GINA M. RAIMONDO  
RHODE ISLAND GENERAL TREASURER

BIOGRAPHY
Rhode Island General Treasurer Gina M. Raimondo, elected in November 2010, dedicated her first year in office to redesigning Rhode Island’s state-administered public employee pension system.

Raimondo’s commitment to following a fact-based, honest and transparent process, and not placing blame or relying on divisive rhetoric, proved effective during these challenging times in Rhode Island. That process, which culminated in a special session of the General Assembly in November 2011, included thorough analysis and study as well as countless conversations and meetings with all stakeholders –employees, retirees, union leaders and taxpayers. Raimondo’s top policy priority, The Rhode Island Retirement Security Act, was signed into law on November 18, 2011.

According to a December 5, 2011 TIME article, “Such an unexpected outbreak of responsible leadership didn’t just pull Rhode Island back from the brink…it also suggested that difficult, self-sacrificing decisions are still possible.”

Raimondo’s efforts in 2011 extended beyond the passage of comprehensive pension reform. Under her leadership, Treasury:
- Created the Ocean State Investment Pool, a safe, liquid, convenient and low-cost investment vehicle to help the state and municipalities better manage and improve the investment performance of their liquid assets.
- Updated the state’s bond disclosure practices and improved the information statement and related bond disclosure information that accompanies bond offerings.
- Launched the state’s first investor relations portal that pools financial information from across state government.

CAREER
Prior to being elected General Treasurer on November 2, 2010 with an overwhelming majority, Gina M. Raimondo worked for a decade as co-founder and general partner of Point Judith Capital, a venture capital firm. She has also served as the senior vice president of fund development at Village Ventures. A firm believer in innovation, Raimondo was involved in dozens of successful start-up companies, primarily in the health care industry.

Prior to joining Village Ventures, she clerked for US District Judge Kimba Wood of the Southern District of New York.

COMMUNITY SERVICE
Raimondo serves as vice chair of the Board of Directors of Crossroads Rhode Island, the state’s largest homeless services organization, where she played a key role in launching a new shelter for women. She was also a trustee at Women and Infants Hospital and Chair of its Quality Committee prior to stepping down in 2011. She has previously served on the boards of LaSalle Academy and Family Service of Rhode Island.

PERSONAL
Born May 17, 1971, Raimondo is a native of Smithfield, Rhode Island. Raimondo is a graduate of LaSalle Academy, Harvard University and Yale Law School, and was a Rhodes Scholar at Oxford University. She resides in Providence with her husband, and two young children.
Executive Summary
Rhode Island Retirement Security Act

November 17, 2011 passed in the House of Representatives 57 -15 and in the Senate 35 - 2
November 18, 2011 signed by Governor

The passage of the Rhode Island Retirement Security Act represents what can happen when a thoughtful process and leaders come together for the people of Rhode Island. RIRSA passed because Rhode Islanders called for action and change. This bill is a great step forward as the state continues to work toward a secure path of growth and prosperity.

RIRSA represents the culmination of 11 months of thoughtful, fact-based analysis and input from retirees, employees and taxpayers. It is affordable, sustainable and secure. The law:

- Provides retirement security to hard working public employees
- Saves Rhode Islanders approximately $4 billion over the next two decades
- Keeps costs steady and predictable for taxpayers for decades to come, while sharing the risk fairly among all groups – state employees, teachers, municipal employees, retirees and taxpayers
- Immediately reduces the unfunded liability by about $3 billion
- Brings the funding status of the state system from 48 percent funded to over 60 percent funded and put it on a healthy path

RIRSA’s design was rigorously stress-tested through actuarial and legal analyses, and discussed with a wide range of stakeholders across the state.

RIRSA provides a secure retirement for all 66,000 members of our state retirement system. This comprehensive law modernizes and ensures that the pension system is well-funded, while providing a similar level of retirement benefits for active employees as the old system, within a structure that shares the market risk more evenly between taxpayer and employee.

The new design encompasses safeguards to prevent the annual pension line item in the state budget from spiking to unaffordable levels in the future. It also balances the current cost burdens, across all stakeholders – employees, retirees and taxpayers. In addition to stabilizing the state-administered pension system, its self-correcting mechanisms are designed to avoid the need for subsequent reforms.

RIRSA design components include:

- Cost-of-living adjustment tied to the funding level of the pension system
- Tying cost-of-living adjustments to actual investment returns
- Raising the retirement age to match the Social Security retirement age, with transition rules for those closer to retirement
- Creating a combined defined benefit pension and mandatory defined contribution program

To learn more about RIRSA, visit: http://www.treasury.ri.gov/secure-path-ri/legislation.php
THE LITTLE STATE THAT COULD

Straight-shooting Gina Raimondo overhauled Rhode Island’s pension system in less than a year. Washington should sit up and take notes

By David Von Drehle
They say the truth hurts, and they are correct. Pain seeps from the cracks in retired Rhode Island teacher John Corsetti’s voice as he laments what is happening to his pension: his check will no longer rise each year. His wife is sick; his adult son can’t find a job in this crummy economy. “I contributed 9% of my salary for 31 years,” he says. “Why are they stabbing me in the heart?”

And there’s a wounded look in 52-year-old Tim Durnigan’s eyes when he asks why the retirement age is being pushed forward after all his careful planning to stop teaching at age 55. “Do they know we’re out here paying for a problem we had nothing to do with creating?”

Perhaps they and thousands of other Rhode Island public employees should never have believed in their pensions to begin with. Then it wouldn’t hurt so much when the fantasy finally came to an end—the fantasy of ever more retirees’ living ever longer lives, receiving ever growing checks from a half-empty fund. But it’s hard to fault the workers; denial has been a state-sponsored pastime on the Narragansett for decades.

When the end of the fantasy came for Rhode Island—just as the end is nearing for broken pension systems in states and cities all across the country—the truth teller had her own ration of pain to bear. Gina Raimondo, a rookie politician who never got the memo about dodging tough issues, took one look at the cooked books and decided to take a stand. “It would be much easier for me just to tell you there is no problem,” the Ocean State’s general treasurer explained at a recent town-hall meeting. She chose the hard way because “this is about math, not politics,” and Raimondo is very good at math and the state’s math was disastrous.

By some measures, Rhode Island’s pension problem was the worst in the country; the entire state budget for an entire year would not fill the pension hole. Raimondo has sketched this ugly picture at more than a hundred meetings since taking office in January. Slowly, the math saturated a political system founded on this simple equation: You scratch my back and I’ll scratch yours.

On Nov. 17, to the astonishment of nearly every observer of Rhode Island government, Raimondo’s crusade culminated in a vote by the general assembly to fix the system. Not “fix” it as previous legislatures have done—with nods, winks, phony accounting and fingers crossed. But fix as in repair, cure or mend. The lawmakers risked their political lives to put the Rhode Island retirement system on solid footing by raising the retirement age, tying pension boosts to the health of the fund and partially replacing guaranteed benefits with something like 401(k) accounts.

This might be the most extensive public-pension reform in U.S. history, according to the Pew Center on the States. Such an unexpected outburst of responsible leadership didn’t just pull Rhode Island back from the brink, where it had been teetering like an American Greece. It also suggested that difficult, self-sacrificing decisions are still possible. And that’s an important message not only for the petulant partisans of Washington, where the supercommittee has thrown up its helpless hands, but also for the dozens of states and hundreds of local communities whose retirement funds are short of their promises by an estimated $3 trillion all told. Change hurts, but it can be done. Ask Raimondo.

“Government worked tonight,” she said after her surprising victory. “On one of the toughest, most financially complicated, politically charged issues we face, we did something right.”

Hitting the Books
In normal times, pension reform is about as exciting as title insurance, but these days it’s major news from California to Ohio to New Jersey. The reason is simple:
the cost of retirement benefits for public employees is rising sharply at a time when budgets are as tight as skinny jeans. Rhode Island is merely an extreme version of a widespread problem: 10% of this year's state revenues went to cover shortfalls in the pension fund; without reform, that number was likely to double next year. America is talking about pension reform for the same reason Willie Sutton robbed banks: that's where the money is.

Problems that were masked when the economy was stronger are inescapable now—as Rhode Islanders learned last summer when unpayable pensions forced the town of Central Falls into bankruptcy. Sunny San Diego is flirting with bankruptcy, craggy Colorado is $22 billion short, and Illinois may be in more perilous shape than Rhode Island.

Such chaos has set the stage for star turns by union-bashing Republican governors like Chris Christie of New Jersey and Scott Walker of Wisconsin. But Raimondo, 40, is neither Republican nor conservative. She has come at pension reform from a progressive angle, which may make her an even greater threat to the Democratic Party's labor-led establishment. Suddenly, public-employee unions are fighting a two-front war.

