

▶ FRS 102 survey 2024



The biggest Defined Benefit survey
of the UK social housing sector



Our fifth annual survey looks at FRS 102 results and assumptions as at 31 March 2024 for the social housing sector.

Each year, the number of survey participants continues to grow and 2024 is no exception, with more than 250 results – a significant increase from the 202 results submitted to our inaugural survey back in 2020.

The high number of results reported this year means that ours continues to be the biggest Defined Benefit (DB) pension survey of the sector, providing powerful insights into the funding of its DB liabilities.

▶ Key findings at 31 March 2024



The **total** aggregate FRS 102 funding level remained largely stable over the year to 31 March 2024 – at around **105%**.



More than **2 in 5** schemes in our survey have an accounting **surplus** as at 31 March 2024.



Annual UK inflation fell from **8.9%** and **6.7%** in September 2023 to **2.7%** and **1.7%** in September 2024 for RPI and CPI inflation, respectively.



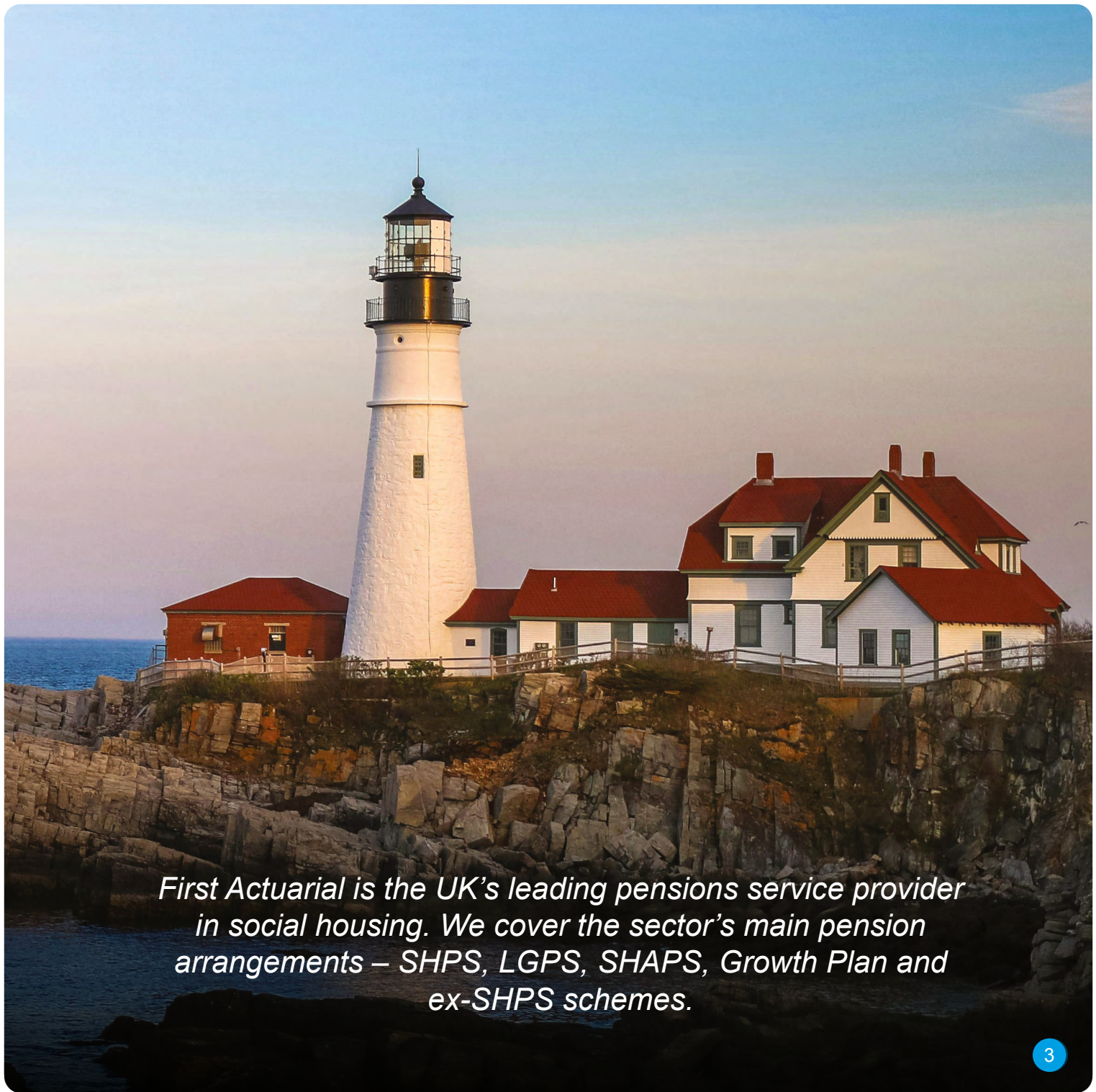
Some **LGPS** sponsors are actively considering triggering **cessation** given the material improvements in funding.



