Pensions accounting trends

31 December 2024

Observed market practice on pensions accounting assumptions at 31 December 2024

This document sets out the market practice on pensions accounting assumptions at 31 December 2024 that PwC has observed, key market indicators and current pensions accounting developments.

Assumption	Assumptions at 31 December 2024			Assumptions at 31 December 2023			Sensitivity for £500m scheme (0.1% pa / 1yr)
	Optimistic	Median	Prudent	Optimistic	Median	Prudent	
Discount rate	5.8% pa	5.5% pa	5.4% pa	4.8% pa	4.6% pa	4.4% pa	c.£7m
RPI inflation	3.0% pa	3.2% pa	3.5% pa	2.9% pa	3.1% pa	3.4% pa	c.£5m
CPI inflation	2.4% pa	2.8% pa	3.1% pa	2.3% pa	2.7% pa	3.0% pa	c.£3m
Life expectancy (male @ 65)	20 years	21 years	23 years	20 years	22 years	24 years	c.£15m

Notes to the above:

1. *These ranges cover schemes of all commonly observed durations and do not represent PwC's internal acceptable ranges.*
2. *The sensitivity figures shown represent a typical scheme with liabilities of £500m.*
3. *The RPI inflation assumption sensitivity allows for an equivalent movement in the CPI inflation assumption.*
4. *The ranges of CPI inflation assumptions quoted reflect an average of pre- and post-2030 rates for a range of different schemes that we have observed in the market.*
5. *Life expectancies are specific to each scheme's population and should generally be set based on scheme-specific factors and analysis.*

Key market indicators	31 December 2024	30 September 2024	Change	31 December 2023	Change
FTSE All-Share Total Return Index	9,913.43	9,948.39	DOWN 0.4%	9,056.23	UP 9.5%
UK fixed interest gilt index (>15 years)	3,355.62	3,613.90	DOWN 7.1%	3,754.74	DOWN 10.6%
iBoxx AA corporate bond index yield (>15 years)	5.48% pa	5.06% pa	UP 0.42% pa	4.51% pa	UP 0.97% pa
RPI inflation (20-year spot rate)	3.46% pa	3.41% pa	UP 0.05% pa	3.40% pa	UP 0.06% pa

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Current pensions accounting developments

Market movements over the quarter

Whilst UK equities fell during the final quarter of 2024, the FTSE All Share Total Return Index was up around 9.5% for the year.

UK bond prices also declined over the quarter, possibly due to growing concerns over the UK macroeconomic outlook, as the Bank of England continued its bond selling programme. With prices falling, yields on UK government bonds and high quality corporate bonds rose by approximately 0.5% p.a. and 0.4% p.a. respectively. Consequently, implied credit spreads narrowed by around 10 bps, whilst long-term inflation expectations edged up by around 0.10% p.a. over the quarter.

UK inflation update

Annual UK inflation reached its lowest levels in over 3 years in September (1.7% CPI and 2.7% RPI) but has steadily risen since, to 2.6% and 3.6% in November respectively. In response to CPI falling below the Bank of England's (BoE's) 2% target, the BoE cut the base interest rate by 0.25% to 4.75% in November, following a similar reduction in August. The BoE noted in November that the pace of any further rate cuts remains dependent on inflation remaining close to the target.

UK DB pension schemes' surpluses hit a new record in October, as estimated by PwC, and these are likely to have increased further given higher bond yields.

Autumn Budget

The pension changes announced in the Autumn Budget, presented on 30 October 2024, were more modest than some market commentators expected and did not have immediate pensions accounting implications.

Virgin Media case

More background on this can be found in our September 2024 update. Many companies are reviewing their historical documentation to check for the relevant actuarial confirmations. Auditors generally expect companies to address the ruling's implications for their pension schemes by:

- Engaging with Trustees to review relevant documentation.
- Identifying potential compliance issues with historical amendments.
- Seeking legal and actuarial advice as needed to understand consequences and quantify impacts.
- Including appropriate disclosures in financial statements, outlining investigations and conclusions reached.

While some industry bodies continue to lobby for possible government intervention, and there is a court case being heard in February which may have some relevance, no further legislative changes have been announced. Companies are therefore expected to treat the judgment as settled case law when preparing their 31 December 2024 year-end accounts, with clear disclosures to address auditor expectations.

PwC

With over 2,500 pension experts around the world and unrivalled expertise in audit and accounting, PwC is uniquely placed to help companies understand the impact of their pension arrangements on their financial statements.

PwC's market-leading online tool, Consolidate, enables companies to seamlessly consolidate their IFRS or US GAAP results, interrogate the results, test the impact of key economic changes, carry out projections, track the latest market movements and produce fully compliant downloadable disclosures at any date.

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