

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY

Resolution No. 05
February 16, 2016

WHEREAS, under the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the Act of June 5, 1991, P.L. 9, No. 6, as amended) (the "Act"), the Pennsylvania Intergovernmental Cooperation Authority (the "Authority") has been created for purpose, among others, of assisting The City of Philadelphia, Pennsylvania (the "City"), in solving the City's budgetary and financial problems, and helping the City achieve and maintain access to the capital markets; and

WHEREAS, under the Act, the Authority is given the power to make factual findings concerning the City's budgetary and fiscal affairs and the power to make recommendations to the City concerning its budgetary and fiscal affairs; and

WHEREAS, the Authority and its staff have, for a number of years, focused on the City's Public Employees Retirement System (the "Pension System"), and the Authority issued a Staff Report in January 2015 entitled *Philadelphia's Pension System: Reducing Risk and Achieving Fiscal Stability* (the "2015 City Pension Report"), in which the Authority staff analyzed and made certain recommendations concerning the Pension System; and

WHEREAS, based upon its review and analysis of the Pension System, the Authority has made the following findings:

1. The most recent actuarial valuation for the Pension System determined that the funded ratio of the system as of July 1, 2014 was 45.8 percent. As of that date, the unfunded liability of the Pension System was \$5.7 billion.

2. Pension costs of the City have increased dramatically over the past fifteen years, both in relation to salaries and the City's General Fund budget. The Fiscal Year 2016 City General Fund operating budget includes an appropriation of \$611.7 million for contributions to the Pension System. This amount represents 40 percent of employee salaries and 15 percent of total General Fund appropriations. In comparison, in Fiscal Year 2001, pension costs represented just 17 percent of

salaries and 7 percent of the General Fund budget. Higher costs for pensions diminish the ability of the City to provide services and maintain affordable tax rates for residents and businesses.

3. In Fiscal Year 2015, the Pension System finished with a rate of return of 0.8 percent, well below the assumed rate of return of 7.8 percent, and thus far in Fiscal Year 2016, the Pension System has lost 4.75 per cent of its value or \$220 million.

4. The City established a hybrid pension plan known as Plan 10 in 2010. This plan is mandatory for new correctional officers and employees of the Office of the Register of Wills, and optional for all other new City employees. Currently, 841 City employees are enrolled in Plan 10. The City estimates that compared to the traditional defined benefit pension system, Plan 10 results in a 2.5 percent reduction in ongoing actuarially-required contributions by the City to the Pension System. If all new City employees were required to enter Plan 10, the savings to the City would be substantial and would enable the City to devote additional resources to ensuring the financial stability of the Pension System for the long term.

5. The Deferred Retirement Option Plan (“DROP”) was established in 1999. The original DROP legislation stated that DROP would not be made permanent if it was determined to result in a material increase in the normal cost of funding the Pension System. Four years later, the City’s actuary found that DROP did not result in an increase in cost and the program was made permanent. However, a 2010 study found that the DROP program had cost the City \$258 million from 1999 to 2009. The study was conducted by researchers at the Boston College Center for Retirement Research, which the *New York Times* described as the “nation’s leading center on retirement studies.” An article in the *Philadelphia Daily News* recently indicated that the DROP program has resulted in \$1.2 billion in lump sum payments from the pension fund to employees since 1999.

6. The Pension Adjustment Fund (“PAF”) provides supplemental benefit payments to retired workers in years in which Pension System investment returns exceed the actuarially assumed rate of return by one percent or more. In 2015, the Pension System provided PAF payments of \$62.4 million. Analysis by the City’s actuary has demonstrated that distributions from the Pension System under PAF prevent the Pension System from receiving the full benefit of years of high investment returns.

7. The City’s defined benefit pension system provides a high level of retirement security. When compared to other municipal defined benefit plans, annual city employee pension contributions are low in comparison to other cities.

According to the 2015 City Pension Report, the median uniformed employee pension contribution in the 10 largest US cities was 8 percent of salary, while the median contribution for non-uniformed employees was 6 percent. In Philadelphia, even despite recent increases, Police and Fire contributions range from 5 to 6 percent of salary, while non-uniformed contributions generally range from 3 to 4.75 percent. Higher employee contributions in the City would more equitably share the burden of pension costs between City taxpayers and pension system members, while also providing the additional resources needed to ensure that the retirement system remains financially stable over the long term.

NOW THEREFORE, BE IT RESOLVED BY THE GOVERNING BOARD OF THE AUTHORITY that the Authority strongly encourages the Mayor of the City, the City Council and the Board of Pensions and Retirement and the Leadership of all Municipal Unions of the City to consider the recommendations made by the Authority in the 2015 City Pension Report and to take all necessary action, including through legislation, administrative actions, and upcoming collective bargaining and arbitration, and adopt all such measures required to ensure the financial stability of the Pension System and City Government, and the ability of the City to continue to provide necessary and adequate services to ensure the health, safety and welfare of Philadelphia citizens.

DULY ADOPTED THIS 16th day of February, 2016.

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