COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE ON LABOR AND CIVIL SERVICE

Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, June 2, 2010
3:50 p.m.

PRESENT:
COUNCILMAN BILL GREEN, CHAIR
COUNCILMAN DARRELL CLARKE
COUNCILMAN FRANK DiCICCO
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN WILLIAM K. GREENLEE
COUNCILWOMAN MARIA D. QUINONES-SANCHEZ

BILL 100007 - An ordinance amending Title 22 of The Philadelphia Code, entitled "Public Employees Retirement Code," by amending Sections 22-306, 22-701 and 22-702...

BILL 100286 - An ordinance amending Title 22 of The Philadelphia Code, entitled "Public Employees Retirement Code," to create two new Plans, entitled "Plan '10" and "DC Plan"...

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COUNCILMAN GREEN: The Committee on Labor and Civil Service will come to order. I note that we do have a quorum. Councilman DiCicco, Councilwoman Sanchez and Councilman Greenlee are currently present.

Would the Clerk please read the title of the first bill for this hearing on the Committee of Labor and Civil Service.

THE CLERK: Bill No. 100007, an ordinance amending Title 22 of The Philadelphia Code, entitled "Public Employees Retirement Code," by amending Sections 22-306, 22-701 and 22-702, to make Retirement and Survivorship Benefit Option 4 available to members of additional Plans, to allow the member to designate his or her dependent grandchildren to receive a survivorship benefit, and to allow benefits to be paid to trusts for disabled grandchildren of members; all under certain terms and conditions.

COUNCILMAN GREEN: Thank you. I believe Mr. Dubow is here to testify on behalf of the Administration.

(Witness approached witness table.)

COUNCILMAN GREEN: Mr. Dubow.

MR. DUBOW: Good afternoon, Chairman Green and members of the Committee. My name is Rob Dubow. I'm the Finance Director. I'm here to testify on behalf of the Administration in support of Bill No. 100007, which you introduced on behalf of the Administration.

The bill would amend the Public Employees Retirement Code by extending survivor benefit options to members of additional plans, to allow members to designate their dependent grandchildren to receive a survivorship benefit, and to allow those benefits to be paid to trusts for disabled grandchildren.

The bill adds dependent grandchildren to the class of persons eligible to receive a survivorship benefit. Currently, survivorship benefits need to be paid through a surviving spouse, dependent children or dependent parents. The bill would amend the Code to allow survivorship benefits to be paid to dependent grandchildren under the similar conditions currently on the books for dependent children.

The bill would allow for payments in cases where a court had ordered or sanctioned physical and legal custody of the dependent grandchildren. Like benefits to dependent children, survivorship benefits would terminate once the dependent grandchild reached age 18. In cases where the dependent grandchildren were physically or mentally infirmed, the bill would enable the proceeds to be placed in a trust for the benefit of the dependent grandchild for the duration of the infirmity. These provisions would mirror the current law for dependent children.

Additionally, this bill would allow members of Plan A and Plan B to select an annuity for life as a method of receiving retirement benefits. Under the Retirement Code, pensioners may elect the manner in which retirement benefits and survivorship benefits are paid. One of these options, Option 4, currently allows members of Plan D, J and X to receive retirement benefits in the form of an annuity. This bill would extend that to members of Plan A and B.

It should be noted this measure passed the Board of Pensions unanimously earlier this year, the grandchild provision. Moreover, an actuarial review of the measure determined it would have a de minimis impact on the City's pension costs.

Thank you for the opportunity to testify regarding this bill. I'm happy to answer any questions.

COUNCILMAN GREEN: Thank you.

Any questions for Mr. Dubow?

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(No response.)

COUNCILMAN GREEN: Seeing none, thank you for your testimony.

MR. DUBOW: Thank you.

COUNCILMAN GREEN: Mr. Reilly, testifying on behalf of Carol Stukes.

(Witnesses approached witness table.)

COUNCILMAN GREEN: Hello.

MS. STUKES: Good afternoon, Councilman. I am Carol Stukes. I had an emergency this morning, thought I wasn't going to be able to make it, but I'm here, and my colleague, Mr. Reilly, offered to give this testimony.

Again, I'm Carol Stukes. I'm Elected Trustee to the Board of Pensions and Retirement, representing District Council 47 as well as all other City employees. I come to you this afternoon to speak in favor of the change in Option 4 to the defined benefit plan as it relates to grandchildren.

I just want to note that I am

the trustee that really pushed for this change in the plan. Currently, under Option 4, members who was considering retirement can elect as a designee the spouse, dependent children, natural or adopted, dependent parents or beneficiary of special needs trust, and as you already know, we had many members who are raising -- who have the responsibility of raising their grandchildren, but don't have the ability or the benefit to designate them as their beneficiary. To that, I see that it is only right to allow members the designation of their grandchildren as the beneficiary by amending Option 4 of the plan.

Thank you for your time.

COUNCILMAN GREEN: Thank you for your testimony.

Mr. Reilly?

MR. REILLY: My name is John A. Reilly, retired firefighter and member of the Board of Pensions and Retirement. I come here today to support Carol's motion to -- under Option 4 to include the grandchildren. Myself and Local 22 firefighters are in favor of this amendment.

COUNCILMAN GREEN: Thank you.

Controller Butkovitz.

