Pulse

Benefits in Asia

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Thailand: New mortality assumptions for long-term employee benefits accounting

The Thai insurance regulator, the Office of Insurance Commission (OIC), has recently released new insured lives mortality tables. It is expected that companies will adopt the new TMO17 tables as the mortality assumption for valuing their post-retirement and other long-term employee benefits under Thai Accounting Standard 19 (TAS19) and similar international accounting standards.

In this edition of Pulse, we provide commentary on the introduction of the new mortality tables, compare the new tables to the previous ones, and estimate the likely impact on companies' balance sheet liabilities and profit or loss costs for post-retirement benefits.

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New TMO17 mortality tables

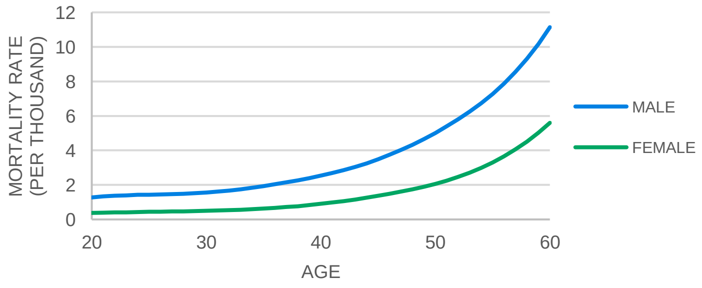
On 31 August 2017, the OIC released the TMO17 mortality table for ordinary business, replacing TMO08.[1]

It is not compulsory for these mortality tables to be used by companies when they value their post-retirement and other long-term employee benefits. However, it is expected that use of these tables will become standard market practice. It is rare for companies to base their mortality assumption on their own employees' experience given the limited credibility of their data, so reference tends to be made to a standard market table.

The new tables at the core working ages of 20 to 60 are illustrated in the adjoining chart. Rates at a few sample working ages are also shown in the table.[2]

The mortality rates represent the expected number of deaths per thousand of population. For example, the TMO17 tables anticipate that out of every 1,000 males aged 50, 5 will pass away before their 51st birthday.

FIGURE 1: TMO17 AT SAMPLE WORKING AGES (RATES PER THOUSAND)



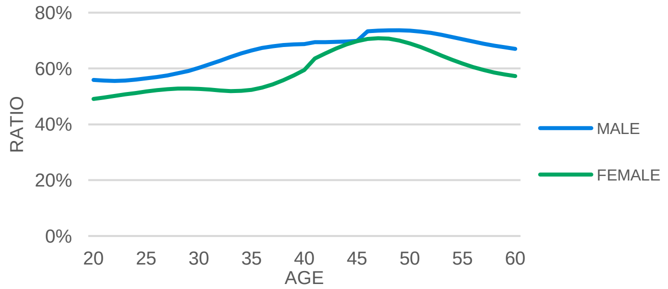
AGE	MALE	FEMALE
20	1.2743	0.3774
30	1.5586	0.4998
40	2.5348	0.9024
50	5.0075	2.0594
60	11.1381	5.5964

Improvements in mortality

The new mortality tables have been set by reference to the emerging death claims experience of the Thai life insurance industry over recent years, which has seen, in general, continuing improvements in mortality.

The ratio of the rates in the new table TMO17 to the prior table TMO08 over the core working ages is shown below:

FIGURE 2: RATIO OF TMO17 TO TMO08 AT WORKING AGES



The lower ratio for females highlights that the mortality improvement between the two tables has been higher for females. The rate of improvement also varies by age.

[1] OIC also published TMI17 in respect of industrial business, a class of insurance business with lower face values sold to lower socio-economic groups in Thailand. This table, and its predecessor TMI08, is typically not used for accounting for long-term employee benefits.

[2] The rates shown are the base mortality rates under TMO17, excluding any explicit margin which may be added to the tables by insurers under OIC guidance.

Potential impact on post-retirement liabilities and costs

Changing any actuarial assumption will have an impact on a company's reported liabilities and costs for their post-retirement or other long-term benefits.

The main post-retirement benefit that companies account for in Thailand is the severance payment under the Labour Protection Act, which provides for a lump sum benefit payable at retirement age. Based on a typical set of market actuarial assumptions, and considering a typical workforce profile, we estimate that the increase in a company's balance sheet liability (defined benefit obligation under TAS19) and profit or loss cost (service cost and interest cost under TAS19) in respect of the legal severance payment to be in the range of 1% to 3%.

The impact depends on the age, gender and salary profile of the company's employees as well as the company's retirement age. While this range is likely to be indicative for most companies, the actual impact could lie outside this range.

For companies accounting under TAS19 or similar global standards, the increase in the balance sheet liability as a result of the change in the mortality assumption will flow through other comprehensive income at the balance sheet date and increase the cost in profit or loss for the following year.

Companies should discuss the assumption change with their auditor and their actuary.

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