

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 961

(Senators Brinkley and Mooney)

Budget and Taxation

Appropriations

**Frederick County - Employees' Pension System - Alternate Contributory
Pension Selection**

This bill authorizes Frederick County to pay the additional liabilities that result from its employees' participation in the Alternate Contributory Pension Selection (ACPS). Those payments would be based on an amortization schedule approved by the Board of Trustees of the State Retirement and Pension System (SRPS). The bill also allows Frederick County employees who participate in ACPS to purchase service credit for their employment from July 1, 2006 to July 1, 2007, which represents the period between the effective date for ACPS and the beginning of their participation in ACPS. If they purchase the credit before July 1, 2008, they need pay only the necessary employee contributions; if they purchase the credit after that date, they must pay the employee contributions plus annual interest.

The bill takes effect July 1, 2007, but is contingent on the Board of County Commissioners of Frederick County voting to approve its employees' participation in ACPS by July 1, 2007.

Fiscal Summary

State Effect: None.

Local Effect: Potential increase in Frederick County accrued pension liabilities of \$2.4 million, resulting in annual amortization payments to SRPS of \$526,093 from FY 2008 to 2013. Expenditures could be reduced if some eligible employees do not choose to participate in ACPS.

Small Business Effect: None.

Analysis

Current Law: Chapter 110 of 2006 enhanced pension benefits for members of the Employees' Pension System (EPS) and Teachers' Pension System. Under the ACPS benefit tier created by Chapter 110, the benefit multiplier increased from 1.4% of average final compensation (AFC) for each year of service to 1.8% of AFC for each year of service, retroactive to July 1, 1998. State employees and teachers automatically participate in ACPS as a condition of their employment, but participating governmental units (PGUs) in EPS were given until July 1, 2007 to decide whether to participate in ACPS or remain in the previous benefit structure.

When a PGU withdraws from EPS for the purpose of establishing its own pension plan, employees may elect to remain in EPS or participate in the new local plan. Employees who remain in EPS continue to pay the employee contribution, and the employer pays amortized liability payments on their behalf in an amount and schedule determined by the board of trustees. However, those employees are not entitled to any benefit enhancements unless their employer elects to allow them to participate in the enhanced benefit.

Local Fiscal Effect: Frederick County is a withdrawn PGU, so its employees who remained in EPS are not eligible for the enhanced benefits under ACPS. The State Retirement Agency reports that there are 143 active Frederick County employees in EPS. If Frederick County votes to allow those 143 employees to participate in ACPS, and if all of them opt for the enhanced benefits, the county's liabilities would increase by an estimated \$2.4 million. The SRPS actuary estimates that the county would have to make amortized liability payments of \$526,093 annually between fiscal 2008 and 2013. The annual cost could be less if some eligible employees choose not to participate in ACPS. If the county does not vote to allow its employees to participate in ACPS, there would be no cost to the county.

Additional Information

Prior Introductions: None.

Cross File: HB 990 (Frederick County Delegation) – Appropriations.

Information Source(s): Mercer Human Resources Consulting, Maryland State Retirement Agency, Frederick County, Department of Legislative Services

Fiscal Note History: First Reader - March 14, 2007
ncs/jr

Analysis by: Michael C. Rubenstein

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