

## **Gina Raimondo's Shining Example – Pension Reform in Rhode Island**

### **One Page Summary**

**10/5/12 – updated 1/24/13**

Gina Raimondo was running a Rhode Island venture capital firm when the mother of two read that a growing fiscal crisis might force cutbacks in libraries and busses. The threat drove her to seek public office for the first time. “I literally put the paper down and said ‘I have to do this. I have to run.’” (Bloomberg - see below) Raimondo was elected Treasurer of Rhode Island in November 2010 in a landslide. One year later because of her incredible leadership Rhode Island adopted the nation’s most extensive public pension reform ever. The heavily Democratic union-supporting Legislature passed the bill 57 to 15 in the House, 35 to 2 in the Senate.

California has much to learn. Both are Democratic and unionized. But there are big differences. Rhode Island’s area and population is the size of Contra Costa county. “Retail” politics works in Rhode Island. California – not so much.

Rhode Island’s pension funds have been in serious trouble for some time. The Legislature passed four rounds of “reforms” beginning in 2005 claiming they’d “solved the problem”. But local and state government finances continued to deteriorate.

Raimondo’s first accomplishment was to lower the assumed rate of investment return in April 2011 from 8.25% to 7.5%. That immediately increased the calculated unfunded pension debt and significantly increased government pension fund payments. Then the City of Central Falls went into receivership, slashed public services and cut pensions in half. These made the crisis very real.

Raimondo published a 14 page report to the people titled *Truth in Numbers* in June 2011. The purpose was to tell the people what the unfunded pension debt was, diagnose the key drivers of structural pension deficits, lay out the implications of inaction, and provide a framework for solutions. “Ensuring a common understanding of the current pension situation is critical to fostering a lively and informed debate among all stakeholders ... Past pension efforts have not been comprehensive enough to address the root causes of the problem. (We must) avoid the temptation to rush reforms that may be ill-designed or incomplete. Hard working state employees and teachers have done nothing wrong ... the problem does not lie with them.” This report played a key role in making it possible for reform proposals to gain broad support and be adopted. She identified these key requirements of reform: accurate and transparent assumptions, equitable and reasonable changes in pensions, intergenerational fairness, comprehensive and self-correcting processes, and a realization that unfunded liability for past service must be reduced because it’s the lion’s share of the problem. Raimondo attended 100 community meetings in 8 months delivering this message.

Key reforms are that retiree cost of living adjustments are limited to once every 5 years until pension funds are at least 80% funded and they earn close to their target rate of return on average over 5 years, a “hybrid” system was imposed combining a much smaller guaranteed pension with a defined contribution benefit, and retirement ages were raised.

The existing system created perverse incentives because employees kept more money if actual results were significantly below target. Contributions deducted from paychecks were lower but they still received guaranteed pensions in retirement. By making pensions dependent on positive pension fund results public employee and retiree interests were realigned to support actions to make pension funds stronger. Actuarial estimates are that unfunded pension debt and government pension payments declined 40% as a result of the reforms. Today Raimondo is focusing in independent local government pension reform.

Raimondo is a Democrat and a financial realist who demands governments do their job. She’s among the best known national Democratic leaders rebelling not against labor but rather against myopic self-centered public union leadership that is driving governments bankrupt, throwing the next generation of public employees under the bus, and putting public retirements at risk. “Cutting benefits isn’t what you think about when you think about a progressive Democrat. But you have to do it because if you don’t, then you can’t invest in the future.” Raimondo created political space that allowed public employees to support reform.

Just as in Rhode Island things will probably have to get much worse in California before they can get better – before enough public employees, retirees, and the public get worried enough to accept big changes and sacrifices. Although Raimondo’s leadership was amazing, she believes the very real crisis in Rhode Island was necessary to make her accomplishments possible. The public had to get very worried about specific consequences in their lives if the pension mess wasn’t fixed.

Gina Raimondo made her rebellion with heart, with mind, with soul – calm, determined, and triumphant.

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# Gina Raimondo's Shining Example – Pension Reform in Rhode Island

10/5/12

According to numerous analysts pension reform in the tiny State of Rhode Island is the most extensive in American history. Democratic State Treasurer Gina Raimondo made it happen. The contrast of her leadership with California's is stark.

## I. RHODE ISLAND COMPARED TO CALIFORNIA

### A. Major Differences

There are huge differences between California and Rhode Island. Some are obvious. Rhode Island with 2 US Senators has almost exactly the same population and land area as Contra Costa County (1 million people in 800 square miles). If it were a California County Rhode Island would have the 9<sup>th</sup> largest population.

