The Actuarial Profession
making financial sense of the future

Consultation response
Board for Actuarial Standards

TM1 Mortality Improvement Assumption

July 2011

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

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Mr Paul Kennedy
Acting Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

f.dyce@frc.org.uk

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Dear Mr Kennedy

TM1 – Mortality improvement assumption - response from the Actuarial Profession

Further to our earlier consultation response on Exposure Draft TM1, thank you for giving the Actuarial Profession the opportunity to provide additional comment on the mortality improvement assumption.

We are pleased to see that BAS is considering whether TM1 should specify the use of the CMI's mortality projection model. We commented before that:

As noted in Working Paper 41 (introducing a new mortality projection model) issued by the Continuous Mortality Investigation of the Actuarial Profession, "In recent years the Continuous Mortality Investigation (CMI) has become concerned about the continuing widespread use of the Interim Cohort Projections of mortality. These projections do not take account of experience data published for calendar years after 1999 and, as a result, have become increasingly out-of-date." As BAS is proposing a change to the mortality assumptions, we think that this would be a good opportunity to update the mortality projection assumption methodology, rather than just introducing a long-term underpin.

We agree that the CMI model:

- is based on more up to date data than the cohort projections;
- is a better proxy for the assumptions actually used by insurers to price annuities; and
- will be updated annually enabling the assumption specified by TM1 to be based on the most relevant data available

We would therefore support TM1 specifying the use of the CMI mortality projection model.

We continue to believe it is important that the new version of TM1 is issued as soon as possible if it is to apply to Illustrations issued from 6 April 2012. We therefore hope that this further consultation on the longevity improvement assumption will not delay its issue for too long.

We had the following comments on the specific consultation questions.

What long term rate of mortality improvement do you think should be specified?

There are a wide range of opinions as to the likely long term rate of mortality improvement. One point of view was set out in Stephen Baxter's paper for a sessional meeting of the Institute of Actuaries in February 2007: Should projections of mortality improvements be subject to a minimum value? This paper can be found here:

http://www.actuaries.org.uk/research-and-resources/documents/should-projections-mortality-improvements-be-subject-minimum-value-0

We would have thought that an assumption of a long term rate of mortality improvement of 1% pa would be within what would be regarded as a range of reasonable assumptions.

How easy would the CMI model be to use?

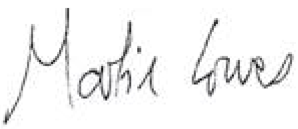
We believe that practitioners find the CMI model straightforward to use, particularly if it is the Core model that is specified by TM1 (which we would agree is sensible).

Updating the assumption

As providers have to update the annuity factors each year to reflect changes in market yields, we believe it would be straightforward to incorporate at the same time an update to the latest version of the CMI model. This should help avoid the need to make larger changes periodically.

Thank you once again for the opportunity to comment on this paper and we hope the above comments will prove useful. We would be happy to meet with you to discuss any points that might require further clarification. Please contact Kirstin Lambert, Pensions Communities Manager on 0207 632 2168 or via Kirstin.Lambert@actuaries.org.uk.

Yours sincerely,



Martin Lowes
On behalf of the Consultations Group, Pensions Practice Executive Committee