



CLIENT BULLETIN

Mortality Trends Affect Pension Costs

People are living longer! That is good news for each of us as individuals, but raises problems for the management of pension plans. To put it simply:

Longer Lifetimes = More Pension Checks = Greater Cost

The actuarial community has monitored trends in mortality rates for many years, so improving mortality experience comes as no surprise. Actuaries have typically anticipated this in the assumptions they use to value pension obligations. However, recent studies by the Society of Actuaries (SOA) show that the rate of mortality improvement has exceeded the improvement projection rates used to adjust mortality tables. This means that adjustments to actuarial assumptions to reflect new experience will likely be necessary over the next few years.

Mortality Experience Studies

The SOA routinely reviews mortality experience and updates mortality tables periodically when appropriate. They also generate projection scales that actuaries can use to anticipate future mortality improvement, and thereby keep mortality assumptions in line with current expectations. The most recent tables developed for pension plan experience were the RP-2000 tables issued in July 2000. Along with the RP-2000 tables, the SOA also issued a projection scale (scale AA) for projecting mortality improvements. Most pension plans utilize these tables, typically with some projection of mortality improvement.

In July 2010, the SOA began a comprehensive analysis of U.S. mortality experience. To do this, they utilized experience from Social Security, federal employees (both civil service retirement and the federal employees retirement system) and from the California Public Employees Retirement System (CALPERS). They found that mortality improvements over the past 10-15 years have considerably exceeded those anticipated under the current projection scale. Recently, the SOA issued a new projection scale (scale BB) to reflect this improvement. However, this is simply an interim step. The SOA expects to publish new mortality tables by 2014, along with updated projection scales.

Effect on Pension Plans

So, what do these new studies show and how much will they affect pension obligations? To analyze this we looked at the expected future lifetime for a plan participant currently age 65 under both the old scale (AA) and the new scale (BB). The change is as follows:

Future Life Expectancy at Age 65

	Scale AA	Scale BB	Increase
Male	18.7 yr.	19.6 yr.	0.9 yr.
Female	20.7 yr.	22.1 yr.	1.4 yr.

These utilize the RP-2000 table for blue collar workers, with generational mortality projection (generational mortality effectively means that there is a different mortality projection for each year of birth). Translating these into pension liabilities, this improvement generally equates to an increase of approximately 1.5% to 4.0% depending on the plan's demographics and other factors.

Next Steps

Should plans automatically adopt the new projection scale (scale BB) to reflect anticipated mortality improvement? Not necessarily. There are questions regarding the new scale and whether it is the most reasonable projection of future experience.

Many actuaries are concerned that the scale incorporates mortality improvements at levels that are not likely to continue forever. Also, it is not clear at this point whether the overall mortality improvement applies equally to blue collar workers and white collar workers. (Much like males and females, the two groups tend to have some significant differences in mortality rates.)

Your actuary will provide his or her best advice as to the appropriate course of action. However, it seems likely that most plans will need to adjust their mortality assumptions in the next few years as more information becomes available. This will put an increased strain on plan financing. You should take this into account as you consider benefit or contribution changes for your plans.

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Special thanks to United Actuarial Services' Senior Consultant Bill Rushau, FSA, EA, MAAA, for drafting this article.

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