

Pensions accounting trends

31 March 2020

Observed market practice on pensions accounting assumptions at 31 March 2020

This document sets out the market practice on pensions accounting assumptions at 31 March 2020 that PwC has observed, key market indicators and current pensions accounting developments.

Assumption	Assumptions at 31 March 2020			Assumptions at 31 March 2019			Sensitivity for £500m scheme (0.1% pa / 1yr)
	Optimistic	Median	Prudent	Optimistic	Median	Prudent	
Discount rate	2.6% pa	2.4% pa	2.2% pa	2.5% pa	2.4% pa	2.3% pa	c.£10m
RPI inflation	2.4% pa	2.6% pa	2.9% pa	3.0% pa	3.2% pa	3.5% pa	c.£8m*
CPI inflation	1.5% pa	1.7% pa	2.0% pa	2.0% pa	2.2% pa	2.5% pa	c.£4m
Life expectancy (male @ 65)	20 years	22 years	24 years	20 years	22 years	24 years	c.£15m

*RPI inflation assumption sensitivity allows for an equivalent movement in the CPI inflation assumption.

Key market indicators	31 March 2020	31 December 2019	Change	31 March 2019	Change
FTSE All-Share Total Return Index	5,868.21	7,837.96	DOWN 25.1%	7,196.18	DOWN 18.5%
UK fixed interest gilt index	6,491.75	5,837.64	UP 11.2%	5,521.06	UP 17.6%
iBoxx AA corporate bond index yield	2.31% pa	2.00% pa	UP 0.31% pa	2.36% pa	DOWN 0.05% pa
RPI inflation (20-year spot rate)	3.05% pa	3.42% pa	DOWN 0.37% pa	3.65% pa	DOWN 0.60% pa

Notes

- The figures in this document are for illustrative purposes only. The ranges quoted do not represent PwC's internal expected ranges and cover schemes of all commonly observed durations.
- The sensitivity figures provided represent a typical scheme with liabilities of £500m.

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Current pensions accounting developments

Market movement over the quarter

Over the quarter to 31 March 2020, UK equities suffered large falls and considerable volatility due to the economic impact of the COVID-19 virus. This led to the worst quarter for the FTSE 100 since 1987, with the FTSE All-Share Total Return Index ending the quarter 25% down.

Bond yields were also very volatile. AA-rated corporate bond yields fell to an all-time low of 1.5% pa on 6 March but then doubled to 3% pa over the next week or so (including a 50 basis point rise in a single day), during which time (on 11 March) the Bank of England (BoE) reduced the base rate from 0.75% pa to 0.25% pa. The BoE further cut the base rate to 0.10% pa on 19 March - the lowest level since the BoE was founded in 1694 - and also expanded their Quantitative Easing (QE) programme. Corporate bond yields promptly dropped 40 basis points in a day, and have remained relatively stable since. They ended the first quarter of 2020 at around 2.3% pa, a 0.3% pa increase over the quarter.

Similarly, long-term UK gilt yields experienced considerable volatility, falling to an all-time low of 0.5% pa on 9 March, before recovering sharply in the following week then falling again. They ended March at around 0.8% pa, a 0.5% pa decrease over the quarter. Implied credit spreads have therefore widened by around 0.8% pa, likely reflecting the gloomy economic outlook.

Long-term inflation expectations fell by 0.4% pa over the quarter. The market does not seem to have reacted particularly to the RPI consultation (see below for details) so it may simply be general market volatility that has led to this fall.

RPI consultation

Following their previous [announcement](#), the UK Government launched a [consultation](#) on 11 March 2020 on the UK Statistics Authority (UKSA) proposal to align RPI with CPIH in 2030. The consultation will cover, among other things, whether the UKSA's proposal might be implemented as early as 2025 or at some date between 2025 and 2030, and issues on technical matters concerning the implementation of its proposal. The consultation is open for a period of six weeks, closing on 22 April. The Government and UKSA will respond to the consultation before the parliamentary summer recess.

New longevity projections model

The latest version of the Continuous Mortality Investigation (CMI) projections model, [CMI 2019](#), was released on 2 March 2020. The model produces life expectancies c.1 month higher than the CMI 2018 model. For a typical scheme, this could increase the scheme liabilities by c.0.3%. This is much smaller than the reduction in mortality seen in previous model updates (c.19 month cumulative reduction from CMI 2013 to CMI 2018). There are no new parameters or changes in core parameters from CMI 2019 compared to CMI 2018 - it is purely a data update to allow for 2019 mortality data. As with previous models, the core model parameters are intended to be suitable for the general population of England and Wales (the dataset underlying the model) and companies should consider scheme-specific characteristics when setting the mortality assumption for their occupational pension schemes.

It is currently too early to reliably estimate the impact of COVID-19 on mortality rates and so we do not yet expect companies to make any allowance for this in their mortality assumptions

Brief IASB updates: Disclosure Initiative and IFRIC 14

During the quarter, the IASB discussed their Disclosure Initiative in relation to employee benefits and are currently working to produce an Exposure Draft of amendments to the disclosure sections of IAS 19. They also decided not to finalise the proposed amendments to IFRIC 14.

PwC

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