Her argument for change is rooted in her biography, an American Dream story at a time when too many people fear that the dream is dying. Raimondo's grandparents arrived in the U.S. from Italy early in the 20th century. They settled in Providence, an ethnic stewpot with a rich Italian flavor. One grandfather became a chef; the other ran a butcher shop. Asked by a visitor to recommend the best place in Rhode Island for Italian food, Raimondo answers confidently, "My house."

Her father, a World War II veteran, earned a college degree and had a good job as a metallurgist for Bulova but lost his career when the watch company moved its factory in search of cheaper labor. Seeing her middle-aged father piece together part-time jobs was a searing experience for a sixth-grader; it fired her ambition. Every morning, Raimondo climbed aboard the city bus to La Salle Academy, seven miles from where she lived. From La Salle, she vaulted to Harvard, where as the top economics student in the class of 1993, she caught the eye of the Rhodes scholarship committee.

The mid-90s was a heady time to be a young Democrat at Oxford. There was a Rhodes scholar in the White House, and Raimondo was part of a community of Americans in England that included such rising stars as Cory Booker, now mayor of Newark, and Eric Garcetti, president of the Los Angeles city council. Even in a crowd of bright young people brimming with plans to save the world, Raimondo stood out. Her "incredibly earnest exterior masked an even more earnest interior," as one classmate puts it. As for her toughness, perhaps all you need to know is that this wisp of a woman joined a rugby team.

Doctorate in hand, she followed the Clinton path to Yale Law School, where she

Bill me now From left: Raimondo presenting her plan at the statehouse on Sept. 21; union members in Westerly protesting reforms; house speaker Gordon Fox and senate president Teresa Paiva-Weed before a joint house-senate briefing

The Ocean State by The Numbers

<table>
<thead>
<tr>
<th>Population</th>
<th>1.05 million</th>
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<tbody>
<tr>
<td>Unemployment rate</td>
<td>10.5%</td>
</tr>
<tr>
<td>Median household income</td>
<td>$53,243</td>
</tr>
<tr>
<td>Percentage of population 65 and older</td>
<td>14.4%</td>
</tr>
</tbody>
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Sources: U.S. Census Bureau; U.S. Bureau of Labor Statistics; Rhode Island Office of the General Treasurer

1 in 8
Number of retired state employees and teachers and beneficiaries
21,634
Percentage of state population below poverty level
12%

33
learned that she didn’t want to be a lawyer. By then her stack of sterling diplomas had left her with a mountain of student-loan debt. So she went to work as a venture capitalist specializing in health care start-ups and eventually returned to Rhode Island to launch her own firm, Point Judith Capital, and to raise two children with husband Andrew Moffit, a consultant on education reform. So what does all this have to do with public-employee pensions? Let her explain it. “I was reading a story about budget cuts in the Providence Journal,” Raimondo recounts. “The story talked about libraries closing and bus service being cut” because of budget gaps widened by pension expenses. “I had an image of a kid like me trying to get into the library and it’s closed. The public bus is how I got to school every day. The public library is where I studied. It’s where my grandfather taught himself English.” You didn’t have to have an Oxford degree to see the connection: unless the pension hole was filled, those services and others would face even deeper cuts. That’s when Raimondo made up her mind to run for state treasurer in 2010.

Her parents were horrified. “Oh, Gina,” moaned her father, “why would you do this?” “It’s so dirty,” her mother said. “So dirty,” echoed her parish priest. Raimondo’s reaction must have sounded naive. “I still believe in the power of government to make lives better, and I believe that if someone is willing to take a stand, other people will follow,” she says. “Those diplomas on my wall would not be there without the GI Bill that educated my father, without the public library, without the RIPTA bus.”

In other words, the progressive case for tackling bankrupt public-sector pensions rests on the idea that government has obligations to the future as well as to the past. That may sound obvious, but it is a theory that crosses a major Democratic fault line. The stewards of past obligations—namely the unions representing public-school teachers and other government employees—have been the backbone and sinew of the party for a generation. The unions are among the biggest donors, and their members pound the pavement at election time. They have no interest in giving up the fruits of their loyalty.

Candidate Raimondo promised to take on the pension mess during her campaign, but she carefully avoided the colorful rhetoric that made Governor Christie a YouTube sensation. On the other hand, she stubbornly guarded her independence from the Democratic leviathans. She refused to fill out the National Education Association’s lengthy candidate questionnaire, and when the teachers’ union conducted a follow-up interview to weigh a possible endorsement, Raimondo says she declined to toe the party line. Predictably, she didn’t receive the endorsement. What she won instead was the widest victory margin of any statewide candidate last year.

**Truth or Dare**

Even so, no one around the state capital expected the newbie to deliver on her promises. “This is a state where things are slow to change. We’re not known for bold moves,” says veteran Rhode Island newspaperman Jim Taricani. Reformers in Providence come and go—with an emphasis on go—yet when the legislature adjourns each year and the wins and losses are tallied, somehow the status quo has come out on top.

But change has been creeping up on this strip of coast and woodland between Connecticut and Massachusetts. Maybe it started when back-to-back chief justices of the state supreme court faced trial on corruption charges, or when the state’s credit unions imploded because a politically wired crook drained an insurance fund, or when a governor went to jail, or when the Providence mayor went to jail. Political scientist Maureen Moakley of Rhode Island University argued in a recent essay that public “dismay and distrust” have been building for years but “hit home” with voters when the recession landed a much harder blow there than in the rest of New England. Rhode Island’s double-digit unemployment rate is among the highest in the country.

So the public was hungry for something better. How did Raimondo deliver?

As you might expect of a kid who took a public bus to school, she was focused, disciplined and relentless. Pensions are a highly emotional subject, so she resolved to take the opposite path. Her weapon of choice was the PowerPoint, her ammo, hard numbers. Long before she proposed her first fix, she spent months laying out the scope of the problem. Her office published an unblinking biopsy of the pension system, titled Truth in Numbers, and Raimondo hit the road to share the results with any audience that would listen. “Ultimately, there were hundreds of meetings, often with very hostile crowds,” she says. Opponents tried to back her into uncomfortable corners, but she kept to her timetable, “determined first to communicate the extent of the problem.”

Her PowerPoint laid bare the long and doomed story of steadily expanding benefits with no corresponding increase in funding. In 1960, for example, when the average life expectancy was about 70 years, a Rhode Island public employee could retire at age 60 with a pension equal to about half her working salary—with no cost of living adjustment. By 1990, life spans were five years longer, yet the retirement age had dropped to 50. The maximum initial pension had jumped to 80% of salary, and retirees were guaranteed an annual raise. With math like that on your side, retiring from a government job in Rhode Island quickly became more lucrative than working at one. “As a result,” the report noted, “retired public employees can routinely earn retirement benefits that exceed 100% of their final average earnings.”

Governor Lincoln Chafee, who was elected as an independent support from the unions in 2010, initially wanted to reamortize the pension fund—that is, borrow money to cover the obligations and pay it off over a very long period. With interest rates at historic lows, reamortization made a certain amount of sense—if you believed that the problem would not grow steadily larger.

To Raimondo, this was just lipstick on a pig, so she took her laptop to the governor’s office to PowerPoint out the flaws in his plan.

Meanwhile, an odd alliance between cash-strapped Rhode Island mayors and Tea Partiers was shining a harsh light on the cozy relationships between state lawmakers and the public-employee unions. In one such case, senate majority leader Dominick Ruggerio found an $885,000 position on his staff for the 25-year-old high-school-educated son of union boss Donald Iannazzi. Meanwhile, Ruggerio’s son drew his paycheck from Iannazzi’s payroll.

By summer, when the tiny town of...
Central Falls (pop. 18,716) went bankrupt because its unfunded municipal pension plan was $80 million in debt—with several other Rhode Island cities dangerously close behind—public employee pensions had become the biggest story in America’s smallest state.

Caught flat-footed, the unions were slow to respond, and their efforts were paltry compared with the recent multimillion-dollar campaign to save collective bargaining for state employees in Ohio. Attendance at Raimondo’s final public meeting before the vote was sparse despite union efforts to drum up a hostile crowd. Charges that Raimondo was faking the crisis by exaggerating life spans and minimizing investment returns fell wide of the mark. Union leaders accused Raimondo of being a rich woman in cahoots with Wall Street, using pensions as a springboard to higher office, and complained when a pro-business group that supported her plan, EngageRI, refused to make its list of donors public. None of it stuck. By then Raimondo was half-jokingly known as St. Gina among the capitol press corps, because she was taking on unslayable dragons. Whether the fearsome strength of Rhode Island labor unions has vanished or they are merely slumbering will be determined at the next election. As of now, the bosses look like paper tigers.

