

New Mortality Tables: Their Use and Applications



ACOPA

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Part of the American Retirement Association

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Background

- Society of Actuaries finalized new mortality tables in October 2014
- Tables include the concept of generational mortality
- First widespread application took place with 2014 end of year disclosure reports
- Hot off the Press – Academy June 2015 report on “Selecting and Documenting Mortality Assumptions for Pensions”

Intent of Webcast

- Purpose is not to debate methodology for developing tables
- Purpose is to provide practical knowledge on how to use multi-generational mortality, when it applies and impact

ASOP 35 Reminder

- Assumption should be reasonable
- Actuary should adjust mortality from effective date of the table to the measurement date, unless the actuary believes the published table reflects expected mortality rates as of the measurement date
- Should include and disclose a mortality improvement assumption, even if zero improvement is assumed

Agenda

- How to use RP-2014 and MP-2014 tables
- Impact of new tables
- 2014 End-of-Year Disclosure Reports/Results
- Update on new mortality for funding and lump sums (as applicable)

Use of RP-2014 and MP-2014 Tables

- Mortality is dependent on age and the year that the age is attained
- Value of an annuity payable to a retiree beginning at age 60 would depend on the year the retiree attained age 60

Use of RP-2014 and MP-2014 Tables

- Let's calculate Q_x ! – 2015 (there will be more later)
 - Q_{60} for 2014 for a male employee is .004688 (from RP-2014 Rates)
 - Improvement for 2015 (from MP-2014) is .0082
 - Q_x for 2015 for a male employee is .004650
($=.004688 \times (1-.0082)$)

Use of RP-2014 and MP-2014 Tables

- Following the mortality of an individual age 60
- Continuing to apply improvement for 10 years
- Q_{60} for 2024 = .004211
- Continues to apply improvement factors to 2024
 - Ten percent reduction in mortality!!

Table From Society Mortality Study

Percentage Change of Moving to RP-2014 (with MP-2014) from:		
	Age	Base Rates: RP-2000 Proj. Scale: AA
Males	25	2.5%
	35	2.7%
	45	2.8%
	55	3.0%
	65	4.4%
	75	10.5%
	85	17.4%
Females	25	8.1%
	35	7.7%
	45	7.1%
	55	6.3%
	65	5.5%
	75	8.1%
	85	10.5%

Monthly Deferred to 62 Annuity Due Value

RP-2014 Table Options

- Annuitant/nonannuitant
- Blue/white collar
- Top/bottom quartile income
- Disabled retirees
- Headcount basis (since primary table is “benefit weighted”), more appropriate for OPEB plans

ASPPA/ACOPA GAC proposed in Comment letter of October 21, 2013

- Questioned whether cost of multi-generational is worthwhile for small plans
- Recommended continued publication of static combined tables
- Suggested simplified approach to mortality for small plans, using 417(e)(3) rates for valuations

2014 Disclosure Reports - Results

- Impact of Applying New Mortality (in Millions)

Client #	PBO Before New Mortality	PBO After New Mortality	% Change
1	\$52.6	\$55.7	5.9%
2	\$303.1	\$320.0	5.6%
3	\$14.5	\$16.0	10.0%

Impact of RP-2014/MP-2014

- Increases in PBO of four to 11 percent, depends on:
 - Plan demographics
 - Current mortality assumption
 - “Which” RP-2014 table
 - Static or generational
 - Optional forms assumptions
 - Less if 417(e) assumed for lump sums
 - Minimal for cash balance plans

Accounting Disclosures

ASC 715 and 960

- Assumption should be based on the best information available
- The IRS prescribed funding table is not automatically a reasonable table or best estimate for accounting disclosures, although this was common practice in the past
- Generally, same assumption for ASC 715 and ASC 960

Auditor Response

- Close scrutiny even at December 2014 and for both ASC 715 and ASC 960
- Not mandated but strongly encouraged
- Need documentation/data to justify different assumption

FASB ASC 855 –Subsequent Events

- Auditor must reflect all know information that becomes available after the measurement date but before the audited financial statements are issued.
- Failure to properly measure benefit obligations may result in material misstatement of financial statements

Q&A With Accounting Firm Actuary

Questions on 2014 End-of-Year Disclosure Reports

- Did most employers convert to the new mortality?

Q&A With Accounting Firm Actuary

- Was plan experience an acceptable reason not to change mortality?
- What size plan supports using their own experience for determining mortality?

Q&A With Accounting Firm Actuary

- If a plan offers lump sums, did that influence whether mortality changed?

Any Update From the IRS?

- IRS must announce funding and lump sum mortality, project is on fast track
- How much longer delay can take place before 2016 mortality is announced?

Any Update From the IRS?

- Proposed regulations with comment period and hearing would mean 2017 effective date
- Temporary regulations could make changes effective in 2016

Any Update From the IRS?

- Issues
 - Society's report did not include combined mortality
 - Is Generational Mortality age discriminatory if applied for lump sum distributions

Any Update From the IRS?

- Timing
 - Update on Federal Register

Pushback on RP-2014/MP-2014

- Several large firms believe overstates mortality improvement
- Developed own tables using basic experience table of 2006 (no pushback here) and projected to 2014 and beyond
- Improvement scales closer to SSA assumptions

Questions?