



Surplus in the spotlight





How pensions have moved from a principal
risk to a significant opportunity

LCP Accounting for Pensions
May 2026

Welcome to LCP's 33rd annual Accounting for Pensions report which analyses the 2025 pension disclosures of FTSE100 companies.

Pension surpluses persist despite the changing economic environment. A wave of regulatory reform including the Pension Schemes Act 2026 is making pension surpluses an accessible source of value for sponsors. The question for companies now is how to take advantage of the opportunities in a way that has a meaningful impact on corporate finances and makes the market take note.

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At a glance

PERSISTENT SURPLUSES



£39bn

aggregate
FTSE100 surplus at
31 December 2025.



£550m+

average pension surplus for
every FTSE100 company with
a UK DB pension scheme.



Over 80%

of FTSE100 companies with a UK
DB pension scheme had a pension
accounting surplus at their 2025
balance sheet date.

SHIFTING RISKS



95%

reduction in the number of
FTSE100 companies who
consider pensions a principal
risk in the last 20 years.



3x

more FTSE100
companies consider
cyber a principal risk
than 20 years ago.



Almost 3/4

FTSE100 companies consider
climate change to be a principal
risk in 2025.

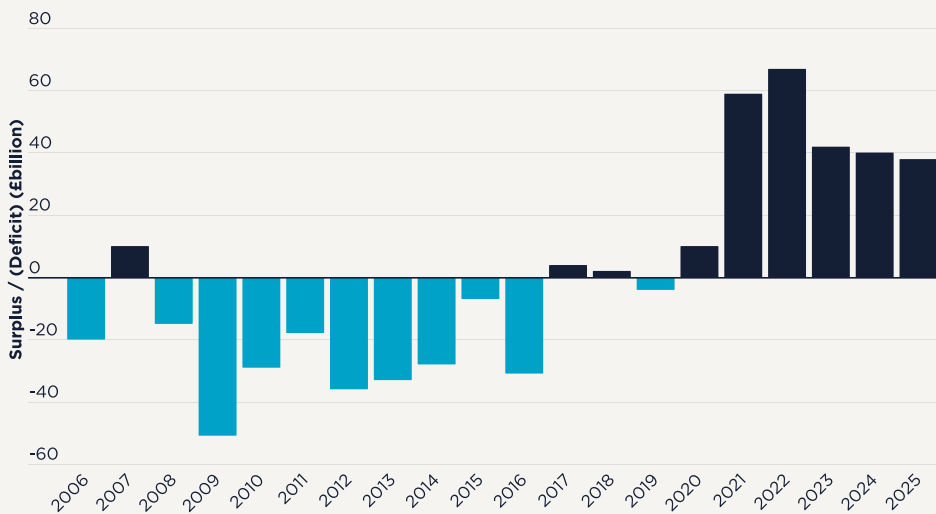
SECTION 1: Surplus in the spotlight

Continued surpluses

The estimated aggregate surplus for the FTSE100's UK DB pension schemes was £39bn as at year-end 2025. This corresponds to an average surplus of over £550m for FTSE100 companies with UK DB pension schemes.

It's the sixth year in a row showing an overall surplus and a similar position to the 2023 and 2024 year-ends.

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

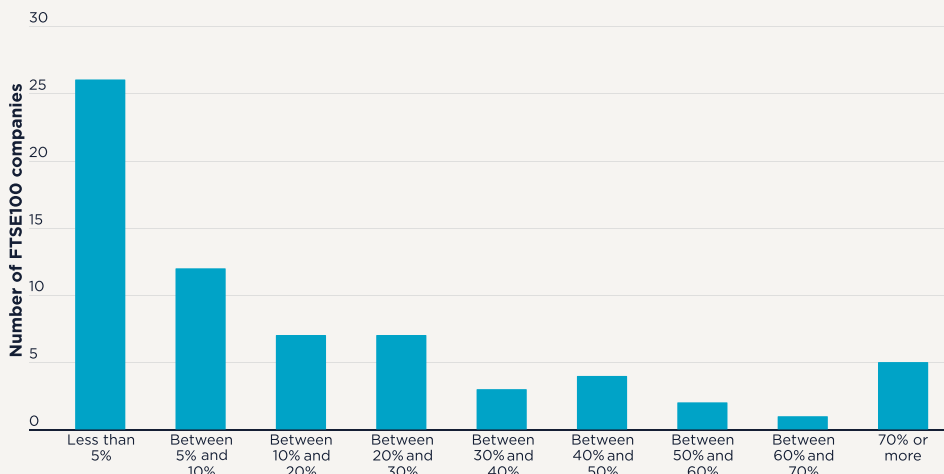


In Section 4 we cover the assumptions used by FTSE100 companies to place a value on their pension obligations.

The opportunity in context

In previous years, we've discussed that a wave of regulatory reform and new legislation means that, going forward, accessing value from pension surpluses could become easier than before. For over 40% of companies with a UK DB pension scheme, the assets of those schemes are 10% or more of market capitalisation, and for eight companies it's 50% or more. For these companies, pension scheme performance is a key risk and opportunity for the whole business.

