# Global Report: 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 2020 year-end. The results of this survey may be useful to companies when setting preliminary assumptions for 2021 year-end and budgets for 2022. In addition, companies should consider the following:

- During the whole of 2020, discount rates decreased again in most countries from 2019 year-end to varying degrees following a temporary "spike" in March 2020 during the early stages of the COVID-19 pandemic. During the first half of 2021 discount rates have increased and are now in some regions back to 2019 year-end levels.

- Changes in bond yields mentioned above 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. In particular it is worth noting that market indicators show that long-term inflation expectations in the UK and Eurozone have increased since 2020 year-end, which would be expected to increase the value placed on obligations which are subject to inflation-linked increases.

- In the UK, following a House of Lords report in 2019 stating that there are critical flaws in RPI (a measure of inflation used to index a large portion of UK pension benefits), the Government consulted on changes to the calculation of RPI. This consultation period ran to August 2020 and concerned the timing and implementation of changing the calculation of RPI to be in line with CPIH from 2030 or earlier. Following the consultation, in November 2020 the Government announced that the current methodology will be retained until 2030 when the UK Statistics Authority (SA) will have the power to change its measurement and is expected to do so. CPIH is expected to be around 1% p.a. lower than RPI in the long-term and therefore such a change would result in a significant reduction in pension liabilities, although it may also impact the value of index-linked pension assets. However, the market did not appear to fully reflect a full move to CPIH from 2030, implying that holders of RPI-linked assets (e.g. insurers and pension funds) are generally price-insensitive. As a result, many companies used a higher inflation risk premium at the end of 2020 compared to prior years (typically increasing the IRP from around 0.2% to 0.3% or 0.4%).

- In the Eurozone, many companies look to the European Central Bank inflation target to set their inflation assumption. However, to an increasing degree the inflation assumption may also be set with reference to market-implied inflation rates. As noted earlier in this section, these market-implied inflation rates have increased in the second half of 2020 and the first half of 2021. If current market conditions persist market-implied inflation rates may be only about 20 bps lower than the ECB inflation target of 2.0%.

- 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 recognize anticipated future mortality improvements. Currently mortality assumptions are typically not being adjusted to reflect COVID-19 as the long-term impact of the pandemic on future mortality is still uncertain. However, it is to be expected that views will develop during 2021. Below are comments concerning mortality assumptions in several countries:

- United Kingdom—In March 2021, the Continuous Mortality Investigation (CMI) released a further update to UK mortality projections, CMI_2020. This update introduced new parameters allowing different weights to be applied to different years of data with the model. The core weightings are 100% for all years except for 2020, which is 0% so that future improvements are not impacted by the significant worsening in mortality seen in 2020 as a result of the COVID-19 pandemic. Users of the model are able to flex these parameters (so companies could apply a non-zero weighting to 2020 experience, reducing liabilities), although we expect most companies to use the core weighting parameters. There were no changes to any of the other core parameters underlying the projections. Updating mortality projections from CMI_2019 to CMI_2020 is typically expected to result in a small decrease to pension obligations (usually less than 0.5%), although impacts can vary depending on a given plan's specific circumstances.

- United States—In October 2020, new mortality improvement assumptions (Scale MP-2020) were issued in the United States. Many plan sponsors adopted these new assumptions for 2020 year-end, using them in conjunction with new base mortality tables issued in October 2019. Some clients have performed mortality studies and adjusted the standard base mortality tables to better fit their own experience. Over the past five years, data has shown a slowdown in mortality improvements for the general population in the U.S., and new mortality improvement scales reflecting this experience have been issued each year since 2015. These updated improvement scales have been adopted by many companies. As a result, the impact of updating the mortality assumption each year has generally been fairly small for most plans. The next mortality improvement update (Scale MP-2021) is expected to be issued in October 2021. The COVID-19 pandemic had a significant impact on U.S. population mortality during 2020, and it remains to be seen how (or whether) this will be reflected in the updated 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 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%. The COVID-19 pandemic led to increased mortality experience in Germany over the whole of 2020 with a peak at the end of the year; however, currently mortality rates are at moderate levels and so far there is no indication for a significant impact on future standard tables or CMI-based modifications.

