LCP powering possibility

From protection to progression

£40bn of opportunity for the FTSE 100

LCP Accounting for Pensions

May 2025

Welcome to LCP's 32nd annual Accounting for Pensions report which analyses the 2024 disclosures of FTSE100 companies.

Pension surpluses seen in recent years look here to stay. The question now is what's next? With years of focus on the protection of DB schemes in the past, sponsors now have the opportunity for real progression.

Surplus proposals from the government have also been announced, with a Pensions Bill due before summer recess. Despite wider economic pressures, sponsors can make real progress with their scheme with opportunities for growth and improved outcomes for all stakeholders.

Contents

AT A GLANCE

A HUGE OPPORTUNITY

£40bn
aggregate FTSE100 surplus at 31 December 2024.

£600m+
average surplus for FTSE100 companies with a UK DB pension scheme.

5 yrs
in a row showing an overall surplus.

80%
of FTSE100 companies with a UK DB pension scheme have a pensions accounting surplus at their 2024 balance sheet date.

10%+
over 10% of FTSE100 companies with a UK DB pension scheme have a surplus in that scheme greater than 5% of their market capitalisation.

PROTECTION

£200bn+
of FTSE100 UK pension scheme assets tied up in bonds and cash.

9.5x
more invested in bonds than equities, increasing again over the year.

1 in 6
FTSE100 companies with UK DB pension schemes undertook an insurance transaction of some kind in 2024.

KEEPING PACE

10%
average CEO pension contributions (or pay in lieu) – the new normal?

1.0%
the number of companies assuming a long-term rate of improvement in longevity of 1.0% pa has doubled over the last two years

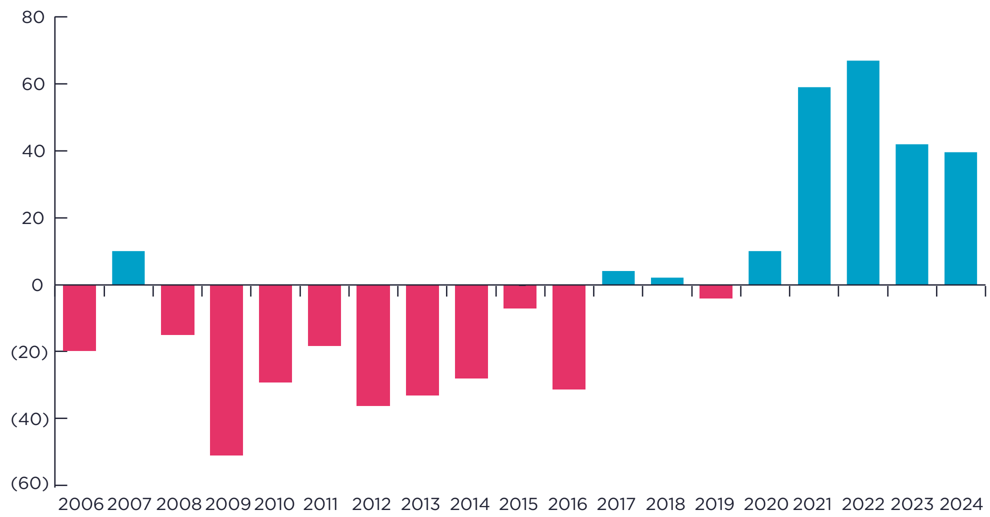
2/3
of FTSE100 companies with a UK DB pension scheme reporting at 31 Dec 2024 included commentary in relation to the Virgin Media case

SECTION 1:
REAL OPPORTUNITIES WITH SUSTAINED SURPLUSES

The tide has turned

The estimated aggregate IAS19 surplus for the FTSE100's UK DB pension schemes was £40bn as at year-end 2024. This corresponds to an average surplus of over £600m for every FTSE100 company with a UK DB pension scheme. It's the fifth year in a row showing an overall surplus and a similar position to the £42bn aggregate surplus at year-end 2023.

Estimated combined IAS19 pensions position of FTSE100 companies at calendar year-ends



After years of pain following 2008, the tide has turned, and most companies now have a pensions asset rather than a liability on their balance sheet. At present, these surpluses are not looking like the fleeting surpluses of the 90s – over the past 5 years they have survived a UK gilts market crisis, war in Europe, a global pandemic, and global trade tensions.

Is your surplus actually yours?

