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City employees continue to cash in on DROP

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Hundreds of city employees continue to take advantage of the DROP pension program each year, according to a recent city analysis.

As of mid-November, 613 employees this year had received a combined $101.6 million in lump-sum DROP payments as they retired from the city. The average payment was $165,813.

Since the Deferred Retirement Option Plan was created in 1999, the city has paid $1.4 billion to thousands of city employees.

DROP allows employees to pick a retirement date up to four years in the future, then accumulate pension payments in an interest-bearing account while still earning their salary. They then collect a lump sum upon retirement. Their pensions are frozen at the level earned at the time they signed up for the program, which was meant to be cost-neutral to the city.

The program has been criticized by the city's fiscal watchdogs and prior mayors as a costly perk. Mayor Kenney was a critic of the program when he was a city councilman.

As mayor, Kenney agreed to end the city's court appeal to reduce the interest calculated on funds maintained in workers' DROP accounts.

In return, the city's largest union, AFSCME District Council 33, agreed that anyone who now enters DROP will have the revised rate of about 0.5 percent, or Treasury bond rates.

Mayor Michael A. Nutter wanted to end DROP and asked City Council to do so through legislation. Council instead passed a bill in 2011 that amended the terms of DROP, including increasing retirement age for DROP purposes and lowering the interest rate.

D.C. 33 in response filed an unfair labor practice charge with the state Labor Relations Board, arguing that the city illegally altered pension benefits. The city's position at the time was that DROP was a "nonbargainable issue," and one that could be amended through legislation.

In January 2015, a state labor hearing examiner ruled in favor of the unions. The city appealed.

Now, DROP is inscribed into a labor contract.

The Kenney administration believes that changes to DROP still could be made through Council.

"Eliminating DROP would require an act of City Council and cannot be done unilaterally by the mayor," city spokesman Mike Dunn said. "At the same time, our latest contract with District Council 33, our largest municipal union, contains important pension changes, including a new hybrid plan for future employees and higher contribution payments by higher-earning employees."

Bob Wolper, spokesman for D.C. 33, said that whether Council and the mayor can eliminate DROP is "the constant back and forth" argument. The union's position, he said, is that once the pension board sets a policy and the union agrees to it through its representation on the pension board, that policy may only be changed by bargaining.

Kenney, for his part, said through Dunn that he does not plan to take DROP himself when he retires from city service.

The city's fiscal watchdog, the Pennsylvania Intergovernmental Cooperation Authority (PICA), in September contracted the Center for Retirement Research at Boston College to conduct an updated study of DROP and its cost to taxpayers.

The center conducted a report on DROP in 2010. It put a $258 million price tag on the city's then 11-year-old retirement program.

PICA is paying $55,000 for the updated study, which is expected to be done in February, said Harvey Rice, executive director of PICA.

PICA previously listed getting rid of DROP as one of its top recommendations to the city.

During a PICA meeting last week, Fran Bielli, the city's pension board executive director, told the board that there were a record number of DROP recipients in early 2015, with February, March, and April averaging more than 120 recipients each of those months.

"We had a record number of individuals receive DROP, and that was the end of the period of time where former Mayor Nutter expressed his desire to end DROP, and many, many people came in and applied, and that was the end of the four-year period, which brought an influx of individuals," Bielli said.

This year has so far had the highest average DROP payment - $165,813. Last year's average payment was $143,460.

Bielli said he did not have an analysis of why this year the average payment was higher.