UK DB pension scheme assets as a proportion of market capitalisation at 31 December 2025



There are dozens of companies in the FTSE100 alone with UK DB pension schemes big enough to make a meaningful difference to their overall financials.

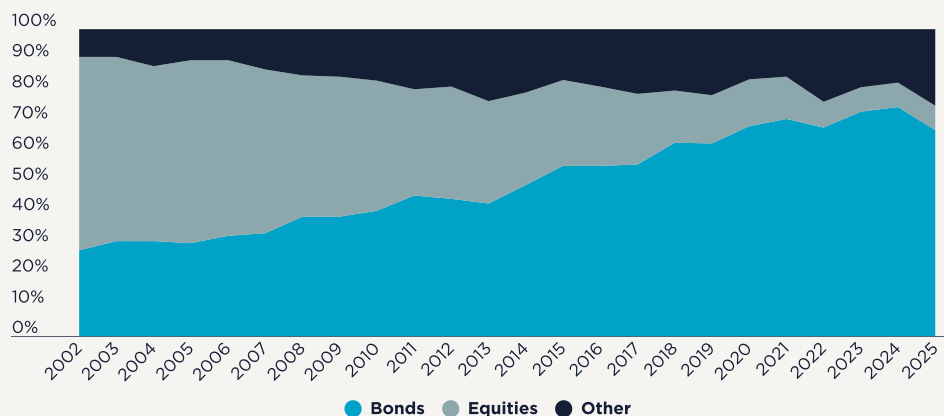


Andrew McBride
Consultant

Surplus in the spotlight continued

One of the key potential areas of future opportunity is investment strategy, where modest levels of excess asset returns can rapidly become large when applied across large asset bases and compounded over time. Over the past two decades investment strategies have steadily moved away from equities towards bonds and other less volatile asset classes. Whilst this trend away from growth assets is showing signs of a plateau, it remains to be seen whether schemes will actually dial up growth asset allocations

Estimated asset allocation for UK pension schemes sponsored by FTSE100 companies



Reporting and market messaging

With persistent surpluses and a widening range of strategic options available, we expect to see increased scrutiny of how surpluses are reported by sponsors. Indeed, the FRC has noted that “pension surplus disclosures for UK schemes may be of heightened interest to users in the future should it become easier for employers to access a pension surplus following the Government’s proposed changes to UK regulations”.

In Section 2 of this report we have included details of how the expanding range of endgame and surplus use options may be reported.

There may be significant benefits for companies that carefully manage their messaging to highlight to markets their strategy for benefiting from a pension surplus. This may include explaining any ability of the sponsor to benefit from a surplus, or to highlight a favourable position relative to historical positions. Without such messaging, rating agencies and other market participants may well attach little or no credit to a pensions accounting surplus, as historically it has been difficult for a company to benefit from them.

This represents a remarkable change from two decades ago, when over half of the FTSE100 included pensions as a principal risk, not an opportunity. In Section 3 of this report we take a look at what risks have replaced pensions as a principal risk for the FTSE100.

Actions to consider

1. Having a clear strategy is as important as ever, and the range of options has broadened in recent years. With new surplus release rules expected to come into force in Spring 2027, now is a good time to review your options. Key insights are collated on this webpage: [DB pension scheme surplus: Pension reform to unlock UK business growth](#)
2. Factor accounting considerations into strategic reviews. More information on some of the potential accounting implications is included in Section 2 of this report.
3. Consider your pensions reporting and messaging to the market – are there any opportunities that are currently being missed? [How pensions surpluses are accounted for](#) is on the FRC’s radar.



Market messaging provides a real opportunity for many sponsors. Transactions such as a buy-in, surplus refund, or superfund deals can all have a positive market reaction when the rationale is sound and clearly articulated.



Gordon Watchorn
Partner

SECTION 2:

Accounting for the endgame

Strong funding positions, a wave of regulatory reform and market innovation mean an increasing number of options are available for sponsors to unlock value from their pension schemes and reduce levels of risk. The choice of ultimate endgame, and how any surplus is used along the way, can have a material impact on a sponsor's accounts.

A range of options

Recently, there has been an explosion of new and innovative options for pension schemes and sponsors - these have led to different ways to reach the desired endgame, and even introduced new options for the endgame state itself. Of these endgame options, some retain the pension scheme on the sponsor's balance sheet, whilst others remove it entirely.

Either way, a key and often overlooked part of endgame planning is to understand the accounting impact. Doing this early means sponsors can drive alternative strategies or manage any unwelcome impacts, including considering market messaging. The impacts can be very different depending on the accounting standard. US GAAP in particular can bring a host of separate risks and opportunities.