MR. BUTKOVITZ: Good afternoon. I'll add my voice. I think this is a great idea. We know that in Philadelphia as a practical matter a lot of grandparents are functionally performing the role of parents, and this simply allows them to make further provision for the maintenance and care of their charges. I join the other two members of Pension Board, and I'm not aware of any opposition from the Pension Board to this, what I think is a very good idea. I congratulate Councilman Green and the other sponsors on the proposal.

COUNCILMAN GREEN: Thank you. Actually, I'd love to take full credit for it.

MR. BUTKOVITZ: I thought you

were the sponsor.

COUNCILMAN GREEN: I was the sponsor. The Administration developed primarily this proposal and asked me to sponsor it as Chairman of the Committee, but obviously I'm fully supportive.

Any questions?

(No response.)

COUNCILMAN GREEN: Thank you all for your testimony.

(Thank you.)

COUNCILMAN GREEN: Is there anybody else present who wishes to testify on Bill No. 100007?

(No response.)

COUNCILMAN GREEN: Going once. Seeing none, will the Clerk please read the title of the next bill.

THE CLERK: Bill No. 100286, an ordinance amending Title 2 of The Philadelphia Code, entitled "Public Employees Retirement Code," to create two new Plans, entitled "Plan '10" and "DC Plan," for (i) certain employees hired or rehired on or after January 1, 2010; and (ii) certain electing employees; and making technical changes; all under certain terms and conditions.

COUNCILMAN GREEN: Thank you.

I understand Mr. Dubow is here to testify on this bill on behalf of the Administration.

(Witness approached witness table.)

COUNCILMAN GREEN: And, Mr. Dubow, after your testimony I'd ask you to stay in case we have questions after there's additional testimony. Thank you.

MR. DUBOW: Okay.

Good afternoon, Chairman Green, members of the Committee. My name is Rob Dubow. I'm here to testify in support of the bill, which was introduced on behalf of the Administration. The bill amends the Public Employees Retirement Code to create two new pension plans for certain employees hired after January 1st, 2010.

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Earlier this year, an arbitration panel was convened under Act 111 to issue an award regarding the City's contract with the FOP. The award provided for the creation of two new pension plans for the City's pension plan, Plan '09 and the DC Plan. Plan '09, as was renamed as Plan '10 in this legislation, and the DC Plan are critical in ensuring the future stability of the City's pension system.

These plans begin to reduce the City's pension costs at a time when the fund's health is deteriorating, while it is consuming ever-increasing portions of the City's General Fund. In just five years, the City's pension costs more than doubled, from 197 million in FY04 to 437 million in FY09. While the City's pension costs rose, the health of the fund deteriorated, dropping from 77 percent funded to 45 percent funded. That 45 percent funded ratio is one of the weakest among major American cities.

Pension costs now make up about 13 percent of the City's budget, and that number is projected to continue increasing. The steep rises in pension costs are projected to continue through the Five Year Plan. While the costs in FY10, '11, '13 and '14 are skewed by the deferrals that we requested and were approved in state legislation last year, the two years that are not impacted by those deferrals show that costs continue to rise rapidly. The City's pension costs are projected to be 562 million in FY12 and 602 million in FY15. That means the City's pension costs will have grown by 165 million from FY09 to FY15.

In order to ensure the viability of the City's pension system and to manage ever-growing costs, the Mayor has made pension reform a priority of his Administration and one of the primary goals in ongoing contract negotiations with City unions.

As previously noted, earlier

this year, an arbitration panel was convened under Act 111 and issued an award regarding the contract between the City and the FOP. The award provides that all FOP employees hired after January 1st, 2010 must make a one-time irrevocable election between participating in the City's current defined benefit plan and increasing their contribution from five percent to six percent, or participating in a hybrid plan, containing both the defined benefit plan and a voluntary defined contribution plan.

This bill would codify the Act 111 award for FOP members and would also expand this participation requirement to exempt and non-represented municipal employees.

Increasing the employee pension contributions and the creation of a hybrid plan will help reduce the City's costs in both the short and the long term. These changes will also help cushion the City against dramatic decreases in the stock market, like those that decimated pension funds in the last few years. At the same time, they will offer increased portability to members of the system who elect to participate in the defined contribution plan.

These reforms to the pension system are in conjunction with other ongoing efforts to stabilize the system. As part of last year's budget, the state granted the City the ability to re-amortize the fund's unfunded actuarial accrued liability over a 30-year period and to defer a portion of the '10 and '11 payments to '12 and '13 and enter that they be repaid with interest.

At the same time as those changes were being made at the state level, the Pension Board voted to change the pension fund's earnings assumption from eight and three-quarters to eight and a quarter and increase the smoothing period for actuarial losses from five years to ten years, which reduces the impact of any particular year on the funded status and on the City's required payments.

The net impact of all these changes to the City's pension benefits and fund is to moderate what has been even more dramatic increases in pension costs over the Five Year Plan and to increase the City's ability to fund existing liabilities in the long term. The legislation before you today is a critical component of the City's efforts to get pension costs under control.

Attached to my testimony is a spreadsheet which provides a breakdown of projected savings under this legislation through 2032.

I also would like to offer an amendment to the bill, which makes some technical changes. The first amendment clarifies the definition of "average final compensation." The cross-reference contained in the bill provided for a

20-year contribution period for police, but did not contain a comparable reference for non-police members. The revised definition now provides that average final compensation continue to increase for the life of employment for non-police members, while average final compensation for police members is capped after 20 years, consistent with the award.

There are also amendments necessary in light of the other pending legislation dealing with Option 4, which we discussed here just a few minutes ago.

Thank you for the opportunity to testify. I'm happy to answer any questions you may have.

