first actuarial

Stronger funding, new decisions

FRS 102 survey 2025 – The biggest study of Defined Benefit pensions in the UK social housing sector



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Stronger funding, new decisions

Our sixth annual survey looks at FRS 102 results and assumptions as at 31 March 2025 for the social housing sector.

This year's survey covers more than 230 results, representing more than £9.6 billion in pension accounting liabilities and providing powerful insights into the funding of its Defined Benefit (DB) liabilities.

Key findings



The **total** aggregate FRS 102 funding level remained largely stable over the year to 31 March 2025 – at around **110%.**



1 in 4 schemes in our survey have an accounting **surplus** as at 31 March 2025, compared to 1 in 20 just four years ago.



Ex-SHPS schemes (created after a bulk transfer) continue to retain a **higher** aggregate funding level than SHPS.



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



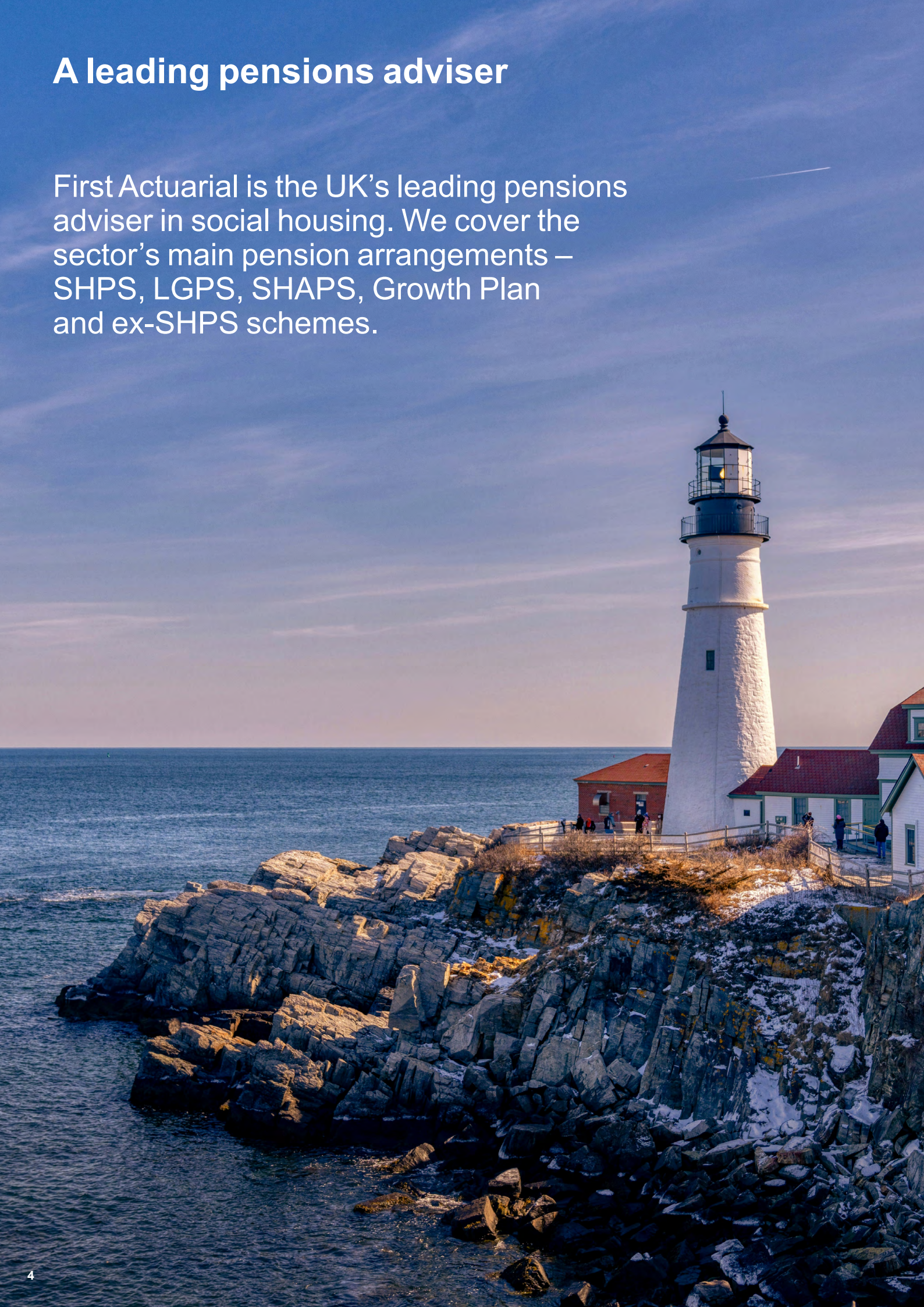
The **aggregate asset value** – for results in our survey – stayed relatively **stable** over the year.



