

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.

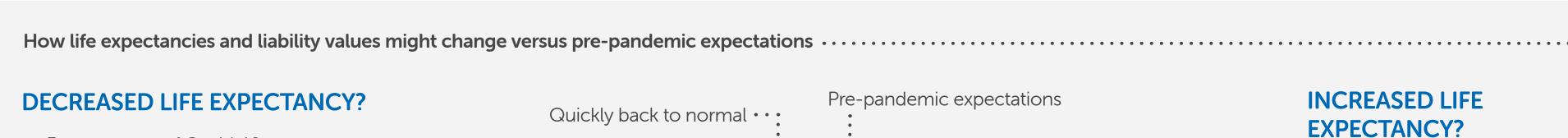




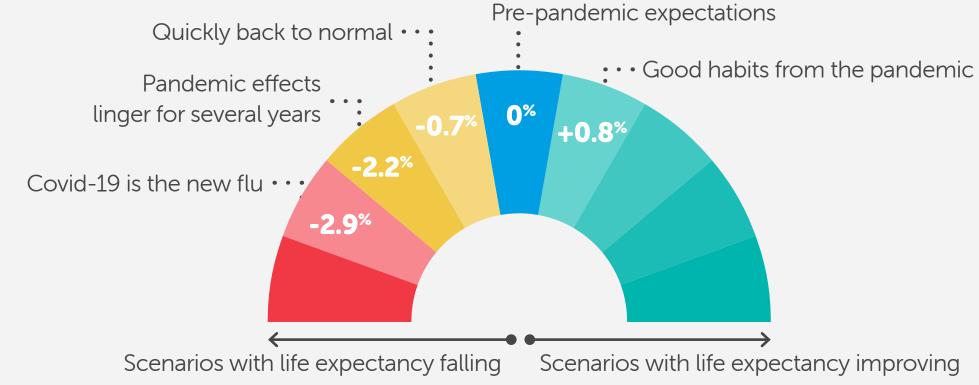
Impact of Covid-19 on future mortality

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.



- Future waves of Covid-19
- Individuals with "Long Covid" health implications
- NHS backlogs delays in diagnosis and treatment
- Economic recession reduced healthcare spending and living standards
- Lockdown hangover loss of support network, lifestyle impairments



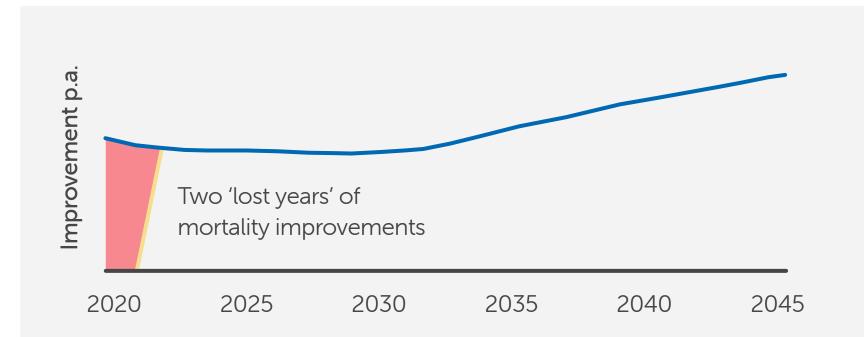
The percentages shown for each scenario below represent the impact on life expectancy and liability values, relative to pre-pandemic expectations, for a male aged 65.

- Advancements in vaccine science
- Greater public health awareness
- Stronger surviving population
- Healthier lifestyle through home working
- Better prepared for the next pandemic



Scenario analysis

Scenario 1 – Quickly back to normal

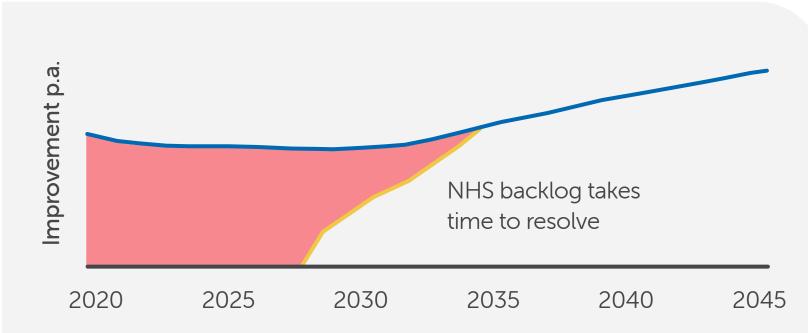


The effect of Covid-19 is isolated to 2020 and 2021. We will have suffered two 'lost years' but then the successful vaccine programme means that mortality rates return to normal and improvements return to pre-pandemic trends.

As a result of two years with no improvements, mortality rates remain slightly higher than expectations before the pandemic.

Life expectancies fall by around 0.7%.

