



Analytics

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RE: Response to Ann Visalli

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It was very helpful to receive the comments in the News Journal of Delaware OMB director, Ann S. Visalli, regarding the unfunded retiree benefits of government employees. My response follows.

First, Ms. Visalli is correct that the state's pension fund is 94% funded. The data that the Pew Foundation had at the time of their analysis was 92%. So that is positive change. Based upon the Pew analysis, however, that leaves a dollar amount of unfunded pension obligations ranging from \$476 million to \$900 million. No small potatoes.

Second, as Ms. Visalli points out, although the Pew analysis shows 22 states as fully meeting their recent fiscal year pension obligations, only 2 states are fully funded.

Third, lowering the expected rate of return on Pension Fund assets from 8% to 7.5% is a welcomed shift toward reality. The 8% rate was used in the most recent annual actuarial report on Delaware's pension fund. If the State can indeed earn 7.5% (off an actual, not an actuarial cost basis), might I put all my retirement money in their fund? Interestingly, as of September, state of Delaware dividend and interest earnings are running 21% below what was expected.

Fourth, HB 81 is indeed a positive step forward. Instead of the State paying 100%, it will now pay 96% for employees enrolled in the State's basic plan. Retiring employees will have to pay 5% of the Medicare supplemental insurance provided by the State.

This together with other changes in retirement age and the treatment of overtime pay in the calculation of pension benefits, amounts to, according Ms. Visalli, a savings of \$100 million over five years. This pales in the face of the \$476 to \$900 unfunded pension liability and the current \$5.5 billion unfunded retiree healthcare liability. It seems akin to throwing a bucket of water on a burning house.

The State has started to recognize its "fiscal time bomb", but the corrections taken so far are inadequate given the magnitude of the unfunded liabilities. When your liabilities are approaching double your annual operating budget, you have a problem.

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