Political scientist Moakley, for one, sees the potential for a lasting shake-up of the state’s rigged political deck. Raimondo is not the only young Democrat challenging the old order. Providence Mayor Angel Taveras, also elected last year, took on the teachers’ union in one of his first acts. And then there is the true prince of Providence, speaker of the house Gordon Fox, perhaps the most powerful figure in state government. He too is new to his post—and the first openly gay leader of the state’s legislature. The key moment in Raimondo’s re-election campaign, the moment it went from long shot to likelihood, was when Fox and senate president Teresa Paiva Weed put their names on the pension bill.

The plan, after some slight legislative compromises—Raimondo drew a stern line against major changes—ended cost of living increases for at least five years and tied future benefits bump-ups to the overall health of the system. It gradually raised the retirement age to mirror that of Social Security, and it converted a plan of defined future benefits for retirees into a two-headed hybrid: employees will now get a diminished guaranteed pension together with a defined-contribution plan along the lines of a 401(k). Taxpayers also took a hit, underwriting a package to refinance the pension debt. Boldest of all, the changes applied to current retirees, not just future ones. This feature, which Raimondo defends as simple fairness, is sure to draw a legal challenge from the unions, which argue that it amounts to breaking a contract.

In short, Rhode Island took a giant step in November toward fixing its financial house at the very moment that the U.S. Congress so spectacularly failed to do so. “The legislation before you is dratic,” Helio Melo, chairman of the house finance committee, told his colleagues on the last day of a special session to deal with pensions. With sometimes jeering union members watching from crowded galleries, he added, “The longer we wait, the harder it will be to fix it. Don’t let it be said that we had a chance and failed.”

The scope of Raimondo’s win might be measured in the vote tallies: 57-35 in the house and an even more pronounced 35-2 in the senate. But a sharper gauge might be the ringing speech delivered by the Senate majority leader, who called on his caucus to support this “fair and responsible” bill. “Failure to act,” he declared, “is not an option.” Those words, coming from union pal Ruggerio, hinted at epochal change.

Rhode Island’s painful miracle does not leave a flawless map for other troubled states. Raimondo had certain advantages. The state’s pension is set out in a statute, which makes it more plausible for reformers to argue in court that it is not a binding contract. Fixing the busted municipal pension systems dotting the Rhode Island landscape will be a tougher task because they are the products of collective bargaining. And the lawmakers in Providence had more room to operate than their colleagues in capitals where pension benefits have been written into state constitutions.

Nevertheless, Rhode Island proves that the mistakes and misfeasance of the past need not throttle the nation’s destiny. There is still a space between left and right for a dose of reality; we don’t have to be Greece. And if Raimondo is any indication, doing the hard math doesn’t have to be a career killer. She’s one year into her political life, and people are already talking about her as a future governor—an idea she makes no effort to snuff. “Am I running? I don’t know,” she says. “We need leadership.” And later, basking in success, she adds, “I think this is a beginning, not an end. We’ve got high unemployment. Big budget problems. The municipal pension systems. Let’s just keep going.”

31
Number of states that had less than 80% of their pension liability funded in fiscal 2009
The New York Times

Business Day

The Little State With a Big Mess

CRANSTON, R.I.

ON the night of Sept. 8, Gina M. Raimondo, a financier by trade, rolled up here with news no one wanted to hear: Rhode Island, she declared, was going broke.

Maybe not today, and maybe not tomorrow. But if current trends held, Ms. Raimondo warned, the Ocean State would soon look like Athens on the Narragansett: undersized and overextended. Its economy would wither. Jobs would vanish. The state would be hollowed out.

It is not the sort of message you might expect from Ms. Raimondo, a proud daughter of Providence, a successful venture capitalist and, not least, the current general treasurer of Rhode Island. But it is a message worth hearing. The smallest state in the union, it turns out, has a very big debt problem.

After decades of drift, denial and inaction, Rhode Island’s $14.8 billion pension system is in crisis. Ten cents of every state tax dollar now goes to retired public workers. Before long, Ms. Raimondo has been cautioning in whistle-stops here and across the state, that figure will climb perilously toward 20 cents. But the scary thing is that no one really knows. The Providence Journal recently tried to count all the municipal pension plans outside the state system and stopped at 155, conceding that it might have missed...
some. Even the Securities and Exchange Commission is asking questions, including the big one: Are these numbers for real?

“We’re in the fight of our lives for the future of this state,” Ms. Raimondo said in a recent interview. And if the fight is lost? “Either the pension fund runs out of money or cities go bankrupt.”

All of this might seem small in the scheme of national affairs. After all, this is Little Rhody (population: 1,052,567). But the nightmare scenario is that Ms. Raimondo has seen the future of America, and it is Rhode Island. As Wall Street fixates on the financial disaster in Greece, a fiscal wreck is playing out right here. And the odds are that it won’t be the last. Before this is over, many Americans may be forced to rethink what government means at the state and local level.

Economists have talked endlessly about a financial reckoning for the United States, of a moment in the not-so-far-away when the nation’s profligate ways catch up with it. But for Rhode Island, that moment is now. The state has moved to safeguard its bond investors, to avoid being locked out of the credit markets. Last week, the General Assembly went into special session and proposed rolling back benefits for public employees, including those who have already retired. Whether the plan will succeed is anyone’s guess.

Central Falls, a small city north of Providence, didn’t wait for news from the Statehouse. In August, the city filed for bankruptcy rather than keep its pension promises to its retired firefighters and police officers.

Illinois, California, Connecticut, Oklahoma, Michigan — the list of stretched states runs on. In Pennsylvania, the capital city, Harrisburg, filed for bankruptcy earlier this month to avoid having to use
prized assets to pay off Wall Street creditors. In New Jersey, Gov. Chris Christie wants to roll back benefits, too.

In most places, as in Rhode Island, the big issue is pensions. By conventional measures, state and local pensions nationwide now face a combined shortfall of about $3 trillion. Officials argue that, by their accounting, the total is far less. But with pensions, hope often triumphs over experience. Until this year, Rhode Island calculated its pension numbers by assuming that its various funds would post an average annual return on their investments of 8.25 percent; the real number for the last decade is about 2.4 percent. A phrase that gets thrown around here, à la Rick Perry describing Social Security, is “Ponzi scheme.”

That evening in September, Ms. Raimondo walked into the Cranston Portuguese Club to face yet another angry audience. People like Paul L. Valletta Jr., the head of Local 1363 of the firefighters union.

“I want to get the biggest travesty out of the way here,” Mr. Valletta boomed from the back of the hall. “You’re going after the retirees! In this economic time, how could you possibly take a pension away?”

Someone else in the audience said Rhode Island was reneging on a moral obligation.

Ms. Raimondo, 40, stood her ground. Rhode Island, she said, had a choice: it could pay for schoolbooks, roadwork, care for the elderly and so on, or it could keep every promise to its retirees.

“I would ask you, is it morally right to do nothing, and not provide services to the state’s most vulnerable citizens?” she asked the crowd. “Yes, sir, I think this is moral.”

FOR many Americans, the Ocean State conjures images of Newport mansions and Narragansett chic. The overall reality is more prosaic. Rhode Island today is a place where the roads and bridges rank among the worst in the nation and where jobs are particularly hard to find. Unemployment rose faster during the 2008-9 recession than in any other state. The official jobless rate is now 10.6 percent, versus the national average of 9.1 percent.

The textile mills and jewelry manufacturers that once employed thousands here have dwindled away. The big employers today are in health care and education, both of which rely heavily on government spending that has been drying up.

Many states and cities can credibly say their pension plans are viable, even when those plans are not fully funded. That is because state retirement funds, like Social Security, pay out benefits bit by bit, over many years.

But unlike, say, California, with its large, diverse economy, Rhode Island is so small that there is little margin for error. Leaving the state, to escape its taxes, is almost as easy as moving to the other side of town. Efforts to balance the state budget by shrinking the public work force have left Rhode Island with a problem like the one that plagues General Motors: the state has more public-sector retirees than public-sector workers.

More ominous still, in each of the last 10 years, the state pension fund paid more money to retirees than the fund collected from state employees and taxpayers combined. The fund is shrinking, even though the benefits coming due are growing.
For all the pain here, one important constituency — Wall Street — seems satisfied enough. To reassure its bond investors, Rhode Island passed a special law this year giving them first dibs on tax revenue. In other words, bondholders will be paid, whatever happens. Ms. Raimondo has at times been accused of selling out ordinary Rhode Islanders to Wall Street interests, but she says hard choices must be made.