COUNCILMAN GREEN: Councilman Greenlee.

COUNCILMAN GREENLEE: Thank you, Mr. Chairman.

Mr. Dubow, I know we're going to hear testimony in this regard and I was just wondering what your reaction is to the question of implementing this on other unionized employees. Is that the right way to do it rather than through the collective bargaining process?

MR. DUBOW: No. We believe that should be done through the collective bargaining process, and this legislation does not pertain to any unionized employees other than those in the FOP.

COUNCILMAN GREENLEE: It does not?

MR. DUBOW: It does not.

COUNCILMAN GREEN: For clarification, could you describe exactly who this pertains to other than police?

MR. DUBOW: Yes. It applies to exempt and non-represented employees.

COUNCILMAN GREENLEE: Okay. All right. Thank you.

COUNCILMAN GREEN: Thank you, Mr. Dubow.

The Chair calls Mr. Gault, Cathy Scott, Bill Rubin and Sherm Harris.

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(Witnesses approached witness table.)

COUNCILMAN GREEN: Thank you.

Mr. Rubin.

MR. RUBIN: Good afternoon, Chairman Green, Vice-Chairman Goode and members of the Committee. I believe you have my testimony in front of you. I passed those out. Hopefully you all received them.

My name is Bill Rubin and I serve as the Vice-Chairman of the Philadelphia Board of Pensions and Retirement. I'm also the elected Employee Representative of AFSCME District Council 33.

I come before you today, authorized by District Council 33 President Pete Matthews, to voice the District Council's opposition to the commingling of the two separate issues being addressed in this proposed legislation.

It is District Council 33's

hope that you would recommend segregating the police arbitration language from the newly added exempt and non-rep employee language in this proposed legislation.

The District Council fully understands that you're obligated to adopt the arbitrator's decision into the pension plan as the document as it applies to the arbitrator's decision covering the police union members.

However, District Council 33 strongly believes that any such proposed change that would impact our membership must be addressed under the provisions of collective bargaining, and that process is with the City and cannot be arbitrarily imposed based on the arbitration settlement with the police union.

For many years, there has been a willful disregard for the financial health of the pension system by successive Administrations. While the unionized members of the plan have continued to pay their share, past Administrations have failed to live up to their obligation to fund the system, and this has led to the current level of liability.

Those that argue about the current cost of the plan are some of the same people who have voted for years to divert funds from the system for other purposes.

District Council 33 thinks that pension reform is necessary, and as I testified in your last hearing on pension issues, the District Council would be willing to be part of a group that looks at ways to better fund the future liabilities we face.

Over the period from December 2008 through September 2009, the current Administration asked the City's unions to work with it to effect changes that would help solidify the pension fund.

District Council 33, along with the other unions, agreed to lengthen the amortization period from five to ten years, we agreed to lower the assumption rate, and we agreed to join with the City to lobby the state legislators to approve House Bill 1828, which alone gave the City relief of $230 million over two years and allowed it to have operating funds in return for paying back the money at a rate of eight and a quarter percent. We were told by the current Administration that this would lead to a much better funding level and pave the way to full funding.

In addition, it should be acknowledged that District Council 33 and the other unions also worked with the current Administration to lobby the State Legislature for approvals to raise the sales tax, which resulted in a total financial relief package worth $700 million to the City.

Many issues of a complex nature are involved when you change pension plans in any way. We believe that the proposal for a new defined contribution plan that would replace the current defined benefit plan is ill-conceived for many reasons.

First, there has not been an impact study done that would define how the funding level would be affected by individuals who are eligible to choose this plan immediately and would not be contributing into the current plan, also those of the individuals who will be coming in the future and what those levels would be.

What would happen to all those individuals who saw their defined contribution 401(k) plans lose a significant portion of their assets in the recent market downturn that we all experienced?

In March of 2005, President Bush proposed a similar plan as a way to deal with the Social Security Administration's benefit obligations. They called it individual investment accounts.

Fortunately, that idea was never adopted, but the lessons should have been learned that these type of options only benefit Wall Street, not Main Street. They force people to make financial investments in vehicles they may know very little about. This puts a future retiree's security at risk in the stock market, which is virtually unregulated and very volatile.

If this plan was in place, hard-working City employees would have lost what they had worked so many years to earn.

Just on the merits of the plan, District Council 33 has many objections. If enacted, this proposal would allow anyone who happens to be at the maximum 80 percent pension figure to receive two pensions by being fully vested, then they can start in the new hybrid system once it was enacted.

There are many other small

loophole issues that are created when the pension system is changed, like the exempt employee who can buy other public service time after only being in the City of Philadelphia as an employee for a short period of time and getting a pension for life, or the rule that allows the Administration to promote exempt employees into a job with a substantially higher salary so that their last three years of employment will yield a windfall of a pension.

We believe the short-term issue is that the Administration would like to have more cash on hand for itself since this proposal is less expensive in the short term. However, you have to consider that after the Administration is done, it would leave behind a huge debt for all those that follow by creating a situation where our retirees will need to receive their pension benefits and there would be little or no way to have new money flowing into the system.

So before we create this type of situation and others like it, District Council 33 would again ask for the study that I previously called for in this testimony.

And, finally, I would ask that -- I would like to remind you of the recommendation that you amend the proposal so that the language from the police arbitration award is the only change adopted.

Thank you for this opportunity to present this testimony on behalf of District Council 33, and I am available to answer any questions.

