

**Department of Legislative Services**  
2011 Session

**FISCAL AND POLICY NOTE**

**Revised**

House Bill 119

(Delegate Krebs)

Appropriations

Budget and Taxation

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

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This bill requires that employees of the Town of Sykesville who become members of the Employees' Pension System (EPS) of the State Retirement and Pension System receive eligibility and service credit in EPS at the rate of at least 75% of their past service credit with the town; however, that rate must be divisible by 5. The town must notify the State Retirement and Pension System of the rate by June 30, 2012, if it becomes a participating employer.

The bill takes effect July 1, 2011.

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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 may decrease by approximately \$12,800 annually, depending on when the town joins EPS.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** Chapter 413 of 2009 required employees of the Town of Sykesville to become members of EPS of the State Retirement and Pension System as a condition of their employment on or after the date that the town elected to participate in EPS. Existing employees of the town were to 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 became members of EPS after the bill's effective date did not

receive past service credit. At the time, the town indicated that employees had voted unanimously to join EPS.

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. The Alternate Contributory Pension Selection (ACPS) within EPS, which is the plan that Sykesville would join, 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 for retirees are based on the Consumer Price Index, subject to a 3% cap.

**Background:** 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 the current fiscal year are approximately \$80,000. The plan has total assets of about \$600,000.

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, 2010 municipal valuation performed by the system's actuary, PGUs who join EPS pay an employer contribution of 7.41% to participate in ACPS.

The Town of Sykesville sought authorizing legislation to join EPS during the 2009 legislative session 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 were roughly equal to the asset value in the town's 401(a) plan at the time. Following the enactment of Chapter 413, the town could not join EPS because it lacked authorization from the federal Internal Revenue Service (IRS) to close its 401(a) plan and use its assets to pay for the past service liability in EPS. While the town has been waiting for IRS authorization (which can take several years), the value of assets in the town's 401(a) plan has increased from about \$330,000 to approximately \$600,000 while its payroll and workforce have remained largely unchanged. Therefore, the town seeks statutory authorization to increase the level at which past service with the town is converted to EPS credit from the 75% level authorized by Chapter 413 to an as yet higher undetermined level that it can afford given the growth in assets. The State Retirement Agency advises that its computer system can only accommodate service credit rates that are divisible by 5.

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:** Upon receiving IRS authorization, 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 25 employees and a total payroll of approximately \$907,000. Based on the 7.41% PGU contribution rate, the town's annual contribution for future service credit is approximately \$67,200, roughly \$12,800 less than its current 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, Maryland State Retirement Agency, Department of Legislative Services

**Fiscal Note History:** First Reader - February 3, 2011  
ncs/rhh Revised - House Third Reader - April 1, 2011

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