

Department of Legislative Services
2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1046
Appropriations

(Prince George's County Delegation)

Budget and Taxation

**City of College Park Employees - Participation in the Employees' Pension System
PG 404-14**

This bill requires employees of the City of College 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 city elects to participate in EPS. Membership in EPS is optional for current employees of the city; if they elect to join EPS, they receive eligibility and service credit in EPS at the rate of 60% of their past service credit with the city. City of College 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, 2014.

Fiscal Summary

State Effect: None. The bill applies only to the City of College Park.

Local Effect: The bill only affects the City of College Park. Assuming all current employees of the City of College Park elect to join EPS, expenditures by the city increase by approximately \$1.27 million in FY 2015 to transfer 60% of employees' past service credit to EPS. In future years, city expenditures likely decrease modestly, reflecting a lower employer contribution rate for EPS than the city currently pays for a defined contribution retirement savings plan.

Small Business Effect: None.

Analysis

Current Law: The City of College Park currently operates a 401(a) defined contribution plan for its employees. The city provides an employer contribution of 6.5% of compensation to the plan. Based on the June 30, 2013 municipal valuation performed by the system's actuary, the fiscal 2015 employer contribution rate for participating governmental units (PGUs) who join EPS is 6.2% of total payroll for the Reformed Contributory Pension Benefit (RCPB) described below.

A local government can join the EPS municipal pool without authorizing legislation. Employees of PGUs receive full service credit in EPS for any past service before the employer elected to participate in EPS. However, a prospective PGU that seeks to give employees less than full credit for past service requires authorizing legislation to do so.

Employees of PGUs who join EPS after June 30, 2011, are subject to RCPB, in which they are eligible for normal service retirement at age 65 with 10 years of service or when their age and years of service add up to 90. Members pay an employee contribution of 7% of compensation. RCPB provides a normal service retirement benefit equal to 1.5% of average final compensation for each year of service credit. Automatic annual cost-of-living adjustments are based on the Consumer Price Index and the system's investment performance, and are capped at 2.5%.

Background: The City of College Park seeks authorizing legislation to join EPS and to allow it to award less than full service credit for prior employment with the city. Reducing the amount of prior service credit that an existing employee receives in EPS reduces the actuarial liabilities that the city must fund upon joining. City of College Park contributions to its 401(a) defined contribution plan are estimated to be \$383,000 in fiscal 2014.

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. Chapters 631 and 632 of 2009 required employees of the Town of University Park to join EPS while receiving 70% service credit for past service.

Local Fiscal Effect: The City of College Park advises that the actuarial valuation of city employees' past service credit with the city conducted by the State's consulting actuary calculated the city's actuarial accrued liability for 60% service credit to be \$1.27 million. Assuming that all current employees of the City of College Park elect to join EPS, the city will have to pay that amount to the State Retirement and Pension System to purchase 60% of past service credit.

Going forward, the current EPS contribution rate is slightly less than the city's current contribution rate to its 401(a) plan (6.2% vs. 6.5%); therefore, the city realizes a modest reduction in expenditures to provide a defined benefit pension plan to its employees. However, the EPS employer contribution is subject to change based on annual actuarial valuations of the system's assets and liabilities.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): City of College Park, Maryland State Retirement Agency,
Department of Legislative Services

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