



Strong growth in life expectancy in 2019

Longevity Update - Mortality in 2019 has been the lowest of the past 10 years

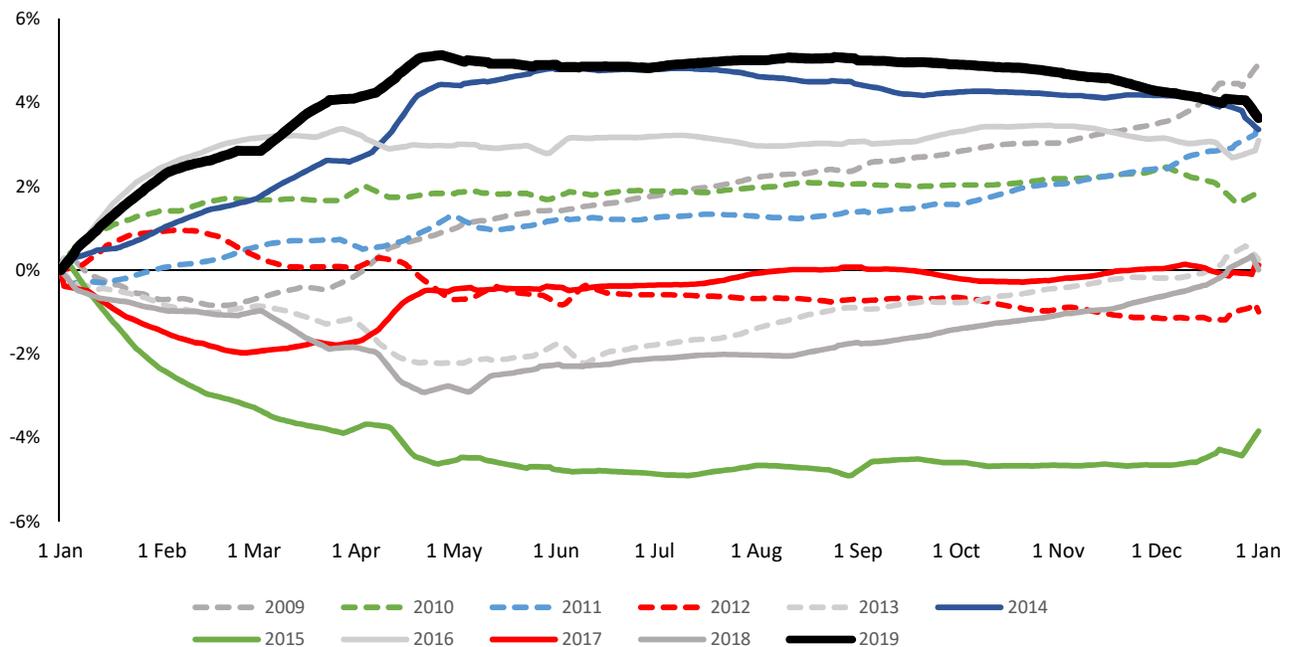
In January, the CMI released the latest of their quarterly updates on the observed mortality data for England & Wales. This is based on provisional weekly death data to 3 January 2020 and gives us the final piece for the 2019 data.

The end of 2019 was consistent with the previous quarters and shows that overall mortality for 2019 has been lower than any of the last 10 years, with the annual improvement estimated as 3.6% p.a., albeit the improvements in the final quarter were not as strong as the first nine months of the year.

The chart below shows the rates of improvement from the weekly death data over the various years, with a higher value representing a higher level of improvement. This shows that the improvements in 2019 (represented by the thick dark line) are higher than all but one of the previous 10 years.

As discussed in our previous editions, these improvements will lead to an increase in projected life expectancies, although this increase will not be as large as previously projected.