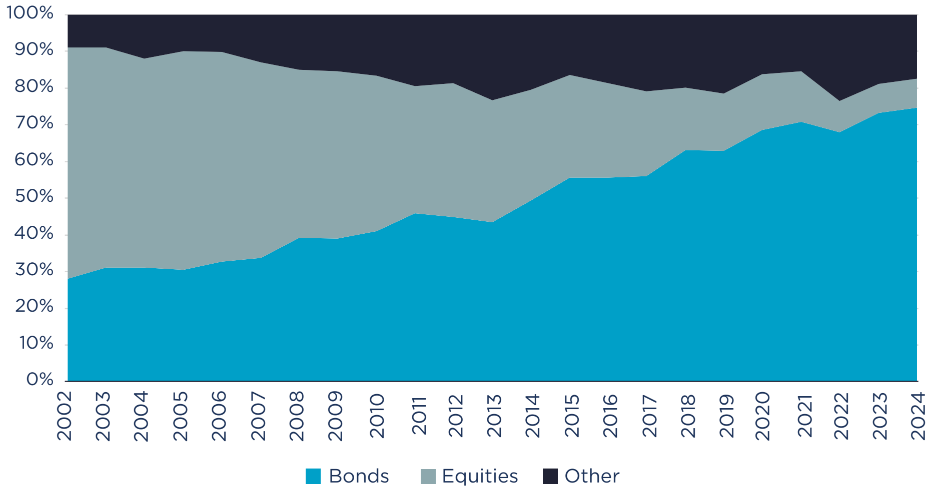
It's important that sponsors know where they stand regarding benefitting from any surplus within their scheme. Whether or not a company can access value from (or recognise an accounting surplus on their balance sheet) is currently determined by the rules of their scheme. At year-end 2024, there were 10 FTSE100 companies that disclosed some form of balance sheet restriction. From an accounting perspective, care also needs to be taken in relation to the application of the accounting interpretation, IFRIC14.

Is your surplus protected?

UK funding regulations, significant cash from UK plc, and recent market movements have contributed to high funding levels and de-risked investment strategies in UK DB pension schemes. In other words, pensions have been protected.

The following chart shows the asset allocation for the FTSE100's UK DB pension schemes over time. There has been a steady march into bonds over recent years, reducing investment risk and protecting benefits for scheme members.

Estimated asset allocation for UK pension schemes sponsored by FTSE100 companies



Time for progression?

Many traditional risks associated with DB schemes are now largely mitigated. There is an opportunity for some to run-on over the medium to longer term, and use built up surpluses for better member and sponsor outcomes.

Endgame innovation, including – where appropriate – additional protections such as capital backed solutions or contingent assets, offer sponsors the chance to get real value from their DB pension asset, whilst still providing appropriate protection for member benefits.

Jonathan Griffith, Partner

A gradual uptick in growth assets might now be suitable for some schemes, and government announcements are signalling a rethink of investment strategy. The new funding regime for DB schemes is also an opportunity for sponsors to take the initiative, as they need to agree the long-term funding and investment target.

The Chancellor's Spring Statement was delivered in March, and this will be followed with a response to last year's DB Options consultation and a Pensions Bill. Forthcoming announcements from the Chancellor could also help sponsors looking to run-on for a period or over the long-term. A change to the current surplus extraction rules would give sponsors exciting opportunities with their DB scheme.

Actions to consider

1. It's important that sponsors are aware of the new DB funding regime, the options for their scheme, and key areas of focus such as endgame and investment strategy. More detail on these in our corporate report.
2. Government's plans to reform DB surplus will impact opportunities for sponsors. Key insights are collated on this webpage.
3. The accounting impact of any long-term strategy should not be forgotten when considering options. More detail is given in Section 3.

Government actions have the potential to introduce game changing flexibilities for sponsors to access DB surplus and provide value to members, as well as new investment opportunities. This will by no means be right for everyone, but all sponsors and schemes should be taking stock.

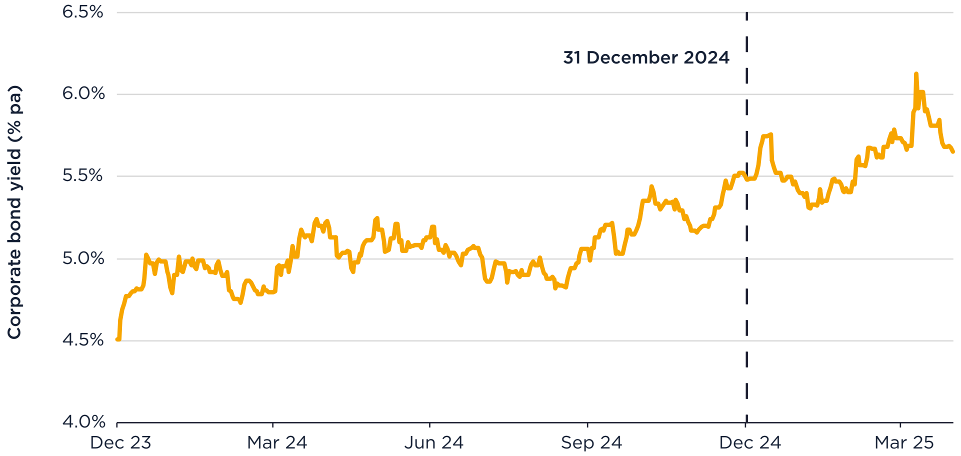
Luke Hothersall
Partner

SECTION 2:
IAS19 ASSUMPTIONS BENCHMARKING

Discount rate

IAS19 discount rates are set with reference to high quality corporate bond yields. As shown below, over 2024 there was an increase in these yields of around 1% pa, broadly mirroring increases in government bond yields.

