

Gina M. Raimondo: Next up: Reforming local pension plans

The Rhode Island Retirement Security Act (RIRSA), championed in the General Assembly by House Speaker Gordon Fox and Senate President Teresa Paiva Weed, is an important step toward putting our state on a secure path toward prosperity, saving the state approximately \$4 billion over the next two decades, including \$1 billion for municipalities.

The state pension crisis presented a difficult set of choices and required tough decisions, but bold changes were necessary to secure Rhode Island's future and ensure pension benefits are there for our valued public employees.

Another pension crisis looms, however, in the 36 locally-administered pension plans that are independent of the state system. Swiftly placing these plans on a healthy path is critical to the future prosperity of our state.

While as Treasurer I have no authority over these local pension plans, I am fully committed to working with municipalities to develop comprehensive solutions for their ailing plans. Other leaders, including Governor Lincoln Chafee, are also committed to long-term solutions for these pension plans. The time for action is now.

Collectively, the locally-administered plans have a reported unfunded liability of approximately \$2.1 billion, and funding level of only 40 percent. These figures are unacceptable to the retirees and employees who rely on their pensions, and to local taxpayers who face escalating costs.

Unlike the state-administered system, which is governed by statute, most of these local plans are determined by collectively-bargained contracts. The local plans each have unique situations, varying widely in their design, funding status, and membership. For example, Cranston and Woonsocket have closed plans, with no new employees joining. Closed plans have different challenges than open ones that continue to enroll contributing members.

In September 2011, the auditor general reported that Providence assumes an 8.5 percent investment return on pension assets, and some contracts, signed this year, continue three percent guaranteed cost of living adjustments (COLA) for some retirees. Warwick, on the other hand, assumes a 7.5 percent investment return for its city employees, with COLA payments tied to actual investment returns.

These 36 local plans are separate and distinct from one another, making a 'one-size-fits-all' solution nearly impossible.

Due to this uniqueness, it is imperative that municipal leaders follow a deliberate, fact-based process in which all stakeholders and bargaining parties participate. This kind of process will help reforms to withstand legal scrutiny. The law requires municipalities to demonstrate that when contract changes are made, a necessary public purpose is served, specific to their community and pension plan. This legal test applies equally to any change of pension contracts whether done by state statute or city ordinance.

In tandem with this local work, we at the state level should consider what, if any, role there might be for state legislation to further enable local reform. The legal testimony at the RIRSA hearings indicated that municipalities have the tools and legal authority to fix their pension plans.

As legislative options are studied, mayors, town administrators and local retirement boards must begin reform efforts now. RIRSA requires municipalities to submit, by April 1, 2012, an actuarial experience study with updated investment and mortality assumptions, which will reveal the true extent of the local pension liabilities. It is impossible to solve a problem until there is an accurate assessment of its magnitude. During the crafting of RIRSA, every aspect of the state pension system was actuarially analyzed. This time and effort proved critical to its ultimate passage, with wide public and legislative support. Municipal leaders must lead a similar effort for their systems.

RIRSA also requires municipalities with plans considered at risk, of which there are 24 according to the auditor general, to submit reform plans by November 1, 2012. As these plans are created, it is important to take a long view and focus on all aspects of a local pension plan, avoiding narrow changes designed primarily to achieve near-term budgetary relief. Elements requiring study should include: retirement age, a combined defined benefit and defined contribution plan, contribution levels and cost-of-living adjustments.

As municipalities begin this challenge, the doors of Treasury are open. In recent weeks, I have met with leaders from municipalities seeking guidance on best practices, how to structure their process, and how to best utilize their actuaries.

In the coming weeks, Treasury will launch an online toolkit, based on the RIRSA process, which municipalities can utilize in assessing their situation, and crafting their solutions. We will also host working sessions throughout the upcoming year for local leaders to help guide each stage of their work.

And while local leaders work toward solutions, we at the state level should also study creative ways to incorporate local plans into the state-administered municipal pension program. This move would provide for uniform benefits across municipalities, pooling of assets managed by the state and a legal requirement for municipalities to make annual required contributions.

Developing and passing RIRSA was a long process, but now the path is clear for our municipalities to follow. Let's get to work and take that next step toward prosperity for Rhode Island.

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