Removing a pension scheme from the balance sheet

When transferring a pension scheme to a third party and removing it from a sponsor's balance sheet, the amount of money paid to the third party is often higher than the accounting liabilities. For example, it might cost £550m to insure £500m of IAS19 liabilities. A key accounting question is whether the £50m difference in this example is booked to profit and loss (P&L), or whether it can instead be booked outside P&L in other comprehensive income (OCI). Note that where the difference is booked to P&L, it is sometimes presented as an exceptional item.

Accounting should form part of endgame planning discussions, as it's critical to understand what endgame options mean for your profit and loss and balance sheet. For sponsors with a US parent, under US GAAP the 'surprise risk' is even greater.

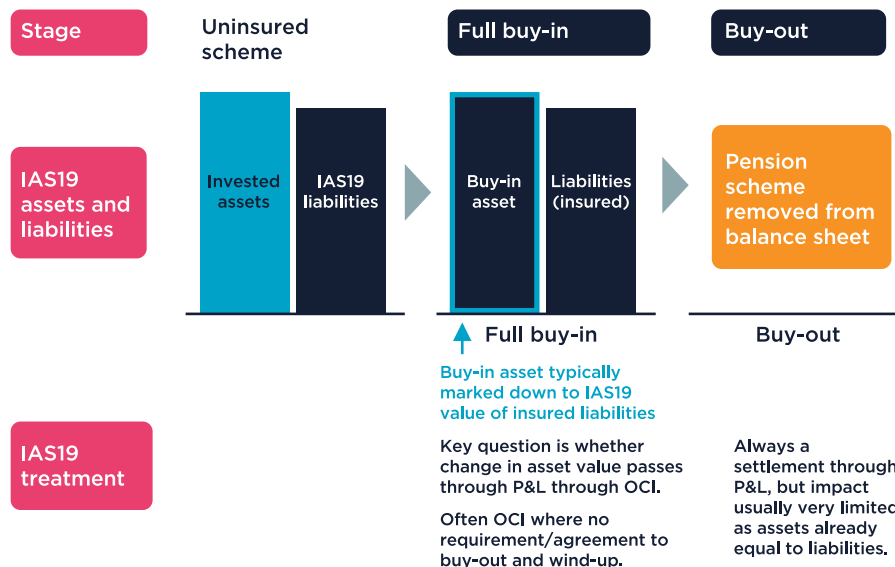


Phil Cuddeford
Partner

Insurance buy-ins and buy-outs

Removing risks in relation to a pension scheme through insurance typically involves two stages:

- a 'buy-in' where an insurance contract is purchased by the scheme that covers the scheme's liabilities; and
- a 'buy-out' where insurance policies are allocated to individual members and the scheme wound-up.



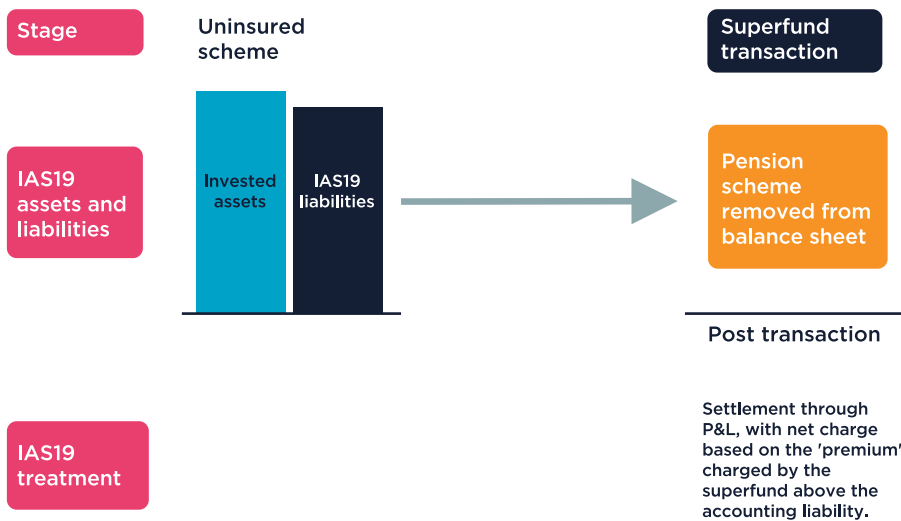
The considerations are very different under US GAAP. Regardless of accounting standard adopted, advice should be sought at an early stage to understand the potential impacts.

Accounting for the endgame
continued

Superfunds

Superfunds represent an alternative way for sponsors to remove all risks in relation to their pension schemes. With new market entrants in the pipeline and potentially wider access available as part of the Pension Schemes Act 2026 (which is relaxing some of the ‘gateway tests’ that need to be met for each transaction), this could be an increasingly attractive option for sponsors.