Corporate bond yields over 2024



Source: iBoxx GBP AA Corporates 15+ yield

Over 2024 corporate bond spreads over government bond yields remained narrow by historical standards, hovering between 0.5% and 0.6% pa. This follows a reduction in spreads of around 0.4% pa over 2023. Since the 2024 year-end, spreads increased to around 0.8% pa at the height of the market volatility in March 2025 before falling back somewhat at the time of writing.

Stable spreads over 2024 coupled with heavily de-risked investment strategies means that the aggregate surplus has remained broadly stable over the year.

Gamu Nkobodo
Associate Consultant

Long-dated AA rated corporate bond spread

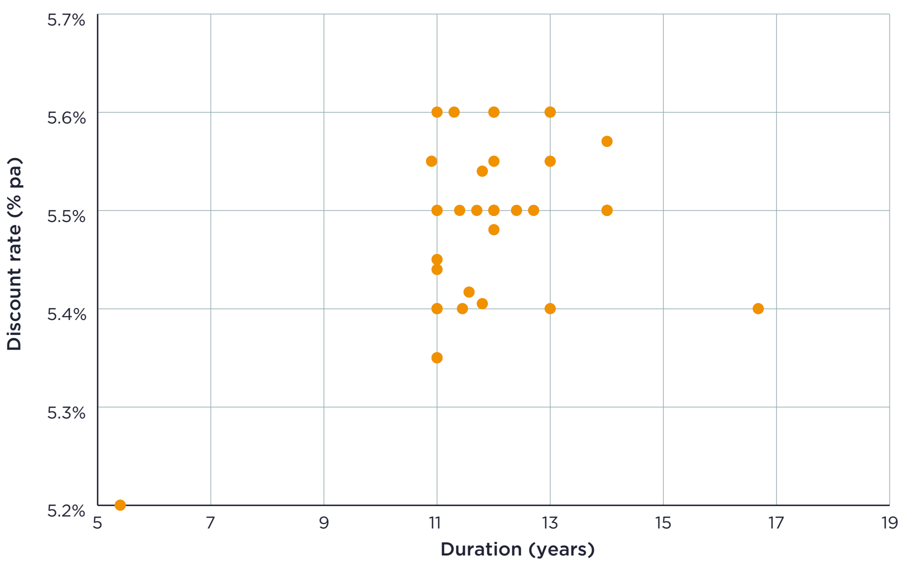
Source: iBoxx GBP AA Corporates 15+ spread

Why are credit spreads important?

Credit spreads matter for a number of reasons. The first is that they're a key source of volatility in the balance sheet position – the pension obligations on the balance sheet move in line with corporate bond yields whilst a scheme's assets often move more in line with gilt yields. Given the fact that over three quarters of assets within the UK DB pension schemes of the FTSE100 are invested in bonds, it is also clearly an important investment consideration.

The chart below shows the disclosed IAS19 discount rates for FTSE100 companies reporting at 31 December 2024. The majority of companies reported in the range 5.4% pa to 5.6% pa, which compares with a typical range of 4.5% pa to 4.8% pa at 31 December 2023.

Disclosed UK IAS19 discount rates as at 31 December 2024



There was little correlation between duration and discount rate at the year-end, with choice of discount rate model perhaps the most important determinant.

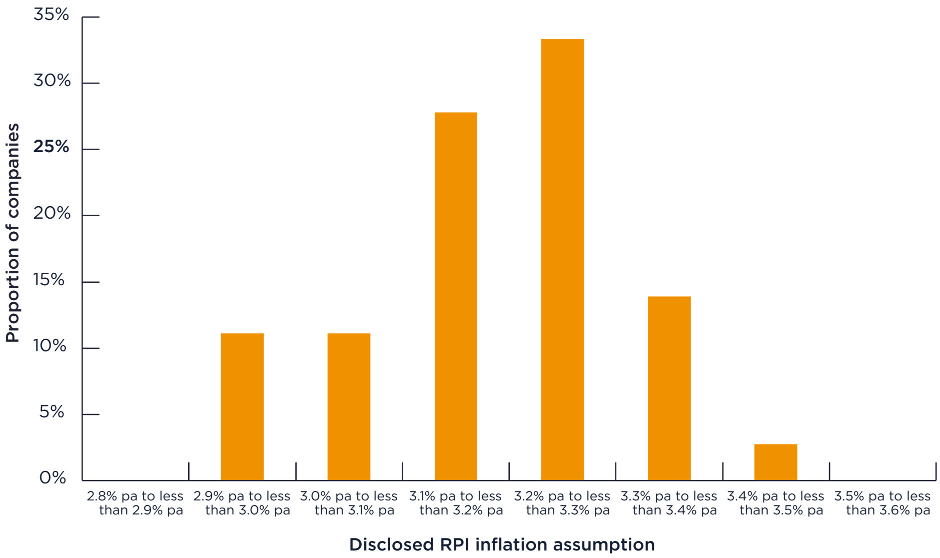
The range of discount rates has remained broadly stable compared to last year.

