

Covid-19: an uncertain future for mortality

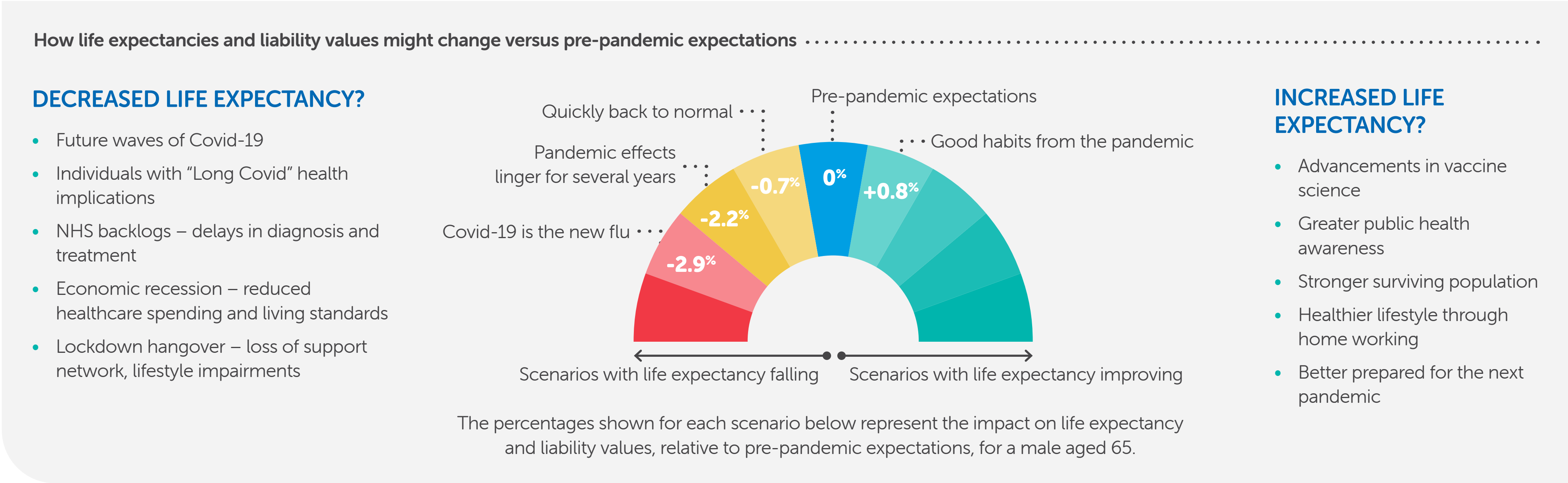
The Covid-19 pandemic has had a dramatic impact on mortality rates. The effects of this will flow through into pension scheme funding levels as member experience is taken into account, but trustees will also need to form a view on how the pandemic will affect future mortality rates and improvements.



