COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE ON LABOR AND CIVIL SERVICE

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Room 400, City Hall
Philadelphia, Pennsylvania
Monday, October 26, 2009
2:20 p.m.

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PRESENT:
COUNCILMAN BILL GREEN, CHAIR
COUNCILMAN WILLIAM GREENLEE
COUNCILMAN CURTIS JONES, JR.
COUNCILMAN JAMES F. KENNEY
COUNCILWOMAN MARIA QUINONES-SANCHEZ
COUNCILWOMAN JANNIE BLACKWELL

RESOLUTION 080049 - Resolution authorizing the Committee on Labor and Civil Service to hold hearings to examine the state of the City of Philadelphia Municipal Retirement System...

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COUNCILMAN GREEN: Good afternoon. I'd like to acknowledge the Committee members present: Councilman Kenney, Councilman Jones, Councilman Greenlee and Councilwoman Quinones-Sanchez.

I'd like to call the hearing to order. We will now begin the public meeting of the Committee on Labor and Civil Service.

The Clerk will please read the title of the resolution into the record.

THE CLERK: Resolution 080049, resolution authorizing the Committee on Labor and Civil Service to hold hearings to examine the state of the City of Philadelphia Municipal Retirement System, including the Pension System's existing plan entitlements, contributions and investment strategies and to prepare a report or making recommendations to ensure the fiscal stability of the Pension System.

COUNCILMAN GREEN: Before we

begin testimony, I'm just going to say a few words, which will not surprise my colleagues.

Good afternoon. Today we hold the first public hearing on Resolution 080049, which authorizes this committee to examine the City Pension System, including existing plan entitlements, contributions and investment strategies, and inquire as to alternative funding options, adjustments and other potential reforms to ensure the City of Philadelphia is able to keep its commitment to current and future retirees and to ensure the fiscal health and integrity of our city.

PICA recognizes that there is no single policy choice on spending the City can make that will have a greater impact on the future of its finances than the management of the City's Pension System. That is why an open, public dialogue amongst all of the stakeholders is critical to the success of our city.

I first introduced this resolution back in January 2008. In fact, this resolution was called up for two separate hearings, but at the request of the Administration, both hearings were postponed. The conversation that we are about to commence is long overdue.

I look forward to working with the Administration and the City's municipal unions in identifying solutions to the pension crisis and in crafting a plan for real reform.

It is my understanding that every single member of the Nutter Administration had a conflict this afternoon and are unable to attend. We may have some written testimony that someone may come from the Administration and read into the record.

Will the Clerk please call the first witness.

THE CLERK: Bill, do you want to come up? Bill Rubin.

(Witness approached witness

table.)

MR. RUBIN: Good afternoon, Chairman Green and members of the Committee on Labor and Civil Service. My name is Bill Rubin. I am from District Council 33 and serve as an Employee Representative Trustee and the Vice-Chairman of the Philadelphia Board of Pensions and Retirement. Thank you for the opportunity to come before you this afternoon.

When I first received the invitation to appear before you back in the spring of this year, I was excited to see such an interest in trying to fully fund the Pension System and maybe an opportunity to reform some of the policies that had led to its underfunding. I was saddened by the Administration's request to postpone that hearing and the subsequent hearing as well. I'm happy to see that this hearing is taking place today.

In recent months, I have been

very active with the state legislative bodies in regard to House Bill 1828, which dealt with pensions and the role of the Pennsylvania Employees Retirement Commission, known as PERC, as well as has been reported in the Administration's attempt to have state officials insert themselves in what I firmly believe is a City of Philadelphia issue.

I have provided the Committee with several reports on why our system of defined benefits is the best system to provide for the secure retirement futures of the hard-working men and women of this city. These reports will show why there will not be a savings from the type of plan being proposed that can be recognized for at least 20 years, if at all. Part of that report you can see Page 15 of the NASRA report.

I have provided you with two recent articles from the Time Magazine that describe the effects of a hybrid or a 401(k) type pension plan, as well as a "white paper" produced by the National Association of State Retirement Administrators, otherwise known as NASRA, which describes the myths and misperceptions of defined benefits and defined contribution plans.

I would like to direct your attention to some of the specific areas, if I could.

When you review the report, I would ask that you pay specific attention to Page 8, which describes the ability of individuals to invest and the outcome of employees managing their own accounts. Also Page 15, which reveals the cost is actually higher for a defined contribution plan than it is for the current plan we have here in Philadelphia.

I have also provided you with a research brief from the California Public Employees Retirement System, otherwise known as CalPERS. This brief also describes the many detrimental issues related to changing pension plans to the kind the Administration is proposing.

I do believe there has been policies and procedures followed in the past that needed to be addressed, and over the last five years since I have been on the Board, I have worked very hard with my fellow trustees - Ron Stagliano, John Reilly, Carol Stukes, Alan Butkovitz and Chairman Dubow - as well as the other City representatives to change some of these policies and procedures the Board was following. Some of them were such as the Minority Manager Program. The pension fund went from two percent of its assets invested in minority managers to over 20 percent. Currently, we are investing in real estate and hedge funds, and our most recent undertaking has been the establishment of a subcommittee to look at the type of investments that have short windows of opportunity, like distressed debt funds and emerging debt funds. This committee allows us to be proactive and nimble enough to take advantage of such investment vehicles.

