



Delaware Retired School Personnel Association

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Good morning,

My name is Wayne Emsley. I'm the Executive Director of the Delaware Retired School Personnel Association. Founded in 1956, our organization advocates for former public school workers who dedicated their careers to helping future generations lead successful lives.

Last year we asked Governor Carney to include a pension increase in the FY 2021 budget, and perhaps more importantly, to support our legislative initiative to provide a permanent mechanism for future pension adjustments. We do so again this year. I have submitted this presentation and a document which details our proposal. I ask that these be made part of the record.

This proposal includes two major benefits for the state. First, it would provide an easily forecastable expense to budget planners. The state already pays about 12% in payroll costs, our proposal would simply add an additional 3% to that figure. Second, it would remove the legislature's – and governor's - need to consider a pension adjustment each and every year because our proposal would provide automatic pension adjustments. And our proposal would benefit state pensioners because these retirees would be assured of a pension adjustment every other year.

Our members watched the legislature consider Senate Bill 62 nearly two years ago, which, if passed, would have provided a cost-of-living adjustment to state pensioners. The bill died in committee, first because it was too expensive, and second because its future cost was too unpredictable. The plan I'm outlining today is a fair compromise. We pensioners realize that our proposal will never keep up with the cost-of-living. We recognize that every year that we live means our pension will decrease in purchasing power. The state's pension cost will increase, but far less than under SB 62 and in a forecastable amount.

We recognize that the pandemic has put a severe strain on the state's budget. Revenue is down and the economy, particularly for the next few years, is uncertain. We also recognize that budgeting is a balancing act – balancing the needs of citizens versus the requirement for a balanced budget.

I want to focus on the needs of the retired citizens that I represent. The pandemic forced a sudden change in nearly everyone's life, and government – at both the state and federal level - responded to meet the needs of citizens. Increased unemployment insurance, individual \$1,200 stimulus checks and funded Covid testing are but three of many examples.

While the pandemic was a sudden change, Delaware public school retirees have been experiencing a slow moving change that began the day they retired and continues today. Inflation continues to eat away at our pension. There has not been a permanent pension adjustment in five years. During that short time pensions have lost 8.8% of their

purchasing power. The need is especially immediate for far too many retirees whose pension falls below the poverty level. There are 4,860 State Pension Plan recipients who retired before the year 2000. Those folks have lost at least 32% of their pensions to inflation. The 864 pensioners who retired before 1990 have seen their pensions lose 43% of their value. Our loss is not sudden like the pandemic or a hurricane, but for many it is certainly as real. Without the Governor's help this slow but steady loss will continue.

In seeking the successful passage of our proposal, we've explained it to a number of legislators. I want to publicly acknowledge and thank them for the very fair consideration that they have given it. I also want to again acknowledge our meetings and phone calls with Joanna Adams in the Pension Office and Budget Director Michael Jackson. These meetings have fostered a mutual understanding of the financial needs of both the State and pensioners. Our thanks to both of you.

DRSPA members are asking Governor Carney to support our pension plan. It meets the criteria set forth in legislation signed by the governor addressing the erosion of pension benefits for the longest serving retirees and establishing a post retirement increase policy that is financially sustainable in future fiscal years.

Thank you.



Long-Term Pension Adjustment Proposal

Synopsis: In response to section 38 of the FY 2019 Grants-in-Aid legislation, DRSPA proposes that:

- 3.00 percent of gross payroll be placed in the State Employee's Post Retirement Increase (PRI) fund, and like funds in the Judiciary and New State Police Plans each year
- Pension increases be funded over a two year (rather than five-year) period
- Pension increases will be granted every two years, starting on July 1, 2021
- Pension increases will be determined separately for each of the three plans
- Pension increases will be granted on a percentage basis
- Those pensioners who retired 20 years or more prior to the initial date of the pension increase will be granted a percentage increase two times those pensioners who retired less than twenty years prior to the initial date of the pension increase.