For the first time since 2020, the **aggregate asset value** – for results in our survey – stayed relatively **stable** over the year.



Only **SHPS** and **ex-SHPS** schemes saw a slight **decrease** in their aggregate FRS 102 **funding level** over the period.



First Actuarial is the UK's leading pensions service provider in social housing. We cover the sector's main pension arrangements – SHPS, LGPS, SHAPS, Growth Plan and ex-SHPS schemes.

▶ Hot topics for the year end

Before delving into our survey findings, we first consider the topics that will be at the forefront of auditor conversations, and which may well have had a material impact on your results as at 31 March 2024. These issues will also be present for 31 March 2025 year ends (and potentially beyond). Early conversations with your auditors about these cases will be key to a smooth year-end process.

Virgin Media v NTL Pension Trustees Limited

In a nutshell, the Virgin Media case means that if the legal process for making pension scheme rule changes (between 6 April 1997 and 5 April 2016) did not involve obtaining the necessary actuarial confirmation (or if this confirmation was not evidenced), then the rule change could potentially be considered invalid.

The scope of this case is far reaching. All contracted-out Defined Benefit schemes may be in scope, including multi-employer schemes such as SHPS.

However, because of the scale of the issue, there is still significant uncertainty around the next steps. It remains to be seen whether the Department for Work and Pensions will introduce legislation to allow retrospective actuarial certification of changes.

Verity Trustees Limited v Wood

The Verity Trustees Limited v Wood court case could impact both SHPS and ex-SHPS schemes.

In this case, Verity Trustees (the Trustee of SHPS) received initial legal advice that there is uncertainty about the method of calculation of members' benefits, following changes to statutory benefits and how these relate to the scheme rules. The largest part of this uncertainty relates to benefits earned before December 2003 and the effect of basing pension increases on CPI (subject to certain caps) rather than RPI, which was previously used.