The transaction is typically carried out in a single stage, removing the pension scheme from the balance sheet entirely:



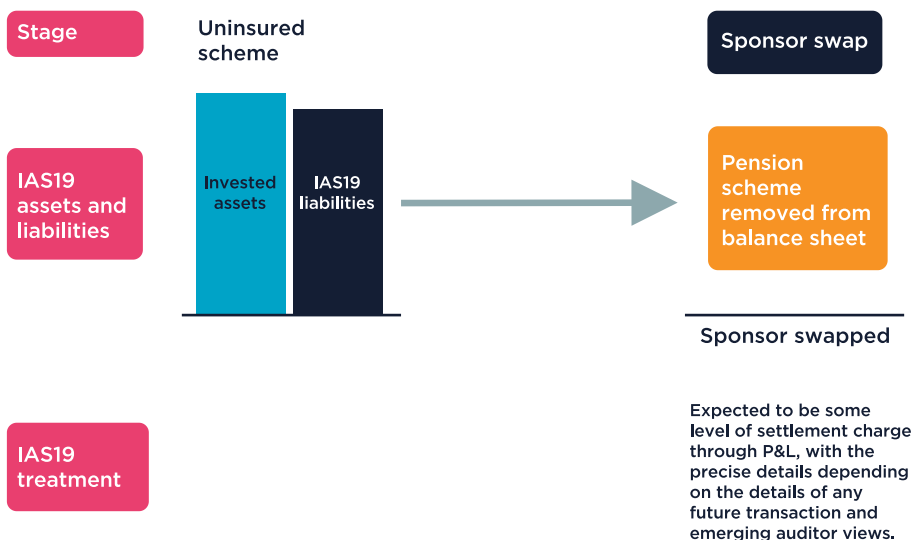
+ Removing a pension scheme from the balance sheet can have a material accounting impact regardless of whether a sponsor has recognised a pension surplus in the past or not. Proactive engagement with auditors, and careful market messaging, can help manage these issues.



Helen Draper
Partner

Sponsor swap

In 2025, Aberdeen Group agreed to replace Stagecoach as sponsoring employer of the £1.2bn Stagecoach Group Pension Scheme. Under the arrangement the Scheme, which benefits from a strong surplus position, will continue to ‘run on’. Aberdeen took on responsibility for the Scheme’s funding as well as the management of the Scheme’s assets. From Stagecoach’s perspective, it represented a “clean break” from the Scheme.



Accounting for the endgame

continued

Surplus usage

Some sponsors are already receiving value from their pension schemes for the benefit of both members and the sponsor itself. The Pension Schemes Act, which became law in April 2026, could make it easier for more to do the same.

Surplus option	IAS19 treatment
Improve level of benefits for current DB scheme members	Potential P&L charge to the extent that the benefits are not already allowed for in the IAS19 liabilities.
Reduce risk and costs in the DB scheme	Any change in future investment returns will pass through OCI.
Support ongoing pension provision (both inside and outside the DB scheme)	For provision within the scheme itself, no change to ongoing service cost in P&L. For pension provision outside the scheme (eg through a DC Master Trust) a P&L impact is possible depending on details and auditor views.
Return surplus to the sponsor	Treated as a negative company contribution and is <u>not</u> a P&L credit.

How can LCP help you?

We deliver complete solutions leading to improved outcomes. Our joined-up approach uniquely brings together specialists from our funding, investment, covenant and pension risk transfer teams. We combine this with deep knowledge and understanding of endgame strategies, whether that is run-off or transferring the scheme to a third party such as an insurer or superfund.



Read LCP Partner Jonathan Griffith's blog on how strong funding positions can be converted into real value for members and sponsors: [Optimising DB pension surpluses and turning strong funding into real value](#)



Watch our webinar that provides insight into real examples of how we have helped sponsors and trustees achieve their objectives through endgame innovation: [Making the most of DB pension surplus - options and opportunities](#)

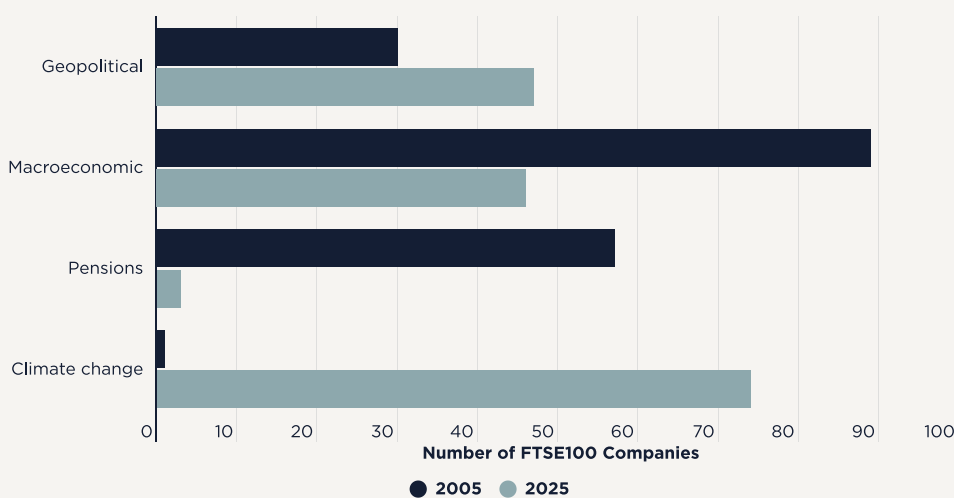
SECTION 3:

