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6 May 2024

Chairman Abney
House Committee on Finance
82 Smith Street
Providence, RI 02906

Chairman Abney and Members of the House Finance Committee

Subj: H-8193 // H-8194 / H-8149

I wish to state my overwhelming support for H-8193 and H-8149. I also support H-8194 although it does require funding from the General Fund.

H-8193 Funding would come from the Pension Fund which was over \$11 Billion as of 31 March 2024! The Pension Fund has seen an increase of over \$1 Billion since 31 Oct 2023. The estimated \$25-30 Million required under this Legislation can easily be debited to the Pension Fund.

If you have any questions, please feel free to contact me at home: 401-996-4985 or via e-mail: agpalazzo@gmail.com.

Your time and effort in support of this matter is greatly appreciated.

Very respectfully,

A.G. Palazzo
CDR USN (Ret)

Cc: Members of the House Finance Cmte, Speaker Shekarchi, Rep Serpa, Ms Nicole McCarty and Ms. Sharon Reynolds.

HFC Testimony 7 May

Chairman Abney and Members of this Cmte, we've thrown an awful lot of information at you in a short time, in the Navy we referred to it as a "Fire hose" presentation. So, we will be leaving you and your staff with "Cliff Note" versions of our talking points for later reference

If you desire, we can also forward them as files for further dissemination if you so desire.

My peers have discussed most of our issues and I'm going to cover some items they might have inadvertently skipped over.

As I alluded to earlier, you understand the issues as do we, and we are hopeful that this Cmte will be the Champion for not only the approximately 30K Retirees but also the approximately 30K Actives who were negatively impacted by RIRSA! (Rule of 95! 1% Annual Increase in Pensions, Limited to TIAA etc.)

You should be aware of the fact that many Current Employees have stated that they wish they could invest THEIR Money elsewhere!

On 14 February RI CIO Eric Baggesen stated that RIRSA has been "Marginally Successful".

The "target date" set by ERSRI for the "return" of COLAs, i.e. when the Pension reaches 80% funding, is 2031!

However, during his presentation to the ERSRI Board on 18 December, GRS' Joe Newton stated that there was only a 54% probability that the Fund would reach the 80% Funding level by that date.

The "progress" made from 2012 -2023 was well enough to justify a decrease in the employers' Annual Required Contribution rate (ARC), but not well enough to restore the retirees' 3% annual COLA.

Although the Mortality Rate will affect those numbers most WILL be here for the NEXT General Election. Many will probably be here for the one after that or have been replaced by another 9 or 10,000 from the ranks of Current employees.

They ALL will remember what happens in the INTERIM. Who supported them and Who did not.

Advocates has given them HOPE and Restored their FIGHT!

Many members of the CURRENT Assembly do NOT have any idea as to what transpired back in 2011. They don't realize that many Elderly Retirees are living on the edge of Poverty. Two Thirds of Teachers DO NOT have SS Security Benefits and are forced to live on the same Pensions they were receiving when RIRSA took effect! This despite a 40% rise in Inflation! That is, their Pensions have been REDUCED by 40%.

All many see are the BOTTOM Line Costs and NOT the HUMAN Costs. They do not realize that this was MONEY these people had Paid INTO the System, something that STATE did not do.

Rep Serpa's Bill is requesting approximately \$30 Million for the Pension Fund which as of 31 March, totaled over \$11.258 Billion.

But look at the Numbers that I've included in this brief:

HFC Notes 7 May

Interesting Data Points

For FY 22 - 23 ERSRI Investment Fees Total \$295 Million

For FY 22 ERSRI suffered a \$279 Million Loss

For FY 23 there was a \$845 Million Gain

Bottom Line: for those 2 years ERSRI spent Approximately \$295 Million for a Net Gain of \$566 Million, i.e. almost half the Net Increase was spent on Fees!

From 31 Oct – 31 March 24 the Pension Fund Value increased \$1,084.4M, that is over \$1 BILLION!

