AON

Global Report

Global Survey of Retirement Plan
Accounting Assumptions

Global Survey of Retirement Plan Accounting Assumptions

This report presents the results of Aon's global survey of accounting assumptions used for employee benefit plans at 2023 year-end. The results of this survey may be useful to companies when setting preliminary assumptions for 2024 year-end and budgets for 2025. In addition, companies should consider the following:

- During 2023, discount rates changed much less significantly than during 2022. Rates generally fell slightly in most countries reflecting slightly lower corporate bond yields. This movement was despite a backdrop of slightly higher long term government bond yields reflecting pressures on government spending and continued concerns about high levels of inflation. However, during 2023, current levels of inflation and longer term inflationary expectations generally reduced, which resulted in a lower inflation assumption in some countries. This may have contributed to slightly lower salary increase and/or pension indexation assumptions in some countries.

We continue to see some short-term volatility in rates as market expectations around the timing and speed of anticipated interest rate reductions by most central banks adjust to new data and announcements.

- There were also significantly positive returns in most equity markets during 2023. This strong performance has continued into 2024.

- Changes in bond yields may be due, in part, to changes in inflationary expectations. When plan sponsors consider a change in their discount rate, they should review other assumptions linked to inflation. Implied market expectations of inflation have remained broadly flat in the UK and Eurozone during the first half of 2024.

- In the UK, rates were volatile during 2023 but ended about 20 bps lower than at the 2022 year-end. Long-term inflation expectations reduced by around 20 bps during 2023, which for most plans will offset a significant portion of the impact of lower discount rates. Most companies continue to use an inflation risk premium, and for the 2023 year-end IRPs have generally been similar to the 2022 year-end (typically up to 0.4% or slightly higher in some cases, but with an average of around 0.3%).

- Also in the UK, following the Virgin Media case, companies may receive questions from auditors relating to the documentation of historic plan amendments. In the case, the High Court found that amendments to the rules of a contracted-out scheme which related to section 9(2B) rights were void and ineffective to the extent that the amendment was introduced without the required Section 37 confirmation – even if the amendment did not adversely affect benefits. The case went to appeal and, on 25 July 2024, the Court of Appeal upheld the High Court's decision. A full review of amendments is a significant exercise and we are aware that the DWP is considering validating retrospectively amendments that are void solely because Section 37 confirmation was not given, or cannot be located. Trustees and plan sponsors will need to weigh up the costs of spending material resources investigating the issue at this stage versus waiting for the outcome of this review.

- In the Eurozone, many companies look to the European Central Bank inflation target of 2% to set their inflation assumption. However, to an increasing degree the inflation assumption may also be set with reference to market-implied inflation rates. These market-implied inflation rates fell during 2023 by 20-40 basis points, depending on plan duration. During the first half of 2024, rates stayed quite stable compared to the end of 2023.

- We continue to see companies, especially those with closed or frozen plans, establish a "glide path" as part of their investment and risk policy, with a view to automatically adjusting the risk level in the plans as market conditions vary. The glide path typically sets a specific asset allocation the investment manager must follow based on predefined triggers such as the funded status of the pension plan. If such a policy is applied, plan sponsors using U.S. GAAP should consider how the asset allocation in the relevant plans may vary when setting an assumption for the expected rate of return on assets.

- Most countries in which defined benefit plans are prevalent have mortality assumptions that take in account anticipated future mortality improvements. In some cases, mortality assumptions have been adjusted to reflect the near-term impact of COVID-19.

However, in many countries, no such adjustments are being made since the long-term impact of the pandemic on future mortality is still uncertain. Below are comments concerning mortality assumptions in several countries:

○ United Kingdom—In April 2024, the Continuous Mortality Investigation (CMI) released a further update to UK mortality projections, CMI_2023. The core weightings on the various years of experience data are 100% for all years except for 2020, 2021, 2022 and 2023. For 2020 and 2021, the weightings are 0% so that future improvements are not impacted by the significantly heavier mortality seen in 2020 and 2021 as a result of the COVID-19 pandemic. For 2022 and 2023, the weightings are 15%, reflecting the fact that mortality rates in 2022 and 2023 remained significantly higher and that at least some of the factors contributing to this are expected to be temporary. Users of the model are able to adjust these parameters, so companies could apply a non-zero weighting to 2020/2021 experience (or a higher weighting to 2022/2023 experience), reducing liabilities.
Updating mortality projections from CMI_2022 to CMI_2023 is typically expected to result in a small decrease to pension obligations, although impacts can vary depending on a given plan's specific circumstances.

There is also a slight trend towards the use of lower assumptions for the long-term rate of mortality improvement, with the most common assumption of 1.25% p.a. being reduced to 1.0% p.a. by some companies. A reduction of 0.25% p.a. in the assumed long-term rate of improvement reduces liabilities by 0.5%-1.0% for a typical plan.

○ United States—In October 2023, the Society of Actuaries (SOA) issued a report including updated U.S. mortality data but did not issue a new mortality improvement scale due to the continued significant impact of the COVID-19 pandemic on mortality experience since 2020. The SOA instead provided guidance on how practitioners might adjust the latest mortality improvement scale (Scale MP-2021) to reflect the impact of the pandemic. At 2023 year-end, most plan sponsors applied Scale MP-2021 (or a variation reflecting adjustments for the pandemic) in conjunction with base mortality tables issued in October 2019. An increasing number of plan sponsors have performed mortality studies and adjusted the standard base mortality tables to better fit their own experience. The SOA's next mortality update is expected to be issued in October 2024 and it remains to be seen whether it will include only updated mortality data or a new mortality improvement scale.

○ Canada—In April 2024, the Canadian Institute of Actuaries (CIA) released a new mortality projection scale with an ultimate improvement rate of 1.3%, which is higher than the ultimate improvement rates of other projection scales used to date. The CIA is expected to release an update of the base mortality table in 2025 and companies may wish to consider the impact and timing of updating the base rates and projection scale.

○ Germany—The generally accepted standard mortality tables in Germany are the Heubeck RT 2018 G tables (issued in 2018). As the RT 2018 G tables use flat and potentially conservative mortality improvement projections, some companies have applied recently alternate mortality improvement projections to the RT 2018 G base table based on the CMI model used in the UK. Usually this may lead to a decrease of pension obligations by 1% to 3%. No updates of the Heubeck tables are currently planned. The tables recently have been reviewed by a working group of the German Actuarial Association which came to the conclusion that the tables still are appropriate, and no changes currently are required and which will continue to monitor and evaluate the appropriateness of the boards in the future.

• Companies have been continuing to undertake exercises to reduce the financial risks related to their pension plans, such as lump sum windows, buy-ins, buy-outs and longevity swaps. The accounting treatment of these exercises (in particular, whether settlement accounting according to U.S. GAAP may be required) should be considered, based on the nature of the exercise and the accounting standard being applied.

• In Japan, considering continuous higher inflation rates (2.5%-3.0%) in the first half of 2024, plan sponsors may wish to review salary increase assumptions when the inflation rates exceed the salary progression rates. Further, it is expected that the Ministry of Health, Labour and Welfare will release updated mortality tables (MHLW 2025) during the first half of 2025.

