

Briefing

Longevity analyses for LGPS – 2022 valuations

RISK | **PENSIONS** | INVESTMENT | INSURANCE



Longevity risk is the risk that members live longer than expected. It constitutes one of the key risks for all LGPS Funds. The pandemic has shown us the importance of understanding exposure to longevity risk and setting appropriate mortality assumptions for valuations.

Most of the LGPS Funds we advise carried out a longevity analysis as part of the last actuarial valuation at 31 March 2019. Since then, the world has been struck by pandemic and we expect that Funds will again wish to take a closer look at their mortality experience to inform the assumptions to be used for the 2022 valuation. It is possible that both the Government Actuary Department (GAD) and the Pensions Regulator will expect Funds to be able to demonstrate that the impact of the pandemic has been considered as part of the 2022 valuation.

In addition to this, there are a number of reasons why Funds should carry out an analysis at regular intervals:

- Mortality assumptions have a financially significant impact on the actuarial valuation. A small difference in these assumptions can have a material impact on liabilities and contribution rates. Carrying out a longevity analysis gives your Fund actuary the best information to set accurate assumptions for your Fund.
- It demonstrates good governance to review the appropriateness of key assumptions. This is particularly relevant in light of additional scrutiny from GAD and the Pensions Regulator on governance practices within Funds.
- The Fund's membership profile changes over time, due to new joiners, leavers and deaths. This means that previous analyses can become less relevant over time.

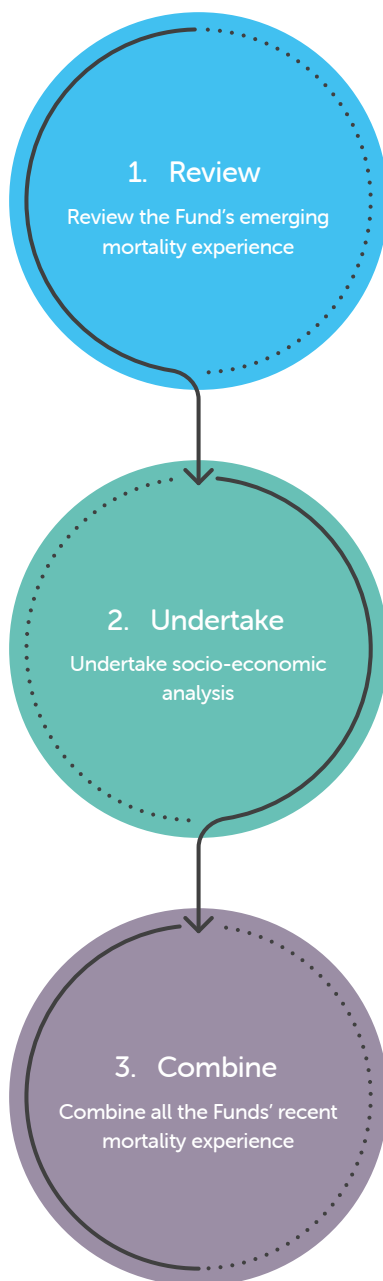
- Mortality improvement models, such as the CMI Model, are generally based on general population mortality improvements. If your Fund has experienced different improvements to the general population, it may not be appropriate to retain assumptions that have been used in the past and roll them forward with the CMI Model.

Barnett Waddingham provides a flexible longevity analysis service. We make the best use of the data available, tailored to the specific needs of your Fund, at an affordable cost.

We propose using data to 31 December 2021 in order to ensure that the analysis is completed – and appropriate assumptions determined and communicated – ahead of the main valuation work.

Our client teams work alongside our specialist Longevity Consulting team to provide an advice report tailored to the specific needs of your Fund. This report is intended to inform the mortality assumptions being considered for the forthcoming 2022 funding valuation. It will provide Funds and committees with an understanding of the best estimate assumption applicable to the Fund and give confidence that the assumptions adopted are reasonable for the Fund's members.

Three key steps of the analysis



1. Review

Analysis of the Fund's emerging mortality experience is essential to compare the recent experience of the Fund with the mortality tables being considered.

This analysis can help us inform the choice of mortality table and the adjustments that may be applied. With 2020 and 2021 being exceptional years in terms of mortality due to the ongoing pandemic, the analysis would consider separately the pre- and post-2020 experience. Our analysis would also assess the statistical reliability of past experience. This depends on the size of the Fund, the number of members who have died and on the distribution of liabilities between members. For larger Funds with more data, we can delve even further into past experience and use this information to inform our advice (for example, investigating the impact of the pandemic on actual numbers of deaths in the scheme).