By using this "thinking outside the box" mentality, the Board's losses were 17 percent last year, while a majority of public funds lost twice and three times that amount.

I am pleased to say we are currently up 19.5 percent so far for this calendar year and are hoping the positive progression will continue to bring good fortunes and returns.

The Board has an excellent Chief Investment Officer and staff, as well as a superb group of consultants that allow us to recognize potential problems and provide us with solutions in a fast and efficient way.

I know this committee as well as all of the City Council is being asked to look into the workings of the pension fund, and I am glad to answer any questions you may have for me and/or provide any of the answers in the case of something I'm not able to provide today.

I would like to spend a moment on the issue of reform and make clear that pension reform does not mean lowering benefits for workers or taking more out of the workers' paychecks to pay for their benefits. I would like to give you an example of how serious our Board is about the job we do at all levels.

When the news started coming out of New York about the fraud and deception involving the state New York Common Fund, placement agents and third-party marketers, which in my opinion really started the whole reform discussion, it was a Friday afternoon at about 4:30. I called a friend of mine in New York who works on one of the Boards there and asked him to send me the report from Attorney General Cuomo. After reading the very long report, I sent it to Chris McDonough, our CIO; Brad Adtkins, our consultant on private equity; and my fellow trustees to find out if our Board had any exposure to the people and firms involved in the New York situation. Two days later, by Sunday afternoon, we knew exactly where we stood. We had no involvement with the individuals involved and two investments in funds that were raised by the firms mentioned but not that specific fund that was involved in New York.

Working nights and weekends to protect our fund is not an unusual situation for our Board and our Board trustees.

The situation I just described was also dealt with by banning contributions like the ones described in the New York situation in the new regulations passed in House Bill 1828. Reform was achieved in that bill.

In my years at the Board, I have had two different actuaries come before me and lay out plans that would have the pension fund fully funded in approximately a 20-year period, if the City were to make the payments that were required under the current funding policy before the changes were made in the state bill.

Unfortunately, the events of the last two years have had a negative impact on the overall funding level, but if the recovery we are experiencing continues, we'll be looking for the City to also increase the contributions to the Pension System as they did in the three years prior to the decline.

I have also seen the current proposal being floated by the Administration and feel this is nothing more than an attempt to capitalize on a bad economic situation by destroying the hard-earned stability our pension plan offers for future employees.

So in conclusion, I'd like to offer two exhibits found on the last three pages of the packets that I have provided you with. First is a survey taken by the Public Opinion Research Group, which asked pointed questions about City employees and their pensions. The results showed 69 percent of the people surveyed favored workers receiving the pensions they are currently getting as opposed to 15 percent that felt that a 401(k) was a good idea.

Then when that 69 percent were asked if they felt the same way if their taxes would have to be increased, 86 percent said yes, leave the pensions the way they are.

Second, the last page shows the current breakdown of our deferred compensation program's assets. As you can see, the stable value fund and the bond funds represent a combined 63 percent of the total assets. I have requested a breakdown which will drill down further to find out exactly who is investing in which product such as by age and by union classification.

The takeaway here is that if

the Pension System is changed and employees are responsible for investing their own retirement, odds are they will place the money in investments that have very little return and when they reach retirement age, they will find out that the money required to sustain life and healthcare will not be found. This gives a local verification to the results that were referenced in the "white paper" that I gave you from before.

Those who say financial education will be provided and those figures will not remain relevant should know that we now offer financial planning classes and place the reminders about the dates, times and locations of these classes in the employees' checks as well as doing road shows around to many City departments.

My final comment would be that we can continue to give public employees a pension the way we do now, which allows them to retire at some point with enough money to live out their lives with dignity and pride in a job well done, or we can change the plan, take away the security and force employees to retire in poverty and depend on the federal, state and local governments to provide them with assistance.

Thank you for your time.

COUNCILMAN GREEN: Thank you. I think I'll, if it's okay with you, Mr. Rubin, ask the Clerk to have the other people come up and testify, and then we can sort of ask you questions together and whoever would like to answer. So please stay where you are and we'll get -- is that --

MR. RUBIN: Okay.

THE CLERK: Mr. Stagliano, would you like to testify next?

(Witness approached witness table.)

MR. STAGLIANO: Good afternoon, Councilman Green and other esteemed members of City Council. My name is

Ronald Stagliano. I am a retired detective from the Philadelphia Police Department, having worked for the City for 33 and a half years, and have been an elected Employee Representative on the Board of Pensions and Retirement since 2004.

I won't be redundant and go over a lot of the issues covered by Mr. Rubin. Suffice it to say that I too am very happy that City Council is addressing this issue in a forum like this. I think it should be obvious to everyone that imposing a new plan on newly hired employees does nothing to solve the current costs of the pension fund as it is now and it would take many, many years for that plan to be in place before you ever saw any reduction in the cost to the City.

