Providence City Council Ward 2

SAM ZURIER

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Dear Fellow East Siders:

Last Tuesday, the Treasurer and the Governor introduced a pension reform bill. In the days leading up to that event, there was a debate between the Treasurer on one side, and the Governor and mayors on the other side, concerning whether to address municipal pensions in the same bill. In the end, they agreed on some limited measures concerning municipal pensions that would do little to address our City's pension issues.

The pension reform bill as introduced would, if enacted, bring a valuable benefit to the State. The State pension is less than 50% funded (based on actuarial calculations of expected returns and costs), and has a deficit exceeding $7 billion. The proposed reforms (increased retirement age, freezing cost of living adjustments and reamortization) would raise the funding level to over 60%, and reduce the City's required contribution to the teachers' retirement fund by $11 million or more. While this is good news, one must view it in perspective. Even with State pension reform, the City's contribution to the teachers retirement fund will not be less than last year; instead, the reform will at best reduce the increase we would otherwise pay without reform. We are scheduled for a big increase over last year because the State Retirement Board reduced the anticipated rate of return from 8.25% to 7.5%. The Retirement Board's decision (which is entirely justified given the investment market) had the effect of reducing the value of the State's accrued savings to date, thereby increasing the unfunded liability. In fact, one can make an argument that even a 7.5% anticipated rate of return is too optimistic, given the dismal performance of the markets over the past decade.

We hope State pension reform succeeds; however, that initiative will do little for the even more significant problems we face in Providence. As I just mentioned, the State's pension system is now 50% funded after the State Retirement Board reduced the anticipated rate of return from 8.25% to 7.5%. In contrast, our municipal retirement system was only 34% funded as of a year ago, and that was based on an 8.5% anticipated rate of return. If we were to reduce that rate of return to a more realistic number (such as 7.5% or lower), our funding ratio would likely dip below 30%. Also, like the State, a major problem for Providence's system is ever-escalating cost-of-living adjustments (COLA's); however, unlike the State, the bulk of our COLA's are written into collective bargaining agreements rather than laws.

While my information is not complete, I understand that the cities (led by Providence and Cranston) were hoping that the pension reform bill would include provisions to freeze municipal pension COLA's as well as state pension COLA's. COLA reform in Providence is just as crucial as it is for the State; however, the City lost one round in court on this issue several years ago, which places limits on the available options. I expect municipal leaders from Providence and elsewhere to seek amendments to the State bill to address our City plans. Once the General Assembly sorts out its own approach, the City Council's subcommittee on pensions will resume its work.

Sincerely,

Samuel D Zurier

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