One newspaper covers the entire state. Radio and TV stations reach the entire population. It takes an hour to drive from one corner of the state to the other. Compared to California there are far fewer "degrees of separation" between people in Rhode Island, they are far more likely to get their news and opinions from the same local media, they are much closer to each other.

California's economy is far larger and much more diverse. Rhode Island politics are "retail" – California's "wholesale".

Other differences aren't so obvious. Retirement benefits for most government employees in Rhode Island are established by the state legislature – not by collective bargaining as in California. The governing bodies of some local governments in Rhode Island establish retirement benefits for their employees – but again they are not set in labor contracts. Acts of the legislature or local governing bodies can unilaterally change government retirement benefits. As is true in 75% of the states in the US Rhode Island does not subscribe to the "California Rule" that holds that public employees have a right to the best "pension deal" in effect at any point of their employment. They know they have the legal right to reduce retirement benefits for employees and even retirees.

### B. Strong Public Unions & Democratic

However – both Rhode Island and California are heavily Democratic States with very strong public labor unions. About 18% of employees in both states are unionized. Public unions exert very strong influence in both States. In this context – in a strong unionized and Democratic State – the legislature in early 2012 passed Raimondo's Rhode Island Retirement Security Act 57 to 15 in the House and 35 to 2 in the Senate. A strong majority of Democrats in both houses voted for the bill. It's now the law.



Gina Raimondo was running a Rhode Island venture-capital firm when the mother of two read that a growing fiscal crisis might force cutbacks in libraries and buses.

The threat drove her to seek public office for the first time. "I literally put the paper down and said, "I have to do this, I have to run."

Raimondo grew up in an Italian-American family riding public buses to public schools attending summer recreation programs in public parks. Her immigrant grandfather learned English at evening classes at the public library. Her father went to college on the GI Bill. She values public services and appreciates those who provide them.

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

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On 9/8/11 Raimondo attended one of dozens of public meetings with union members. "You're going after the retirees! In this economic time, how could you possibly take a pension away?" yelled a union official. Another said her efforts were immoral.

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 (pension reform) is moral."

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Pension reforms that only affect future employees don't save much money for decades. Californians should think about what Raimondo says when thinking about California's recent "reforms".

A lot of "people say we've done pension reform when all they've done is tweaked something," Ms. Raimondo points out. "This problem will not go away, and I don't know what people are thinking. By the nature of the problem, it gets bigger and harder the longer you wait."

## II. FIRST YEAR IN OFFICE – DEVELOPMENT AND PASSAGE OF PENSION REFORM

Raimondo earned her Bachelor's degree in Economics at Harvard – Magna Cum Laude, a D. Phil. in Sociology as a Rhodes Scholar at Oxford, and a law degree at Yale. She helped establish a venture capital firm then was founder of Rhode Island's largest venture firm – Point Judith Capital – specializing in health care. Clearly an “over-achiever” - she understands financial math.

Rhode Island's Pension Funds had been in trouble a long time. The Legislature passed four rounds of “pension reform” since 2005 each time claiming they'd addressed the problem. But they did what California's *Public Employee Pension Reform Act* signed into law by Jerry Brown in September 2012 did – reduced pension benefits for future employees, but pretty much left current employees and retirees alone. But the Pension Fund's situation kept deteriorating.

Raimondo was elected State General Treasurer in November 2010 with 62% of the vote. During her campaign she pointedly refused to promise that state jobs and pension benefits would be protected no matter what. Instead, she promised she would tackle the state's increasingly dire pension debt crisis. She won by a landslide at a time when the state's Pension Fund reported it was 48% funded.

### A. Lowering of Target Rate of Return and Central Falls Insolvency

Her first major action came in April – just 3 months into office. She persuaded the state's Pension Board to cut the Fund's assumed rate of investment profits to 7.5 percent from 8.25 percent. The Pension Fund's actuary had reported less than a 30 percent chance the Fund would earn 8.25 percent over the next 2 decades. The actual return over the past 10 years had been 2.28%!

By lowering the assumed rate of return the state's calculated unfunded pension obligation immediately increased. And that meant the Legislature had to come up with an additional \$300 million in the next year - either higher taxes, deeper service cuts, increased worker contributions or benefit cuts. That set the stage for comprehensive pension reform because Legislators realized they couldn't raise that much money in the next year.

And then a month later the City Council of Central Falls declared the City insolvent and filed to be placed in State receivership. The city's pension fund was completely out of money. The city obtained a court's permission to cut pensions of retired police officers and firefighters in half. The pension debt crisis was no longer abstract. A sense of crisis rapidly spread through the state.

