COLAs Don't Come Cheap

The Office of the Delaware Controller General has now assigned a price tag to Senate Bill 62. The bill proposes that State pensioners receive an annual cost of living adjustment (COLA) in accord to the National Consumer Price Index.

Assuming annual inflation of 2.5%, the Controller General estimates that a COLA will increase the Pension Fund's unfunded liability by a whopping $2.6 billion.

The State's FY18 contribution to the Pension Fund was $271.5 million, taken from the State's General Fund. The Controller General estimates that a COLA of 2.5% would cost the General Fund $24.7 million in FY2020, $49.5 million in FY 2021, and $74.2 million in FY 2022.

The rapid rise from fiscal year to fiscal year is likely understated.

First, with the annual application of a percentage increase, the pay outs from the Fund will grow exponentially, not in constant increments.

Second, across the nation, with the surge in retirees driven by the Baby-Boomers, liabilities from defined benefit pension funds are growing more rapidly than the funds' sources of income. Delaware is no exception.

One must ask: with a current $6 billion unfunded healthcare liability to State employees and retirees, does it make any sense to add another $2.6 billion unfunded pension fund liability?

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