• In Germany, the guaranteed return on new life insurance contracts will increase to 1.00% as of January 1, 2025, following the recommendation of the German Actuarial Association. This rate was after many years of decreasing to its lowest value of 0.25% during the past three years. The increase to 1.00% for new life insurance contracts is the first such increase for more than 30 years.

If you would like an update on current economic indices or the current status of changes in accounting standards, please contact your local Aon consultant.

Background

Aon conducted this survey of fiscal 2023 year-end accounting assumptions by gathering assumptions used by our clients.

As in previous surveys, we have focused on four economic assumptions that companies select under ASC 715, IAS 19, FRS 102 and other accounting standards with similar requirements for assumption setting. The assumptions are:

- Discount rate;

- Expected long-term rate of return (U.S. GAAP only);

- Salary increase; and

- Pension increase assumptions (for certain countries only).

Similar to last year, we are only showing assumptions for companies with fiscal years ending on December 31, 2023. The tables on the following pages show the average assumption as of the end of 2022 and 2023.

The Appendix provides the following additional information about 2023 year-end assumptions:

- Average discount rate by duration of the pension liabilities for countries with larger pension obligations (Canada, Eurozone, Japan, Switzerland, and the U.K.);

- Range of assumptions used at 2023 year-end for specific countries; and

- Prevalent mortality table along with life expectancies for countries with larger pension liabilities.

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Discount Rate at Year-End 2023

The following table shows the survey results for the discount rate assumption for the 2022 and 2023 fiscal year-ends.

Country	Year-End 2022 Average %	Year-End 2023 Average %
Australia	5.40	5.44
Brazil	10.44	10.15
Canada	5.10	4.78
Eurozone		
Austria	3.50	3.46
Belgium	3.57	3.59
Finland	3.62	3.44
France	3.65	3.47
Germany	3.70	3.31
Greece	3.62	3.36
Ireland	3.74	3.36
Italy	3.57	3.45
Netherlands	3.47	3.37
Spain	3.53	3.48

Country	Year-End 2022 Average %	Year-End 2023 Average %
India	7.31	7.26
Japan	1.07	1.37
Mexico	9.49	9.56
Philippines	7.01	6.14
Poland	6.89	5.30
South Africa	11.47	11.38
South Korea	5.25	4.45
Sweden	3.78	3.45
Switzerland	2.08	1.47
Taiwan	1.62	1.29
Thailand	3.04	3.06
United Kingdom	4.79	4.55
United States	5.14	4.95

The values in the table represent an average discount rate for all post-employment plans (pension, retiree medical, and termination indemnities), as well as in-service benefits such as long-service leave or jubilee awards.

A comparison of a company's discount rate to the rates shown above should take into consideration:

1. The maturity of the company's plan(s) may differ from the maturities of the plans included in this survey.

2. Some clients use yield curves which may support a higher discount rate while others may only refer to yields of indices.

Several methodologies are available to companies in Canada on which to base the discount rate including expected return on assets for companies which disclosed results under Canadian GAAP. The averages indicated for Canada are therefore higher than if rates based only on corporate bond yields were included.

See the Appendix for additional details about discount rates for selected countries.

Long-Term Rate of Return for 2024

The following table shows the survey results for the average expected long-term rate of return on plan assets used to determine expense for the 2023 and 2024 fiscal years for companies reporting using U.S. GAAP.

Country	2023 Average %	2024 Average %
Canada	4.86	4.89
Eurozone		
Belgium	3.64	3.29
Germany	3.98	3.77
Ireland	4.55	4.81
Netherlands	3.63	3.58
South Korea	3.31	4.26
Switzerland	3.15	2.97
Taiwan	4.23	3.84
United Kingdom	5.01	5.06
United States	6.23	6.32

The concept of an expected return on plan assets does not exist under IAS 19—it is set equal to the discount rate. For that reason, in this survey, we only included the expected return for companies reporting under U.S. GAAP.

The expected rates of return shown in the table for all countries reflect the asset allocations of the plans included in this survey. A comparison of your company's expected rate of return to the rates shown above should take into consideration that the asset allocation for your company's plan(s) may differ from the asset allocations of the plans included in this survey.

See the Appendix for additional details about the expected long-term rate of return assumption for selected countries.

Salary Increase at Year-End 2023

The following table shows the survey results for the salary increase assumption for 2022 and 2023 fiscal year-ends.

Country	Year-End 2022 Average %	Year-End 2023 Average %
Australia	3.15	3.40
Canada	3.00	3.02
Eurozone		
Austria	3.89	3.57
Belgium	3.09	2.98
Finland	3.04	2.88
France	2.82	2.76
Germany	2.76	2.83
Greece	2.77	2.45
Ireland	3.34	3.03
Italy	3.40	3.11
Netherlands	2.58	2.61
Spain	2.44	2.63

Country	Year-End 2022 Average %	Year-End 2023 Average %
India	8.16	8.71
Japan	2.26	2.24
Mexico	5.30	5.30
Philippines	4.99	4.98
Poland	3.90	3.77
South Korea	4.19	3.95
Sweden	3.12	2.62
Switzerland	1.78	1.84
Taiwan	3.19	3.27
Thailand	4.89	4.99
United Kingdom	3.17	3.02
United States	3.90	3.97

The salary increase assumptions shown in the table reflect the situation of each company included in this survey. Your company's situation may differ from that of the companies included in the survey; hence, a different salary increase assumption may be appropriate.

See the Appendix for additional details about the salary increase assumption for selected countries.

Pension Increase for Year-End 2023

The following table shows the survey results for the pension increase assumption for 2022 and 2023 fiscal year-ends. Note that the results are shown for those plans where a portion of the benefits paid to pensioners is adjusted annually and is correlated with current inflationary expectations.

Country	Year-End 2022 Average %	Year-End 2023 Average %
Eurozone		
Germany	2.17	2.12
Ireland	2.17	2.14
Netherlands	1.61	1.69
Sweden	2.19	1.74
Switzerland	0.02	0.02
United Kingdom	3.46/2.88	3.28/2.78

For the United Kingdom, our 2023 year-end survey results produced an average assumption for each of the Retail Price Index (RPI) and the Consumer Price Index (CPI).

For Switzerland, we have shown the average pension indexation assumptions for all plans which call for pension indexation, including those with an assumption of 0%.