COUNCILMAN GREEN: If no one on the Committee has any objections, I'll ask everybody to testify and then we can ask questions of the panel.

Ms. Scott.

MS. SCOTT: Yes. Good afternoon, Chairman Green and members of the Committee. I am Catherine Scott, President of AFSCME District Council 47.

As you know, District Council 47 represents the professional employees of the City of Philadelphia, including social workers, librarians, registered nurses and Philadelphia Parking Authority. Local 2186 represents first-level supervisors employed by the City, the First Judicial District and the Philadelphia Parking Authority. Our Local 810 represents the professional employees in the First Judicial District. All of these employees are members of the City pension plan.

I appreciate the opportunity to appear before the Committee to offer testimony on Bill 100286 concerning the establishment of Plan '10 and the creation of a defined contribution plan for certain City employees hired or rehired after January 1st, 2010.

First, I understand that the proposed amendment to Plan '10 and the adoption of the DC Plan does not immediately impact on collective bargaining rights of AFSCME District Council 47 represented employees. As the members of this body are well aware, any attempt by the City to unilaterally create a new pension plan for our represented members without the agreement of the union would be a clear violation of Pennsylvania law. To the extent that the legislation would affect the rights of employees who have already been hired and placed in an existing pension plan, the amendment would also raise issues of constitutional proportions.

Needless to say, it is not District Council 47's purpose in appearing before this body to comment on this proposed legislation to bring the status of our negotiations with the City before City Council. That process, to the extent that it is occurring at all, must happen across the bargaining table. Nor is it our purpose in any way to interfere with the Act 111 interest arbitration process between the City and the Fraternal Order of Police.

My purpose in appearing here before this Committee is to express the views of my union and my members on this kind of legislation. We see this as a harbinger of things to come. The Administration clearly wants to move all City employees, including District Council 47 represented employees, into a defined contribution plan. They have said so across the bargaining table and incorporated such changes in the City's bargaining proposals.

The Mayor, the Finance Director and other high Administration officials have repeatedly criticized our members' pension benefits as something that they intend to diminish. These public officials rely upon purportedly independent studies, such as those done by the Pew Foundation, studies which are designed to further demonize public employee pension benefits, characterize them as anachronistic or time bombs, ticking time bombs, or some other inflammatory characterizations. The public message is that the only path to fiscal salvation for the City of Philadelphia and state and local government in general is to eliminate traditional defined benefit plans and replace them either exclusively with a defined contribution plan or a combined defined benefit plan with substantially lessened benefits and a defined contribution plan.

The legislation which you have before you today for consideration is certainly a move in the direction of diminishing pension benefits available to employees of the City who will find themselves covered by this plan.

First, proposed Plan '10, if passed, would freeze monthly pension benefits for long service employees. A 30- or 40-year City employee in Plan '10 would receive a monthly benefit based only on his or her first 20 years of City service and nothing thereafter. In contrast, current employees earn an additional pension benefit for each year of service, capped at 80 percent of their final average pay for Plan J and up to 100 percent for Plan Y.

Second, proposed Plan '10 has a dramatically lower monthly benefit formula. Under Plan '87, a non-uniformed employee earns a monthly benefit equal to 2.2 percent of final average three years' pay for the first ten years of service and two percent each year thereafter. Under Plan '10, this drops to 1.25 percent of final average five year pay, again with a 20 years of service cap.

Third, the defined contribution plan featured in proposed Plan '10 is remarkable only for its stinginess. The City would have to contribute no more than 1.5 percent of pay to an employee's account, and that is only if the employee contributes at least that much of his or her own pay to the City's 401(k) plan.

Of course, employees' savings would be entirely subject to the whim of the financial market since employees would receive at retirement only whatever is in their account balance at that time. The defined contribution feature, therefore, adds only to the financial insecurity of retirement that workers already face.

In my commentary, I do not mean to suggest that there is not a pension funding issue in the City of Philadelphia. However, those funding issues are not the product of overtly generous pension benefits. That is certainly not the case here in Philadelphia. Lost in all the rhetoric over the evils of public employee pension benefits as they exist today is the single startling fact that the principal reason for the existence of a financial pension funding crisis in most jurisdictions, and certainly in Philadelphia, is underfunding by the government employer. That is certainly

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true here in Philadelphia where Administration after Administration has made purposeful and intentional public policy decisions to underfund pension benefits. In making those decisions, they have cheated their employees, cheated the taxpayers and, frankly, made very bad public policy choices.

The only answer now, say public pension naysayers, is to slash and/or substantially dilute existing defined benefit plans or simply abolish them and replace them with defined contribution plans.

We at District Council 47 think that this is another example of bad public policy at work. Further victimizing the victim by slashing the pension benefits of our hard-working public employees is not the magic elixir that will cure state and local fiscal budget woes. All it will do in the long run is make it harder for state and local governments to recruit and retain the qualified employees needed to provide the services which only government can provide.

Diverting new hires into Plan '10 will also further exacerbate the plight of the existing pension fund. The fund will be deprived of the added income resulting from the contributions of new employees into the system. Depriving an already underfunded system of the opportunity for additional employee contributions makes no sense.

Traditional defined pension plans are an important reason why many employees choose a career in public service over higher-paying private-sector careers. Further, these traditional defined benefit plans have a significant positive ripple or multiplier impact on the broader economy. Whether looked at in the form of the trillions of dollars in assets under investment and management by state and local government pension plans or the dollars paid out to retirees and beneficiaries and what those dollars buy, the impact on the broader economy is huge. In the view of AFSCME District Council 47, traditional defined benefit plans are not an insidious evil to be hastily jettisoned in the vain hope of balancing next year's fiscal budget. Prudently administered defined pension plans operate as a positive economic force in the community, not just for the employees and retirees who benefit directly, but by virtue of the economic impact throughout the community.