Ms. Raimondo remembers better times in Rhode Island. She grew up in a suburb of Providence, rode public buses to public schools and played in public parks. Her grandfather, who arrived from Italy, studied English in the evenings at the Providence Public Library. (That library system lost its financing from the city in 2009, closed branches and shortened its hours. These days, it is seldom open after 6 p.m.)

But Ms. Raimondo also learned early on about economic forces at work in her state. When she was in sixth grade, the Bulova watch factory, where her father worked, shut its doors. He was forced to retire early, on a sharply reduced pension; he then juggled part-time jobs.

“You can’t let people think that something’s going to be there if it’s not,” Ms. Raimondo said in an interview in her office in the pillared Statehouse, atop a hill in Providence. No one should be blindsided, she said. If pensions are in trouble, it’s better to deliver the news and give people time to make other plans.
BY any standard, Ms. Raimondo is a high achiever. She graduated from Harvard, collected a law degree from Yale and attended Oxford as a Rhodes scholar. After a stint in New York in the venture capital business, she helped found Rhode Island's first venture capital firm, Point Judith Capital.

Then, in 2009, with zero political experience, she ran for the state office of treasurer. Although she is a Democrat in a heavily Democratic state, she stood out because she refused to promise that state jobs and pension benefits would be protected no matter what. She won by a landslide, receiving more votes than any other candidate for any state office. Her long-term ambitions, in politics, business or both, are the subject of speculation in Providence.

No sooner had she been sworn in than the S.E.C. called. She learned that the commission was investigating the finances of various cities and states, including Rhode Island, to determine whether bond investors were receiving truthful information. At the heart of the S.E.C. inquiry were pension funds.

Ms. Raimondo said she wasn’t entirely surprised. When she disclosed the investigation, she said: “For months, Rhode Island has been listed among several states with precarious finances. This challenging position is, in part, due to our significant and growing unfunded pension liability.” Her first priority, she vowed, would be to ensure that the numbers were right.
Others made similar pledges before. Rhode Island has been trying to fix its pension system for years; it has announced four “reform” plans since 2005, each of which has claimed to reduce costs for the state and cities. It has raised minimum retirement ages, slowed accrual rates, capped cost-of-living adjustments — but always for the youngest or least senior public workers. Retirees, and workers poised to retire, were spared, even though the numbers clearly showed that reducing payments to retirees was the only sure way to fix things quickly.

In recent months Ms. Raimondo has crisscrossed the state in an attempt to sell a different remedy, one in which everyone takes a hit. Yes, it would hurt. But at least the state would avoid having to come up with yet another plan in a year or two. The defined-benefit structure, very popular with public employees, could survive. Still, the battle lines are clear. Eight public workers’ unions have already sued, saying the pension changes of 2009 and 2010 were illegal.

On a September evening out in North Scituate, at the historic Old Congregational Church, Ms. Raimondo told a crowd about what had happened in Vallejo, Calif. That city filed for bankruptcy in 2009 and, after grueling negotiations, left pensions intact but drastically cut bus service, police patrols and other government functions, along with the pay of the city workers who provide all those services.

“That’s not what we want for Rhode Island,” Ms. Raimondo said. “That’s not the future we want for our children.”

Others in the crowd had their own stories. Several retired teachers said they had played by the rules and sent a part of every paycheck to the pension fund, as required by law. One man demanded pension cuts for state troopers and judges. A woman said her aged father would be unable to buy medicine if the state stopped adjusting his pension for inflation.
“I feel your anger,” Ms. Raimondo told the crowd. “In many ways, I’m angry myself. Many of the shenanigans that went on in past years were just wrong.”

In some ways, the central question is not only what the government owes to pensioners but what citizens owe to one another. From the pews of the church, Cindy Gould, a fourth-grade teacher, said that under the current system, she had 11 years to go until retirement. Under Ms. Raimondo’s plan, she might have to work longer. But, Ms. Gould, 54, said she was willing to do so if that meant the elderly would get the medical care they need.

Since the last recession hit, states and cities around the country have embarked on pension changes, often following the Rhode Island pattern. Benefits for state employees who have not yet been hired are usually the first to be cut. Then come changes for those now on the payroll, often in the form of higher mandatory contributions.

Retirees have mostly been off-limits, until now. In many instances, laws or legal precedent shield them. In the corporate sphere, they are supposed to bear losses only in bankruptcy. But those rules do not apply to states, which may not declare bankruptcy in any case. If a government homes in on retirees, a lawsuit is sure to follow, and the resolution will take years. But Ms. Raimondo says Rhode Island doesn’t have years. This isn’t a question of politics or law, she says, but of simple math. To get the numbers right, Ms. Raimondo quickly assembled a panel of experts that included academics, mayors and union officials. The goal was to figure out what a public pension should be and what Rhode Island could afford. Inflation protection every year, for people who in some cases retired in their 40s, started coming into focus.
Analysts also took a close look at the projected long-term investment return for the pension system: 8.25 percent. Everything rested on hitting that target, but the state’s actuary said there was less than a 30 percent chance that would happen over the next 20 years. The board voted to lower the assumption to 7.5 percent. (Given the recent run in the financial markets, even that figure may seem optimistic.)

As a result of that change, the state’s pension shortfall instantly rose to $9 billion from $7 billion. The unions said Ms. Raimondo had manufactured a crisis.

She denied it. “This is about the truth,” she said, “and about doing the right thing.”

Then, as if on cue, Central Falls declared bankruptcy. The city’s pension fund wasn’t just underfunded. It was completely out of money. A receiver for the city sought court permission to reduce by as much as half the base pensions of retired police officers and firefighters.

Suddenly the pension crisis wasn’t an abstraction any more. The unthinkable had happened, and the odds were that it would happen again unless the state acted quickly.

Other mayors began stepping forward and warning that their communities were on the brink, too. Here in Cranston, Mayor Allan W. Fung said that unless things changed, he would have to eliminate trash collection, services to the elderly and recreation programs for children, as well as reduce the size of the police force and fire department.

Over in Woonsocket, John W. Ward, the president of the City Council, said that all summer parks programs had been eliminated and that teachers were working with larger classes than their contracts allowed. Half of Woonsocket’s streetlights were out because the city couldn’t afford to replace them. His son, daughter-in-law and granddaughter had moved to another state.

“To allow the pension system to remain largely unchanged will make it impossible for Woonsocket, and every other urban community, to survive,” Mr. Ward said.

AT the Portuguese Club in Cranston, José M. Berto raised his hand. At 62, he told Ms. Raimondo, he was on the cusp of retirement.

“We’re looking at a Ponzi scheme that would make Bernie Madoff look like a Boy Scout,” said Mr. Berto, a supply officer for the state.

He asked if Rhode Island’s pension problem was the worst in the nation.

Ms. Raimondo said it was.

“I don’t like her message,” Mr. Berto said after the session. “But she has been honest, forthcoming. We’re in trouble. We’re just in so much trouble.”
Rhode Island Makes Reform Happen

Treasurer Shapes Up Pension System

Wednesday, December 14, 2011
By Paul Burton

Two years ago, when Gina Raimondo was deciding to run for Rhode Island general treasurer, she saw a newspaper article about budget cuts affecting libraries in Providence and Cranston and bus service on nights and weekends.

It hit a nerve for Raimondo, worried that her home state’s growing pension commitments would crowd out money for such vital services.

“Essentially, the longer we delayed fixing pensions, the harder it would be for the state to provide these services. The reality was that the system was at a breaking point,” Raimondo said in a lengthy interview.

Raimondo, a Democrat, won election in 2010, and Lincoln Chafee, a former moderate Republican U.S. senator, became an independent governor.

They took office in January in the nation’s smallest state — which had one of its biggest unfunded pension problems, with an unfunded pension liability estimated at $7.3 billion, according to Washington think tank the Pew Center on the States, up 47% from $4.7 billion in 2009.

Disregarding skeptics who said they were stepping on a political third rail, the two set out to overhaul Rhode Island’s burdensome pension system.

“People said you can’t touch benefits. They said the unions were too strong, it was a political taboo, don’t touch it,” Raimondo said. “People were always shooting for a fix, for next year’s budget. We said not next year. We want retirement security for the long term. And as treasurer, I was not going to go away for a while.”

The far-reaching package that passed last month creates a hybrid plan merging conventional public defined-benefit pension plans with 401(k)-style plans.