Inflation

Companies typically set their assumptions for future RPI inflation by comparing the market yields available on RPI-linked gilts with fixed-interest gilts. The assumption is an average over the lifetime of the pension scheme.

The following chart shows disclosed RPI inflation assumptions for FTSE100 companies reporting at 31 December 2024. The median assumption for the 2024 year-end is up 0.1% pa from 2023, leading to a small increase in IAS19 pension liabilities. The majority of companies continue to use an inflation risk premium (or 'IRP'). The typical scale of these IRPs appears to have widened, but still remains centred at around 0.3% pa.

Disclosed UK RPI inflation assumption as at 31 December 2024

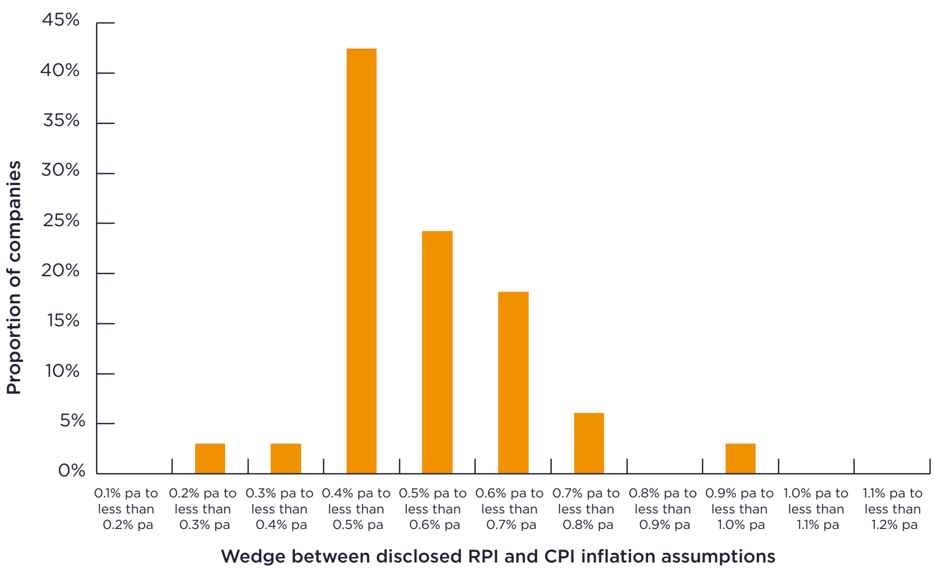


There was a broad range of inflation risk premia adopted, resulting in a spread of RPI inflation assumptions for otherwise similar schemes.

CPI inflation is then typically derived by making a deduction to the RPI assumption to reflect structural differences between the two inflation measures – the so called 'RPI-CPI wedge'. As previously reported, the RPI inflation index is being reformed to bring it in line with the CPIH index (a variant of CPI) from 2030. Inflation measured by CPIH is consistently lower than that measured by RPI, and therefore these plans imply a significant step-change reduction in RPI inflation from 2030, and therefore also a significant reduction in the RPI-CPI wedge from 2030.

The impact of the planned changes will vary significantly by scheme and the nature of the scheme's benefits. The chart below shows the wide range of RPI-CPI wedges for FTSE100 companies reporting in 2024. The median assumption of 0.5% pa and range of assumptions are in line with last year.

Wedge between disclosed RPI and CPI inflation assumptions



Can I pick and choose my assumptions?

To some extent, yes. The assumptions are ultimately the responsibility of the directors of the business. In depth market knowledge is important in helping you achieve your objectives from a year-end reporting perspective. For example, if your aim is to minimise the number of audit queries you receive in relation to pensions, knowing where the middle of the "acceptable range" is can help achieve this.

Life expectancy

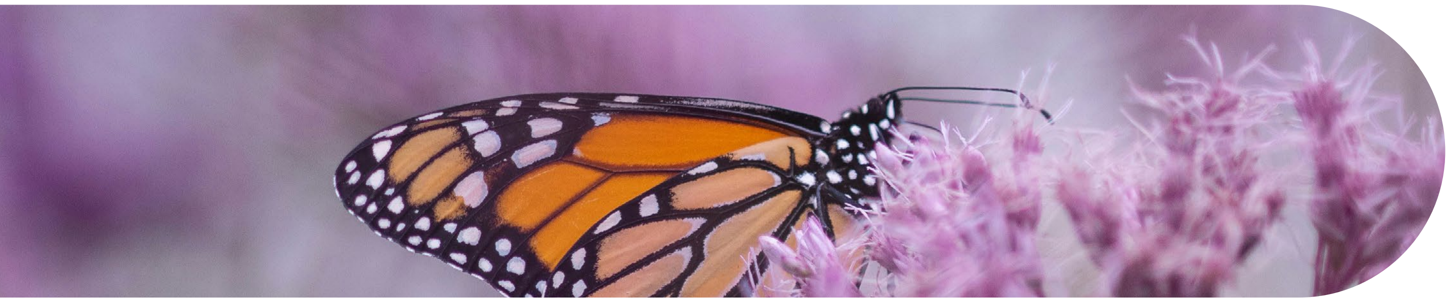
The assumptions connected to life expectancy and how it is projected to change in the future are the most challenging of the accounting assumptions to set objectively.