So I appreciate Council's interest in this forum and would just ask that we all work together, as we do at the pension fund, to find sound solutions to the funding situation for the pension going forward.

Thank you.

COUNCILMAN GREEN: Thank you.

Mr. Reilly, were you going to testify?

(Witness approached witness table.)

MR. REILLY: Good afternoon, members of the Committee of Labor and Civil Service. Chairman William Green, Councilman Jim Kenney, Councilman Curtis Jones, Councilman Bill Greenlee and Councilwoman Sanchez, my name is John A. Reilly, a member of the Board of Pensions -- Philadelphia Board of Pensions and Retirement in the City of Philadelphia. I was first elected to the Board in November of 1976. I'm a past President of Local 22 Firefighters of City of Philadelphia and a City of Philadelphia retiree.

I'm here today to present information to the Committee about the

Philadelphia Pension System. I have presented to the Committee a packet of papers taken from the City of Philadelphia Municipal Retirement System's July 1st, 2008 actuarial valuation presented to the Board in March 2009.

As you know, as you are aware, this evaluation directs the City's funding policy for the Fiscal Year 2010, which started July 1st of this year.

Page 1 of the packet shows the City policy for the City of Philadelphia's payment of $548 million for Fiscal Year 2010. The City gives it the MMO, which is under -- which under Pennsylvania state law is legal, of 447 million for Fiscal Year 2010.

Page 2 shows the total membership of both active and pensions of the City of Philadelphia.

Page 3 shows the assets and liabilities of the fund. It shows the fund ratio of 55 percent. This is one and one-quarter percent increase over July 1 of 2007. This is the payment -- this is the -- this is what is presented to the City of Philadelphia to make their payments for Fiscal Year 2010.

It also shows that -- Page 5 shows the contributions of the City and the municipal workers.

Page 6 shows the liabilities of the funding policy of $548,785,000 and the MMO of 447,446,000.

Page 22 shows the assets. It goes from the funding of what we made from the years 1994 through 2008, and you can see in most of the years we exceeded our eight and three-quarter percent bogey.

On Page 53, the last exhibit of it, shows that from 1993 up until the year 2003 -- 2002 fiscal year -- the City of Philadelphia presented at least 100 percent of what was due to us, and in 1999 when we had the pension obligation bond, you can see the percentage of 586.9

percent. Since Fiscal Year 2003 through 2008, you can see the decline in what the City of Philadelphia has given to the Board of Pension and Retirement, from 91 percent to 79 percent to 83 percent to 84 percent to 81 percent and 79 percent. That was all gleaned from the actuarial report done for the Board of Pensions and Retirement in the City of Philadelphia.

The last one shows -- and this was presented to us in February of 2007, and it shows what happened to what we are supposed to receive by our policy and what we were given by the City of Philadelphia with the MMO. It says an average of what it costs us, $70,144,000. So for the eight years that they have held this money back, we have been shortchanged by $560 million.

I just want to get this on the record to show where this information is, Chairman.

COUNCILMAN GREEN: Thank you very much.

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For the record, any one of you can answer this question. Can you describe the annual required contribution and the difference between that and the minimum mandatory obligation, which is what the City actually gives you?

MR. RUBIN: I think we have one more person.

COUNCILMAN GREEN: Oh, I'm sorry. Who else is here to testify?

(Witness approached witness table.)

MS. STUKES: District Council 47.

COUNCILMAN GREEN: Please state your name for the record and proceed.

MS. STUKES: Good afternoon, Councilman. My name is Carol Stukes. I'm the elected Trustee since 1994. I've been a City employee for 40 years. I sit here before you to ask you and to thank you for having this committee with us today. Also, I'm not going to reiterate what my other trustees have said. You heard enough of that. I just want to let you know that, again, I thank you, but I think it's premature right now to take any action or resolution considering we do have House Bill --

COUNCILMAN GREEN: We are not considering anything.

MS. STUKES: I understand that. I'm just saying for the record. I understand very well, thank you, but I'm just for the record just saying that. The pension fund is in good condition even though they said we have three different -- and this is my concern, even with this meeting here today. There's three different funding levels that's floating around that I see right now - the one in your resolution, the one from PICA and the one in the actual rate of return. So we're just concerned that until correct information is given to you all to make a fiduciary responsibility decision on where it's going -- and that would include the correct funding level -- that it would be premature for any action that the Mayor or anybody else is trying to take to create a new fund or anything like that. That's basically what I want to say.

COUNCILMAN GREEN: Okay.

MS. STUKES: Because everything else you have heard.

COUNCILMAN GREEN: Well, thank you.

For the record, what you're referring to is a resolution proposed by -- which has never been actually delivered to Council, but was suggested that it would be delivered to Council, which would ask us to declare that we are in fact Level 3 distressed, which would allow the Administration to unilaterally implement a new Pension System for new hires that are not a part of a collective bargaining agreement, which is a very small pool of people. And one of the reasons we wanted the Administration here today was to answer the question of exactly how much money that would save, if any, in the Five-Year Plan given the fact that we're not doing hiring, but they are not here to put that on the record, so we don't have the answer to that question.

