

Central Falls, Rhode Island: Retiree pensions slashed, but bondholders get paid

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Retired firefighters and other city employees in Central Falls, Rhode Island will see deep cuts to their pensions, while municipal bond investors will get all that is owed to them by the struggling city. The arrangement, agreed to by the fire and police retirees after months of wrangling, is seen as a precedent-setting move as cities and counties across the US seek ways to close budget shortfalls by imposing attacks on the benefits of municipal employees.

Central Falls, a city of about 18,000 just north of Providence, the Rhode Island capital, is the state's poorest city, devastated by the decline in manufacturing. Central Falls officials had projected a \$5.6 million budget deficit by June 30, 2012. According to state officials, the city has about \$47 million in pension liabilities and about \$20.5 million in bond debt. In May 2010, the Central Falls City Council sought a state-appointed receiver to oversee the city's dire economic situation, and filed for bankruptcy protection in August.

As of earlier this week, some 82 of the estimated 130 Central Falls retirees had agreed to the pension cuts, according to Matthew McGowan, a lawyer for about 100 of the retired police officers and firefighters. A minimum of 75 retirees had been required to implement the proposed agreement. The retirees are not represented by a union, and received no support from city workers' unions in fighting the attack. The Central Falls receiver will ask a bankruptcy judge to approve the proposal over the next few days.

The proposed cuts to the retiree benefits are deep, up to 55 percent of each retiree's current benefits. Present retirement benefits vary widely, from about \$4,000 to \$46,000, depending on final salary, years of service and other factors. Some retirees would see cuts of more than \$25,000 a year. As Central Falls police and

firefighters do not participate in Social Security—with such pensions traditionally considered an ironclad eventuality—the cuts mean the majority of them face the prospect of being plunged into destitution.

Retirees have backed the deal in part because the state director of revenue has pledged to ask the state legislature to appropriate about \$2.6 million over the next five years to partially offset the cuts. This is by no means assured, however, as state legislators recently pushed through a sweeping package of pension cuts for state workers and teachers and are unlikely to look favorably upon the pensions of retirees in a bankrupt municipality. Lawmakers also do not want to set a precedent in which retirees whose pensions have been raided seek a state bailout.

The attack on Central Falls retirees' pensions was facilitated by a Rhode Island law passed in July that determined which creditors get paid first if a city or county becomes insolvent. That law says bondholders are to be paid before all other creditors, including city workers' pensions. In fact, throughout bankruptcy and receivership, cash-strapped Central Falls has continued to make its payments to bondholders. City retirees agreed not to challenge the state law as part of their agreement to the pension cuts.

The Rhode Island law was designed in large part to prevent frightening away bondholders from investing in other cities and counties in the state. Theodore Orson, legal counsel for Central Falls' state-appointed receiver, said imposing the cuts on the city's retirees would have been difficult if not impossible without the state law shielding the bondholders.

The assault on retirees' pensions follows a long line of austerity measures imposed on city workers and residents. Since Central Falls entered receivership, draconian cuts have been imposed on city services,

while the local tax burden has been raised by about 20 percent. The city's library was closed and then reopened on a severely restricted schedule staffed with volunteers, and the recreation department was shut down.

Some \$800 million in concessions have already been negotiated with the city's union and non-union employees. An agreement reached in late November between the city and AFSCME Council 94 and the unions representing firefighters and police includes concessions on overtime, pay raises and time off.

The unions have made clear their willingness to accede to demands for draconian cuts. J. Michael Downey, Council 94 president, commented in a news release on the agreement, "This contract represents the culmination of all sacrifices made by the employees of Central Falls move towards financial recovery."

In February 2010, the community was launched into the national spotlight when teachers and staff at Central Falls High School were fired en masse under a "turnaround plan" modeled on the Obama administration's education policies.

The school's teachers and staff were subsequently forced to accept deep concessions, equal to if not worse than the givebacks and attacks on working conditions they had originally refused to accept. The teachers are represented by the Central Falls Teachers Union, an affiliate of the American Federation of Teachers (AFT), whose leadership hailed the concessions pact.

Despite the deplorable conditions of life in Central Falls and other cities faced with bankruptcy and receivership, investors continue to eye them as investment opportunities. Chicago firm, Nuveen Asset Management owns about \$2 million in Central Falls bonds and about \$78 million in other bonds in Rhode Island.

The robbing of Central Falls retirees will be looked upon as a favorable precedent when investors decide whether or not to buy bonds—in this and other impoverished municipalities across the country facing huge budget gaps.

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