

LATEST MORTALITY IMPROVEMENT SCALE FROM THE SOCIETY OF ACTUARIES

Just like trick-or-treating, every October brings a Society of Actuaries (SOA) update to their mortality improvement scale MP series. This year's iteration, MP-2020, is not paired with a new base table, unlike MP-2019, which was released in the same year as the Pri-2012 set of base mortality tables. The Pri-2012 tables incorporated both single employer plan and multiemployer plan data.



Slightly Lower Liabilities for MP-2020 vs. MP-2019

Use of the MP-2020 scale with the Pri-2012 base tables will likely lower balance sheet liabilities between 0.3% and 1.0% depending on the age and gender mix of the population and assuming a discount rate of 4%. Older populations should see the most decline. Public plan sponsors utilizing one of the Pub-2010 base tables should see similar results. Use of higher discount rates results in smaller liability reductions. Under MP-2020, plan sponsors can anticipate employee and retiree life expectancies slightly shorter than those that MP-2019 projected. A shorter life expectancy translates to pension and other postretirement benefits paid for a shorter time and thus lower liabilities.

Covid-19 Effects Not Recognized

MP-2020 incorporates actual mortality data through 2018. General population mortality data for 2020 that includes the effects of the pandemic will not be available until 2022. As the report notes, the death toll for 2020 is not final and no one knows how long the pandemic will continue. In addition, when an effective vaccine will be widely available remains unknown. While the SOA provides tools for an actuary to modify the MP-2020 scale, the scale's construction does not make a one-year modification easy. A seemingly simple one-year adjustment will cause multiplicative effects on future years.

Significant Assumption Change from MP-2019 to MP-2020

The SOA also revised the assumed long-term rate of improvement after a study of historical mortality improvement over various periods and age groupings. The assumed long-term improvement rates are the annual rates of decrease in expected mortality starting in 2036. The MP-2020 scale transitions from adjusted actual mortality experience to these ultimate 2036 rates. Long-term assumed improvement rates now are higher through roughly ages 80-84, but then fall off much more rapidly at the higher ages. This assumption change had a more pronounced effect on female improvement over most ages. For males, the addition of 2018 mortality data had a bigger impact on ages 45 and below, while the long-term improvement rate assumption change had a bigger impact on ages 55 and above.

When Will MP-2020 Be Reflected in Your Plan?

Plan sponsors should consider using the updated mortality improvement rates immediately for plan accounting. If accounting results are in process or already final, plan sponsors should discuss with their actuary and auditors whether they need a sensitivity analysis to see if revisions are indicated.

The IRS has already released mortality improvement requirements for plan years beginning in 2021 under Pension Protection Act funding requirements. Single employer PBGC premium determinations and calculation of minimum lump sums are also based on these published IRS mortality rates. MP-2020 is unlikely to be used for these purposes until 2022 at the earliest.



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