

Department of Legislative Services  
Maryland General Assembly  
2003 Session

FISCAL AND POLICY NOTE

House Bill 270  
Appropriations

(Garrett County Delegation)

Budget and Taxation

---

Employees' Pension System - Additional Service Credit - Town of Oakland

---

This pension bill provides additional pension service credit in the Employees' Pension System (EPS) to employees of the Town of Oakland who were employed by the town on June 30, 2000 and who remain employed on June 30, 2003.

The bill takes effect July 1, 2003.

---

Fiscal Summary

**State Effect:** None. The bill could be implemented with existing budgeted resources.

**Local Effect:** Pension contributions by the Town of Oakland could increase by approximately \$53,400 beginning in FY 2004 and increasing 5% per year thereafter.

**Small Business Effect:** None.

---

Analysis

**Current Law:** The Town of Oakland participates in EPS as a participating employer. Chapter 474 of 2000, which permitted Oakland to participate in EPS effective July 1, 2000, provided that town employees who became enrolled in EPS receive one-third of the service credit for service earned on or before June 30, 2000.

**Background:** Under Chapter 474, the town shifted from its existing defined contribution pension plan to the defined benefit pension system of the State's EPS (as a participating employer). Chapter 474, which was requested by the town, sought to restrict the transfer of prior service by granting only one-third service credit for each year of service that had

been earned under the defined contribution program prior to July 1, 2000. This reduction roughly reflected the fact that all prior contributions to the defined contribution plan – including both employee and employer contributions – are deemed by federal law to belong to the employee and could not be transferred to EPS. Absent the two-thirds reduction, the town would have effectively paid twice for previously accrued service.

**Local Expenditures:** The town currently has approximately 22 employees with a total estimated payroll of approximately \$600,000. Under Chapter 474, the town was required to contribute \$56,784 to 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 EPS, and \$23,075 in amortization payments for the liabilities associated with the prior service being transferred to the municipal pool.

The town currently pays the base contribution rate and the enhancement surcharge. The actuary is currently developing an actuarial estimate regarding the additional two-thirds of the prior service credit. Absent the actuary’s estimate, it is reasonable to assume that the cost of granting additional prior service will be proportionate to the initial one-third credit. The payment for prior service would increase from \$23,075 to \$69,225, an increase of \$46,150, plus 5% annual growth since 2001, or approximately \$53,400 in fiscal 2004, increasing 5% per year thereafter based on actuarial assumptions. The town will be billed for the full actuarial cost of the additional service credit; there should therefore be no impact on the other participating employers in the “municipal pool.”

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Milliman USA, Maryland State Retirement Agency, Town of Oakland, Department of Legislative Services

**Fiscal Note History:** First Reader - February 6, 2003  
mdf/jr

---

Analysis by: Matthew D. Riven

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510