Annual UK inflation in September 2024 was **2.7%** and **1.7%** for RPI and CPI inflation, respectively.

A leading pensions adviser

First Actuarial is the UK's leading pensions adviser 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, let's start by considering the topics that were at the forefront of auditor conversations about your 31 March 2025 pension disclosures.

Virgin Media v NTL Pension Trustees Limited

The Virgin Media v NTL Trustees case had significant potential implications for pension schemes. In essence, any rule changes made between 6 April 1997 and 5 April 2016 could have been considered invalid if the legal process did not include the required actuarial confirmation or if that confirmation was not properly evidenced.

The scope of this case was far-reaching. All contracted-out DB schemes were in scope, including multi-employer schemes such as SHPS.

To address the uncertainty created by last year's Court of Appeal ruling, the Government stepped in. On 1 September 2025, amendments to the Pension Schemes Bill were published, introducing a legislative fix which aims to provide clarity for affected schemes.

The Government's proposed legislation would allow schemes to retrospectively validate these historical amendments – provided certain conditions are met. Specifically:

- The current Scheme Actuary must confirm in writing that it is reasonable to conclude the amendment would not have prevented the scheme from meeting the contracting-out requirements.
- Schemes must not have taken "positive action" – such as notifying members that an amendment was void and/or adjusting benefits on that basis.
- Amendments already subject to legal proceedings before 5 June 2025 might also be out of scope.

If your scheme has been holding off from reviewing historical amendments – or has adopted a 'wait and see' approach – this legislation could offer a practical route forward. It validates that cautious approach, and provides a framework for resolving lingering uncertainties.

However, schemes that have already taken steps to treat amendments as invalid may find themselves outside the scope of the new rules. If you're unsure whether your scheme qualifies, it may be worth seeking legal advice.

Verity Trustees v Wood

The *Verity Trustees* court case could impact SHPS, ex-SHPS schemes, SHAPS and the Growth Plan.

In this case, *Verity Trustees* (the Trustee of SHPS) received initial legal advice that there was uncertainty about the method of calculation of members' benefits. 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.

This case is particularly important because amendments already subject to legal proceedings before 5 June 2025 (such as this one) are potentially excluded from the Government's proposed legislative fix in the Virgin Media case. The judgment, now expected in early 2026, will have far-reaching consequences for trustees, employers and multi-employer schemes.