- Switzerland—New mortality tables were issued in late December 2020. These mortality tables, referred to as BVG/LPP 2020, replaced the BVG/LPP 2015 tables. Due to the timing of release, most companies did not adopt these new tables at the end of 2020 and are expected to adopt the new tables in 2021. From an accounting perspective, we expect that the change to the latest BVG/LPP tables will have a positive effect for the majority of companies. More specifically, a change to the corresponding BVG/LPP 2020 table should lead to a decrease in liability. However, the actual impact of updating to the latest BVG/LPP tables can vary significantly depending on the plans' demographic profile. Beside the mortality itself, the BVG/LPP 2020 tables show a further decrease of disability rates, an increase of turnover rates and a decrease of the probability to have a spouse/partner upon death. The release of the latest BVG/LPP 2020 tables provides an opportunity to review and ensure that all accounting assumptions remain optimal and that any assumption methodologies continue to be appropriate. Reviewing all demographic assumptions on the same cycle as the update to the BVG/LPP tables, which are produced every five years, is a sensible and efficient approach. The COVID-19 pandemic resulted in increased mortality experience in Switzerland especially at the end of 2020; however, since the beginning of 2021 mortality experience is below expectations. For companies using the CMI model to project longevity improvements, the change to the BVG/LPP 2020 Tables is independent from the parameters underlying the projections.

## Other developments affecting accounting disclosures that companies should be aware of.

- 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 August 2018, the U.S. Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-14, which changes the disclosure requirements for pension and other postretirement benefits under U.S. GAAP, eliminating certain existing disclosures and adding certain new disclosures. Among the new disclosures is a description of significant sources of gain or loss in the benefit obligation. The new requirements were generally effective for fiscal years ending after December 15, 2020 for public business entities, with early adoption permitted. Retrospective application of the changes was required.

- In response to feedback that financial statements do not contain enough relevant information, contain irrelevant information and do not effectively communicate the information provided, the IASB have issued an Exposure Draft (ED) setting out a new approach to developing disclosure requirements in IFRS standards. Instead of applying disclosure requirements like a checklist, companies would be required to comply with objectives aimed at meeting the disclosure needs of users of financial statements. The overall aim is to produce disclosures that contain only concise, material and decision useful information. The ED is open for comments until October 2021.

- In the UK, there has been a significant increase in deferred members and members approaching retirement transferring their benefits out of DB plans to DC vehicles via a cash equivalent transfer value, as a result of the increased flexibilities which have been made available, such as the ability to take the entire DC account balance as a lump sum. This has in some cases resulted in a settlement event. We would recommend tracking such payments from UK plans during the course of the year in order to assess the likelihood of a settlement event being triggered.

- In Japan, one of the leading life insurers will reduce the guaranteed return on the “General Account” product from 1.25% to 0.25% as of October 1, 2021, including existing products. There have been no announcements yet from other life insurers but we expect them to follow suit, sooner rather than later. As these products have provided a stable and relatively high guaranteed return in the low-yield Japanese environment, many Defined Benefit retirement plans include this product in their portfolio. The reduction in return will affect both accounting and funding, leading to increasing accounting costs under U.S. GAAP and Japanese GAAP and possibly higher mandatory contributions. Plan sponsors investing in this product are advised to review their asset allocation.

- In Germany, guaranteed return on new life insurance contracts will be reduced from 0.9% to 0.25% as of January 1, 2022. Due to the associated cost of life insurance contracts, many tariffs guaranteeing the paid contributions will be closed as an effect. This reduction in the guaranteed return may also affect accounting and funding of plans.

- In the U.S., new pension funding relief was enacted in March 2021 as part of the American Rescue Plan Act of 2021 (ARPA). This could potentially reduce future cash contributions and the expected return on assets component of expense under U.S. GAAP or IAS 19.

- 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 2020 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, 2020. The tables on the following pages show the average assumption as of the end of 2019 and 2020.

The Appendix provides the following additional information about 2020 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 2020 year-end for specific countries; and
- Prevalent mortality table along with life expectancies for countries with larger pension liabilities.

