

Department of Legislative Services  
Maryland General Assembly  
2009 Session

FISCAL AND POLICY NOTE

House Bill 745  
Appropriations

(Delegate Krebs)

Budget and Taxation

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**Town of Sykesville Employees - Participation in the Employees' Pension System**

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This bill requires employees of the Town of Sykesville 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 75% of their past service credit with the town. Town of Sykesville 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.

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**Fiscal Summary**

**State Effect:** None. The bill applies only to the Town of Sykesville.

**Local Effect:** Annual pension contributions by the Town of Sykesville increase by approximately \$2,200 beginning in FY 2010.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** The Town of Sykesville currently operates a 401(a) defined contribution plan for its employees. The employer contribution is between 5% and 10% of compensation, based on an employee's years of service. Total employer contributions to the plan for fiscal 2009 are projected to be about \$66,000. The plan has total assets of about \$330,000.

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% 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 5 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 Sykesville 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. By awarding 75% credit, the total liabilities are roughly equal to the asset value in the town's 401(a) plan.

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.

The Town of Sykesville advises that its employees have voted unanimously to join EPS.

**Local Fiscal Effect:** The town expects to liquidate the assets in the 401(a) plan and use them to pay the full cost of the liability it incurs by joining EPS and transferring past employee service to the plan. Therefore, there is no additional cost associated with the transfer.

Sykesville has 26 employees and a total payroll of approximately \$900,000. Based on the 7.58% PGU contribution rate, the town's employer contribution is \$68,220 or approximately \$2,220 more than its contribution to the 401(a) defined contribution plan.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Town of Sykesville, Mercer Human Resources Consulting,  
Maryland State Retirement Agency, Department of Legislative Services

**Fiscal Note History:** First Reader - February 22, 2009  
ncs/rhh

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