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Project **Post-employment benefits**

Topic **Mortality assumptions**

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## Objective

1. This paper provides:
  - (a) an overview of the proposals in the exposure draft *Defined Benefit Plans* (the ED) relating to mortality assumptions (paragraphs 3 - 4).
  - (b) an overview of responses to the ED (paragraphs 5 - 7).
  - (c) a staff analysis and recommendation (paragraphs 8 - 10).
2. The staff recommends that the Board confirm the proposed clarification in the ED that mortality assumptions include current estimates of expected improvements in mortality.

## Background

3. The exposure draft proposed to make explicit in paragraph 73(a)(i) that the mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. In the Board's view, current estimates of mortality rates provide the best estimate of the amount that reflects the ultimate cost of settling the defined benefit obligation.
4. The ED proposed the following amendments:

73 Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of

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The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

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The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

IASB Staff paper

providing ~~post-employment~~ long-term employee benefits.  
Actuarial assumptions comprise:

- (a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:
  - (i) current estimates of the expected mortality rates of plan members, both during and after employment;
  - (ii) rates of employee turnover, disability and early retirement;
  - (iii) the proportion of plan members with dependants who will be eligible for benefits; ~~and~~
  - (iv) the proportion of plan members who will select each form of settlement option available under the plan terms; and
  - (v) claim rates under medical plans; and

**Feedback received**

5. Question 13(f) of the ED asked:

**Question 13 (f)**

The exposure draft also proposes to amend IAS 19 as summarised below:

...

(f) The mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. (Paragraphs 73(a)(i) and BC91)

...

Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?

6. Many respondents agreed that the best estimate mortality assumptions should be based on estimates of expected mortality rates, including expected

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improvements in mortality. However, many were unsure why the Board was making the amendment and whether the amendment implied that expected improvements in mortality should not be included in the assumption and suggested that this should be made explicit. Some were concerned about why the Board was using ‘current estimate’ since such language is not used anywhere else in IAS 19 and found references to ‘current’ and ‘expected’ confusing and suggested the deletion of ‘current’.

7. Some noted that in some countries the available data to estimate future development of mortality rates is not sufficient or reliable and that the Board should clarify this without prescribing a single method or approach such as a projection (static or generational) of the mortality rates.

**Staff analysis and recommendation**

8. The proposed amendment was intended to clarify that mortality assumptions include current estimates of expected improvements in mortality. IAS 19 currently requires demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (paragraph 73(a)) in determining the ultimate cost of the benefits. Demographic assumptions include mortality, turnover and medical claim rates.
9. In addition, the proposed amendment is consistent with the discussion of medical cost assumptions in paragraphs 88 to 90 of IAS 19 which state the following:
  - 88 Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.
  - 89 Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or

IASB Staff paper

other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.

90 The level and frequency of claims is particularly sensitive to the age, health status and sex of employees (and their dependants) and may be sensitive to other factors such as geographical location. Therefore, historical data is adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the historical data. It is also adjusted where there is reliable evidence that historical trends will not continue.

10. Some constituents are concerned about the drafting of the amendments and the staff will consider drafting suggestions when finalising the amendment.

**Question 1**

Does the Board agree to confirm the proposed clarification in the ED that mortality assumptions include current estimates of expected improvements in mortality?

If not, what do you propose and why?