

# FYI<sup>®</sup> Alert

## For Your Information<sup>®</sup>

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## SOA Finalizes Updated Mortality Tables

The Society of Actuaries has released updated mortality tables to reflect recent improvements in longevity. The final tables are unchanged from the drafts exposed earlier this year, and will trigger an immediate need to evaluate the use of the tables for 2014 year-end financial valuations. Ultimately, the IRS may consider using these tables as the basis for updating the mandated mortality assumption for ERISA valuations and minimum lump sum values.

### Background

Earlier this year, the Society of Actuaries' RPEC (Retirement Plans Experience Committee) released an exposure draft revealing the results of their multi-year mortality study of participants in uninsured pension plans in the U S as well as a companion exposure draft of mortality improvement (i.e., how fast mortality rates are expected to change). The tables produced by this study are expected to become the basis for mortality assumptions used in accounting measurements, and possibly for future defined benefit plan funding valuations and lump sum calculations. Our [February 14, 2014 For Your Information](#) provides additional details about the tables, and discusses the reality of longevity improvements and the implications for retirement plans.

The RPEC received many comments on their exposure drafts concerning the appropriateness of the data used, the process employed to create the mortality tables and projection rates, as well as about the applicability and room for modification when applied to actual plan populations.

### Tables Released

Today the SOA released the [final material](#). The RP-2014 mortality tables and the MP-2014 mortality projection scale are unchanged from those proposed. In response to comments, the RPEC explained that they used independent review teams to examine the issues raised about the data used to develop the mortality tables and the mortality projection methodology. The review teams concluded that RPEC followed appropriate actuarial procedures and supported RPEC in both areas. In response to comments that the exposure draft implied rigid conformance to the tables and projection scales, the final reports were modified to allow for actuarial judgment in the application of the mortality tables and projection scales in particular situations, but emphasize that the RPEC's tables represent their best estimate of current rates of mortality and mortality improvement.

## Next Steps

As noted above, we anticipate that accounting firms will want sponsors to consider these new tables for accounting purposes for year-end 2014 financial statement disclosure. All available information should be taken into account when setting assumptions for disclosure and next year's expense, and the new tables will now be in that mix. Plan auditors will want to hear about the actuary's evaluation of the use of these tables for the plan's population.

We do not expect IRS or PBGC to implement any changes in mortality assumptions required for minimum funding, minimum lump sums, AFTAP certifications, deductions, variable rate premiums, plan termination calculations, or plan document purposes any sooner than 2016.

The RP-2014 tables were developed using only private plan data — all public plan data was excluded. In their report, RPEC notes that RP-2014 may not be appropriate for valuing public plans, which may have markedly different mortality experience, and they recommend conducting a separate study on public plans' mortality experience. Therefore, most public plans will likely continue to use the mortality basis that they have been using (e.g., many large public plans will likely still use assumptions based on their own experience). But MP-2014, which is based on Social Security data, is recommended to project how fast mortality rates are changing for both public and private plans, so public plan sponsors should evaluate the impact of this research for their plans.

## More Than Mortality

Although using the new SOA tables will significantly increase measured plan liabilities, other appropriate changes in other demographic assumptions may also be considered. For instance, in response to longer life expectancy statistics and the longer period of time retirement savings must stretch, many employees are planning to continue working beyond the plan's "normal" retirement date instead of choosing retirement in their late 50s or early 60s. Aligning plan retirement assumptions with this new paradigm can reduce measured plan liabilities, potentially offsetting some of the increase due to the new mortality assumption — particularly for retiree medical plans and pension plans with suspension of benefits provisions and generous early retirement subsidies.

## In Closing

The ultimate cost of a defined benefit plan depends on the actual amount of benefits paid to plan participants. Reflecting longevity improvements in a plan's mortality assumptions allows the actuary to provide a more reasonable estimate of future costs to avoid unnecessary surprises. Defined contribution plan sponsors will need to take notice too, and then take steps to help employees plan for the additional years after retirement.

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