



NEW: Conservative Think Tank Says Pension Liability may be \$18 Billion

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GoLocalProv News Team

The Rhode Island Center for Freedom and Prosperity announced today that a member of its special pension Task Force [has released a new report](#) that details how the actual pension liability in Rhode Island may be almost twice as large as currently stated.

"It is important to add a national perspective to our state-wide debate", said Mike Stenhouse, CEO for the RI Center for Freedom. "Our task force brings an academic, outside, and non-biased analysis that may be valuable for policymakers and the general public to consider".

The Mercatus Center report, by Eileen Norcross and Benjamin VanMetre, asserts that according to generally accepted economic theory, pension liabilities should be valued based on their relative risk and thus the return on Treasury Bonds is currently the appropriate discount rate to use when valuing liabilities. Under this valuation, the unfunded liability for municipal governments including MERS and locally administered plans (and excluding the local portion of the teachers' plan) swells from \$2.4 billion to \$6 billion. The unfunded liability for the state plans increases from \$6.8 billion to \$12 billion. The result of this miscalculation is that many municipal governments are in far worse shape than is currently reported, which presents serious revenue challenges for a number of Rhode Island municipalities.

Among the eye-popping facts and figures in the report:

* Rhode Island estimates the unfunded liability for municipal and state plans is \$9.3 billion, while Mercatus researchers calculate it as closer to \$18 billion.

* Using the authors' revenue index, 17 of the 39 Rhode Island municipal governments are in the danger zone-their unfunded pension liabilities exceed revenues.

* How did they reach this number? The authors argue that the huge difference in estimates is based on inaccurate accounting. In fact, financial markets and economists would calculate pension liabilities based on their relative risk, but currently Rhode Island

calculates their liabilities based on the expected return on investment of the pension assets.

"While some have recently claimed that Treasurer Raimondo has cooked the books by over-stating the pension liability, it now appears that if anything, the figures are actually under-cooked", concluded Stenhouse.

The Task Force members, include Bob Williams (President of State Budget Solutions), Jonathan Williams (Director Tax & Fiscal Policy for ALEC), Jagadeesh Gokhale (senior fellow at the CATO institute), and Eileen Norcross (senior research fellow at the Mercatus Center).