

**BOARD OF PENSIONS AND RETIREMENT
FISCAL YEAR 2027 BUDGET TESTIMONY
MARCH 25, 2026**

INTRODUCTION

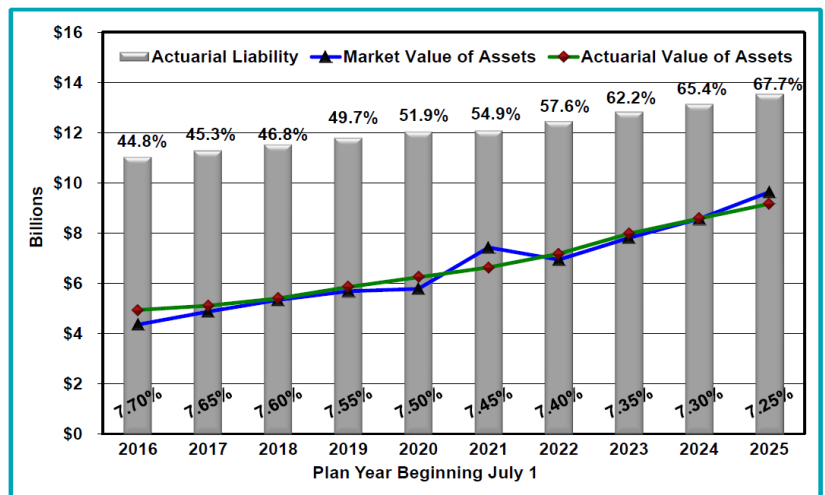
Good afternoon, President Johnson and Members of City Council. I am Francis Bielli, Executive Director. Joining me today are Shamika Taliaferro, Deputy Director and Christopher DiFusco, Chief Investment Officer. I am pleased to provide testimony on the Board of Pensions’ Fiscal Year 2027 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission: The Board of Pensions and Retirement administers the City of Philadelphia’s retirement system and payment of retirement benefits to eligible members and their beneficiaries or survivors. The Board also manages the assets of the City’s Pension Fund (Fund) with the goal of achieving the safety of the principal and maximizing returns (net of investment fees) at the lowest level of risk for the optimal value.

The Philadelphia Home Rule Charter requires that the Fund is always able to cover current and future payments to eligible members who have paid into the Fund. To fulfill this mandate, the Board oversees all pension contributions and purchases of years of service by current employees and all benefit payments made to eligible members who have separated from City service. The Board also ensures that its investment, benefit, and other decisions are made to keep the Fund financially healthy over the long term. The health of the Pension Fund is a critical piece of the City’s overall fiscal health, which enables the City to meet the Mayor’s policy goals to make Philadelphia the safest, cleanest, and greenest big city in the nation with access to economic opportunity for all.

Plans for Fiscal Year 2027: The Preliminary Actuarial Valuation results for the fiscal year ending June 30, 2025, resulted in an actuarial funding ratio of 67.7 percent. Since the implementation of the 2016 Pension Reforms, the Pension Fund has increased its funding ratio from 44.8 percent in FY16 to the current 67.7 percent, an improvement of 22.9 percent. During that same span, the Fund’s Net Pension Liability has been reduced by nearly \$3 billion. The Fund has experienced break-even or positive net cash flow, not including investment earnings, for seven of the last eight years. Previously, the Fund had positive cash flows only once in decades. The improved health of the Pension Fund is the result of a great collaborative effort among the Board Trustees, Mayor Parker, past Administrations, City Council, Municipal Unions and employees, the State Legislature, and other stakeholders. The current funding level is the highest funding percentage in over two (2) decades.



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Various rating agencies have mentioned the improvement of the Municipal Pension Fund as a contributing factor to improved bond ratings. In November 2024, Moody's found that of the 20 largest cities, only four besides Philadelphia have a Moody's adjusted net pension liability lower than 100 percent. Finally, Moody's concluded that Philadelphia's pension contribution is well above the indicator that prevents net pension liability from growing. S&P Global Ratings cited the City's long-term commitment to the Pension Fund as a factor in raising Philadelphia's General Obligation and Revenue Bond ratings to A+.



CITY OF PHILADELPHIA

Board of Pensions & Retirement

Investment Manager Fees as a Percentage of Assets · FY2014-FY2025



* Fees shown do not include expenses or carried interest for private market funds.

Sources: Philadelphia Board of Pensions & Retirement Budget Testimonies (FY2023-FY2025); City Controller's Office.

Fees have continued to drop due to a variety of factors including continued aggressive negotiations by the Board, the termination of underperforming managers when warranted and the use of passive management. Timing was also helpful to the Fund in FY 25 as some private market managers did not call capital until after June 30, 2025.