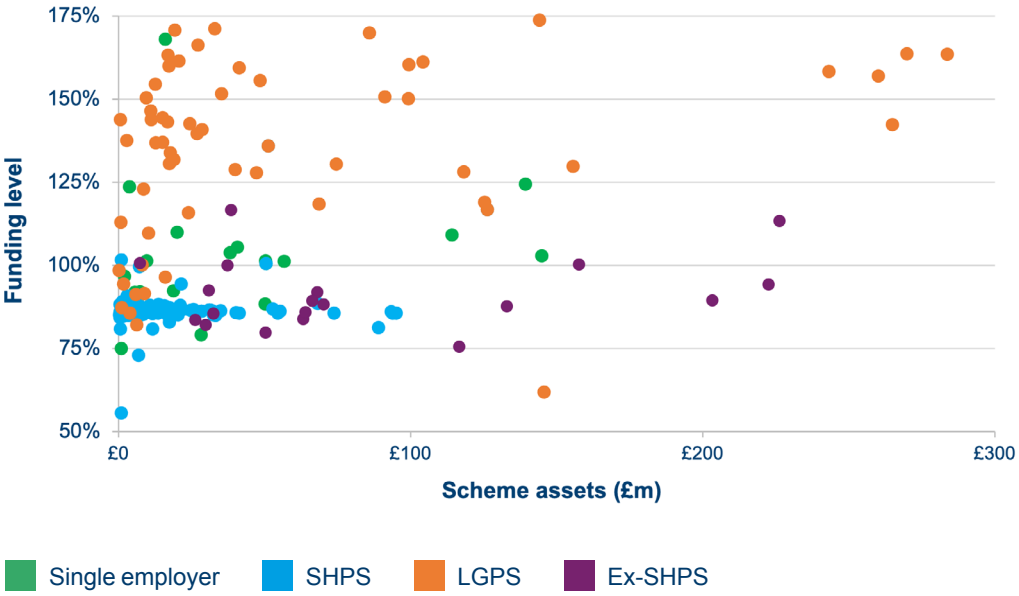
A court decision against *Verity Trustees* will result in additional liabilities for most schemes run by TPT Retirement Solutions. The SHPS Scheme Actuary has estimated that at a scheme-wide level, this might be expected to result in potential additional liabilities of around 4%, but individual results will differ.

This is going to be a hot topic for the 2025/26 accounting year – and, at the time of writing, we expect that many employers will need to recognise additional liabilities.

Funding levels

There is a broad range of DB scheme funding levels across the sector. In our survey findings alone, FRS 102 funding levels range from 55% to nearly 180%, as can be seen from the graph below.

Comparison of funding levels and assets at 31 March 2025



As expected, LGPS funding levels remain well ahead of SHPS, with 86% of LGPS results in our survey reporting an accounting surplus as at 31 March 2025.

Other DB schemes – including standalone DB schemes sponsored by individual housing associations – also fare well, with nearly seven in ten reporting a surplus at the same date.

Single-employer schemes

Although less common, many housing associations act as the sole sponsor of a single-employer pension scheme. This structure gives employers significantly more control over the scheme's management and strategy.

Single-employer schemes in our survey vary widely in size - from just over £1 million in assets for the smallest to nearly £150 million for the largest.

Accounting funding levels for single employer schemes have improved steadily over the past five years. The average funding level as at 31 March 2025 was around 105%, which is above the SHPS average of 89%, though still behind the LGPS average.

SHPS and ex-SHPS

There have now been more than 30 bulk transfers out of SHPS. First Actuarial has advised on over 50% of all SHPS bulk transfers.

Under a bulk transfer, an employer's share of assets and liabilities moves to a new pension arrangement. While the employer remains responsible for funding the new scheme, it gains greater influence over funding and investment strategy.

Because of the significant costs involved, bulk transfers are generally only viable for employers with a material share of assets and liabilities in SHPS (say more than £20m) – hence why we see this primarily among larger schemes in the survey. However, in recent years there has been a number of smaller bulk transfers resulting from mergers in the sector.

Our survey shows ex-SHPS schemes have better funding levels than SHPS itself. Among the 16 survey respondents that transferred out at least three years ago, the average accounting position has risen from 89% to 93% over that period.

LGPS

LGPS funds are currently showing exceptionally strong funding positions, with the vast majority reporting an accounting surplus.

The map below highlights the location and average accounting positions as at 31 March 2025 for more than 70 housing associations which participate in the LGPS and in our survey.

LGPS scheme funding levels



Average funding level

86% 188%

It is notable that accounting funding levels vary by region. Our survey results show a range from 86% to 188%, illustrated by the colour gradient from light blue to dark blue – where darker shades indicate higher funding levels.

