



SMITH HILL REPORT

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Pension Plans Disclosed

On Friday, June 5, 2009 the **House Finance Committee** held a hearing on “**Potential Pension Plan changes**”. The 3 ½ hour hearing was not to debate any specific bill or legislative proposal. The hearing gave employee representatives and other members of the general public the opportunity to offer thoughts on pensions despite the lack of a specific proposal.

The hearing began with a presentation by the House Finance Committee Fiscal Advisor **Michael O’Keefe**. He reviewed the pension proposals contained in Governor Carcieri’s proposal to eliminate COLA’s for all active teachers and state workers and to require schedule A employees to work until age 59 (currently required of all Schedule B employees).

Mr. O’Keefe presented a series of potential changes to pensions and informed the Finance Committee how much money various pension cuts would save the State. One concept he proposed was to increase the retirement age for schedule A and B employees to age 65 on a sliding scale based on the number of years of service an employee has already provided. He referred to this concept as age proportional changes. The alternative to implementing changes in a proportional or gradual way is to implement changes on a cliff. A cliff is simply a reference to changes either completely affecting a person or completely not affecting a person. In 2005, those with 10 years of contributory service were not affected at all, while those with less than 10 years of contributory service were fully affected by the pension changes.

Another concept discussed by the Fiscal Advisor was the possibility of changing the benefit formula for schedule A members. Schedule A is the pension plan in effect for teachers and state workers who had at least 10 years of contributing service as of July 1, 2005. The new concept was to freeze the benefits already earned for schedule A members, but any additional years of service for those members would be based on the reduced benefit formula already in place for schedule B.

After the House Fiscal Advisor’s testimony, **Representative Timothy Williamson** described the pending report of the Special Legislative Commission to Study All Aspects of the State Pension and Retirement System. He reviewed the meetings and recommendations of the Committee. His Committee’s recommendations proposed even more draconian pension cuts than Governor Carcieri. His Committee’s recommendations include raising the retirement age to 65 with an actuarial reduction to age 62, a non-compounded COLA at 3% or the Consumer Price Index (whichever is lower), and salary calculated on the basis of the highest five (5) consecutive years instead of the highest three (3) years.

The amount of money the State would save equals the amount of pension benefits workers would lose each year. The Committee received estimated cost savings of several plans as follows:

Potential Fiscal Impacts

<u>Proposal</u>	<u>Age</u>	<u>Salary Basis</u>	<u>Service Credit</u>	<u>COLA</u>	<u>Estimated Savings</u>
Williamson	65; 62 with reduction, Cliff	5-year average	Current Law	1 st Anniversary, Non compounded	\$91 Million
Carcieri	59 Cliff	Current 3-year average	Current Law	None, including Judges and State Police	\$76 million
House Fiscal	65 proportional	Current 3-year average	Freeze current, further credits at Plan B schedule	Current Law	\$40 million
House Fiscal	62 proportional	5-year average	Freeze current, further credits at Plan B schedule	Plan B	\$55 million

RIFTHP President **Marcia Reback** testified on the pension concepts at the hearing. She asked Finance Committee Chair **Stephen Costantino** for a full hearing of any specific proposal being considered by the Finance Committee. She also urged the committee to seriously consider re-amortization of the unfunded liability, akin to refinancing one's home mortgage, as a way to reduce annual payments while preserving existing benefits.

President Reback also urged the committee to address the State's structural deficit by making changes to the tax system so that all Rhode Islanders, not just its public employees, share the burden of balancing the State Budget.

Steve Lukowicz, Coventry Teachers' Alliance, Local 1075, also testified. He said that currently 60 percent of Rhode Island teachers are at the top salary step in their respective communities and 40 percent are on lower-paid steps. If the retirement age were changed to 65, within five years 80 percent of the teachers would be at the top pay step and in seven to eight years that figure would be 90 percent. This would greatly increase payroll costs for local communities and hurt local property tax payers. He joined others in urging the Assembly to roll back the flat tax which benefits the wealthiest taxpayers.

The House Finance Committee is expected to adopt its plan to change teacher and state worker pensions as early as the end of this week.

RIFTHP Testifies Before Senate Finance

On Tuesday, June 2, the RIFTHP testified **against S682**, introduced by **Senators Doyle** and **McBurney**, before the Senate Finance Committee. The bill would eliminate the Caruolo Act.

School Committees need to have the ability to get sufficient funding for education. Because Rhode Island does not have a predictable funding formula, and because school committees are charged with making the best education decisions while city or town councils are primarily concerned with their budgets, the two sides are sometimes in conflict. When the school committees and city/town councils don't agree, there needs to be a mechanism for the schools to obtain needed funding from the municipality. The Caruolo Act needs to be maintained until a better alternative is enacted.

On Tuesday, June 2, the RIFTHP also testified **against S528**, sponsored by **Senator Doyle**, before the Senate Finance Committee. **S528** is the companion bill to **H5632** which the RIFTHP testified **against** last week and was reported about in the last edition of the Smith Hill Report.

The RIFTHP testified against the bill because it would allow teachers at the eight independent Charter Schools to leave the State Retirement System, further diminishing the number of employees contributing into the pension fund. The RIFTHP also criticized the bill for not tackling funding issues surrounding Charter Schools. The Union questioned why independent Charter Schools should continue to receive the same per pupil funding amount from sending districts if the school saves money by offering an inferior pension benefit to its teachers?