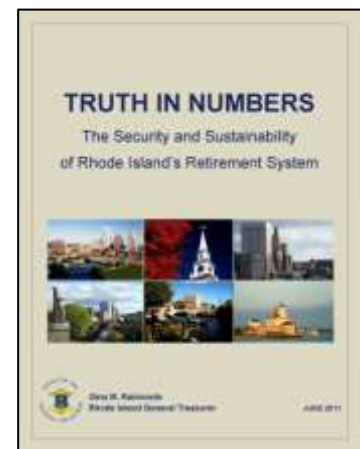
### B. Truth in Numbers – Report to the People on Pension Crisis

Raimondo published a 14-page report to the people of Rhode Island titled *Truth in Numbers* in June. Her purpose was “to lay out the main reasons for the state's pension challenges, explain the implications for all Rhode Islanders, and offer a framework for devising solutions”.<sup>1</sup> Below are quotes ...

#### 1. Introduction

*A robust state retirement system plays a critical role in recruiting and retaining talented employees on whom we depend for quality public services ... Such a system is also designed to provide a level of secure income to these employees, once they retire. To be viable, a state retirement system must be affordable for both the employees and the taxpayers who support it.*

*Today Rhode Island's pension plans provide neither retirement security nor financial sustainability and are in dire need of re-design.... Each year that the state delays action to address its fundamental structural pension issues, the more risk the system faces and the harder it becomes to fix.*



<sup>1</sup> *Truth in Numbers*, Gina M. Raimondo, Office of Rhode Island General Treasurer, June 2011, page 2

This report is organized around four key objectives:

- Estimating the price tag for past service
- Diagnosing the key drivers of the structural pension deficit
- Understanding the implications of further inaction
- Providing a framework for solutions

Ensuring a common understanding of the current pension situation is critical to fostering a lively and informed debate among all stakeholders, including: public sector employees; taxpayers; and state and local elected and appointed officials, on how to fix it.

Only by developing a workable solution to the pension crisis can a financially secure future for all Rhode Islanders be created. While it is necessary to address this problem as quickly as possible, it is more important to make sure that solutions are thoughtfully considered and lasting. ... Past pension reform efforts ... have not been comprehensive enough to address the root causes of the problem. The result of this piecemeal approach is that state employees and teachers have endured several rounds of changes to their benefits, which have produced anxiety and insecurity, while the system remains woefully underfunded. The task ahead is to move swiftly to outline solutions, and to avoid the temptation to rush reforms that may be ill-designed or incomplete.

Above all, it is important to remember that real people and families are connected to every number and every actuarial assumption in this report. Any proposed reform has immediate and direct consequences for hardworking state employees and teachers, who have done nothing wrong and contributed what was asked of them to the pension system. The problem does not lie with them; rather the problem is a poorly designed system that has been faltering for decades. Another vital consideration is the hardworking Rhode Islanders outside the pension system, who are struggling to save for their own retirements, and are being asked to pay higher taxes, in good part, to fund the pension system. Of course, we all suffer if the state has to make severe cuts to vital public services to maintain the current pension system.

Ultimately, honest dialogue and real sacrifices will be required to re-design a system that:

- Attracts quality employees
- Provides a level of security for its retirees
- Preserves funding for public services
- Protects taxpayers

Comprehensive, one-time pension reform is required for a financially secure RI.

## **2. Estimating the Price Tag for Past Service:**

After considering both private and public accounting rules, RI's current unfunded liability is \$6.8 to \$9 billion.

## **3. Diagnosing the Key Drivers of the Structural Pension Deficit**

- Failing to utilize sound actuarial practices.
- Generous benefit improvements without corresponding taxpayer or employee contributions.
- Current pension plan design – the true normal cost for nearly all employees and retirees has never been fully contributed to the system.
- Retirees living longer – as people live longer, the impact of the COLA (Cost of Living Adjustment) on the cost of providing pensions is especially large.
- Lower than assumed investment returns.

