

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE  
Revised

House Bill 986  
Appropriations

(Delegate Gaines, *et al.*)

Budget and Taxation

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Town of Berwyn Heights Employees - Participation in the Employees' Pension System

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This bill allows current employees of the Town of Berwyn Heights to become members of the Employees' Pension System (EPS) of the State Retirement and Pension System. Current employees of the town who choose to participate in EPS will receive eligibility and service credit in EPS at the rate of one-third of their past service credit with the town. Membership in EPS is mandatory for individuals who become employed by the town after the bill's effective date. Current employees of Berwyn Heights who do not elect to participate in EPS by July 1, 2008 may not join EPS.

The bill takes effect July 1, 2008.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Legislative Services cannot reliably estimate the bill's local fiscal impact due to pending revisions to the employer contribution rates for participating governmental units by the State Retirement and Pension System (SRPS) actuary.

**Small Business Effect:** None.

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Analysis

**Current Law:** The Town of Berwyn Heights currently operates a defined contribution plan for its 21 employees that is funded entirely by an employer contribution equal to 6%

of employees' compensation. Town employees will retain their balances in their defined contribution accounts if the bill is enacted.

EPS is a defined benefit pension plan that provides a benefit equal to:

Years of Creditable Service Before 1998	x	Average Final Compensation (AFC)	x	1.2%
Plus				
Years of Creditable Service After 1998	x	AFC	x	1.8%

Members vest after 5 years of service and are eligible to retire with an unreduced benefit after 30 years of service or at age 62 with at least 5 years of service. EPS retirees receive cost-of-living adjustments equal to the Consumer Price Index for Urban Consumers, subject to a 3% cap.

**Background:** As of June 30, 2007, there were 113 local governments participating in EPS as participating governmental units (PGUs). Current law allows local governments to join EPS as PGUs without authorizing legislation. However, when local governments join the EPS municipal pool, their employees are entitled to one year of service credit in EPS for each year of prior employment with the PGU. Berwyn Heights advises that it cannot afford to pay the contribution rate for full benefits, so it has requested legislation to allow it to award one-third credit for prior employment. Similar allowances were made for the Town of Oakland (granted one-third credit for prior service) and the City of Frostburg (granted 50% credit) when they joined the EPS municipal pool.

**Local Fiscal Effect:** Under its current defined contribution plans, Berwyn Heights' fiscal 2008 employer contribution is \$76,237 for 21 employees.

Based on a 2006 actuarial valuation of its current employees by the SRPS actuary, Berwyn Heights' accrued pension liabilities would be \$1.1 million, resulting in an employer contribution of \$94,124 in fiscal 2008. Subsequently, the SRPS Board of Trustees changed multiple actuarial and economic assumptions as well as its actuarial methodology, which took effect for the June 30, 2007 State and municipal valuations. However, the system's actuary has advised the board that it encountered problems in applying the new actuarial methodology, so the resulting certified employer rates are not valid. The actuary is in the process of revising those rates. In the absence of reliable contribution rates, neither SRPS nor Legislative Services can update the 2006 valuation results and provide an estimate of the net fiscal 2009 cost to Berwyn Heights.

## Additional Information

**Prior Introductions:** None.

**Cross File:** SB 308 (Senator Pinsky) – Budget and Taxation.

**Information Source(s):** Town of Berwyn Heights, State Retirement Agency,  
Department of Legislative Services

**Fiscal Note History:** First Reader - February 14, 2008  
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