It also includes a suspension of cost-of-living adjustment increases for retirees and raises the retirement age for employees not yet eligible for retirement. The new program will take effect July 1.

Rhode Island expects to reduce its unfunded pension liability to $4.3 billion, a 41% reduction, and raise the funding level for its defined benefit plan to 59.8% from 48.4%.
The plans are expected to achieve 80% funding in fiscal 2032 for state employees and fiscal 2030 for teachers. The Pew Center considers 80% a suitable benchmark for pension funding.

While some other states have implemented hybrid plans, Rhode Island’s would be the first to affect current employees, according to Pew.

Rhode Island generated national headlines.

“States tend to look at what other states do,” said Pew analyst David Draine, noting that unions may challenge provisions of the law in court.

“Certainly, the state would not have gone forward had it not felt confident in its position,” he said.

Rating agencies reacted favorably. “So far, it’s been positive,” Raimondo said.

Fitch Ratings called the new law “the most comprehensive measure undertaken by any of the states in recent years,” while Moody’s Investors Service termed it a credit positive. Standard & Poor’s said passage of the bill “appears to augur well for the state’s liability profile and we expect that it will also alleviate future fiscal pressures related to pension benefits.”

The rating agencies expect no immediate rating changes as a result of the legislation, though Raimondo was expecting to meet with them this month.

Moody’s rates Rhode Island’s general obligation bonds Aa2, while Fitch and Standard & Poor’s each assign a AA.

“I think the key component was education,” Raimondo said. “We really kept our focus on the problem. We concentrated on math, not politics, but realizing that real people’s lives were at the end of every number.”

Rhode Island’s approach probably worked in its favor, according to Jonathan Henes, a restructuring partner at Kirkland & Ellis LLP in New York.
“Whether they have stepped on a third rail will be determined when they run for re-election, but the way Rhode Island is tackling the problem does not appear to be political,” Henes said.

“It’s not as if a Republican governor got elected and his opponent was a union-backed Democrat, and the Republican was saying, ‘Now it’s time for payback against the unions,’ ” he said.

“In Wisconsin, by contrast, when Gov. [Scott] Walker was elected, he said he’d go after the unions. He had the best of intentions, but he came off the wrong way,” Henes added.

“It was never ‘us versus them,’ ” Raimondo said.

Raimondo grew up in Smithfield, outside Providence. While she was in grade school, her father lost his job when Bulova shuttered its watch factory. For income, he juggled part-time jobs while collecting a greatly reduced pension.

Throughout 2011, Raimondo spoke at assembly halls statewide, often before angry union members and pensioners.

“I actually enjoyed it,” she said. “I learned a lot. They deserved an opportunity to be heard. And the reform package ultimately became better because we did listen. There were so many personal stories about human issues.”

Raimondo, whose education includes LaSalle Academy, Harvard University, Yale Law School, and a Rhodes scholarship at Oxford University, co-founded private-equity firm Point Judith Capital, where she worked for a decade before her election. She drew on her background while campaigning on a theme of better transparency.

“As a former investor, I always believed in providing a complete picture,” she said. “One of the things we’ve done is create an investor relations portal. We’ve beefed up our disclosure and provided better training for staff involved with Rhode Island bond offerings.”

Raimondo acknowledged in February that the Securities and Exchange Commission had opened an investigation into bond deals in the Ocean State.

“We had planned to increase our disclosure, regardless of what the SEC was going to do,” said Raimondo, who has not been at liberty to speak about particulars of the SEC investigation.

Overall, Rhode Island, despite praise for its pension package, is still struggling. Central Falls is under receivership and in bankruptcy, though the city of only 19,000 people, which reported an $80 million pension shortfall when it filed under Chapter 9 on Aug. 1, appears to have reached an accord over its two pension plans.

Since that city’s filing, several municipalities have received downgrades.

They include East Providence, which has received two downgrades from Moody’s in five months, dropping its GO rating to junk status — Ba1 — from A1. Its most recent downgrade,
three notches, came Monday. East Providence is also under a state-appointed overseer, Stephen Bannon.

Henes said Rhode Island made the right moves with Central Falls, including the passage of a law designed to protect bond investors. It required municipalities to guarantee lenders first rights to their property taxes and general revenue, should they file for bankruptcy.

Henes added that Rhode Island’s size, which many see as a liability, worked in its favor. Smallest in area among the United States, Rhode Island has just over 1 million residents.

“Rhode Island is in a better position than a California,” Henes said. “With a big economy — California, the U.S., Europe — you can hide a lot of things and kick a can down the road.

“Rhode Island couldn’t kick the can down the road; they had reached the end of the road. They were falling off the end of a cliff.”

Meanwhile, much work remains in implementing pension changes. Raimondo’s office said Monday that in conjunction with the State Investment Commission, it seeks proposals for a service provider to implement and administer the new defined contribution program.

The new law only applies to the state-run pension systems.

According to a report that interim auditor general Dennis Hoyle issued in September, two-thirds of the 36 locally administered pension plans in 24 communities are at risk.

Raimondo, again stressing education, said that while the new law does not pertain to localities, her office is ready to advise, if necessary.

“If Rhode Island can help, or I can help, we’re here,” she said. “We’re hopeful that what we did can serve as a model.”

Source: http://www.bondbuyer.com/issues/120_239/rhode-island-pension-1034196-1.html

Related Story
Rhode Island Panels Clear Pension Overhaul Measure - November 14, 2011
The Softer Approach on Pension Problems

Head of Rhode Island's Fund Aims to Win Workers' Support

By MICHAEL CORKERY

RETIREMENT PLANNING

JULY 25, 2011

Rhode Island Treasurer Gina Raimondo, shown last week, is taking a softer approach on pension reform.

Standing before hundreds of state employees at a union meeting in late May, Gina Raimondo warned that Rhode Island's pension system could run out of money unless big cutbacks are made.

Then something unusual happened. The workers loudly applauded the 40-year-old Ms. Raimondo, who was elected in November to oversee Rhode Island's $6.4 billion pension fund. "This system as designed today is fundamentally unsustainable, and it is in your best interest to fix it," she said.

Across the nation, state officials wrestling with budget woes are pushing through cuts in public-sector pensions, saying there is no alternative to immediate financial pain. Ms. Raimondo, a Democrat, is taking a softer approach.

Instead of breaking ranks with labor allies to win a round of pension cuts now, as elected officials in New Jersey did recently, Ms. Raimondo has been trying for months to persuade workers, unions and taxpayers to support a top-to-bottom overhaul of Rhode Island's pension system that she says will fix the plan for decades to come.

If she succeeds, the tiny state will plug one of the most gigantic pension holes in the U.S. If she fails, the financial hole could get even deeper.

Rhode Island pensions are so generous that thousands of retirees now collect more than they ever received while working. The system's current assets cover just 48% of future obligations to workers, one of the nation's lowest funding levels.

Another nightmare: There are fewer current state workers paying into the Rhode Island pension system than retired workers collecting money from it. In comparison, the average pension system has 1.9 current workers per retiree, according to the National Association of State Retirement Administrators, a trade group for directors of statewide retirement systems.

Those numbers wouldn't necessarily be a problem if Rhode Island had socked away enough money to meet future pension obligations. For 50 years, though, state officials didn't follow actuarial standards on how much money should be set aside.

To keep the pension plan afloat, Ms. Raimondo, a former Rhodes Scholar, says Rhode Island might need to go even further than other states have in making pension changes. She has floated the idea of converting a
portion of guaranteed pension payments into 401(k)-style accounts or suspending cost-of-living adjustments to retirees.

"In the private-equity world, everyone thinks: Get rid of pensions," she says. "I think there is a way to provide a defined-benefit plan that ultimately provides retirement security, but you are never going to get there if all you have is a polarized political debate. The very word 'pension' gets people excited, but this is math."

Rhode Island's smallest city, Central Falls, is expected to run out of money to make pension payments by October. More than 100 Central Falls workers are being asked to give back as much as half of their pensions or risk losing more if the city goes bankrupt. The Central Falls fund isn't part of the statewide fund overseen by Ms. Raimondo.

Ms. Raimondo's grandfather helped organize a meat-cutters union. Her dad worked at a Bulova watch factory until he was forced into early retirement after more than 25 years, leaving him with a diminished pension. After she attended Harvard University and Yale Law School, Ms. Raimondo worked as a venture capitalist at Point Judith Capital, based in Providence, R.I.

She lives on Providence's east side, and her neighbors include professors at nearby Brown University and the chief executive of private-equity firm Providence Equity Partners.