Preface: In June 2019, the Delaware General Assembly passed, and Governor Carney signed the Grants-in-Aid bill. Section 38 of the legislation states:

“It is the intent of the General Assembly to include a post retirement increase for beneficiaries of the State Employee's Pension Plan, the Judicial Pension Plan, and the New State Police Pension Plan effective July 1, 2020 (Fiscal Year 2021 Budget). Options for consideration shall include, but not be limited to, a post retirement increase that addresses the erosion of pension benefits, due to inflation and other factors, for the longest serving retirees. The further intent is to establish post retirement increase policy that is financially sustainable in future fiscal years.”

Statement of Intent: Delaware Retired School Personnel Association (DRSPA) proposes a pension adjustment plan that meets the criteria set forth in Section 38 by:

- Providing a pension increase every other year
- Providing an increased adjustment for the longest serving retirees
- Defines the state's cost as a forecastable percentage of payroll expense

Summary of Included Plans: Section 38 states that three plans - State Employee's, the Judicial and the New State Police Pension Plan are to be included in the proposal. As Table A below illustrates, each of these plans are different in many significant components. They require participants to contribute different percentages of salary, have different qualifications for “normal retirement and have different benefit calculations. The State Contribution Rate is very different. For example, the state's contribution for the New State Police Plan (24.12%) is more than double the contribution for the State Employee's Pension Plan (11.96%).

The three plans also differ significantly in size. With a combined membership of 37,068 active members and 27,677 retired members (total 64,745) the State Employee's Pension Plan dwarfs the combined 1,101 active and retired members of both other plans.

According to the Office of Pension's public actuarial reports, the number of pension recipients has increased each of the past three years in the State Employee's and New State Police plans. The number of State Employee's pension recipients has increased approximately 2.7% while the number of New State Police pension recipients has increased 8.02%. The much smaller Judiciary Plan number of pensioners has remained at 51 recipients for the most recent three years.

The total pensions paid by either of the plans is determined by two factors: the number of pension recipients and the amount of each retiree's pension. The death of pension recipients reduces the total pensions paid, while the pensions of those newly retired increases the total paid. Generally, the deceased pensioner's pension is less than the newly retired pension amount, resulting in a net increase in total pensions paid. The total pensions paid by each plan has increased each of the past three years due to a combination of these two factors.

The average pensions paid is significantly different. This is primarily due to two factors. First, the salaries of judges and police officers are on average higher than state employees. Second, the benefit calculations for these two groups result in higher pensions than for state employees. Average pensions for the judiciary (\$95,498) are 4.4 times higher than state employees (\$22,650). Average New State Police pensions (\$69,271) are 3.2 times higher than state employees. *The source of all data in Table A are Financial Actuarial Reports for the Judiciary, New State Police and State Employee's, as of June 30, 2019, 2018, 2017 and 2016.*

**Table A
Summary of Included Plans**

yo = years old ys = years service	State Employee's Pension	Judicial Pension	New State Police Pension
% Employee Contribution	Pre-2012 hires: 3% Post 2011 hires: 5%	3%, 5% above Social Security	7%
Normal Retirement	Pre-2012 hires: 62 yo with 5 ys or 60 yo with 20 ys or any age 30 ys Post-2011 hires: 65yo & 10 ys or 60 yo with 20 ys or any age 30 ys	62 yo & 12 ys or any age & 24 ys	55 yo & 10 ys or any age and 20 ys
Benefit Calculation	2% per year for service prior to 1/1/1997 + 1.8% per year for post 1/1/1997 service	50% of first 12 year's salary, 25% of next 12 years	2.5% per year, up to 20 ys, 3.5% above 20 ys
State Contribution Rate for FY2021	12.33%	18.90%	24.12%
Number of active participants in FY 2019	37,724	56	714
Number of pension recipients in FY 2019	28,472	51	305
Number of pension recipients in FY 2018	27,677	51	283
Number of pension recipients in FY 2017	26,879	51	262
Number of pension recipients in FY 2016	26,179	51	242
Total and average pensions paid in FY 2019	\$644,896,794 \$22,650 average	\$4,870,418 \$95,498 average	\$21,127,542 \$69,271 average
Total and average pensions paid in FY 2018	\$602,137,850 \$21,756 average	\$4,870,248 \$95,495 average	\$19,473,559 \$68,811 average
Total and average pensions paid in FY 2017	\$594,894,597 \$22,132 average	\$4,759,612 \$93,326 average	\$17,422,687 \$66,499 average
Total and average pensions paid in FY 2016	\$571,723,513 \$21,839 average	\$4,435,785 \$86,976 average	\$15,963,614 \$65,965 average

Pension History: The state of Delaware has never provided pension recipients with a permanent pension adjustment mechanism. Instead, the General Assembly provided pension increases based, at least to some extent, on the State’s anticipated tax income and on the erosion of pensioner’s purchasing power as a result of increases in the cost of living. This practice resulted in pension increases that could not be forecast to occur on any regular basis.

