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SELECTING MORTALITY TABLES: A CREDIBILITY
APPROACH

Gavin Benjamin, FSA

In today's environment, the assumptions selected by pension actuaries are coming under increased scrutiny. It is becoming more and more common for actuaries to be asked to provide justification for all of their assumptions, including the demographic assumptions, to various stakeholders such as regulators.

Actuaries typically look to actual plan experience when setting demographic assumptions such as withdrawal and retirement rates. They have, however, been reluctant to reflect actual plan experience when setting mortality rates, usually because they feel that their plan is not large enough to provide a credible amount of experience data. At the same time, there has been growing concern that the mortality table and projection scale (UP1994 and projection scale AA) in common use in Canada (the country in which I practice) may be inadequate for some Canadian pension plans. Due to this concern, I began to wonder whether there was a practical way to quantify how much experience data is needed in order to reflect a plan's own experience in the development of the mortality assumption. In order to answer this question, I turned to credibility theory, a subject that pension actuaries study as part of the actuarial exam syllabus but rarely use in practice.

The resulting article is available on the SOA Web site at <http://www.soa.org/files/pdf/research-2008-benjamin.pdf>. The article outlines a practical approach for setting mortality rates using credibility theory. It includes formulas that can easily be applied to determine how much credibility to assign to the results of a mortality experience study. It also suggests an approach for rating standard tables up or down to reflect the experience of the pension plan being valued.

I welcome your comments and suggestions regarding the contents of the article. Please contact me directly at the e-mail address below. Or, letters to the *Pension Section News* editor are also welcome.

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