Ms. Raimondo came back to Rhode Island about a decade ago and decided to run for state treasurer, which pays about $108,000 a year, after concluding that pension obligations are threatening public schools and other services she used while growing up.

Taxpayer contributions to the pension fund will grow to $650 million next year, from $330 million in 2010. Unemployment in Rhode Island was 10.8% in June, third-highest in the U.S.

"We have no engine of growth," she says. "You are never going to have that engine unless you have great schools, great libraries and great infrastructure. And you will never have that unless you fix pensions."

Ms. Raimondo's interest in possibly rolling back cost-of-living adjustments for Rhode Island pension recipients could lead to a legal challenge, although state-court judges in Colorado and Minnesota ruled last month that cost-of-living adjustments, which aren't part of base pension payments, can be trimmed.
"I want to minimize pain to everyone. But it comes down to fairness," says Philip Keefe, president of the Service Employees International Union, Local 580, which represents about 1,000 state workers. Mr. Keefe is on a panel advising Ms. Raimondo on pension overhaul.

Even though many workers, unions and taxpayers agree sacrifice is needed, tension grows as soon as talk turns to exactly who will get less if Ms. Raimondo's overhaul plans succeed.

"She's got a lot of courage showing up here," Mr. Keefe told more than 300 workers packed into the Cranston Portuguese Club, a low-slung building surrounded by red-brick factories, as Ms. Raimondo arrived for the meeting with state union employees in May.

Dominick Reuter for The Wall Street Journal
Rhode Island Treasurer Gina Raimondo at a pension talk last week.

Bob Guilbault, a 61-year-old social worker, complained that pensions for current workers already are less than those of retired Rhode Island employees. "The sacrifice has to be across-the-board. That includes everyone who has retired," he said.

Ms. Raimondo told the workers that 67 cents of every $1 contributed to the pension system by employees goes to cover the fund's $6.8 billion unfunded liability—not to their retirement. "My daughter's first-grade teacher pays into the system, and I don't know whether there is going to be much left when she retires," she said.

After the meeting, some retired workers huddled in the parking lot, worrying aloud about Ms. Raimondo's plans. "She says it nicely. But it's clear we are the target," Susan Coppa, who collects a $3,700-a-month pension, said in an interview later. "It's us against them: retired workers versus current workers."

Union officials say they respect Ms. Raimondo's analysis of the problem, but it isn't clear how much support she will win for dramatic changes such as 401(k)-style accounts or suspending cost-of-living adjustments.

Some union officials say it is possible Rhode Island's pension system could be saved without major benefit cuts. They have proposed essentially securitizing revenue from a state-run gambling facility. Any changes to the system will have to be approved by Rhode Island lawmakers.

An April meeting about the pension fund's expected rate of return underscored the resistance to Ms. Raimondo's blunt, by-the-numbers approach. Six out of the seven union and retiree representatives on the state retirement board opposed an actuary's advice to lower the target number. Ms. Raimondo, who pushed for the change, argued that unrealistically high expectations made Rhode Island's funding status look rosier than it really is. This time, she won. Board members eventually agreed to knock down Rhode Island's expected rate of return, to 7.5% a year from 8.25%.

"The good news is that Ms. Raimondo is the smartest person to ever hold the job of treasurer," Frank Flynn, president of the Rhode Island Federation of Teachers and Health Professionals, a union with more than 10,000 members, said when he introduced her at a luncheon for retired teachers. "The bad news is that she's the smartest person ever to hold the job."

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http://online.wsj.com/article/SB10001424053111904233404576465003932842770.html?mod=googlenews-wsj
General Treasurer Gina Raimondo wants long-term solution to underfunded pension system

Sunday, April 10, 2011
By Mike Stanton

Gina Raimondo says the state cannot afford the pension promises made by decades of politicians. She’s trying to raise the alarm now before the system crashes under the load of debt.

Gina Raimondo’s 4-year-old son, Tommy, thinks his mother works in a castle.

But it is not a castle of riches, Rhode Island’s new general treasurer has found.

The castle in question, the Rhode Island State House, is a medieval place surrounded by a moat of pension obligations, where generations of politicians have made costly promises and the guards put chains on the doors at night — twice locking Raimondo inside when she worked late.

Now, as Rhode Island struggles with a recession, crippling budget deficits, high taxes and declining services, Raimondo is trying to break free of the chains of the past and help guide the state to a brighter future.

Her objective: comprehensive public-pension reform that will provide greater security to public employees without crushing the taxpayers.

The challenge is daunting, the obstacles formidable, the numbers staggering.

The state’s $7.4-billion pension fund, which is supposed to provide for the retirement of more than 50,000 past and present workers, contains $5 billion less than it should. Rhode Island has one of the highest rates of unfunded pensions among the 50 states.

Worse, Raimondo believes that the $5-billion figure is significantly underestimated. An actuarial study due this week will help answer that question.
Soaring pension costs are burdening Rhode Island taxpayers, siphoning money from education and roads and aid to financially strapped cities and towns. This year, taxpayers will pay $330 million into the pension system — the same amount projected for the state budget deficit. Without changes, that contribution is projected to double in five years and hit $1.2 billion in 2029.

Meanwhile, state workers contribute 8.75 percent of their pay toward their pensions, one of the highest rates in the country. Two-thirds of that contribution finances more lucrative benefits for older workers and retirees that the younger workers won’t see.

Reforms in recent years have trimmed benefits, limited cost-of-living increases and raised the retirement age and years of service necessary to qualify for a pension.

But the piecemeal changes in the past five years have not gone far enough, says Raimondo, who is responsible for the system’s investments and overall financial stability. The system spent $300 million more last year than it took in. Soon, there will be more retired workers than active workers, which will drive costs even higher.

The only solution, says Raimondo, is “robust reform” — the sooner, the better.

“I spend a good deal of my waking and sleeping hours thinking about pensions,” she says. “There’s a desire to cover it up and hope it’ll go away. Well, it’s not going away.”

The good news, says Raimondo, is that the state retirement system isn’t going to run out of money this year, next year or even in five years. She compares the system to a plane that is gliding toward the ground, “and we still have time to make a controlled landing” before it crashes.

Armed with charts and PowerPoint presentations, Raimondo has talked to Governor Chafee, legislative leaders, union leaders and union members about coming together to solve the problem.

“It’s like a Rubik’s cube,” she says. “We have to slowly, carefully and thoughtfully align all of our interests. It’s not about taking benefits away. It’s about retirement security. I want to be able to look my daughter’s teacher in the eye and say, ‘Your pension will be there.’ I need to know that her pension will match up with a promise we can keep.”

In the coming weeks, Raimondo says she will quantify the true dimensions of the problem and propose a package of reforms to fix it. In recent interviews and public appearances, she sketched out the problem and potential solutions.

She starts with the question: What should retirement security look like?

She considers 401(k)-style plans — widely offered in private industry — too risky. She favors a defined-benefit plan but one that is “sensible.” It’s not reasonable, she says, to expect to retire at age 62 with 80 percent of your pay, compounded by annual cost-of-living increases that will double the pension of a retiree who lives into his or her 80s.

Raimondo says benefit cuts may be necessary for workers already vested in the system and current retirees — but that any cuts should be progressive, to lessen the impact on those with the smallest pensions.

Robert Walsh, executive director of the National Education Association of Rhode Island, says that Raimondo has “scared the bejesus” out of state workers with her comments that they might have to take a “haircut” in their pensions. Still, he and other union leaders commend Raimondo for seeking an honest, fact-based dialogue, and for not being a union basher.

“I’m not trying to scare anyone,” says Raimondo. “Nor will I pretend there’s not a problem. Maybe it’s a matter of style. I’d want to know. I’m a mom. Tell me how bad it is. I can deal with it. These people have been lied to. It’s politics — make a promise today that you don’t have to pay for 20 years.”
Raimondo laughs and tells a story about driving her two children last week.

Tommy, her 4-year-old, asked his 6-year-old sister, “Ceci, what’s pension?”

“I don’t know,” replied Ceci, “but Mom talks about it a LOT.”

Tommy agreed, telling his sister, “Mom knows pensions.”

But does Mom know politics?

Raimondo, 39, had already assembled an impressive resume before deciding to go into politics with her 2010 campaign for treasurer.

She grew up in a blue-collar family in Smithfield. Her father was a metallurgist at the Bulova watch factory in Providence. Her mother scrimped and saved to help put Gina and her brother and sister through college after their father’s job was eliminated after 28 years, forcing him into early retirement.