Two decades of changing risks

Principal risks now and then

Twenty years ago, the scheme funding regime was introduced establishing a statutory framework for actuarial valuations and deficit recovery plans for the first time. A comparison of the principal risks identified then and now reveals a landscape that has shifted markedly. Successive waves of regulatory reform, pronounced macroeconomic cycles, rising geopolitical fragmentation, and the repositioning of climate and social risks at the centre of corporate governance have each left their mark on what FTSE100 companies consider significant.

Principal risks identified by the FTSE100 in 2005 and 2025

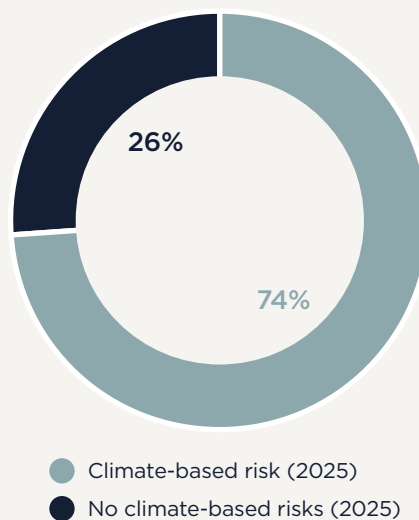


Climate change: From peripheral to paramount

The most significant contrast is the emergence of climate change as a principal risk. Just one company in 2005 identified it as a principal risk, increasing to nearly three quarters of the FTSE100 in 2025. This reflects a fundamental repricing of physical and transition risk following the Paris Agreement, and the UK's legally binding commitment to net zero by 2050.

For pension trustees and scheme sponsors alike, the rise of climate risk carries direct relevance. Long-dated pension liabilities extend well beyond 2050. That means the physical risks of a warming climate – and the transition risks of policy and market responses to it – fall squarely within the timeframes that sponsors are required to consider.

FTSE100 companies identifying a climate-based risk in 2025.



Two decades of changing risks continued

Pension risk: Structural de-risking and scheme maturity

The identification of pensions as a principal risk has fallen sharply, from 57 companies in 2005 to just three in 2025. This 95% decline is clear evidence of the structural transformation of defined benefit provision in the UK over the past two decades.

The acceleration of buy-in and buy-out activity this decade, facilitated by improved funding positions and more competitive insurer pricing, has reduced the number of companies for whom ongoing pension exposure represents a material balance sheet risk.

Where schemes remain, robust surpluses and improved hedging of interest rate and inflation risk have reduced the volatility of deficits, making pension risk a less prominent feature of principal risk disclosures.

Global risks: An evolving source of uncertainty

While macroeconomic risk remains prominent, the scale of this risk has reduced significantly, with a reduction in the number of companies citing macroeconomic risks from 89 to 46. The reduction in prevalence is a reflection of corporate adaptation over the period: businesses increasingly embed macroeconomic sensitivity into their core risk frameworks rather than treating it as a standalone concern, with the result that it surfaces less frequently as a separate principal risk.

Geopolitical risk has moved in the opposite direction, with citations rising from 30 to 47 companies. This increase reflects the recent geopolitical uncertainty: the consequences of US tariff policy for supply chains and trade flows, rising trade protectionism, and energy security concerns given the ongoing conflicts in Ukraine and the Middle East.

The rise of political risk is a pertinent consideration for companies and trustees looking at how pension schemes are supported. Companies with significant overseas revenue or operations face increased exposure to tariff barriers as well as sanctions regimes – both of which can affect the flow of cash from overseas operations to the UK and, by extension, the practical support available to a pension scheme.



The increase in global uncertainty means firms will have to review all areas of their operations to see where they can insulate themselves from shocks. This could include measures to increase resilience to energy supply and price shocks and exploring alternative supply chains and new markets as the global political scene continues to shift.



Steve Webb
Partner

SECTION 4:

Assumptions benchmarking

Discount rate

Discount rates, used to value pension obligations, are set using high quality corporate bond yields. There was only a small increase in yields at the end of 2025 compared to the start, but there were notable spikes during the year and in 2026 to date.

Corporate bond yields over 2025 and Q1 2026



Source: ICE BofA 15+ Year Sterling Corporate Index

Enormous bond issues by technology giants raise discount rates

In February 2026, Alphabet, parent of Google, issued over £5bn worth of UK corporate bonds. These included a 100 year bond maturing in 2126.

At a stroke, this made Alphabet by far the most important issuer of long-dated AA bonds in the UK, used to set discount rates.

As well as in the UK, Alphabet made similar very large issues of bonds in Switzerland and the US. And in March, Amazon joined in as well, making the largest ever corporate bond sale in the Eurozone.