MS. STUKES: The only thing I would like to say, that even though they are not part of the collective bargaining unit, the four of us sitting up here are ultimately responsible for their pension fund as well as for any City employee that receives a pension fund. So even though they are not a part of collective bargaining, we understand that is collective bargaining. Respect that it also for us will impact on the funding level, the spending level, the investment level of where we go with the pension fund.

COUNCILMAN GREEN: Sure.

MS. STUKES: So that's our major concern.

COUNCILMAN GREEN: Mr. Rubin,

if I can start with you, you mentioned twice while you've been on the Pension Board there have been two separate proposals or two separate courses of action that have been taken that would have had us in a much better-funded situation. Could you describe what those are and if either of them are applicable to our situation today.

MR. RUBIN: What I described was the two actuary reports that we received, and one was from Mercer, who was our actuary, and then we switched over and we have Cheiron now, and both of them presented to us at different times telling us if we would follow the full payment level method that the City is supposed to be making, we would be fully funded in approximately 20 years. That's the difference between the MMO and the City's funding policy.

COUNCILMAN GREEN: So what you're calling full funding level is the annual required contribution?

MR. RUBIN: If the City was meeting its full funding level, yes, that would be the annual contribution. We would be at, I believe it was, a 97, 96 percent funded level of the total fund in 20 years had they made all of those payments when they should have been making them.

COUNCILMAN GREEN: And do we know how much it would cost us a year to get back on track?

MR. RUBIN: I believe that was part of what Mr. Reilly's testimony was of the 70 million that they've been deferring each year.

COUNCILMAN GREEN: Seventy million dollars?

MR. RUBIN: That would have been under the old system. With the new plan that's in place through House Bill 1828, we'll have to wait until our actuary is able to come up with those numbers, because it's now giving them a longer period to pay back that money. So when you change those dynamics, then it has to go back through the actuary and be calculated. So I wouldn't have a number for you today. I would think over the next year, we'll be able to come to a better understanding and be able to do that.

COUNCILMAN GREEN: So the Pension Board, many of you are -- are all of you members of the Pension Board?

MR. RUBIN: Yes, we are.

COUNCILMAN GREEN: So you're union representation on the Pension Board?

MR. RUBIN: Well, there's no union representation on the Pension Board in that title. We're elected Employee Representatives, but we are representative of our unions, absolutely.

COUNCILMAN GREEN: Okay. So right now the Pension Board does not know the effect or the cost or benefit, if any, of any unilateral implementation or imposition of any particular action suggested by the Mayor or anybody else; is that correct? Has there been an analysis done of the Pension Board about any proposal that's been on the table?

MR. RUBIN: Not that we've been presented with at the Pension Board.

COUNCILMAN GREEN: Okay.

MR. STAGLIANO: And, Councilman, if you would, I would refer you to -- first of all, do you have the latest actuarial valuation for the pension fund?

COUNCILMAN GREEN: I'm not certain.

MR. STAGLIANO: Okay. Well, I will provide you with a copy of it after the hearing. And there's a chart in there, a graph in there that shows you the difference between the MMO and the ARC that you referred to before.

COUNCILMAN GREEN: Okay. But because of the change in state law, we don't know the effect of how much additional it would be under our new MMO in terms of getting us back on a path to be funded in, say, 20 years?

MR. RUBIN: That information hasn't been provided to us at this point.

COUNCILMAN GREEN: And is Cheiron working on that analysis?

MR. RUBIN: I believe they are, and we will be requesting it as we move forward. We've also lowered our assumption rate to eight and a quarter in our last meeting. So there's some changes that are being made to the overall assumptions, but --

COUNCILMAN GREEN: And the effect of that is that a higher contribution is required?

MR. STAGLIANO: That's correct.

MR. RUBIN: By the City.

COUNCILMAN GREEN: By the City to meet its --

MR. RUBIN: Clearly not of our members. Of the City. It's a part of the record.

COUNCILMAN GREEN: Okay. I'm

going to open it up to other members if they have any questions. If not, I do have some more.

(No response.)

COUNCILMAN GREEN: So Mr. Rubin, in your testimony you said on Page 15 reveals the cost is actually higher for a defined contribution plan than it is for the current plan that we have in Philadelphia. Could you describe what you mean by that, just in plain English what that shows?

MR. RUBIN: On Page 15 of the NASRA, the National Association of State Retirement Administrators, plan -- that's the "white paper" -- and it goes through -- it's the myth: DC plans cost less than DB plans, and it gives you the exact reasons why that comes in. But their analysis is that administrative costs are the main issue, although the administrative cost of each retirement plan varies. In almost every instance, DC plans cost more, usually much more, than DB plans. Two factors account for most of the difference in the DC and DB plans, and then it goes through those factors.