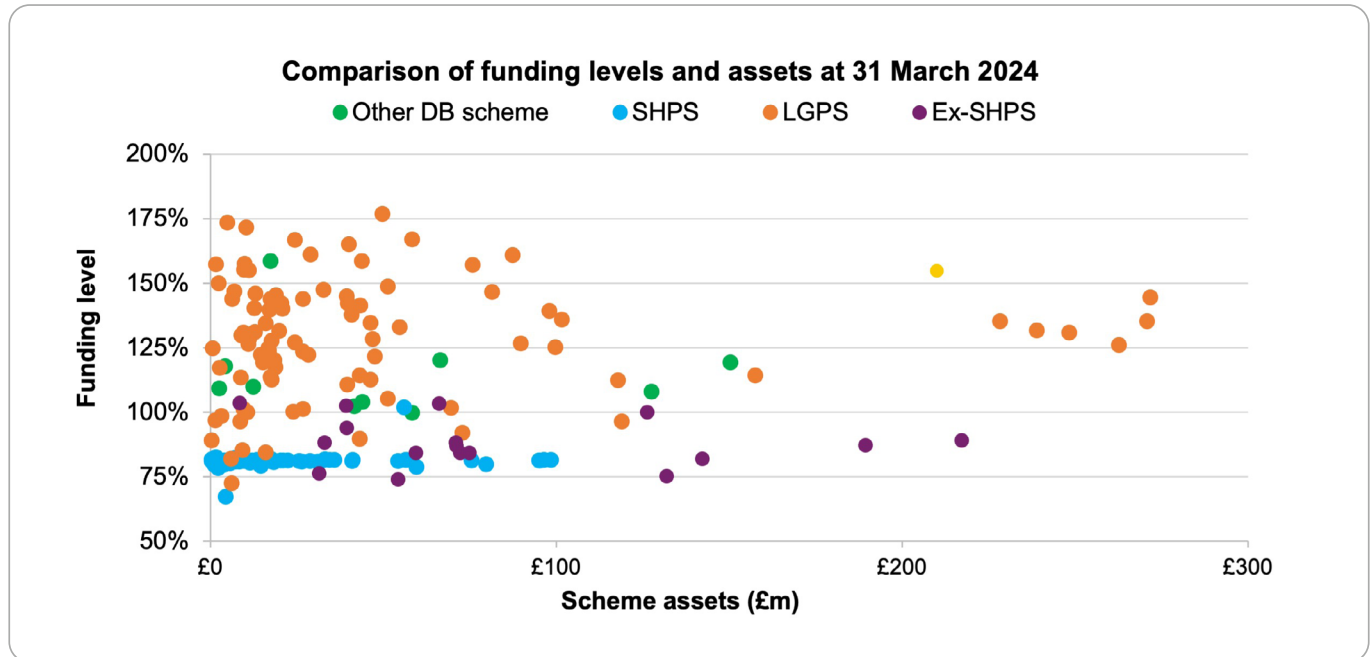
A Court decision against the Trustee will result in additional liabilities for most schemes run by TPT Retirement Solutions. The SHPS Scheme Actuary (Mercer) has estimated that at a scheme-wide level, this might be expected to result in potential additional liabilities of around 4%, but individual results may differ from this.

A full background on each case can be found in our briefings on the [TPT benefit review](#) and the [Virgin Media case](#).

For the accounting year end, all employers should discuss this matter with their auditor and consider whether any allowance is required.

