



# City of Philadelphia

City Council  
Chief Clerk's Office  
402 City Hall  
Philadelphia, PA 19107

## BILL NO. 030610

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Introduced September 18, 2003

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Councilmembers Kenney, DiCicco, Ortiz and Nutter

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Referred to the  
Committee of the Whole Council

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## AN ORDINANCE

Amending Title 22 of The Philadelphia Code, entitled "Public Employees Retirement Code," by amending Chapter 22-300, entitled "Retirement Benefits," by providing for the discontinuation of the existing test Deferred Retirement Option Plan (DROP), and by providing for a new test DROP; all under certain terms and conditions.

*THE COUNCIL OF THE CITY OF PHILADELPHIA HEREBY ORDAINS:*

SECTION 1. Title 22 of The Philadelphia Code is hereby amended to read as follows:

### TITLE 22. PUBLIC EMPLOYEES RETIREMENT CODE.

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### CHAPTER 22-100. GENERAL PROVISIONS.

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§22-105. Definitions. In addition to the definitions set forth in §1-103(1) of the Code, the following definitions apply to this Title unless the context plainly requires otherwise:

\* \* \*

(12A) DROP. The deferred retirement option plan established under Section 22-310 or the deferred retirement option plan established under Section 22-310.1. [The] Neither DROP is [not] a "Plan" as that term is defined in Section 22-105(30).

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## CHAPTER 22-300. RETIREMENT BENEFITS.

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### §22-310. Deferred Retirement Option Plan – *First Test* (DROP I).

(1) Test DROP. [The DROP described in this section is enacted as a test for a limited duration as provided below, and will not be continued unless the specified conditions are met. It is the intent of Council that the design of this test DROP is such that the impact of the plan will not result in more than an immaterial increase in the City’s normal cost of annually funding the Retirement System. Accordingly, this test DROP is subject to the following conditions:

(a) This test DROP will be tested for a period of four years. Within 30 days of the fourth anniversary of the effective date of the ordinance that adds this subsection to provide for the test DROP, the Board shall seek an analysis from its actuary as to the experience of the test DROP for the preceding four years. If the Board, based on the report of its actuary, determines that the operation of the DROP, including any accrued liability, resulted in no, or an immaterial, increase in the City’s normal cost during the test period, then the DROP will cease to be a “test” DROP, and will continue under the same terms (except those relating to the “test” aspects) indefinitely unless and until further amended by Council. If the Board, based on the report of its actuary, determines that the operation of the DROP, including any accrued liability, resulted in a material increase in the City’s normal cost during the test period, then the DROP shall be automatically terminated, except that no member then currently enrolled in the DROP shall be divested of any rights under the DROP.] *The provisions of this Section shall apply only to employees who become eligible for participation on or before June 14, 2004 and who make application to the Board by March 16, 2004. All employees who enter the DROP and all DROP accounts established under the provisions of this Section shall continue to be governed by the provisions of this Section, and the provisions of Section 20-310.1 shall have no application to such employees or to DROP accounts established for such employees.*

\* \* \*

(5) Benefit Requirements and Calculation.

\* \* \*

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(g) Re-hire. There is no return to regular employment from a DROP. Once entering the DROP, the employee is in the DROP until separation from City service, at which point the member is retired. A retiree may be re-hired by the City, subject to the provisions of this Title (see Section 22-204), but no former DROP participant who is rehired by the City may be eligible to again participate in the DROP *provided under this Section or the DROP provided under Section 22-310.1*. A rehired retiree who had not been a former DROP participant may be eligible to enter the DROP if the employee otherwise meets the eligibility requirements of subsection 22-310(4). In such a case, the retirement benefit for purposes of credits to the DROP account shall be determined by reference to Section 22-204 of this Title.

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## *§22-310.1. Deferred Retirement Option Plan – Second Test (DROP II).*

(1) *Test DROP. The DROP provided in this Section is enacted as a test and shall terminate on December 31, 2008 unless extended by Council by ordinance, provided that no member then currently enrolled in the DROP shall be divested of any rights under the DROP. By September 1, 2008, the Board shall make a written recommendation to Council as to whether the DROP should be continued based upon the Board's analysis of the impact of the DROP on the pension system. Such written recommendation shall include a report of the Board's actuary as to the experience of the DROP provided in this Section since its inception.*

(2) *Basic Concept of a DROP. Eligible employees who elect to participate in the DROP make an irrevocable commitment to separate from City service and retire upon ceasing participation in the DROP, which they must do no later than four (4) years after entering the DROP. Such employees remain employees of the City for all other purposes (except that deductions for employee pension contributions cease and the employee no longer accrues additional service credit for City pension) and are not treated as separated from the City during their participation in the DROP. However, the determination of the retirement benefit amount is made and payment begun upon entry into the DROP, except that payments of that benefit are credited to a special DROP account subject to certain conditions, rather than to the employee directly.*

(3) *Definitions. Definition of certain terms used in this Section can be found in Section 22-105 of this Code.*

(4) *Eligibility. In order to be eligible to participate in this program, a member must be an active employee of the City, be otherwise eligible to retire under Section 22-301, and have a minimum of ten (10) years of credited service, all as of the DROP entry date,*

