CITY OF PHILADELPHIA MUNICIPAL PENSION FUND

PHILADELPHIA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JULY 1, 2007, TO JUNE 30, 2010

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CONTENTS

BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Fund Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension Funds. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system State aid and of every municipal pension Fund and fund in which general municipal pension system State aid is deposited.

Pension Fund aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Philadelphia Municipal Pension Fund is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The City of Philadelphia Municipal Pension Fund is a single-employer defined benefit pension fund locally controlled by the provisions of the City of Philadelphia Public Employees Retirement Code. The fund is also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters and nonuniformed employees.

JACK WAGNER

AUDITOR GENERAL

The Honorable Mayor and City Council
City of Philadelphia
Philadelphia County
Philadelphia, PA 19102

We have conducted a compliance audit of the City of Philadelphia Municipal Pension Fund for the period July 1, 2007, to June 30, 2010. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and

2. To determine if the pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. The City of Philadelphia contracted with an independent certified public accounting firm for annual audits of the City of Philadelphia Municipal Pension Fund's financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Philadelphia Municipal Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the City of Philadelphia Municipal Pension Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Incorrect Data On Certification Form AG 64 Resulting In Excess Reimbursements By The Commonwealth For Special 2002 Ad Hoc Postretirement Adjustments

Finding No. 2 – Partial Compliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements By The Commonwealth For Special 1989 Ad Hoc Postretirement Adjustments

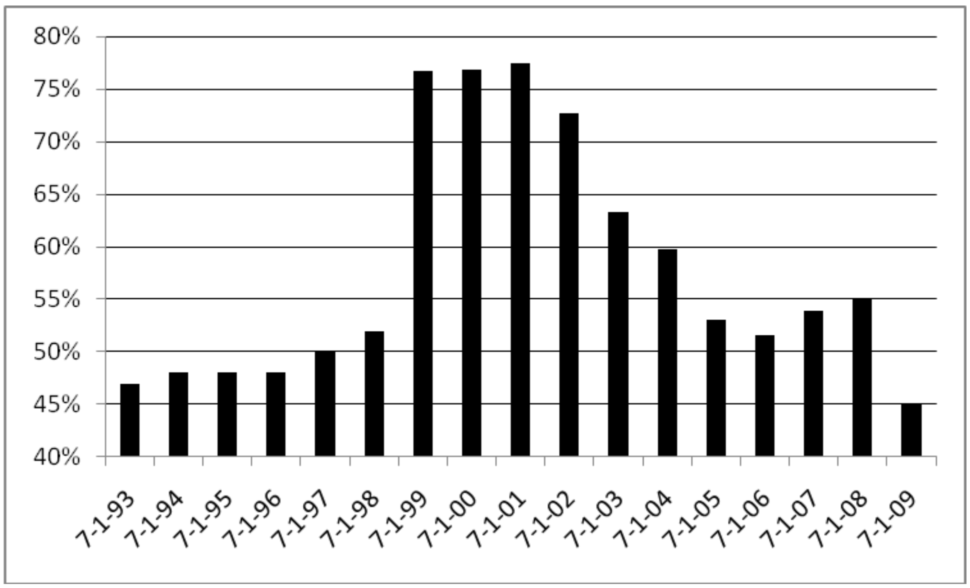
We also noted a matter that has been included in the following observation further discussed later in this report:

Observation – Deferred Retirement Option Plan

As noted in the Observation, subsequent to the current audit period, two separate studies were conducted analyzing the costs associated with the city's implementation of its Deferred Retirement Option Plan (DROP). Since the establishment of the DROP, participants, including elected officials, have received large lump-sum distributions pursuant to the terms of the DROP. Although Act 44 of 2009 prohibits future elected officials from participating in DROPs established by Pennsylvania local governments, we recommend the city should continue to review the cost of maintaining its DROP program and consider all available options, including termination of the DROP, at its earliest opportunity to do so.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it. However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the municipal pension fund. For example, over the past eight years, the municipal pension fund's funded ratio went from a high of 77.5% as of July 1, 2001, to a ratio of 45.0% as of July 1, 2009. This condition will require increased municipal contributions to fund the municipal pension fund in accordance with Act 205 funding standards. We encourage city officials to make responsible decisions when monitoring the funding of the municipal pension fund to ensure its long-term financial stability.