2. Undertake

Analysis of past experience can be very informative, but only for very large Funds does it give us the full picture. We are therefore complementing the experience analysis with an alternative, independent estimate of the likely mortality experience.

This approach estimates mortality using an assessment of the mix of members by socio-economic group. A member's postcode and their pension in payment can be used as indicators of socio-economic status, and our postcode and pension amounts model – developed by our specialist longevity team – uses these factors to build up a socio-economic profile for the Fund which can be used to set the likely level of future mortality that members will experience.

Combining the socio-economic estimate with an estimate calculated using past experience, is more reliable than using either of these methods in isolation.

3. Combine

Combine the recent mortality experience of all of the Funds taking part in the analysis to explore how the impact of the pandemic on mortality experience of LGPS Funds compares with its impact on the general population. This is subject to sufficient Funds agreeing to an analysis to make this viable.

Recent trends and future mortality improvements

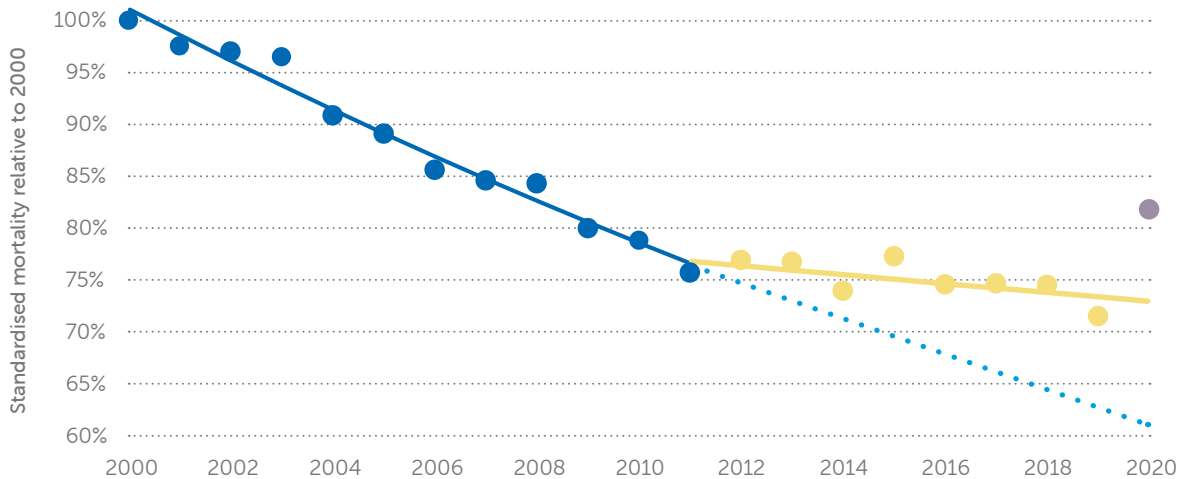
Our report will summarise recent longevity experience within the population and the latest published research, such as the study of mortality of pooled pension scheme data carried out by the CMI. This provides a more coherent starting point to understand the changes from the previous valuation and how mortality may change in the future.

In particular, experience in population data during the 2010s has seen a slowdown from the high improvements of the early 2000s. The chart below illustrates this. From 2000 to 2010, life expectancy improved by around 20%, or around 4 years, but from 2010 to 2020 it has only improved by around 6 to 7%, or 1 to 1.5 years. This has implications for predicting how mortality will change in the future (known as future mortality improvements), as extrapolating from past trends is a key method used for predicting how mortality will change in the future.

It is currently uncertain how future mortality improvements will be affected by the coronavirus pandemic, as this depends on the impact that COVID-19 has on a survivor's health, and the long-term indirect economic impacts. We will provide scenarios for future improvements, to illustrate the possible medium- and long-term impacts of COVID-19 on future rates of mortality.

These could include, for example, a deterioration in the general health of the general population following the pandemic, as a result of the direct impacts of the virus on health (such as residual organ damage) or indirect impacts (such as the possible effects of a recession on reduced healthcare spending).

MORTALITY IMPROVEMENTS IN THE 21ST CENTURY



Source: Barnett Waddingham calculations based on Office for National Statistics data for England and Wales and Continuous Mortality Investigation Ltd (CMI) methodology

Next steps

While your Fund may have carried out an analysis for the previous valuation, we believe all funds will be in agreement that the developments in longevity justify a further analysis at this valuation – particularly in light of the ongoing pandemic. In general, we recommend an analysis is carried out every valuation cycle, but this cycle it feels more important than ever. We will be happy to guide you on the next steps to getting this analysis underway, ahead of 31 March 2022.

