



## IN THE KNOW: WHAT NOW FOR DROP?

Members of City Council find themselves on the spot all of a sudden. They have to decide whether to do away with the much-maligned retirement program for city employees known as the “Deferred Retirement Option Plan.”

On one hand, the public generally doesn’t like the program and the mayor is calling for it to end. He is backed by a study saying DROP has cost the pension system \$258 million in 10 years.

On the other hand, unions are vowing a hard fight to save the program, which is a benefit that is popular with city workers, who are themselves a powerful force in city politics.

Meanwhile, an election is coming up next year and six Council members are signed up to get six-figure payouts from DROP even though some of them will run for reelection anyway and not really retire, which has earned City Council a lot of negative attention lately.

The Committee of Seventy has its own position on this program, as you’ll see, but today we will try to explain the choices City Council faces and what the DROP controversy is all about.

-Aug. 9, 2010

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### What is DROP anyway?

It’s a program that was designed to keep experienced employees on the job a few extra years to train their replacements. City Council created it in 1999, worried that police and firefighters from the Baby Boom generation would retire all of a sudden with nobody to take their places.

### How does it work?

An employee promises to retire but stays on the job for as long as four years. The employee keeps getting a regular salary, but gets a pension payment too. The city puts the pension payment in an account that earns 4.5 percent interest. When the employee finally retires for real, he or she gets that pension money in one big lump. Most of that is money the employee would have gotten from a normal retirement anyway, but there is that extra from the interest as well. And remember that the employee has been getting a regular salary all that time too.

### Why does the mayor want to kill DROP?

In 2009, the mayor asked a research institute at Boston College to look at DROP and see how much it was costing. (The Committee of Seventy had pushed him to do the study). The report finally came out last week and said the program had cost a quarter of a billion dollars and had



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only pushed back the retirement age of experienced employees by a few months. The city pension system is already in seriously financial trouble and the mayor says it should not keep up a program that makes it worse. And the city's top financial watchdog, Controller Alan Butkovitz (who also sits on the board that runs the pension system), agrees with him.

### Why are the unions fighting to keep it?

Because it's a good deal for workers (at least 9,000 have signed up since 1999, and hundreds more have signed up since the mayor said it should be ended). While they are in DROP, employees get their salaries at the same time their pension payments are going into an account, plus that 4.5 percent interest. A regular bank would pay less than 2 percent today.

### The whole idea sounds expensive. Why did the city even start this program?

Not so fast. The basic idea makes some sense, which is why lots of governments and private businesses do something like this. Knowing when a specialized employee is going to retire years in advance does give a chance to groom a younger (and lower paid) replacement. The idea was that you could save money in the long run by being able to manage your workforce better, even if you pay a little extra to the experienced employee for a few years.

### Why didn't it work in Philadelphia?

Well, you can't say it "didn't work" exactly. The mayor says some agencies used DROP wisely, but others didn't. What is clear from the new study, however, is that it cost far more money than anyone ever expected.

### Do the people who did the study know what they are talking about?

Seems like they do. The researchers are from The Center for Retirement Research, which was founded in part by the Social Security Administration and has a national reputation for research in the extremely complicated statistical analysis of public and private pension systems.

### So what does City Council say?

That's the intriguing part. By and large, they have reacted cautiously, saying they need more time to think about the study. One member, Frank DiCicco, has called for a special session this summer to end DROP (interesting, perhaps, since he is one of six Council members signed up for DROP), but the others don't seem to be in any hurry to deal with the issue until they get back from vacation in mid-September, at the very earliest.

### If DROP is so expensive, why don't members want to deal with it?

This is a giant hot potato, politically speaking, and there is an election coming up next year. The public reacted negatively after a series of news stories in 2007 and 2008 showed that elected



officials enrolled in DROP but ran for reelection anyway. At the end of their term, they retired for 24 hours, collected their DROP payment, and then came right back to work.