A graphic illustration of the deterioration of the fund's funding status before and after the issuance of a general obligation bond in 1999, is presented below:



As previously noted, Objective No. 2 of our audit of the City of Philadelphia Municipal Pension Fund is to determine compliance with applicable state laws, contracts, administrative procedures, and local ordinances and policies. During the current audit period, Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

Level	Indication	Funding Criteria
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

The data from the July 1, 2009, actuarial valuation reports filed with the Public Employee Retirement Commission (PERC) for the city's police, firefighters' and nonuniformed pension funds contained the following aggregated funding data:

Actuarial Valuation of Assets	Actuarial Accrued Liability	Funding Ratio
$ 4,042,112,000	$ 8,975,044,000	45%

Act 44 of 2009 specifically exempts the City of Philadelphia from the mandatory provisions of the new Act 205 recovery program until January 1, 2016. However, based on the funding information noted above, had the City of Philadelphia been subject to the provisions of the distress recovery program, the city would be considered to be in Level III severe distress status.

Act 205 of 1984 established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Through the establishment of mandatory actuarial reporting and funding requirements, and by providing annual allocations of state aid, Act 205 was intended to provide a pathway for Pennsylvania's municipal pension plans to become fully funded. However, in the 25 years since Act 205 was implemented, despite the deposit of $1.25 billion from the issuance of a general obligation bond in 1999, not only has the City of Philadelphia Municipal Pension Fund failed to achieve progress towards becoming fully funded, the funding status of the city's pension fund has dramatically deteriorated.

Given the current funded status of its municipal pension fund, regardless of the available remedies pursuant to Act 205 that the city may be required to implement in the future, the city should consider all available options in the development of a strategic plan to deal with its pension funding crisis. City officials must realize that there are no short-term fixes and that they must make fiscally responsible decisions as both plan fiduciaries and city officials that will benefit the City of Philadelphia and its taxpayers to ensure the city's pension funds have adequate resources to meet current and future benefit obligations to the city's hard-working police officers, firefighters and nonuniformed employees.

The contents of this report were discussed with officials of the City of Philadelphia and, where appropriate, their responses have been included in the report.

April 21, 2011

JACK WAGNER
Auditor General

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

The City of Philadelphia has partially complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements By The Commonwealth For Special 1989 Ad Hoc Adjustments

  During the current audit period, the city reimbursed $2,265 to the Commonwealth for overpayments of the special 1989 Ad Hoc adjustments in 2007 and 2008; however, 2 additional errors were discovered on the 2008 Certification Form AG 490 and plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified on the Certification Forms AG 490 submitted in 2009 and 2010, as further discussed in Finding No. 2 contained in this report.

Finding No. 1 – Incorrect Data On Certification Form AG 64 Resulting In Excess Reimbursements By The Commonwealth For Special 2002 Ad Hoc Postretirement Adjustments

Condition: The city improperly certified $1,138,568, $1,350,478 and $196,280,946 of non-employee contributions made to the city's pension fund on the Certification Forms AG 64 submitted in 2008, 2009 and 2010, respectively, resulting in excess special postretirement adjustment reimbursements under Chapter 4 of Act 147 amounting to $1,310,913 in the aggregate.

Criteria: Section 502.1(a)(2) of Act 147 states, in part:

> The determination of the reimbursable amount of the amortization contribution requirement attributable to the special ad hoc postretirement adjustment under Chapter 4 in any year shall be calculated as the amortization contribution requirement attributable to the special ad hoc postretirement adjustments under Chapter 4 and reflected in the determination of the financial requirements of the pension Fund under Chapter 3 of the Municipal Pension Fund Funding Standard and Recovery Act for the immediate prior year less the product of that amortization contribution requirement multiplied by the ratio of the amount of general municipal pension system State aid allocated to the retirement system in the immediate prior year to the **total amount of municipal contributions made to the retirement system from all sources other than employee contributions in the immediate prior year**. (emphasis added)

In addition, the instructions that accompany Certification Form AG 64 indicate that Item B - Total Non-Employee Contributions Made To All Plans on the certification form must include all non-employee contributions (municipal contributions and state aid) made in the previous year to all plans (Police, Paid Firefighter and Nonuniformed). Any municipal contributions or state aid used to fund the pension plan debt service payments on bonds or notes, or both, issued to fund an unfunded actuarial accrued liability should also be included.

Therefore, only the total amount of municipal contributions made to the retirement system from all sources other than employee contributions in the previous calendar year may be included on the certification form.

Finding No. 1 – (Continued)

Cause: On its 2010 certification, the city certified total 2009 non-employee contributions of $342,742,451, which included a $246,069,591 payment made in March 2010 and excluded its 2009 state aid allocation of $51,376,407. In addition, bond payment amounts included as non-employee contributions on Certification Forms AG 64 filed for 2008, 2009 and 2010 were based on fiscal year payments instead of the immediate prior calendar year payments.

