Housing briefing, February 2025
Annual FRS 102 survey – headline results

31 March 2025 is just around the corner and many employers in the social housing sector will be preparing for another accounting year end. This briefing sets out the headline results of our fifth annual survey – the biggest Defined Benefit survey of the UK social housing sector – which looks at FRS 102 results and assumptions as at 31 March 2024 and provides a useful reminder of the position at the last year end.

Key findings as 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.

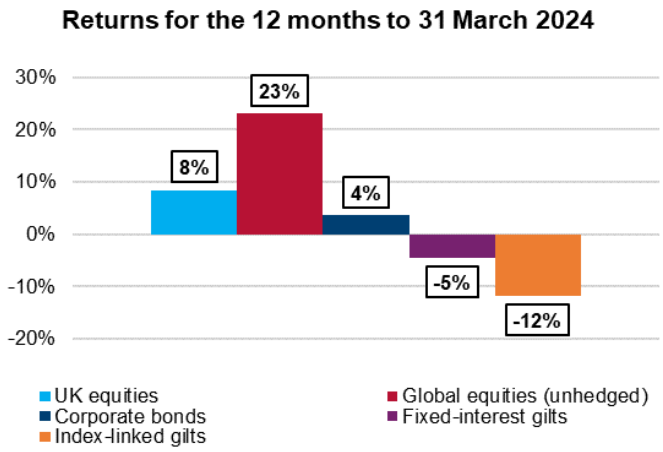
Our survey covers nearly **200 results**, representing more than **£6.3bn** in pension accounting liabilities and providing powerful insights into the funding of its DB liabilities. The full survey results will be released shortly.

Change in financial markets

Asset returns for the year to 31 March 2024 were significantly higher than the previous year.

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.

In this environment, schemes that hold a high proportion of equities (such as LGPS funds) will have fared best.



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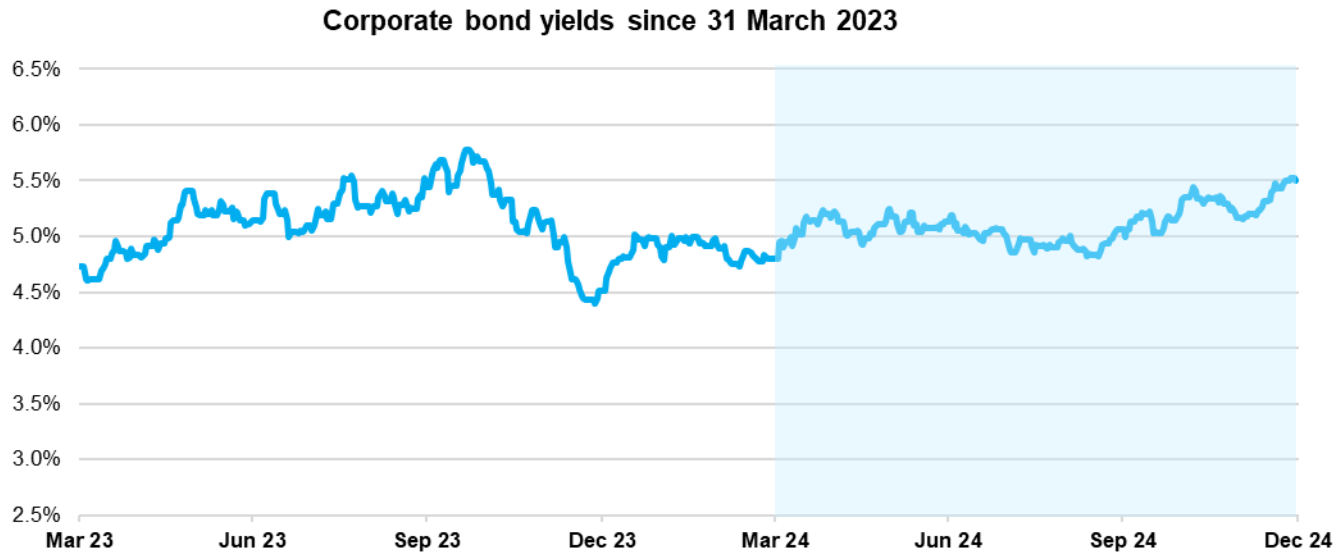
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Liabilities and assumption setting

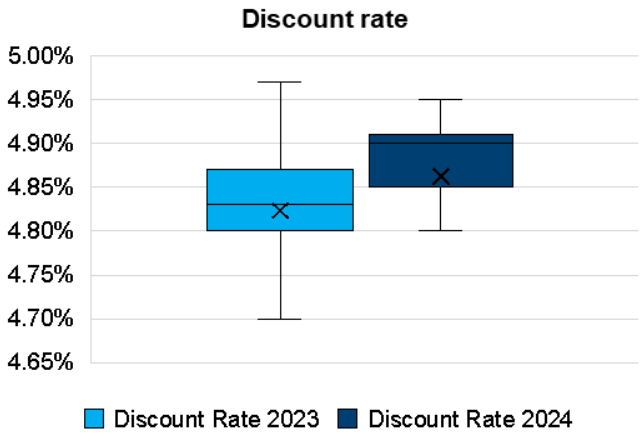
The key assumption used to value liabilities is the discount rate. FRS 102 states that this must be derived from *"market yields at the reporting date on high quality corporate bonds"* but there is a range of reasonable assumptions. Ultimately, the exact assumptions used for accounting purposes are the responsibility of each housing association board. We are seeing a growing trend towards receiving independent assumptions advice, rather than accepting the default assumptions provided by the scheme.