Plan '10 is simply not good public policy. It is not good for City employees. It is not good for the City economy. It will do nothing to solve the City's current budget crisis.

And I would also like to recommend, as District Council 33 did, segregating the police arbitration language in this proposed legislation from the newly added non-represented and exempt employees.

I thank you for the opportunity you have afforded me to share my comments on this proposed legislation. I'd be happy to entertain your questions.

COUNCILMAN GREEN: Thank you for your testimony.

I'd like to recognize that Councilman Goode is also present.

Mr. Gault.

MR. GAULT: Good afternoon. I'm Bill Gault, President of International Local 22 representing the City's fire service employees. With me is Moon Reilly, my elected trustee from the City's Board of Pensions.

Our comments on Bill 100286, which would create yet another lower tier of pension benefits for new hires, will be brief.

Local 22 is in interest arbitration with the City of Philadelphia. Local 22 has opposed the City's contract proposals to have the contents of Bill 100286 apply to new firefighters and paramedics. Since the Local 22 City interest arbitration is still spending, the bill before you does not apply to firefighters and paramedics, at least not yet.

Nonetheless, we want to explain to you why Local 22 opposes the pension changes in Bill 100286 in arbitration. Our reasons are quite straightforward.

For firefighters and paramedics, the City pension is the one source of retirement security for their years protecting lives and property in Philadelphia. The City, at a savings of over six percent of a firefighter and paramedic payroll every year, does not contribute to Social Security for firefighters and paramedics. So what we earn in pension on the job is what we get in retirement. To have cut those benefits again for new hires is, respectfully, unfair and unjustified.

Make no mistake, what Bill 100286 would do to new hires is simple.

It would slash their benefits.

If Bill 100286 were extended to new firefighters and paramedics, they would have to contribute an extra one percent of pay just to participate in the current Plan '87. And if they went into the new Plan 2010, they could earn no more than a 20-year pension at one and three-quarters percent per year of five years' average pay. This formula is down significantly from 2.2 percent of two years' average pay for the first 20 years and two percent thereafter that firefighters hired after June 30th, 1988 now earn. Councilmembers may recall that the 1988 benefit structure Plan '87 was a significant cut in benefits for firefighters and paramedics. Prior to Plan '87, the Plan '67 multiplier was 2.5 percent per year, with a maximum payout of 100 percent after 40 years. The reduction for Plan '87 members was initiated to help the City balance its books 20 years ago.

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The following scenario is an example of how this legislation will affect a newly hired firefighter or medic:

Roughly your average final compensation is 50 grand. Multiplier times 1.75 percent, 20-year contribution to the pension system. 1.75 percent times 20 years equals 35 percent of five years' average final compensation. Firefighters and medics on average work for the fire service for 30 to 35 years. That means for the ten or 15 years these men and women are working, they receive no pension compensation.

We'll do the math. 50,000 times 1.75, 20 years equals 35 percent. 35 percent of 50,000 is 17,500 taxable income for life to the pension employee. That's what he gets forever, and five years' medical.

Where's the incentive to even do these jobs?

There's a bunch of numbers here

that I'm not even going to go over, because I don't want to waste your time. You's all have them in front of you, and Cathy and Billy did a perfect job.

The City may trumpet the fact that under this new bill, new hires could earn additional retirement benefits by contributing to their deferred compensation plan accounts, which we already do, and receiving up to 1.5 in City matching contributions. Such a match, respectfully, would be minuscule and negated by inflation. Individual account retirement plans have taken a beating over the last ten years since their benefits are completely dependent on what happens in the stock and bond markets.

City employees, respectfully, deserve better than the bill before you. All City workers like firefighters and paramedics have done is go to work and pay their employee contributions to the City's pension plan from every paycheck they get. They in no way caused the underfunding of the pension plan that Bill 100286 seeks to solve. The underfunding, sadly, is the product of a decades-old underpayment of contributions by the City and the two stock market crashes of the decade.

Pensions should be about retirement security and attracting and retaining good employees. The bill before you does nothing other than shift more retirement insecurity to City employees who did not create this mess and who work to get the City out of it with their public service every day. Local 22, respectfully, asks that the members of this Committee keep that in mind as they consider Bill 100286.

On behalf of Local 22, I thank you for letting me share my views with your committee today.

Any questions, I'm here to answer.

COUNCILMAN GREEN: Thank you.

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Any questions from the Committee?

(No response.)

COUNCILMAN GREEN: I have a few questions. I think -- and I probably asked the same questions of Mr. Dubow. So there was testimony that this would deprive the existing plans of funding. I'm not sure I understand that testimony. I do know that the other plans are severely underfunded. I guess what you're saying is that contributions won't be coming from new employees into those plans, and as a consequence, the period -- there was a period -- and I can't remember the time, at the beginning of the Administration, it was like 2019. I think it's moved back to 2023 or some other period of time -- where at a certain point the benefits to existing members of the current plans would sort of fall off and the plan would be funded to an extent where the City wasn't going to have to make significant contributions anymore. It sort of almost fell off a cliff.