See the Appendix for additional details about the pension increase assumption for selected countries.
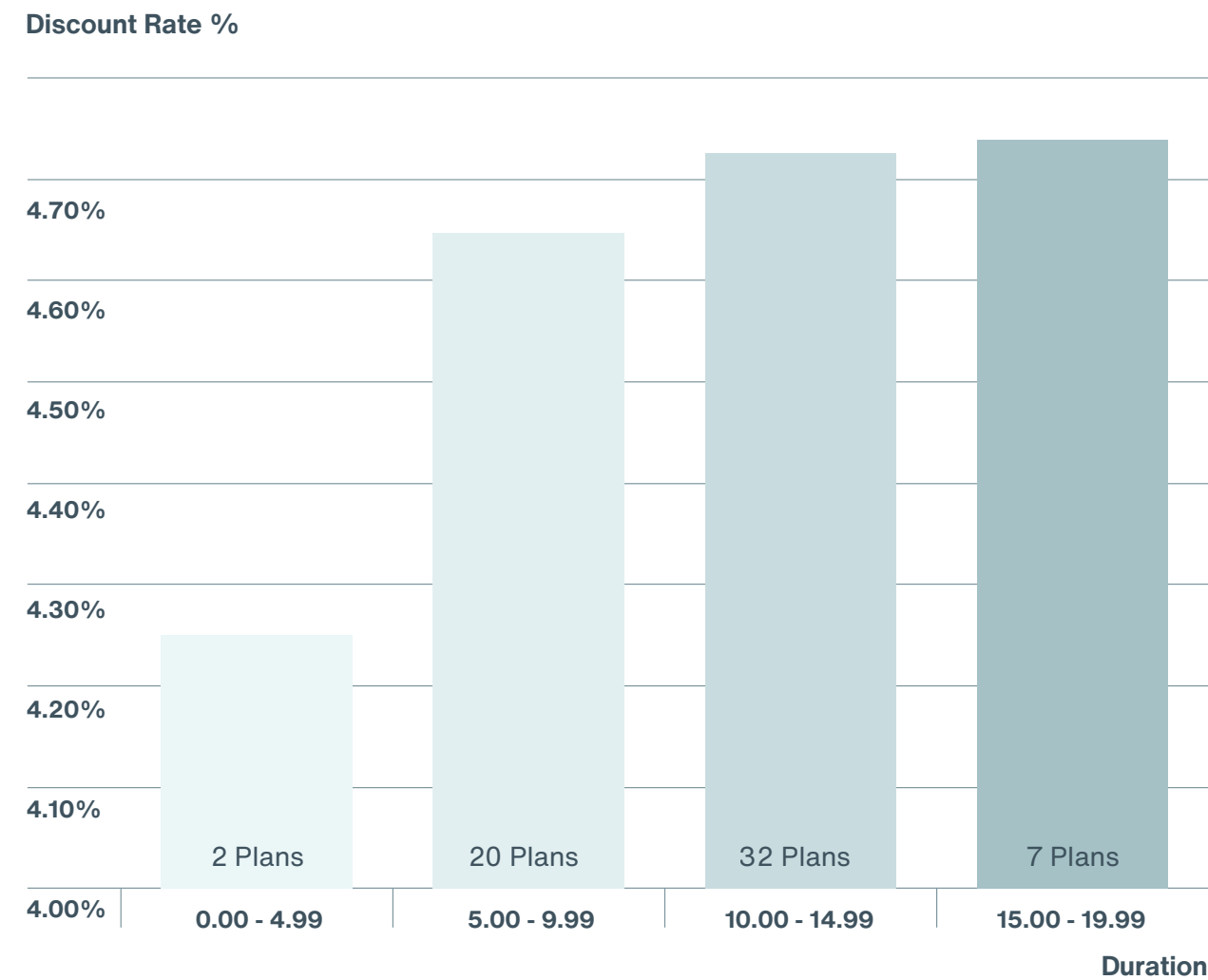
Appendix

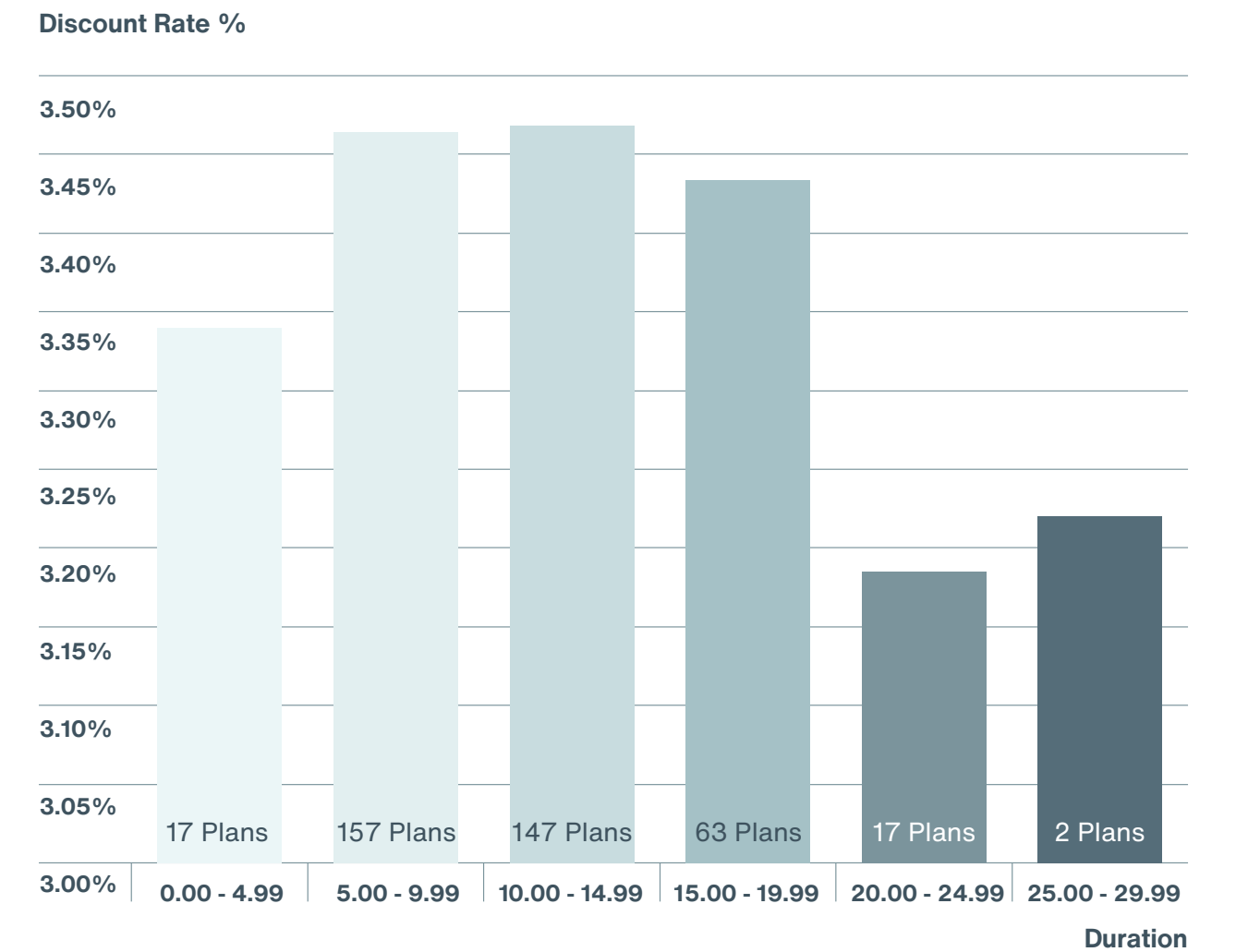**The Appendix provides the following additional information about 2023 year-end assumptions:**

- For countries with larger pension obligations (Canada, Eurozone, Japan, Switzerland, and the U.K.), the average discount rate by duration. Note: We were only able to include plans for which the duration of the plan was available;

- For specific countries, the range of assumptions used at 2023 year-end; and

- For certain countries, the prevalent mortality table used at 2023 year-end along with life expectancies.