# Discount Rate at Year-End 2020

The following table shows the survey results for the discount rate assumption for the 2019 and 2020 fiscal year-ends.

| Country | Year-End 2019 Average | Year-End 2020 Average |
|---|---|---|
| Australia | 2.29% | 1.66% |
| Brazil | 7.16 | 7.19 |
| Canada | 3.58 | 3.11 |
| Eurozone | | |
| Austria | 0.78 | 0.65 |
| Belgium | 0.71 | 0.53 |
| Finland | 0.80 | 0.53 |
| France | 0.83 | 0.57 |
| Germany | 0.99 | 0.60 |
| Greece | 0.80 | 0.51 |
| Ireland | 1.16 | 0.68 |
| Italy | 0.68 | 0.50 |
| Netherlands | 0.86 | 0.53 |
| Spain | 0.73 | 0.49 |

| Country | Year-End 2019 Average | Year-End 2020 Average |
|---|---|---|
| India | 6.81% | 6.05% |
| Japan | 0.30 | 0.47 |
| Mexico | 7.33 | 6.56 |
| Philippines | 4.64 | 3.12 |
| Poland | 1.97 | 1.24 |
| South Africa | 8.95 | 9.39 |
| South Korea | 2.16 | 2.09 |
| Sweden | 1.19 | 1.38 |
| Switzerland | 0.15 | 0.05 |
| Taiwan | 0.77 | 0.38 |
| Thailand | 1.73 | 1.57 |
| United Kingdom | 2.01 | 1.40 |
| United States | 3.21 | 2.53 |

The values above 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; and

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 2021

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 2020 and 2021 fiscal years for companies reporting using U.S. GAAP.

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 above 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.

| Country | 2020 Average | 2021 Average |
|---|---|---|
| Canada | 4.84% | 4.14% |
| Eurozone | | |
| Belgium | 3.23 | 2.88 |
| Germany | 3.54 | 3.75 |
| Ireland | 3.49 | 2.85 |
| Netherlands | 1.66 | 1.18 |

| Country | 2020 Average | 2021 Average |
|---|---|---|
| South Korea | 1.92% | 1.86% |
| Switzerland | 2.22 | 2.24 |
| Taiwan | 1.53 | 3.57 |
| United Kingdom | 4.34 | 3.33 |
| United States | 5.77 | 5.17 |

# Salary Increase at Year-End 2020

The following table shows the survey results for the salary increase assumption for 2019 and 2020 fiscal year-ends.

| Country | Year-End 2019 Average | Year-End 2020 Average |
|---|---|---|
| Australia | 2.88% | 2.86% |
| Canada | 2.97 | 2.96 |
| Eurozone | | |
| Austria | 2.56 | 2.16 |
| Belgium | 2.77 | 2.67 |
| Finland | 2.10 | 2.05 |
| France | 2.32 | 2.30 |
| Germany | 2.54 | 2.52 |
| Greece | 1.84 | 1.64 |
| Ireland | 2.32 | 2.26 |
| Italy | 2.24 | 1.82 |
| Netherlands | 2.27 | 2.25 |
| Spain | 1.98 | 1.49 |

| Country | Year-End 2019 Average | Year-End 2020 Average |
|---|---|---|
| India | 8.37% | 7.91% |
| Japan | 2.31 | 2.18 |
| Mexico | 5.26 | 5.27 |
| Philippines | 5.41 | 4.98 |
| Poland | 2.96 | 3.13 |
| South Korea | 4.30 | 4.09 |
| Sweden | 2.74 | 2.74 |
| Switzerland | 1.50 | 1.46 |
| Taiwan | 3.29 | 3.30 |
| Thailand | 5.17 | 4.42 |
| United Kingdom | 2.82 | 2.76 |
| United States | 3.74 | 3.87 |

The salary increase assumptions shown above 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 2020

The following table shows the survey results for the pension increase assumption for 2019 and 2020 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.

For the United Kingdom, our 2020 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.

| Country | Year-End 2019 Average | Year-End 2020 Average |
|---|---|---|
| Eurozone | | |
| Germany | 1.63% | 1.55% |
| Ireland | 1.44 | 1.41 |
| Netherlands | 0.72 | 0.74 |
| Sweden | 1.78 | 1.72 |
| Switzerland | 0.01 | 0.01 |
| United Kingdom | 2.94/2.05 | 2.81/2.21 |