The tech bonds are relatively high yielding; depending on how they are allowed for, they may push discount rates up by up to 0.1% across the UK, Eurozone and Switzerland.

Whether and how to include these bonds is a new judgement call for sponsors which may become more material in the near future.



The gigantic spending on artificial intelligence, now approaching a trillion dollars, is having ripple effects on all parts of the economy – including a surprising direct impact on company pension numbers.

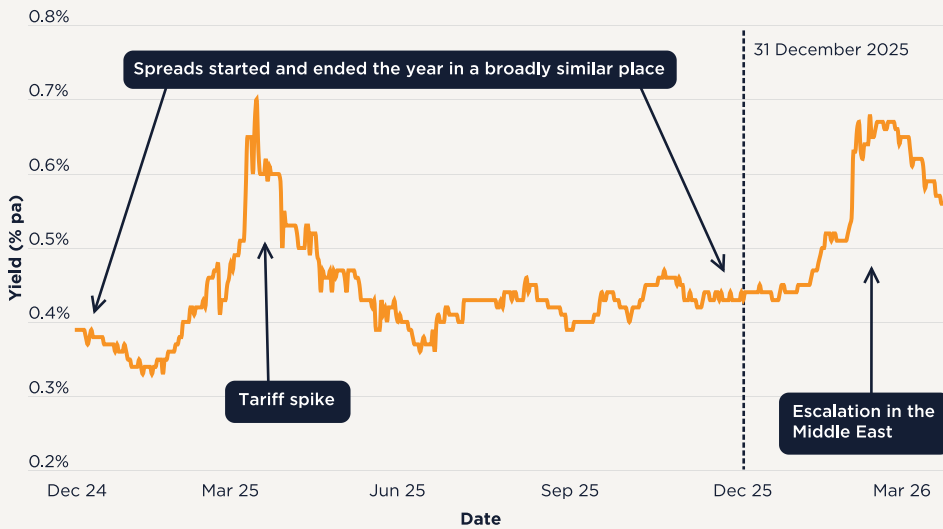


Tim Marklew
Partner

Assumptions benchmarking continued

Corporate bond spreads over government bond yields followed a similar pattern, spiking in April 2025 before returning to around 0.4% pa. This was a narrow level by historical standards, and events in 2026, including the conflict in the Middle East and very large issues of corporate bonds by tech giants, have led to renewed widening in spreads

Corporate bond spreads over 2025 and Q1 2026



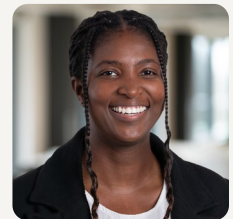
Source: ICE BofA 15+ Year Sterling Corporate Index

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 that over 65% of assets in UK DB pension schemes of the FTSE100 are invested in bonds, it is also clearly an important investment consideration.



Little difference between spreads at year-end 2024 and year-end 2025 coupled with heavily de-risked investment strategies means that the aggregate surplus has remained broadly stable compared to last year.



Gamu Nkobodo
Associate Consultant

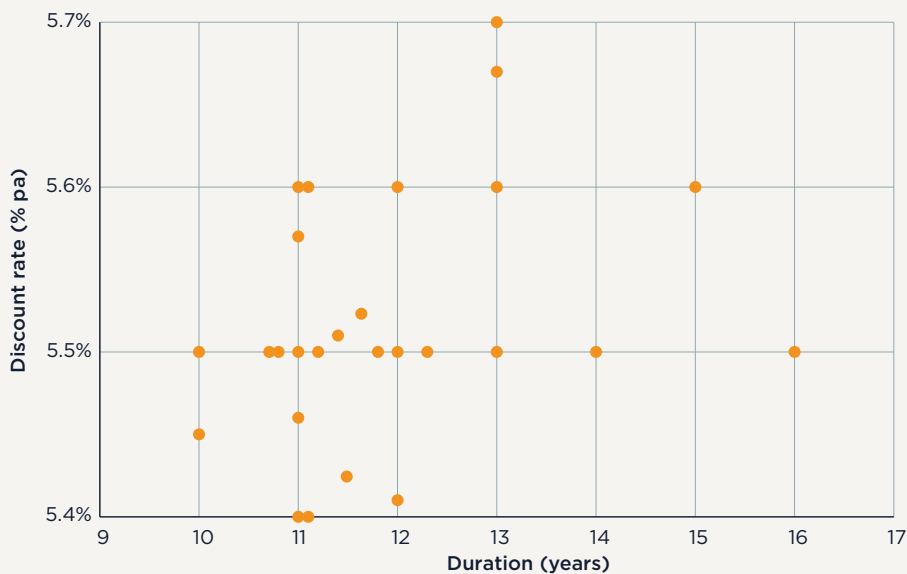
Assumptions benchmarking

continued

The chart below shows the disclosed IAS19 discount rates for FTSE100 companies reporting at 31 December 2025. The majority of companies reported in the range 5.4% pa to 5.6% pa. That's very similar to the previous year, which also saw a range of 5.4% pa to 5.6% pa at December 2024.

