

Legislation Text

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June 23, 2011

**To The President and Members of
The Council of the City of Philadelphia:**

I am returning herewith to your Honorable Body as disapproved Bill No. 110443, which was passed by Council at its session on June 16, 2011.

Bill 110443 would amend The Philadelphia Public Employees Retirement Code to make various changes to the Deferred Retirement Option Plan (DROP). The bill changes the eligibility requirements of the program for certain employees and changes the interest rate credited to DROP accounts. Additionally, the bill creates a Partial Lump Sum Option for retirees that would allow them to take a lump sum benefit at retirement, in exchange for an actuarial reduction of their regular monthly pension.

Bill 110443 recognizes that DROP is too costly and is designed to reduce that cost. However, Bill 110443 does not go far enough. Under Bill 110443, DROP will continue to exist and continue to cost the City money while maintaining a program that does not achieve its intended purpose of helping the City better manage its workforce. I strongly urge City Council to pass legislation to eliminate the DROP program altogether and free up scarce resources to fund taxpayer priorities.

DROP was established in 1999 with the purpose of creating an effective human resources planning tool that would not have material costs for the City. The program has failed to deliver - it is not used as an effective human resources planning tool and has resulted in significant costs to the City.

The cost of DROP has been estimated in studies commissioned by the Administration and by Council. While those studies provide different cost estimates, they both come to the conclusion that DROP has a substantial cost - at least \$100 million to date and potentially substantially more. That is a cost that neither the pension fund nor taxpayers can afford.

Based on an analysis by City Council's actuarial consultant, under Bill 110443, DROP will continue to have a cost. The actual cost cannot be determined because it will depend on future participant behavior, which is not in the City's control. What we know from past experience is that as participants make the rational decision to maximize their DROP benefit, they also increase the cost to the pension fund and to taxpayers.

Furthermore, at a time when the pension fund is only 47% funded, DROP's added cost is unacceptable. Philadelphia's 47% funding ratio is one of the weakest among major American cities and DROP is a contributing factor to the pension system's weak financial health. A system as poorly funded as the City's simply cannot afford the extra burden of a DROP - even one with the likely reduced price tag created by Bill No. 110443.

Finally, I am returning this bill because it creates different classes of employees through the changes in eligibility rules that apply to certain members of the workforce, but not others.

Elimination of the DROP program is needed. The City cannot afford DROP under Bill 110443. I previously transmitted Bill 100542 to City Council. If enacted, this bill would immediately terminate the DROP program. I strongly urge City Council to pass that legislation when it returns from its summer recess.

For the foregoing reasons, I am returning Bill No. 110443 to you disapproved.

Respectfully,
Michael A. Nutter,
Mayor