The level of detail disclosed varies significantly between companies – with some disclosing just life expectancies and others providing full detail of the many component parts of the mortality assumption. The charts below show the information reported in 2024 where information on the underlying component assumptions is provided. Where relevant, we have also provided commentary on how the position has changed since last year.

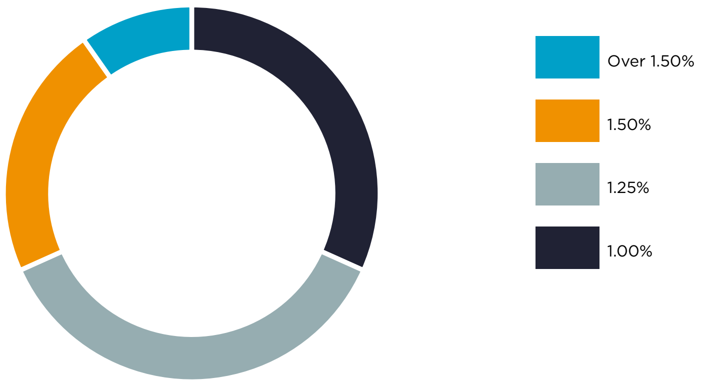
Projection tables disclosed by FTSE100 companies reporting in 2024 (45 companies)

Of the companies who disclosed how they allow for improvements in future longevity, the vast majority used the latest available projections.

The projection tables estimate how life expectancies are expected to change in the future. New projection tables are typically released each year to include the latest available information. The latest such tables at 31 December 2024 were the CMI 2023 projections, which were released in April 2024. Of the companies that disclose which projection table they use, the majority continue to use the latest available table at the balance sheet date. Given the range of accounting dates over the year, although companies may have used the latest projections, this may not have been the CMI 2023 projections. Only 6 of the 45 companies who disclosed the tables used did not use the latest available projections.



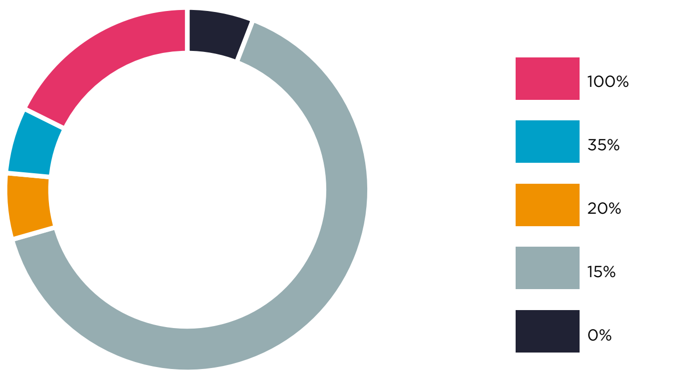
Long term life expectancy improvement rates disclosed by FTSE100 companies reporting in 2024 (41 companies)



The proportion of FTSE100 companies using a 1% long-term improvement rate has doubled over the past 2 years, and is now similar to the proportion using a 1.25% rate.

The long-term rate of improvement is an estimate about the rate of life expectancy improvement in the very long term. Of the companies that disclose this, the median assumption is a long-term annual improvement rate of 1.25%. There is a trend towards companies using lower long-term annual improvement rates - the proportion of FTSE100 companies using a 1% long-term improvement rate has doubled over the past 2 years, and is now similar to the proportion using a 1.25% rate.

Allowance for mortality experience over 2022 and 2023 in CMI2023 model disclosed by FTSE100 companies reporting in 2024 (17 companies)



All but one company using the CMI 2023 model made some allowance for mortality experience over 2022 and 2023.

The “core” CMI 2023 projections contain a parameter (“w”) to determine how much weighting is placed on mortality data collected over 2022 and 2023. The default core approach is to place a 15% weighting on data collected in 2022 and 2023.

17 companies disclosed the “w” assumption used in their accounts, with all but one making some allowance for data collected over 2022 and 2023.

Are all of these longevity assumptions important?

Collectively they can have a material impact on the balance sheet position. For example, moving from a “w” parameter of 0% to 15% might reduce the pension obligations for a typical scheme by over 1%. Longevity assumptions are covered more in the next section of this report.

SECTION 3:
HOT TOPICS FOR FINANCE DIRECTORS

When exploring the range of endgame strategies, it's critical to understand what they mean for your balance sheet and KPIs, and to develop the best messaging to convey to the markets.

