

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website (www.nmlegis.gov).

FISCAL IMPACT REPORT

SPONSOR Harper ORIGINAL DATE 02/15/21
 LAST UPDATED 03/02/21 HB 277/aHLVMC

SHORT TITLE Public Retiree Beneficiary Designation SB _____

ANALYST Jorgensen

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	NFI	NFI			

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of HLVMC Amendment

The House Labor, Veterans’ and Military Affairs Committee amendment to House Bill 277 clarifies that a retired member may only exercise the one-time, irrevocable option to designate another individual as their survivor beneficiary from option B or option C (see Attachment 1).

Synopsis of Original Bill

House Bill 277 (HB277) allows a PERA retiree a one-time, irrevocable option to designate a previously undesignated individual as the retiree’s survivor beneficiary. If the retiree is married, the change is subject to spousal consent. HB277 would allow a member who becomes divorced from a designated spouse to make the same one-time, irrevocable designation of another survivor beneficiary.

HB277 requires that the amount of the pension shall be recalculated to have the same actuarial present value, computed on the effective date of the designation, as the amount of the normal retirement pension. Additionally, HB277 requires a \$100 fee be paid by a retiree exercising the one-time designation to PERA to defray costs of recalculating the pension amount.

FISCAL IMPLICATIONS

HB277 requires pensions paid to survivor beneficiaries to be actuarially reduced to the value of a pension paid exclusively to the retiree. Therefore, HB277 will have no fiscal impact.

Allowing retirees the option to designate a previously undesignated person as their survivor beneficiary will require PERA to recalculate pension benefits, but it is unlikely these costs will be significant or require additional appropriations.

SIGNIFICANT ISSUES

Currently, PERA retirees have four forms of payment options available to them: Option A pays a monthly benefit based on the amount of service credit accrued multiplied by the final average salary until death; Option B provides a monthly benefit to the retiree and designated beneficiary which expires upon the death of the beneficiary; Option C provides a survivor beneficiary a 50 percent benefit until death; and Option D allows a member to designate a child under 25 as the beneficiary with benefit payments ceasing after the beneficiary turns 25.

Options B and C reduce the amount of the monthly pension payment so that the actuarial value of the pension benefit under Options B and C are the same as the value of Option A. Actuarial valuation of the pension benefit is based on age at the time of retirement and life expectancy. Therefore, the younger a survivor beneficiary is, the more the monthly benefit will be reduced. This is done so that the expected total payments to the retiree and the beneficiary equal the payments that would have been expected to be made for the retiree based on service credit multiplied by final average salary.

PERA notes:

HB277 seeks to remedy the issue that exists when: 1) a PERA member retires, names his or her spouse under form of payment B or C, and the retiree and his or her spouse agree to name another beneficiary; and 2) after divorce from a named beneficiary, allow a onetime election to name another beneficiary (under current law, such retired member may only have his or her benefit “popped-up” to Option A).

CJ/al

Form of Payment Options

When you apply for retirement with PERA, you must choose how you want to be paid. The Form of Payment Option you choose determines whether a benefit will be provided to a beneficiary after your death. If you want to provide a benefit for someone after you die, your monthly pension amount will be reduced. The reduced pension amount depends upon the Form of Payment Option you choose, your age and the age of the survivor beneficiary you designate.

PERA uses your age nearest retirement. If you are 55 years and six months old at the time you retire, PERA will calculate your age as 56 years. Regardless of which Form of Payment Option you choose, a benefit payment is payable to you for your lifetime. The descriptions of the four Form of Payment Options are as follows:

Form of Payment Option A - Straight Life Option

Provides a monthly payment to you for your lifetime. You receive the maximum allowable retirement benefit under your coverage plan, which provides a monthly benefit for your lifetime only. All payments stop on the first day of the month following your death. A one-time lump sum refund of unpaid member contributions and interest will be issued at the time of your death to the designated refund beneficiary on account with PERA.

Form of Payment Option B - Joint Survivor Option (100%)

Provides a monthly payment to you for your lifetime. Upon your death, your beneficiary will receive the same amount for the rest of his or her life. The benefit amount is based on your age and the age of your beneficiary at the time of retirement. This Form of Payment Option amount is less than the amount under Form of Payment Option A because your monthly retirement benefit is reduced to provide the same benefit to your survivor beneficiary. If your survivor beneficiary dies before you, your retirement benefit adjusts to the Form of Payment Option A amount when PERA is notified and receives your beneficiary's death certificate. You may choose only one person to be your survivor beneficiary with this Form of Payment Option. If you name a beneficiary other than your spouse who is more than 10 years younger

than you, the percentage paid to the beneficiary will be adjusted to meet Internal Revenue Code requirements.

Form of Payment Option C - Joint Survivor Option (50%)

Provides a monthly payment to you for your lifetime. Upon your death, your beneficiary will receive one-half the amount for the rest of his or her life. Your pension benefit amount is less than Form of Payment Option A, but more than Form of Payment Option B and is based on your age and the age of your beneficiary at the time of retirement. This is because your monthly retirement benefit is reduced to provide half of your benefit amount to your survivor beneficiary. If your survivor beneficiary dies before you, your retirement benefit adjusts to the Form of Payment Option A amount when PERA is notified and receives your beneficiary's death certificate. You may choose only one person to be your survivor beneficiary with this Form of Payment Option C.

Form of Payment Option D - Temporary Joint Survivor Option (for retirees with children under age 25)

Provides a monthly benefit to you for your lifetime. When you die, the same total amount is shared by your eligible children until the last child reaches age 25. Once a child turns 25, his or her benefit stops. Your benefit amount is less than Form of Payment Option A based on your age and the age of your youngest eligible child at the time of retirement. Your benefit amount will change to the amount that would have been paid under Form of Payment Option A once the youngest eligible child reaches the age of 25 provided that you are still living.

Note – In all four Form of Payment Options, you will receive at least all of the contributions you paid into your account and the interest the account has earned. If you die before your contributions and interest have been paid in benefits and no survivor pension is payable, the member contributions and interest remaining in your account will be paid to your refund beneficiary or your estate.