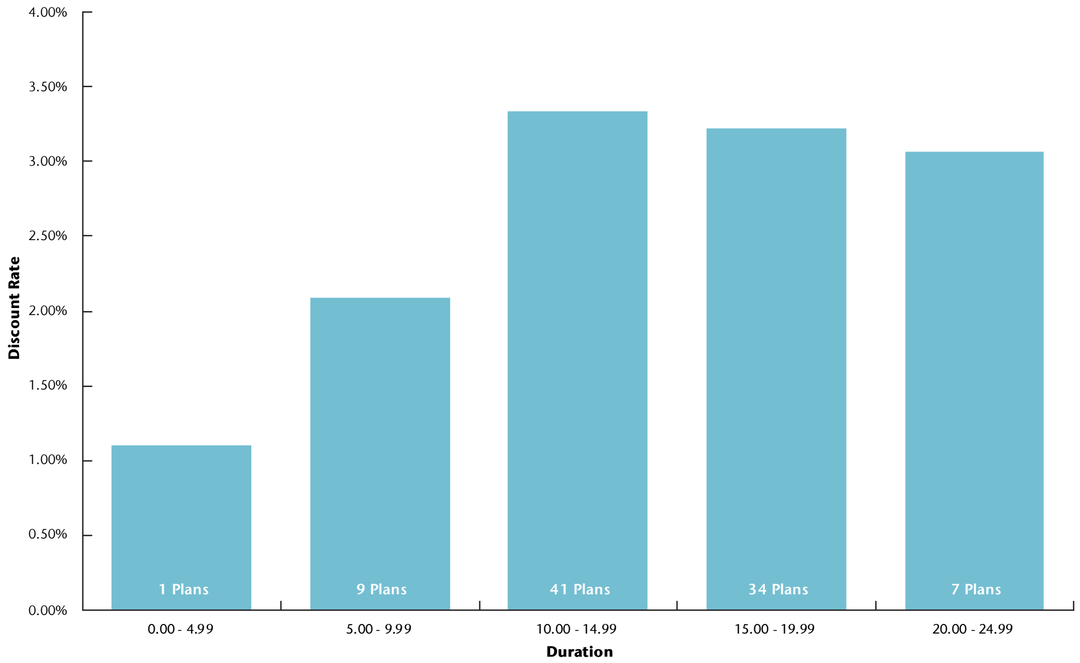
# Appendix

The Appendix provides the following additional information about 2020 year-end assumptions:

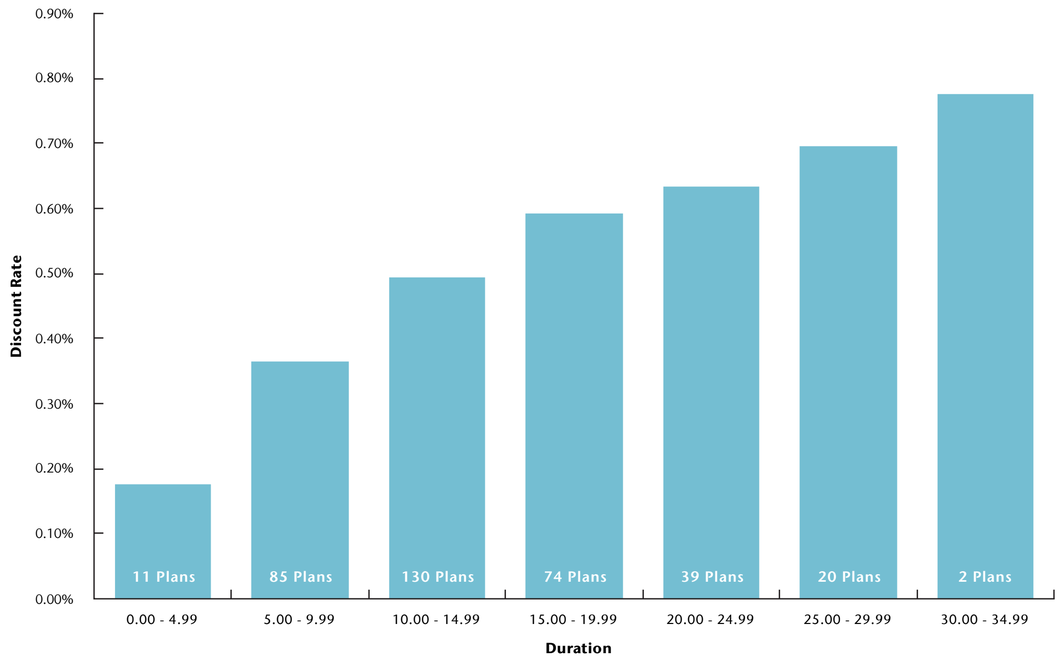
- For countries with larger pension obligations (Canada, Eurozone, Japan, Switzerland, and the U.K.), the average discount rate by duration. Note: We were only able to include plans for which the duration of the plan was available;
- For specific countries, the range of assumptions used at 2020 year-end; and
- For certain countries, the prevalent mortality table used at 2020 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.