Cumulative annual standardised mortality improvement



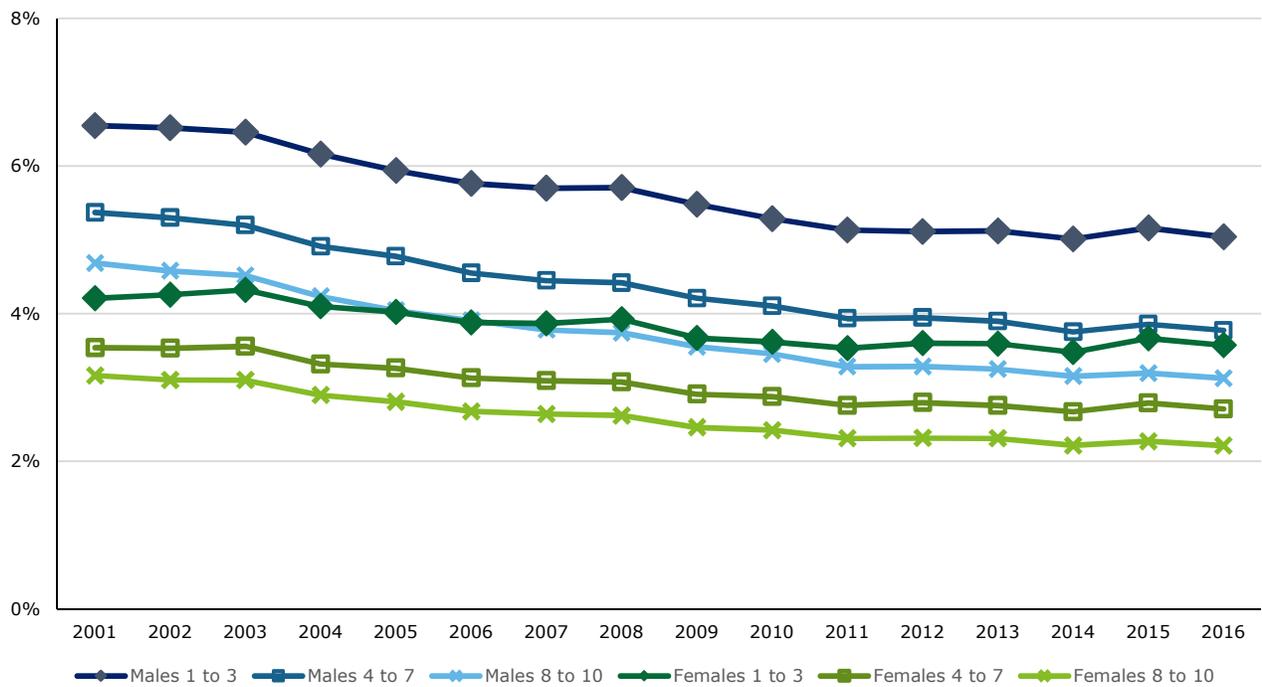
Impact of deprivation on longevity

Living in deprived locations is a widely accepted contributor towards lower life expectancy and the data released by the ONS continues to support this. Using the Index of Multiple Deprivation (IMD) allows us to break down the UK into small areas and analyse the level of deprivation of a person's home area.

The IMD gives a ranking for each area from 1 (most deprived) to 10 (least deprived) and the graph below shows the change in standardised mortality rates ("SMRs" – which allow for changes in age profile over time and isn't distorted by higher mortality rates at older ages) for the different IMD levels (grouped for ease of analysis and display).

This shows the clear difference in mortality rates between the different IMD categories, along with how males have experienced a greater fall (i.e. higher improvements) than females, indeed with the least deprived males having 'overtaken' the most deprived females over the last two decades. Generally, the least deprived categories have experienced the highest improvements. The debate will go on however as to whether this trend will continue in the future with medical advances, access to healthcare and political priorities likely to drive any further increases or decreases in inequality.

