

# Pensions Bulletin

## Fact Sheet 5

Summer 2008 Issue 2

### Mortality improvements

#### 1 Introduction

1.1 This fact sheet outlines developments in the area of mortality.

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 (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 (the Regulator) issued a consultation paper, in February, on good practice when choosing assumptions for defined benefit schemes. The paper includes 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 consultation paper can be found on the Regulator's website at [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

2.3 The Board for Actuarial Standards published, in March, 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](http://www.frc.org.uk/bas/press/pub1559.html)

2.4 The Pensions Protection Fund (PPF) announced, in March, a toughening of its mortality assumptions to be used in Section 179 valuations (the valuation that estimates a scheme's liabilities were it 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](http://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 are expected to be published by September 2008. Further information can be found at [www.actuaries.org.uk/knowledge/cmi](http://www.actuaries.org.uk/knowledge/cmi)

#### 3 The Pensions Regulator

3.1 The key points of the Regulator's consultation proposals are 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 of 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.
- 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.
- 3.10 Essentially, the consultation document proposes to introduce a new mortality based trigger. It is possible that this trigger will apply to the current 2007 valuations, some of which are already at advanced stages.
- 3.11 The Pensions Trust (the Trust) appealed against the retrospective nature of the proposals. The consultation closed on 12 May.
- 3.12 On 21 July, the Regulator announced that, having listened to responses to its longevity consultation, it has decided to delay the introduction of changes to the way longevity is treated in the scheme funding regime.
- 3.13 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 are due to be published by September 2008.
- 4.2 These new tables will represent a significant advance in data available as they are based on studies in respect 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 The investigation shows 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.

4.5 It is anticipated that separate standard tables will be produced for different average pension amounts, with lower pension amounts being associated with higher mortality rates.

## 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 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 Trust.

5.4 To satisfy the requirements of the Regulator's consultation document by considering an extrapolation of the projected improvements underlying current scheme valuations and incorporating a minimum annual rate of improvement. The Actuary will comment further on this once the consultation is complete.

5.5 To only consider improvement rates in conjunction with the new standard tables and hence not to review the assumptions sets for the current set of scheme valuations (that have an effective date of 30 September 2007), since they are already in hand with employers.

5.6 To base the mortality assumptions for the next set of scheme valuations (as at 30 September 2008) on the new standard tables.

5.7 Once the new standard tables are issued and guidance from the Regulator is finalised, the Actuary will produce a formal paper for the Trustee on the data, financial implications and confirmation of the proposals for the 2008 valuations.

5.8 The Regulator's proposals offset the benefits shown in the new mortality tables. The Trust's Actuary has indicated that the net effect is likely to be a slight worsening of a scheme's funding position.

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.*