

Pensions accounting trends

30 June 2024

Observed market practice on pensions accounting assumptions at 30 June 2024

This document sets out the market practice on pensions accounting assumptions at 30 June 2024 that PwC has observed, key market indicators and current pensions accounting developments.

Assumption	Assumptions at 30 June 2024			Assumptions at 30 June 2023			Sensitivity for £500m scheme (0.1% pa / 1yr)
	Optimistic	Median	Prudent	Optimistic	Median	Prudent	
Discount rate	5.3% pa	5.2% pa	5.1% pa	5.5% pa	5.3% pa	5.1% pa	c.£7m
RPI inflation	3.0% pa	3.2% pa	3.5% pa	3.1% pa	3.3% pa	3.6% pa	c.£5m
CPI inflation	2.4% pa	2.7% pa	3.0% pa	2.4% pa	2.7% pa	3.1% pa	c.£3m
Life expectancy (male @ 65)	20 years	21 years	23 years	20 years	22 years	23 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	30 June 2024	31 March 2024	Change	30 June 2023	Change
FTSE All-Share Total Return Index	9,728.85	9,379.30	UP 3.7%	8,610.81	UP 13.0%
UK fixed interest gilt index (>15 years)	3,520.79	3,621.20	DOWN 2.8%	3,480.82	UP 1.1%
iBoxx AA corporate bond index yield (>15 years)	5.13% pa	4.80% pa	UP 0.33% pa	5.14% pa	DOWN 0.01% pa
RPI inflation (20-year spot rate)	3.49% pa	3.52% pa	DOWN 0.03% pa	3.56% pa	DOWN 0.07% pa

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Current pensions accounting developments

Market movements over the quarter

UK equities continued their strong performance in the second quarter of 2024, with the FTSE 100 reaching a new all-time high in May. The FTSE All Share Total Return Index gained 3.7% over the quarter, comparable to the 3.6% rise in the first quarter: it is now 13% up on a year ago.

Bond yields rose over the quarter as markets revised their expectations of interest rate cuts over concerns around inflation data, despite inflation continuing to fall (see below). Yields on UK government bonds and high quality corporate bonds ended the quarter up by c. 0.25% p.a. and c. 0.35% p.a. respectively, leading to a c. 0.10% p.a. increase in implied credit spreads.

Long-term inflation expectations decreased slightly over the last quarter.

Strong equity performance, rising bond yields and the small drop in inflation expectations helped to keep the aggregate 'buyout' surplus of the UK's 5,000 corporate defined benefit pension schemes at a healthy £260bn, [as estimated by PwC](#).

UK inflation update

Annual UK inflation fell over the quarter, from 4.3% and 3.2% in March 2024 to 3.0% and 2.0% in May 2024 for RPI and CPI inflation respectively. Despite CPI inflation hitting the Bank of England ('BoE') target of 2% (for the first time since July 2021), the BoE maintained the base rate at 5.25%, [noting](#) that monetary policy will need to 'remain restrictive for sufficiently long' for inflation to return to the 2% target sustainably in the medium term.

Mortality update ("CMI 2023")

The latest version of the Continuous Mortality Projections model (CMI 2023) was released on 18 April. The CMI chose to adopt a core weighting parameter of 15%, applied to mortality experience in both 2022 and 2023 (with no weighting applied to either 2020 or 2021, as before), against a backdrop of falling mortality rates during 2023 and early 2024, and a range of views offered by the actuarial profession.

Moving from the core CMI 2022 model to the core CMI 2023 model is expected to lead to a small reduction in liabilities. Companies will need to decide whether to use the core model parameters or use alternative parameters having considered the views of their actuarial advisors. Auditors will likely require evidence to support a company's choice of parameters.

Appeal hearing in the Virgin Media case

The Court of Appeal heard the arguments in relation to the June 2023 High Court ruling (Virgin Media Limited v NTL Pension Trustees II Limited) on 26 and 27 June 2024. The accounting implications of the appeal will need to be considered by companies when the judgment is known, although it's not currently clear when the judgment will be published, i.e. before or after the court recess. Companies may be expected to provide appropriate disclosure on this issue, in particular reflecting any uncertainties.

PwC

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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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