#### **4. Understanding the Implications of Further Inaction**

- *Unsustainable annual costs for taxpayers – it is unrealistic to believe that taxpayers can continue to support these ever-increasing required contributions and unfair to let current state employees and retirees believe that this is likely.*
- *Burden on active state employees – compared to current retirees, active state employees and teachers are contributing more toward their retirement, but will receive lower levels of retirement benefits. If changes are not made, they face the risk that retirement fund assets might not be there at all.... Each generation of taxpayers should pay the full costs (including the pension costs) for the public services it receives. ... The vast majority (of annual contributions to the Pension Fund – about 75%) was required to underwrite the unfunded liabilities for past service.*
- *Threats to vital public services.*
- *Pension Fund could run out of money.*
- *Impact of increasing pension expenses on borrowing costs – the state relies on the ability to access the bond market on favorable terms to support critical long term projects, such as roads, bridges, and the infrastructure at higher education facilities. The state’s underfunded pension system will automatically have a negative impact on the state’s (credit) rating if funding levels fall further.*

#### **5. Providing a Framework for Solutions**

*The path to comprehensive pension reform should begin with agreement on a definition of retirement security. Reform impacting only new employees will not affect the ... unfunded liability. A comprehensive & long-term solution must achieve the dual goals of retirement security & taxpayer affordability.*

*Any comprehensive legislative solution should be informed by the following principles:*

##### **a) Accurate and Transparent Assumptions**

*Retirees, employees and taxpayers rely on government leaders to be honest about the system’s liabilities and to have safeguards in place that require accurate accounting. Public employees depend upon their union leadership to insist on conservative, realistic assumptions. Using overly optimistic assumptions hurts everyone because these assumptions underestimate the true cost of pensions and increase the risk that not enough money will be set aside.*

##### **b) Equitable and Reasonable Changes**

*Any reform impacting only new employees will not affect the existing \$7 billion to \$9 billion unfunded liability for **past** service. This problem is decades in the making and all stakeholders must now share in the solution. The following, among many other ideas, should be analyzed as possible areas of reform:*

- *Increase retirement age including for current employees.*
- *Reduce the “pension accrual rate” – the benefit.*
- *COLA – any comprehensive solution requires analysis of Cost of Living Allowances.*
- *Hybrid plans and portability-combine defined benefits and defined contributions.*
- *Others such as anti-spiking, coordination with Social Security, etc.*

##### **c) Intergenerational Fairness**

*Newer employees bear a greater burden than their predecessors, are forced to help contribute to their elders’ retirements, and have a greater risk that pensions won’t be there for them. Budget cuts today force lower wages, unpaid furlough days and service cuts. Any solution needs to ensure fairness between newer and more veteran employees and retirees.*

#### **d) Comprehensive and Self-Correcting Processes**

*It is critical the state adopt measures that provide automatic self-corrections such as establishing funding targets, adjusting benefit and contribution levels automatically and temporarily if funding targets aren't achieved, linking employer and employee contributions to more evenly share the risk between taxpayers and employees, integrate state and local systems to prohibit "double dipping" and help local systems solve their deep debt problems.*

#### **e) Unfunded Liability is the Lion's Share of the Problem**

*The pension system is extremely underfunded today and any solution must address the unfunded liability – the bill for past service. It is likely that any solution will require both an infusion of assets and a change to benefits.*

### **6. The Time To Act is Now**

*The pension system cannot be allowed to fail, nor can the state afford to fund the current system at least without massive tax increases or extremely painful budget cuts. It is unfair to ask taxpayers to pay for the growing level of required contributions and it is dishonest to let state employees, teachers and retirees believe that full benefits will be there for their retirement. We have the opportunity to lead the way forward in confronting and solving this problem and, in so doing, serve as a model for other states to follow.*

## **C. Development and Passage of Pension Reform**

Immediately after publishing *Truth in Numbers* Raimondo convened a 12 person commission, included four union representatives as well as other state officials, accountants and consultants. The group met from late June through September and developed pension-reform legislation. Raimondo and Gov. Lincoln Chafee introduced the legislation in October.

Seven joint public hearings of the House and Senate Finance Committees received public testimony. The Legislature met in Special Session solely to debate the pension reform bill. Only pension reform was on the agenda to prevent "horse-trading" for votes in which legislators would require support for unrelated bills.

The legislature - dominated by labor-backed Democrats – passed Raimondo's reforms on November 17, 2011 less than one year after she took office! The House passed the bill 57 to 15 and the Senate 35 to 2.

We are balancing three central goals



## **D. Raimondo's Public Outreach – 100 Community Meetings**

In her first 8 months in office Raimondo attended about 100 community meetings across the state. She was fearless, repeatedly putting herself before hostile crowds of government retirees and employees.