The following charts show the average discount rate selected for plans with durations falling within the ranges shown. We also show the number of plans falling within each range. Please note that duration was not provided for all plans included in the survey. Therefore, the number of plans included in the charts below may differ from the number of plans used in other parts of this survey.

Canada

Discount Rate %

2 Plans	20 Plans	32 Plans	7 Plans
0.00 - 4.99	5.00 - 9.99	10.00 - 14.99	15.00 - 19.99

Duration

Eurozone

Discount Rate %

17 Plans	157 Plans	147 Plans	63 Plans	17 Plans	2 Plans
0.00 - 4.99	5.00 - 9.99	10.00 - 14.99	15.00 - 19.99	20.00 - 24.99	25.00 - 29.99

Duration

Japan

Discount Rate %

1.80%	
1.60%	
1.40%	
1.20%	
1.00%	
0.80%	
0.60%	
0.40%	
0.20%	
0.00%	

6 Plans — 0.00 - 4.99
43 Plans — 5.00 - 9.99
12 Plans — 10.00 - 14.99

Duration

Switzerland

Discount Rate %

1.65%	
1.60%	
1.55%	
1.50%	
1.45%	
1.40%	
1.35%	
1.30%	
1.25%	
1.20%	

8 Plans — 5.00 - 9.99
78 Plans — 10.00 - 14.99
69 Plans — 15.00 - 19.99
1 Plan — 20.00 - 24.99

Duration

UK

Discount Rate %

4.60%	
4.55%	
4.50%	
4.45%	
4.40%	
4.35%	

4 Plans — 5.00 - 9.99
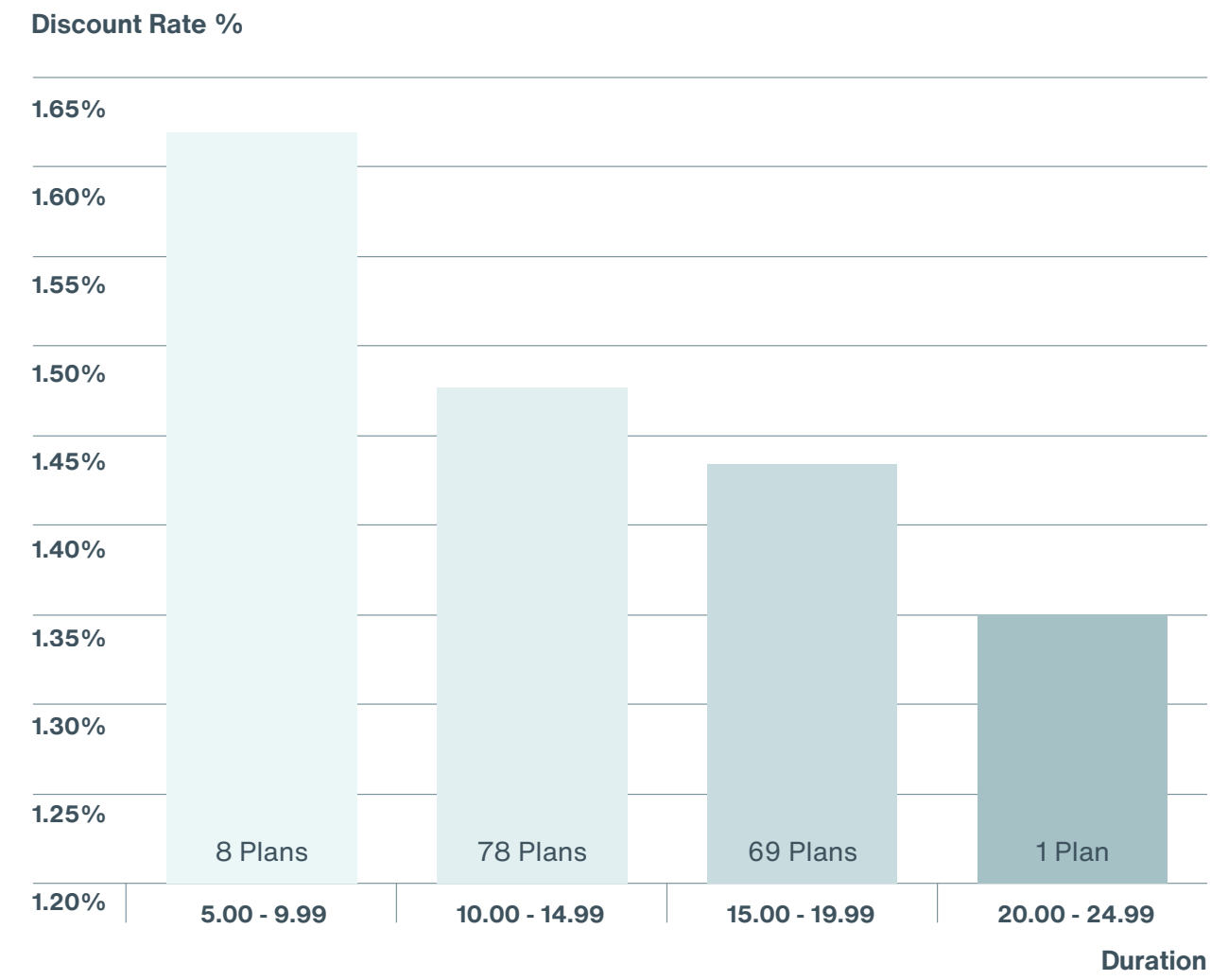65 Plans — 10.00 - 14.99
31 Plans — 15.00 - 19.99
5 Plans — 20.00 - 24.99

