



Analytics

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RE: Retiree Healthcare – the State Kicks the Can

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The Delaware Public Employee Retirement System has released an audit by Cheiron of the actuarial value of Delaware's post-retirement health plan, and the results are ugly.

The State's current funding method for retiree healthcare is to annually pay the currently required benefits. This is known as PAYGo. PAYGo is an authorized option under Federal accounting regulations, but it falls short of the actuarially required contribution. The consequence, according to Cheiron, is a 2018 unfunded healthcare liability of \$7.5 billion, projected to reach \$18.0 billion by the end of 20 years.

The unfunded liability of the State's pension fund is \$1.5 billion. However, the State pension is constitutionally guaranteed while the health benefit is not. In other words, the State can legally walk away from the retiree health benefit.

Delaware has a healthcare liability that is only 5% funded, and the State's PAYGo contribution is just 38% of what is actuarially required. Meanwhile, the aging Baby-Boomers are rapidly driving up the annual retiree healthcare tab.

According to the Wall Street Journal, states across the nation are realizing that they must deal with the mounting liabilities from retiree healthcare benefits. In 2017 the state of Kansas began charging retirees the full cost of their healthcare coverage. North Carolina increased the premium for retirees and in 2017 ended the benefit for new employees. New Jersey, Michigan, Connecticut, Kentucky and Texas have made changes such as reducing benefits, increasing premiums and fees, and tightening eligibility requirements.

The future for Delaware is clear. The politicians cannot kick the can down the road indefinitely. Either the generous healthcare benefits for retirees have to be curbed or eliminated, or the public must face a tax increase.

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