The stability in discount rates chosen came despite a small increase in long-term bond yields measured by typical indices. That suggests that companies may have become more conservative, choosing lower discount rates relative to average market yields.

Disclosed UK IAS19 discount rates as at 31 December 2025



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

Inflation

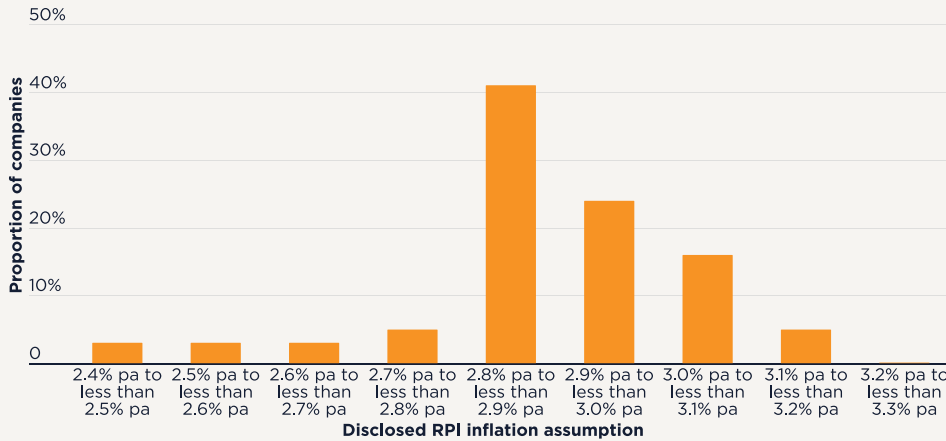
Companies typically set their assumptions for future RPI inflation by comparing the market yields available on RPI linked gilts with fixed-interest gilts. The assumption is an average over the lifetime of the pension scheme.

The chart below shows disclosed RPI inflation assumptions for FTSE100 companies reporting at 31 December 2025. The median assumption for the 2025 year-end is down 0.3% pa from 2024, leading to a decrease in IAS19 pension liabilities. The majority of companies continue to reduce the inflation assumption to allow for an inflation risk premium. The typical scale of these inflation risk premia appears to have remained centred at around 0.3% pa.

Assumptions benchmarking

continued

Disclosed UK RPI inflation assumption as at 31 December 2025

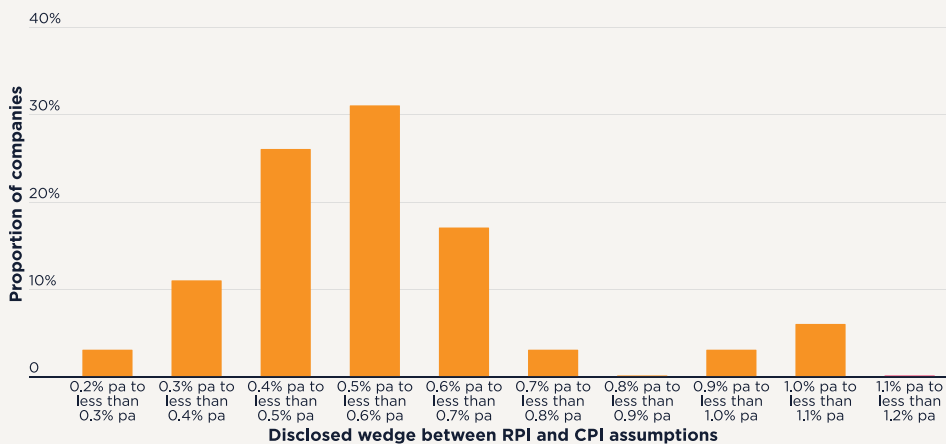


Over 40% of all FTSE100 companies reporting at 31 December 2025 with a UK DB scheme adopted an RPI inflation assumption of 2.8% to 2.9% pa.

CPI inflation is typically derived by making a deduction to the RPI assumption to reflect structural differences between the two inflation measures – the ‘RPI-CPI wedge’. RPI is to be reformed to bring it in line with CPIH, 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, and 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 2025. 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.

Assumptions benchmarking

continued

Life expectancy

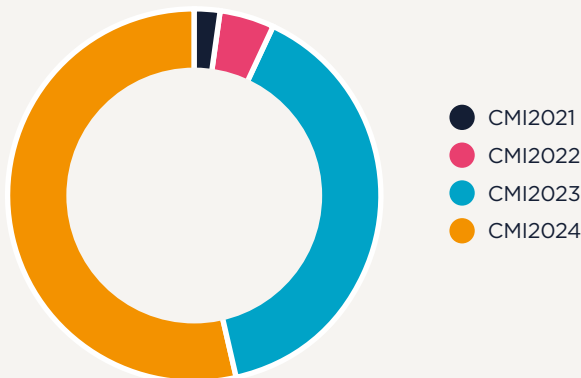
The assumptions for life expectancy and how it is projected to change in the future are the most challenging pensions accounting assumptions to set objectively.

