

Pension Savings – New 2016 Mortality Data

In 2014, the Society of Actuaries (SOA) released the first new set of [mortality tables and mortality improvement scales](#) in more than 10 years. With that release, SOA promised to more frequently update its data. In October, the SOA issued a 2016 version of its mortality model (RPEC 2014) and updated its improvement scale (MP-2016) to reflect more up-to-date Social Security Administration (SSA) information and update certain assumptions. Going forward, SOA plans to provide annual updates as soon as practicable following the public release of updated data.

The trend of lower levels of U.S. mortality improvement starting in 2010 has continued through 2015; as a result, the Scale MP-2016 rates generally are lower than Scale MP-2015 rates, which were lower than Scale MP-2014 rates.

SOA Model History				
Model Improvement Scale	RPEC_2000 Scale AA	RPEC_2014_v2014 MP-2014	RPEC_2014_v2015 MP-2015	RPEC_2014_v2016 MP-2016
Underlying mortality data	SSA data through 1993	SSA data through 2009	SSA data through 2011	SSA data through 2013, preliminary data for 2014

The new table updates will decrease a defined benefit plan’s obligations and increase balance sheet funding status. The effects will vary by plan; SOA’s preliminary estimates range from 1.5 percent to 2 percent.

U.S. accounting standards do not mandate a particular mortality table, meaning sponsors ultimately decide what assumptions they use for financial statement reporting. In measuring each plan’s defined benefit obligation and recording the net periodic benefit cost, financial statement preparers should understand, evaluate and reach conclusions about the reasonableness of the underlying assumptions on an ongoing basis. U.S. generally accepted accounting principles require that “each significant assumption used shall reflect the best estimate.” Since SOA’s MP-2016 scale is the most up-to-date information available, it should be considered for both financial statements not yet issued and for 2016 year-end measurement, even though the new table was issued late in the year. **Both benefit plans’ and plan sponsors’ financial statements should be evaluated.** Management should document key assumptions used and reasons why certain assumptions may have changed from the prior reporting period.

If the new mortality information is not incorporated, plan sponsors should clearly document the review process and justification for alternative mortality assumptions, e.g., materiality or not being representative of their population. For an auditor to be able to issue an unmodified opinion, the documentation must be sufficient to conclude the mortality assumptions represent the best estimate of benefit plan obligations.

Plan sponsors should discuss the implications of the new SOA table with their auditors and actuaries as soon as possible. Sponsors and benefit plans that have not yet issued financial statements need to evaluate whether the updated scale provides additional evidence about conditions that existed as of the balance sheet date.

The Pension Protection Act of 2006 authorizes the IRS to prescribe mortality tables used in calculating funding liabilities and minimum lump-sum calculations; it typically relies on data provided by the SOA. The IRS declined to

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adopt the 2014 mortality scales for the 2016 tax year pending further evaluation of the data. On September 3, 2016, the IRS announced that for 2017 it will retain SOA's mortality assumptions in RPEC 2000. The IRS still plans to amend the regulations to reflect updated SOA data and wants to provide sufficient time for notice and comment on any changes. The IRS expects the new tables will apply beginning in 2018.

BKD will continue to monitor developments on this topic. For additional guidance, contact your BKD advisor.

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