This variation stems from the fact that each fund sets its own funding and investment strategy. Consequently, investment returns from LGPS fund assets have been mixed over the three years since the 2022 actuarial valuation. While some funds have exceeded expectations, others have underperformed.

Despite this variability, the overall trend highlights that most LGPS funds remain in a fundamentally strong position, with the majority reporting an accounting surplus.

Recognition of FRS 102 surpluses within financial statements is a hot topic at the moment.

Section 28.22 of FRS 102 states that:

> ***"If the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An entity shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan."***

This makes recognition dependent on scheme-specific rules and circumstances. Surplus may be recognised if:

1. It's possible that the surplus could be returned to the employer at a future date, or

2. Contribution commitments for future benefit accrual can be reduced so the employer derives economic benefit.

Given its complexity, this is a topic that should be discussed with your actuarial advisers and auditors.

Liabilities and assumption setting

The exact assumptions used for accounting purposes are the responsibility of each housing association board. It's best practice to receive independent actuarial advice on assumptions, rather than accept 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 2024, with yields since the last year end shown in the shaded blue box.

Corporate bond yields since 31 March 2024



Bond yields remained relatively stable during the first six months following 31 March 2024, before beginning a steady upward trend. By year end, yields were higher than they had been 12 months earlier – rising by an average of around 0.9% pa, compared to just a 0.1% increase in the previous year.

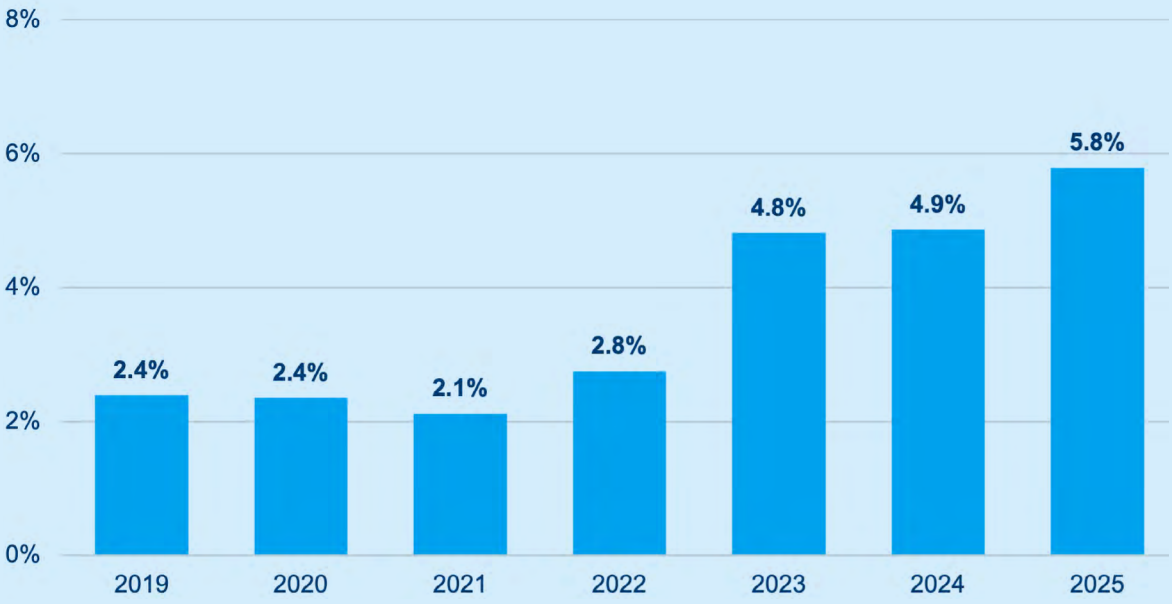
Since the year end, yields have continued to remain high. At the time of writing, we anticipate a further increase in the discount rate at the 31 March 2026 year end.

Setting the discount rate

Even though different assumptions can be justified, the vast majority of results in our survey as at 31 March 2025 used a discount rate between 5.7% pa and 6.0% pa – a difference of just 0.3% pa. However, it's 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%.