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 2025 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.



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

Projection tables disclosed by FTSE100 companies reporting in 2025 (43 companies)

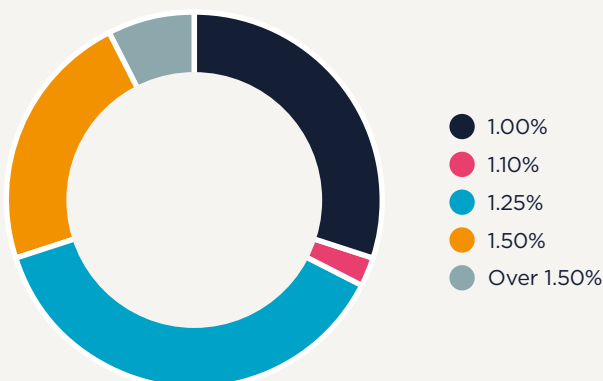


The projection tables estimate how life expectancies are expected to change in the future. New projection tables are typically released each year to reflect the latest available information. The latest such tables at 31 December 2025 were the CMI 2024 projections, which were released in June 2025. Of the companies that disclose which projection table they use, the majority continue to use the latest available table at the balance sheet date. Only 10 of the 43 companies who disclosed the tables used did not use the latest available projections. Given the range of accounting dates over the year, although companies may have used the latest projections, this may not have been the CMI 2024 projections.



There is little change compared to last year in the proportions of FTSE100 companies using various long-term improvement rates. Compared to three years ago, the proportion of FTSE100 companies using a 1.00% rate has doubled, and is now similar to the proportion using a 1.25% rate.

Long term life expectancy improvement rates disclosed by FTSE100 companies reporting in 2025 (43 companies)



Assumptions benchmarking

continued

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%. In recent years, there has been a trend towards companies using lower long-term annual improvement rates – compared to three years ago, the proportion of FTSE100 companies using a 1% long-term improvement rate has doubled, and is now similar to the proportion using a 1.25% rate.

The CMI 2024 projections use a parameter (“H”) to determine how quickly the effect of the pandemic fades away over time. A larger value of H means the pandemic effect disappears more quickly, whereas a smaller value means the effect remains for longer. The default core approach is a value of 1.0 for H.

Only 6 companies disclosed the “H” assumption used in their accounts. Two of these companies adopted a smaller H value than the core value of 1.0, leading to shorter life expectancies and lower liabilities.

See this [LCP webinar](#) for more information on the CMI 2024 projections and the future for mortality projections.

Are all of these longevity assumptions important?

Collectively they can have a material impact on the balance sheet position. For example, moving from a long-term rate parameter of 1.5% to 1.0% might reduce the pension obligations for a typical scheme by over 1%.



Life expectancies may be at a turning point. Following a period of lower corporate assumptions for future long-term longevity improvements, the last 18 months have seen record-low mortality. This could well translate into rising life expectancies and pension scheme liabilities.



Ben Rees
Partner

Contact us

For further information, please contact one of us or the partner who normally advises you.



[Luke Hothersall](#)

Luke.Hothersall@lcp.uk.com
+44 (0)20 7432 6796



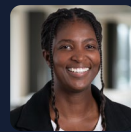
[Phil Cuddeford](#)

Phil.Cuddeford@lcp.uk.com
+44 (0)20 7432 6676



[Helen Draper](#)

Helen.Draper@lcp.uk.com
+44 (0)20 3922 1306



[Gamu Nkobodo](#)

Gamu.Nkobodo@lcp.uk.com
+44 (0)1962 873344



[Jonathan Griffith](#)

Jonathan.Griffith@lcp.uk.com
+44 (0)1962 873 372



[Tim Marklew](#)

Tim.Marklew@lcp.uk.com
+44 (0)1962 872 747



[Gordon Watchorn](#)

Gordon.Watchorn@lcp.uk.com
+44 (0)1962 872 745



[Andrew McBride](#)

Andrew.McBride@lcp.uk.com
+44 (0)1962 872 723



[Matthew Radcliffe](#)

Matthew.Radcliffe@lcp.uk.com
+44 (0)20 3949 3353



[Helen Abbott](#)

Helen.Abbott@lcp.uk.com
+44 (0)20 3314 4997

We would like to thank those from LCP who have made this report possible:

April Harrison

Lauren Keith

James Stanley

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Lane Clark & Peacock LLP
London, UK
Tel: +44 (0)20 7439 2266
enquiries@lcp.uk.com

Lane Clark & Peacock LLP
Winchester, UK
Tel: +44 (0)1962 870060
enquiries@lcp.uk.com

Lane Clark & Peacock Ireland Limited
Dublin, Ireland
Tel: +353 (0)1 614 43 93

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