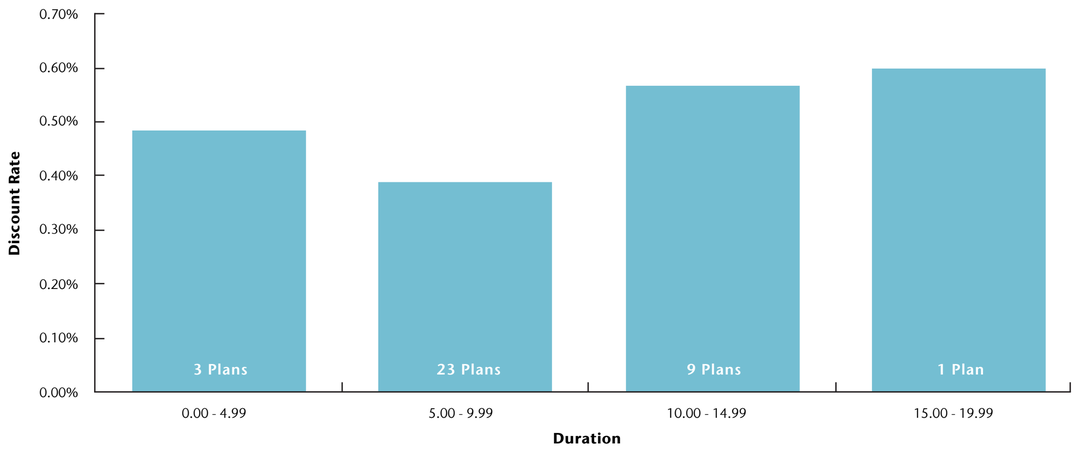
## Canada



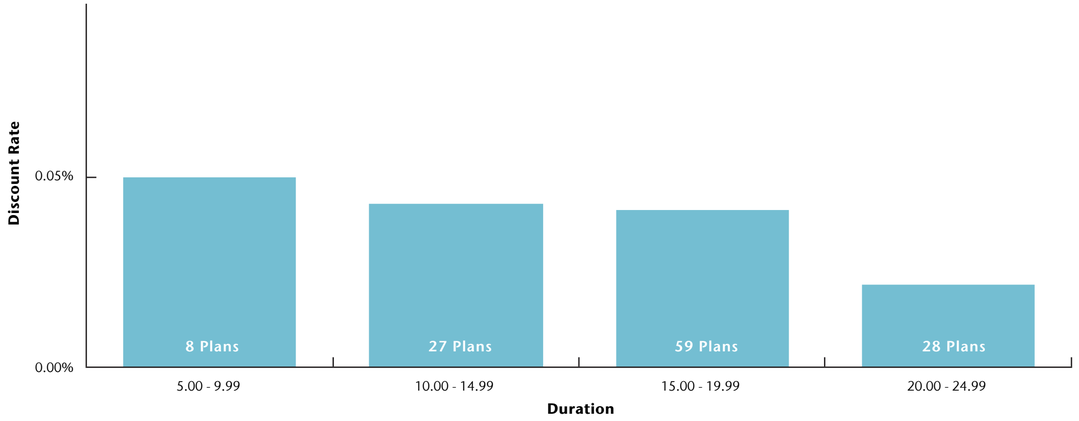

## Eurozone



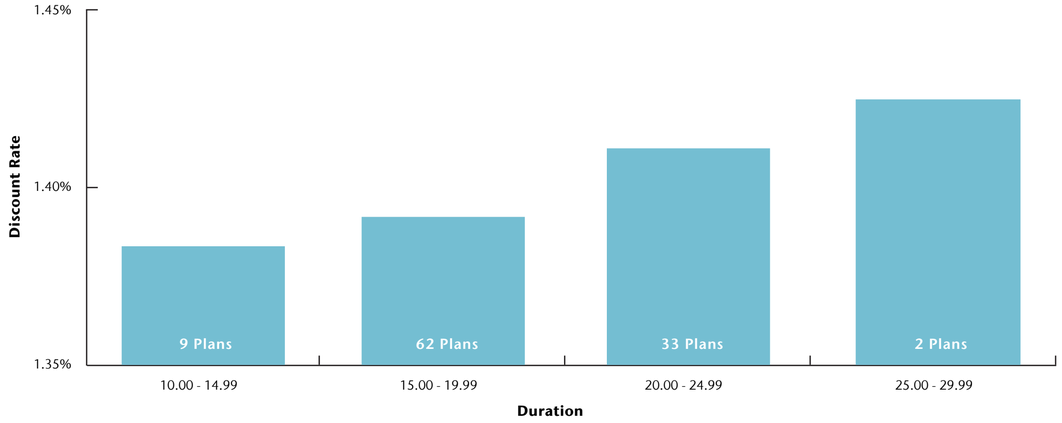
## Japan




## Switzerland

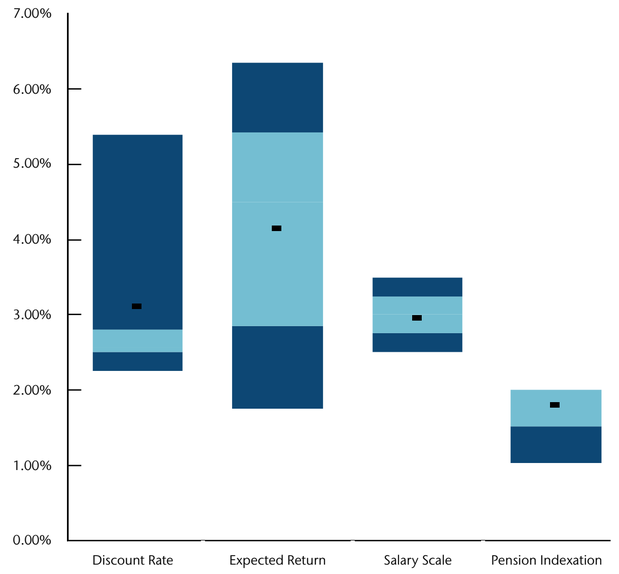



## United Kingdom



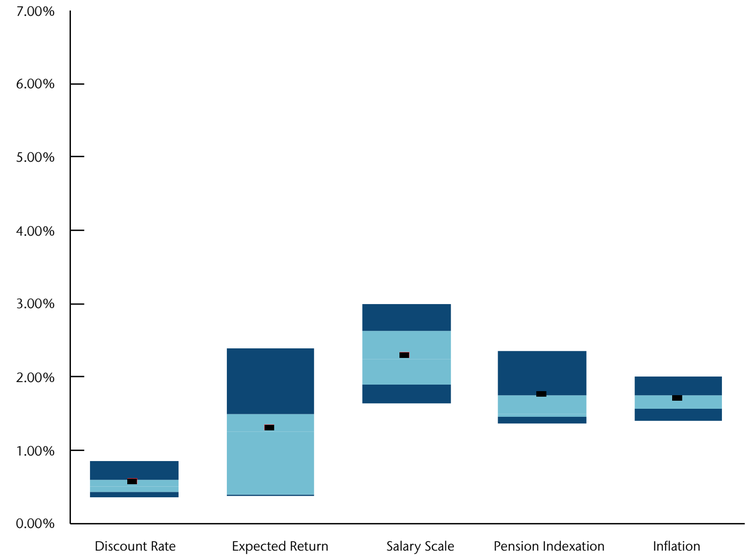
The following charts show ranges of assumptions employers selected for 2020 year-end for specific countries.

## Canada




| Statistic | Discount Rate | Expected Return | Salary Scale | Pension Indexation |
|---|---|---|---|---|
| Count | 93 | 23 | 74 | 23 |
| Average | 3.11% | 4.14% | 2.96% | 1.79% |
| 90th %ile | 5.38% | 6.35% | 3.50% | 2.00% |
| 75th %ile | 2.80% | 5.43% | 3.25% | 2.00% |
| Median | 2.57% | 4.50% | 3.00% | 2.00% |
| 25th %ile | 2.50% | 2.85% | 2.75% | 1.53% |
| 10th %ile | 2.25% | 1.76% | 2.50% | 1.03% |