Would this extend the time before that happens so that payments under the existing plans required from the General Fund would be higher over time? In other words, we have a chart from Mr. Dubow, which I'm going to ask him about, which says the benefits to the City of this plan. What I'm questioning is, are there costs in existing plans that offset these savings as a result of not having these employees in existing plans?

MR. RUBIN: Unfortunately, we've seen many charts, not from Mr. Dubow but from our actuary, from different people at different levels. Your questions are directly on point. That's the study I'm asking for, the impact study. What is the impact of that? We don't know.

I agree with you, yes, this looks like it would extend that period of time where the City contributions would be higher for a longer period of time and it wouldn't have that drop, but we haven't seen the impact study to show us that that's true or it's not true.

The problem is, there's too many questions that go into this bill to have it brought in and piggybacked onto a police arbitration issue and allow that to carry it through. That's exactly the issue we have in front of us. We were told that there's a system now where the payroll system doesn't allow for those contributions to be segregated. So what's the cost of that and was it contracted out? Do we know who is going to provide those services? Is there going to be an upgrade?

There's another issue where the FOP can go and talk to their individual members before they would have to make a decision on their pension, and we've been told by all of the FOP individuals that are connected to this that they're going to strongly advise their people to make sure they pay the one percent more that's called for in the contract as opposed to going into this plan.

There's nothing in this plan that gives anybody the ability to go and talk to individuals in a non-rep or an exempt classification, which I am a non-rep individual and would love to go talk to those if the Administration would like to have us to do that.

The other things that come into play are, where are all the financial disclosure forms? We don't know anything about what this plan would entail. Who is going to run the plan? Has there been contracts entered into with an individual company to oversee this plan? What's going to be an allowable choice for these individuals? Is there going to be a menu that's put together that they have a small limited menu they can choose from or is it expanded?

There's a lot of questions that

go in, and until those questions are answered and we can fully understand what the plan is, I think it's very hard to see where the future lies for our pension plan and our members. And that's our real issue, is our members. Yes, this doesn't affect us directly by putting this language through, but it affects us indirectly, because if the money is not there to pay our people 20 years down the line, this Administration is going to be long gone, and I think that's the problem that we've been facing over the years, is as the Administrations have tried to tackle this, they've done it in a shortsighted way where once they're gone, other Administrations are now left to deal with it.

We think that there are things that should be changed, but this isn't the way to do it. There are ways to change certain aspects of the plan, and we'd be willing to work with anybody to make sure that those things were explored.

MS. SCOTT: If I could just add, the National Institute on Retirement Security has done and put out materials on the analysis of the DB plans and the costs of either maintaining a DB plan versus a DC plan. They are significantly higher costs for maintaining those plans, plus lower returns with higher fees, less balanced portfolio, no longevity, risk pooling in the DC plan and, in addition, the DC costs.

So there is information that is out there that make it very clear that there are costs associated with these plans that are significantly higher. I think that goes to the point that Bill is talking about where there really has not been a good analysis done of what are the costs that are built into this plan.

COUNCILMAN GREEN: Councilwoman Sanchez.

COUNCILWOMAN SANCHEZ: Could you share that with us?

MS. SCOTT: Oh, absolutely. I'm happy to give you --

MR. RUBIN: Councilwoman, you actually have two of those reports. One is from a Keith Breiner and one -- it's in the last hearing that you had on pensions. There was five different reports that were put forward. That was one of those five.

COUNCILWOMAN SANCHEZ: Then I have it. That's fine.

MR. RUBIN: The new one I don't have.

COUNCILWOMAN SANCHEZ: Just the new one, then. Just the new one, then.

MS. SCOTT: Okay.

COUNCILWOMAN SANCHEZ: Thank you.

COUNCILMAN GREEN: Okay. So has anybody done an analysis of -- has the Pension Board or anybody done an analysis of the new proposed Plan '10 in terms of what the actuarial assumptions are with respect to the benefit with the

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combination of the pension and the 401(k) plan?

MR. RUBIN: The analysis of the benefit would be at the risk of the market. If the market went up and they were invested in high-risk elements, then their return would be higher. If they went into a stable value fund, they would be stable. But we wouldn't know that because we don't know what they're able to invest in, so we don't know if someone -- the normal process through our 457 plan that the City now offers is, the younger you are, the more risk you take, and as you get older, you lower that risk. The problem is, if you bring in individuals -- there's several problems, but one of the problems is, if you bring in older individuals into higher management positions that exempt and non-rep would generally be, they're at the later stage in life, so they're going to put money in a less risky investment, I would think, and so their return would be much less than it would be if they served 20 years and got a pension based on the defined benefit that we now offer.

COUNCILMAN GREEN: Has the Pension Board with respect to Plan '10 determined the expected rate of return for the defined benefit portion of the plan? In other words, is it 8.25 percent?

MR. RUBIN: We had a meeting where we went through our projected analysis going forward of what our investment plan is going to look like, and I asked that question, and I believe they're saying that it wouldn't have an impact on us making our eight and a quarter percent for our defined benefit plan now without that money in. I think it affects the funding level, not necessarily how much we can make on the investments we make now on the defined benefit plan.

COUNCILMAN GREEN: Okay.

Any other questions?

(No response.)

COUNCILMAN GREEN: Thank you. If you could remain, I'm going to ask Mr. Dubow to come back and --

MR. RUBIN: Thank you for your time.

COUNCILMAN GREEN: Thank you.

(Witness approached witness table.)

COUNCILMAN GREEN: Thank you, Mr. Dubow.

