Longevity trends

The impact of the pandemic on longevity trends in the UK has had implications for DB schemes in particular. But to what extent will longevity continue to be an important factor in shaping trustees' strategies over the next few years and how important are longevity trends to the running of DC schemes?

Summary

- The Covid-19 pandemic created a significant spike in mortality rates; and Covid has continued to be a major contributor to excess deaths in 2022 and 2023.
- DB scheme liabilities, pricing of bulk annuity transactions and annuity pricing have all been affected by changes in longevity.
- Nonetheless, longevity is an important consideration in shaping DB scheme strategies. Also for those managing DC schemes, even though the members bear the longevity risk.
- The way longevity has been affected by the events of recent years is still a matter of debate and future trends are difficult to predict.

Newspaper headlines in 2020 and 2021 declared that the Covid-19 pandemic had led to falls in life expectancy for the first time in decades. That was true: In England and Wales period life expectancy – how long a child might expect to live based on current death rates – fell from 81.7 years in 2019 to 80.7 in 2020. But attention-grabbing headlines hide a more complex picture of longevity in the UK, and what it might mean for anyone setting strategies for pension schemes.

Even before the pandemic, long term upward trends in mortality rates had been disrupted during the first two decades of the 21st century. The first saw strong mortality improvements of 2.5-3 per cent in the UK, pushing average life expectancy up by about two years during the decade, thanks in large part to improvements in the treatment of cardiovascular diseases.

Mortality improvements then slowed to just under 1 per cent per year between 2011 and 2019. Some suggested the UK government's austerity measures contributed to this change, although similar trends were also seen in other countries.

Data from the end of that decade suggested that positive trends were about to return, but then 2020 and 2021 saw big spikes in mortality rates in the UK as the pandemic struck: In 2020 they were 14 per cent higher and in 2021 9 per cent higher than those seen in 2019, according to data analysed by the Continuous Mortality Investigation (CMI). There were 75,600 excess deaths (more registered deaths from all causes than expected) in 2020, 56,500 in 2021, 39,400 in 2022 and 33,200 in the first three quarters of 2023.

"The question is, to what extent are we seeing a new 'normal' pattern?" asks Aon associate partner, Matthew Fletcher, who is also chair of the CMI SAPS Committee, which produces standard pension scheme mortality tables for UK actuaries.

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The pandemic's impact on the NHS

It's not clear how long these trends will persist. One contributory factor is the impact the pandemic had on the NHS. There were 4.5 million people on elective waiting lists for treatment at the start of 2020, but by the second half of 2022 that number had risen above seven million. NHS figures also suggest there were approximately 40,000 fewer cancer diagnoses made during the pandemic than would have been expected and about 500,000 fewer blood pressure medicine prescriptions were issued to previously undiagnosed patients. Meanwhile, both ambulance response times and average wait times in A&E are longer than in 2019.

"The after-effects of the pandemic, such as healthcare backlogs and longer waits for emergency care, are likely to have contributed to mortality rates remaining high," says Legal & General head of longevity risk, Darryl Brundle. "We also saw a return of illnesses such as influenza towards the end of 2022, which can be a significant factor in winter deaths in the elderly."

Longevity specialist Club Vita head of pensions strategy, Mark Sharkey, says its data on DB pensioners suggests they have been "more resilient than individuals in the general population" during the pandemic. But he also stresses the variation between each different schemes' memberships. Economic inequality is a particularly important factor: Average life expectancy now differs by almost

30 years (68 to 96) between the most deprived and wealthiest postcodes in the UK.

It is also the case that any effects longevity has had on scheme liabilities have been less influential than the economic and financial events of the past two years.

"In a different time and place these significant changes in life expectancy would be more significant in the conversation about pension scheme management," says WTW director, Stephen Caine. "At the next valuations some schemes might find themselves in surplus, thanks to changes in life expectancy. A scheme might jump forward by 3-4 per cent in its buyout calculation. But those things are being outweighed by jumps in yields."

Reasons for optimism and pessimism

What might happen next? "There's no sign that this is going to reverse in the next year or two, but you wouldn't expect these trends to last forever," says Barnett Waddingham partner, Will Rice. "Eventually I think we will get back to a long-term trend that's more positive in terms of life expectancy improvements."

LCP actuary and head of longevity and demographic insights, Stuart McDonald, suggests that the speed at which general life expectancy and the longevity of people in pension schemes return to that trend will depend in large part on the future health of the country's healthcare system.

He highlights the importance of preventative healthcare on future longevity trends, noting that government policy and medical advances could improve health outcomes, through policies on preventing younger people smoking legally, or improved treatments for obesity and addiction problems, as well as for diseases and conditions including cancers and dementia.

We may also benefit further from the development of MRNA vaccines during the pandemic, leading to improved vaccination against other diseases. AI and other new technologies could help accelerate and improve the accuracy of cancer diagnoses. McDonald suggests that other government policies, such as climate change mitigation measures that lead to improved air quality, might have positive impacts.

Climate change itself might have some positive effects on longevity in the near term: A warmer UK climate means fewer people will die in harsh winters, outweighing any increase in deaths due to extreme summer heat. However, other consequences, such as disruption to food or energy supplies, economic collapse or war would all have severe adverse effects. Finally, McDonald adds, at some point we will probably experience another pandemic.

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DC schemes

Although DC schemes are not affected by longevity trends in the same way as DB schemes, this is still an issue their trustees must consider. Longevity risks fall upon individual DC scheme members, rather than the scheme, but trustees have a duty to ensure members make good decisions during both accumulation and decumulation phases.

McDonald stresses the importance of DC schemes ensuring members understand the basic message that life expectancy and longevity in general are likely to keep improving. "It's important that the long-term trend of increasing life expectancy isn't missed," he says.

In the future that message may need to be complemented with others about the increasingly complex shapes that the latter period of some peoples' working lives are likely to assume. These are among the broader issues linked to an ageing population with which the International Longevity Centre (ILC) thinktank is concerned. Its chief executive, David Sinclair, highlights another issue that shows how important calculations about longevity should be to individual DC scheme members: The million people currently aged between 50 and 65 who want to work but cannot do so, either because of their own health or because they have caring responsibilities.

This means, says Sinclair, that two of the most important messages DC scheme trustees need to give members are: "'You're likely to need to save more'; and 'you need to think about how you can keep yourself healthier for longer'."

The bottom line is that understanding longevity is very important for members of both DB and DC schemes.

"Regardless of trends that play out in future, it will not be a one-size-fits-all story for pension schemes," says Sharkey. "They will not just need to understand trends affecting general life expectancy, but to have a good understanding of the mix of individuals in the scheme."

McDonald stresses the need for schemes to move beyond just using traditional actuarial techniques based on identifying patterns in historic data and adjusting strategy accordingly. "You need a multidisciplinary approach and expert advice," he says.

While it is true that longevity is just one of many factors that might influence scheme strategy, one characteristic of longevity risk should be remembered, says Rice. "It is always there – there's danger in not paying attention to it," he warns. "Because yields have gone up and liabilities have gone down, liabilities are less sensitive to longevity than they used to be. But longevity is still a risk, and one that trustees can't hedge easily."

Written by David Adams, a freelance journalist