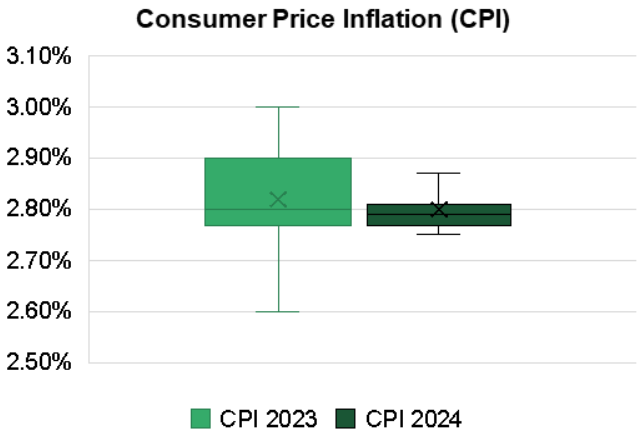
The graph below shows corporate bond yields from 31 March 2023, with yields since the last year end shown in the shaded blue box.



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. This means that in isolation, a 0.1% pa increase in the discount rate could have reduced accounting liabilities by up to 2%.

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 4.95% pa. Other financial assumptions, such as inflation, were also set within a much narrower range this year compared to last, as can be seen from the graphs below – a sign of slightly more stable (or perhaps less volatile) market conditions.



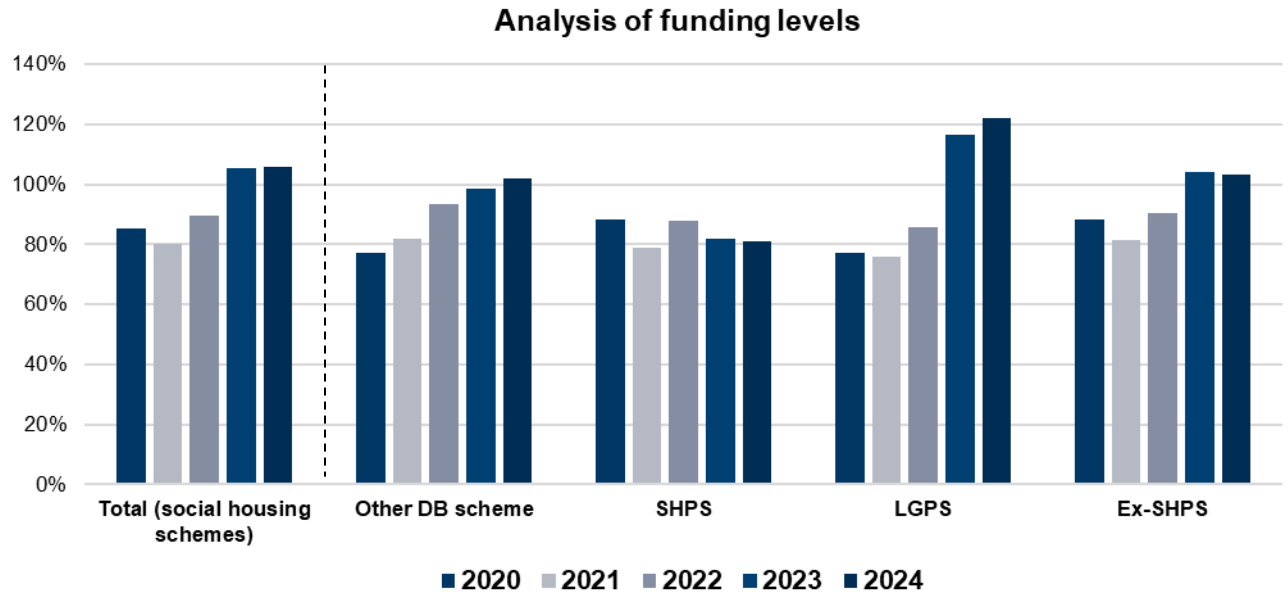


Funding levels

The key results come when we consider asset performance and liability movements together, and this continues to give rise to a broad range of funding levels across the sector.

In a trend which continued from last year, the total aggregate funding level improved over the year to 31 March 2024. This trend was seen across all schemes except for SHPS and ex-SHPS. The slight decline in the funding level of SHPS was caused by a reduction in both assets and liabilities which resulted from its ongoing hedging strategy to match interest rate market movements. This effect is mirrored in ex-SHPS schemes, many of which may have a similar (legacy) investment strategy to SHPS.

As expected, the aggregate funding level for LGPS funds covered in our survey increased over the period, from 116% to 119%. This is because many LGPS funds hold significant allocations of growth assets.



What does all this mean?

FRS 102 valuations provide interesting insights into scheme funding, and our full survey will explore this in more detail. However, it's important to remember that accounting valuations 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.

For the accounting year end, financial assumption setting is only one part of the equation – for a start, there are demographic assumptions to set as well. The impact of past and pending court rulings may well prove crucial for employers in the social housing sector. The key cases will be the TPT benefit review and the Virgin Media case. Early conversations with your auditors about these cases will be key to a smooth year-end process.

For support with your year-end accounting disclosures, or to make sure you receive our full survey, please get in touch with one of First Actuarial's team of housing pension specialists.



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