Is there anything you'd like to cover just generally first that was spoken about before we get --

MR. DUBOW: Sure. We did ask our actuary to look at the impact of Plan '10 if it applied to the FOP and to exempts and non-reps. The numbers in the table I gave you come from the actuary, those savings numbers.

The actuary also addressed the funded status. So the projected funded status over these periods, when measured as the ratio of assets/liabilities -- and this is the key part -- is anticipated to remain relatively the same with or without Plan '10, however achieved at a lower cost, as demonstrated earlier.

So the actuary is saying that this would not have an impact on the funded status.

COUNCILMAN GREEN: And this is an actuary that works for the Pension Board?

MR. DUBOW: This is Cheiron, the pension fund's actuary.

COUNCILMAN GREEN: So just so I'm clear, there was testimony that under Plan '10, the 1.25 percent of final five years' pay with a 20-year service cap is the defined benefit portion of the plan.

MR. DUBOW: Yes.

COUNCILMAN GREEN: That is what was in the police arbitration?

MR. DUBOW: No. The police arbitration was 1.75. There's a difference now in existing plans between what uniformed multiplied and non-uniformed is. So we maintained the difference between uniformed and non-uniformed.

COUNCILMAN GREEN: And what's the current difference between exempt and non-rep and police?

MR. DUBOW: Hold on one second. I'll get you that.

For uniformed, it's 2.2 percent of average pay for up to 20 years and then two percent thereafter. For non-uniformed, it's 2.2 percent for, I think it's, ten years and then two percent thereafter.

COUNCILMAN GREEN: I'm sorry. Can you hit me with that again?

MR. DUBOW: Yeah. For uniformed, 2.2 percent for --

COUNCILMAN GREEN: So uniformed you're saying is --

MR. DUBOW: 2.2 percent of average of final compensation.

COUNCILMAN GREEN: Police and fire are the same?

MR. DUBOW: Yes, police and fire. For up to 20 years.

COUNCILMAN GREEN: 2.2 percent?

MR. DUBOW: Yeah. And then two percent for each year thereafter.

COUNCILMAN GREEN: Okay. And non-uniformed, I guess --

MR. DUBOW: For non-uniformed, it's 2.2 percent for up to ten years.

COUNCILMAN GREEN: When you say "non-uniformed," are you talking about exempt?

MR. DUBOW: Exempt, non-reps, 33, 47.

COUNCILMAN GREEN: Currently all have the same plan?

MR. DUBOW: Have the same percent.

COUNCILMAN GREEN: Same percent, okay. So give me that again. It's 2.2 percent for ten years?

MR. DUBOW: And then two percent thereafter.

COUNCILMAN GREEN: And then two

percent thereafter.

So the police are going from two percent to --

MR. DUBOW: 2.2 percent for 20 years and then two thereafter to 1.75.

COUNCILMAN GREEN: But they're both at two percent after the initial period and you've dropped the non-rep instead of --

MR. DUBOW: Right, but for very different periods. One is for 20 and one is for ten.

COUNCILMAN GREEN: Right. So where did you come up -- I guess I don't understand the 0.5 percent difference when they're equivalent in years, say, 20 through 30 now.

MR. DUBOW: Right, but they're not from ten to 20. There's a difference in ten to 20.

COUNCILMAN GREEN: I understand that, but, I mean, was this discussed with anybody or -- the municipal workforce that's non-reps has a sort of group of people, even though they're not represented, that meet and talk about issues with respect to the City. I've met with them on a couple of occasions. Have you discussed this with them?

MR. DUBOW: I have not. I don't know whether other people have, but I have not.

COUNCILMAN GREEN: Okay. Do you know what this would -- what the impact of this would be to, say, the current pension someone would receive after 20 and 30 years of City service under the existing plan versus what they would receive retiring as exempt employees --

MR. DUBOW: Yeah. It depends --

COUNCILMAN GREEN: -- between like now and then under this change?

MR. DUBOW: Right. It depends on how many years they work and how much they put into the defined contribution portion. The way it works, after five years, assuming you fully participate in the defined contribution, your benefit would be higher under the proposed plan. After 20 years, it would be roughly the same after -- and when you get beyond 20 years, you're better in the current plan than the proposed.

COUNCILMAN GREEN: What does that assume the return is on the 401(k) portion over the 20 years?

MR. DUBOW: I think it assumes the same eight and a quarter return as on the defined benefit portion of the plan.

COUNCILMAN GREEN: And how much do you have them contributing to the defined --

MR. DUBOW: The full amount. They're at three percent. So their contribution would be much higher than it is now, so they'd be paying more to get the same benefit.

COUNCILMAN GREEN: Right. So essentially to participate in this plan and to have roughly the same retirement after 20 years, assuming the 401(k) plan returns eight and a quarter percent over those 20 years, they would be paying what percentage of their salary into the hybrid plan, excluding the 401(k)?

MR. DUBOW: Oh, excluding the defined contribution portion? It would be 50 percent of the normal cost, which winds up being about 3.27 percent.

COUNCILMAN GREEN: 3.27?

MR. DUBOW: No. I'm sorry. I read that wrong. Sorry. About 1.76 percent.

COUNCILMAN GREEN: And what do they pay today under their current plan?

MR. DUBOW: 1.96.

COUNCILMAN GREEN: So they're paying 0.2 less under the current plan. So to actually --

MR. DUBOW: Under the new plan, they'd be playing 0.2 less.

