

# Pension Savings from New Mortality Data

Last year, the Society of Actuaries (SOA) released the first new set of [mortality tables and mortality improvement scales](#) in more than 10 years. The tables highlighted longer life expectancies and faster increases in mortality improvements. With that release, SOA promised to update its data at least triennially. Subsequent to SOA's update, the Social Security Administration (SSA) released two years of additional mortality data for 2010 and 2011, which showed smaller improvements in longevity. In October 2015, the SOA reflected the more up-to-date SSA information and released mortality improvement scale MP-2015. SOA intends to provide annual updates as soon as practicable following the public release of updated data upon which the model is constructed.

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

U.S. accounting standards don't mandate a particular mortality table, meaning sponsors ultimately decide which 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 (GAAP) require that "each significant assumption used shall reflect the best estimate." Since SOA's MP-2015 scale is the most up-to-date information available, it should be considered for both financial statements not yet issued and for 2015 year-end measurement—even though the new table has been issued late in the year. **Both benefit plans' and plan sponsors' financial statements should be evaluated.** Management should document the key assumptions used and reasons why certain assumptions may have changed from the prior reporting period.

If the new mortality information isn't 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 unqualified opinion, the documentation must be sufficient to conclude the mortality assumptions represent the best estimate of the 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 haven't 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 the calculation of funding liabilities and minimum lump-sum calculations; it typically relies on data provided by the SOA. In July, the IRS declined to adopt the 2014 mortality scales for the 2016 tax year pending further evaluation of the data. The release of MP-2015 makes it more likely the IRS will update its mortality requirements in 2017.

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

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