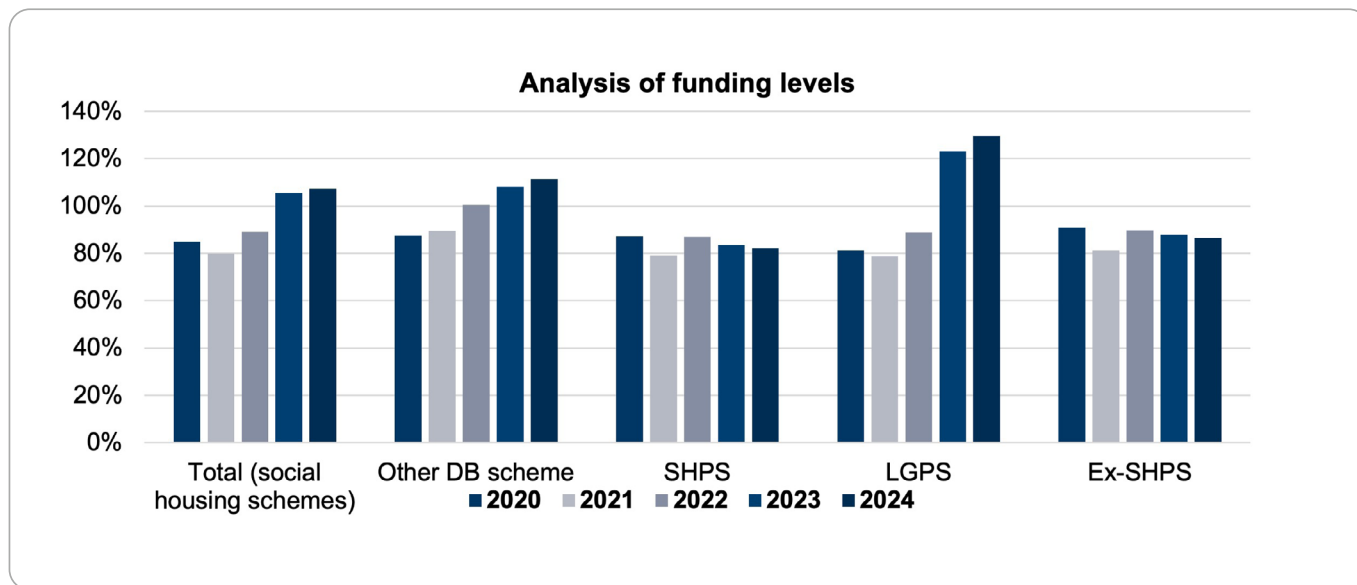
► Funding levels

There continues to be a broad range of DB scheme funding levels across the sector. In our survey findings alone, funding levels range from 70% to nearly 180%, as can be seen from the graph below:



As expected, LGPS funding levels remain well ahead of SHPS, with 84% of LGPS results in our survey reporting an accounting surplus as at 31 March 2024. Other DB schemes – including standalone DB schemes sponsored by individual housing associations – also fare well, with 9 of the 10 respondents reporting a surplus at the same date.

The aggregate positions tell a similar story to last year, with fairly stable positions across the board. Marginal decreases were seen in SHPS funding levels, a position which was then mirrored in ex-SHPS schemes, many of which may have a similar (legacy) investment strategy to SHPS.



These funding levels can be broken down into two component parts – the assumption setting and value of accounting liabilities, and the performance of the scheme assets over the year.

