AN ACT TO AMEND TITLE 29 OF THE DELAWARE CODE RELATING TO THE STATE EMPLOYEES' PENSION PLAN AND COST OF LIVING ADJUSTMENT.

Having survived a nearly $400 million deficit two years ago and with State employee and retiree healthcare benefits rising 6% to 8% per annum, Senate Bill 62 now proposes that State pensioners receive an annual cost of living adjustment in accord to the National Consumer Price Index.

Looking at the latest data on the Delaware State Employees Pension Plan leads one to ask where the money for this Cost of Living Adjustment (COLA) will come from? Between FY17 and FY18 pension payments from the Plan rose 5%, net investment earnings rose 0.7%, member contributions increased 4.3%, and the State government's contribution jumped 10.9%.

The National Association of State Retirement Administrators lists over 40 states as having some type of COLA for new hires, current employees, and/or retirees. In the remaining states, currently including Delaware, any COLA increase requires approval from a governing body.

Among the states with an automatic COLA there are a myriad of methodologies. Many states restrict increases to one-half or three quarters of the consumer price index. Some tie their COLA to the funding level or investment performance of the retirement fund. Others delay application of the COLA to a designated retirement age. In other states the retiree can choose to receive a lower monthly benefit in exchange for a fixed rate COLA paid annually.

The drop in state revenues following the 2007-08 led states to revise many of their COLA plans: six states reduced COLAs for new hires only, 7 for both new hires and current employees, and 18 states reduced COLAs for retirees only.

The recession also led to some modification of Delaware's state pension regulations. The employee contribution rate on salary above $6,000 was increased from 3% to 5% (the national average is 8%). The vesting period was increased from 5 to 10 years, and a reduction was imposed for retirement before age 60.

Delaware State employees can rightfully argue that Social Security benefits receive an annual COLA. Yet, according to the latest data from the State's Pension Plan, additional funds will mostly come from the State's General Fund which likely will mean higher taxes.

At the very least a fiscal impact statement is needed detailing the expected annual addition costs of the COLA adopted and where the funds will come from. And a COLA tied to the investment performance of the fund would seem prudent.

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