Pensions accounting trends

31 March 2024

Observed market practice on pensions accounting assumptions at 31 March 2024

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

Assumption	Assumptions at 31 March 2024			Assumptions at 31 March 2023			Sensitivity for £500m scheme (0.1% pa / 1yr)
	Optimistic	Median	Prudent	Optimistic	Median	Prudent	
Discount rate	5.1% pa	4.9% pa	4.7% pa	4.9% pa	4.8% pa	4.6% 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	2.5% pa	2.8% pa	3.1% pa	c.£3m
Life expectancy (male @ 65)	20 years	22-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	31 March 2024	31 December 2023	Change	31 March 2023	Change
FTSE All-Share Total Return Index	9,379.30	9,056.23	UP 3.6%	8,650.31	UP 8.4%
UK fixed interest gilt index (>15 years)	3,621.20	3,754.74	DOWN 3.6%	3, 796.81	DOWN 4.6%
iBoxx AA corporate bond index yield (>15 years)	4.80% pa	4.51% pa	UP 0.29% pa	4.72% pa	UP 0.08% pa
RPI inflation (20-year spot rate)	3.52% pa	3.40% pa	UP 0.12% pa	3.63% pa	DOWN 0.11% pa

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Current pensions accounting developments

Market movements over the quarter

In the first quarter of 2024, global equities generally saw strong returns, supported by favourable economic indicators. UK equities lagged behind many international counterparts, with the FTSE All Share Total Return Index gaining 3.6% over the quarter, compared to c.10% in both Europe (excluding the UK) and the US. This is partly due to the poor performance of the UK economy, which was confirmed to have fallen into a technical recession in the second half of 2023.

UK bond prices fell during the quarter as markets appeared to scale back expectations of rate cuts by the Bank of England (see below). Conversely, high quality corporate bond yields rose by around 0.30% pa, with a similar increase in gilt yields, meaning that credit spreads remained broadly unchanged over the quarter.

Relatively high bond yields and strong equity growth have maintained the well-funded nature of UK pension schemes in aggregate, with PwC estimating that there was a near-record surplus in March.

Long-term inflation expectations increased by around 0.15% p.a. over the last quarter, with a larger increase in short-term rates.

UK inflation update

Annual UK inflation fell over the quarter, from 5.2% and 4.0% in December 2023 to 4.5% and 3.4% in February 2024 for RPI and CPI inflation respectively. Despite these falls, the Bank of England kept the base rate unchanged, reiterating that monetary policy will need to ‘remain restrictive for sufficiently long’ to return inflation to target (which PwC expects to happen later this month, due to lower household energy prices).

Mortality update (“CMI 2023”)

The Continuous Mortality Investigation (CMI) is expecting to release the next version of the Continuous Mortality Projections model (CMI 2023) on 18 April. The core weighting parameters, which allow users to place specific weightings on post-pandemic mortality data, are expected to partially reflect both the higher mortality rates observed in 2022 and the first half of 2023, and the lower mortality rates observed in the second half of 2023 when excess deaths were close to zero. However, the new model is not expected to change life expectancies significantly. Given this and the timing of its release, continuing to use the CMI 2022 model is likely to be acceptable to auditors.

Amendments to FRS 102

The FRC has issued Amendments to FRS 102, concluding its second periodic review of the financial reporting standards. These amendments are (mostly) applicable to accounting periods beginning on or after 1 January 2026. The amendments to “Section 28: Employee Benefits”, which applies to companies’ reporting of pensions, are relatively minor. Additionally, there is an update to the fair value measurement requirements such that assets should now be measured at the price within the bid-ask spread that is "most representative of fair value in the circumstances". Specifically it notes that the bid price is permitted for asset values but not required.

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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