Phil Cuddeford
Partner

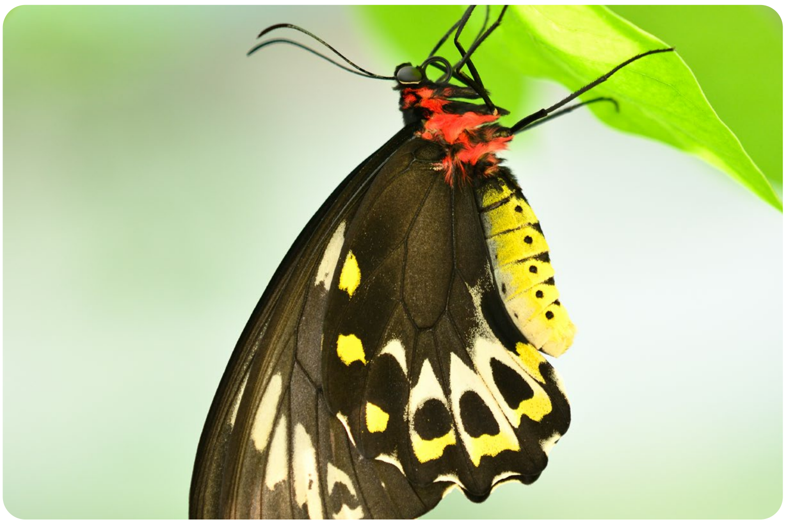
3.1 Accounting impact of your long-term strategy

As discussed in Section 1, the new funding regime requires employers and trustees to agree a long-term funding target, with many going further and developing explicit end-game strategies.

A key, and often overlooked, part of the planning process is to understand the accounting impact. Doing this early means employers can manage or even avoid any unwelcome accounting outcomes. For example unwelcome accounting outcomes can include:

1. A full scheme buy-in could worsen the sponsor's debt measures or debt to EBITDA ratio, and in some cases reduce distributable reserves or even lead to a large one-off charge to the income statement.
2. A long-term runoff strategy that commits to sharing surplus with members could lead to a large one-off charge to the income statement.
3. Balance sheet surplus recognition may become less "company-friendly" if there is an agreement (or expectation) to share surplus with members.

The implications can be very different depending on the accounting standard – US GAAP in particular can bring a host of separate risks (and sometimes opportunities).



3.2 Communicating key pensions decisions and transactions to the markets

3.2.1 The value of a surplus

With many schemes in surplus, market messaging on this is increasingly important.

Although rating agencies and other market participants may currently attach little or no credit to an accounting surplus, there are key benefits which Finance Directors may wish to highlight to the markets:

1. **Contributions:** If the scheme investment returns equal or exceed returns on AA bonds, then no further contributions are expected to be required to pay all benefits in a long-term run-off scenario.
2. **Ability for sponsor to utilise surplus:** A better funding level increases the chance that the scheme can become a real asset to the business through use of the surplus for the sponsor's benefit.
3. **Competitors:** The company's position may be more favourable than that of peer companies that are competing for investors.

This LCP blog provides further insight on how surpluses should be allowed for when valuing a business.

3.2.2 Buy-ins and run-on

Finance Directors need to be careful if they expect to buy-in any time soon. For a buy-in, the focus of the messaging needs to be around the benefits of better management of risks, to avoid investors focusing solely on the reduced balance sheet surplus and any impact on debt-related measures.

Careful messaging around refund of surplus to the company is also key to avoid any negative perception around having "overpaid contributions in the past", or "taking scheme monies from the members".

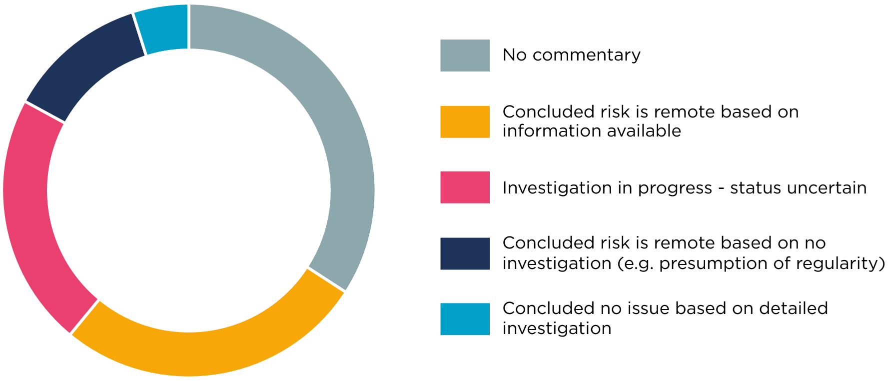
When agreeing a run-on approach, it's important for Finance Directors to explain that this comes from a detailed analysis resulting in a risk-controlled strategy that's expected to bring the best outcome for both the scheme's members and the sponsor's shareholders.

3.3 FTSE100 disclosures on the Virgin Media case

The Virgin Media judgment held that certain changes to benefits made between 1997 and 2016 without actuarial confirmation might be void. This is a hot topic for auditors, who have generally been asking sponsors to make meaningful investigations into the implications of this precedent for their accounts.

The following chart shows the approach taken to providing commentary on the Virgin Media judgment in accounting disclosures for FTSE100 companies with a UK DB scheme and a December 2024 year-end reporting date.