Impact of Covid-19 on future mortality

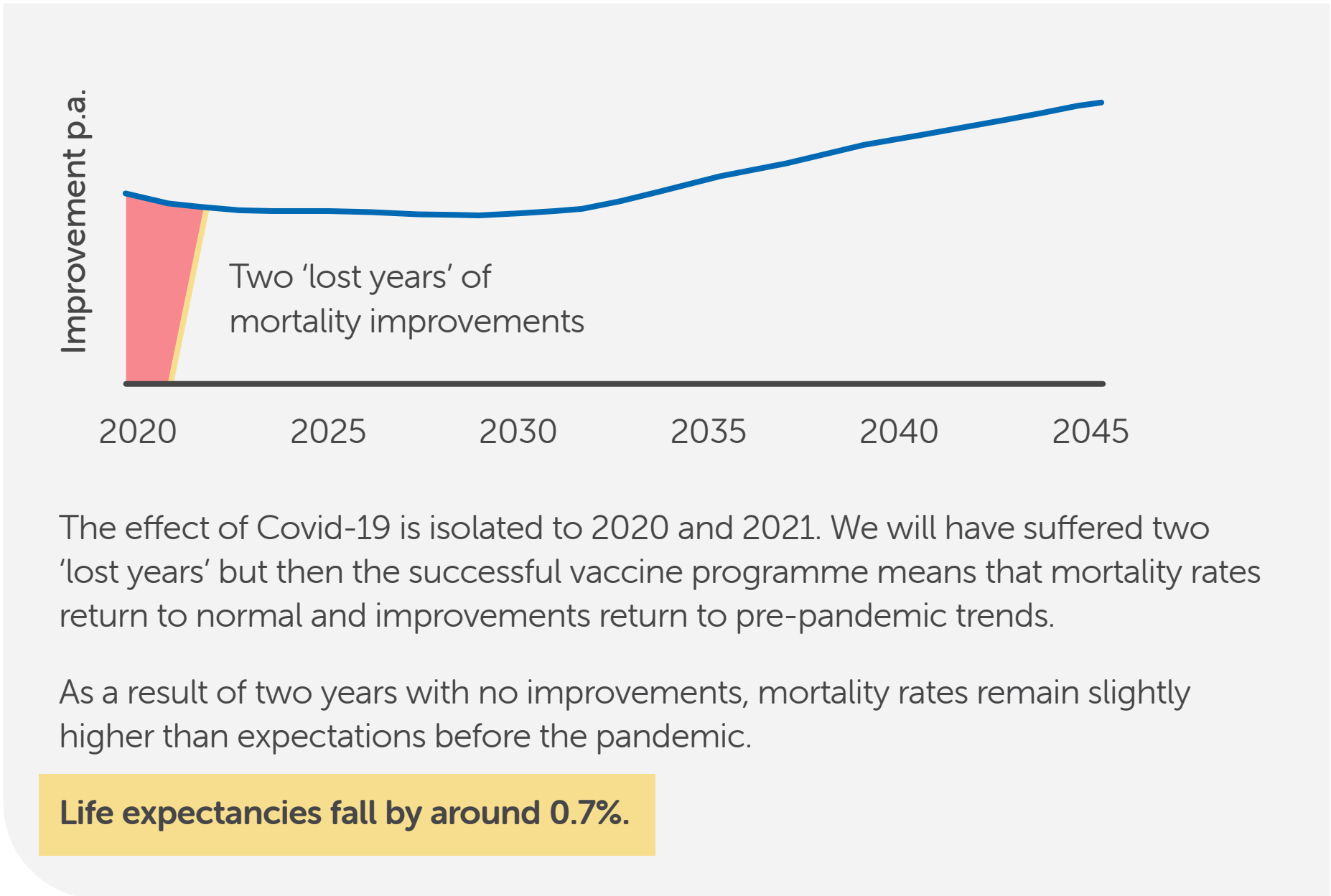
The term ‘mortality improvement’ refers to the extent by which the mortality rates of a given population decrease from one year to the next – positive improvements give increases in life expectancy. Even before the pandemic struck there was a great deal of uncertainty surrounding the direction of future mortality improvements. What we’ve observed over the past two years has only exacerbated that.

The pandemic has undoubtedly changed the landscape for future mortality - listed below are a number of medical, economic and social factors which will determine future mortality improvements. In order to help steer through the uncertainty, we have carried out analysis of plausible (but simplified) future scenarios to determine what each might mean for future mortality improvements and life expectancies. The results of the scenarios are summarised below and discussed further overleaf.