*She wasn't afraid to "walk into the belly of the beast" and tell the unions point-blank that "you were lied to [by former politicians] and the system is broken. Today we're arguing about whether you get a COLA [cost-of-living adjustment], tomorrow we'll be arguing about whether you get a pension." Exhibit A was Central Falls, where many retired police officers and firefighters have had their pensions cut in half<sup>2</sup>*

<sup>2</sup> *The Democrat Who Took On the Unions*, Allysia Finley, Wall Street Journal, 3/25/12, available as of 9/18/12 at <http://online.wsj.com/article/SB10001424052970204136404577207433215374066.html>

### III. CHANGES TO RHODE ISLAND'S PENSIONS

The “Rhode Island Retirement Security Act” is rather complex. Different classes of employees have different pension benefits and funding systems. This discussion is only for some of the major main changes for the larger groups of employees who participate in the State’s pension system.

#### **A. Retirees**

Cost of Living Adjustments (COLA) for all groups of retirees are suspended until the Pension Fund is at least 80% funded. The funding status of all of the State’s different pension systems will be aggregated to determine if the 80% requirement has been achieved. Previously COLAs were based on changes in the Consumer Price Index – in the future they will be based on Pension Fund earnings. They will be calculated based on the Pension Fund’s five-year average investment rate of return minus 5.5% and will range from zero to four percent. For example, if the 5-year average return is the target rate of 7.5% then the COLA that year will be 2%.

Under previous policy the COLA was only on the first \$35K of pensions, now they are only on the first \$25K. However, since it’s expected that it might take 15 to 20 years for the Pension Fund to achieve 80% funding the Legislature required a COLA at least once every five years so there will be some increase for current retirees.

This change has a very major impact on reducing the State’s unfunded pension obligation. It’s a “self-regulating” system. COLA’s can’t create large unfunded pension obligations as they did in the past.

#### **B. Current and Future Employees**

##### **1. Current Employees - Past Service**

There is no change in the accrued pension benefit for past service for those who are eligible to retire by 6/30/12. For those that won’t be eligible to retire by that date it is “frozen” – the amount of this part of the pension will not be increased as a result of future work. The amortization period for the unfunded pension obligation is extended from 19 years to 25 years – which reduces the State’s yearly UAAL amortization payment.

##### **2. Future Service including New Employees**

The traditional defined benefit pension plan is replaced by a “hybrid”.

There will be a much smaller defined benefit pension benefit. Most employees will receive one percent of the average of their highest 5 years of compensation multiplied by the number of years worked. Correctional Officers and State Police will receive two percent. General employees will contribute 3.75% of their compensation. Correctional officers and state police will contribute 8.75% - it appears they will retain a defined-benefit only pension plan.

A defined contribution plan has been added. General employees will contribute 5% with a 1% match from the employer (usually the state). An additional 2% will be added to both contributions for general employees who are not in Social Security, 3% for many safety employees. State correctional officers, state police and judges will not be part of this plan.

##### **3. Retirement Age**

Employees will be able to retire at their Social Security normal retirement age – but the eligibility will not be higher than 67 years of age. Employees with 5 or more years of service will be able to retire somewhat earlier depending on how many years of service they have – the more they have the younger they may retire. However, the minimum retirement age is 59. Those with 10 or more years of service may elect to retire at the pre-reform specified age, but their pensions may be adjusted downward.

Retirement ages for all safety employees except State police were raised. State Police may retire when they have accrued a pension equal to 50% of their whole salary, and must retire when they have accrued 65%. Correctional officers may retire at 55 if they have 25 years of service. If they retire before 25 years of service they will begin receiving pensions when they reach normal Social Security retirement age.



#### IV. REALIGNMENT OF EMPLOYEE-RETIREE FOCUS ON PENSION FUND PERFORMANCE

I think this is the most powerful “mega-change” in Rhode Island’s pension benefit.

A core financial truth that must be understood is that ***in almost every case the development of unfunded pension debt means not enough money was contributed to the pension fund in the past.***

The pension benefit was “guaranteed”. Pension Fund investment performance seemingly had no impact on pensions because the State guaranteed pensions. They didn’t seem to be affected by how well overall actual results matched Actuarial projections such as life-span, actual v. projected future pension payments, disability-related retirements, etc.

In the future the bulk of the benefit will be determined by how well Pension Fund investments “work” and how well Actuarial projections match actual future results. Retirees will get COLAs if the Pension Fund’s investment perform well – if not they don’t. If too many of the other Actuarial assumptions turn out to be too “rosy” and the Pension Fund develops significant deficits, they won’t get COLAs. If the Pension Fund’s investments achieve their targets then employees will receive roughly the same retirement benefit as they would have under the old completely-guaranteed pensions. If they do better than target they will receive more. But if performance is worse, they get less.