But the general understanding is when you do it the way we do in a DB plan, we get a certain fee that has to be paid, we're able to invest in certain asset classes. When you switch to a defined contribution type of system or 401(k), you're now investing individually into your own fund, so the fees go up. There's also not an availability of hedge funds, real estate, private equity, so those options are taken away. And over the last 18 to 24 months, our market, I guess, positives have come from the private equity form. We've taken a hit on our equity. So the things that our people would be investing in is what you would read in those two articles of the people who were destroyed and their money was lost.

COUNCILMAN GREEN: So what

you're saying is, pension plans or retiring planning that's run by professionals, professional investors, et cetera, allows for non-correlated market risk, which acts as a hedge against what happens in the equity funds, bond funds, et cetera, and you can have a much more diverse and safe investment portfolio than an individual investing in or choosing among funds themselves?

MR. RUBIN: I like the way you said it.

COUNCILMAN GREEN: But is that --

MR. RUBIN: That's the idea.

COUNCILMAN GREEN: Okay. Could you briefly describe the Time article for the record.

MR. RUBIN: I'm sorry?

COUNCILMAN GREEN: You attached in your exhibits an article from Time Magazine, "Should the 401(k) be Killed." Can you describe --

MR. RUBIN: There's two

different articles, and one is a basic understanding of what a 401(k) has done over the last 18 months and how the market has taken most of the profits away from that and how the original idea that may have came from the Bush Administration of taking the healthcare into the same area and also your Social Security into a single account type of situation.

The second Time article shows a gentleman that thought he was going to be able to retire and live comfortably out the rest of his years and he ended up going back to work. So it tells you that he's now working at a golf course as a starter and cleaning and then he has to lift some batteries out of the cars, and it explains what his experience is now that he is retired and not able to do anything physically the way he was in his old job.

COUNCILMAN GREEN: From the article, "Why it's Time to Retire," the

401(k) section says, "The ugly truth is that the 401(k) is a lousy idea, a financial flop, a rotten repository for our retirement reserves. In the past two years, that has become all too clear. From the end of 2007 to the end of March 2009, the average 401(k) balance fell 31 percent."

So I think that's the point you're making.

MR. RUBIN: That is the takeaway, and what we're trying to express is that right now we have a 457 plan, which is deferred comp plan. We have a growing number of members that are in that plan, and unfortunately a lot of the money that's in there is in the stable value fund, the bond fund, where if they're planning on that being there and being a boost when they retire, it's just not going to give a big enough bang to be able to cover. And we believe that that is a snapshot of what would happen if our employees were then allowed to retire or -- I'm sorry; use the retirement fund for all of their retirements, and we believe if you started to give them money to invest, this is where they would go.

Our people do a job every day. We're out doing police, fire and the work that we do in the non-uniform services. Our people don't stop and look at the market every single day and try and time things and figure out who is investing where and what corporations are doing. They're coaching little league and they're coming to meetings and they're trying to do other things with their life, and they expect that we're taking care of their retirement needs. If you then put that burden on top of the burdens they normally have, I think it hurts the workforce, it hurts the overall aspect.

COUNCILMAN GREEN: There's been some confusion about how we got into this mess and there seems to be a general sense that somehow, through collective bargaining or otherwise, the unions or the employees or others have caused the pension fund to be underfunded. In other words, there seems to be a blame associated or this sense that employees aren't contributing enough and that's the problem.

Could you just briefly describe how we got here? And I know it was in your testimony, but I just want to put it in this context.

MR. RUBIN: I think the situation that we're faced with right now is a snapshot also of what is going forward. The City doesn't have the money at the moment to pay the amount that they're supposed to, the 447 million, so they're going to take somewhat of a pension holiday and take 240 million of that away from the payments over the next two years. In this situation, they're giving us eight and a quarter percent on the money that they're technically borrowing. So it's a little bit better than what they've done in the past. In the past, they've followed this MMO, minimum municipal obligation formula, which hasn't put the amount of money they should have into the fund. So it's sort of like your mortgage on your house, and so if you have a mortgage and you're supposed to pay $500 a month over 30 years and then the house is yours and all the sudden you start paying 250 instead of 500, well, now it's going to take you 60 years to get there. So the less you put in, the bigger that hole gets, and that's what they've done over the years.

There's been a lot of gimmicks and different things that the administrations have done, but the end result is, they're not putting in the money they're supposed to, so that hole grows, and as the hole grows, then it becomes a situation where they say, well, it's not able to be funded. Well, of course it's great to look into the future and predict it if you're creating it.

MR. STAGLIANO: By the way, Councilman, for years this city used a nine percent assumption rate for the pension fund, and I don't think I have to explain to anybody what that unrealistic number meant as far as the City contributions to the fund.

COUNCILMAN GREEN: Right.

MR. STAGLIANO: So that also contributed to the underfunding of the pension.

COUNCILMAN GREEN: So basically what all of you are saying and what Mr. Reilly's testimony was really about is the fact that the City through the 2000's basically failed to live up to its obligation to the pension fund, and it wasn't poor investment choices or other things, it was the choice to spend that money on different priorities that has resulted in the pension fund being underfunded today.

