

# FYI<sup>®</sup> Alert

## For Your Information<sup>®</sup>

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## SOA Updates Mortality Scale to Reflect Recent Years' Lower Mortality Improvement

The Society of Actuaries has released updated projection scales for use with the mortality tables it released in 2014. The revisions reflect actual 2010 and 2011 mortality data instead of previously assumed projections for those years. The revised data will produce lower liability estimates. It's likely that the IRS will use these revised rates in updating the mandated mortality assumptions for ERISA valuations and minimum lump sum values; as well, plan auditors are likely to expect these revisions to be considered in setting assumptions for plan and corporate financial statements.

### Background

In 2014, the Society of Actuaries (SOA) released mortality tables (RP-2014) based on a multi-year mortality study of participants in uninsured pension plans in the U.S. The release included MP-2014, a mortality improvement scale (quantifying how fast mortality rates are expected to change in the future). See our [October 27, 2014 FYI Alert](#) for a discussion of the original release.

The SOA had planned to update the improvement scales on a triennial basis.

### Update Reflects Additional Data

The [SOA 2015 update](#), Scale MP-2015, was created using two additional years of data applied to the 2014 model that had been used to create the MP-2014 scale and is intended to be used along with the RP-2014 base mortality table. The additional data became available from the Social Security Administration after Scale MP-2014 was released. To decrease the lag time between the release of data and updates of the scale, and to produce more stable financial results, the SOA has committed to releasing annual updates in the future.



## Impact of Revised Tables

The actual Social Security data swapped into the projections for previously estimated information reflect less improvement in life expectancies than had been implied by Scale MP-2014. Accordingly, liabilities calculated on the basis of RP-2014 and MP-2015 generally will be lower than those calculated using RP-2014 and MP-2014.

Although the IRS has not yet taken the necessary steps to integrate the new tables for minimum funding and minimum lump sum calculations, it's expected that they will do so shortly and will aim to put the changes into effect for plan years beginning after 2016. See our [July 31, 2015 FYI Alert](#) for the latest information on IRS' timetable.

## More Than Mortality

Although the new Scale MP-2015 will temper the projected rate of change, overall, using the latest SOA tables will still significantly increase measured plan liabilities over those that reflected earlier mortality studies. However, 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 may plan 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 potentially offset some of the increase due to the new mortality assumption. This is particularly true for retiree medical plans and pension plans with suspension-of-benefits provisions and generous early retirement subsidies.

## In Closing

It is worth repeating that 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 but doesn't change the actual cost. Defined contribution plan sponsors will need to take notice of longevity improvements too, and then take steps to help employees plan for the additional years they will have to enjoy — and finance — after retirement.

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