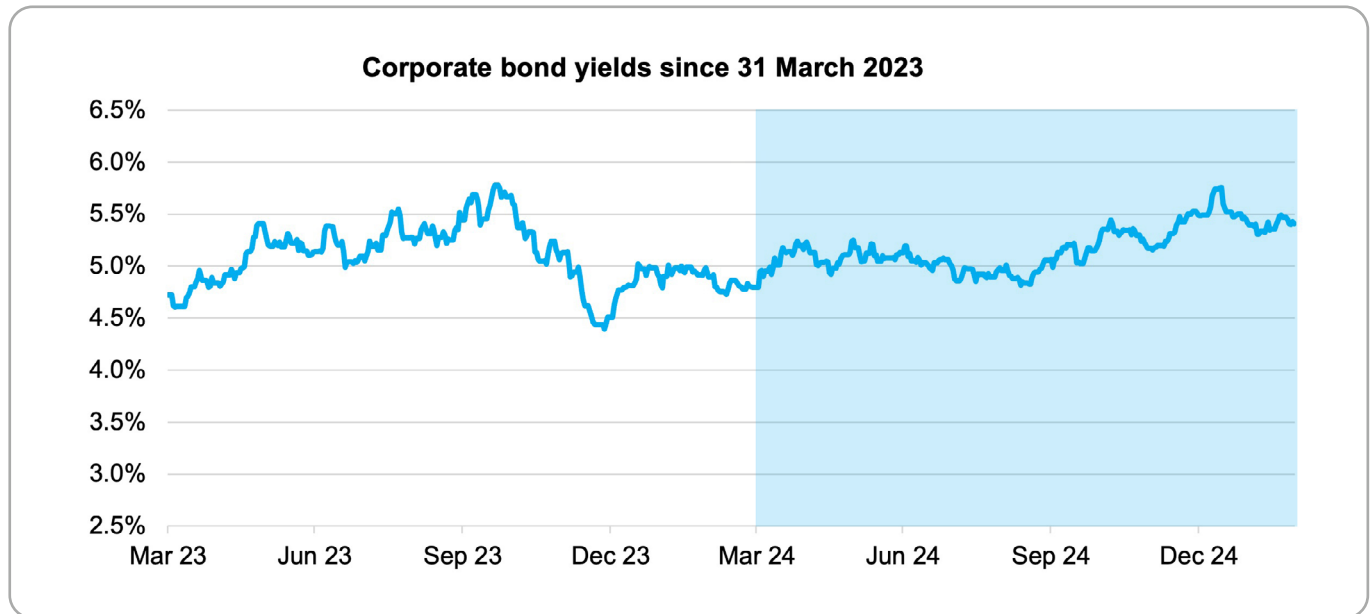
▶ Liabilities and assumption setting

The exact assumptions used for accounting purposes are the responsibility of each housing association board. We are seeing a growing trend towards receiving independent advice on assumptions, rather than accepting the default assumptions provided by the scheme.

Discount rate

The key assumption used to value liabilities is the discount rate. FRS 102 states that this must be derived from *market yields at the reporting date on high quality corporate bonds*.

The graph below shows corporate bond yields from 31 March 2023, with yields since the last year end shown in the shaded blue box.

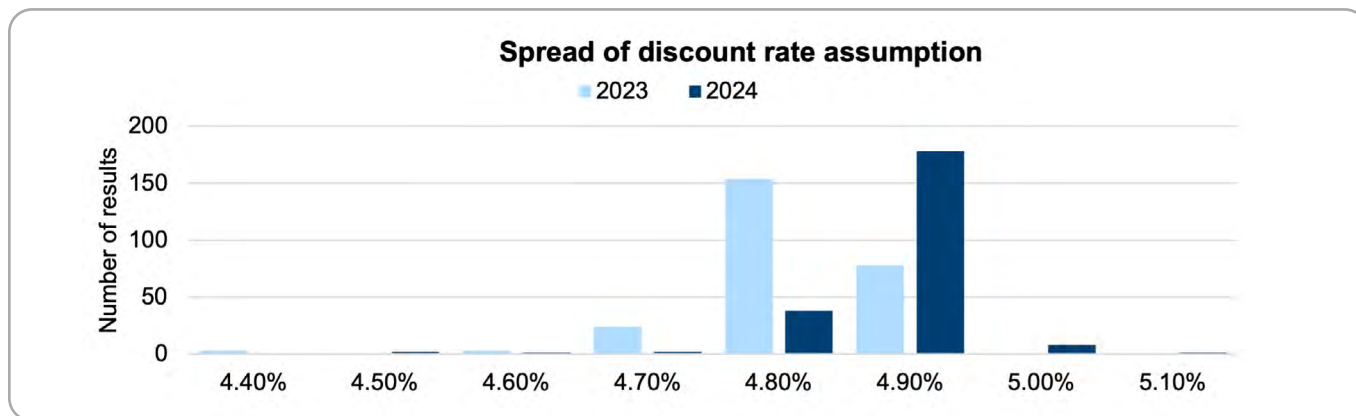


Bond yields rose steadily in the first six months after 31 March 2023, followed by a quarter of rapid decline. Yields ended the year only slightly higher than they were 12 months before – with an average increase of around 0.1% pa, a fraction of the 2% increase in the year to 31 March 2023.

