<u>Written testimony of William 'David' Shallcross in behalf of H8193</u>
<u>Submitted on May 7, 2024</u>

I am one of the founding members of the current 4200 member Advocates For COLA Restoration and Pension Reform, a Non-Profit R.I. Corporation. I am a retired middle school principal and was receiving a COLA prior to the passage of the RIRSA law in 2011. I have a Bachelor's degree in mathematics from Rhode Isalnd College and a Master's Degree in Physics from the College of William & Mary. For several years I was the president of the Cranston Teachers' Association, which at the time was affiliated with the NEA-RI. The Advocates have asked me to provide a history of events regarding the ERSRI Pension.

In 1935, FDR established the national Social Security program and provided the financial backing to all of the states to establish pension systems within the state based on the federal program. The ERSRI was established in 1936 for RI State Workers. It was established in state law requiring all state employees to participate through mandatory contributions to the fund through deductions from every paycheck. Soon after, every public school teacher in the state was added to the ERSRI pension fund under the same laws and procedures. The ERSRI has been thriving for 88 years now with few kinks.

Prior to 2011, the ERSRI pension required service of 10 years before an employee could be invested in the plan. Full retirement required 38 years of service to receive the maximum pension allocation. Retirement prior to 38 years of service included a prorated benefit. Additionally, a 3% COLA was established to keep pensions current with cost of living increases. (Historically there was nothing magic in the 3%, it just seemed to match up well to the average costs of living calculated over many previous years.)

The pension's funds derive from 3 fundamental sources: employee mandated contributions, state and local contributions, and investment of the penson's assets.

For nearly 40 years this served the state and its employees well. So well, that at one point the service requirement was reduced to 35 years because of the financial stability of the fund. That was accompanied by slight increases in the employee's contributions. As I recall, state workers increased their contributions from 8.25% to 8.75% and teachers increased their contributions to 9.5%. Recently, teacher contributions were increased to 11.25% of salary.

The fund was sound. Sound enough that it was used as a kind of rainy day option, to bail out the state during the Blizzard of 1978 and the Banking Crisis of 1991 among other temporary fiscal setbacks unrelated to pensions. While these bail outs tested the assets of the fund, the fund survived. No retiree or a dependent missed a pension check.

And then came newly elected treasurer Raimondo's <u>Truth in Numbers</u> report funded by Wall Street and other investors, including John Arnold of ENRON fame, who provided more than $500.000 to establish the anti-pension bloc called Engage Rhode Island. The crisis was artificially created that the fund was near failure, a 'the sky is falling' panic that the $8 Billion dollars in the fund was insufficient to meet the fund's needs. The report cited a unfunded liability greater than 50%. The General Assembly was pressured to 'save the pension' by cutting retiree benefits and altering the factors that defined future pensions.

The Fallacy of the unfunded liability defies every instinct to anyone who considers it. Of course the fund did not have enough in assets if every member of the fund retired on the same day. That would be like a run on the bank that marked the Great Depression. It would be like having the assets for a fully paid mortgage in the bank when you applied for a mortgage. RI law clearly eastablishes that it would be impossible for every pension plan member to retire simultaneously. <u>Truth in Numbers</u> was false from the very start. It was full of lies, misinformation, and statistics based on faulty data. Even the auditor recommended a far more rational approach as did the current governor and approximately 15 members of the House of Representatives. There was one clearly identified truth in the report, the consistent underfunding by the state with regard to its required contributions to the fund.

Subsequently, the lies, misinformation, and data have been studied by no less than four independent nationally recognized experts, legal scholars, and pension experts. The Raimondo Report has been debunked to the point of being a theft. My colleagues have more information to share with you in this regard.

As I testified a few weeks ago, $12.9 million dollars of budget surplus was promised to the pension fund and then diverted to other use. The "emergency" of 2011 has never been addressed in the last 13 years. Perhaps it is reasonable to conclude it never was an emergency.

In the last 13 years, the state has been able to shave $3 Billion off its contributions to the ERSRI fund. Every time an employee got a raise in the last 13 years, that employee increased his/her contribution to the pension fund. Regularly, auditor reports include recommendations for state and some local governments need to increase their contributions to the fund. Most local governments have kept up, lest they lose some of their state aid.

The ERSRI pension is still strong. Since 2011, it now has assets that exceed $11.25 Billion dollars.

Could it be stronger? Sure. It could have even more assets. The Investment portion of the contributions is lacking. Has been for many years. There was a point in the history of the state, where one treasurer served 27 consecutive years in the office. He chaired not only the ERSRI Board but also the State Investment Commission. For many years investments were made in local bond issues like sewer and water and other municipal projects with 3% return on investment earnings. With 3% costs of living at the time, how was that ever a wise use of investment opportunities when certificate of deposits from banks and credit unions were earning double digit interest. Today, the SIC enters into private contracts with Wall St investors guaranteeing them high profits through high management fees and enviable investment returns.

Advocates for COLA Restoration and Pension Reform have some immediate solutions tonight for some of the pension problems. All we ask is your support in moving this legislation to the House floor for enactment this session. It won't cost the state a single dime more than what this year's ARC will require.

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