## France




| Statistic | Discount Rate | Expected Return | Salary Scale | Pension Indexation | Inflation |
|---|---|---|---|---|---|
| Count | 32 | 5 | 27 | 5 | 32 |
| Average | 0.57% | 1.30% | 2.30% | 1.75% | 1.71% |
| 90th %ile | 0.85% | 2.40% | 3.00% | 2.35% | 2.00% |
| 75th %ile | 0.60% | 1.50% | 2.63% | 1.75% | 1.75% |
| Median | 0.50% | 1.25% | 2.25% | 1.50% | 1.75% |
| 25th %ile | 0.44% | 0.40% | 1.90% | 1.45% | 1.58% |
| 10th %ile | 0.36% | 1.37% | 1.65% | 1.37% | 1.41% |

**Legend**

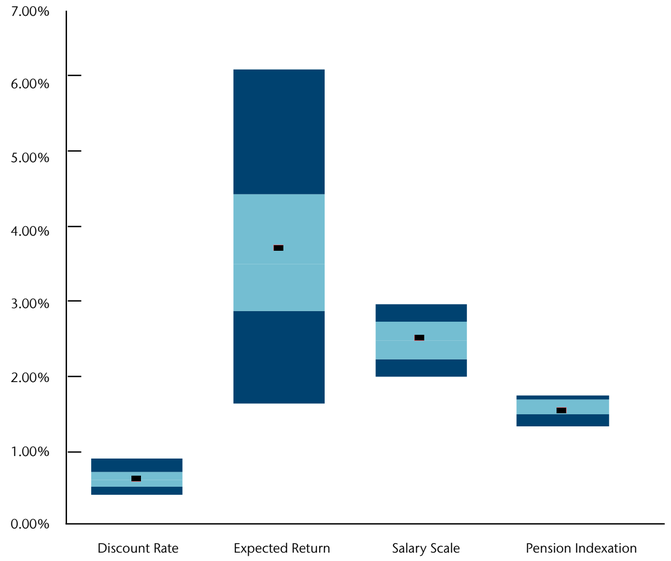
- Average

75th-90th %ile

25th-75th %ile

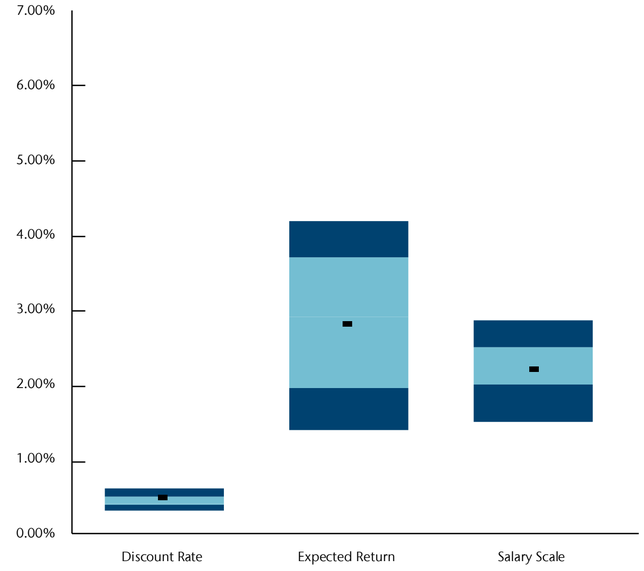
10th-25th %ile

## Germany




| Statistic | Discount Rate | Expected Return | Salary Scale | Pension Indexation |
|---|---|---|---|---|
| Count | 108 | 9 | 95 | 99 |
| Average | 0.60% | 3.75% | 2.52% | 1.55% |
| 90th %ile | 0.89% | 6.20% | 3.00% | 1.75% |
| 75th %ile | 0.70% | 4.50% | 2.75% | 1.70% |
| Median | 0.60% | 3.55% | 2.50% | 1.50% |
| 25th %ile | 0.50% | 2.90% | 2.25% | 1.50% |
| 10th %ile | 0.40% | 1.64% | 2.00% | 1.32% |

## Japan




| Statistic | Discount Rate | Expected Return | Salary Scale |
|---|---|---|---|
| Count | 41 | 3 | 37 |
| Average | 0.47% | 2.80% | 2.18% |
| 90th %ile | 0.60% | 4.18% | 2.85% |
| 75th %ile | 0.50% | 3.70% | 2.50% |
| Median | 0.40% | 2.90% | 2.00% |
| 25th %ile | 0.39% | 1.95% | 2.00% |
| 10th %ile | 0.30% | 1.38% | 1.50% |