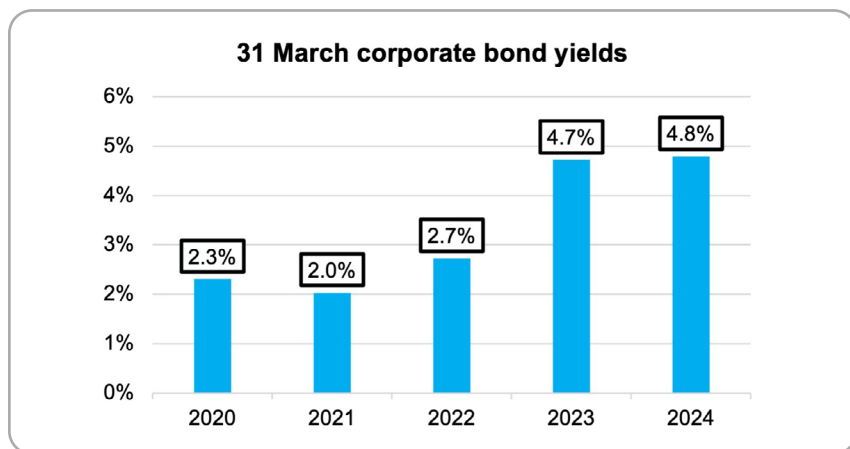
Since the last year end, yields have risen again, and we expect an increase in the discount rate used at the next year end. As a reminder, the **higher** the discount rate, the **lower** the value of the liabilities.

Setting the discount rate

Even though different assumptions can be justified, the vast majority of results in our survey as at 31 March 2024 used a discount rate between 4.8% pa and 4.9% pa – a difference of just 0.1% pa. However, it is important not to overlook the importance of setting the discount rate because, in isolation, just a 0.1% pa increase in the discount rate could reduce accounting liabilities by up to 2%.



Over the last few years, we have seen that the difference in discount rates adopted has consistently gone down from a maximum of 0.2% pa in 2021 and 2022. However, this is perhaps not surprising when considering the wider context. As the graph below shows, corporate bond yields have more than doubled since our inaugural survey five years ago. This significant increase has led to a material and sustained reduction in accounting liabilities.



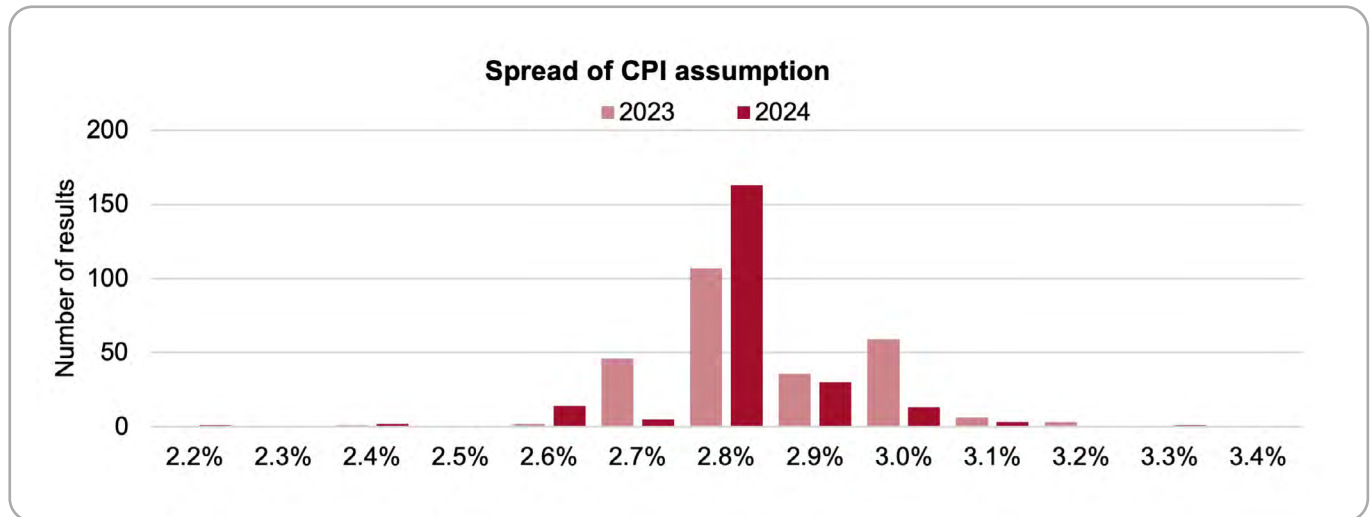
Other financial assumptions, such as inflation, were also set within a much narrower range this year compared to previous years – a sign of slightly more stable (or perhaps less volatile) market conditions.

