LONGEVITY

Slowing mortality or bad transparency?

Sunniva Kolostyak explores why the conversation on longevity trends is less visible outside UK

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Great news, improvements in life expectancy is slowing! The pensions industry is one of the few industries where this is seen as something positive. UK pension schemes in particular seem focused on longevity trends and their impact upon scheme funding, but for some reason it does not seem to be as significant in the rest of Europe. But does that mean it is less of an issue?

In the UK – the epicentre of trading pension liabilities – Aon has predicted that £30 billion worth of bulk annuity deals will be completed before 2018 is finished. Mercer director Leah Evans says mortality tables have led to an increased interest in managing the risk of further increases in life expectancy through bulk annuity policies or longevity swaps.

As longevity rates impact the pricing of de-risking deals, a halting rate would be positive for defined benefit pension schemes, says JLT Employee Benefits chief actuary Charles Cowling.

He thinks a key issue for UK DB schemes is that mortality has been consistently underestimated over the past 10 to 15 years. "The data from mortality studies has more recently caused us to revisit estimates and pull them back a bit. It looks like the additions we kept adding to pension liabilities are coming to an end and we now have got an estimate of longevity that seems prudent."

Transparency

But it seems actuaries are having a challenging time calculating whether this is a global trend. It does not help that mortality related reports are few and far between once you leave the UK, making it harder to formulate accurate predictions and create comparisons between countries, Evans explains.

"In Germany, mortality tables are updated much less frequently [than the UK], but a new set of standard life expectancy tables has just been released by the Heubeck AG, the first updated tables since 2005. These already reflect a slowing down of life expectancy improvement trends seen more recently and are expected to lead to a modest increase in liabilities of around 2.5 per cent on average," she says.

Living longer

Willis Towers Watson director Stephen Caine says several countries have seen a slowdown in the past six years after a period of strong improvements in life expectancy. He points out that this is particularly the case for EU countries Germany, Spain, Portugal and Sweden and that there is a clear correlation between social care spending and mortality improvements.

"The other explanation is that we are simply moving beyond the generation who first enjoyed the life expectancy improvements of the past decades, particularly with circulatory disease, which now kills half as many people as it did 20 years ago," Caine suggests.

People are getting older and more prone to mental and nervous diseases while living with more than one disease. Caine says "if you subscribe to this view, we may now be entering a period of relatively stable, slowly-increasing, life expectancies."

Longevity may have had its biggest growth, and one driver for this was the decreasing mortality for infants and young adults. However, a decrease in child mortality does not necessarily equal increases in longevity at old age. Cardano head of insights Stefan Lundbergh points out that while a lot of people are now living to be 100 very few reach the age of 105 – life expectancy for over 100 has in fact not risen since the 70s.

Over the same period, a notable number of countries have actually enjoyed an acceleration in general longevity improvements, including Japan, France and Italy, as well as a Nordic triplet of Norway, Finland and Denmark, Caine says.

"Japan is an interesting case," he explains. "It had a serious stall in [longevity] improvements a decade ago whilst the UK was still enjoying strong improvements, but has since enjoyed a significant uptick, with life expectancy increasing by 13 weeks a year over the past six years. One suggestion is that this backs up the generational argument, with Japan simply being ahead of the pack and experiencing the next phase in the evolution of longevity."

Who's next?

At the International Longevity Centre (ILCUK), assistant economist Dean Hochlaf says Portugal, Spain, Italy and Greece are likely to be hit hard by rising longevity issues. According to the OECD, the four major southern countries are going to have a population where there will be 70 people over the age of 65 for every 100 people of working age by 2060, he explains.

He mentions that France is another struggling nation. "The retirement age of 60 is a problem, it is very, very low and President Emmanuel Macron is having problems raising that. It is rising to 62 but of course, when you try and raise these issues, it's very hard to allay people."

Raising the pensions age has even been too controversial for Russians, as president Vladimir Putin had to go back on his own promises. His July proposal pushed for raising the retirement age from 60 to 65 for men and from 55 to 63 for women, but seeing his popularity fall through the floor, he suggested the age 60 for women instead.

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Aon partner Tim Gordon says mortality has significant differences between males and females, a difference that is also seen in correlation to the economic performance of a country.

"If we look at female mortality then actually, it's been a steadier pattern than for men. But there is a divergence, especially between the northern and southern European countries. It's quite striking when you look at charts that the northern European women for whatever reason tend to have higher mortality than women in southern European countries."

This, he says, goes back to a country's financial performance, austerity and welfare. "When we talk about north European versus south European females, it certainly has to do with lifestyle as well. But you can only make sensible high-level estimates – trying to nail it down to the underlying individual causes is difficult and the track record of the people who have tried to do that has been very poor."

Hochlaf says it is easy to forget, while thinking of mortality as a DB scheme, that living longer is a good thing. "It is good for society and a great social achievement. But we cannot have people live longer and not acknowledge that there will be challenges, there needs to be interventions in some way."

He suggests investing in things like health, wages, workforce, education and training. "That can yield positive results that can make longevity instead of an issue of how you're going to finance it, something that finances itself through very basic financial mechanisms."

Better healthcare and food means that people stay in better shape longer, Lundbergh points out. "Better medicine means you can live with age-related diseases longer," he says, but says it is hard to tell what the driver is behind the shifting trend.

"If we can delay aging, it will be a great achievement but will also put a strain on the pensions system. When that time comes we will have to rewrite the whole book on pensions. What if there was a pill that added 10 years after retiring? The funding system would break down."

The fact that interventions are needed is unanimous. Caine concludes that "whatever the truth, it's clear that mortality raises more difficult questions for pension scheme sponsors and trustees than ever before".■