MS. STUKES: And even back to

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when former Street -- Mayor Street was in, we agreed to meet certain requirements so that the City can meet their payments, and then he went to the state and he filed the state MMO regulation, which cut off the money.

But in response to the blame of City employees -- and we're not here to negotiate the contract, because our presidents will do that, but I must say that as City employees, when the City was doing bad under former Mayor Wilson Goode and we couldn't get a bond rating anywhere, it was the Pension Board and the members of that fund who agreed to let the City have a payday so they can meet their responsibilities as far as financial and payroll. So I think we have done a lot to help the City moving forward and allow us to get where we're going. Like Ron said, when we was at a nine percent actual rate of return when everybody else was at eight percent -- and we just lowered it this year to eight and a quarter percent and now everybody is down to seven percent. So we still chomping at the bit to catch up.

COUNCILMAN GREEN: So -- I'm sorry. Councilwoman Sanchez.

COUNCILWOMAN SANCHEZ: Go ahead. I was going to ask -- well, what would be important to me -- thank you all for your service on this Pension Board. This is very complicated. I actually went to a pension training this summer for a week. In our extended break I spent a week with pension fund folks, because I know that this is a pressing issue for us.

Where I'd like to get some recommendations since we have you here is, in light of the fact that you said that we continue to make policy decisions to deepen the hole, whether it's the MMO payments or our projections, what would be some of your recommendations around some immediate -- the low-hanging fruit of the things that you'd like to see that are not going on now and then how we move forward? Obviously the market -- you know, with the marketplace it's hard to analyze, but can you give me one or two or three things that maybe you've recommended -- because you guys, to a certain degree, do represent the employees -- that we should be aware of that have not been adopted?

MR. REILLY: Right now, you know that the pension fund receives money from the State of Pennsylvania from the foreign casualty and foreign fire. And for police officers and firefighters, we get two units for each active employee. For our counterparts, the civilians, District Council 33 and 47, they only get one.

COUNCILWOMAN SANCHEZ: One percent?

MR. REILLY: Yes, one unit. So if you could get to the Legislature in Pennsylvania to bring us all up to two percent, it would bring more money from the State of Pennsylvania to us. And the State of Pennsylvania is not paying for that money. That's money -- they're only a carry-through. It's collected from the insurers from out of state. So that's one way we could get more money.

COUNCILWOMAN SANCHEZ: So the state would have to provide enabling legislation to allow us to collect two percent for DC 33 and 47 that our uniformed arbitrators get?

MR. REILLY: We would like to get a three percent for everybody, but I'm looking for an idea to raise some more money from someone else, that's all.

COUNCILWOMAN SANCHEZ: Do other states have similar clauses?

MR. REILLY: Yes. Ours started, Fire started, like in 1895 and the Police got it in 1937, and I guess the civilians didn't get it until ten years ago, I guess, 1985.

COUNCILWOMAN SANCHEZ: Is this federal money then?

MR. REILLY: No. It's foreign insurance companies that write in the state and you collect their money.

COUNCILWOMAN SANCHEZ: Okay. Can you give me other examples?

MR. RUBIN: Rather than give examples today while we're doing this hearing and then have the Administration come and get involved in a back-and-forth, I personally would not like to do that here, but would be more than willing to be a part of a committee or anything else that you want to set up that would further everybody's ideas and actions.

COUNCILWOMAN SANCHEZ: Okay.

COUNCILMAN GREEN: Okay. Well, I'm going to -- I understand that and, frankly, the purpose of this resolution and its goal is to work cooperatively with people to see if we can't identify several different alternatives to fixing the Pension System, contributing the ARC, increasing contributions from the City, increasing contributions from employees, looking at state legislation that's different, looking at the impact of providing the employees with the pay to increase contributions to the Pension System and seeing what that effect -- that has on the actuarial assumptions going forward and lots of different things and to work with the Pension Board and the Administration to look at different alternative scenarios.

But I'd like to ask you -- and I'm not proposing this. Let's just say we could get a pension obligation bond done today. Is that something -- and I'm not asking your opinion about whether or not we can, because I think it would require federal or state help, but assuming we could get federal or state help in terms of some sort of guarantee of that bond, would that be advisable?

MR. STAGLIANO: Yes. In my opinion, it would be.

MR. RUBIN: We've had this

conversation, and depending on what the second shoe of that is, it depends on the answer. And what I mean is, if it's let's fund it 100 percent with this pension obligation bond and now that it's a hundred percent funded, we can do something else and add a third tier, then I wouldn't be in favor of that. If it's going to be connected to something else that's going to change it for future retirees, if it's strictly funded a hundred percent and then move forward exactly the way we are, then yes.

COUNCILMAN GREEN: I've seen various models that suggest we could actually borrow about 75 percent of what we need and then take 25 percent and put it in a separate fund that is not in the pension fund and let that 25 percent grow. Assume only five percent growth a year, and that will pay back the principal balance of what we borrow, and then we pay back only interest on the 75 percent until the principal amount is paid back in five years, and it would give the City a benefit if we did better than five percent. We'd be able to keep that money and pay off other bonds or things like that.

