

\_\_\_\_\_ moves that the Legislative Commission on Pensions and Retirement (LCPR) adopt the Appendix to the LCPR's Standards for Actuarial Work, titled "Actuarial Assumptions," with an effective date of July 1, 2018.

**Background note:**

An appendix is required by Minnesota Statutes, section 356.215, subdivision 8, paragraph (c), which states:

*The actuarial valuation must use the applicable salary increase and payroll growth assumptions found in the appendix to the standards for actuarial work adopted by the Legislative Commission on Pensions and Retirement pursuant to section 3.85, subdivision 10. The appendix must be updated whenever new assumptions have been approved or deemed approved under subdivision 18.*

The provision requiring an appendix was added by the 2018 omnibus pension and retirement bill when the assumptions for salary increase and payroll growth were removed from the statutes.

In addition to salary increase and payroll growth assumptions, the appendix also sets forth the assumptions for mortality, mortality improvements, and inflation. These are included to comply with one of the requirements for maintaining the qualified status of the pension plans under the Internal Revenue Code. Those requirements are set forth in the many subsections of IRC section 401(a). Specifically relevant to the actuarial assumptions, IRC section 401(a)(25) states:

*A defined benefit plan shall not be treated as providing definitely determinable benefits unless, whenever the amount of any benefit is to be determined on the basis of actuarial assumptions, such assumptions are specified in the plan in a way which precludes employer discretion.*

Related Treasury regulations further explain:

*A pension plan within the meaning of section 401(a) is a plan established and maintained by an employer primarily to provide systematically for the payment of definitely determinable benefits to his employees over a period of years, usually for life, after retirement.*

*-Treasury Regulation section 1.401-1(b)(1)(i).*