

# NEWS



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## MAYOR'S OFFICE OF COMMUNICATIONS

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FOR IMMEDIATE RELEASE

### MAYOR NUTTER TRANSMITS LEGISLATION TO CITY COUNCIL TO PROTECT HEALTH OF PENSION FUND

*City issues RFP to study effect of DROP program on an employee's decision to retire*

**Philadelphia** – Today, Mayor Nutter transmitted legislation to City Council that, if passed, would strengthen the long-term health of the pension fund. The first bill transmitted today would change the interest rate applied to the Deferred Retirement Option Plan (DROP) account balances from a fixed rate to a variable, capped rate. The second bill would amend the provisions governing when deposits are made into the Pension Adjustment Fund. At the same time, the Administration also posted an RFP to study the effect of the DROP program.

#### **Adjust the interest rate for DROP account balances from fixed to variable, with a cap.**

The guaranteed earnings rate on DROP accounts is now a fixed 4.5 percent. This fixed earnings rate does not vary with market conditions and is damaging during years when the market decreases. The ordinance would modify that earnings rate to ensure that the earnings rate for the accounts will equal the earnings rate for the pension fund for the previous year, with a cap of half of the pension fund's assumed earnings rate. This modification to a variable DROP earnings rate with a cap protects the health of the fund in years when earnings are weak.

#### **Amend when contributions are made to Pension Adjustment Fund**

The second bill that was transmitted today would amend the provisions governing when contributions are made into the Pension Adjustment Fund. Contributions are made when the pension fund's actual earnings exceed the fund's earnings assumption by at least one percent. For example, the pension fund currently has an earnings assumption of 8.75%. If the actual earnings exceed 9.75%, the pension fund would be required to make a contribution to the Pension Adjustment Fund. There is no minimum funding level requirement

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that must be reached before contributions to the Pension Adjustment Fund must be made. The ordinance would reinstate the minimum funding level established as of July 1, 1999 – a level of 76 percent – before any contribution to the pension adjustment fund would occur.

“All boats rise with the tide. When the pension fund is healthy, it can provide extra benefit to retirees. But when it is in poor health, it can not be expected to make these contributions,” said Mayor Nutter.

The pension fund is only funded at roughly 55 percent and, as a result of this year’s market losses, that funding percent is likely to decline further. Because there is currently no minimum funding level requirement for the pension fund, the pension fund has been required to contribute more than \$65 million to the pension adjustment fund over the past two years (FY07 and FY08). While these costs cannot be recouped with the legislative changes proposed today, the proposed changes can improve the future health of the pension fund by assuring that contributions are made only when the pension fund is healthy enough for such obligations.

Additionally, the ordinance would also require that the valuation of the pension fund, for cost-of-living adjustment purposes, be done using a ten-year rather than a five-year period. Spreading out the pension fund’s losses/earnings from five years to ten years (smoothing), protects the pension fund’s health because it eliminates dramatic fluctuations from year to year.

#### **Issue RFP to study impact of DROP program**

The City issued an RFP for an impact evaluation of Philadelphia’s DROP program. The goals of the DROP program were to encourage valuable employees to continue working, to allow for more effective succession planning and to identify participants’ retirement plans in order to create staffing efficiencies. The most recent study that was conducted on DROP was inconclusive. It showed that the program could either cost the City money or create savings but did not offer insight into which was more likely.

“The purpose of the RFP is to commission a study to determine the effect of DROP on employee behavior,” commented Mayor Nutter, “The results will be used to determine if the program is achieving its intended goals and whether it should continue in its current form.”

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