Have you guys looked at any different modeling of different scenarios of how to borrow this money, whether or not to dedicate -- for example, under state law, if we were distressed Level 3 and we were not the City of Philadelphia, we could actually take a dedicated portion of our tax, just like PICA did before, just like the PICA enabling legislation did, and we could dedicate, say, a portion of the wage tax to the repayment of interest on a pension obligation bond or a scenario like I just described.

MR. STAGLIANO: Well, I actually didn't want to sit here -- but since you brought it up, I certainly didn't want to sit here and suggest a dedicated stream of revenue from the pension fund. However, you do have that situation now with House Bill 1828. The last two years of the sales tax are dedicated to paying back the funds that the City is deferring.

COUNCILMAN GREEN: Right. And just for the record, solving this problem brings about -- I can't remember exactly how much, but I think it was almost $200 million to the bottom line or $300 million to the bottom line.

MR. REILLY: I think it was 515 million.

COUNCILMAN GREEN: Well, except we have to pay interest. So it's about $300 million after interest, depending on how much we borrow, that can go into operating expense or can be put aside in a reserve fund. So that's real money to the City of Philadelphia once we get our pension problems solved.

Councilman Jones.

COUNCILMAN JONES: Thank you, Mr. Chairman, and thank you for having these hearings.

I want to thank and echo my colleagues' remarks by thanking you for spending your time keeping our pension in the best condition it could possibly be in. To that end, I want to ask you just a commonsense comparison that you may or may not be prepared to answer.

If you were to stack our pension plan up against the state or the federal pension funds, how do we fare by way of health and by way of benefit to its employees?

MR. RUBIN: Are we talking fiscally?

COUNCILMAN JONES: Let's go fiscally.

MR. STAGLIANO: Well, I would start out by saying if you want to compare the investment policies of our fund versus the state funds, I think you only have to look at the results of the past year to see that this fund went through this crisis in a lot better shape than most other large funds.

COUNCILMAN JONES: And what do you attribute that success to?

MR. STAGLIANO: A sound investment policy and the hard work of all the trustees you see sitting here, the investment staff at the Board, and also the City-appointed trustees to the fund.

MS. STUKES: We have good consultants also. We have --

COUNCILMAN JONES: I can't hear you.

MS. STUKES: I'm sorry about that.

We also have -- besides that, we have a wonderful investment staff that keeps us abreast and we also have a very good general consultant in FIS, who came in four, five years ago and changed our asset allocation class on how we invest our money and what avenues we need to put the money in, what avenues we need to be in and what avenues we would need to get out of, and based on that information between FIS and our investment staff, we fared pretty well and --

COUNCILMAN JONES: When you say "pretty well," how do we compare to what the state lost in this economic crisis and what we lost?

MR. RUBIN: I think one of the things that you have to be careful of when we do that kind of comparison is what their objectives and goals are and what ours are. Everybody's risk tolerance is different. If they are better funded, then they don't need to take as many risks in some of the things that they do. So they could put all their money in bonds if they're a hundred percent funded, sit back and allow that to pay their debt. If you're ten percent funded, then you may need to do some things that add for a better return.

So to put apples to apples is a tough thing to do by just saying the returns. It's sort of hard to just say your return is better.

COUNCILMAN JONES: How would you evaluate it, then? How would you compare it? You made a suggestion that we were better off than -- how would you compare apples to apples? Help me to understand it.

MR. RUBIN: I think you have to go back through why they're funded, where they are, what they've invested in, how they've invested it, and then look at where we're invested, how we invested it. And a way to determine is how quick you're able to adjust to the markets. We knew that there was going to be a spot for emerging markets through our CIO and through our consultants and we shifted to be able to capture a lot of that, and we hit it well. In the state fund, they may not have shifted as well, and I think that's part of why they had the problems.

COUNCILMAN JONES: So in simple plain talk, they had greater losses than we did?

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MR. RUBIN: Yes.

COUNCILMAN JONES: Okay. How do we compare to the benefit paid out to the members compared federal, state by way of pensions?

MR. RUBIN: And that, again, becomes a matter of how the system is set up. Our system allows for the three highest years. You take a percentage for each year, and that's how the benefits are paid out. Each plan is different and it has a different way of getting to that bottom line. So without knowing all of their criteria to know how they pay out, it's hard to --

COUNCILMAN GREEN: Is it fair to say you have never done that comparison?

MR. RUBIN: We have not, no.

COUNCILMAN JONES: Thank you. Listen, we're the politicians. Just plain talk. All right. Okay. That's a fair assessment.

COUNCILMAN GREEN: Is that

something we should look at as we go through this process, comparing to how other funds are working and their benefit levels? Is that something that you think would be worthwhile?

MS. STUKES: One of the things that differentiates us from a lot of other plans is that all four -- well, I'm going to say right now, unions are in this plan together. When you start investigating and looking into it -- and I wouldn't say not to, because it would better give you what information you need, but what you would need to take in consideration is that when you see other plans, you're going to see a plan for Police, a plan for Fire and a plan for non-uniform and then a plan for teachers. Because, you know, the teachers are not in that plan. They're in the state plan in the City of Philadelphia. But when you go out, everybody is separated. So there's very few plans that look like us. When I say "look like us," I mean that have all uniform, non-uniform and exempt employees in one pension plan.