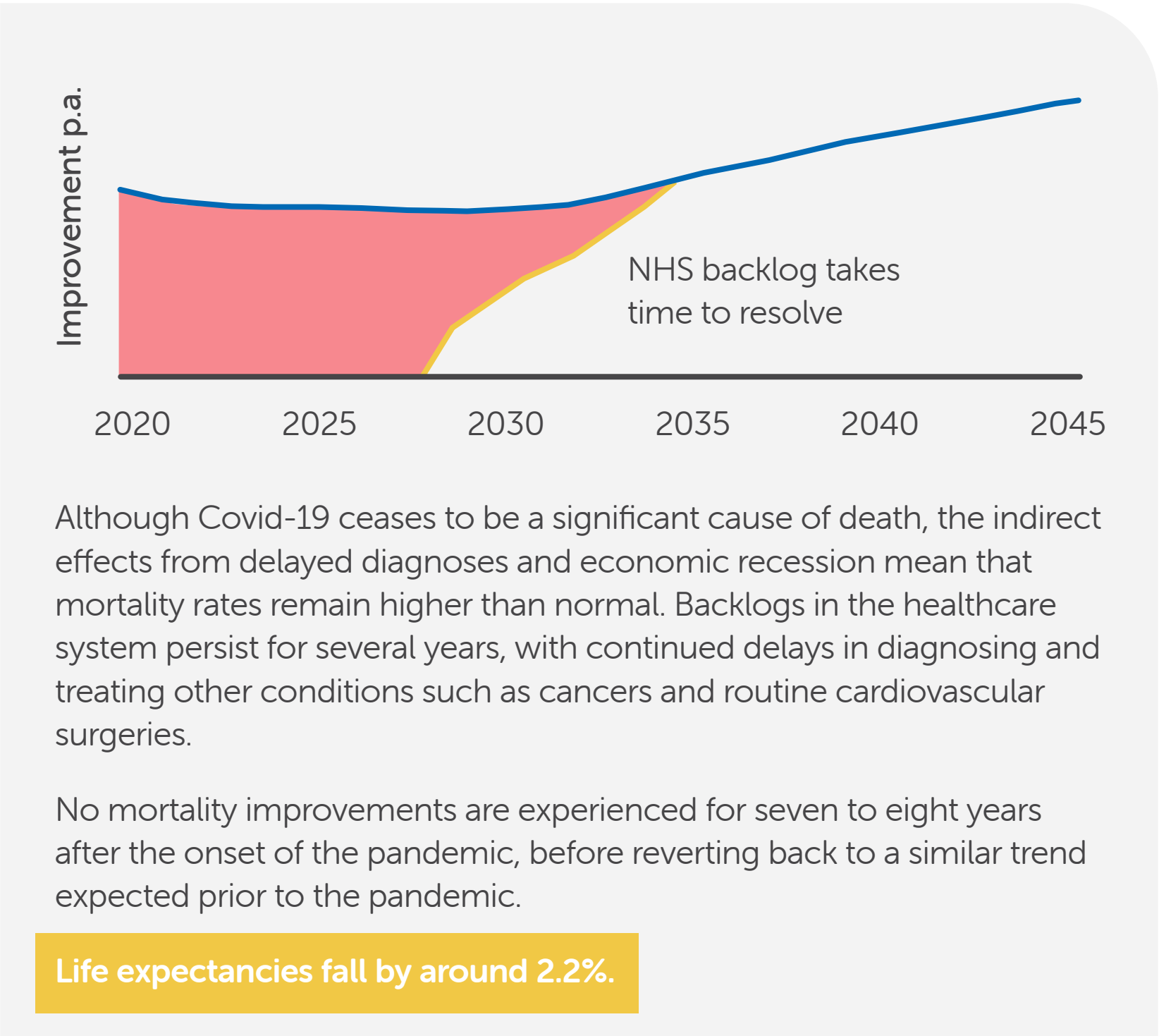


Scenario analysis

Scenario 1 – Quickly back to normal



Scenario 2 – Pandemic effects linger for several years



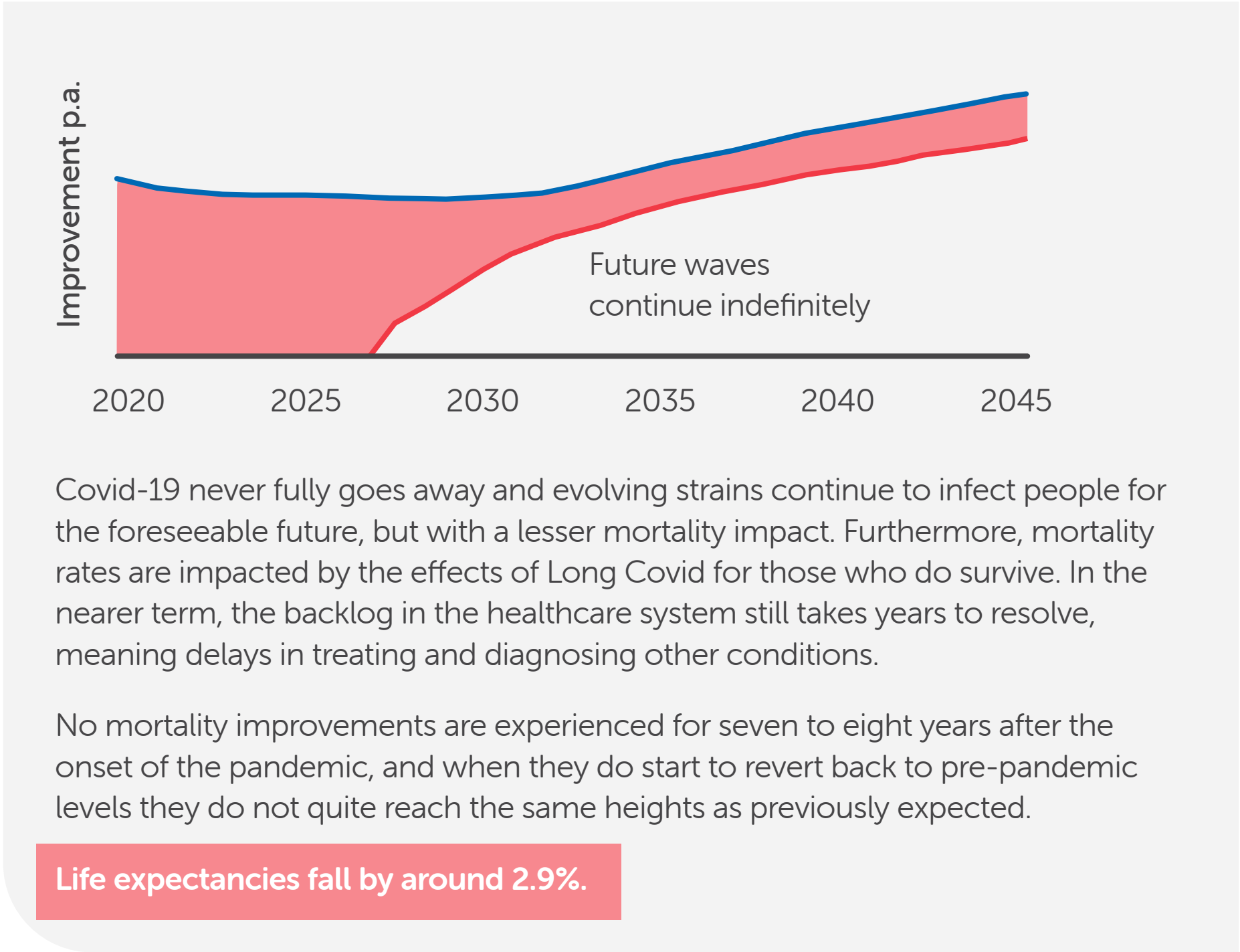
KEY:

- Pre-pandemic expectations for improvements in mortality over time.
The line initially follows mortality improvement trends prior to the pandemic, before converging to a long-term expectation of future improvements (assumed to be 1.5% p.a. in these illustrations).

