

Benefits Briefing: Mortality Tables & Retirement Plans

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Society of Actuaries Mortality Study

- Two Exposure Drafts issued in February
 - New base table called “RP-2014”
 - New improvement scale called “MP-2014”
 - Public comments accepted through the end of May
- Intention is to finalize by year-end
 - Remains to be seen if this will occur in light of comments
- Auditors will ask about this at year-end
 - Have you considered?
 - May ask even if study has not been finalized
 - Pressure to move may to increase over time
 - Fully adopting the new tables may be the auditor’s starting point
- IRS seems unlikely to adopt until 2017

Towers Watson's High Level Comments

- Study results appear biased towards lower mortality rates
- Formal publication should be delayed until apparent flaws have been addressed
- When ultimately finalized, the report must allow for flexibility in an area as speculative as future mortality rates

Specific Concerns Raised in Towers Watson Comment Letter

- Data
 - About 70% of collected data was excluded
 - About 2/3 of retiree data came from 5 plans
 - PBGC data was not collected
 - Public sector data was excluded
- Potential Bias
 - Data on people receiving lump sums was not included potentially resulting in selection bias
 - Data on people who could not be tracked throughout the period was excluded and in our experience such a group would contain a much higher than normal rate of deaths
 - Plans were excluded if the rate of deaths was substantially different than expected
 - Only beneficiaries healthy enough to survive the primary annuitant were included, resulting in understated female mortality rates

Specific Concerns Raised in Towers Watson Comment Letter

- Strength of wording on recommendation
 - Wording of exposure drafts could limit the appropriate judgment on the selection of assumptions by actuaries and plan sponsors
 - We expect auditors will use this wording to drive plan sponsors to the new tables
 - Does not acknowledge the possibility of mortality rates increasing or levelling off
- Other issues
 - Health care law not even mentioned
 - No discussion of macroeconomic issues and potential limits on health care spending
 - No explanation provided as to why listed arguments for lower future improvement rates were disregarded in favor of 1% improvement assumption
- Towers Watson will consider developing a table in the event that the final report does not adequately address the concerns raised

What Plan Sponsors Can Do

- Understand and model the effect of changes
 - Accounting and funding
 - As contained in exposure draft and alternative versions
 - Determine how to reflect in P&L and cash forecasts for next few years
- Develop and document a position on future mortality improvements
 - Key point is the expected long term level and sustainability of future improvements
- Perform an experience study
 - Mortality and other assumptions
 - Utilize credibility analysis to determine if the base table should be adjusted to reflect experience

Potential Impact on Accounting Liabilities

- Auditors typically require mortality tables projected at least to the valuation date
- Plan sponsors who adopt RP-2014 with MP-2014 will see a significant increase in liabilities for traditional DB plans and smaller increases for cash balance plans
 - Liability impact greater for females than males
 - Traditional DB has greater impact at lower ages for females then declining while impact on males decreases until age 50 then increases
 - Cash balance plan impact increases with age for males and females
- Average PBO increase for active employees using RP-2014 with MP-2014 compared to RP-2000 with generational improvements (Scale AA):

Age	Increase in PBO for Active Employees <i>Based on 4.75% Discount Rate</i>			
	Traditional DB Plan		Cash Balance Plan	
	Male	Female	Male	Female
< 25	4.4%	8.5%	0.1%	0.1%
25 - 34	4.3%	8.1%	0.1%	0.3%
35 - 44	4.0%	7.3%	0.2%	0.5%
45 - 54	3.7%	6.5%	0.3%	0.6%
55 - 64	4.2%	6.2%	0.4%	0.6%
65+	5.8%	6.1%	0.7%	0.8%

Potential Impact on Funding Liabilities

- If the IRS adopts RP-2014 with MP-2014 for funding purposes in 2016, plan sponsors will see a significant increase in liabilities for traditional DB plans
 - Liability impact greater for females than males
 - Greater impact at lower ages then declining
 - Very minor increase in liability for cash balance plans assuming 100% lump sums
- Average funding target increase for active employees using RP-2014 with MP-2014 compared to IRS Generational Tables:

Age	Increase in Funding Target for Active Employees <i>Using January 2014 3-segment rates with MAP-21 corridor</i>			
	Traditional DB Plan		Cash Balance Plan	
	Male	Female	Male	Female
< 25	3.1%	7.2%	0.1%	0.1%
25 - 34	2.8%	6.3%	0.1%	0.2%
35 - 44	2.5%	5.3%	0.2%	0.3%
45 - 54	2.1%	4.5%	0.3%	0.4%
55 - 64	2.6%	4.4%	0.4%	0.5%
65+	4.5%	4.8%	0.6%	0.7%

Potential Impact on Lump Sums

- If the IRS adopts RP-2014 as published for 417(e) purposes, the impact is significant!

When the Service published the mortality rates for 2014 and 2015 in Notice 2013-49, they sought comments regarding the availability of software, particularly for the smaller firms and sole practitioners, that can handle the RP2014 structure. This suggests the Service may consider adopting RP2014 as published

- Consider whether there is an obligation to disclose to participants:
 - In advance of the window that a lump sum will be available
 - A lump sum paid in the following year (if available) may be higher

Age	Deferred to Age 65 Single Life Annuities Using November 2013 Three-Segment Rates		
	417(e) for 2014	RP-2014 with MP-2014 (50/50 q_x 's)	Increase
25	1.1841	1.3845	16.9%
35	2.0599	2.3587	14.5%
45	3.5958	4.0209	11.8%
55	6.9863	7.5952	8.7%
65	12.7115	13.4127	5.5%
75	9.3547	10.2358	9.4%