

**Pennsylvania Intergovernmental
Cooperation Authority**

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September 22, 2010

Honorable Michael Nutter, Mayor
City of Philadelphia
City Hall, Room 215
Philadelphia, PA 19107

Dear Mayor Nutter:

At the PICA Board Meeting of September 21, 2010, it was the sense of the Board that the study conducted by the Center for Retirement Research at Boston College regarding the Impact of Philadelphia's DROP program on the Age of Retirement and Employer Pension Costs was a credible analysis. Based on the findings of that study, including the estimated \$258 million cost of the DROP through December 2009, and PICA's long standing questions about the efficacy of DROP as a human resources tool, the PICA Board supports your call to abolish the DROP immediately.

The PICA Board noted that you followed a proper sequence of commissioning a formal study to review the impacts of DROP and assess its costs and benefits to the City and the City's Pension Fund and commended your selection of the Center for Retirement Research at Boston College, a group with a demonstrated expertise in economic analysis of retirement issues and dedicated to providing decision-makers in the public and private sectors with critical information to better understand retirement issues.

PICA Staff reviewed the study and noted that it was a credible analysis of the impact of the DROP utilizing reasonable assumptions and generally accepted analytic methods. The findings of the study mirrored PICA's long-standing concerns about the DROP and its associated costs. Since PICA's Executive Director first testified about the DROP in 2002, PICA has consistently maintained that DROP needs to be viewed as a human resources tool with two main question marks: what is the cost of implementing the tool, and how is the tool being used?

As early as 2004, PICA Staff Reports and public comments have routinely questioned the wisdom of maintaining a human resources tool without understanding the true cost of such a tool. In PICA's December 2005 paper on the City's Pension problems, PICA Staff correctly noted that the DROP was causing a shift in retirement behavior and a likely culprit in the increase in the City's annual required pension fund contribution. For the last several years PICA's reports, letters, and public comments have highlighted concerns about the impact the DROP was having on the fiscal stability of the City's pension fund.

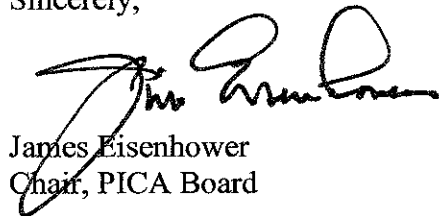
We have also pointed out that the DROP has never been used properly as a human resources tool, with little attention given to succession planning or workforce management utilizing the data the DROP provided. For the past several years, in reports and public comment, PICA Board members and Staff have questioned the continuance of the DROP given its minimal use in managing the workforce, regardless of cost.

This study has filled in the missing data by identifying the scope of the cost of the DROP. That steep cost has exacerbated the shortfall in the City's Pension Fund, and diverted resources that would otherwise be available for citizen services or meeting the other fiscal challenges of the City. Clearly this costly and misused human resources tool must be eliminated.

Again, I would like to reiterate that the PICA Board commends you and your staff for leading the effort to do a true assessment of the impact of DROP, and to act forcefully and responsibly once the true costs of the DROP program were identified. The Board also noted the efforts of many in the community to complete a proper assessment of the DROP and act in response to the findings, and in particular the hard work of the Committee of Seventy in this regard. The PICA Board joins with many of these organizations in strongly supporting passage of the legislation calling for the elimination of the DROP, which was introduced in City Council on your behalf by Councilwoman Tasco.

If you have any concerns or comments, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "James Eisenhower". The signature is stylized and written over a horizontal line.

James Eisenhower
Chair, PICA Board

C: PICA Board
Councilwoman Anna Verna, President, Philadelphia City Council
Uri Monson, Executive Director, PICA
Zachary Stalberg, President & CEO, Committee of Seventy