Raimondo was valedictorian at La Salle Academy, graduated from Harvard University and Yale University Law School, and was a Rhodes scholar at Oxford University. She became a venture capitalist in New York before moving back home 11 years ago to help launch Rhode Island’s only venture-capital firm, Point Judith Capital, investing in health-care and information-technology companies.

She and her husband, education consultant Andrew Moffitt, had two young children and moved to Providence’s East Side. She joined the board of Crossroads Rhode Island and led a drive to raise money to build a shelter for homeless women.

Ten days ago, more than 300 women packed into Café Nuovo and the glass-encased rotunda of Citizens Financial Plaza in downtown Providence for Women Helping Women, an annual fundraiser for Crossroads that Raimondo organized four years ago.

“She’s brilliant, and she also has a huge heart,” says Crossroads president Anne Nolan. “She’s tenacious. She sees a problem and says, ‘Get out of the way, let’s solve it,’ and it’s done.”

When Raimondo said she was going to run for treasurer, Nolan recalls, “I was excited and shocked. Politics is not a pretty life…. I was surprised she’d want to give up an incredibly successful career. She shrugged and said, ‘Someone’s got to do it.’ ”

Raimondo, who is a Democrat, says that she saw a need to run for treasurer, just as she had seen a need for a women’s shelter at Crossroads. Her husband says that she felt “compelled to run because of our family.”

“We want our kids to grow up here and find excellent things to do,” says Moffitt.

Addressing the Newport Chamber of Commerce Tuesday night, Raimondo spoke of her own life in arguing why pension reform “matters to everyone in this room and in Rhode Island — whether you collect a pension or not.”

Her father came from a family of butchers but served in World War II and was able to attend college on the GI Bill. Noting a story in the paper that West Warwick had proposed slashing its public library budget, and hours, Raimondo recalled her own high school days, studying in the public library and riding the RIPTA bus to La Salle Academy. She remembered how her grandfather taught himself English at the Providence Public Library because it was open late, after work.

“I care about buses and libraries and schools and roads and education,” she said.

In weighing pension reform, she says, Rhode Island needs to have an open discussion about its priorities. Since 1998, while the state’s contribution to the pension fund has climbed 225 percent, Raimondo says, state aid to
cities and towns has plummeted by 75 percent, and aid to higher education has dropped 20 percent. Pension payments are among the fastest-growing line item in state and local budgets, she says.

“It’s all about the choices we make as a society,” she says. “We can choose to have poor schools and parks and higher tuition at Rhode Island’s colleges. But we should make an active choice.”

On a recent day, Raimondo takes her place at the head of the table inside the august Providence Art Club. She is the guest of honor at the monthly luncheon meeting of one of the oldest investment clubs in America, founded just before the Great Depression. About 16 people, retired and active business people and financial advisers, are seated around the table.

Raimondo speaks of her efforts to diagnose the problem. As treasurer, she chairs the Rhode Island Retirement Board, which will receive an actuarial study at its monthly meeting this Wednesday detailing the system’s unfunded liability. The last report pegged the liability at $5 billion, or 60-percent funded. She says she wants “more reasonable” assumptions used in calculating those numbers. For instance, the figure assumes that pension-fund investments will earn an annual return of 8.25 percent — about double the actual average return over the past decade.

“I don’t have the numbers yet, but a more honest evaluation may find that we’re only 40- to 50-percent funded, with an $8- to $9-billion liability,” she says.

While a major overhaul of the pension system is up to the General Assembly, the Retirement Board has the authority to lower the 8.25-percent rate of return. That would significantly increase the amount of money that the state would be required to pay into the pension system next year. And that would create a major budget issue for the governor and the Assembly in 2012, increasing the pressure for major pension reform. “I’m trying to offer the state medicine,” Raimondo tells the investors club. “We have a very sick patient. The right way to handle it isn’t to berate the patient, but to deliver the news, as bad as it is, then offer the medicine. And this isn’t, ‘Take two aspirin and call me in the morning.’ But I think we can get better.”

Under Raimondo’s “truth in numbers” approach, she plans to issue a report in a few weeks detailing the numbers and offering the public a picture of “where we are and how we got here.” A few weeks after that, she hopes to offer a menu of options for reform.

Raimondo tells the investment club that there should be fewer pension plans — one for public employees, one for teachers, one for police officers, one for firefighters. With the current hodgepodge of plans, she says, “there’s too much gaming of the system.” She mentions a Providence Journal story that morning that said 75 retirees were collecting annual pensions of more than $100,000.

One club member, who works in finance, asks Raimondo why a defined pension benefit should be considered a right. She agrees that state workers “have an unbelievably rich Cadillac plan” that needs to be scaled back. But she opposes shifting pensions into 401(k) plans, where the worker assumes all the risk. She cites a study saying that the average 401(k) plan has just $65,000, and says the result would be “a lot of poor old people, and I’m not sure that’s good for society.”

Instead, she’s drawn to a hybrid plan that federal government employees have, one that shares the risk and provides a safety net.

Raimondo demurs when asked who deserves the blame for the pension mess, saying it’s not productive. “It’s 25 years of politicians putting the problem under the rug,” she adds.

She says there is “a huge inter-generational problem,” in which younger state workers are paying two-thirds of their pension contribution toward richer benefits for older workers and retirees. A 35-year-old teacher is “working her tail off to pay for this, and I don’t think they realize that.”
Someone asks what’s her political plan?

Raimondo says that she’s a novice to politics. She explains that she’s trying to educate legislators and others in the process. “I’m trying to get way out in front to give people cover,” she says. “A lot of politicians don’t want to stick their necks out. They want to do the right thing, but they’re driven by fear. They want to be reelected.”

Later, in an interview, Raimondo says that people have pulled her aside, at the State House and elsewhere, and urged her not to take on pension reform.

“People tell me this is not a politically wise move,” she says. “They say, ‘It’s risky. It’s scary. No politician has tackled pension reform and survived.’ They all say, ‘Don’t touch it.’ ”

However, she tells the investment club, “I think it’s positive to say we have to fix the problem.” She taps her hand forcefully on the white linen tablecloth, rattling the china with the Providence Art Club logo, and adds, “It’s a matter of political will.”

At the lunch, and again at the Newport Chamber of Commerce meeting, people criticized what they perceive as a lack of leadership by Chafee and the General Assembly.

Raimondo has met with Chafee and his staff four times to argue against a plan the governor was considering to refinance, or reamortize, the pension debt to help balance the budget. She argued that that would drive up long-term pension costs and further weaken the system.

Chafee says that he saw some merit in reamortizing, just as a homeowner might refinance his house to help get through tough times. But the governor says he also understands the long-term costs of doing so, and chose not to when he finalized his budget proposal.

“Ultimately, it’s important that we work together,” says Chafee. “She felt strongly about it.”

Given that Raimondo’s recommendations may come near the end of this year’s legislative session, Chafee predicts it’s unlikely that any comprehensive reform will be enacted this year.

Raimondo supports Chafee’s budget proposal to increase pension contributions to 11.75 percent for state employees and for teachers, who now contribute 9.5 percent. But she says that’s only a small step, and voices concerns about the uncertainty created for workers who are “henpecked” with incremental changes every year instead of one comprehensive reform package.

At the Newport chamber, a businessman voiced his frustration with state leaders and asked her, “Do they ever talk to you?”

The room erupted in laughter.

“Or listen?”

“Yes,” said Raimondo, smiling. “I’ve been there 90 days, and they’re still talking to me.

“This whole thing has to be solved in the General Assembly,” she continued. “I’m the fiduciary, I can ring the bell, but at the end of the day, I don’t have a vote. That’s why I’m here, talking to you, so you can talk to the General Assembly.”

Raimondo was an unknown quantity when she launched her campaign for treasurer; some thought she was a man, Gino.

But she impressed political observers by raising nearly $900,000. Then she captured 62 percent of the vote, leading all statewide candidates. In her first few months in office, she garnered a 39-percent approval rating, an impressive showing for a newcomer in a historically obscure office, says Brown University pollster Marion Orr.
Orr credits voters’ positive perception of Raimondo to her visibility on pensions, and notes that other general officers polled lower. Governor Chafee was at 32 percent.

She is considered a rising star in the Democratic Party, a potential candidate for governor in 2014. Raimondo says she has no political plans, beyond doing a good job as treasurer.

“I’ll be 40 in May — I want to dedicate a portion of my life to public service, but not all of it,” she says. “This job is tough, and draining and public, very public. I go to church, or we’re out to dinner, and somebody wants to talk to me about the issues. Many people say, ‘Keep it up,’ so it’s nice. But it’s hard.”

