Accounting

New mortality tables another blow to DB plans

Report shows liabilities could rise from 3%-8%

By MEAGHAN KILROY

The measured value of liabilities for most defined benefit plans will increase between 3% and 8% with the adoption of new mortality tables, said a report from Wilshire Consulting.

The tables, released by the Society of Actuaries in exposure draft form in February, reflect an increase in the life expectancy of Americans, resulting in increased pension plan liability values and liability durations.

For women ages 25 to 85, the liability increase ranges from 5.5% to 10.5%. For males in that age group, the increase ranges from 2.5% to 17.4%.

The tables most DB plans now use to measure pension liabilities were published by the Society of Actuaries in 2000.

The impact of the updated tables on a particular plan will depend on the makeup of its participants, said Jeff Leonard, managing director at Wilshire Associates Inc. and head of the actuarial services group of Wilshire Consulting, based in Pittsburgh. Some public and corporate plans are large enough to use custom mortality tables and likely will stick with them, Mr. Leonard said.

For U.S. plans that rely on the industry tables, however, the mortality assumption changes are "another nail in the coffin" and might encourage some sponsoring entities to move away from DB plans altogether, Mr. Leonard said.

The mortality update "has given plan sponsors an opportunity to move away from DB plans to DC plans," he said.

The tables are still in exposure draft form and probably won't be adopted by the IRS until plan year 2016 for funding purposes.

Because mortality tables used to calculate minimum lump-sum distribution values for 2014 and 2015 plan years already have been released, many plan executives are taking the opportunity to offer lump sums. Under the new tables, lump sums will be much higher because the number of monthly benefit payments would have increased.

"A lot of plan sponsors are saying they'll pay out terminated vested participants (now)," said Mr. Leonard. "Some sponsors are going further and paying retirees."

Mr. Leonard said the new tables will likely not affect lump-sum calculations until 2016.

In light of the mortality changes, Wilshire also recommends plan executives review derisking glidepaths to ensure compliance with funding ratio triggers. Allocations might need to be shifted one trigger point lower as funding ratios decrease.

The mortality assumption changes were anticipated even before the tables were released, leading some plan executives to raise their ending funding ratios for glidepaths to 110% and 115%, said Mr. Leonard.