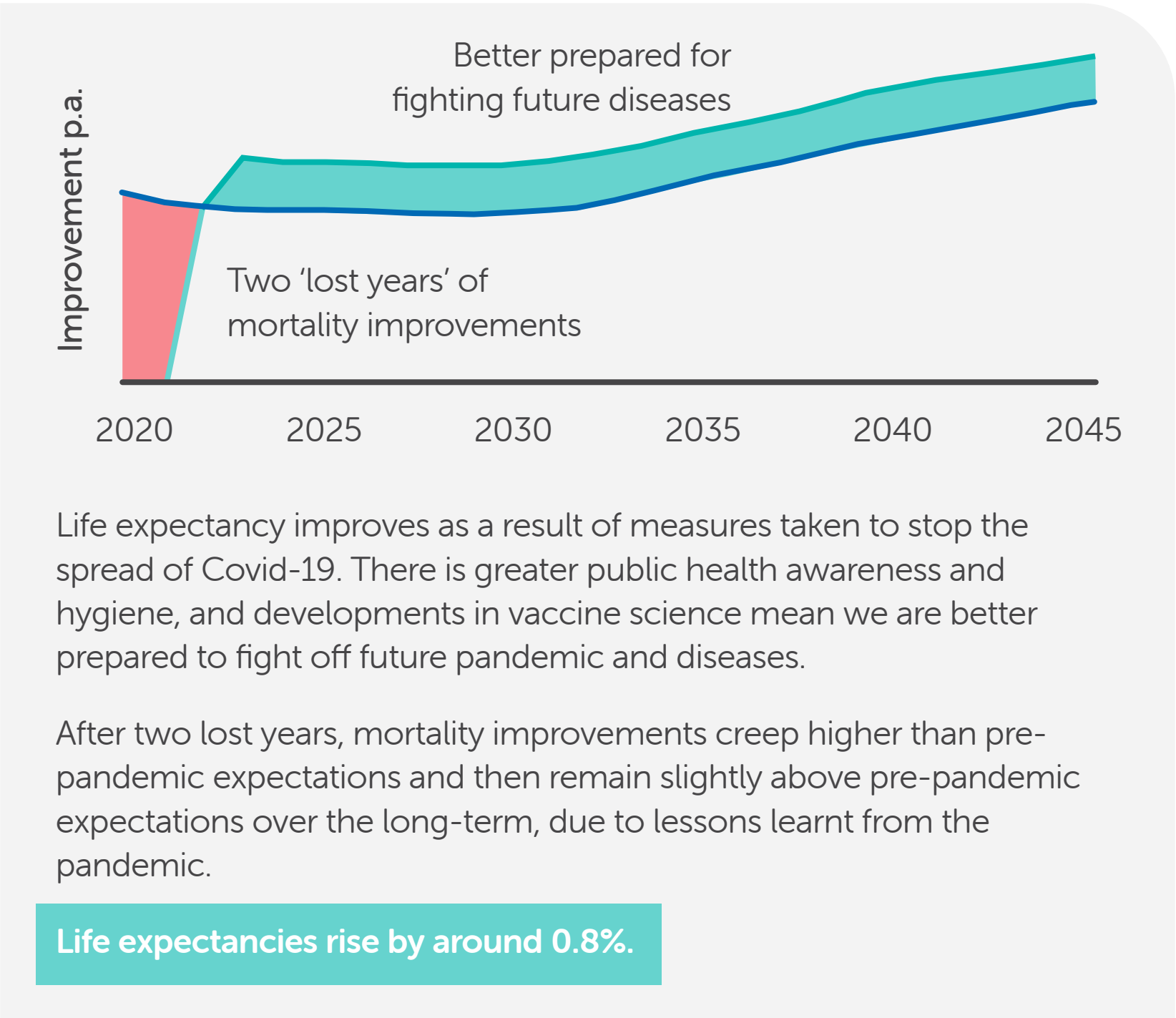
- The black line represents the 2020 Covid-19 baseline. This shows no further improvements in mortality, in line with experience in 2020.

- Difference in improvement rates versus illustrative pre-pandemic expectations for each scenario. The larger the shading, the greater the impact on future life expectancies.
Red shading indicates how overall mortality has increased relative to pre-pandemic expectations; green shading (as seen in Scenario 4) indicates how relative mortality has decreased.

