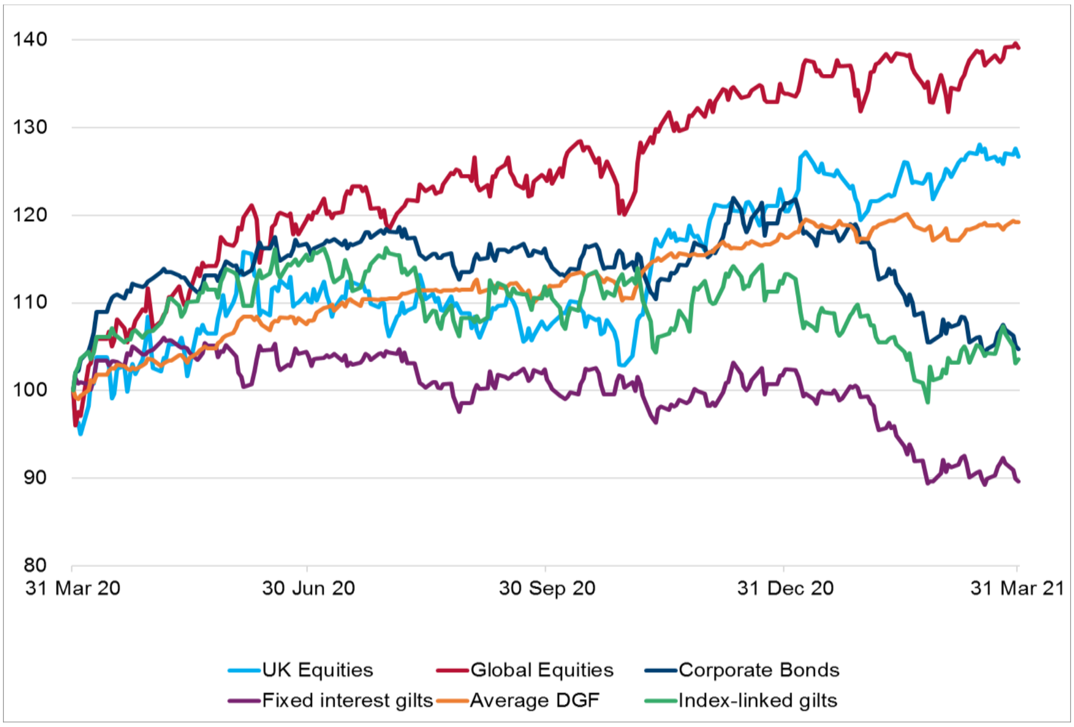
Housing briefing, April 2021
Pension Cost Accounting as at 31 March 2021

In this briefing, we take a look at what finance teams might expect from the pension cost accounting disclosures, under FRS102, as at 31 March 2021.

Many housing associations will see an increase in their FRS102 balance sheet deficits this year. However, it's important to remember there is a range of reasonable FRS102 assumptions and the default assumptions provided by TPT, LGPS funds or scheme actuaries are just a starting point for consideration.

Changes in markets since 31 March 2020

Financial conditions as at 31 March 2020 were relatively unusual. In the weeks just prior to then. many asset classes had fallen in value in response to Covid-19. This included corporate bonds, with credit premiums increasing by around 100 bps. The higher corporate bond yields placed a lower value on Defined Benefit (DB) pension scheme FRS102 liabilities, compared to recent years. However, the 12 months since 31 March 2020 has seen an increase in both assets and liabilities as equity markets recovered and credit premiums returned to their pre-Covid-19 levels.



Global equities: +40%

UK equities: +25%

Average DGF: +20%

Corporate bonds +5%

Index-linked gilts: +4%

Fixed-interest gilts: -10%

Impact on pension cost accounting liabilities

All else being equal, pension scheme liabilities will have increased over the year. Market expectations of future inflation are up, while corporate bond yields (which drive FRS102 discount rates) have fallen. Both factors will service to increase DB obligations, as shown in the table below:

	31 March 2020	31 March 2021	Impact on the DBO for an average[1] scheme
Corporate bond yield[2]	2.3% pa	2.0% pa	+6%
Market-implied inflation[3]	3.0% pa	3.7% pa	+10%

1 An average scheme is assumed to have a duration of 20 years and around 75% of liabilities linked to inflation.

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

3 Implied inflation at a term of 20 years from the Bank of England implied inflation curve.

To find out more about the effect of changes in the financial markets on pension cost accounting positions, [see our PCA index page].

CMI 2020 and the impact of Covid-19 on life expectancy

Covid-19 has led to a marked increase in the number of deaths over the past 12 months, with more than 100,000 ‘excess’ deaths since the start of the pandemic. Typically, you would not expect to see the impact of mortality experience on your pension cost accounting liabilities until the scheme trustees carry out the next funding valuation. However, there may be scope to allow for the 2020 experience if you can demonstrate a material impact.

There is an argument that ignoring the 2020 experience is potentially overstating scheme liabilities. While the direct impact of Covid-19 on mortality may be relatively short-lived, we are yet to see the long term effect of both long Covid and the deferment of necessary medical treatments during the pandemic. Most employers and trustees are likely to be happy to take a ‘wait and see’ approach when setting assumptions, but for those who have stronger views on the longer-term impact of Covid-19, adjusting mortality assumptions could reduce liabilities by up to 5%.

Looking to the future, it’s difficult to say with any certainty how Covid-19 will affect mortality. The Continuous Mortality Investigation (CMI) Bureau has recently released the 2020 version of its model for future mortality improvements. This shows a slight fall in life expectancy (compared with the CMI 2019 model), but it has effectively ignored the experience over 2020 when using its default parameters by discounting the model’s expected mortality improvement over 2020.

SHPS actuarial valuation as at 30 September 2020 – Where are the results?

The actuarial valuation results for SHPS were expected in Q1 2021. However, TPT have told us that the Employer Committee and Scheme Committee are still in discussions. Current expectations are for the results to be shared with employers in June, with TPT running Employer Forums in the summer. We will be preparing a briefing on the valuation results as soon as they are available.

Get in touch with our experts

If you would like to discuss your FRS102 pension cost accounting disclosures then please contact your usual First Actuarial consultant or one of our housing team.

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