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*and must not have entered the DROP provided under Section 22-310. In lieu of separating from employment and commencing receipt of service retirement benefits, any such member may enter into this program (“the DROP”) on or after the date the member attains his or her “minimum retirement age” as that term is defined in Section 22-105(25), provided that the member’s DROP entry date shall meet the requirements in Section 22-310.1(5)(a) below. For participation in the DROP to be effective, the application must be approved by the Board pursuant to Section 22-309.*

(5) *Benefit Requirements and Calculation.*

(a) *Except as otherwise provided by this Section, an election to participate in the DROP is irrevocable. The effective date of a member’s participation in the DROP shall be the date provided on the member’s application, provided that such date shall only be the beginning of a full pay period and shall not be earlier than ninety (90) days after the date the application is filed with the Board nor earlier than the member’s “minimum retirement age” as that term is defined in Section 22-105(25).*

(b) *A monthly amount equal to the member’s normal accrued monthly service retirement benefit as of the effective date of the member’s participation in the DROP shall be credited to a DROP account established for each DROP participant. Such accounts shall be managed under the provisions of Section 22-310.1(6).*

(c) *Credits to a member’s DROP account under Section 22-310.1(5)(b) shall begin on the effective date of the member’s participation in the DROP and continue until the DROP participant separates from active service with the City, provided that such separation must be no later than four (4) years after the DROP entry date. Credits may not be made to a member’s DROP account for a period that occurs after the member separates from active service with the City.*

(e) *Employee contributions. Upon a member’s entry into the DROP, member contributions made to the Retirement System under Section 22-902 on behalf of that member shall cease for duration of the DROP period.*

(f) *Separation and Payment of DROP benefit. A DROP participant who separates from active service with the City is entitled to receive the balance of the member’s DROP account in a lump sum. In addition, upon the effective date of such separation, the member shall be retired, and becomes eligible to receive a service retirement benefit, in the monthly amount calculated in Section 22-310.1(5)(b) above.*

(g) *Re-hire. There is no return to regular employment from a DROP. Once entering the DROP, the employee is in the DROP until separation from City service, at which point the member is retired. A retiree may be re-hired by the City, subject to the*

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*provisions of this Title (see Section 22-204), but no former DROP participant who is rehired by the City may be eligible to again participate in the DROP provided under this Section. A rehired retiree who had not been a former DROP participant (whether under DROP I as provided in Section 22-310 or DROP II as provided under this Section) may be eligible to enter the DROP if the employee otherwise meets the eligibility requirements of subsection 22-310.1(4). In such a case, the retirement benefit for purposes of credits to the DROP account shall be determined by reference to Section 22-204 of this Title.*

*(h) Death of a DROP participant. Upon the death of a DROP participant while in the DROP, the member's total DROP account balance at the time of death shall be added to any benefit payable under Chapter 22-500 of this Title and payable to the beneficiary as determined under that Chapter.*

*(i) Ordinary Disability of a DROP participant. DROP participants are not eligible for an ordinary disability retirement under Section 22-402. If a DROP participant becomes disabled and does not meet the requirements for a service-connected disability retirement, that participant shall be terminated from the DROP and separated from the City to begin a service retirement and receive the DROP benefit, as provided in Section 22-310.1(5)(f) above.*

*(j) Service-Connected Disability of a DROP participant. If a DROP participant applies for, and the Board grants, a service-connected disability retirement benefit under Section 22-401, the member shall be terminated from the DROP and separated from the City to begin a service-connected disability retirement and receive the DROP benefit, as provided in Section 22-310.1(5)(f) above, under the following conditions:*

*(.1) The service-connected disability retirement benefit shall be based on the compensation and service levels as determined at the DROP entry date.*

*(k) Purchase of service. Upon entry into the DROP a member's service level is frozen. Therefore, a DROP participant is not eligible to purchase any service under Chapter 22-800, provided that a DROP participant may complete any installment purchase as provided in Section 22-806(4).*

*(6) Management of DROP Accounts.*

*(a) Individual DROP accounts shall be established for each DROP participant, and the assets in DROP accounts shall be segregated from other assets of the Retirement System.*

*(b) The Board shall:*

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(.1) *establish standards or criteria for the selection by the Board of financial institutions, insurance companies or other organizations which may be qualified as managers on behalf of the City of funds held in DROP accounts;*

(.2) *establish standards and criteria for the providing of options to DROP participants concerning the method of investing amounts held in DROP accounts, and informing DROP participants of specific options offered by qualified managers and any fees, costs and charges for administering and managing such accounts, provided that DROP participants shall be provided at least the same range of investment options as are provided to participants in the City of Philadelphia Employees' Deferred Compensation Plan.*

(c) *The Board is authorized, subject to the provisions of the Philadelphia Home Rule Charter, to enter into written agreements with one or more financial or other organizations to administer DROP accounts and to manage and invest funds held in such accounts. The award of any such contracts shall be subject to the approval by resolution of City Council.*

(7) *Regulations. The Board shall, by regulation, provide for additional details of implementation and interpretation of this Section.*

SECTION 2. This Ordinance shall take effect immediately, except that the provisions of Section 22-310.1 of The Philadelphia Code, as added by Section 1, shall not take effect until ninety (90) days after this Ordinance becomes law. On and after the effective date of Section 22-310.1, an employee who is eligible to participate in the DROP provided under Section 22-310.1 and who is also eligible to participate in the DROP provided under Section 22-310 may choose to apply for the DROP under either Section.

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**Explanation:**

[Brackets] indicate matter deleted.  
*Italics* indicate new matter added.