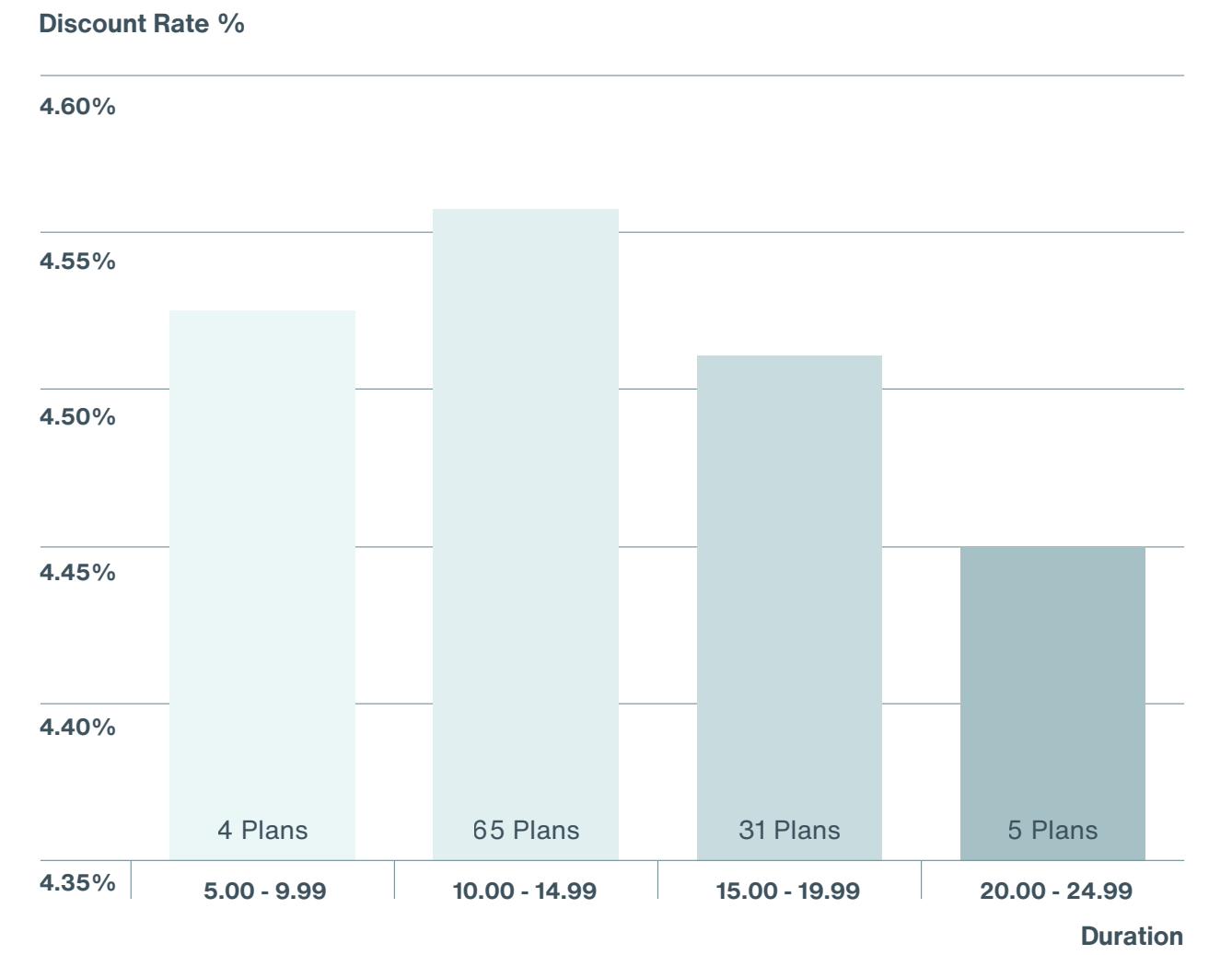Duration

11
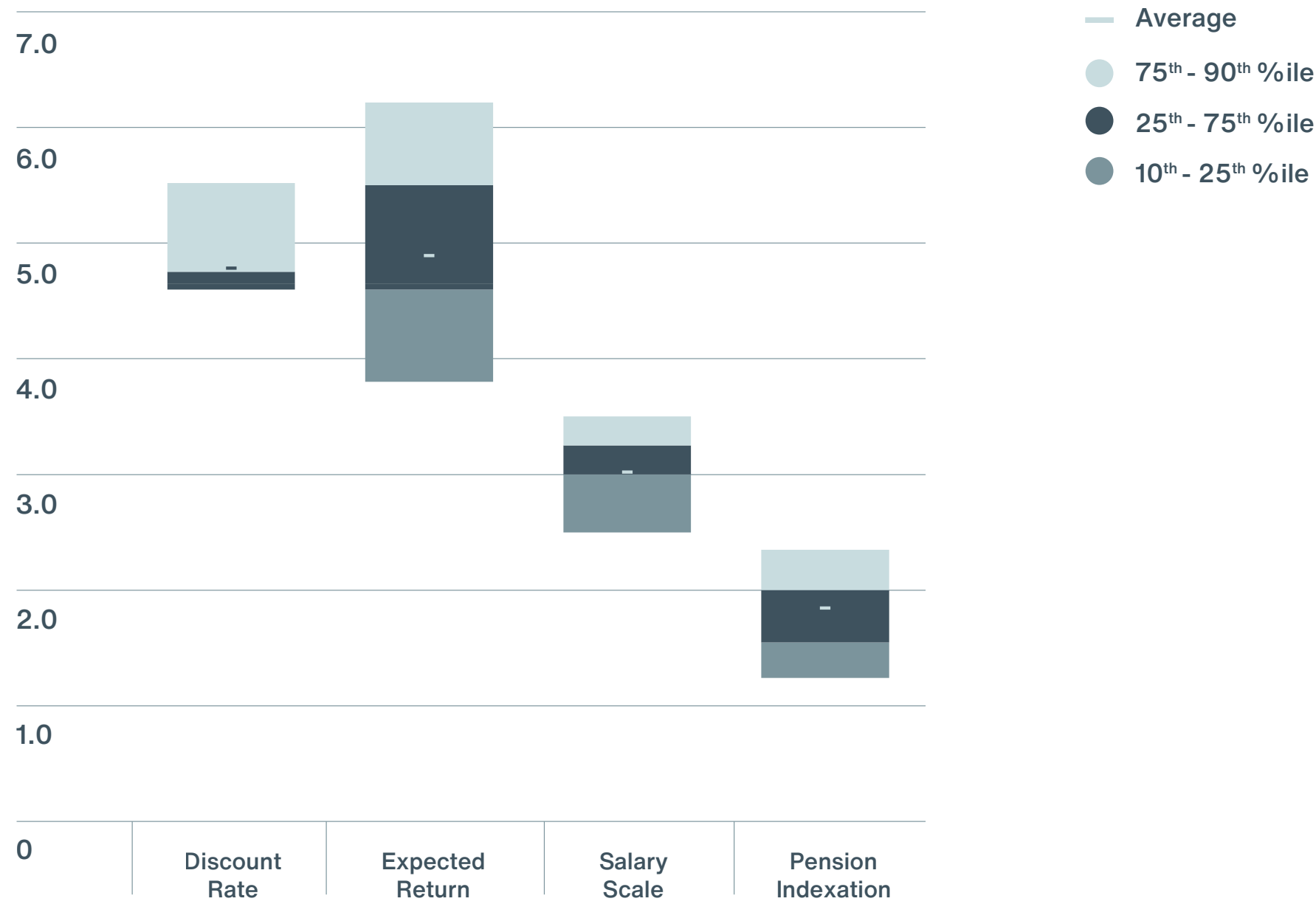
The following charts show range of assumptions employers selected for 2023 year-end for specific countries.

