



## THE PCS ALERT

### The latest in DB Pensions

## DOES YOUR JOB AFFECT HOW LONG YOU WILL LIVE?

*Dear Sid*

Of course your job and your life expectancy are related. We all know that. It may simply be because some jobs are better paid than other jobs and life expectancy is linked to wealth. It may be because some jobs are more demanding than other jobs and this adds to the wear and tear on our bodies.

Whatever the reason, there is conclusive evidence that companies expect quite different life expectancies for their employees.

Why is this important (aside from the obvious personal interest)? For a number of reasons:

- Companies need to know what mortality assumptions to use in calculating the pension liabilities shown in their accounts;
- Shareholders need to know whether the mortality assumptions used by companies in their accounts are reasonable;
- Companies and trustees need to know what mortality assumptions to use in working out the contributions that need to be paid into the pension scheme.

- PCS has analysed the information published by FTSE100 companies on how long they expect their employees to live.
- A recent CMI paper has produced the most conclusive evidence yet of how long members of pension schemes are living.
- We are therefore able to present the most up to date picture of life expectancy by industry sector.

There has been much concern recently of a widespread failure to recognise the changes that are happening to longevity. It is good news of course. We are all living longer. But this comes at a high price, as our pensions become a lot more expensive.

The concern over this failure to recognise what is happening on longevity was highlighted in a letter to the Financial Times in February last year from 12 of the UK's leading equity analysts from all corners of the City. This letter was a plea for more transparency on mortality assumptions used by companies. Since that letter was published, there has been a remarkable increase in the number of companies disclosing mortality assumptions to their shareholders. Two years ago just two or three companies told their shareholders what mortality assumptions they had made. Now nearly all companies give this information to shareholders.

### So what does the latest research tell us?

We have combined the research that PCS has carried out on the information disclosed in the accounts of FTSE100 companies with the latest research from the Continuous Mortality Investigation (CMI). The CMI is the largest single research project organised by the UK Actuarial Profession and they have been collecting mortality data for over 80 years. More recently they have been investigating the mortality of members of self-administered pension schemes and they published their latest findings on this investigation earlier this month.

This combination of the latest research from PCS and the CMI gives a unique snapshot on the latest picture on mortality and life expectancy and particularly how it varies across different industries. The table below shows a comparison of the life expectancy of a man aged 65 between that implied by the CMI research (based on actual deaths of pension scheme members between 2000 and 2004) and that assumed by FTSE100 companies in their accounts:

Industry	Life expectancy for a male aged 65 based on:	
	Analysis of actual deaths 2000 - 2004 (years)	Assumptions used by FTSE100 companies (years)
Basic industries	19.3	20.0
General industries	19.5	21.0
Non-cyclical consumer goods	19.7	19.4
Cyclical services	19.3	20.4
Utilities	20.0	19.9
IT	19.7	19.9
Financials	20.9	21.6

Whilst the first column shows life expectation based on historic analysis of deaths, the second column shows how long a 65 year old man is currently expected to live. As we are living longer every year (more below), we would expect that the second column should show greater life expectancy than the first column.

The research throws up a number of other interesting results. First it is clear that life expectancy varies significantly by size of pension. The CMI research implies a life expectancy for a male aged 65 of 19 years for those on a pension of less than £3,000 per annum, against 23 years for those on a pension of more than £13,000 per annum.

The PCS research shows huge variations from company to company which do not always seem justified by their industry sector. The companies with the longest and shortest life expectancies (as assumed and disclosed in their most recent report and accounts) are as follows:

FTSE 100 companies assuming the highest life expectancies	Male, current age 65 (years)	Female, current age 65 (years)
British Land	24.6	27.6
Land Securities	24.0	27.1
Aviva	23.3	26.2
InterContinental Hotels	23.0	26.0
Next	22.7	24.7

FTSE 100 companies assuming the lowest life expectancies	Male, current age 65 (years)	Female, current age 65 (years)
BAT	18.5	21.3
Imperial Tobacco	18.4	19.9
Mitchells & Butlers	17.8	20.7
Tesco	17.5	21.9
Whitbread (retail)	16.5	19.2

### What about future changes in life expectancy?

Current life expectancy tells only part of the story. The other key factor is the rate at which life expectancy is improving. It is a staggering feature of mortality changes in the UK today that life expectancy is now improving at the rate of 2 years every decade, or put another way that is 5 hours every day. Can this level of improvement continue? We don't know. There are many factors and medical advancements, in areas such as heart disease, that are causing the current rapid rise in life expectancy. But at present, this rapid pace of improvement shows no sign of slowing.

Are companies anticipating these changes in life expectancy when assessing their pension liabilities? Well, a look at the PCS research would suggest not. We estimate that, on average, companies are anticipating that life expectancy will increase by just 1.3 years in the next 20 years. This means if current trends continue, companies may well be in for further pension shocks.

### So what should companies be doing?

In the context of the proper planning and management of their pension liabilities, companies need to understand where they stand and what problems lie in store. Also companies need to understand what their competitors and other companies in their sector are doing on their mortality assumptions. PCS can help companies gain this proper understanding and assist in potential solutions.

For more information on how we might help please contact Charles Cowling on 0161 242 5388 or Rob Dales on 0113 203 5883.

Yours sincerely




For further information on the services PCS can offer you, please email us at [solutions@pensionstrategies.co.uk](mailto:solutions@pensionstrategies.co.uk) or visit our website at [www.pensionstrategies.co.uk](http://www.pensionstrategies.co.uk) to register your interest. Alternatively call Charles Cowling on 0161 242 5388 or Rob Dales on 0113 203 5883.

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