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Factors Affecting Retirement Mortality

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The Society of Actuaries is pleased to announce the publication of Phase II of Factors Affecting Retirement Mortality (FARM) by Victor Modugno. The first FARM paper, by Robert Brown and Joanne McDaid, completed a comprehensive literature search that identified 10 factors, in addition to age and gender, which affect retiree mortality. The 10 factors were education, income, occupation, marital status, religion, health behaviors, smoking, alcohol, obesity and race/ethnicity. Phase II reviews existing Society experience studies to determine what factors

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could be added to those studies and considers methods for reflecting additional factors in mortality tables.

The paper looked at the work of six SOA experience studies committees. The author raised concerns about the ability of various committees to gather additional factors to provide actuaries with up-to-date and accurate mortality experience. Insurance companies (for annuity and life insurance data) and plan sponsors and their actuaries (for uninsured pension plan data) are reluctant to provide additional factors. These groups

cited privacy concerns and resource allocation issues. Often additional factors are not collected, or companies are unwilling to supply them for SOA studies. In some cases, particularly the group annuity market, the lack of sales has led to a largely closed group of business with limited data.

The author concludes that lack of additional factors could hinder the growth of the insurance and annuity market. He cites two additional products that may not be able to be fairly priced without additional information: longevity insurance and fair valued individual annuities.

Individual need for longevity insurance and fair valued individual annuities may increase. The shift in pension plans from defined benefit to defined contribution plans, as well as the growth in lump sum payments, leads to retirees managing their own money and assuming their own longevity risk. Markets currently assume anyone purchasing annuities or other products to hedge longevity risk has expectations of longer than average life expectancy and price products accordingly. To fairly price these products, the market would have to understand how factors leading to less-than-perfect health, such as smoking and obesity, affect life expectancy.

The new paper (FARM II) and the original study are both available at <http://www.soa.org/research/farm.html>. The Committee on Retirement Systems Research, the Committee on Social Security - Retirement and DI and the Committee on Life Insurance Research cosponsored the study. ♦

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