

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 159
Appropriations

(Allegany County Delegation)

Budget and Taxation

City of Frostburg Employees - Participation in the Employees' Pension System

This bill requires employees of the City of Frostburg to become members of the Employees' Pension System (EPS) of the State Retirement and Pension System. Current employees of the City of Frostburg will receive eligibility and service credit in EPS at the rate of 50% of their past service credit with the City. City of Frostburg employees or former employees who become members of EPS after the bill's effective date will not receive past service credit.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: None.

Local Effect: Annual pension payments by the City of Frostburg will increase by \$115,900 annually compared with its payments under its current retirement plan.

Small Business Effect: None.

Analysis

Current Law: The City of Frostburg currently operates a defined contribution plan for its employees under Section 401(a) of the Internal Revenue Code. Participating governmental units transferring to EPS after 1998 must participate in the enhanced benefit plan.

Background: According to the City Manager of Frostburg, many of the city's 53 employees have asked the city to join EPS because it offers them better benefits than the returns earned by their 401(a) accounts. Ordinarily the city would not need legislation to participate in the EPS municipal pool. However, the city cannot afford to purchase full credit service for its employees, so it is requesting legislative authority to join EPS while purchasing only 50% credit for employees' past service credit with the city. Also, because it is closing its defined contribution retirement plan, the city wants to make participation in EPS mandatory for all employees so none of them are left without retirement benefits. Current city employees will retain the accumulated balances in their 401(a) accounts.

One city employee is barred from joining EPS because he currently receives a benefit from the Teachers' Retirement System.

Chapter 474 of 2000 allows employees from the Town of Oakland to join EPS while purchasing 1/3 service credit.

Local Expenditures: Based on the 2004 municipal valuation, the State's actuary estimates that the City of Frostburg will have to pay approximately \$255,900 during fiscal 2007 to participate in EPS. This amount is based on a 4.80% base municipal contribution rate (as a percentage of salary), a 2.42% surcharge for participating in the enhanced version of EPS, and \$143,938 in annual amortization payments for the liabilities associated with purchasing 50% service credit. Also, because the municipal pool currently has an actuarial surplus, the amortization payments include a charge for the cost of buying into that surplus.

The City of Frostburg currently pays about \$140,000 in employer contributions to its employees' 401(a) accounts, or 9% of payroll. Therefore, its employer contributions to EPS will exceed its current payments into the 401(a) plan by \$115,900.

Additional Information

Prior Introductions: None.

Cross File: SB 185 (Senator Hafer) – Budget and Taxation.

Information Source(s): Milliman USA, City of Frostburg, Maryland State Retirement Agency, Department of Legislative Services

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ncs/hlb

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