Scenario 3 – Covid-19 is the new flu



Scenario 4 – Good habits from the pandemic



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Other sources of uncertainty

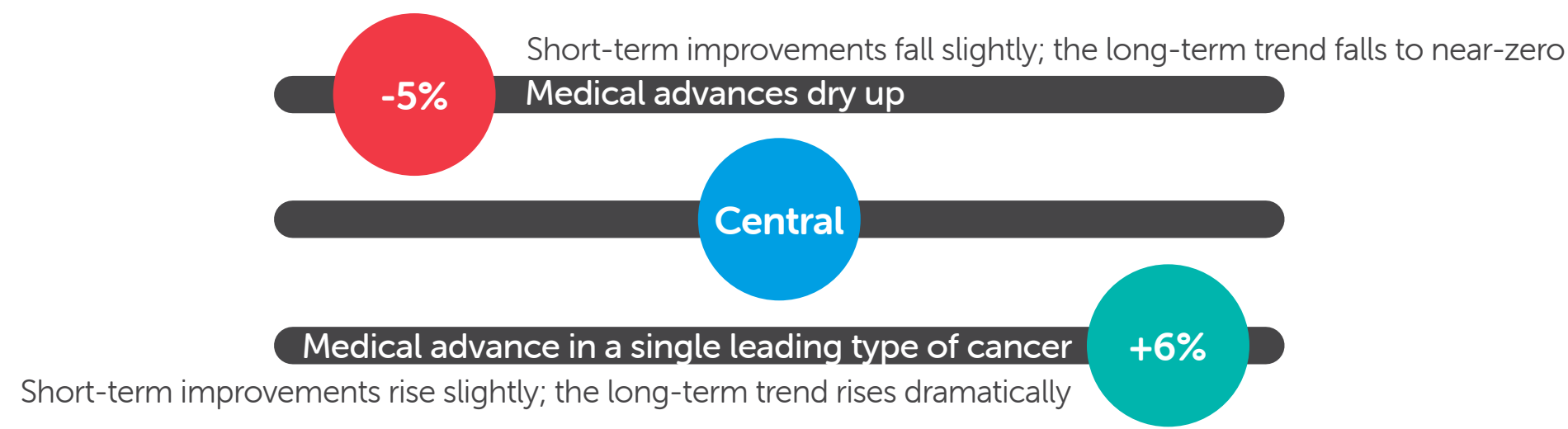
Even in a world without Covid-19, there was plenty of uncertainty regarding future mortality improvements, particularly surrounding breakthroughs in medical treatments (or lack thereof). These sources of uncertainty still remain now and provide a context in which to consider the scenarios above.

We have considered plausible scenarios for medical advances in the future, which might serve as reasonable bounds of uncertainty in future mortality improvements. The impacts on life expectancies are shown below and are considerably higher than those expected under the Covid-related scenarios above.

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In our view, the degree of uncertainty arising from Covid-19 lies well within the range of uncertainty which was present before the pandemic.

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Summary

There are a number of factors which will drive the future outcome for mortality improvements following the change in landscape over the past two years. Trustees will need to make a decision on both the directional influence that Covid-19 will have on future improvements and the magnitude of any impact.

If trustees do think that the impact of the Covid-19 pandemic will be a reduction in life expectancies, they will still need to consider how much prudence to incorporate in their funding assumptions. The Pensions Regulator’s 2021 Funding Statement suggested that trustees adopting weaker mortality assumptions should have a contingency plan in case they do not materialise in the future. Whilst it might therefore be tempting to ignore the potential Covid-19 impact on the grounds of prudence, there may be consequences from being too prudent; for example, where funding affordability drives the level of risk in the investment strategy. Consideration may also need to be given to transfer value bases and actuarial factors to ensure that these appropriately reflect the trustees’ best-estimate view on future mortality.



Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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