The bizarre truth is that under the old system employees got a “better deal” from the development of huge unfunded pension debts because less money was deducted from their paychecks for their share of pension contributions while they were working but they still got their guaranteed pensions. Politicians had more money to spend on things other than pensions – in the short-run – because they weren’t paying the true cost of the promises they were making about retirement to employees. They earned political credit from unions for the promise – and didn’t have to pay for a large part of it. These perverse incentives for government work forces and politicians are a major reason thousands of local and state governments across the country are so deeply mired in unfunded pension debt today.

I think Rhode Island’s move from guaranteed pensions to making retirement benefits more a function of economic growth and good Pension Fund management will have a very powerful and even transformative effect on the attitudes of government employees and retirees.

#### V. FINANCIAL IMPACT OF RHODE ISLAND’S PENSION REFORM

Gabriel Roeder Smith & Company produced an Actuarial Analysis of the Rhode Island Retirement Security Act of 2011<sup>3</sup>. They calculated that the Unfunded Actuarially Accrued Pension Liability as of 6/30/10 was \$7.3 billion. The State’s pension reform reduced that by \$3 billion down to \$4.3 billion – a reduction of over 40%. They calculated Rhode Island and local governments that participated in the State’s Pension Funds would have paid \$690 million to the Pension Fund in fiscal year 2013. As a result of pension reform payments were reduced by \$275 million from \$690 million to \$415 million – a reduction of 40%. These are astonishing reductions in one year!

There’s a mountain of complexity in these projections. One of the most important is they assume everything works out as planned –which never happens exactly. One of the most important impacts of Rhode Island’s changes is that if things turn out worse than planned the State’s unfunded pension liability will be far less than it would have been.

#### VI. RHODE ISLAND’S CURRENT PENSION DEBT CRISIS – LOCAL PENSION FUNDS

Raimondo’s reforms (with the Governor and key Legislative leaders) focused on the State – not on dozens of local government pension systems. But many if not most of these local systems are in as bad if not worse shape as was the State when Raimondo was elected. The Treasurer is today focusing on the local systems. Although her authority over local plans is extremely limited compared to her significant power regarding state plans, she is attempting to bring the same types of reforms to them as she and her allies brought to the State. For more information visit this page on the Treasurer’s website: <http://www.treasury.ri.gov/secure-path-ri/local.php>

<sup>3</sup> Available at <http://www.treasury.ri.gov/secure-path-ri/legis/RetirementSecurityAnalysisAmendNov11Final.pdf>

## VII. RAIMONDO, DEMOCRATS AND THE UNIONS

Raimondo is a Democrat and a financial realist who demands governments do their job. She is a progressive supporter of strong social services – one of the best known national Democratic Party leaders making pension reform happen. Hers is the face of rebellion within the Democratic Party –not against labor, but against a myopic and self-absorbed public union leadership that stubbornly refuses to face financial reality, continues to drive governments into bankruptcy, throws the next generation of public employees under the bus, and puts their members' retirement at risk.

*"A government that doesn't work is in no one's interest," she (Raimondo) says. "Budgets that don't balance, public programs that aren't funded, pension funds that are running out of money, schools that aren't funded—How does that help anyone? I don't really care if you're a Republican or Democrat or you want to fight about the size of government. How about a government that just works?"*<sup>4</sup>

*"There is a generation of Democrats who are becoming truth tellers to their own party about very difficult things," said Matt Bennett, co-founder of Third Way in [Washington](#), a nonprofit group that advocates for moderate public policies. "That's going to happen at the national level when it comes to entitlement reform and it's happening at the state level when it comes to pension reform."*<sup>5</sup>

Gina Raimondo challenged the leadership of public employee unions and forced the rank and file to face hard truths. Democratic office-holders are increasingly doing so across the nation such as San Jose Democratic Mayor Chuck Reed and San Francisco Public Defender Jeff Adachi in California and most recently in Chicago by Democratic Mayor Rahm Emanuel. They are making decisions based on the long-run interests of the people and not continuing the subservience of too many Democratic Party officeholders to public union patrons.

