns on the market value of the ERSRI’s assets to be around 4% instead of the assumed 8.25% was particularly damning. Therefore, by definition, the current benefit structure was overly generous and would need to be reduced.

- ⁶⁹ Rhode Island Office of the General Treasurer, “Press Release: Governor, Treasurer Partner to Work Toward Pension Solution,” June 15, 2011, accessed September 18, 2013, www.ri.gov/press/view/14075.
- ⁷⁰ Ibid.
- ⁷¹ Little, Morton and Lakis, *Tackling the BIG Issue*.
- ⁷² Ibid.
- ⁷³ Ibid.
- ⁷⁴ Michael Corkery and Brad Reagan, “Small State Gets Big Pension Push,” *The Wall Street Journal*, December 11, 2012, accessed September 18, 2013, <http://online.wsj.com/article/SB10001424127887324339204578171340979593744.html>; www.EngageRI.org.
- ⁷⁵ Little, Morton and Lakis, *Tackling the BIG Issue*.
- ⁷⁶ Ibid.
- ⁷⁷ Ibid.
- ⁷⁸ Rhode Island Office of the General Treasurer Gina M. Raimondo, Executive Summary, *The Rhode Island Retirement Security Act of 2011*, accessed September 18, 2013, www.treasury.ri.gov/secure-path-ri/rirsa/legislation.php.
- ⁷⁹ Ibid.
- ⁸⁰ Ibid.
- ⁸¹ Rhode Island Office of the General Treasurer Gina M. Raimondo, “Frequently Asked Questions – COLA,” accessed September 18, 2013, www.treasury.ri.gov/secure-path-ri/rirsa/faq/cola.php.
- ⁸² Employees’ Retirement System of Rhode Island, *An Employee’s Guide to Understanding the Rhode Island Retirement Security Act*, January 2012, https://www.ersri.org/public/documentation/FINAL_RIRSAGuide_January2012.pdf.
- ⁸³ Rhode Island Office of the General Treasurer Gina M. Raimondo, “Frequently Asked Questions – Hybrid Plans,” accessed September 18, 2013, www.treasury.ri.gov/secure-path-ri/rirsa/faq/hybrid-how.php.
- ⁸⁴ Executive Summary, *The Rhode Island Retirement Security Act of 2011*.
- ⁸⁵ Robert Hiltonsmith, *Rhode Island’s New Hybrid Pension Plan Will Cost the State More While Reducing Retiree Benefits*, Economic Policy Institute, June 20, 2013, www.epi.org/publication/ib366-rhode-islands-hybrid-pension-plan/.
- ⁸⁶ Employees’ Retirement System of Rhode Island, *An Employee’s Guide to Understanding the Rhode Island Retirement Security Act*.
- ⁸⁷ Executive Summary, *The Rhode Island Retirement Security Act of 2011*.
- ⁸⁸ Little, Morton and Lakis, *Tackling the BIG Issue*.
- ⁸⁹ Executive Summary, *The Rhode Island Retirement Security Act of 2011*.
- ⁹⁰ Ibid.
- ⁹¹ David Von Drehle, “The Little State That Could,” *TIME Magazine*, December 4, 2011, p. 32.
- ⁹² Executive Summary, *The Rhode Island Retirement Security Act of 2011*.