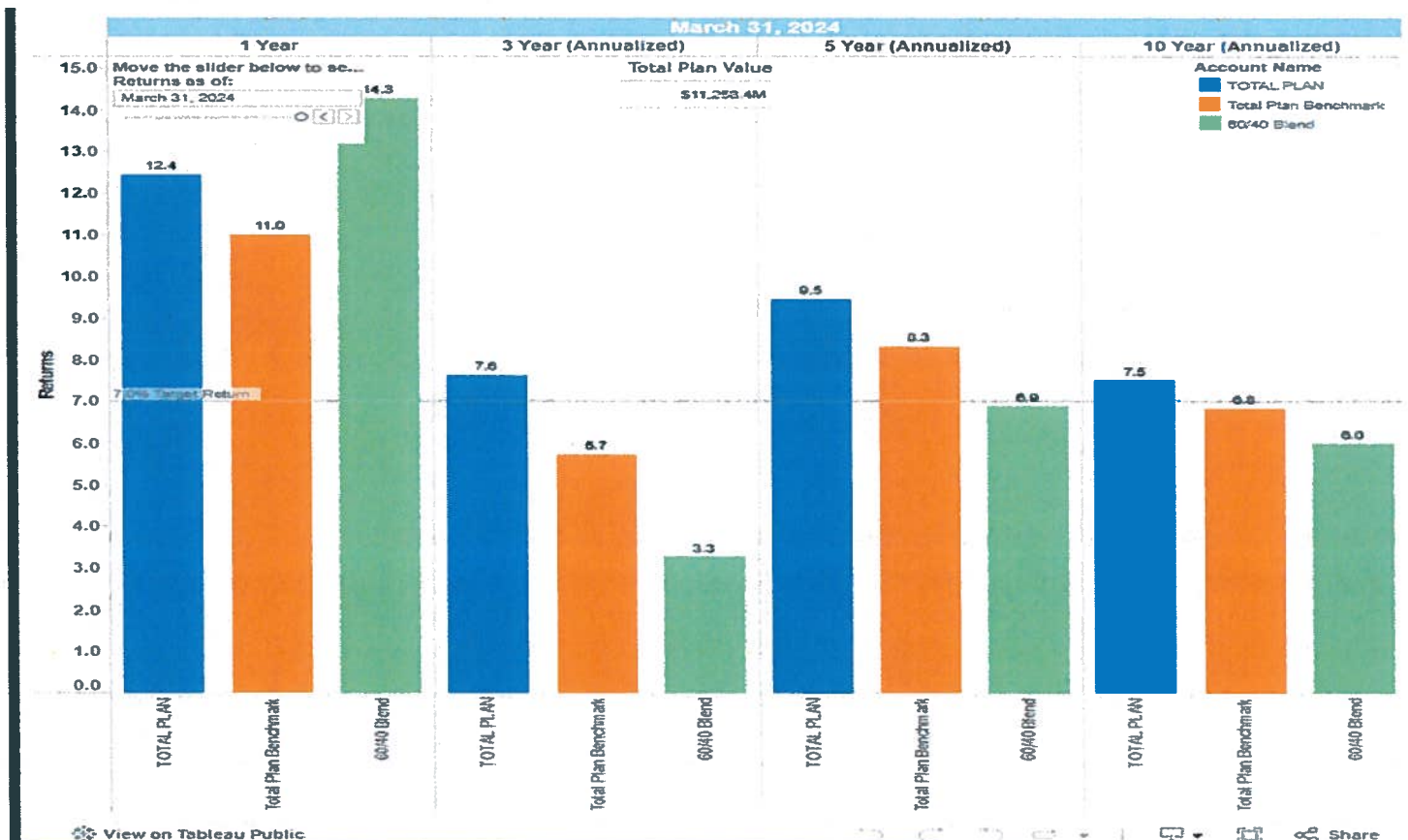
The Target Return is 7% and the Return over 1 year has been 12.4%

Pension Fund Value:

Oct 31: \$10,174.4 Nov 30: \$10,597.4 Dec 31: \$10,868.8

Jan 31: \$10,877.8 Feb 29: \$11,025.4 Mar 31: \$11,258.4

Estimated cost of our COLA under H-8193 is \$25 - \$30 Million!



ERSRI Investment Expense Analysis FY 2014 – 2023

<i>FY</i>	<i>Fund Value</i>	<i>Earnings</i>	<i>Fees</i>
2015	\$8.07B	\$191M	\$82M
2016	\$7.6B	\$400M	\$69.7M
2017	\$8.04B	\$855M	\$78M
2018	\$8.3B	\$639M	\$79.5M
2019	\$8.5B	\$585M	\$84.2M
2020	\$8.5B	\$356M	\$88.3M
2021	\$10.1B	\$2.1B	\$188M
2022	\$10.1B	(\$279M)	\$167M
2023	\$10.6B	\$845M	\$128M

Ref: [Investment Expenses | Rhode Island Office of the General Treasurer \(ri.gov\)](#)

Questions On the PAWG Report

1. The PAWG was formed as a problem-solving group, but the appointees had no problem solvers! It was dominated by administrators from special interest groups that were intrinsically involved in forming the Pension "Reform" which has failed on multiple levels.
2. The law required that the PAWG address unintended consequences of the 2011 pension reform statute. The law also required that the Treasurer forward the report with findings, recommendations, and analyses.
The report does not address unintended consequences, and despite the Treasurer alleging in his letter of transmittal that the report had findings and recommendations the report, in fact, it has no findings, and the Treasurer made no recommendations. Why Not?
3. How was the Pension Advisory Working Group (PAWG) report methodology developed? Who developed it? This was never discussed at any PAWG meeting.
4. The methodology had no options, and minimal input, from the committee members, and consisted of selected summaries of some of the witness testimony, delivered to Gabriel, Rodeur and Smith (GRS) for evaluation. PAWG was formed to evaluate the "unintended consequences" of financial strategies developed by GRS. Why was GRS chosen to summarize (Nov. 2 PAWG meeting) and evaluate their own work?
5. Despite Criticism of ERSRI Investment Fees dating back over 12 years, the PAWG failed to investigate this issue despite claims that the Fees for the Pension fund have "exploded from \$10 million up to \$188 million annually (FY 21). (The latest Fees for FY 23 = \$128 million)! That Delta would more than cover the Restoration of a 3% COLA! Why Not?