

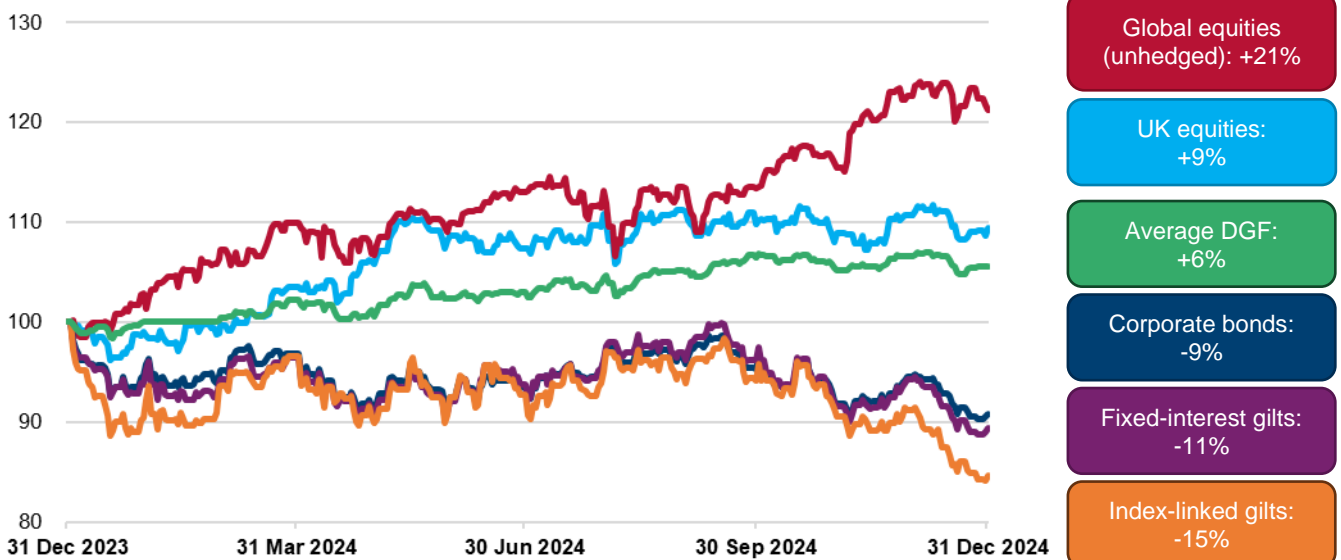
Employer pension briefing, Quarter 1 2025

In this briefing, we highlight key pension issues for employers. We focus on the impact of market movements on pension cost accounting positions and upcoming funding valuations, and what employers can do to ensure a smooth year-end process.

Changes in financial markets

The final quarter of 2024 saw bond values tumble, with long-dated index-linked gilts ending the year down by around 15%. Fixed-interest gilts and corporate bonds also saw losses over the year of 11% and 9%, respectively. Falls in bond values have continued post year-end, although December's lower than expected inflation figures may reverse this trend.

The story for equities over 2024 has been altogether different. A strong final quarter saw global equities end the year up by over 20%. UK equities have fared less well, ending the year with a return of 9%.



Changes to scheme liabilities

Defined Benefit (DB) scheme asset performance should not be considered in isolation. Changes in scheme funding levels will reflect movements of both assets and liabilities (and, indeed, a fall in the value of bonds is not necessarily bad news for pension schemes).

Bond yields

Corporate bond yields (used to set the discount rate for your accounting liabilities) and gilt yields (which tend to drive cash funding, low dependency and buy-out discount rates) have increased materially over the year.

This means the value of your scheme liabilities (and the cost of providing future pension benefits for those schemes still open to accrual) will be lower than it was 12 months ago. This is the case across almost every measure, be it accounting, funding, low dependency or buy-out.

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Inflation

Having fallen below the Bank of England's target in September, CPI inflation rose back above the 2% pa target in the final few months of 2024. Long-term inflation remains broadly the same as it was at the start of the year.

Summary

The table below shows how key financial assumptions have changed over the year:

	31 December 2023	31 December 2024	Impact on the liabilities of an average ¹ scheme
Corporate bond yield ²	4.5% pa	5.5% pa	-13%
Gilt yield ³	4.1% pa	5.1% pa	-13%
Market-implied inflation ⁴	3.5% pa	3.5% pa	-
Actual inflation (year to December 2024)	RPI: 3.5% CPI: 2.5%		<i>Scheme-dependent</i>

1 An average scheme is taken to have a duration of 15 years and around 75% of liabilities linked to inflation

2 Yield on the iBoxx over 15-year AA-rated corporate bond index

3 Bank of England nominal gilt curve over a duration of 15 years

4 Gilt market-implied inflation at a term of 15 years from the Bank of England implied inflation curve

What does this mean for your scheme?

It's impossible to say how individual schemes have fared. Liabilities will be lower than at the same time last year, but the impact on funding and balance sheet positions will depend on scheme profile and investment strategy.

For more information on the implication on funding positions – especially if you have an upcoming actuarial valuation date – you might find our **Finance Director's guide to Defined Benefit pension scheme actuarial valuations as at 31 December 2024** useful. Ask your First Actuarial contact or [request a copy](#).

Tips for a smooth year-end

As we slog through January, many FDs are asking the same question – how can I get my pension cost accounting disclosures sorted with a minimum of fuss?

Unfortunately, this isn't the moment in which we reveal a big industry-wide secret or special handshake between actuaries and auditors. The boring but reliable route to finalising your pension cost accounting disclosures efficiency lies with preparation and early engagement on any proposed changes or potentially thorny issues.

One of the key topics this year is likely to be the potential impact of the Virgin Media case (the background to which is set out in our [previous briefing](#)), the work done to assess the risk and how this should be documented in your accounts. Each case will be unique, and different audit firms will have varying views on what is required. The key is to discuss any requirements early in the year-end process and agree an approach. The same is true of any other potentially contentious issue.

Get in touch with our experts

To discuss your scheme, contact your usual First Actuarial consultant or any of our [employer services team](#).



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