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The Board voted in March 2026 to reduce the Fund's assumed rate of return for the 15th consecutive year to 7.20 percent. Based on current assumptions, including the City's contributions based on the Revenue Recognition Policy, maintaining the current level of benefits and contributions and hitting the fund's earnings assumption, the actuary projects that the Fund will reach 100 percent funded status by calendar year 2032 / fiscal year 2033. In comparison to current projections, in 2016, the Pension Fund was projected to reach 100 percent funding by 2040. In FY27, the Board plans to maintain a reduced ratio of manager fees to assets under management, while achieving returns at least equal to the Fund's earnings assumption of 7.20 percent. The investment manager fee ratio achieved at FY25 year-end was 0.24 percent. Starting in FY16, the Board sought to reduce investment manager fees from the previous average ratio of 0.64 percent during the period from FY11 to FY15. The Board's emphasis on fee reduction has led to Fund savings of over \$140 million over the past nine fiscal years. The Board will continue to balance its commitment to reduced fees with the potential benefits that higher-fee, actively managed investments might provide in achieving the earnings assumption.

The Fund maintains a diversified asset mix to achieve the long-term actuarial target rate of return across a wide range of market cycles. The asset allocation and investment strategy are never static, and the Board is always seeking to improve and adjust the Fund's exposure to reflect the current market environment while maintaining core positions based on a long-term investment horizon. The Board focuses continually on maximizing returns, net of investment fees, at the lowest level of risk and for the best possible value. Core market exposure to public equities in our Plan is generally achieved at a very low cost via index funds and is the Board's starting point when evaluating any investment strategy. When active investment management is appropriate, the Fund's investment partners are viewed in relation to the overall value provided in terms of performance, strategy, process, risk, and cost. Managers who do not meet the Fund's long-term objectives are brought to the attention of the Board for possible action, including but not limited to, a reduction of assets under management, renegotiation of fees, or termination.

Our goal is to enhance customer service and help members to save for retirement and transition successfully into retirement. As it pertains to benefits to members of the retirement system, the Board offers retirement appointments in person and via electronic and regular mail. The Board's initiative to further expand its outreach to City departments and bargaining units through offering retirement seminars and attending departmental and union new employee on-boarding sessions is enhanced by the outreach efforts of Nationwide, the Board's Third-Party Administrator for the 457 Plan and for the Defined Contribution Component of Plans 10 and 16. The Board will continue its work with Nationwide to increase the number of 457 Plan participants. As of FY26 Q1, there are 29,789 457 Plan and 401a Plan Deferred Compensation Participants compared to 24,495 participants in FY22 Q1.

The Board's goal is to increase the percentage of monthly pension benefits received via direct deposit. As of FY26 Q1, the percentage of recipients receiving benefits electronically is 97 percent. As of 2012, all new retirees are required to participate in direct deposit. The Board is exploring requiring the retirees who began receiving benefits prior to 2012 to move to direct deposit. Since Electronic Funds Transfer (EFT) began, recipients have received quarterly statements instead of monthly statements. Increased EFT participation means that the Board uses less paper and saves on postage costs.

The Board of Pensions' Pension Payroll Modernization initiative aligns with the Office of Innovation and Technology's broader effort to modernize legacy systems and transition to a more secure, efficient, and scalable digital platform that improves member services and ensures long-term sustainability

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of Pensions' disbursement systems. We are developing a Request for Information (RFI) to assist in determining modern system capabilities, validate our requirements, and identify potential solutions that can support a comprehensive modernization of the pension payroll function.

The Board and its Trustees stand as independent fiduciaries to the Fund and the employees, retirees, and beneficiaries that rely upon it. Pursuant to Charter, City Code, and Pennsylvania Law, the Board is mandated to invest and manage the assets of the Fund for the "exclusive benefit" of the members, and solely for the purpose of defraying expenses related to the administration of the Retirement System and management of the Fund. Under the law, no portion of the Fund "shall be used for, nor diverted to, purposes other than for the exclusive benefit of the members and beneficiaries and survivors." As the entity given legal jurisdiction over the management of the Fund, the Board of Pensions owes a duty of loyalty to the membership and must ensure that the Fund can meet all current and future retirement benefit obligations.

