

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1383
Appropriations

(Delegate Gaines, *et al.*)

Budget and Taxation

Town of University Park Employees - Participation in the Employees' Pension System

This bill requires employees of the Town of University Park to become members of the Employees' Pension System (EPS) of the State Retirement and Pension System as a condition of their employment on or after the date that the town elects to participate in EPS. Current employees of the town receive eligibility and service credit in EPS at the rate of 70% of their past service credit with the town. Town of University Park employees or former employees who become members of EPS after the bill's effective date do not receive past service credit.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: None. The bill applies only to the Town of University Park.

Local Effect: Expenditures by the Town of University Park increase by approximately \$1.2 million in FY 2010 to transfer 70% of employees' past service credit with the Town of University Park to EPS. The Department of Legislative Services cannot estimate ongoing pension contribution costs because the Town of University Park did not respond to repeated requests for information about the town's staff and payroll.

Small Business Effect: None.

Analysis

Current Law: The Town of University Park currently operates a 401(k) defined contribution plan for its employees.

A local government can join the EPS municipal pool without authorizing legislation. Employees of participating governmental units (PGUs) receive full service credit in EPS for any past service before the employer elected to participate in EPS. Based on the June 30, 2008 municipal valuation performed by the system's actuary, PGUs who join EPS pay an employer contribution of 7.58% of total payroll to participate in the Alternate Contributory Pension Selection (ACPS) provided by Chapter 110 of 2006 and described below.

EPS members are eligible for normal service retirement at age 62 with five years of service or with 30 years of service regardless of age. Members pay an employee contribution of 5% of compensation. ACPS provides a normal service retirement benefit equal to 1.2% of average final compensation for service credit earned prior to 1998 and 1.8% for service credit since 1998. Automatic cost-of-living adjustments are based on the Consumer Price Index, subject to a 3% cap.

Background: The Town of University Park seeks authorizing legislation to join EPS to allow it to award less than full service credit for prior employment with the town. Reducing the amount of prior service credit that an existing employee receives in EPS reduces the actuarial liabilities that the town must fund upon joining.

Chapter 474 of 2000 required employees of the Town of Oakland to join EPS while receiving one-third service credit for past service with the town. Chapter 239 of 2006 required employees of the City of Frostburg to join EPS while receiving 50% service credit for past service with the city.

Local Fiscal Effect: The State Retirement Agency (SRA) advises that the actuarial valuation of town employees' past service credit with the town conducted by the agency's former actuary calculated the town's actuarial accrued liability to be \$1.73 million. To enroll in EPS at full cost, the town would have to pay that amount to the State Retirement and Pension System for the past service credit it wishes to transfer to EPS. Seventy percent of that payment is \$1.2 million. SRA further advises that, while the town expects to close its existing 401(k) defined contribution plan to new contributions, it does not intend to use any of the balance in those accounts to pay for the accrued liability. Therefore, the town bears the full cost of the transfer of past service credit to EPS.

The Town of University Park did not respond to repeated requests for information about the town's payroll, staffing, and the cost of the current 401(k) plan. Therefore, Legislative Services cannot estimate the ongoing employer contributions that the town has to make as a condition of participating in EPS.

Additional Information

Prior Introductions: None.

Cross File: SB 962 (Senator Pinsky) - Budget and Taxation.

Information Source(s): State Retirement Agency, Department of Legislative Services

Fiscal Note History: First Reader - March 11, 2009
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