



Amortization Work Group

Presentation to the
Legislative Commission on Pensions and Retirement
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Amortization Work Group

- **Creation**

- “The executive director of the Legislative Commission on Pensions and Retirement (commission executive director) must convene a work group for the purpose of recommending legislation amending Minnesota Statutes, section 356.215, subdivision 11, that will update the statute to conform to current actuarial best practices for amortizing liabilities.”

- **Composition**

- Executive Directors and a second staff person from PERA, MSRS, and TRA; and the Executive Director from the St. Paul Teachers Retirement Fund Association.

- **Why?**

- Statutory methodology does not reduce the liability in a reasonable time, is subject to tail volatility, and lacks transparency. The approach does not conform to actuarial best practices.

Definitions

- **Amortization Method**

- Defines the amounts and timing of payments needed to pay for costs of unfunded actuarial accrued liabilities (UAAL).

- **Unfunded Actuarial Accrued Liabilities (UAAL)**

- The unfunded portion of liabilities attributable to benefits provided for member's past service. The UAAL may increase or decrease as a result of benefit increases or decreases, assumption changes, investment gains and losses, and other economic or demographic gains and losses.

The amortization method defines how much and how long current and future active members and taxpayers will pay for the liabilities attributable to current member's past service that has not yet been funded. Achievement of intergenerational equity depends on good amortization methodology.

Amortization Method Concepts

- Balance **demographic matching** and **volatility management**
- Consider source of UAAL change
- Consider level and duration of negative amortization
- Sum of outstanding balances should equal UAAL
- Support **transparency and accountability**

Amortization Work Group Recommendation

Source of Unfunded Actuarial Accrued Liability (UAAL)	Model Practices*	Amortization Work Group Recommendation
“Legacy” UAAL	No Recommendation	Retain current Statutory Amortization Target Date (2048)
Experience Gain or Loss	15 to 20 years	15 years
Assumption or Method Changes	15 to 25 years	20 years
Active Benefit Changes	Active demographics, or up to 15 years as an approximation	15 years
Long-term Inactive Benefit Changes	Inactive demographics, or 10 years as an approximation	15 years
Short-term Inactive Benefit Changes	5 years or less	Match the period that benefit applies
Contributions more or less than Actuarially Determined Contribution	No Recommendation	15 years

* From the Conference of Consulting Actuaries Whitepaper titled “Actuarial Funding Policies and Practices for Public Pension Plans”

Amortization Methodology Comparison

Current Method – Amortization of UAAL by 2048

Sources of UAAL	Outstanding Balance	Period	FY25 Amortization \$ Amount	FY25 Amortization % of Pay
Combined	\$4,503,957,000	24 years	\$291,476,000	3.45%

Amortization Work Group Recommendation – If Applied Initially Effective July 1, 2024

Sources of UAAL	Outstanding Balance	Period	FY25 Amortization \$ Amount	FY25 Amortization % of Pay
Legacy UAAL	\$5,130,189,000	24 years	\$331,994,000	3.93%
Investment (Gain)	(411,731,000)	15 years	(\$36,677,000)	(0.43%)
Demographic Loss	288,744,000	15 years	25,721,000	0.30%
Assumption Changes	(503,245,000)	20 years	(\$36,596,000)	(0.43%)
Total	\$4,503,957,000		\$284,442,000	3.37%

An Example - UAAL by Components

PERA General Plan: Total UAAL With Components