*"I went toe-to-toe with the public unions looking out for the kids of Rhode Island because if we didn't fix those pensions, there would be no good public schools," Raimondo said ... "That is what motivated me, every single day."*<sup>6</sup>

*Cutting benefits for public employees "isn't what you think about when you think about a progressive Democrat," Raimondo said in the interview last month. "But you have to do it because if you don't, then you can't invest in the future."*<sup>7</sup>

*Ms. Raimondo downplays the opposition from her former union allies. As she tells it, the reforms passed because she conducted "a huge, long, relentless public-education campaign," and there was no "rushing to a solution." Plus, the unions were at the table the entire time, she says. "Yes, there was a big protest. They weren't entirely supportive, but we had a reasonably productive dialogue the entire time—which we still have."*<sup>8</sup>

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<sup>4</sup> *The Democrat Who Took On the Unions*, Allysia Finley, Wall Street Journal, 3/25/12, available as of 9/18/12 at <http://online.wsj.com/article/SB10001424052970204136404577207433215374066.html>

<sup>5</sup> *Gina Raimondo Math Convinces Rhode Island of America's Prospects With Debt*, Michael McDonald, Bloomberg.com, 1/9/12, <http://www.bloomberg.com/news/2012-01-10/gina-raimondo-math-convinces-rhode-island-of-america-s-prospects-with-debt.html>

<sup>6</sup> *The Democrat Who Took On the Unions*, Allysia Finley, Wall Street Journal, 3/25/12, available as of 9/18/12 at <http://online.wsj.com/article/SB10001424052970204136404577207433215374066.html>

<sup>7</sup> *Gina Raimondo Math Convinces Rhode Island of America's Prospects With Debt*, Michael McDonald, Bloomberg.com, 1/9/12, <http://www.bloomberg.com/news/2012-01-10/gina-raimondo-math-convinces-rhode-island-of-america-s-prospects-with-debt.html>

<sup>8</sup> *The Democrat Who Took On the Unions*, Allysia Finley, Wall Street Journal, 3/25/12, available as of 9/18/12 at <http://online.wsj.com/article/SB10001424052970204136404577207433215374066.html>

"I'm generally upset and saddened by all the antigovernment rhetoric that is in our country today," Ms. Raimondo says. "I respect public employees and school teachers. They deserve a secure retirement."<sup>9</sup>

"That was my mantra the whole time: Progressives care about public services," Raimondo told me. "A coalition of supporters developed, and it wasn't just the chamber of commerce. It was younger teachers, police, heads of social service agencies. Advocates for the disabled really came out."<sup>10</sup>

What Raimondo has proven is that real public pension reform is not "just" a conservative issue. And although many union leaders want to present their members as unified in opposition to reform – they aren't.

*In some ways, the central question is not only what the government owes to pensioners but what citizens owe to one another. . . . 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.<sup>11</sup>*

At the Democratic convention in Charlotte last week, a delegate from Rhode Island walked up to [Gina Raimondo](#) and said, "You cost me \$300,000."

Raimondo, the state treasurer who had quarterbacked a major pension reform, steeled herself for abuse. Instead, the delegate, a retired schoolteacher and wife of another retired schoolteacher, thanked Raimondo and gave her a big hug.

"This system was going to blow up," she said. "Thank God you fixed it."<sup>12</sup>

Raimondo created the political space for public employees to move into support of pension reform.

## VIII. WHAT CALIFORNIANS CAN LEARN FROM GINA RAIMONDO AND RHODE ISLAND

In the six years before Raimondo decided to run for state treasurer the Rhode Island Legislature adopted a series of incomplete half-baked tepid "reforms" at the state level. They claimed they "solved the problem". But state and local finances continued their significant deterioration and an intolerable financial situation arose.

Raimondo's first big accomplishment was to lower the assumed rate of investment returns for the State Pension Funds from 8.25% to 7.5%. This increased the unfunded pension debt (UAAL) very significantly which in turn would have forced state and participating local governments to pay significantly higher UAAL amortization payments the next year. Then the City of Central Falls entered receivership, slashed public services, and cut pensions in half. These two events made crisis become very real.

Many analysts have concluded that without a combination of strong leadership from elected officials and a palpable threatening immediate government financial crisis it's extremely hard to motivate most folks to be concerned about pension reform more than on a casual conversational basis. Raimondo appears to agree.

<sup>9</sup> *The Democrat Who Took On the Unions*, Allysia Finley, Wall Street Journal, 3/25/12, available as of 9/18/12 at <http://online.wsj.com/article/SB10001424052970204136404577207433215374066.html>

<sup>10</sup> *Rhode Island's Gina Raimondo Navigates Pension Reform*, Fred Hiatt, Washington Post, 9/9/12, available as of 9/15/12 at [http://www.washingtonpost.com/opinions/fred-hiatt-rhode-islands-gina-raimondo-navigates-pension-reform/2012/09/09/0a06ce00-f92b-11e1-8b93-c4f4ab1c8d13\\_story.html](http://www.washingtonpost.com/opinions/fred-hiatt-rhode-islands-gina-raimondo-navigates-pension-reform/2012/09/09/0a06ce00-f92b-11e1-8b93-c4f4ab1c8d13_story.html)

