



## It's all in the Mortality Rates!

The Pension Regulator has chosen this week to put out a consultation document about the mortality assumptions final salary schemes are using to estimate the value of their liabilities. Final salary schemes are often seen as being the 'gold standard' of retirement planning in this country. The new standards the Regulator is looking to impose look likely to add billions of pounds to the pension liabilities of final salary schemes because of the assumptions it wants to see used when companies project how long their ex-employees will live on in retirement.

It seems the new standard is set at such a high level that 99.5% of all final salary schemes will see their liabilities increase by at least, something like, 6 or 8%. Mind you, it's only the ones that are currently employing the most prudent standards that are currently in force that will get away so lightly; for about a third of all final salary schemes the increase in liabilities will be more like 15 or 20%. Pension black holes like that will need a lot of cash thrown at them by Finance Directors and will almost certainly hasten the complete demise of many final salary schemes.

As if that's not enough on the "Gordon Bennett!" side of things, it's worth noting that the Regulator says it needs to change the mortality assumptions schemes are using. This is because the most conservative one is so out of line with actual experience that it is no longer viewed by them as being prudent to use it.

Basically the new assumptions the Regulator wants schemes to use will assume that men retiring at age 65 will live to age 89 rather than age 87 as about half our final salary schemes assume today. Every additional year of life expectancy apparently increases scheme liabilities by between 3 and 4%. Hence the 6 to 8% hike anticipated by this proposed two-year step from 87 to 89.

Let's be honest this is another nail in the coffin of final salary pension schemes and I seriously doubt there'll be any final salary schemes that will still be open for members to accrue future benefits in the not too distant. Unless of course you are a member of a government backed final salary scheme who seem to be insulated from the pressures facing pension schemes in the real world...

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