

RETIREMENT PLANNING | JULY 25, 2011

Softer Approach on Pension Problems

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

By MICHAEL CORKERY

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.



Dominick Reuter for The Wall Street Journal

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

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.

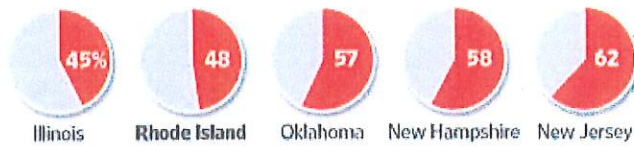
"In the private-equity world, everyone thinks: Get rid of pensions," she says. "I think there is a way to provide a defined-benefit plan that ultimately provides retirement security, but you are never going to get there if all you have is a polarized political debate. The very word 'pension' gets people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

Pensions That Are Seeing Red

Rhode Island is among the lowest funded public pension systems in the U.S., the result of ignoring actuaries, missed investment expectations and generous benefits.

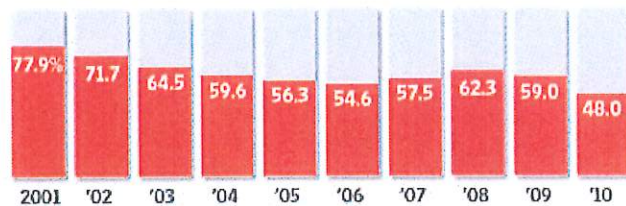
Low-funded state pension plans



Note: Most recent data available

Sources: Pew Center on the States; WSJ reporting

Rhode Island pension system's funding levels



Source: Rhode Island Treasurer's Office

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.

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.



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

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."

Write to Michael Corkery at michael.corkery@wsj.com