Analytics

Published by the Caesar Rodney Institute

RELEASE: CRI - Center for Economic Policy and Analysis

RE: The State's Benefit Bonanza: How Deep is the Hole?

DATE: September 6, 2011

The Delaware Public Employees' Retirement System is what you have dreamed about but are unlikely to ever enjoy. DPERS is a "defined benefit plan" which means that participants' retirement benefits are paid out "regardless of market events." State government retirees are sheltered from the roller coaster of the financial markets by Delaware taxpayers.

Naturally, in the face of low interest rates and collapsing stock values, one wonders what the future exposure of Delaware taxpayers might be to sustain this guaranteed retirement bonanza?

The latest analysis from the Pew Center on the States (for FY-10) estimates Delaware's total retiree pension liability to be $7.9 billion using an 8% rate of return on pension fund assets. About 92% of Delaware's pension liability is funded, leaving a gap of $634 million.

Since the actual return on state pension assets since 2000 has been 3.9%, many question the optimistic expected return of 8%. And these doubts are growing in the face of the current 12% plunge of stock market value in the face of intractable U.S. government debt.

Using the alternative corporate bond rate of 5.22% would, according to Pew, increase Delaware's unfunded liability to $906 million. And using the low risk long-term Treasury bond rate of 4.38% results in an estimated unfunded liability of $1.2 billion.

The annual return on the asset actuarial value of Delaware's pension fund through June 30, 2010 was 4.6%. The actuarial approach spreads the recent 22% drop in the pension fund assets' market value over five years. The most recent actuarial estimate of the Delaware's unfunded liability is $287 million, calculated using an 8% rate of return.

As the average state pension liability is only 78% funded (with New Jersey being just 36% funded!), Delaware is not in dire straits. But 22 states are 100% funded or more. And the days of shifting assets into stocks and even riskier investments are over. Future Delaware taxpayers have a substantial tab outstanding to pay.

To add to the legacy faced by future Delaware taxpayers from the "great benefit giveaway", Pew estimates that Delaware's state retirees health benefits liability of $5.6 billion is only 1% funded, leaving future taxpayers on the hook for $5.5 billion. And this is understated since the assumed earnings rate on assets applied by Pew is the unrealistic 8%.

The unwillingness of state government to deal with these fiscal time bombs is eventually going to impact Delaware's stellar debt ratings, and it certainly will fall on the shoulders of future Delaware residents and businesses.

Dr. John E. Stapleford, Director
Center for Economic Policy and Analysis