COUNCILMAN JONES: My final question, Mr. Chairman, is, we recently expanded the pool by which we could get employees to apply for City of Philadelphia jobs, and one of the reasons that we did that was that there was a complaint from department heads that we couldn't get qualified people to accept City jobs based on the marketplace.

Is it safe to say that a lot of people take these jobs not so much for the salaries but because of the benefits and pension benefits in particular? Is that a safe statement?

MR. STAGLIANO: That's a very safe thing to say.

MS. STUKES: Yes.

MR. STAGLIANO: I mean, just speaking for the uniform employees, we're very proud of the healthcare that we have for our members and the pension plan. We always have recognized that we have lower

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salary than a lot of the surrounding departments in the area, but it's the benefits and the security that the folks look for, and you certainly would harm that thought if you went to the type of plan that the Administration is proposing now.

COUNCILMAN JONES: Thank you, Mr. Chairman.

COUNCILMAN GREEN: Thank you.

One final question before I understand Mr. Alexander is here to present the Administration's testimony. One final question I have for you is, is any proposal on the table, including the bill before City Council, significant enough to really make any dent in our pension problem going forward? In other words, this plan is projected to cost us $800 million a year in Year 5. Does 25 million in terms of what we have to contribute, does $25 million a year really solve any kind of problem for us?

MR. STAGLIANO: No, absolutely

not. As I said in my testimony earlier, the implementation of the proposed plan by the City actually does nothing to solve the current funding crisis of the pension.

COUNCILMAN GREEN: So it's incremental and marginal at best rather than a solution to the problem?

MR. STAGLIANO: That's correct, Mr. Chairman.

COUNCILMAN GREEN: Well, that's what we're here for today. So thank you for your -- I'm sorry.

MS. STUKES: I'm sorry. And it's also going to cause, as Councilman Curtis Jones just asked us, it would hurt your employment numbers too, because nobody will come here with that kind of plan.

COUNCILMAN GREEN: Councilman Kenney.

COUNCILMAN KENNEY: Thank you very much. Thanks for the testimony.

I'm curious, a couple of you

have said that the proposed plan for the Administration on new hires. Is that written down somewhere or is it speculative or has it actually been negotiated or part of the negotiation?

MR. STAGLIANO: No. It's been submitted to Council in a bill.

COUNCILMAN KENNEY: The one -- wait a minute.

MR. STAGLIANO: Plan 2009 has been proposed in a bill to Council.

COUNCILMAN KENNEY: But just so I understand, there's a couple of things floating around. One is the Level 3 distressed fund resolution. Another one is an ordinance that I think was introduced at the request of the Administration by Councilman Clarke. Is that the bill you're talking about?

MR. RUBIN: Correct.

MR. STAGLIANO: Yes, sir.

COUNCILMAN KENNEY: Okay. Fine. Thank you.

COUNCILMAN GREEN: Thank you

for clearing that up, Councilman.

MR. RUBIN: To answer your question, Councilman, the other issue is, we haven't found out where the money would come from to fund the current plan if there is another plan that's put in, and that's a major concern to us as well.

COUNCILMAN GREEN: Thank you.

Any further questions for this panel?

(No response.)

COUNCILMAN GREEN: Thank you very much for your testimony. We appreciate your coming in today.

The Chair calls Mr. Alexander.

(Witness approached witness table.)

COUNCILMAN GREEN: Mr. Alexander, please state your name for the record.

MR. ALEXANDER: Good afternoon. It's Tumar Alexander. On behalf of the Administration, I'm here to offer into testimony written testimony by Rob Dubow, our Finance Director, and Ms. Shelley Smith, the City Solicitor.

COUNCILMAN GREEN: Thank you. We will make their testimony -- I appreciate you coming up here for that purpose. We will make their testimony part of the record. At the conclusion of this hearing, I intend to hold it to the call of the Chair and we will expect them to come, be able to answer questions on their testimony. Some of the testimony does not reflect the questions that we had for them.

So I appreciate your entering this on the record for the Administration. Thank you very much.

MR. ALEXANDER: You're welcome.

COUNCILMAN GREEN: So I would just like to point out that as we were considering possibly introducing a resolution with a Level 3 distressed hearing, we received a memo from the Finance Director and it was apparently backed up by the City Solicitor that we were essentially required to pass that resolution or PERC could mandamus us. In fact, exactly the opposite was true. The City Solicitor's testimony, which will be made part of the record, makes that clear. She described the previous advice to us as overly aggressive. The fact of the matter is that we can only be mandamused if we in fact pass the resolution. So I thank her for that clarification.

I have nothing further. I thank everybody very much for coming here, and this hearing is held to the call of the Chair.

(Committee on Labor and Civil Service adjourned at 3:15 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on October, 26, 2009, and that this is a true and correct transcript of same.

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MICHELE L. MURPHY

RPR-Notary Public

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