

New mortality tables and projections

The Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries have recently made two new releases which will impact on the mortality assumptions Scheme Actuaries will use in future valuations.

New SAPS S3 base tables - increased life expectancies

Base tables reflect current mortality rates, before allowance for projected future improvements.

The SAPS tables reflect the mortality of members of Self-Administered Pension Schemes. New tables are released roughly every five years. The S3 tables replace the S2 tables and were released in December 2018. They are based on pension scheme mortality data in the period 2009 to 2016.

Longevity is increasing and, compared to the S2 tables, the life expectancy of a 65 year old pension scheme member in normal health has increased by around five months to 21 years, 2 months for males and by around eight months to 23 years, 4 months for females.

New CMI 2018 mortality projection model – decreased future improvements

An actuarial valuation takes into consideration both current mortality and how this is projected to change in the future. A new projection model is released each year, with the model's name relating to the previous year. The latest model, released in March 2019, is therefore CMI 2018 and replaces CMI 2017.

Longevity is improving and the model attempts to project the base mortality table into the future. As an example, applying projections using the CMI 2018 mortality projection model could increase the life expectancy of a 65 year old to 22 years, 3 months for males and to 24 years, 7 months for females.

However, for the past few years, the CMI models have been predicting lower improvements in longevity than previously expected and this year is no exception. The projected life expectancies calculated using CMI 2018 are around six months lower than those calculated using the previous model, CMI 2017.

Typical effect on valuation results

For actuarial valuations commencing now, the last valuation is likely to have had an effective date three years earlier. Back then, it is likely that the S2 base tables and the 2015 CMI mortality projection model were used. The effect of the combined change in base table and mortality projection model to those recently released, is a reduction of around eight months in projected life expectancy for a 65 year old pension scheme member. The increase in current life expectancy arising from the move from S2 to S3 is outweighed by the impact of the lower allowance for future improvements in CMI_2018 compared to CMI_2015.

A typical reduction in the value placed on pension scheme liabilities resulting from the change in mortality assumptions could be around 5%.

It should be borne in mind that changes in mortality assumptions are much less significant in impact than changes in interest rates. For example falls in interest rates over the last three years have typically increased the value placed on pension scheme liabilities by around 15%-20%. Nevertheless the reduction in liability values resulting from these updated mortality assumptions will ease funding strains.



Your pension scheme

The above figures are illustrative and the actual impact on your Scheme will vary depending on which of the S3 base mortality tables is chosen, the exact detail of the projections and the characteristics of your pension scheme.

Your Scheme Actuary will be in touch with you when it is time to discuss assumptions.

If you would like to discuss this further, please get in touch with your usual contact at Cartwright.

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