SMRs for England and Wales by IMD group



Source: ONS and Deloitte analysis

Comparing data used in the CMI model

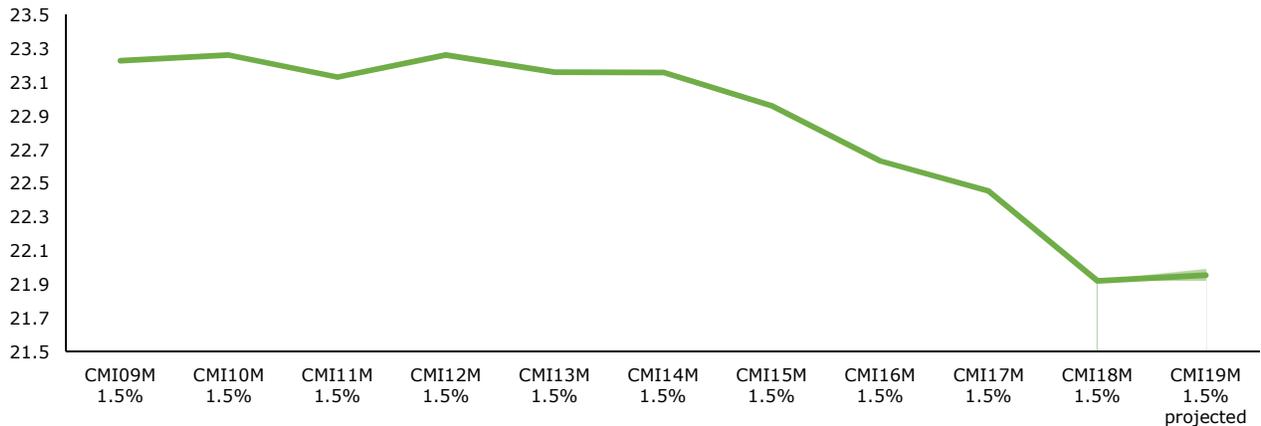
Similar to the acknowledgement that mortality will vary across different IMD categories, a hot topic for the industry is how to make allowance for the CMI model being based on the general population of England & Wales, whereas pension scheme members will experience different mortality levels. This is commonly being reflected through the use of the new 'A' factor in the CMI 2018 model.

The CMI's latest analysis extends their research of this difference and considers the interaction with the different IMD groups. These figures show that there is only a small difference between the SAPS tables (almost universally used now for pension scheme mortality in the UK) and the full England & Wales population. This is in contrast to the previous analysis by the CMI which showed a more significant difference, albeit the previous analysis was conducted using an arguably less robust methodology.

Implications

The 2019 data will be reflected in the next version of the CMI model (i.e. CMI 2019). The fourth quarter's data will result in a small increase in projected life expectancies of around 0.1%/0.2% compared to the latest CMI 2018 model. This corresponds to an extra 1 to 2 months of life expectancy.

This will lead to a similar level of increase in liabilities for a pension scheme. Whilst this is a smaller increase than was being projected from the first nine months of the year, this is a reversal of the trend seen in previous years where successive versions of the CMI model have seen falls in life expectancies, as shown in the chart below.



Source: CMI data and Deloitte estimates

Actions

With only a small change now predicted in the life expectancies given by the (soon to be published) 2019 CMI model, this will come as a welcome result for sponsors and trustees as they see some stability in the mortality assumption. Some parties however, may have been allowing for a continued decrease in life expectancies and therefore they should revisit this assumption and consider the impact of it.

The consideration of the individual circumstances of a scheme's membership has been a popular approach for larger schemes for a number of years through the use of a postcode analysis. With more and more research being undertaken in this area, this is becoming more attainable for all pension schemes, with IMD grouping being a useful consideration.



Sponsors and trustees should be discussing the likely impact of the forthcoming CMI 2019 model with their advisors and whether they will be 'automatically' adopting this model for funding and accounting purposes.



Users of the CMI Model who have adopted a non-zero additional initial improvement parameter 'A' factor should consider if the latest release of analysis from the CMI showing a reduced level of difference between pension scheme and England & Wales data means they should revisit their assumption.

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