As illustrated in the chart below, discount rates have more than doubled since our first FRS 102 survey in 2019.

Change in average discount rate



This increase materially reduces the FRS 102 liabilities, as higher discount rates lower the cost of liabilities. For example, moving from 4.9% in 2024 to 5.8% in 2025 could reduce liabilities by around 15–20%, depending on scheme duration and cashflow profile.

Inflation

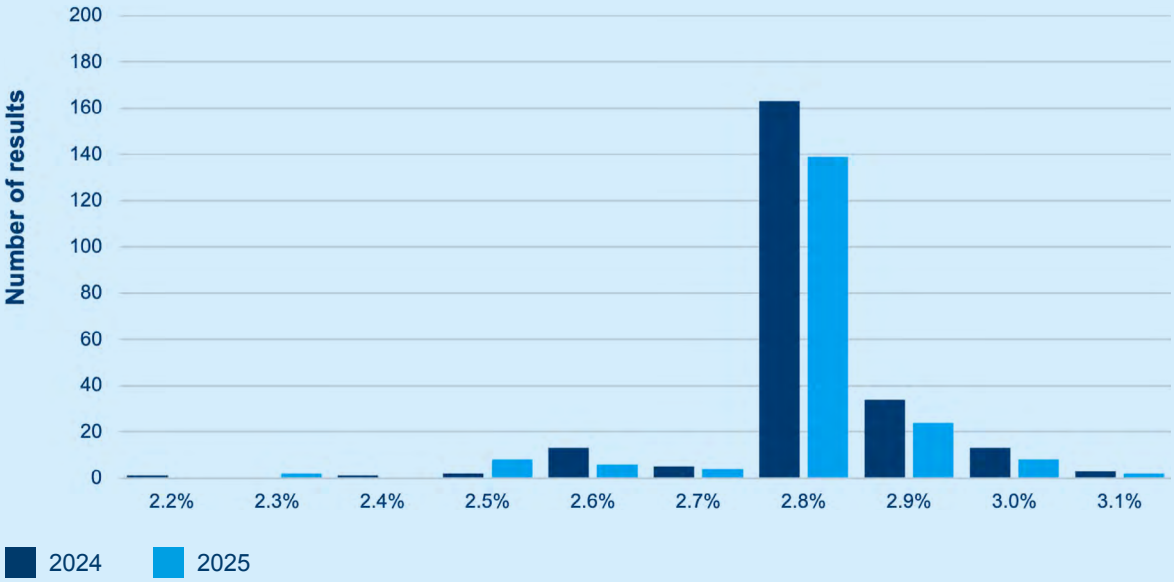
As there are no CPI market instruments, the CPI inflation assumption is derived firstly by setting an RPI inflation assumption based on the price of fixed and RPI index-linked gilts. A deduction is then made based on the RPI inflation assumption to obtain a CPI assumption.

However, there is 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 2.8% pa to 3.0% pa – a difference which could alter the value of liabilities by almost 5%.

Spread of CPI assumption



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 FRS 102 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).

Life expectancy

Although financial assumptions tend to have the greatest impact on accounting results, it's important not to overlook demographic assumptions, particularly mortality assumptions. Industry practice is to use standard mortality tables published by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries.

The mortality assumption consists of two elements: the **base table**, which is derived from recent historical data, and an allowance for **future improvements in mortality.**