Virgin Media judgment - Disclosure by FTSE100 companies with UK DB scheme and December 2024 year-end reporting date (41 companies)



Despite increasing auditor scrutiny, there was still a sizeable proportion of companies that provided no commentary on the Virgin Media judgment at year-end (including some companies where pensions are not obviously immaterial). There is potential for government intervention to resolve some or all of the issues relating to the Virgin Media judgment, and some sponsors may have elected to wait before providing commentary. There were few companies that disclosed they had completed a detailed investigation that led to a clear conclusion.

Given the potential for material liabilities to arise from the Virgin Media judgment, it remains important for sponsors to address the judgment with appropriate advice and to monitor ongoing legal and any government developments.

Around a third of December 2024 reporters did not include any narrative wording at all on the Virgin Media case, including some where pensions appear significant. This shows diversity of practice for this complex and uncertain issue.

Helen Draper, Partner

3.4 Mortality developments

For many, mortality is the largest unhedged risk, so the mortality assumption is critical. But it's also becoming more and more difficult for Finance Directors to have an informed view on it.

This goes beyond accounting, as companies also need to agree the assumption for cash funding purposes, and for assessing the position relative to a "low dependency" basis and relative to an estimated full insurance position.

The new "CMI 2024" model that's currently being consulted on brings in a new parameter for how long it takes for "excess deaths" to fall back from their pandemic-peak in 2020. This encompasses several technical points, including how to determine the underlying trend, i.e. the baseline expected mortality against which these excess deaths are defined.

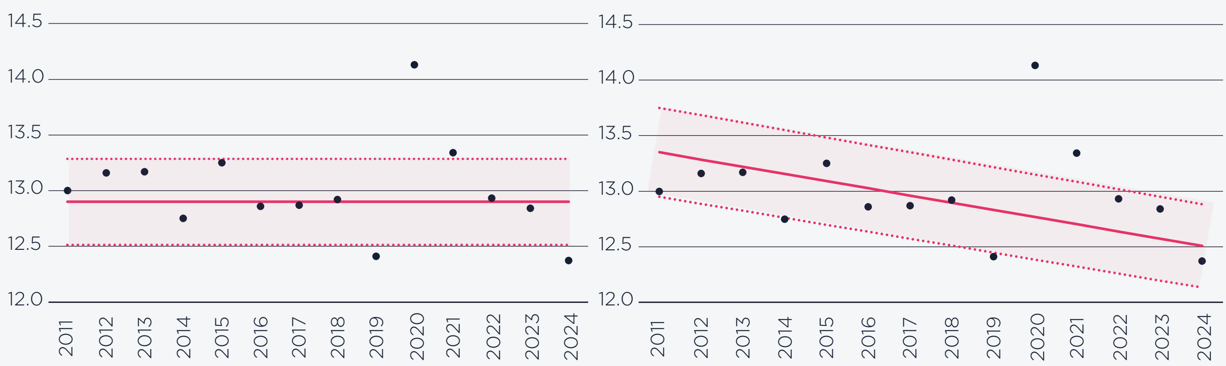
Determining the baseline expected mortality improvements

The two charts below are taken from a recent CMI Working Paper.

- The blue dots illustrate recent mortality rates; with
- the solid pink line indicating a potential "line of best fit" with and without an assumed annual "mortality improvement" of 0.5% per annum; and
- the dotted lines showing the range of typical annual variation.

Neither chart is obviously wrong, but these are very different interpretations of the recent past and could lead to materially different expectations for future mortality, with the allowance for future mortality improvement typically adding around 9 months to pensioner life expectancies.

England and Wales standardised mortality rates, 2011 to 2024, with and without an assumed mortality improvement of 0.5% per annum



A wide range of views is also possible on the new parameter for how long it takes for excess deaths to fall back from their peak in 2020.

Given the ever-increasing complexity, we suspect it may become more common for companies to simply adopt the default assumption. While such "herding" may ease the audit process, it can also lead to companies missing the opportunity to develop an optimal assumption. After all, the default assumption that will emerge will likely be a compromise of the views of various different stakeholders, which may not be appropriate for a given company.

Most Finance Directors will be forced to lean heavily on external advice. Our view is that this advice should no longer simply come from an actuary; it needs wider input from epidemiologists, medical experts and public health professionals to address questions such as:

- Will the NHS recover from its current strains, and what impact will this have?
- How will the future look for different subsets of the population, tailored to your membership?
- How will the incidence, detection, and treatment of cancer, cardiovascular and other diseases progress into the future?

It's increasingly important for Finance Directors to ensure they have a well considered view of future mortality for their DB pension scheme. We believe the only way to achieve this is to break away from default assumptions and use the full range of expert inputs beyond actuarial, with input from health experts providing key insights on what is driving changes to mortality rates.

Stuart McDonald, Partner

3.5 Controls

This year, a new version of the UK Corporate Governance code is introduced. Under the code, from next year boards will need to make a declaration on the effectiveness of their internal controls. This increases the focus of boards on internal controls, and it is also an area of increasing focus for auditors.

