



Committee of Seventy

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Testimony on the Deferred Retirement Option Plan (DROP)

Philadelphia City Council

Committee of the Whole

June 8, 2011

I am Zack Stalberg, president of the non-partisan Committee of Seventy. I urge City Council to abolish DROP immediately for all city employees who have not already applied for the program.

The Committee of Seventy can talk endlessly about DROP. (Some of you think we already have.) I will try to keep this simple.

The public hates the DROP program. It has become the symbol for arrogance and entitlement. No program like this one would be preserved in the real, non-government world today.

Next January, at least six new City Council members will be sitting in this chamber, in large part because of prolonged, intense anger over this pension benefit.

Despite clear evidence of the public's outrage, this Council appears determined to save this unnecessary perk. This is happening at a time when the taxpayer-supported fund out of which lump sum DROP payments are made is already \$5 billion short of where it should be in order to honor existing pension promises. Continuing to provide lump sum DROP payments – of whatever size – further impacts the pension fund assets and requires large appropriations of city tax dollars from the general fund.



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After two years of successive tax hikes, a proposal is on the table to raise taxes for yet a third year. This Council should be focused on reducing the burden on Philadelphia taxpayers – not salvaging programs that would in any way add to this burden.

On the day after Michael Nutter was sworn in as mayor, the Committee of Seventy asked him why DROP should continue. We were concerned about the effects of the ballooning pension crisis. Three and a half years and several debatable studies later, we are still asking the same question.

We recognize that members of this City Council believe DROP has been misunderstood. There is little doubt that – by many people – it is. Some members of Council believe it has been deliberately misconstrued by the news media, the Committee of Seventy and others.

What we believe is that foot-dragging by City Council and by the mayor, whose position we support today, has allowed DROP to become a festering wound that no one in this city is able to view dispassionately.

Once again we ask: Why does Philadelphia need DROP?

DROP provides no benefits for ordinary taxpayers. Only the city's employees benefit from DROP. The rest of Philadelphia's taxpayers do not. If the city is unable to attack its pension problems – which the Philadelphia's fiscal overseer, the Pennsylvania Intergovernmental Cooperation Authority has called the city's "greatest long-term fiscal challenge" – its ability to provide essential services for everyone who lives, works and visits Philadelphia is threatened.

DROP doesn't make government work better. Any pretense that a government-wide perk like DROP is needed in order to keep experienced employees on the job after they might otherwise have retired disappeared long ago. That was the supposed purpose for starting DROP in 1999. It certainly is not necessary in today's economic environment.



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DROP helps keep the workforce large and intact. Instead, as Councilman Bill Green told the Task Force on Tax Policy and Economic Competitiveness, serious steps must be taken to cut the workforce if Philadelphia expects to operate efficiently and without cutting services.

So far, city officials have shown themselves unwilling to make the kind of tough decisions that are vitally necessary for this large – and largely poor – city to reduce the size of government and use the remaining resources smartly.

Keeping DROP, even in an amended form, is one more example of avoiding the tough decisions.

Cost-neutrality is speculative at best. Council says its new and improved DROP program will be cost-neutral.

That is just what the public was told when DROP was hatched in 1999. By Council's latest measure, the 11-year cost of the supposedly "cost-neutral" DROP program was a mere \$100 million.

Most actuaries say that cost-neutrality can only be judged by actual experience. Gaining that experience could cost Philadelphia taxpayers a great deal more money.

And while we are waiting to see whether an amended DROP program is truly cost neutral, we can also look forward to the new system for taxing city properties – which is also supposed to have a "neutral" result.

DROP is not an entitlement. Eliminating DROP will not deprive any current or future city employees of the full pensions they earn and deserve. It will not move workers from one type of pension program to another.



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At a time when most private sector employees who still have jobs have had their benefits diminished, Council's insistence on rescuing DROP ignores cold economic realities. Instead, Council should be leading the way for overall, long-term pension reform.

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Philadelphia is not the only government that is scrutinizing DROP programs.

San Diego adopted DROP for its employees in 1997. A decade later, it shut the program down for any employee hired after July 1, 2005.

San Francisco is battling over the continuation of DROP for police officers, which is set to expire on July 1.

Efforts to enact DROP failed in New York City.

And then there's Baltimore, which, like this Council, started down the tweak-it road. But in 2010, a task force created by the then-Council president in Baltimore recommended abolishing DROP altogether.

The Task Force on Sustainable Funding of Baltimore City's Fire and Police Pension System said that reducing the interest rate earned on the set-aside DROP payment accounts of employees – which is what Philadelphia seems poised to do – is “inadequate to address the long-term problems of cost and relevance” of the DROP benefit. Baltimore's City Council ignored the warning and buckled.



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This Council can honor the public's outrage over DROP. It can take the responsible fiscal step. And it can help battle the city unions that threaten to go to court to fight even a less-costly DROP program.

Or – in an effort to hold on to the votes of city workers and their families – City Council can further stoke cynicism in government. And make losers out of every other taxpayer.