Effect: The data submitted on this certification form is used to calculate the reimbursement due the city for ad hoc postretirement adjustments granted pursuant to Chapter 4 of Act 147. The effect of the incorrect certification of pension data on the city's reimbursements is identified below:

Year	Reimbursement Claimed	Reimbursement Due	Excess Reimbursement
2008	$ 5,837,271	$ 5,835,969	$ 1,302
2009	$ 5,876,976	$ 5,875,023	$ 1,953
2010	$ 5,533,301	$ 4,225,643	$ 1,307,658
		Total	$ 1,310,913

It should be noted that the city subsequently certified the $246,069,591 payment made in March of 2010 on the 2011 Certification Form AG 64. The data contained on the 2011 Certification Form AG 64 will determine the city's 2011 reimbursement for special 2002 ad hoc postretirement adjustments.

Recommendation: We recommend that the total excess reimbursements, in the amount of $1,310,913, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension fund, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that, in the future, fund officials comply with the instructions that accompany Certification Form AG 64, to assist them in accurately reporting the required pension data.

Finding No. 1 – (Continued)

Summarized Management's Response: Regarding the finding that the City did not comport with the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act ("Act 147"), which governs the filing of Certification Form AG 64, as outlined below, the City believes that the information supplied on this form should be based on the City's current fiscal year, rather than on the preceding calendar year. To that end, we formally request reconsideration of the proposed requirement that the City reimburse the state aid received, along with interest on that amount.

The City operates on a fiscal year ending June 30. It is our understanding that the City is the only public pension plan in the Commonwealth which follows a fiscal year which does not track with the calendar year. Since no later than 2005, the City has filed Certification Form AG 64 based on the understanding that the information provided to the Auditor General should reflect the City's fiscal year which began in the relevant calendar year. Thus, for the 2009 calendar year, the City provided information based on the 2010 fiscal year.

The City's belief regarding the appropriateness of reporting for the current fiscal year on Certification Form AG 64 came directly from its previous actuarial consultant, which advised that filing Certification Form AG 64 based on the City's plan year was advisable. Under The Municipal Pension Plan Standard and Recovery Act ("Act 205") the City is required to make its MMO payment based on the fiscal year. Thus, the manner in which the City filed Certification Form AG 64 was designed to be consistent between Act 205 and Act 147.

This attempt to reconcile the two Acts is necessary when taking into account how the City has made its necessary contributions to the Fund. The City's Minimum Municipal Obligation ("MMO") payment for the 2009 fiscal year was made in October of 2008. Due to the economic conditions present in calendar year 2009, this schedule was modified, and the MMO payment for the 2010 fiscal year was not made until March of 2010.

When viewing the City's MMO payment schedule as described above, if one were to use a strict reading of Act 147, it would appear as though the City failed to make its required contributions in 2009. According to the City's current actuarial consultant, should this situation occur in the future, the City could find itself receiving no state aid in the following year. Likewise, in a calendar year when two MMO payments were made over two separate fiscal years, the City might receive a disproportionate reimbursement from the state.

Finding No. 1 – (Continued)

This potential situation described above, as well as other ramifications of requiring that the City report on the forms required by Act 147 on a distinct schedule from Act 205, is discussed more fully in a letter from the City's current actuarial consultant, attached to this letter. This letter addresses, from the actuarial perspective, why it is inappropriate to not allow the City to report based on its Fiscal year, as it does on all forms required of Act 205. Given this advice, as well as the advice provided by the City's previous actuarial consultant, it should be clear that the City at all times believed it was certifying correct data on Certification Form AG 64.

The appropriate remedy to this discrepancy would be an amendment to Act 147, allowing the filing of Certification Form AG 64 based on the fiscal year. While the City will begin efforts to get such an amendment introduced in the General Assembly, given that such a change will create a situation whereby the City may be reporting on contributions already reported in prior calendar year as required now, it becomes clear that now is the time to take steps to ensure full and clear reporting, in line with the intent of Acts 147 and 205.

Absent such an amendment, the City intends, to the extent feasible, to keep the current schedule of MMO payments, and will file Certification Form AG 64 based on the calendar year. This leaves the issue of the return of the state reimbursement, in addition to "interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan." While the position of the City is that its method of reporting was correct, and should not trigger a requirement to repay the reimbursement amount, should your office remain firm in its preliminary findings, the City will require more information to be able to calculate any interest payable. Your office attempted to clarify how to calculate the above quoted text, but because of how the City deposits the reimbursements received, it is as likely that the funds were used for the payment of benefits to its retired members as that it was invested in any particular account.

