

PREMIER PENSIONS MANAGEMENT

LEGISLATION UPDATE: 11/08

Mortality Assumptions - Pensions Regulator's Announcements

The Pensions Regulator has recently published his response to his consultation paper about the selection of mortality assumptions for Defined Benefit Pension Schemes, a link to which is at the end of this update.

The Regulator has already announced that he was intending to defer the introduction of a mortality based trigger so as not to catch valuations in progress. The mortality based trigger will be introduced for valuations with an effective date after 22 September 2008.

The mortality based trigger will be applied as a secondary trigger, which will only be tested when one of the existing technical provisions or recovery plan triggers is activated. The existing triggers, which came into force in 2006, were covered in our Legislation Update 14/06, without any specific reference to mortality.

The Regulator will be amending his statement 'How the Pensions Regulator will regulate the funding of Defined Benefits' to set out how he intends to assess the mortality trigger. Some indications have been provided of what can be expected:

- All schemes, when submitting a recovery plan, will be asked to provide example life expectancy information on their chosen mortality table with and without allowance for future improvements in mortality
- The Regulator will consider the chosen assumption when compared to published data, which is available from various sources.
- The Regulator has stated that his over-riding requirement is that Recovery Plans should remain reasonably affordable after this trigger has been introduced.

The Regulator has also issued some guidance for trustees on the selection of mortality assumptions for an actuarial valuation. This guidance makes it clear that there are two separate decisions for trustees to make on mortality assumptions:

- the baseline table for current rates of mortality
- the allowance for future improvements

Where the scheme membership is not sufficiently large, which applies to all but the very largest schemes and makes their own mortality experience statistically insignificant, the choice of tables needs to be guided by observed mortality as recorded in standard tables. Consideration of factors known to be correlated with observed mortality should be taken into account, including:

- the level of pension
- pay level
- the industry of the employer
- the occupation of the member; and
- the residential location of the member

The trustees also should decide how to allow for future improvements, for which there is substantial published data that should be taken into account, together with deciding the extent to which future changes should also be included. Relevant recently published data includes

- new CMI tables
- new UK, or constituent country, population data or tables; and
- relevant published projection methodologies, including new additions to the CMI tables

The guidance makes it clear that trustees can expect the scheme actuary to analyse the experience of their scheme, before advising on suitable mortality assumptions. The trustees should ask the scheme actuary to illustrate the effects of different mortality assumption choices in ways that they can understand before reaching a decision. The Regulator encourages trustees to describe their chosen mortality assumptions in a clear style in their Statement of Funding Principles.

<http://www.thepensionsregulator.gov.uk/pdf/MortalityAssumptions.pdf>

<http://www.thepensionsregulator.gov.uk/pdf/MortalityConsultationReportSept08.pdf>

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This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129. Email:

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