

# Pensions accounting trends

## 30 September 2024

### Observed market practice on pensions accounting assumptions at 30 September 2024

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

Assumption	Assumptions at 30 September 2024			Assumptions at 30 September 2023			Sensitivity for £500m scheme (0.1% pa / 1yr)
	Optimistic	Median	Prudent	Optimistic	Median	Prudent	
Discount rate	5.2% pa	5.1% pa	5.0% pa	5.7% pa	5.5% pa	5.3% pa	c.£7m
RPI inflation	2.9% pa	3.1% pa	3.4% pa	3.1% pa	3.3% pa	3.6% pa	c.£5m
CPI inflation	2.4% pa	2.6% pa	2.9% pa	2.5% pa	2.8% pa	3.0% pa	c.£3m
Life expectancy (male @ 65)	20 years	21 years	23 years	20 years	21 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 September 2024	30 June 2024	Change	30 September 2023	Change
FTSE All-Share Total Return Index	9,948.39	9,728.85	UP 2.3%	8,772.76	UP 13.4%
UK fixed interest gilt index (>15 years)	3,613.90	3,520.79	UP 2.6%	3,282.77	UP 10.1%
iBoxx AA corporate bond index yield (>15 years)	5.06% pa	5.13% pa	DOWN 0.07% pa	5.44% pa	DOWN 0.38% pa
RPI inflation (20-year spot rate)	3.41% pa	3.49% pa	DOWN 0.08% pa	3.61% pa	DOWN 0.20% pa

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### Current pensions accounting developments

#### Market movements over the quarter

UK equities rose during the quarter, possibly driven by the new UK government raising hopes of economic recovery. Additionally, the Bank of England's (BoE) decision to cut interest rates in August, the first cut in over four years, may have further boosted market sentiment. The FTSE All Share Total Return Index gained 2.3% over the quarter and was 13.4% up on a year ago.

UK bond returns were also positive as yields fell, with those on both UK government bonds and high quality corporate bonds down by c.0.10% p.a. for the quarter. Implied credit spreads therefore remained broadly unchanged, whilst long-term inflation expectations fell by c.0.10% p.a. over the quarter.

Despite falling bond yields, positive asset returns and falling long-term inflation expectations helped to push the aggregate 'buyout' surplus of the UK's 5,000 corporate defined benefit pension schemes to a new record of £300bn in September, as estimated by PwC.

#### UK inflation update

Annual UK inflation increased slightly from June to August, with CPI inflation moving up to 2.2% from 2.0% and RPI inflation up to 3.5% from 2.9% (the rises were partly due to last summer's energy price falls coming out of the annual figures). The BoE reduced the base rate by 0.25% to 5.0% in August after two consecutive months of CPI inflation hitting the BoE target at 2% (in May and June). Whilst the BoE then kept the base rate unchanged in September, noting that it was appropriate to maintain a gradual approach to removing monetary policy restraint, it has since suggested that it might be "a bit more activist" in cutting interest rates if inflation news continues to be good.

#### Appeal outcome in the Virgin Media case

Following the 2023 High Court ruling in the Virgin Media Limited v NTL Pension Trustees II Limited case, that decided that certain rule amendments were invalid if these were not accompanied by actuarial confirmations (Section 37 certificates), an appeal on this decision was heard in June 2024. The Court of Appeal ruled in July that the appeal was unsuccessful, i.e. it upheld the original High Court judgment, removing uncertainty around its application.

Whilst some commentators have cited the potential for intervention by the government, since the ruling forms part of case law, auditors are generally expecting companies to investigate what this means for their schemes. This investigation will likely involve engaging with the Trustees to establish what documentation is available in respect of the relevant amendments, identifying potential issues, obtaining legal advice and, if necessary, quantifying the impacts using their actuarial advisors.

Companies will then likely need to consider appropriate disclosure to include in their accounts, describing the issue and setting out their position, including details of any investigations made and their conclusions.

#### 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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