During the 2019 legislative session Senate Bill 62 was introduced. This bill would have provided an annual pension increase equal to the most recent Social Security increase and would have provided pensioners with a forecastable pension adjustment each year. However the State’s cost was determined to be far too high and the bill died in committee.

Table B provides pension increase and cost of living data since 1990. Purchasing power is determined by subtracting cost of living from pension increase.

Table B
Pension, Cost of Living Increases & Purchasing Power
1990-2020

Year	% Pension Increase	% Cost of Living Increase	% Change in Purchasing Power
1990	3.2	6.0	-2.8
1991	0	4.5	-4.5
1992	0	3.4	-3.4
1993	0	2.8	-2.8
1994	3.1	2.4	+0.7
1995	2.0	2.6	-0.6
1996	2.0	2.8	-0.8
1997	2.3	2.4	-0.1
1998	2.4	1.4	+1.0
1999	2.2	2.1	+0.1
2000	2.3	3.4	-1.1
2001	2.0	2.8	-0.8
2002	0	2.1	-2.1
2003	3.05	2.8	+0.25
2004	2.03	3.5	-1.47
2005	2.16	3.6	-1.44
2006	2.08	3.6	-1.52
2007	0	2.6	-2.6
2008	0	4.0	-4.0
2009	0	0.0	0.0
2010	0	2.0	-2.0
2011	0	3.0	-3.0
2012	3.0	2.0	+1.0
2013	0	1.4	-1.4
2014	0	1.4	-1.4
2015	1.0	-0.1	+1.1
2016	0	1.1	-1.1
2017	0	1.8	-1.8
2018	0	2.2	-2.2
2019	0	2.3	-2.3
2020	0	1.4	-1.4
Total	34.82	77.3	-42.48

The Proposal: For at least the past 40 years, pension increases were determined by proposing a percentage increase in pension, then determining the 5-year amortized cost of the increase. The historical record demonstrates that this process provides no forecastable pension increases for retirees, nor cost forecasting for state government. DRSPA proposes that:

- 3.00 percent of gross payroll be placed in the State Employee's Post Retirement Increase (PRI) fund, and like funds in the Judiciary and New State Police Plans each year
- Pension increases be funded over a two year (rather than five-year) period
- Pension increases will be granted every two years, starting on July 1, 2021
- Pension increases will be determined separately for each of the three plans
- Pension increases will be granted on a percentage basis
- Those pensioners who retired 20 years or more prior to the initial date of the pension increase will be granted a percentage increase two times those pensioners who retired less than twenty years prior to the initial date of the pension increase.

Costs and pension increases for FY2022: Delaware's gross payroll for FY2022 is estimated to be \$2.04 billion, and under DRSPA's proposal would require the transfer of \$60.9 million to the PRI fund and would provide (over a two year period) \$121.8 million in PRI funds. Our best estimate is that this level of funding would provide State Employees a 3.2% pension increase for 20+ year retirees and a 1.6% increase for those who retired after 2001. Due to Office of Pension regulations it is impossible for DRSPA to determine increases for either the Judiciary or New State Police plans.

Costs beyond FY2022: Under this proposal the 3.00% transfer to the PRI fund would be permanent. If the gross payroll increases, the dollar cost to the state would increase proportionately.

Pension increases beyond FY2022: There would be no pension increase in FY2023. There would be a pension increase in FY2024. Those pensioners who retired prior to 2003 would receive double the percentage of those who retired after 2003. The percentages would be dependent on the state's payment to the PRI fund.

Conclusion: This proposal will provide both retirees and state government with a long term plan for addressing the erosion of pension benefits, due to inflation and other factors and establish post retirement increase policy that is financially sustainable in future fiscal years.

Questions or more information:

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