First Amendment to the Standards for Actuarial Work

Recitals

The 2024 Pension and Retirement Policy and Supplemental Budget Bill, enacted on May 15, 2024, established an Amortization Work Group.

The purpose of the Amortization Work Group is to recommend legislation to the Legislative Commission on Pensions and Retirement (Commission) that amends Minnesota Statutes, section 356.215, subdivision 11, to conform to current actuarial best practices for amortizing liabilities. The Amortization Work Group was to consider layered amortization and related topics.

After several meetings during 2024 and early 2025, the Amortization Work Group participants reached agreement on several recommendations to be made to the Commission, including amending the applicable statute and the Commission's Standards for Actuarial Work.

As stated on page i of the Standards, the Standards "may be amended at any time by the Legislative Commission on Pensions and Retirement. Any such amendment is effective for the actuarial valuation performed as of the first valuation date following the effective date of the amendment except as otherwise provided by the Legislative Commission on Pensions and Retirement."

The Commission accepts the Work Group's recommendation to amend the Standards as set forth below and adopts this First Amendment to the Standards for Actuarial Work at a meeting of the Commission on ___________________________, 2025, to take effect as described on page 2 in the paragraph labeled "Effective Date."

Amendment

The Legislative Commission on Pensions and Retirement amends the Standards for Actuarial Work as follows:

1. Section III, subpart C, paragraph 2, is revised to delete "However, a surplus (i.e. a negative UAAL) is to be amortized over a thirty-year period."

2. The following is inserted as a new section:

   "Annual Review of Amortization Patterns

   (1) In coordination with the annual actuarial valuations, each retirement plan's retained actuary will prepare an illustration for each pension plan illustrating the projected amortization payment amounts based on the current amortization bases. Using these amortization runout projections, the retained actuary will identify situations where active amortization management could minimize tail volatility while still being consistent with amortization policy objectives (i.e., contribution sufficiency, demographic matching, transparency, accountability, sound governance, intergenerational equity, predictability, stability, and adequate funding).

(2) Based on the annual review of amortization patterns, the retirement plan may consider the following active strategies for managing amortization bases nearing the end of their scheduled periods (e.g., fewer than three years remaining). These strategies are intended to minimize potential tail volatility while not affecting the long-term sustainability of the Actuarially Determined Contribution rates.

(a) Synchronizing Bases: Amortization bases with similar ending years whose remaining unamortized amounts are partially-offsetting or fully-offsetting may be synchronized using an identical ending year. Synchronizing bases keeps them as separate amortization layers but with new payment amounts and a uniform remaining period. If bases are synchronized, their new remaining amortization period should not exceed the weighted average payment period of the bases before synchronization. An advantage of this method is that it can reduce tail volatility while retaining the history of the original amortization amounts and outstanding balances.

(b) Accelerating Bases: Amortization bases with a remaining balance below a predetermined de minimis threshold (e.g., 0.5% of the plan's actuarial accrued liability) may be fully amortized in the subsequent valuation cycle rather than continuing to amortize small amounts over the remaining period. This can prevent prolonged volatility from minor residual amounts."

3. The following is inserted as a new section:

"To the extent any provision in the Standards is inconsistent with amendments to section 356.215, subdivision 11, enacted in 2025, and that require the use of layered amortization, the provision must be interpreted consistent with subdivision 11, as amended."

Effective Date

This First Amendment to the Standards for Actuarial Work is effective for actuarial valuations performed as of the first valuation date following the date of approval by the Commission but only if legislation amending Minnesota Statutes, Section 356.215, subdivision 11, to require layered amortization is enacted in 2025.