As an example, companies usually rely on the advice of an external actuary on pensions accounting assumptions. Companies may be asked to demonstrate they have appropriately reviewed and challenged that advice. Some of the challenges here include:

- Getting reliable and relevant data for such review and challenge.
- Developing the company's own independent expectations to compare against the external actuary's proposals.
- Producing documentation to demonstrate the effectiveness of the controls, including setting out criteria for review and challenge, along with the process following any significant differences.

Some examples of what companies are doing about this include:

1. Developing a formally documented controls process for pensions accounting.
2. Using market indicators of yields, together with the most recent survey information, such as LCP's "Accounting for Pensions" report, to produce an internal paper setting out expectations and ranges on the main assumptions.
3. Seeking relevant input where appropriate from Internal Audit.

When applied proportionately, this is likely to add value to the controls, while easing the audit process and helping with audit committee interactions.

We have seen an increased focus on controls given regulatory and audit developments, and our clients are designing solutions that improve their risk management and processes in a proportionate way.

Tim Marklew, Partner

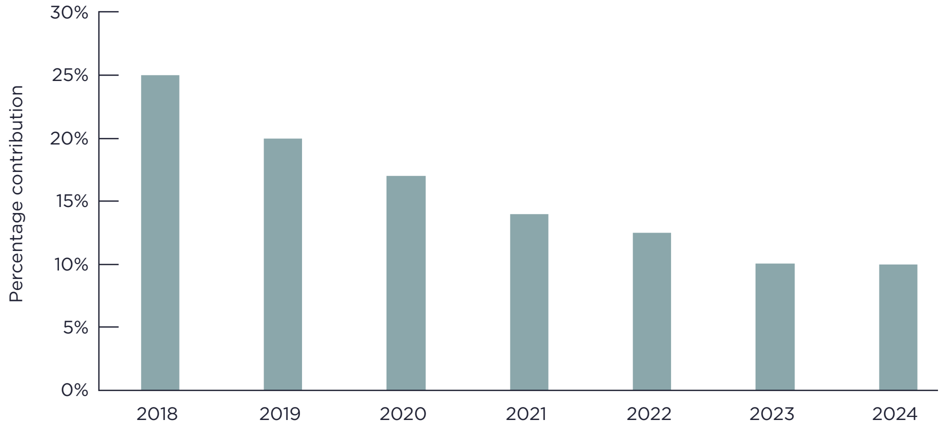
SECTION 4:
EXECUTIVE PENSIONS

The Investment Association has been campaigning for companies to align pension contributions for executives with those available to the majority of the workforce. This resulted in the average level of pension contributions (including cash in lieu of contributions) paid to a FTSE100 CEO more than halving over the five years from 2018 to 2023. In contrast, 2024 saw a levelling off of pension contributions for executives after years of steep decreases.

It looks like the new normal for pension contributions for execs is around 10% of salary, with around a third of CEOs receiving within 1% of this.

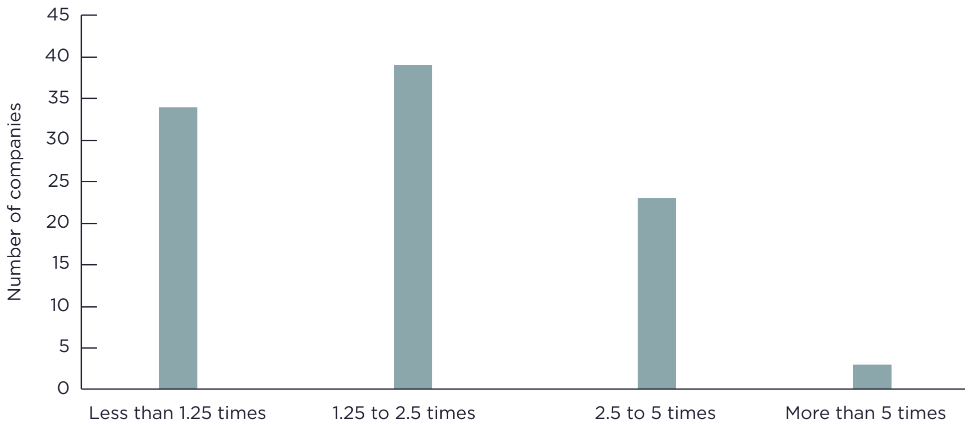
Andrew McBride
Consultant

Average pension contribution to a FTSE100 CEO as a percentage of basic salary



The chart below shows the rate paid to the CEO can be compared to the average rate paid to employees for each FTSE100 company. Around one in three FTSE100 CEOs are now receiving pension contributions in line with their employees – this is up from around one in seven in 2018.

Pension contribution rate for FTSE100 CEO relative to the average rate paid to employees



Whilst this suggests that almost two thirds of CEOs are receiving pension contributions well in excess of those paid to employees, this does not necessarily mean that they are in breach of Investment Association guidelines. Companies may offer higher levels of pension benefits to employees, but some employees may elect not to access these benefits. In addition, pension contributions may vary from country to country.

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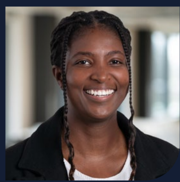

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At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to shape a more positive future. We have market leading capabilities across pensions and financial services, insurance, energy, health and analytics.

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