► Inflation

As there are no CPI market instruments, the CPI inflation assumption is derived firstly by setting an RPI inflation assumption based on the price of fixed and RPI index-linked gilts. A deduction is then made based on the RPI inflation assumption to obtain a CPI assumption. However, there is now a range of views on:

- Whether gilt-market implied RPI inflation is a good indication of future RPI or needs to be adjusted
- The gap between RPI and CPI (and CPIH).

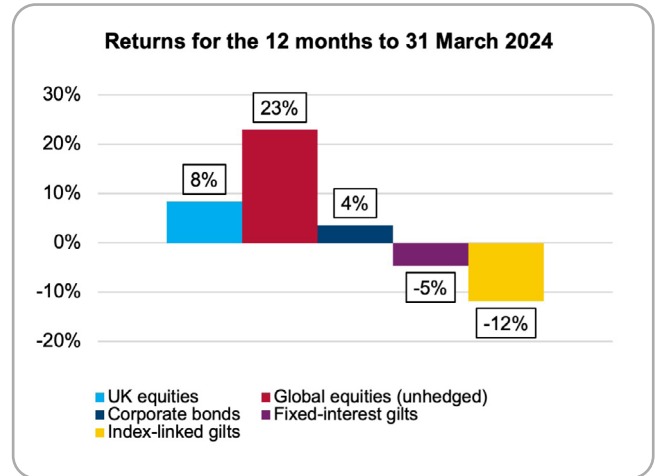
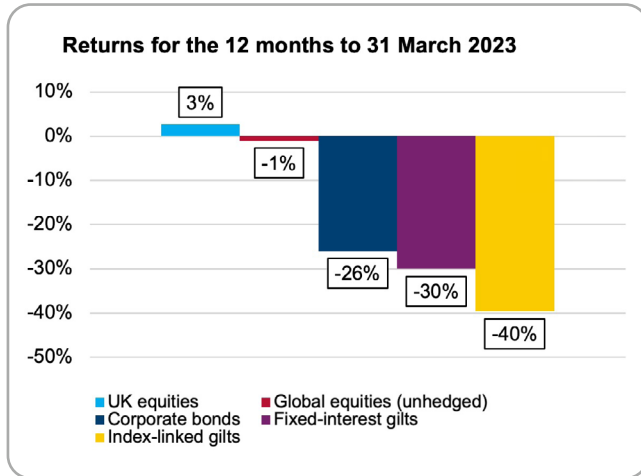
CPI inflation assumptions in our survey typically ranged from 2.6% pa to 3.0% pa – a difference that could alter the value of liabilities by over 5%.



The most common assumption in our survey this year was 2.8% pa (*far above* the Bank of England's 2% pa target). Unsurprisingly, this contrasts with the position from our first survey, in which the most common assumptions were 1.6% pa and 1.9% pa (somewhat *below* the Bank of England's 2% pa target).

Assets

Asset returns for the year to 31 March 2024 were significantly higher than the previous year – although the bar was low – with significant losses seen across most asset classes in the year to 31 March 2023.



Global equities topped the table as the standout performer over the 12 months, with returns of 23%. UK equities also saw positive growth, returning 8% over the period. At the other end of the scale, government bonds incurred losses of around 12% on index-linked gilts and around 5% on fixed-interest gilts.

Looking ahead to the 31 March 2025 accounting year end, we expect a similar story, with equities showing positive returns over the period to the time of writing and bonds somewhat behind.

In this environment, schemes that hold a high proportion of equities (such as LGPS funds) will once again fare the best.

► What does all this mean?

FRS 102 valuations provide interesting insights into scheme funding. However, they are not used to determine cash funding. For cash funding, liabilities are valued on different (sometimes more prudent) assumptions, and there are different (even more prudent) assumptions again for exit valuations.

► Get in touch

The range of liability measures can get confusing. To better understand your obligations and to benchmark your FRS 102 results against our survey, please get in touch.



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