FAQ regarding adjustment of life expectancy

General questions

From what date is the adjustment of changed life expectancy valid?
From 30th of June 2011.

What pensions are affected?
ITP 2 pension plan in book reserve method, previously known as FPG/PRI model, is affected by the change. ITP 2 is credit insured and administered by PRI Pensionsgaranti.

With how much will the pension liability increase?
The pension liability will increase with on average 7 % but can vary due to the composition of the pension liability i.e. men, women, young and old.

Will I get access to the new liability forecast?
Yes, the liability forecast for ITP 2 pension plan in book reserve method is available on our website, pripensionsgaranti.se.

Will our credit insurance be affected?
No, your credit insurance agreement continues to be valid. At the end of the agreement period, a customary credit assessment is made, taking the current circumstances into account.

How should we report the increased pension liability in the financial accounts?
The liability increase, following the changed assumptions, should be reported in the same way as a normal liability increase, i.e. as a pension cost.

Which facts is the adjustment of life expectancy based on?
The analysis of persistence shows the necessity of adjusting our current life expectancy. The change is based on SCB’s (Statistics of Sweden) 50-year prognosis from autumn 2010, where mortality rates have been estimated. The prognosis shows an increased life expectancy among older generations. SCB believes that this rate will level out in the future.

Why is the change introduced on such short notice?
The mission for PRI Pensionsgaranti is to communicate and implement the change as promptly as possible after the decision was taken.

What would be the consequences if the life expectancy was not changed?
An unchanged life expectancy would lead to inadequate reserves in the future.

How will the changes affect our pension foundation?
If the policy includes that the foundation should be fully consolidated, supplementary depositions may be needed.

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Will the company be over-reserved due to the increase?

No, our goal is to keep the reserved liability, the expected payment, as close to reality as possible.

For how much longer are women and men expected to live?

A 65-year-old woman is expected to live one and a half years longer (on average 24.8 years after turning 65). A 65-year-old man is expected to live over two years longer (on average 23.0 years after turning 65).

Will life expectancy continue to increase in the future?

SCB's prognosis shows that life expectancy of men and women will increase slightly. However, the increase rate will diminish in around 20 years from now.

Will the special payroll tax and the tax on asset return be affected by the change?

In the Swedish accounts the special payroll tax is affected already in June 2011 as the item "Provisions for pensions, etc." increases. The tax on asset return will not be affected until 2012, since the tax base is the pension liability at the beginning of the year.

IAS 19

Will the IAS 19-estimation be affected by the change of life expectancy?

Yes. In addition, the change affects the calculation of pension liability according to IAS 19. The liability will increase with on average 8 %.

Where in the IAS 19-reports from PRI Pensionsgaranti will the change be shown?

The result of the change will be published below the actuarial profits and losses and will be stated as a loss due to the changed assumption.

Will the change affect the net profit?

The assumption of the life expectancy is classified as an actuarial loss.

If you apply the corridor method

You have chosen to manage the actuarial profit/loss with the "corridor", which means that you can push forward the result of the assumption of the changed life expectancy. The change will therefore not affect the net profit.

If you report actuarial profit/loss over "Residue" total result (OCI)

You have chosen to manage the actuarial profit/loss over Other Comprehensive Income (OCI), which means that the effect of the result of the assumption of life expectancy will affect non-restricted equity. The change will not affect the net profit.

How should we handle the result in the semi-annual report?

The change can be stated as a "note" in the semi-annual report. Below are two suggestions:

If you apply the corridor method

IAS 19- Information regarding changed life expectancy assumption

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PRI non-profit organisation has decided to update the life expectancy change regarding the calculations of pension liability according to ITP 2 pension plan, June 30th, 2011. PRI Pensionsgaranti has estimated that the liability of the ITP 2-pension plan, that is valued according to IAS 19, will increase with on average 8 %.

The assumption of changed life expectancy is classified as an actuarial loss.

We manage actuarial profit/loss over what is known as the "corridor". This means that we can push forward the result of the assumption of changed life expectancy. The change will not affect the net profit.

More information is available on PRI Pensionsgaranti's website, pripensionsgaranti.se

If you report actuarial profit/loss over Other Comprehensive Income (OCI)
IAS 19- Information regarding change life expectancy assumption

PRI non-profit organisation has decided to update the life expectancy change regarding the calculations of pension liability according to ITP 2 pension plan, June 30th, 2011. PRI Pensionsgaranti has estimated that the liability of the ITP 2 pension plan, that is valued according to IAS 19, will increase with on average 8 %.

The assumption of changed life expectancy is classified as an actuarial loss.

We manage actuarial profit/loss over Other Comprehensive Income (IOC) which means that the effect of the changed life expectancy will affect your non-restricted equity. The change will not affect the net profit.

More information is available on PRI Pensionsgaranti's website, pripensionsgaranti.se

Will the special payroll tax and the tax on asset return be affected by the change?
The special payroll tax is affected as the tax base increases corresponding to the increase of the pension liability. As far as IAS 19 is concerned no allowance is made today for the tax on asset return.

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