Canada

Legend:
- Average
- 75th - 90th %ile
- 25th - 75th %ile
- 10th - 25th %ile

Statistic	Discount Rate	Expected Return	Salary Scale	Pension Indexation
Count	90	78	60	14
Average	4.78%	4.89%	3.02%	1.85%
90th %ile	5.52%	6.22%	3.50%	2.35%
75th %ile	4.75%	5.50%	3.25%	2.00%
Median	4.65%	4.65%	3.00%	2.00%
25th %ile	4.60%	4.60%	3.00%	1.55%
10th %ile	4.60%	3.80%	2.50%	1.24%

France

Legend:
— Average
● 75th - 90th %ile
● 25th - 75th %ile
● 10th - 25th %ile

Statistic	Discount Rate	Expected Return	Salary Scale	Pension Indexation	Inflation
Count	33	7	28	6	33
Average	3.47%	3.47%	2.76%	2.00%	2.14%
90th %ile	4.00%	3.81%	3.75%	2.24%	2.24%
75th %ile	3.70%	3.73%	3.13%	2.22%	2.20%
Median	3.30%	3.50%	2.55%	2.15%	2.10%
25th %ile	3.25%	3.23%	2.20%	1.84%	2.10%
10th %ile	3.20%	3.09%	2.20%	1.63%	2.10%

Germany

Legend:
— Average
● 75th - 90th %ile
● 25th - 75th %ile
● 10th - 25th %ile

Statistic	Discount Rate	Expected Return	Salary Scale	Pension Indexation
Count	87	6	83	87
Average	3.31%	3.77%	2.83%	2.12%
90th %ile	3.50%	4.93%	3.34%	2.30%
75th %ile	3.30%	4.38%	3.00%	2.25%
Median	3.30%	3.65%	2.88%	2.10%
25th %ile	3.20%	2.89%	2.50%	2.00%
10th %ile	3.20%	2.73%	2.46%	2.00%

Japan

Average
75th - 90th %ile
25th - 75th %ile
10th - 25th %ile
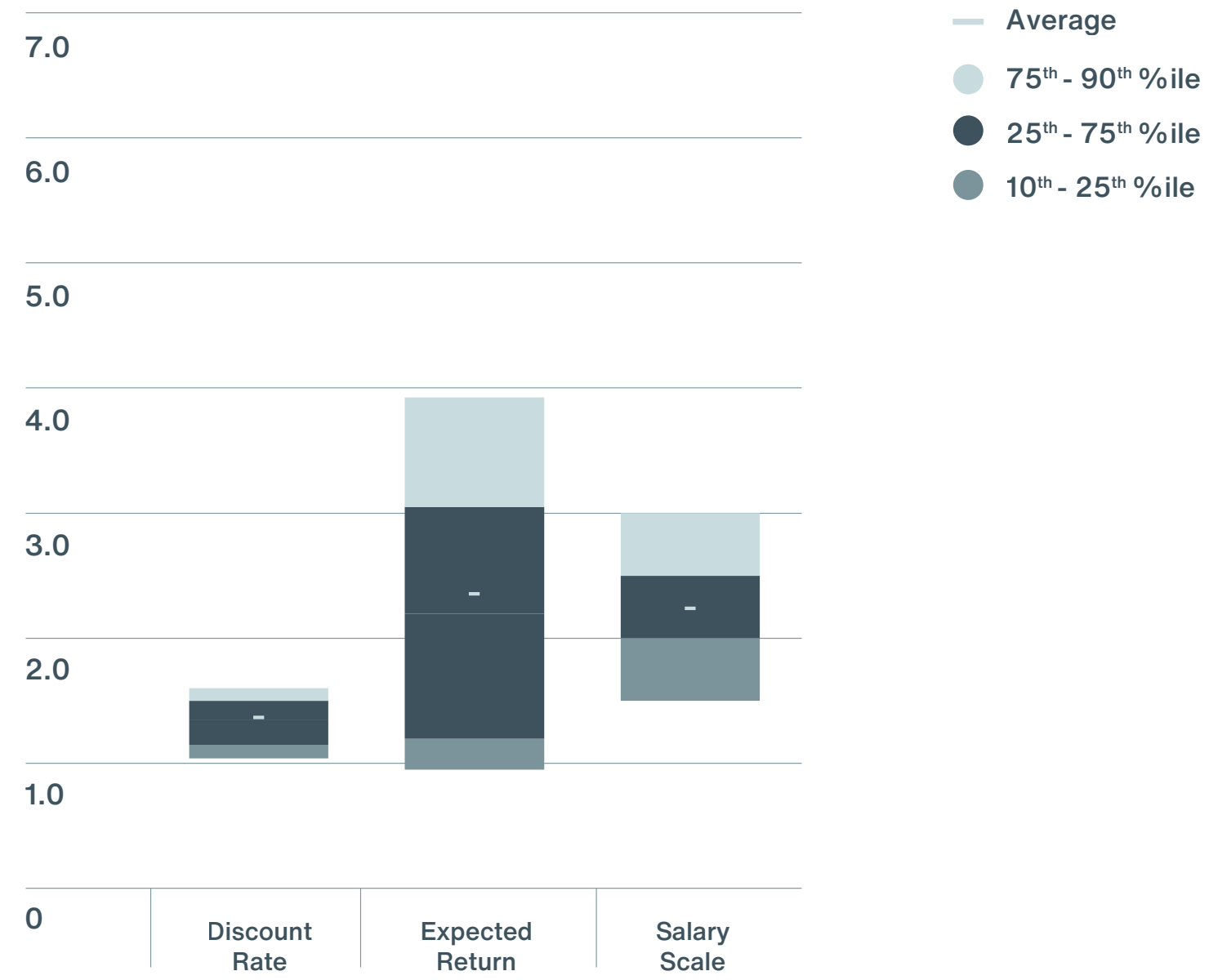
Statistic	Discount Rate	Expected Return	Salary Scale
Count	65	6	54
Average	1.37%	2.36%	2.24%
90th %ile	1.60%	3.93%	3.00%
75th %ile	1.50%	3.05%	2.50%
Median	1.35%	2.20%	2.00%
25th %ile	1.15%	1.20%	2.00%
10th %ile	1.04%	0.95%	1.50%
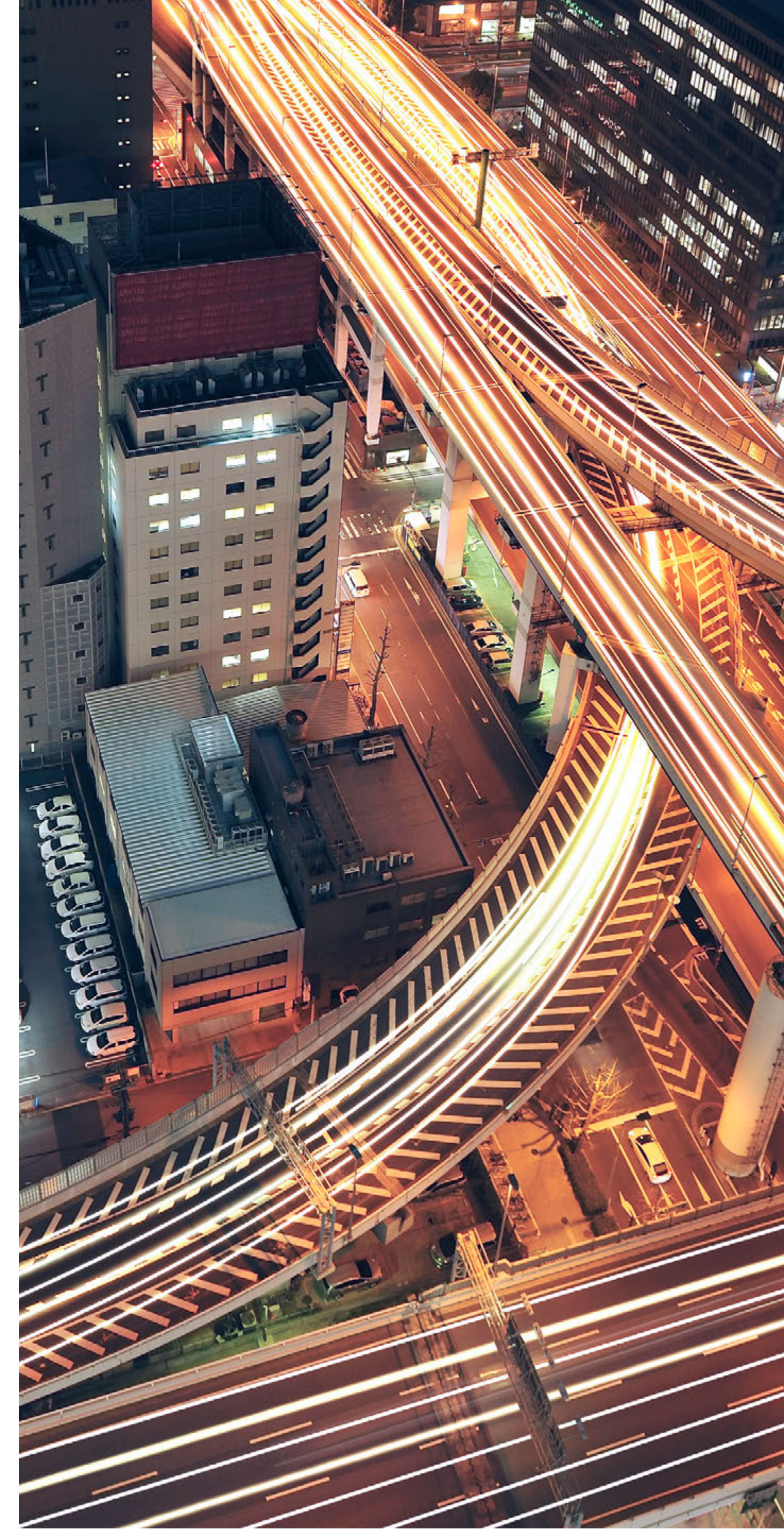
Netherlands

