



## SF 4588 (Frentz); HF4517 (Lillie): Moving the investment return assumption for calculating joint and survivor annuities to the Standards' Appendix

Prepared by: Aleena Wilson, Analyst

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### Introduction

- Affected Plans:** All pension plans administered by the Minnesota State Retirement System (MSRS), Public Employees Retirement Association (PERA), and Teachers Retirement Association (TRA)
- Laws Amended:** Minnesota Statutes, section [356.461](#)
- Brief Description:** Currently, the investment return assumption for computing joint and survivor annuities is set in section 356.461 at 6.5%. The bill amends the statute to state that the assumption is 6.5% unless a different percentage has been approved or deemed approved and is thereby included in the Appendix to the Standards for Actuarial Work.

### Background

Actuaries for pension plans use assumptions about mortality, pay increases, investment rate of return and many other demographic and economic variables to determine the actuarial status of a pension plan. Actuarial assumptions are also used to calculate retirement benefits when they are paid before normal retirement age or in a form other than a single life annuity, such as in the form of a joint and survivor annuity, which is payable for the life of the member, followed by payments for the life of the member's survivor.

### Appendix A to the Standards for Actuarial Work

Legislation in 2018 moved actuarial assumptions for salary increases and payroll growth from the statute to an appendix to the Standards for Actuarial Work to make it easier to change these assumptions when recommended by the plans' actuaries. Commission staff supplemented these assumptions with others for inflation, merit and seniority pay increases, and mortality rates. These assumptions are included in the appendix for two reasons: First, a qualified pension plan must provide definitely determinable benefits pursuant to section 1.401-1 of the Tax Regulations, and the assumptions in this appendix can be used to determine an individual's pension benefit. Second, as mentioned, the payroll growth and salary increase assumptions were previously located within section 356.215, subdivision 8, but were moved to allow for adjustments in these rates without having to pass legislation.

## Investment return assumptions

The investment return assumption that MSRS, PERA, and TRA must use when calculating joint and survivor annuities is set in statute at section 356.461, subdivision 1. That joint and survivor assumption is currently set at 6.5%. The joint and survivor assumption is different than the investment return assumption set by section 356.215, subdivision 8, which is used to calculate all other benefits and is set at 7% for the public pension plans.

It appears that these investment return assumptions are different because historically, the joint and survivor assumption was equal to the difference between the investment return assumption and the annual post-retirement adjustment rate. (See Minn. Stat. § 356.415, subd. 3 (2013).) This resulted in joint and survivor assumptions that differed among the pension plans, because the post-retirement adjustments varied among the plans. However, in 2014, legislation was passed that created a single rate for use in calculating joint and survivor annuities.

## Request to move assumption to the Standards

As part of TRA's legislative agenda, TRA requested that the investment return assumption for computing joint and survivor annuities be moved from statute to the appendix. This request came after TRA's actuary recommended that this rate of return be adjusted, so this change in the statute will allow TRA to propose a change to the assumption that, if approved by the Legislative Commission on Pensions and Retirement (LCPR or Commission), TRA can then use in calculating joint and survivor annuities.

## Section- by- Section Summary

SF 4588 (Frentz) is one section that amends section 356.461, subdivision 1, by amending the first paragraph of the subdivision and adding two additional paragraphs to the subdivision.

**Paragraph (a)** states the investment return assumption for computing joint and survivor annuities is 6.5% unless a different percentage has been approved or deemed approved under paragraph (b).

**Paragraph (b)** allows the governing board of a covered retirement plan to propose a change in the investment return assumption for computing joint and survivor annuities. Paragraph (b) goes on to state that the assumption may be changed only with the approval of the LCPR or after a period of one year has elapsed since the date on which the proposed assumption change was received by the LCPR without Commission action. This is a similar process to how other assumptions that are in the appendix can be changed. "Covered retirement plan" is defined in subdivision 2 of this section and includes all the MSRS and PERA administered pension plans and TRA, but not St. Paul Teachers Retirement Fund Association.

**Paragraph (c)** provides that the executive director of the LCPR must update the appendix whenever a change in the assumption is approved or deemed approved.

The bill is effective July 1, 2026.