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Pension Plan Liabilities to Decrease with Updated Mortality Scale

By Jeff Thornton, FSA, EA, MAAA

The Society of Actuaries' (SOA) Scale MP-2018 mortality improvement rates are slightly lower than the corresponding Scale MP-2017 rates issued last year. With the release of the new scale on October 23, 2018, the SOA estimated that pension obligations will typically be 0.2% to 0.4% lower for females and 0.3% to 0.6% lower for males when compared to using Scale MP-2017.

Mortality rates are continuing to improve, but at a much slower rate than previously observed. According to the new study, the age-adjusted mortality improvement rate averaged just 0.5% per year from 2009 to 2016, compared to a 1.6% per year improvement from 2000 to 2009. It remains to be seen whether this slower pace of mortality improvement is a short-term trend or if it indicates a more fundamental shift in long-term U.S. mortality patterns.

The Retirement Plans Experience Committee (RPEC) of the SOA released the Mortality Improvement Scale MP-2018, which is based on historical U.S. population mortality. The RPEC has released their updated mortality study every October since October 2014, and they have pledged to continue to release a new mortality improvement study annually.

Implications for Financial Accounting Disclosures and Pension Expense Calculations

Plan sponsors who used the MP-2017 mortality improvement scale in their most recent financial accounting reporting will generally want to use the new MP-2018 mortality improvement scale, since the mortality improvement scale that was just released is a better projection of how mortality will improve in the future. As noted above, another benefit is that implementing this new mortality improvement scale will slightly lower the liabilities and pension expense next year, keeping all other factors constant.



Implications for Single Employer Pension Funding Calculations, PBGC Premiums and Lump Sums

The IRS has already released mortality tables which will be used for plan years beginning in 2019. These tables will be based on the MP-2017 improvement scale, which was released a year ago. We expect that the 2020 plan year tables will use the MP-2018 scale. Therefore, we expect that the funding liabilities, PBGC liabilities and lump sum amounts will slightly decrease from the 2019 to the 2020 plan year due to this new mortality release. It should be noted, however, that the impact due to this mortality change will be small in comparison to the impact due to interest rate fluctuations.

More information regarding this release can be found on the Society of Actuaries' website at <https://www.soa.org/resources/experience-studies/2018/mortality-improvement-scale-mp-2018/>.

Questions? Contact the Findley consultant you normally work with, or contact Jeff Thornton at jeff.thornton@findley.com, 502.253.4639.