

Managing risk in the LGPS – a spotlight on longevity risk





Richard Warden
Partner
Hymans Robertson



Jill Jamieson
Head of Pensions
Club Vita UK

Introduction

When we advise LGPS funds on longevity risk, we look to **Club Vita** to provide the latest tools and insights. Club Vita provides longevity analytics across the pensions industry. At the **fourth webinar** in our LGPS risk management series - “A spotlight on longevity risk” – Jill Jamieson, Head of Pensions at Club Vita UK, shared Club Vita’s latest insights into whether there have been excess deaths among LGPS pensioners.

LGPS pensioners are bucking the trend

2022 was another unusual year for UK mortality. Mortality rates in 2022, whilst lower than in 2020 and 2021, were significantly higher than what we might have expected based on pre-Covid-19 trends. We estimate that during 2022, mortality was around 6% higher in England & Wales¹ than what we might have expected based on pre-Covid-19 mortality rates. Higher than expected mortality rates are often referred to as “excess mortality”.

Initial indications from Club Vita’ dataset², which includes over 1.5million LGPS pensioner records, are that excess mortality rates during 2022 were **significantly lower for LGPS pensioners than for the overall population**. These results tell us there may be something about being an LGPS pensioner which is providing a protective effect. We don’t know exactly what this is, but one example might be the benefit of receiving a guaranteed income for life.

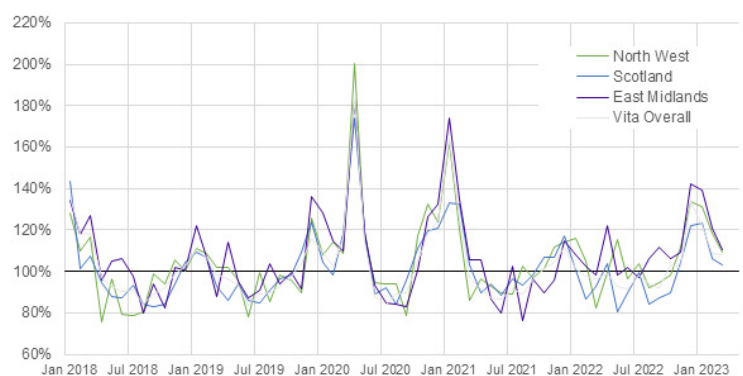
Some areas hit harder than others

We observe excess mortality rates across almost all UK regions during 2020 and 2021. However, we also see that some areas of the UK have been hit harder during the pandemic and the post-pandemic period than others.

The chart below, discussed during the webinar, shows excess mortality by month observed in the East Midlands, Scotland and the North West. Data again comes from the Club Vita dataset³ enriched with monthly updates from our life existence checking mortality feed.

Whilst the first and second waves of the pandemic can be clearly seen in all three populations, each region has its own pattern of excess rates over time. We see a particularly high level of variation in excess mortality rates during 2022, with Scottish pensioners exhibiting significantly lower rates of excess mortality than those in the East Midlands.

Excess mortality by region



¹England and Wales population data as embedded in the CMI Mortality projections Model

²LGPS excess mortality rates calculated using data provided by LGPS members of Club Vita participating in our Life Existence Checking (LEC) initiative, enriched with data provided by our LEC provider. Results are provisional, based on an initial analysis of LEC mortality feed.

³Excess mortality rates calculated using data provided by all members of Club Vita participating in our Life Existence Checking (LEC) initiative, enriched with data provided by our LEC provider. Excess mortality represents observed Age Standardised Mortality Rates (ASMRs) covering ages 65 to 95 compared with expected ASMRs based on the 2013-19 trend. Unisex ASMRs defined as unweighted average of male and female ASMRs. Results are provisional, based on an initial analysis of LEC mortality feed.

What does the future hold?

The recent longevity turbulence serves as a reminder that LGPS funds (and their actuaries) should actively monitor longevity trends to ensure their funding plans remain on track.

When assessing how longevity trends are likely to emerge in the coming years, a useful approach is to:

- assess what the key drivers of ongoing excess mortality are during the post pandemic period; and
- consider whether these drivers are likely to be shorter or longer lived.

For example, we saw lower levels of excess mortality amongst LGPS pensioners in 2022 compared with the overall English and Welsh population. However, the widely used CMI Mortality Projections Model is calibrated using population data. What adjustments therefore should be made to the core model when it's applied to a particular group of LGPS pensioners?

Risk management: action for funds

What can LGPS funds do to manage longevity risk? You might consider the following:



1. Understand your risk exposure and appetite

– this will feed into how prudent or otherwise you want to be on assumption setting.



2. Keep a regular eye on your own longevity experience

– is the data suggesting that the assumptions need changed?



3. Tailor your assumptions

– for example, to reflect your beliefs about future improvements.



4. Retain a longevity buffer

– with funding positions currently strong, should some of the surplus be used as a contingency against the risk of members living longer than assumed?

If you would like to know more about the excess mortality observed in your region, or Fund, please contact Jill Jamieson of Club Vita (Jill.Jamieson@clubvita.net) or your usual Hymans Robertson Consultant.