Legend:
- Average
- 75th - 90th %ile
- 25th - 75th %ile
- 10th - 25th %ile

Statistic	Discount Rate	Expected Return	Salary Scale	Pension Indexation
Count	75	14	49	25
Average	3.37%	3.58%	2.61%	1.69%
90th %ile	4.06%	4.59%	3.50%	2.36%
75th %ile	3.60%	4.04%	3.00%	2.20%
Median	3.28%	3.32%	2.50%	1.90%
25th %ile	3.10%	3.15%	2.10%	1.00%
10th %ile	3.00%	2.90%	2.00%	0.94%

Switzerland
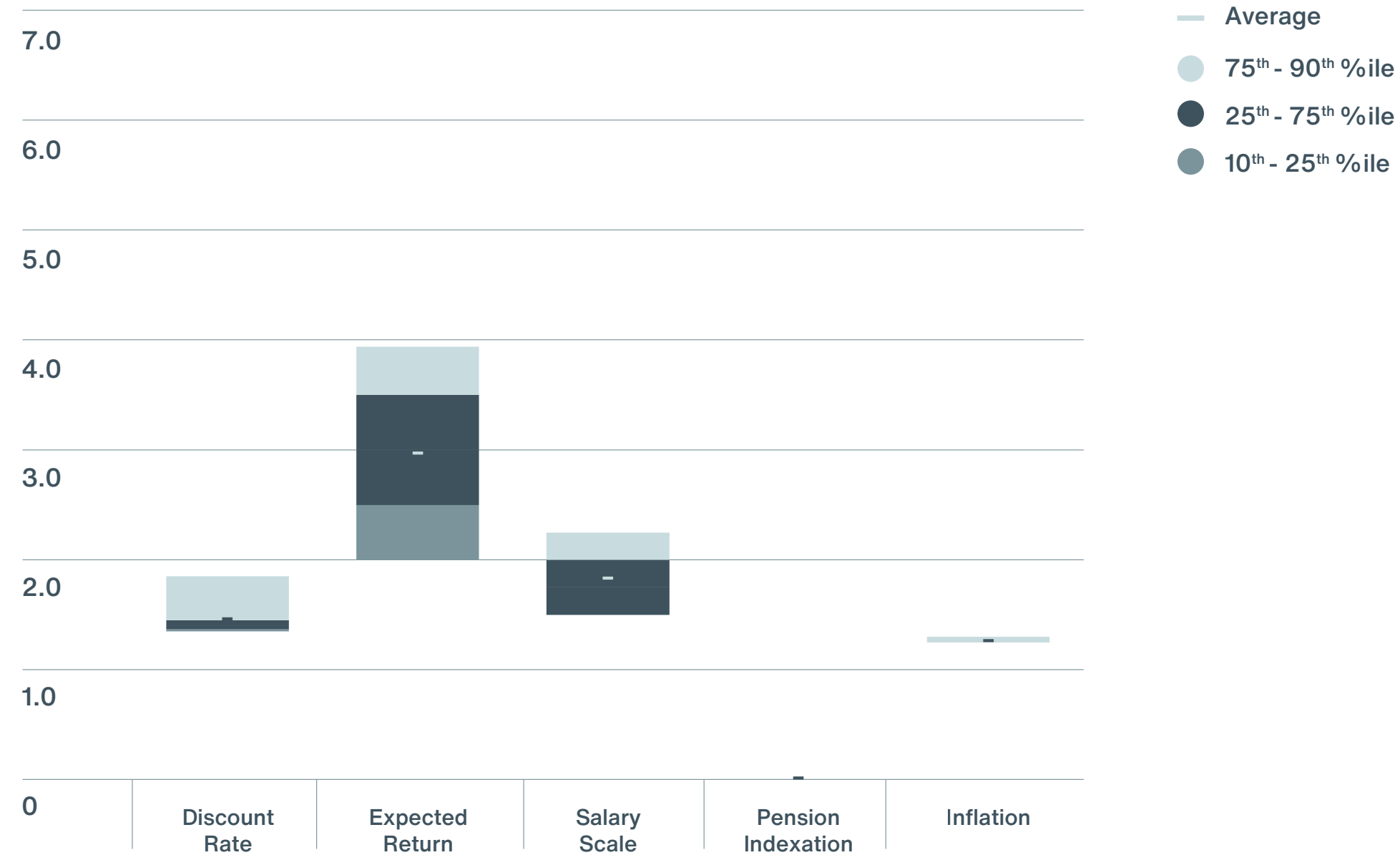
Statistic	Discount Rate	Expected Return	Salary Scale	Pension Indexation	Inflation
Count	161	47	159	159	159
Average	1.47%	2.97%	1.84%	0.02%	1.27%
90th %ile	1.85%	3.94%	2.25%	0.00%	1.30%
75th %ile	1.45%	3.50%	2.00%	0.00%	1.25%
Median	1.40%	3.00%	1.75%	0.00%	1.25%
25th %ile	1.37%	2.50%	1.50%	0.00%	1.25%
10th %ile	1.35%	2.00%	1.50%	0.00%	1.25%