PROPOSED BUDGET OVERVIEW & OTHER BUDGET DRIVERS

Pension Fund Financial Summary by Class						
	FY25 Original Appropriations	FY25 Actual Obligations	FY26 Original Appropriations	FY26 Estimated Obligations	FY27 Proposed Appropriations	Difference: FY27 Proposed-FY26 Estimated
Class 100 - Employee Compensation	\$12,572,575	\$8,025,307	\$12,322,850	\$12,322,850	\$12,767,900	\$445,050
Class 200 - Purchase of Services	\$2,761,550	\$2,755,869	\$3,405,150	\$3,405,150	\$3,527,600	\$122,450
Class 300/400 - Materials, Supplies & Equipment	\$82,875	\$61,030	\$74,000	\$74,000	\$86,500	\$12,500
Class 800 - Payment to Other Funds	\$90,000	\$138,317	\$130,000	\$130,000	\$140,000	\$10,000
	\$15,507,000	\$10,985,303	\$15,932,000	\$15,932,000	\$16,522,000	\$590,000

Contracts Summary (Professional Services only)						
	FY23	FY24	FY25	FY26	FY26 YTD (Q1 & Q2)	FY27 Projected
Total amount of contracts	\$22,046,160	\$23,148,045	\$22,828,273	**N/A	**N/A	\$25,000,000
Total amount to S/LBE	\$5,671,698	\$4,578,125	\$4,264,590	**N/A	**N/A	TBD
Total amount to M/W/DSBE	\$7,900,183	\$7,950,232	\$7,129,348	**N/A	**N/A	
S/LBE Participation Rate	26%	20%	19%	N/A	N/A	TBD
M/W/DSBE Participation Rate	36%	34%	31%	N/A	N/A	

***Requested figures are billed quarterly in arrears and not yet available.*

Total S/LBE Contract Participation Goal (Public Works; Services, Supplies & Equipment; and Professional Services combined)			
	FY25	FY26	FY27 Projected
S/LBE Contract Participation Goal	10%	10%	TBD

Proposed Funding Request:

The proposed Fiscal Year 2027 budget totals \$16,522,000, an increase of \$590,000 over Fiscal Year 2026 estimated obligation levels. This increase is primarily due to the full funding of all budgeted positions, along with their associated fringe benefits, as well as anticipated increases in contracting expenses.

The proposed budget includes:

- \$12,767,900 in Class 100, a \$445,050 increase from FY26 estimated obligations. This funding will fully fund all budgeted positions and their associated fringe benefits.
- \$3,527,600 in Class 200, a \$122,450 increase over FY26 estimated obligations. This funding will fully fund all anticipated contracting expenses, which have increased due to inflation, changes in contract rates, and an unprecedented increase in service-connected disability applications.

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- \$86,500 in Class 300/400, a \$12,500 increase from FY26 estimated obligations. This funding will provide staff with supplies and equipment necessary to deliver services efficiently.
- \$140,000 in Class 800, a \$10,000 increase over FY26 estimated obligations. This funding will reimburse the General Fund for work performed on the Board's behalf by the City's central service agencies.

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STAFFING LEVELS

The Department is requesting 73 budgeted positions for FY27, level with FY26.

Employment Levels (as of November 2025)			
	FY26 Budgeted	Filled as of November 2025	FY27 Proposed
Number of Full-Time Positions	73	61	73
Number of Exempt Positions	22	21	22
Number of Executive Positions (deputy level and above)		11	
Average Salary of All Full-Time Positions		\$81,669	
Median Salary of All Full-Time Positions		\$64,909	

NEW HIRES

New Hires (from 7/1/2025 to November 2025)	
	Total Number of New Hires
White	1
Other	1
Total	2

Detail for new hires since November 2025, if applicable: Two new hires since November: One in December (Black or African American) and one in January (Black or African American).

VACANCY RATE AND ALLOWANCE

Vacancy Rate Summary (Pension Fund)						
	FY25 Actual Vacancy Rate	FY26 Budgeted Vacancy Allowance	FY26 Vacancy Rate	FY26 Budgeted Vacancy Allowance Rate	FY27 Budgeted Vacancy Allowance	FY27 Budgeted Vacancy Allowance Rate
Departmental Total	23.3%	\$0	16.4%	N/A	(\$8,183)	0.1%

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OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