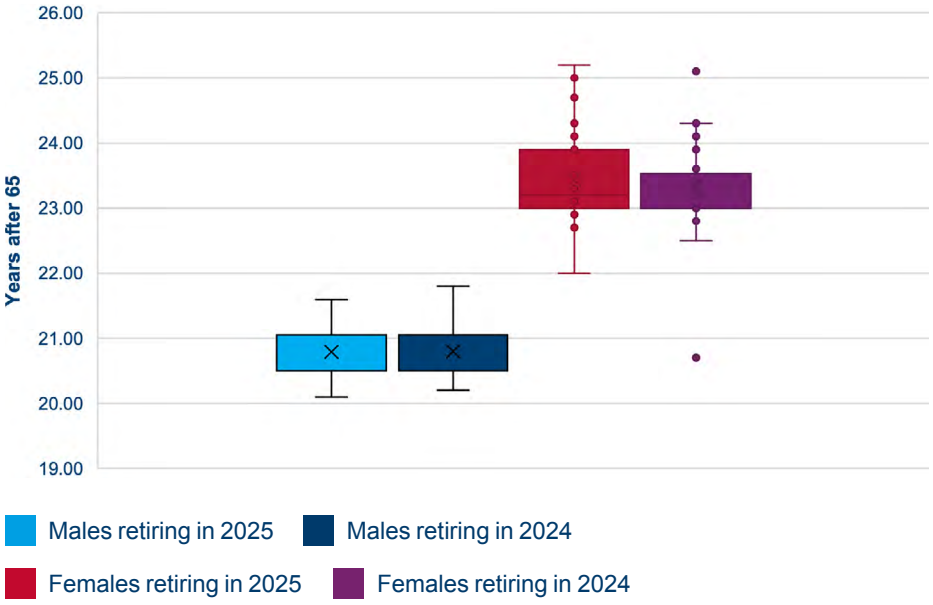
A suitable base table for most schemes will be the S4 mortality tables, which were published in February 2024. Many housing associations adopted these tables for the first time at 31 March 2025 (with appropriate scheme-specific loadings).

For future improvements, CMI 2023 was the latest model available at 31 March 2025, with CMI 2024 tables being published in June 2025. We expect most employers to adopt CMI 2024 tables for disclosures as at 31 March 2026.

Survey experience

The box plot below illustrates life expectancy at age 65 for males and females currently aged 65 at the survey date this year and last.

Life expectancies at age 65



As expected, life expectancies for females are higher than for males, with life expectancies around 23–24 years for females compared to approximately 21 years for males. Mortality assumptions applied in 2025 resulted in slightly higher life expectancies for men and less variability for females retiring that year. This change is likely driven by updates to the CMI model.

As a reminder, in isolation, adopting mortality assumptions that result in higher life expectancies will have led to higher accounting liabilities as at 31 March 2025.

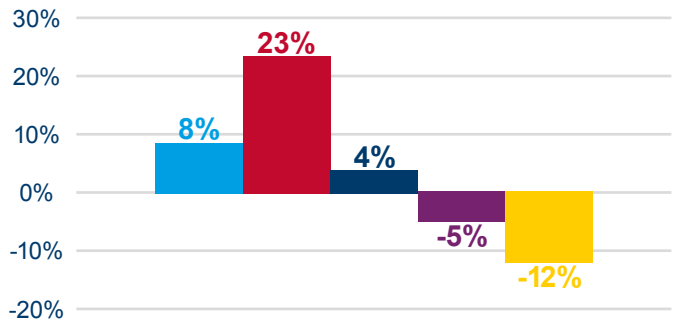
Assets

Asset returns in 2025 were generally lower than in 2024.

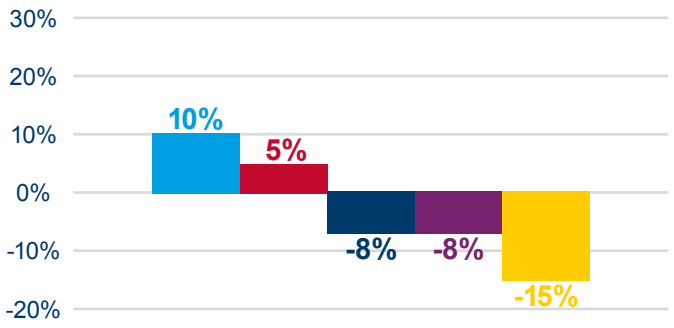
In the 12 months to 31 March 2025, UK equities delivered the strongest performance, with returns of around 10%. Global equities also produced a positive return of 5%. In contrast, bonds were weaker, with corporate and fixed-interest gilts both falling by around 8%, while index-linked gilts saw the largest decline at -15%.