Given the facts surrounding the City's failure to file in compliance with a strict reading of Act 147, as well as the steps taken to ensure the fiscal stability of the City's retirement system, the payment of this amount seems counter to the intent of the General Assembly in attempting to protect the interest of members of municipal retirement systems.

Auditor's Conclusion: Regarding the city's reference to reconciling Act 205 and Act 147 for fiscal year purposes, Philadelphia is permitted to have its plan year for Act 205 purposes from July 1 to June 30 because prior to December 31, 1982, its plan documents established that 12-month fiscal year rather than a standard calendar year.

Finding No. 1 – (Continued)

Reimbursements are provided to municipalities under Act 147 based upon a formula which takes into consideration contributions made to pension plans during the previous year. Contribution reporting mandated under Act 147 is based on actual contributions made during the immediate prior calendar year and are to be filed on or before April 30 of the following calendar year. For example, "Item B" of a 2010 Certification Form AG 64 reports all non-employee contributions made to pension funds for calendar year 2009. Reimbursement by the Commonwealth is based in part upon a calculation of this "Item B" figure.

When it completed its 2010 Certification Form AG 64, Philadelphia included in "Item B" a payment made in March of 2010, which represented its MMO payment for its fiscal year running from July 1, 2009, to June 30, 2010. Section 502.1 of Act 147 sets forth the requirements for calculation of reimbursement by the Commonwealth to a municipality for the Act's special ad hoc postretirement adjustment. Subsection 502.1(a)(2) provides the formula for calculating the state reimbursement and includes as part of that calculation (in relevant part) "…the total amount of municipal contributions made to the retirement system from all sources other than employee contributions in the immediate prior year."

Because ad hoc reimbursement is based solely on a calendar year system and there is no reference to Philadelphia, a City of the First Class or fiscal year systems, the fact that Philadelphia utilizes a fiscal year is of no moment to the requirements of Act 147.

While the Department of the Auditor General acknowledges the unique circumstances pertaining to Philadelphia's utilization of a fiscal year rather than a calendar year and the corresponding challenges presented to the city to comply with a state statute that is predicated on calendar year reporting requirements, the fact remains that Philadelphia cannot include contributions made after the close of the immediate prior calendar year on the subsequently filed Certification Form AG 64. As such, inclusion of the March 2010 MMO payment with municipal contributions to the retirement system made in 2009, and bond payments that were based on fiscal year payments instead of the immediate prior calendar year payments that were included as non-employee contributions on the Certification Forms AG 64 filed for 2008, 2009 and 2010 is improper. These improper inclusions led to inflated and inaccurate contribution amounts for Item B on the 2008, 2009 and 2010 Certification Forms AG 64 and resulted in excess reimbursements to the city by the Commonwealth in those years. Therefore, the finding and recommendation remain as stated.

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements By The Commonwealth For Special 1989 Ad Hoc Postretirement Adjustments

Condition: As disclosed in the status of prior finding section of this report, the city improperly certified individuals in 2007 and 2008 for the special 1989 Ad Hoc postretirement adjustments and reimbursed $2,265 to the Commonwealth for the overpayments; however, a similar condition occurred during the current audit period. The city improperly certified $1,350 of special ad hoc postretirement adjustments for 2 individuals in 2008 that did not appear on the Social Security Administration Death Index (SSDI) previously examined, improperly certified $3,612 of special ad hoc postretirement adjustments for 3 individuals in 2009, and improperly certified $5,025 of special ad hoc postretirement adjustments for 6 individuals in 2010 on Certification Form AG 490.

Criteria: Pursuant to Act 147, Certification Form AG 490 should report only the amount of special ad hoc postretirement adjustments paid in the previous year to eligible retirees and/or their surviving spouses.

Cause: Although pension fund officials had stopped the pension benefit payments to the deceased individuals, fund officials failed to ensure the accuracy of the data included on Certification Form AG 490.

Effect: For the years 2008, 2009 and 2010, the city received excess reimbursements by the Commonwealth in the amounts of $1,350, $3,612 and $5,025, respectively.

Recommendation: We recommend that the total excess reimbursements, in the amount of $9,987, be reimbursed to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension fund, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also again recommend that pension fund officials establish adequate internal control procedures to ensure the accuracy of the data certified on future Certification Forms AG 490.

Management's Response: City officials agreed with the finding without exception.

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the city in the amount of $1,310,913. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension fund, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222.