Scenario 2 – Pandemic effects linger for several years



Although Covid-19 ceases to be a significant cause of death, the indirect effects from delayed diagnoses and economic recession mean that mortality rates remain higher than normal. Backlogs in the healthcare system persist for several years, with continued delays in diagnosing and treating other conditions such as cancers and routine cardiovascular surgeries.

No mortality improvements are experienced for seven to eight years after the onset of the pandemic, before reverting back to a similar trend expected prior to the pandemic.

Life expectancies fall by around 2.2%.

KEY:

Pre-pandemic expectations for improvements in mortality over time.

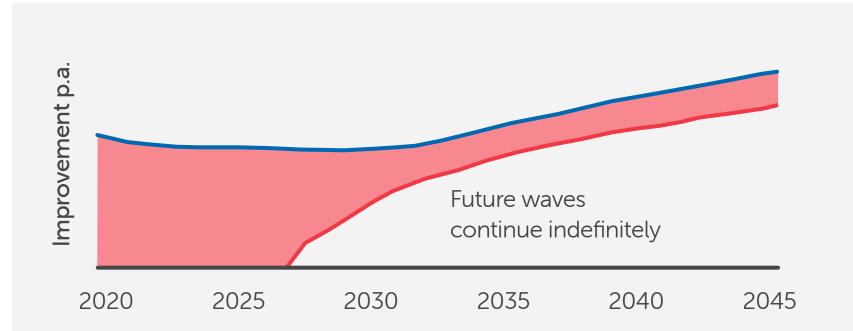
The line initially follows mortality improvement trends prior to the pandemic, before converging to a long-term expectation of future improvements (assumed to be 1.5% p.a. in these illustrations).

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 prepandemic 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

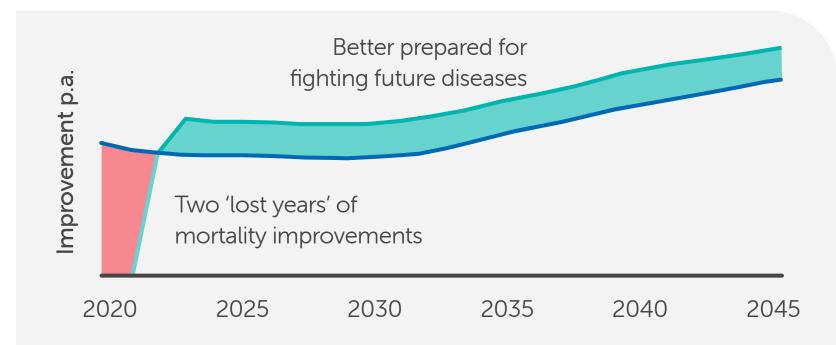


Covid-19 never fully goes away and evolving strains continue to infect people for the foreseeable future, but with a lesser mortality impact. Furthermore, mortality rates are impacted by the effects of Long Covid for those who do survive. In the nearer term, the backlog in the healthcare system still takes years to resolve, meaning delays in treating and diagnosing other conditions.

No mortality improvements are experienced for seven to eight years after the onset of the pandemic, and when they do start to revert back to pre-pandemic levels they do not quite reach the same heights as previously expected.

Life expectancies fall by around 2.9%.

Scenario 4 – Good habits from the pandemic



Life expectancy improves as a result of measures taken to stop the spread of Covid-19. There is greater public health awareness and hygiene, and developments in vaccine science mean we are better prepared to fight off future pandemic and diseases.

After two lost years, mortality improvements creep higher than prepandemic expectations and then remain slightly above pre-pandemic expectations over the long-term, due to lessons learnt from the pandemic.

Life expectancies rise by around 0.8%.

KEY:

Pre-pandemic expectations for improvements in mortality over time.

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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 prepandemic 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.

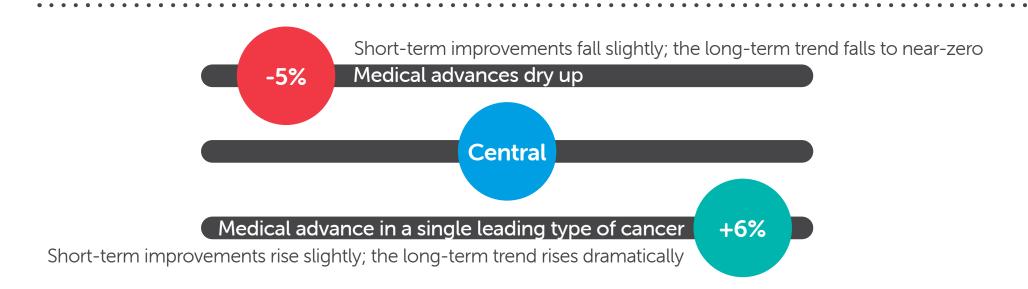


Other sources of uncertainty

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.

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



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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