N/A

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CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY26											
Vendor Name	Service Provided	Dollar Amount of Contract	RFP Issue Date*	Contract Start Date*	Ranges in RFP	% of M/W/DSBE and SBE Participation Achieved	\$ Value of M/W/DSBE and SBE Participation	Total % Participation - All DSBEs	Total \$ Value Participation - All DSBEs	Local Business	Waiver for Living Wage Compliance?
Rhumblin Core	Investment Manager	\$3,127,780	N/A	N/A	MBE:	0%	\$0	100%	\$3,127,780	No	No
					BGFE:						
					WBE:	100%	\$3,127,780				
					BGFE:						
EIV	Investment Manager	\$1,474,935	N/A	N/A	MBE:	0%	\$0	100%	\$1,474,935	No	No
					BGFE:						
					WBE:	100%	\$1,474,935				
					BGFE:						
Longfellow	Investment Manager	\$591,121	N/A	N/A	MBE:	0%	\$0	100%	\$591,121	No	No
					BGFE:						
					WBE:	100%	\$591,121				
					BGFE:						
Earnest	Investment Manager	\$566,433	N/A	N/A	MBE:	100%	\$566,433	100%	\$566,433	No	No
					BGFE:						
					WBE:	0%	\$0				
					BGFE:						
Ariel	Investment Manager	\$560,244	N/A	N/A	MBE:	100%	\$560,244	100%	\$560,244	No	No
					BGFE:						
					WBE:	0%	\$0				
					BGFE:						
					DSBE:	0%	\$0				
					BGFE:						
					S/LBE:	0%	\$0				
					BGFE:						

**Under a 2008 Solicitor opinion, the Board has the discretion to enter into investment management contracts with more than three one-year renewal options, which options are exercisable in the Board's sole discretion, in keeping with § 2-309(1) of the City Charter. All firms are selected initially via RFP, and the contracts only end if the Board determines it to be fiscally prudent to do so.*

Non-Profit Vendor Demographics not applicable.

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PROGRAM BASED BUDGETING:

Program Name: Investment

Program Number: 01

Program Description: This program is responsible for managing the assets of the Fund subject to fiduciary, Philadelphia Code, and other legal obligations. The Board and its staff: invest the Fund’s assets; arrange for safe custody of and accounting for the Fund’s assets; manage the Fund on an actuarially sound basis; select and retain expert consultants for investment advice; adopt, and modify when prudent, investment strategies designed to achieve the Board’s obligations and objectives; select, retain, and monitor competent external investment managers; and monitor and report on investment performance.

FY27 Strategic Goals:

- The Investment program will conclude FY26 with a ratio of management fees to assets under management (AUM) within the range of 0.36 percent to 0.43 percent.
- The Investment program will achieve an investment return of at least 7.20 percent.

FY27 Performance Measures:

Measure	FY25 Actual	FY26 Target	FY27 Target
Investment ratio ¹	0.24%	Between 0.36% and 0.43%	Between 0.36% and 0.43%
Investment return ²	12.69%	≥ 7.25%	≥ 7.20%

¹The investment ratio is the ratio of management fees to assets under management (AUM).

²The target for investment return is set annually by the Board.

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PROGRAM BASED BUDGETING:

Program Name: Benefits

Program Number: 01

Program Description: With the assistance of Central Payroll in the Office of the Director of Finance, this program is responsible for establishing, recording, and reviewing for accuracy and timeliness all pension contributions and purchases of service received from active employees, and all benefit payments disbursed to eligible members or their beneficiaries and survivors. This program also oversees the administration of the 457 Deferred Compensation Plan (DCP) by the third-party administrator.

FY27 Strategic Goals:

- The Benefits program will provide member educational programs and sessions to 8,000 members.
- The Benefits program will adapt benefit applications and other necessary forms to enable electronic processing of applications of members, beneficiaries, and survivors.
- The Benefits program will consider and implement, if appropriate, additional administrative steps to further expedite processing time from benefit application to payment.

FY27 Performance Measures:

Measure	FY25 Actual	FY26 Target	FY27 Target
Member education (count of attendees) ¹	11,195	7,000	8,000

¹In FY25, there was an unusually high number of member education sessions which the Board does not anticipate will recur in FY26 or FY27.

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PROGRAM BASED BUDGETING:

Program Name: Executive Direction and Administration

Program Number: 01

Program Description: The Board was charged under the Philadelphia Home Rule Charter with the creation and maintenance of an actuarially sound retirement system, providing benefits for all City employees. This program is responsible for ensuring that the Board’s daily operations fully support its mission and for selecting and retaining expert consultants for actuarial analysis and annual audits.

FY27 Strategic Goals:

- Executive Direction and Administration will maintain or increase the number of Deferred Compensation Plan (DCP) participants.
- This program will maintain or increase the percentage of monthly pension benefits received by direct deposit (EFT).
- This program will continue to conduct virtual and in-person hearing panels on administrative appeals with the consent of the appellants and attorneys.
- The Board is starting the process to modernize the pension payroll system by developing a Request for Information (RFI) to assist in determining modern system capabilities, validate our requirements, and identify potential solutions that can support a comprehensive modernization of the pension payroll function.

FY27 Performance Measures:

Measure	FY25 Actual	FY26 Target	FY27 Target
Number of 457 Plan deferred compensation participants	28,879	≥ 25,500	≥ 28,000
Percentage of recipients receiving benefits electronically	97%	≥ 96%	≥ 96%