HB 1306

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1306 (Delegate Edwards)
Appropriations

Town of Oakland, Garrett County - Participation by Employees in Employees' Pension System

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This pension bill includes the employees of the Town of Oakland in the Employees' Pension System (EPS) of the State Retirement and Pension System (SRPS). Participation by these employees is mandatory. Existing employees will receive service credit for service prior to the effective date at a reduced rate, as certified by the town; employees who become an EPS member after the effective date will not receive past credit.

The bill takes effect June 1, 2000.

Fiscal Summary

State Effect: None. The bill would not directly affect government operations or finances.

Local Effect: Annual pension contributions by the Town of Oakland would increase by approximately $29,200 versus its current plan.

Small Business Effect: None.

Analysis

Current Law: The Town of Oakland currently operates a defined contribution pension plan for its employees.

Background: The town seeks to close its existing plan and place its employees in the EPS, as a member of the "municipal pool" of the SRPS. The town intends to join the EPS as of

July 1, 2000.

A local governmental unit would not ordinarily require legislation to participate in the municipal pool. Because its existing defined contribution plan has different rights and regulations than the defined benefit EPS, the town seeks legislation that would modify certain provisions of State pension law relating to participation of a governmental unit as it relates solely to its participation.

First, participation under the bill is mandatory for the employees who are employed on the day that the town begins participation in the EPS. The town preferred that participation be mandatory for existing employees, even though current State law provides that participation is optional for existing employees of newly-participating governmental units. The town was concerned that if an existing employee opted not to participate in EPS, he or she would receive no pension at all, because the local plan will be terminated.

Second, the bill reduces the amount of prior service credit that an existing town employee may receive to one-third of the service that the employee actually accrued. Under the current plan, the town contributes 5% of pay each year to employees' defined contribution accounts. In a defined contribution system, the assets in a member's account belong to that member. Existing employees have therefore already received retirement payments from the town for this prior service. These employees can maintain these accounts in tax-deferred status for retirement purposes. Reducing the amount of prior service credit that an existing employee would receive in the EPS reduces the actuarial liabilities to fund that prior service the town would owe upon joining.

The third issue relates to part-time employees. The local plan currently excludes part-time employees. The bill provides that employees who were not members of the local plan as of the effective date of participation may not claim prior service credit; their participation will be prospective only.

Local Expenditures: The town currently has 22 employees with a total estimated payroll of $550,805. Based on the 1998 municipal valuation, the State's actuary estimates that the town will be required to contribute $56,784 to the EPS beginning in fiscal 2001, and increasing 5% per year based on actuarial assumptions. This amount is based on a 3.7% base municipal contribution rate (as a percentage of salary), a 2.42% of salary surcharge for participating in the enhanced version of the EPS, and $23,075 in amortization payments for the liabilities associated with the prior service being transferred to the municipal pool.
These pension contributions to the EPS would be offset by the discontinued payments by the town to its current plan. If the town continued to operate to its local plan, it would contribute $27,540 in fiscal 2001. Its annual employer contributions would therefore be $29,244 higher

under the EPS versus its current plan.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Town of Oakland; State Retirement Agency; Milliman & Robertson, Inc.; Department of Legislative Services

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drg/jr

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