COUNCILMAN GREEN: But to have the same retirement after 20 years --

MR. DUBOW: They'd have to put

in the extra --

COUNCILMAN GREEN: -- they'd have to put in three percent?

MR. DUBOW: Correct.

COUNCILMAN GREEN: So really it's 3.76 percent.

MR. DUBOW: It's a 4.76 percent contribution.

COUNCILMAN GREEN: A 4.76 percent contribution versus a 1.76 percent contribution.

MR. DUBOW: 1.96.

COUNCILMAN GREEN: So sort of stepping back from the Plan '10, what would be -- the City actuarially would have the same savings if it got a 4.76 percent -- would the City have the same savings or higher savings under the table you provided if employees actually were required in a defined benefit plan to contribute 4.76 percent? In other words, going to whether --

MR. DUBOW: No. I understand the question. I'd have to ask the actuary to look at that.

COUNCILMAN GREEN: Okay. Are there --

MR. DUBOW: I mean, I can tell you what it means if they have to go to 3.27, because we had them look at that, and that's in that chart that you have. And you can see -- so if you looked at the chart where it shows municipal, non-union employees and it says 100 percent remain in Plan '87, that's at a 3.27 percent, and that's roughly actually the same for the City as if everyone participated and did the one and a half percent. So actually going to 4.27 would produce more savings for the City.

COUNCILMAN GREEN: 4.76.

MR. DUBOW: 4.76 would produce more.

COUNCILMAN GREEN: But in order for someone to have -- wouldn't it actually provide relief if all of that money went into Plan '87?

MR. DUBOW: Yeah. Either way,

this would provide relief, but going to 4.76 would provide relief too.

COUNCILMAN GREEN: Right, but essentially you're saying that for someone to have the same retirement, they would have to pay 4.76 percent.

MR. DUBOW: Correct.

COUNCILMAN GREEN: Wouldn't that be better to impose on exempt and non-rep employees than a requirement -- essentially relying on them to make the contributions for themselves?

MR. DUBOW: Well, the thing that this does give them that staying in defined benefit doesn't is, it gives them some portability on their pension, and that --

COUNCILMAN GREEN: With respect to the 401(k) portion.

MR. DUBOW: Yeah. And that can be attractive for exempts and non-reps if they don't stay as long. So there's a benefit --

COUNCILMAN GREEN: But if

that's what you want today, you can contribute to the 457 plan three percent more and have portability.

MR. DUBOW: Well, but that would be in addition to -- you're saying --

COUNCILMAN GREEN: That would be in addition to the 4.96 that they currently pay. If they wanted to add another two and a half percent, they could pay the 457 --

MR. DUBOW: I thought you were comparing it to increasing the contribution to the 4.96 and then adding on top of that putting money into the deferred comp plan. Then they'd have to pay a lot more than the 4.96 to have some portability.

COUNCILMAN GREEN: I appreciate your testimony. This is obviously a very complicated issue. The Administration -- if you'll just bear with me for a second.

(Pause.)

COUNCILMAN GREEN: The

Administration and the Committee haven't really had a chance to discuss this. I understand that the sponsor of the bill also is here. The sponsor of the bill would be willing to hold it for a period to allow us to try to gather this information from the Administration. And so I think what we'll do is hold this bill and recess this hearing until Monday -- anybody have Monday's date?

COUNCILWOMAN SANCHEZ: The 7th.

COUNCILMAN GREEN: Monday, the 7th at 2:00 p.m.

So we will go out of this hearing and go into --

COUNCILMAN CLARKE: Councilman, did you --

COUNCILMAN GREEN: Oh, I'm sorry.

COUNCILMAN CLARKE: I thought you wanted me on the record. You're fine.

COUNCILMAN GREEN: Councilman, I apologize.

COUNCILMAN CLARKE: It's okay.

COUNCILMAN GREEN: We are still in the hearing despite what I just said.

COUNCILMAN CLARKE: It's no problem.

COUNCILMAN GREEN: Councilman Clarke.

COUNCILMAN CLARKE: Thank you. Thank you, Mr. Chairman. I just wanted to indicate that I understand that there are some concerns with respect to the language within the bill, some of the potential implications as it relates to bargaining positions within the City of Philadelphia. Having had earlier conversations prior to the introduction, it was my understanding that people were comfortable with that, but if they're not comfortable, I in no way would like to proceed at this time.

So as the -- by request, for the record -- sponsor of the bill, I'm more than willing to adhere to the wishes of the Committee in terms of holding the bill.

COUNCILMAN GREEN: Thank you.

COUNCILMAN CLARKE: You're welcome, sir.

COUNCILMAN GREEN: So with that being said, we will recess the hearing with respect to Bill No. 100286 until Monday at 2:00 p.m. and we will go into the meeting, and I call on Councilman Greenlee to move Bill No. 100007.

COUNCILMAN GREENLEE: Thank you, Mr. Chairman. I move that Bill No. 100007 be reported out of this Committee with a favorable recommendation and that the rules of Council be suspended to allow for first reading at our next session of Council.

(Duly seconded.)

COUNCILMAN GREEN: All in favor?

(Aye.)

COUNCILMAN GREEN: All opposed?

(No response.)

COUNCILMAN GREEN: Bill 100007

has been approved by this Committee, with a suspension of the rules.

That concludes this meeting of the Committee on Labor and Civil Service. Thanks.

(Committee on Labor and Civil Service concluded at 4:50 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 June 2, 2010, and that this is a true and correct transcript of same.

MICHELE L. MURPHY
RPR-Notary Public

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