New Mortality Tables – Again!

By Dan Atkinson and Michael Clark

Last week the Society of Actuaries (SOA) published an update to the mortality tables that were released in the fall of 2014. The update consists of a new mortality improvement projection scale (MP-2015). Unlike the mortality table and projection scale from 2014, this new improvement scale will actually result in a decrease to pension liabilities! This pronouncement was a bit of a surprise so, like you, we are asking ourselves a bunch of questions.

Why are we getting new tables so soon?
When the 2014 tables were published the SOA indicated they would refresh the projection scale every three years. So, an update one year later was definitely unexpected. It turns out that the mortality improvement over the last two years based on data released by the Social Security Administration (SSA) was not as strong as expected. Thus, an adjustment to the improvement scale was needed sooner rather than later.

What is the impact on pension financial disclosures for 2015?
Plan sponsors that adopted the RP-2014/MP-2014 tables for last year’s disclosure and adopt MP-2015 this year will see decreases to their accounting liabilities from what they would have been without this change. The impact of this change, though, is highly dependent on demographics. The impact is bigger for older participants and for female participants. The range could be as low as a 0.5% decrease to over a 2.0% decrease in liabilities depending on your plan’s demographics.

How will this impact minimum funding liabilities?
Not at all for 2016 and we don’t know the answer beyond 2016 right now. The IRS has already specified that in 2017 new mortality tables will be incorporated for use in minimum funding, PBGC, and lump sum calculations. It is unclear how these expected annual updates will be factored in going forward.

What is next?!
The SOA’s MP-2015 report indicates that there will be annual updates to the projection scales as new data is released from the SSA and other agencies. This could mean that plan sponsors will update the mortality assumption for accounting valuations annually. If so, there will be annual fluctuations due to new mortality experience but these annual updates should have a much less significant impact than what sponsors saw when they adopted the RP-2014/MP-2014 tables.

What should we do now?
For now, plan sponsors should start to take a look at the impact of incorporating the new MP-2015 projection scale into their accounting liability valuations. How and if these tables are adopted are questions still to be studied and answered by plan sponsors and their actuaries. While we do expect many plan sponsors to incorporate the new projection scale, there is a sound actuarial argument with sticking with the 2014 tables and scales until the next full blown mortality table is published which would avoid annual fluctuations (good this year but who knows what the future holds). We have already seen some audit firms draw attention to the new scale and we would expect them to want sponsors to consider the new information by the sponsor’s next fiscal year-end.

Dan Atkinson is a director and chief technical actuary in P-Solve’s Boston office and Michael Clark is a director in P-Solve’s Denver office.