UK

Legend:
— Average
○ 75th - 90th %ile
● 25th - 75th %ile
● 10th - 25th %ile

Statistic	Discount Rate	Expected Return	Salary Scale	RPI Inflation	RPI-CPI Spread
Count	130	47	71	130	130
Average	4.55%	5.06%	3.02%	3.28%	0.49%
90th %ile	4.61%	6.44%	3.68%	3.40%	0.63%
75th %ile	4.55%	5.75%	3.28%	3.35%	0.60%
Median	4.50%	5.10%	3.00%	3.30%	0.50%
25th %ile	4.50%	4.25%	2.65%	3.26%	0.40%
10th %ile	4.50%	3.92%	2.42%	3.05%	0.35%

US

	Average
●	75th - 90th %ile
●	25th - 75th %ile
●	10th - 25th %ile
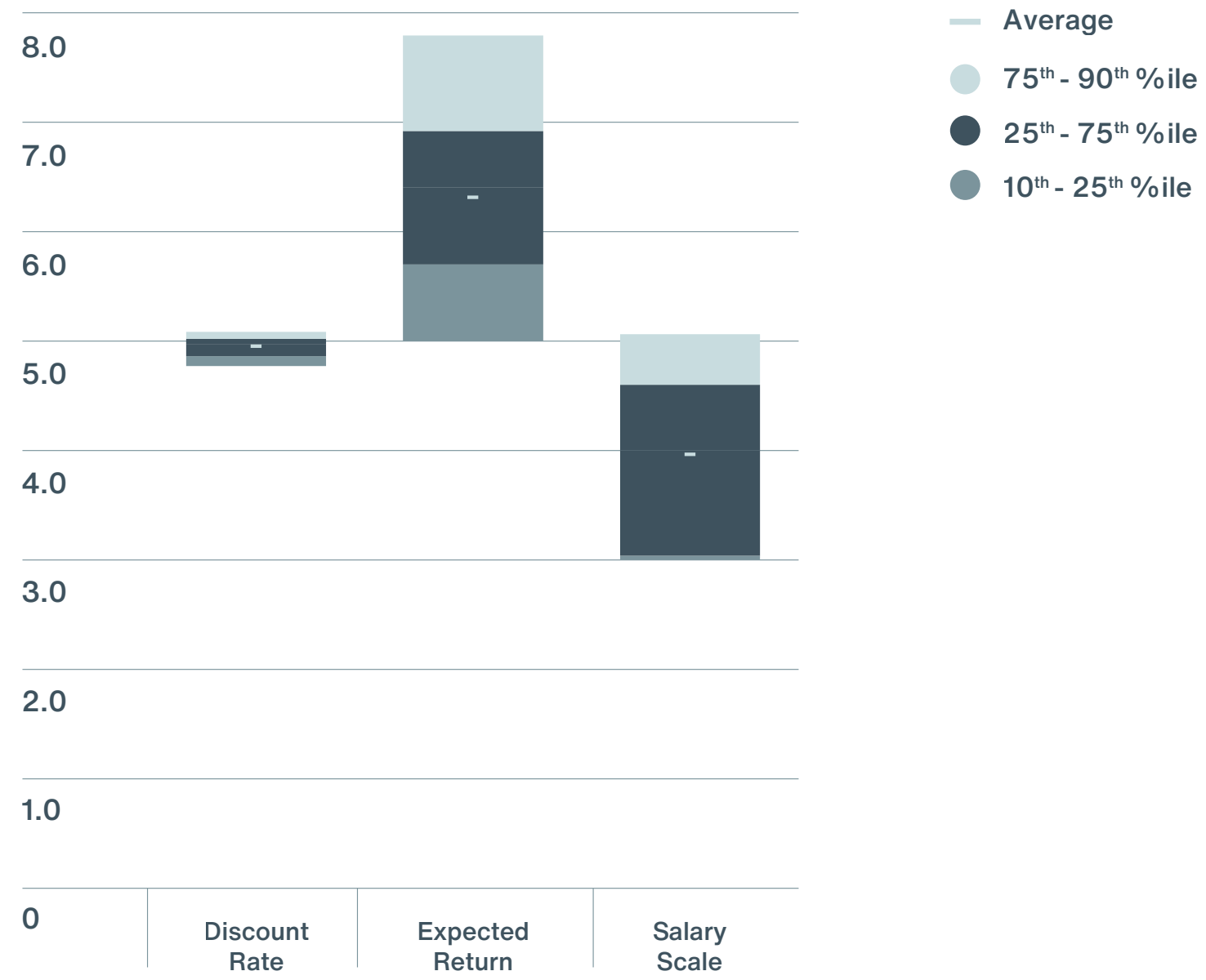
Statistic	Discount Rate	Expected Return	Salary Scale
Count	158	137	97
Average	4.95%	6.32%	3.97%
90th %ile	5.09%	7.79%	5.06%
75th %ile	5.02%	6.92%	4.60%
Median	4.97%	6.40%	4.00%
25th %ile	4.86%	5.70%	3.04%
10th %ile	4.77%	5.00%	3.00%

The table to the right shows the prevalent mortality table used for 2023 year-end for the countries shown, along with the life expectancies for a male and female retiree age 65. Please note that we show the life expectancy for a retiree age 65 in 2024 as well as for a retiree age 65 in 2064. The difference between the two values shows the increase in longevity that is expected over the next 40 years by the mortality improvement assumption. For example, an age 65 Canadian male's longevity is expected to increase by 2.8 years over the next 40 years, from 22.3 to 25.1 years.

Country	Base Table (Mortality Improvement if Separate From Base Table)	Life Expectancy			
		Male In		Female In	
		2024	2064	2024	2064
Canada	CPM Private (MI2017)	22.3	25.1	24.8	27.4
Germany	Heubeck Richttafeln RT 2018 G	20.9	26.1	24.3	28.5
Netherlands	Prognosetafel 2022	20.5	24.7	23.4	27.4
Switzerland	BVG 2020 (CMI 2019 1.50%)	22.1	26.0	23.9	27.5
United Kingdom	S3PMA/S3PFA (CMI 2022 s=7.0, A=0.25)	21.7	24.6	24.2	27.0
United States	PRI-2012 (MP2021)	20.7	23.5	22.7	25.3

For More Information

If you would like further information on accounting assumptions for defined benefit plans, contact your local Aon actuarial consultant, Kirsten Miller in Glasgow, Scotland (+44 7834 609704), or Chance Sorenson in Chicago, Illinois (+1 605 760 4038).

For more information on the countries in this newsletter, please refer to the Aon Country Profiles. You can learn more about the Country Profiles here.

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