- ⁹³ Josh Barro, “Chafee’s Confusion about Moral Obligation,” Bloomberg View: The Ticker, May 1, 2013, www.bloomberg.com/news/2013-05-01/chafee-s-confusion-about-moral-obligation.html.
- ⁹⁴ “Rhode Island Overhauls Public Pensions,” The Pew Charitable Trusts, November 21, 2011, www.pewtrusts.org/our_work_report_detail.aspx?id=85899366789.
- ⁹⁵ Ibid. The Pew numbers estimate that the 401(k) defined contribution account would generate a value of \$338,106, and drawn down at 4% per year, the benefit would be \$13,524, but the worker could take out more if desired.
- ⁹⁶ Gabriel Roeder Smith & Company, *Judicial Retirement Benefits Trust Actuarial Valuation Report as of June 30, 2012*; Gabriel Roeder Smith & Company, *State Police Retirement Benefits Trust Actuarial Valuation Report as of June 30, 2012*; Gabriel Roeder Smith & Company, *Employees’ Retirement System of Rhode Island Actuarial Valuation Report as of June 30, 2012*.
- ⁹⁷ Walsh, “Pension Lawsuits Explained.”
- ⁹⁸ This case is not to be confused with a separate case that the same coalition of unions filed as a challenge to the 2009 changes the General Assembly made to pension benefits. In September 2011, prior to the RIRSA’s passage, a judge ruled that the plaintiffs “possess implied unilateral contract rights arising from the ERSRI.” That case was later ordered to mediation. See *Rhode Island Council 94, et al., v. Donald L. Carcieri, et al.*, Superior Court of Providence, Civ. A. No. PC 10-2859 (September 2011), www.courts.ri.gov/Courts/SuperiorCourt/DecisionsOrders/decisions/10-2859.pdf.
- ⁹⁹ EPI estimates that “adding the state’s 1 percent contribution for the new DC plan means the state’s total contribution per employee will rise by about 30 percent.” See Hiltonsmith, “Rhode Island’s New Hybrid Pension Plan.”
- ¹⁰⁰ Ibid.
- ¹⁰¹ Hilary Russ, “Rhode Island Town Says Near Bankrupt Pension Plan Not Its Problem,” *Reuters*, May 29, 2013, http://articles.chicagotribune.com/2013-05-29/news/sns-rt-usa-pensionrhodeisland-coventry12n0e31uw-20130529_1_pension-funds-town-employees-coventry.
- ¹⁰² Alex Kuffner, “West Warwick Voters OK \$83-Million Budget, Hope to Avert State Intervention,” *Providence Journal*, June 27, 2013, www.providencejournal.com/breaking-news/content/20130627-west-warwick-voters-ok-83-million-budget-hope-to-avert-state-intervention.ece.
- ¹⁰³ Ted Nesi, “Woonsocket Retirees Warned Pension Fund Will Run Out of Money in 10 Years,” WPRI.com, February 25, 2013, www.wpri.com/dpp/news/local_news/blackstone/woonsocket-warned-pensions-running-out.
- ¹⁰⁴ Ibid.
- ¹⁰⁵ Russ, “Rhode Island Town Says Near Bankrupt Pension Plan Not Its Problem.”
- ¹⁰⁶ Ted Nesi and Tim White, “Coventry Officials Say School Pension Plan Set to Run Dry Isn’t Their Problem,” WPRI.com, May 21, 2013, www.wpri.com/dpp/news/target_12/coventry-schools-pension-plan-orphaned.
- ¹⁰⁷ Neil Remiesiewicz, “Woonsocket in Dire Financial Straits,” WPRI.com, June 22, 2013, http://www.wpri.com/dpp/news/local_news/blackstone/woonsocket-city-facing-possible-pay-cuts-next-month.

- ¹⁰⁸ When Raimondo took over the state treasurer’s office, she was coming from a firm that was helping to manage a small portion (\$5 million) of the state’s pension investments. Siedle has claimed that she has a conflict of interest and has used her position as treasurer to increase the riskiness of the pension investment portfolio and hire new hedge-fund managers that are lacking in transparency and charging excessive fees. “There’s no prudent, disciplined investment program at work here,” Siedle wrote in April 2013, “just a blatant Wall Street gorging, while simultaneously pruning state workers’ pension benefits.” Raimondo’s office has responded to the criticism, stating, “Everything we’re investing in are brand-name firms with a proven track record—and we always get the best fees. In consultation with our investment advisers, we negotiate wherever possible to make sure that the state of Rhode Island receives among the best fees of other investors.” In addition to blogging for Forbes.com, Siedle has a background in pension analysis and has a company specializing in forensic financial investigations. In June 2013, the American Federation of State, County and Municipal Employees, a union that represents around 1.5 million workers nationwide, hired Siedle to conduct a forensic investigation into the investment strategy of Rhode Island, and Raimondo’s office has said it will cooperate. It remains unclear whether Siedle was simply trying to drum up business with his vocal criticism of Raimondo, but his critique that the state might be overpaying its money managers is theoretically plausible. A Maryland Public Policy Institute paper released in July 2013 found that states that pay higher investment fees typically do not get a better return than states with low-fee investment strategies. See Edward Siedle, “Rhode Island Public Pension ‘Reform’ Looks More Like Wall Street Feeding Frenzy,” Forbes.com, April 4, 2013, www.forbes.com/sites/edwardsiedle/2013/04/04/rhode-island-public-pension-reform-looks-more-like-wall-street-feeding-frenzy/; Jeff Hooke and John J. Walters, *Wall Street Fees, Investment Returns, Maryland and 49 Other State Pension Funds*, Maryland Public Policy Institute, Maryland Policy Report No. 2013-02, July 2, 2013, www.mdpolicy.org/docLib/20130710_MarylandPolicyReport201302.pdf.
- ¹⁰⁹ Current Rhode Island law requires any surplus tax revenue to be directed to the Employees’ Retirement System of Rhode Island. See State of Rhode Island General Assembly, “An Act Making Appropriations for the Support of the State for the Fiscal Year Ending June 30, 2014,” January 2013, www.budget.ri.gov/Documents/CurrentFY/FY%202014%20Appropriations%20Act.pdf.
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