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the Fund is presented herewith as supplementary information. It is intended to help users assess the Fund's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of July 1, 2005, is as follows (dollars in millions):

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
07-01-05	$ 4,159.6	$ 7,851.5	$ 3,691.9	53.0%	$ 1,270.7	290.5%
07-01-07	4,421.7	8,197.2	3,775.5	53.9%	1,351.8	279.3%
07-01-09	4,042.1	8,975.0	4,932.9	45.0%	1,463.3	337.1%

Note: The market values of the fund's assets at 07-01-05 and 07-01-07 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. The market value of the fund's assets at 07-01-09 has been adjusted to reflect the smoothing of gains and/or losses over a 10-year averaging period. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the fund's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the fund.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the fund. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the fund.

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITIES

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	$ 278,300,000	100.1%
2006	306,873,000	100.0%
2007	400,256,000	100.0%
2008	412,448,000	100.0%
2009	438,522,000	100.3%
2010	447,446,000	66.4%*

* - see Comments

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	July 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	20 years
Asset valuation method	10-year smoothing, value subject to a corridor between 80-120% of market value.
Actuarial assumptions:	
Investment rate of return *	8.25%
Projected salary increases *	5.0%
* Includes inflation at	2.75%
Cost-of-living adjustments	None assumed

Deferred Retirement Option Plan

Subsequent to the current audit period, a study commissioned by the Mayor, *The Impact of a DROP Program on the Age of Retirement and Employer Pension Costs*, conducted by the Center for Retirement Research at Boston College, was released. The study dated July 29, 2010, estimated that the DROP established by the city in 1999 has cost the city approximately $258,000,000 through December 31, 2009. A review of that study was conducted on behalf of city council. The *Review of Boston College DROP Study for Philadelphia City Council*, dated February 22, 2011, estimated the cost of the DROP to be approximately $100,000,000. As previously noted in the Letter from the Auditor General, since the establishment of the DROP, participants, including elected officials, have received large lump-sum distributions pursuant to the terms of the DROP; therefore, given the data contained in these two reports, and the current funding status of its plans, the city should continue to review the cost of maintaining its DROP program and consider all available options, including termination of the DROP, at its earliest opportunity to do so, to help ensure that benefit obligations to plan members are adequately funded without placing an unfair burden on the taxpayers to meet those benefit obligations.

Additional Act 44 provisions applicable to the City of Philadelphia (some of which were extracted from PERC's Synopsis of Act 44 of 2009, available on PERC's website) are as follows:

- Permits, but does not require, the City of Philadelphia to reamortize all of the unfunded actuarial accrued liabilities in the City's pension plans over a 30-year period using level-dollar amortization payments. In accordance with Act 44 requirements, the City filed a revised actuarial valuation report with a valuation date of July 1, 2009, reflecting the amortization period extension.

- Over a multi-year period, permits the City of Philadelphia to defer payment of a portion of the City's Minimum Municipal Obligation (MMO) and mandates a repayment schedule applicable to any amounts deferred.

    - For the fiscal year ending June 30, 2010, allows the deferral of an amount not to exceed $155,000,000. The city deferred approximately $150,000,000 of its 2010 required contribution.

    - For the fiscal year ending June 30, 2011, allows the deferral of an amount not to exceed $80,000,000.

- Requires the City of Philadelphia to comply with a fixed repayment schedule, with failure to comply resulting in the withholding of certain state grants, loans and entitlements in an amount equal to the deferral amounts not repaid.

    - On or before June 30, 2013, the city shall repay at least $90,000,000, plus interest accrued on all amounts deferred.

    - The balance of all amounts deferred, including interest accrued and unpaid on amounts deferred, shall be repaid by June 30, 2014.

- Authorized the City of Philadelphia to temporarily impose a local sales and use tax of 1%, with any moneys received from the sales and use tax required to be applied toward payment of the City's MMOs and repayment of amounts deferred with interest. The city adopted Bill No. 090244-A, an ordinance imposing the additional 1% local sales and use tax for the period August 1, 2009, to June 30, 2014.

The Department of the Auditor General will continue to monitor the city's compliance with Act 205, as amended by Act 44 of 2009, during future audits of the City of Philadelphia Municipal Pension Fund.

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Philadelphia Municipal Pension Fund
Philadelphia County
Sixteenth Floor
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Philadelphia, PA 19102

The Honorable Michael A. Nutter	Mayor
Mr. Darrell Clarke	Council President
Mr. Allan Butkowicz	Controller
Mr. Rob Dubow	Director of Finance
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Mr. Mark J. Murphy	Deputy Director

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