

PREMIER PENSIONS MANAGEMENT

TECHNICAL UPDATE: 08/09

Future Improvements to life expectancy - A new model

The Actuarial Profession has recently announced that it has developed a new prototype for projecting improvements to life expectancy. This model has been developed as the existing approaches are now considered to be in need of an update. Problems with the existing table include:

- the use of the short, medium and long-term cohorts, which are currently widely used, were a temporary fix introduced in 2002 and are now considered to be out of date
- the most recent data that has been published shows a continuation of significant increases to life expectancy, has resulted in an 'underpin' (or minimum level of improvement) to the cohort approach.

Whilst a number of actuaries are already adjusting the existing projections, their assumptions do not always reflect recent mortality experience sufficiently. As a result, a new model has been published with the following intentions:

- to reflect the latest experience on mortality trends
- to allow users to modify projections to suit their own views and purpose
- to permit regular updates over time to reflect emerging experience

It will enable actuaries to consider a range of scenarios when giving advice on this particular assumption rather than considering a single projection of future mortality, as is currently the case. The new model assumes that the current rate of change will blend over time into the long term rate of improvement as specified by the user.

The results of the new model can vary widely depending on the improvement basis that is selected. Based on the examples quoted in the Actuarial Profession's Working Paper, the projections for both men and women appear to be broadly consistent with the medium cohort projections.

The Actuarial Profession has issued the model for consultation initially, with responses requested by 31 August 2009. It is expected that a final version of the model will be published in October 2009.

We would expect these new approaches to be used from 2010 onwards and gradually replace the current 'cohort approach.'

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