Raimondo’s handling of the pension issue, and its outcome, could determine her political prospects, on one hand alienating labor support, on the other gaining support in the business community and among critics of Rhode Island government.

Raimondo says she wants to help craft a pension solution that labor can live with, even if it involves sacrifice — a solution that would avert legal challenges. She is aware that the state’s largest public employee union, Council 94 of AFSCME, is suing the state over pension reductions in 2009 and 2010. And she has said that the issue of pensions as a guaranteed property right is “an unsettled area of the law.”

She didn’t win the endorsement of the NEA teachers union during the campaign because she would not promise she wouldn’t touch their pensions. And while the NEA’s Walsh says her comments about “haircuts” have been alarming, he says that her values and the union’s “overlap.”

“Her heart starts in the right place,” adds Walsh. “We’ll have to see where her head is at.”

J. Michael Downey, president of Council 94, said his union endorsed Raimondo, despite not liking her answers on the possibility of cutting pension benefits, because “she was honest.” Downey doesn’t believe the retirement system is as bad off as Raimondo does, arguing that strong stock-market returns following the 2008-09 recession have boosted the fund.

Raimondo disagrees. Addressing a meeting of retired state workers in West Warwick on Wednesday, she was asked if the crisis would have been averted if pension investments had earned 8.25 percent over the past decade, as assumed. Raimondo answers no, not entirely.

“Well, that’s something that’s never mentioned,” the man replied. “All that gets mentioned is ‘the greedy public workers’ and politics.”

Whenever she speaks with business or labor groups, Raimondo stresses that she will not blame the unions. Her grandfather, a butcher, helped start the Rhode Island meat cutters union. Her parents had to live on her father’s small pension after his factory job disappeared.

“I know what it is to live on a fixed income,” she said. “You did what you were told. I’m not here to point fingers. I know how important your retirement security is.”

An elderly man asks if she can guarantee that their pensions will remain intact, including their cost-of-living increases. Several of the other retirees in the room appear to be younger, in their 50s.

“I don’t know,” Raimondo replies. It’s not her preference to cut, she explains; it’s important to protect lower-income retirees, and “it’s not fair to change the game.” But ultimately, she repeats, “I don’t know.”

“I don’t want to take your benefits away,” she concludes. “It’s about providing benefits that I know we can afford.”
KEY FACTS

Rhode Island Retirement Board
The 15-member state retirement board oversees the pension system and delivery of services to more than 32,700 active members and almost 26,500 retirees.

RETIREMENT PLANS COVERED:
ERSRI: Employees Retirement System of Rhode Island, covering state employees, teachers, judges, correctional officers, registered nurses in the Health Department
MERS: Municipal Employees Retirement System, covering municipal employees in 32 communities that contribute to the state-administered plan

DUTIES INCLUDE:
• Approving all applications for regular or disability retirement
• Certifying annual contribution rate required of state taxpayers
• Hearing appeals of decisions made by the executive director
• Hiring an actuary and doctors
• Conducting annual actuarial valuations
• Conducting periodic actuarial investigations
• Appointing an executive director and an assistant executive director

BOARD MEMBERSHIP:
• General Treasurer Gina Raimondo, serves as chairwoman
• Richard A. Licht, state director of administration
• Thomas A. Mullaney, associate director of the state budget office, designated by the state budget officer
• Daniel L. Beardsley, president of the R.I. League of Cities and Towns
• Gary R. Alger (2011), Frank R. Benell Jr. (2013), M. Carl Heintzelman (2011) and Jean Rondeau (2012): four public appointees — two by the governor and two by the state treasurer, all subject to Senate approval (years in parentheses represent when terms expire)
• William B. Finelli and John P. Maguire: two active teacher representatives; Finelli serves as vice chairman
• John J. Meehan and Linda C. Rendeau: two active state employee representatives elected by working teachers union members
• Louis M. Prata: active municipal employee representative elected by working union members
• Roger P. Boudreau and Michael R. Boyce: two retiree representatives elected by the plan retirees

BY THE NUMBERS - Pension system
7.4 billion
Total amount in state pension fund
$330 million
Amount taxpayers will contribute this year
32,732
Active union members covered by state-run systems
26,476
Retirees covered by state-run systems
Wanted: Political courage

October 23, 2011

Most Rhode Islanders are well aware that the state will fiscally collapse unless its public-pension systems are reformed. The approach promoted by Gen. Treasurer Gina Raimondo, and supported by Governor Chafee, would help put the system on the road to recovery. Now, of course, the matter is before the General Assembly, torn between the powerful public-employee unions and the general public.

First off, we should again note our skepticism about including the dozens of municipally run funds in this year's General Assembly pension-reform work. That adds too much complication, which could jeopardize any reform, and should instead be addressed early next year. The proposed reform of state-run plans — a reform mostly created by Treasurer Raimondo and her colleagues — provides very useful guidance for reforming the municipally run plans. (After that must come reform of out-of-control public-employee health plans.)

The overall plan for fixing the state-run program is sound. Based on conservative actuarial, investment and legal considerations, it would reduce the unfunded liability by more than $3 billion and increase its funding status to 60 percent, from 48 percent.

In doing this, it would lower the cost of state borrowing. It would also help bring in economic development, as businesses saw that the state's government showing a new capacity for operating with prudence, stability and far-sightedness.

The program would:

- Share more fairly the cost of public pensions among taxpayers and older and younger public employees. Most public-employee retirees would continue to enjoy secure retirements at a comfort level considerably better than that of most people in the private sector.
- Cut costs by creating a hybrid defined-benefit/defined-contribution system, instead of the too expensive pure defined-benefit system that now applies.
- Suspend, for a time, the astronomically expensive retirees' cost-of-living adjustments (virtually unknown in the private sector) until the system is at actuarially sound levels. (Some of the current plans have COLAs that far exceed the general rate of inflation.) We would prefer that they be negotiated away permanently, but a suspension will help.
- Include a modest amount of reamortization (refinancing). While we are always leery of stretching out payments, that seems politically unavoidable.
- Include self-correcting mechanisms so the state would avoid the unpleasant and unpredictable effects of financial-market and other uncertainties.
- Not require increased taxes next year.
- Save the municipalities, many of which are stressed to the limit, as much as $100 million through decreased contributions to the state-run pension systems.

Public-employee union leaders, of course, complain that reform would involve changing legal contracts. Many, many people in the private sector can speak of how economic realities forced changes in their contracted pensions. There seems to be the feeling in some public-employee unions that they are protected from all such realities — perhaps because they are politically powerful monopolies. If they succeed in effectively bankrupting their jurisdictions, they will find out just how self-destructive such a stance is.

Overall, this reform program would greatly help Rhode Island's fiscal health and thus its economy. The nation is watching it as a possible model for other states. Let's hope that legislators seize this opportunity to be heroes.
Rhode Island Miracle Explained

How a liberal state reformed its pensions.

Good news in politics is rare these days, but an event that qualifies is the liberal state of Rhode Island’s recent landmark pension reform. Gina Raimondo, the state treasurer who led the effort, visited the Manhattan Institute yesterday to explain the miracle, and it turns out she didn’t need heavenly powers, only political nerve and good judgment.

The plan enacted in November cuts $3 billion of the state’s $7 billion unfunded liability by raising the retirement age, suspending cost-of-living increases until the pension system is 80% funded, and even moving workers into a hybrid plan that has a smaller guaranteed annuity along with a 401(k)-style defined-contribution plan.

“We decided we owe each other a bright future,” said Ms. Raimondo, who said she and fellow Democrats (as well as Independent Governor Lincoln Chafee) came to the conclusion they could no longer afford the lavish promises made to state workers without destroying economic opportunity for everyone.

More government revenue wasn’t an option because Rhode Island already suffers from the nation’s 5th highest state and local tax burden—a full 10.7% of per capita income, according to the Tax Foundation. Everyone in the pension system had to give something, from new employees to retirees. But a key to reform, Ms. Raimondo said, was to avoid blaming these beneficiaries for the mistakes of the past. “No finger pointing” was her mantra, along with a corollary: “Math, not politics.”

The first step was an education campaign to explain why a tiny state could not afford an unfunded liability that was more than $7 billion and headed north. This also helped to blunt union opposition. Once there was a consensus that the problem was real, citizens were ready to consider solutions.

Ms. Raimondo said those solutions had to be discussed openly. Rhode Island’s reform process was so transparent that even when a draft bill to implement the changes leaked to the press before its formal introduction, it was essentially a nonstory because the reforms had already been discussed publicly.

And voila, real change and hope. We recommend a multistate road show for Ms. Raimondo, starting with New York, California and Illinois.