Throughout the year, all asset classes experienced periods of volatility. Equities and index-linked gilts showed the largest relative movements, with values fluctuating by around 20–25%. Corporate bonds and fixed-interest gilts were less volatile in absolute terms but still saw price swings of around 15% relative to their value.

Returns for the 12 months to March 31 2024



Returns for the 12 months to March 31 2025



UK equities | Global equities (unhedged) | Corporate bonds | Fixed-interest gilts | Index-linked gilts

Looking ahead to the 31 March 2026 accounting year end, the outlook remains uncertain. Equities may continue to provide modest positive returns, but bond markets are likely to remain sensitive to movements in interest rates and inflation expectations.

As a result, schemes with higher equity allocations may again have stronger outcomes, while those with greater exposure to bonds could see more variable results.

Investment returns are fundamental to both accounting positions and cash costs for employers. Employers should engage with schemes to ensure they understand and support the investment strategy.

What does this all 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.

Employers should ensure they have robust governance processes in place to monitor their schemes and respond to changing economic and legislative conditions.



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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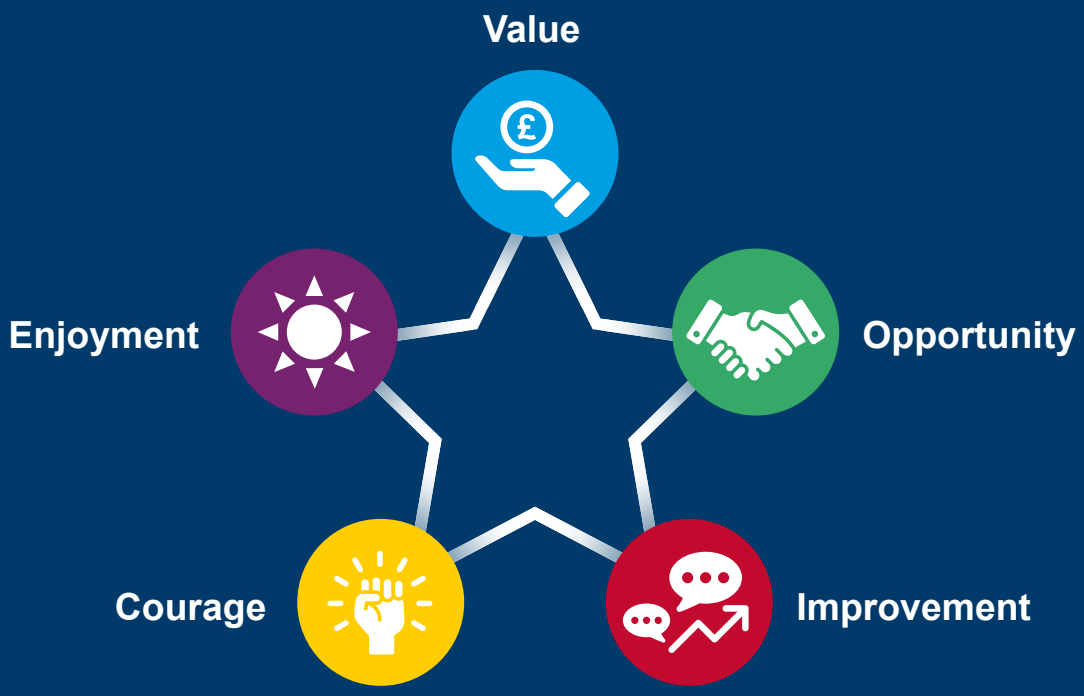
About us

First Actuarial helps clients and pension scheme members get the best out of pensions. We are a leading provider of pensions advice to the not-for-profit sector, working with more than 200 charities and other not-for-profit organisations.

First Actuarial provides independent advice to more housing associations than any other pensions firm. We listen carefully to what clients want to achieve and help them to do this – sometimes by challenging conventional thinking.

Our values are our VOICE

VOICE is the five simple values that capture the essence of First Actuarial and everyone who works here.





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