



Testimony on the Proposal to Prohibit Elected Officials

From Participating in the City's Deferred Retirement Option Plan (DROP)

Bill No. 080020

Philadelphia City Council

Committee on Labor and Civil Service

May 13, 2008

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I am Zack Stalberg, President and CEO of the non-partisan Committee of Seventy. I am here today to testify on proposed legislation to prohibit elected officials from participating in the City's Deferred Retirement Option Plan (DROP). I appreciate the opportunity to testify before this Committee and thank Chairman Green.

The Committee of Seventy favors excluding elected officials from participating in DROP.

There are clear incentives for enrolling in DROP: no more required pension payments by the city employee, the receipt of a lump sum pension payment, a guaranteed interest payment on the individual's pension investment of no less than 4.5%.

But DROP is a deferred *retirement* program. There is an unequivocal presumption that an employee must actually retire in order to benefit from DROP.

That presumption was violated when former City Solicitor Diaz apparently sanctioned a one day retirement of two elected officials in order to receive their DROP pension payments. Several other elected officials have since enrolled in DROP.

Both of the officials who acted on Diaz's advice ran for reelection in November 2007, retired for 24 hours in January 2008, received their lump sum DROP payments and then returned to work the following day.

It's impossible to comment on Solicitor Diaz's rationale. The opinion has not been made public. His successor, Solicitor Smith, has indicated that, for confidentiality reasons, she could not even confirm its existence.

This loophole is not the only reason to exclude elected officials from this retirement program.

DROP was enacted in 1999 for two reasons:

- To retain experienced employees – especially police and firefighters -- by giving them an incentive to stay in their jobs for four years after they might have otherwise retired; and
- To allow the department in which a DROP enrollee is working time to choose and train a successor.

Neither of these two reasons for the DROP program has anything to do with elected officials. With the exception of the mayor, who has a two-term limit, it is up to the voters to decide when it is time for an elected official to go.

We want to emphasize that our position is not intended to suggest that elected officials who are currently enrolled in DROP should not receive its benefits. Nor are we singling out any elected official who has already taken advantage of DROP and officially retired, such as Mayor Street. Their participation is allowed by the rules that currently exist.

Our position also does not take into account the financial impact to the City of including elected officials in DROP. However, this matter has been raised by everyone from PICA to the Greater Philadelphia Economy League to Mayor Nutter, who as a City Councilman sponsored legislation in 2004 to remove elected officials from DROP and presumably still favors the idea. Curiously, the actuarial report on DROP that was sought by and presented last month to the City's Municipal Retirement Board does not directly address this controversial point.

We hope Council will review the cost of DROP among the many issues impacting the City's significant unfunded pension liability. We urge this Committee to reschedule a public hearing originally intended for May 6<sup>th</sup> on a resolution authorizing the examination of the state of the City's pension system, including existing plan entitlements, contributions and investment strategies and to prepare a report making recommendations to ensure the fiscal stability of the pension system. We hope this Council will also look very closely at the Mayor's \$3.5 billion pension bond issue proposal.

Putting aside the financial impact on the City's pension crisis, the greatest cost of the DROP controversy is that it has fueled cynicism of local government. The long overdue reform you are considering should be passed by this Committee and by the full Council.