

Pensions Accounting 2025

New Mortality

Data & Legislative Shifts



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The UK pensions accounting landscape in 2025 is defined by a dramatic improvement in the financial health of Defined Benefit (DB) schemes and significant regulatory and demographic developments. This creates a pivotal moment for trustees and sponsors, offering new strategic opportunities alongside evolving accounting and disclosure requirements.



New Mortality Model: CMI 2024

The latest mortality projections model, CMI 2024, was released in June 2025. It represents the most significant update in eight years and reverses the recent trend of declining life expectancy projections.



Key Change and Impact:

For the first time, the model explicitly incorporates the COVID-19 pandemic as a "mortality spike" that gradually declines. Moving from the CMI 2023 model to the core **CMI 2024 model** is expected to increase the liabilities of a typical pension scheme by approximately **0.75% to 1.0%**, with a larger impact at older ages.



Varying Trends:

Mortality improvements are not uniform. While mortality rates for older, pensioner-age individuals have fallen sharply, younger working-age adults continue to experience higher mortality rates than pre-pandemic levels.



Action for Trustees & Sponsors:

Companies must decide whether to adopt the model's core parameters or use alternatives, guided by actuarial advice. Auditors will require evidence to support this choice, and it is crucial to tailor these assumptions to the scheme's specific membership profile.

Market Movements Over the Quarter

Market performance in the quarter ending **30 September 2025** was a key contributor to the robust funding positions.

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Equity Surge: UK equities saw strong performance, with the **FTSE All-Share Total Return Index finishing the quarter 6.9% up, making it 16.6% up for the year to date.** The FTSE 100 Index hit new all-time highs.

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Bond Market Shift: Conversely, UK government bond (gilt) prices fell by **2.4% over the quarter as yields rose by c. 0.25% p.a.** High-quality corporate bond yields, a key driver of discount rates, increased by c. 0.2% p.a., narrowing implied credit spreads marginally.

03

Overall Impact: This combination of strong equity performance and rising bond yields has significantly improved the balance sheet positions of most UK DB pension schemes, reinforcing the aggregate surplus. An exception exists for companies with schemes that have significant interest rate hedging in place.

UK Inflation Update

Recent data shows a slight uptick in inflation, influencing the economic context for pension schemes.

◆ Current Inflation Rates:

UK inflation rose, with **RPI inflation reaching 4.6%** and **CPI inflation reaching 3.8% for August** (up from **4.4%** and **3.6% in June**, respectively).

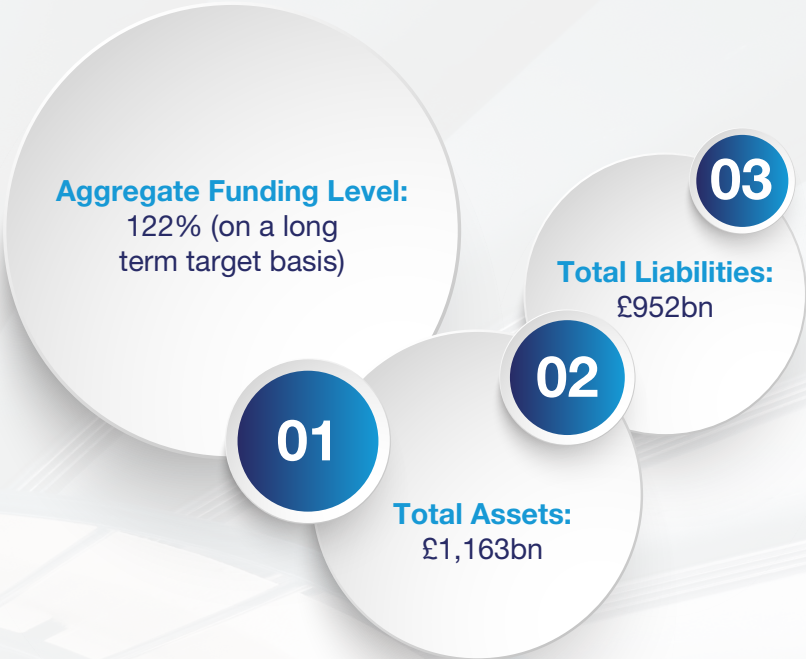
◆ Bank of England Actions and Outlook:

The Bank of England (BoE) expects CPI inflation to rise further to **4% by September**. Despite this, the BoE cut the base rate by **0.25% to 4.0% in August**, following a previous cut in May, citing "progress in inflationary pressures." The BoE attributes the relatively high inflation to increases in energy prices, food prices, and some regulated prices like water bills.

Key Financial Data & Assumption Trends for 2025

An analysis of the core financial assumptions as of **30 September 2025** reveals a shifting economic environment compared to **30 September 2024**. The primary driver of change has been the rise in discount rates, driven by increases in high-quality corporate bond yields, which has significantly reduced liability values. Combined with strong asset performance, this has created record aggregate surpluses for DB schemes.

Financial Health Snapshot (as of July 2025):



The table below details the key financial assumptions and their sensitivities for a typical **£500m** scheme.

Assumption	Assumptions at 30 September 2025			Assumptions at 30 September 2024			Sensitivity for £500m scheme
	Optimistic	Median	Prudent	Optimistic	Median	Prudent	(0.1% pa/1yr)
Discount rate	6.0% pa	5.7% pa	5.6% pa	5.2% pa	5.1% pa	4.9% pa	c.£7m
RPI inflation	2.8% pa	2.9% pa	3.2% pa	2.9% pa	3.1% pa	3.4% pa	c.£5m
CPI inflation	2.2% pa	2.5% pa	2.7% pa	2.3% pa	2.6% pa	2.8% pa	c.£3m
Life Expectancy (male @ 65)	20 years	22 years	24 years	20 years	21 years	23 years	c.£15m

Legislative and Regulatory Shifts

The year 2025 is a pivotal one for pensions law, with several key developments.

- 01
- Surplus Extraction Rules:** The government has confirmed its intention to introduce greater flexibility for sponsors of DB schemes to extract surpluses, with the threshold likely set below buyout funding levels. This could make a "run-on" strategy more attractive for sponsors of well-funded schemes.



- 02 The Virgin Media Response:** To address the legal uncertainty from the Virgin Media ruling on the validity of historic benefit amendments, the government is introducing legislation. This will allow schemes to retrospectively obtain written actuarial confirmation that past changes were valid.
- 03 Pensions Dashboards:** The rollout continues, with all occupational pension schemes holding 1,000 or more relevant members expected to connect during 2025. Trustees are advised to prepare their data and update administration agreements in a timely manner.



Strategic Implications for UK Businesses

These technical trends have significant real-world consequences.

Strengthened Balance Sheets:



The improved funding position, characterised by record surpluses, offers sponsors new options for managing pension risk and corporate finance. The new surplus extraction rules further enhance these strategic opportunities.

Audit and Disclosure Focus:



Auditors are paying close attention to how companies implement the **CMI 2024 model** and disclose risks related to the Virgin Media judgment. Proactive engagement with actuaries and clear, comprehensive disclosure in financial reports are essential.

Broader Pensions Landscape:



The government has revived the Pensions Commission to address a potential retirement crisis. Its findings show that **retirees in 2050 are on course for £800 less annual private pension income** than those retiring today.

The interplay of new mortality data (CMI 2024), evolving legislation, and a significantly improved funding landscape (with an aggregate surplus leading to a 122% funding level as of July 2025) makes 2025 a transformative year for UK pensions accounting. Proactive engagement with these changes is crucial for accurate financial reporting, effective risk management, and capitalizing on the new strategic opportunities now available to scheme sponsors.