<sup>11</sup> *The Little State with a Big Mess*, Mary Williams Walsh, New York Times, 10/22/11, available as of 9/18/12 at <http://www.nytimes.com/2011/10/23/business/for-rhode-island-the-pension-crisis-is-now.html?pagewanted=all>

<sup>12</sup> *Rhode Island's Gina Raimondo Navigates Pension Reform*, Fred Hiatt, Washington Post, 9/9/12, available as of 9/15/12 at [http://www.washingtonpost.com/opinions/fred-hiatt-rhode-islands-gina-raimondo-navigates-pension-reform/2012/09/09/0a06ce00-f92b-11e1-8b93-c4f4ab1c8d13\\_story.html](http://www.washingtonpost.com/opinions/fred-hiatt-rhode-islands-gina-raimondo-navigates-pension-reform/2012/09/09/0a06ce00-f92b-11e1-8b93-c4f4ab1c8d13_story.html)

Social Security has an unfunded liability of \$8.9 trillion over the next 75 years, [according to its trustees](#). The recipe for putting it on sound footing isn't complicated. Yet Washington politicians, divided between Democrats who resist any reform and Republicans who periodically champion privatization, do nothing, preferring to use the issue as a club to beat each other with and making the problem harder to solve ...

The Rhode Island approach — face the facts; get everyone to the table; look to solve the problem, not demonize — would seem to offer some obvious lessons. But when I tried to draw an analogy, Raimondo wasn't entirely encouraging.

“Rhode Island’s pension system was in crisis today — you would have seen other cities going bankrupt, devastating cuts to social services,” she said. “I do think that that enabled what we did here.”

The all-too-real effects of crisis generated support for reform. “People don’t really want to hear about the \$3 trillion,” Raimondo said. “They want to hear, your property taxes are going up, the bus you take to work is going to be cut, your kid’s school is going to be underfunded. That got people calling the State House.”<sup>13</sup>

We’re likely to go through the same steps in California - five or more years of continuing financial deterioration, inadequate attempts at “reform”, and a growing sense of dread. Things will have to get a lot worse before they can get better. At that point pray that California’s Gina Raimondo shows up. But those are the crises that call forth such leaders.

Gina Raimondo’s leadership made a real difference. She was relentless – driven. She stuck to her message. Although she didn’t hesitate to lay blame on past officials she didn’t dwell on it. Her focus was on fixing the future.

Consider what Raimondo accomplished with *Truth in Numbers* and in the hundred community meetings and countless interviews before she began to put specific reform proposals on paper:

- She produced an honest analysis that identified the major causes of the unfunded pension debt crippling the state and dozens of local governments.
- She produced capable projections of the range of probable financial futures of these obligations and their impact on the ability of governments to provide their core public services.
- She identified financial objectives to restore governmental financial stability to provide the services the public needs.
- She named a set of fair basic principles on which pension reform had to be constructed.

Then – based on these she led the production of a set of coordinated actions that formed a comprehensive long-term solution and that spread the burden of restoring the State’s financial health across all major stakeholder groups. And she worked – every day – at communicating what she was doing to the people. She was tireless in her pursuit of reform.

“The larger lesson here is that government can work,” ... “Government can solve problems when leaders lead, and citizens engage, and when we focus on the problem and on the solution, and not on the politics.”<sup>14</sup>

“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.”<sup>15</sup>

Gina Raimondo made her rebellion with heart, with mind, with soul – calm, determined, and triumphant.

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<sup>13</sup> *Rhode Island’s Gina Raimondo Navigates Pension Reform*, Fred Hiatt, Washington Post, 9/9/12, available as of 9/15/12 at [http://www.washingtonpost.com/opinions/fred-hiatt-rhode-islands-gina-raimondo-navigates-pension-reform/2012/09/09/0a06ce00-f92b-11e1-8b93-c4f4ab1c8d13\\_story.html](http://www.washingtonpost.com/opinions/fred-hiatt-rhode-islands-gina-raimondo-navigates-pension-reform/2012/09/09/0a06ce00-f92b-11e1-8b93-c4f4ab1c8d13_story.html)

<sup>14</sup> Yale Law School Website – URL as of 9/18/12: <http://www.law.yale.edu/intruders/15900>

<sup>15</sup> *The Little State That Could*, Time Magazine, David Von Drehle, December 5, 2011, page 32