### Wait? Is that legal?

It was at the time. The DROP program didn't specifically exclude elected officials and the city couldn't force them to retire if the voters gave them another term, opening up this one-day "retirement" that annoyed the public. Even though the city's top lawyer had said this 24-hour retirement was OK, the state General Assembly eventually forced the city to exempt elected officials, but not before six current Council members had signed up.

### How many elected officials have signed up?

Several dozen, including Council President Anna Verna, who will get \$584,777 from DROP at the end of 2012 whether she retires for real or runs for a new term. Besides DiCicco and Verna, council members Jack Kelly, Donna Reed Miller, Frank Rizzo, and Marian Tasco are in DROP. Register of Wills Ron Donatucci is enrolled in DROP, as is Sheriff John Green, who says he will retire soon and collect his \$331,744 DROP payment. Former Mayor John Street enrolled in the program before he left office too.

### If Council does kill DROP, will those six members have to give up their DROP payments?

This is another sticky situation for Council members, particularly those six. Anyone who is signed up for DROP when the program ends will get to stay in it. If those six Council members vote to kill the program, it will look like they are taking the money while voting to deny the benefit to others in the future.

### So will any of those six really retire when they promised to?

Maybe or maybe not. At least one probably will retire, but the others are acting so far like they intend to run again, meaning they would get the DROP payment and keep working anyway if they get reelected.

### If the public is mad about DROP, why doesn't Council just kill it?

The politics of the thing is not so clear cut. Sure, a lot of the public has reacted negatively, but city workers like the program and are a powerful constituency. Unions represent almost 20,000 city employees, but those employees have friends, family, and neighbors, and that adds up to a lot of votes when next year's election comes up.

### That's a lot of money. Are taxpayers footing that bill?

Only some of it. Remember that most of that is pension money these officials would have been earning anyway if they had retired without DROP. But the pension fund is paying that extra 4.5



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percent interest for the four years they are in DROP - and these officials are getting their regular city salaries at the same time.

### Do all employees get big payouts like that?

No, in fact the average is around \$100,000 for non-elected employees, according to the city. And again, most of that is the money the employees would have been entitled to anyway if they had just retired without DROP. The payouts for elected officials tend to be big because they usually have worked for decades in high-paying jobs, so they earn large annual pensions.

### You said the Committee of Seventy had a position on DROP?

Absolutely. We led the call for a study of DROP, asking Mayor Nutter to look into it as soon as he took office in 2008. We were the only organization to testify in favor of exempting elected officials and ending the one-day “retirement,” since we saw that as an abuse of the system. And now that the study has shown the program to be very expensive, we are calling on Council to end DROP.

### You keep saying the pension system is in trouble. What’s the problem?

That’s an entire “In the Know” in itself, but the short answer is that the city has been paying too little into the pension fund for many years and the recent recession has made matters worse by hurting the value of investments. The city only has about 45 percent of what it needs in the bank to pay for all the promises it has made to current employees and retirees. We have more details in our 2009 report called [“Pensions: The Elephant in the Living Room”](#).

[http://www.seventy.org/OurViews\\_Philadelphias\\_Long\\_Hot\\_Summer.aspx#pt3](http://www.seventy.org/OurViews_Philadelphias_Long_Hot_Summer.aspx#pt3)

### Will eliminating DROP solve the pension problem?

Not even close. The pension fund says it is around \$5 billion short of what it should have on hand – DROP has cost \$258 million so far (a little more than \$22 million each year), just a fraction of that shortage. But the mayor says there is no point in continuing with a program that just makes a bad situation worse.

### How can I tell Council what I think about DROP?

You can always write or call your Council members and the mayor. They do listen to calls from the public. To find out how to contact your elected representatives, click [here](#).

[http://www.seventy.org/Resources\\_City\\_Council.aspx](http://www.seventy.org/Resources_City_Council.aspx)

*This is part of The Committee of Seventy’s “IN THE KNOW” feature, explaining important issues facing Philadelphia and the region. Let us know what you think of this edition, or suggesting other issues for us to examine, at [info@seventy.org](mailto:info@seventy.org).*