

Pensions Bulletin

Fact Sheet 4

Autumn 2008 Issue 3

Mortality improvements

1 Introduction

1.1 This fact sheet outlines developments in the assessment of mortality trends.

1.2 Specifically, the following areas are covered:

- Background to the current position (Section 2)
- The Pensions Regulator's stance (Section 3)
- The study into occupational pension scheme mortality (Section 4)
- An update from The Pensions Trust's scheme actuary (Section 5)

2 Background

2.1 There have been significant recent developments in mortality assessment with a number of important announcements in 2008.

2.2 The Pensions Regulator issued a consultation paper, in February 2008, on good practice when choosing assumptions for defined benefit schemes. The paper can be found at www.thepensionsregulator.gov.uk and included proposals for a new approach to looking at mortality assumptions and, in particular, applying these proposals to schemes with effective valuation dates from March 2007. The response to the consultation was published by the Regulator on 23 September 2008.

2.3 The Board for Actuarial Standards published, in March 2008, a discussion paper on the issues surrounding mortality assumptions used in actuarial calculations. The paper can be downloaded from www.frc.org.uk/bas/press/pub1559.html

2.4 The Pensions Protection Fund (PPF) announced, in March 2008, a toughening of its mortality assumptions to be used in Section 179 valuations (the valuation that estimates a scheme's liabilities were to be admitted to the PPF and on which levy calculations are based). The first year in which these new assumptions will have an impact on PPF levies is 2009/10. More detail can be found at www.pensionsprotectionfund.gov.uk

2.5 The Continuous Mortality Investigation (CMI) study of self-administered pension schemes (SAPS) has resulted in a new set of standard tables. These new tables were published at the end of October 2008. Further information can be found at www.actuaries.org.uk/knowledge/cmi

3 The Pensions Regulator

3.1 The key points of The Pension Regulator's consultation proposals were as follows.

3.2 Good practice requires assumptions to be evidence-based and clearly and transparently described.



- 3.3 Trustees should adopt terminology recommended by the CMI (Continuous Mortality Investigation, undertaken by the actuarial profession) to aid transparency and understanding.
- 3.4 Trustees should note that there have been significant recent developments in the knowledge of current trends in mortality, with some projections which have been in common use no longer likely to be considered reasonable assumptions.
- 3.5 There are two separate decisions for trustees on mortality assumptions:
- the baseline table for the current rates of mortality; and
 - the allowance for future improvements.
- 3.6 Whilst the baseline assumption may be scheme specific (based on its own socio-economic or industry characteristics), individual schemes will not normally have the evidence to make a scheme specific allowance for future improvements (the cohort effect) and will need to base their choice on broader data.
- 3.7 The Regulator considers that an adjustment made to the discount rate as a proxy for future improvements in mortality does not meet the statutory requirement to adopt a prudent mortality assumption, or achieve good practice in clarity.
- 3.8 For Recovery Plans based on valuations with effective dates from March 2007, mortality assumptions that appear to be weaker than the long cohort assumption will attract further scrutiny. *Long cohort assumptions assume that people will live longer and hence are tougher assumptions to use.*
- 3.9 Furthermore, assumptions which assume that the rate of improvement tends towards zero, and do not have some form of underpin, will also attract further scrutiny. *In other words, further increases in life expectancy should be assumed.*
- 3.10 Essentially, the consultation document proposed to introduce a new mortality based trigger. This trigger would have applied to the current 2007 valuations, all of which are at very advanced stages.
- 3.11 The Pensions Trust appealed against the retrospective nature of the proposals. The consultation closed on 12 May 2008.
- 3.12 On 23 September 2008, The Pensions Regulator confirmed that, having listened to responses to its consultation, it has decided to drop its new mortality based trigger and will only scrutinise mortality assumptions where a scheme is flagged up by an existing trigger.
- 3.13 As part of its consultation response, the Regulator also:
- reiterated that its approach will not be based on any one approach, with a range of different measures able to achieve equivalent outcomes;
 - highlighted that (as always) recovery plans are governed by payments that are reasonably affordable; and
 - released guidance for trustees and the process for determining mortality assumptions.
- 3.14 The changes will not now apply until the beginning of the next defined benefit scheme valuation cycle starting in September 2008. This will impact valuations, and follow-up recovery plans that must be submitted to the Regulator by schemes in deficit, due from December 2009.

4 Self-administered pension scheme (SAPS) investigation

- 4.1 The SAPS investigation has resulted in new standard mortality tables. The tables were published at the end of October 2008.
- 4.2 These new tables represent a significant advance in data available as they are based on studies of occupational pension schemes (as opposed to the previously available data which was based on insurance company experience of mortality rates).
- 4.3 Another advantage of the new standard tables is that they are based on a much larger data set, making them more reliable.
- 4.4 Preliminary review indicates that the new tables show a significant difference in life expectancy linked to the amount of pension the member receives. This is because pension size is a reasonably good proxy for socio-economic class which is a key determinant of mortality expectation. The results of the study show occupational scheme members tend not to live as long as insurance company policyholders.

5 Update from The Pensions Trust

- 5.1 The Trust is proposing:
- 5.2 To adopt the standard tables that most appropriately fit the pension profile of the Trust's members.
- 5.3 To analyse mortality experience in the Trust's largest scheme, the Social Housing Pension Scheme (SHPS), and compare this with the new standard (SAPS) tables, as a test to determine whether these tables are appropriate for The Pensions Trust.
- 5.4 To only consider improvement rates in conjunction with the new standard tables and hence not to review the assumptions set for the current set of scheme valuations (that have an effective date of 30 September 2007), since they are already in hand with employers.
- 5.5 To base the mortality assumptions for the next set of scheme valuations (as at 30 September 2008) on the new standard tables.

Further updates about developments in mortality will be included in future issues of Pensions Bulletin and also via supplementary, more detailed, fact sheets.

While every effort has been made to ensure the accuracy of the information contained in this fact sheet, it should not be treated or relied upon as a statement of law. Readers should contact their regular Account Manager at The Pensions Trust in relation to their own circumstances and/or refer to the original source material as appropriate.