**Legend**

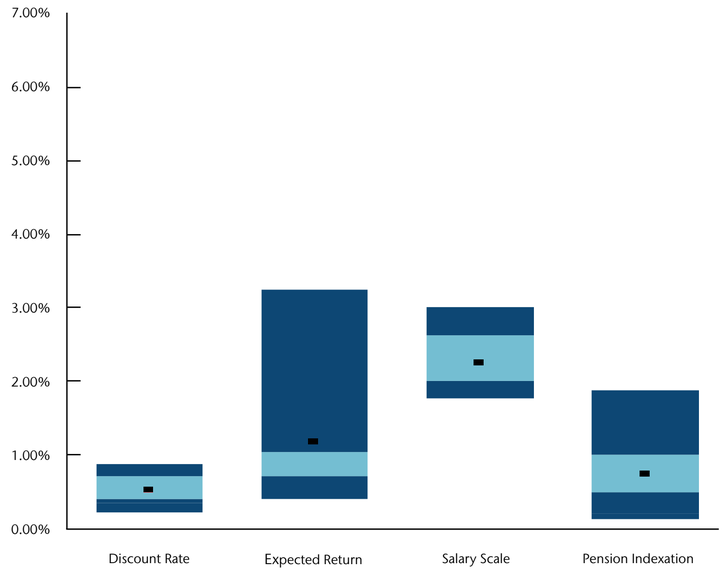
- Average

75th-90th %ile

25th-75th %ile

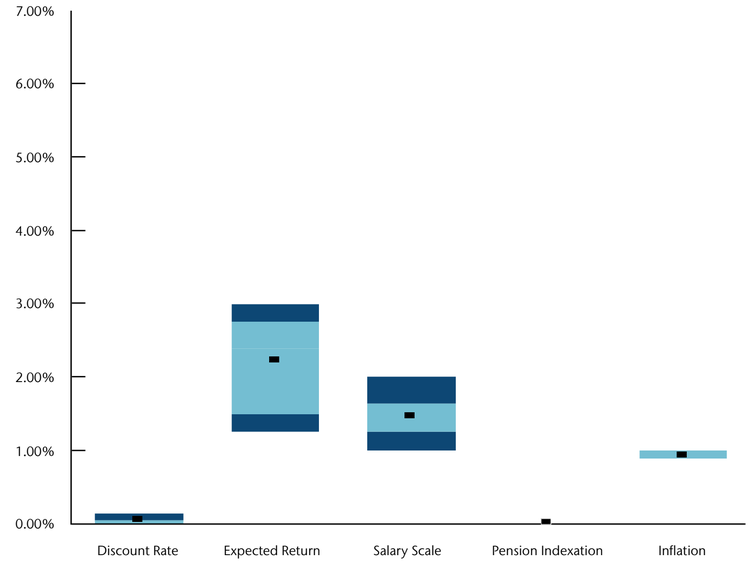
10th-25th %ile

## Netherlands




| Statistic | Discount Rate | Expected Return | Salary Scale | Pension Indexation |
|---|---|---|---|---|
| Count | 62 | 16 | 40 | 13 |
| Average | 0.53% | 1.18% | 2.25% | 0.74% |
| 90th %ile | 0.89% | 3.25% | 3.00% | 1.88% |
| 75th %ile | 0.72% | 1.04% | 2.63% | 1.00% |
| Median | 0.40% | 0.73% | 2.00% | 0.50% |
| 25th %ile | 036% | 0.40% | 2.00% | 0.20% |
| 10th %ile | 0.22% | 0.40% | 1.78% | 0.14% |

## Switzerland




| Statistic | Discount Rate | Expected Return | Salary Scale | Pension Indexation | Inflation |
|---|---|---|---|---|---|
| Count | 144 | 40 | 139 | 141 | 141 |
| Average | 0.05% | 2.24% | 1.46% | 0.01% | 0.96% |
| 90th %ile | 0.14% | 3.00% | 2.00% | 0.00% | 1.00% |
| 75th %ile | 0.05% | 2.75% | 1.65% | 0.00% | 1.00% |
| Median | 0.05% | 2.40% | 1.50% | 0.00% | 1.00% |
| 25th %ile | 0.00% | 1.49% | 1.25% | 0.00% | 0.90% |
| 10th %ile | 0.00% | 1.25% | 1.00% | 0.00% | 0.90% |

**Legend**

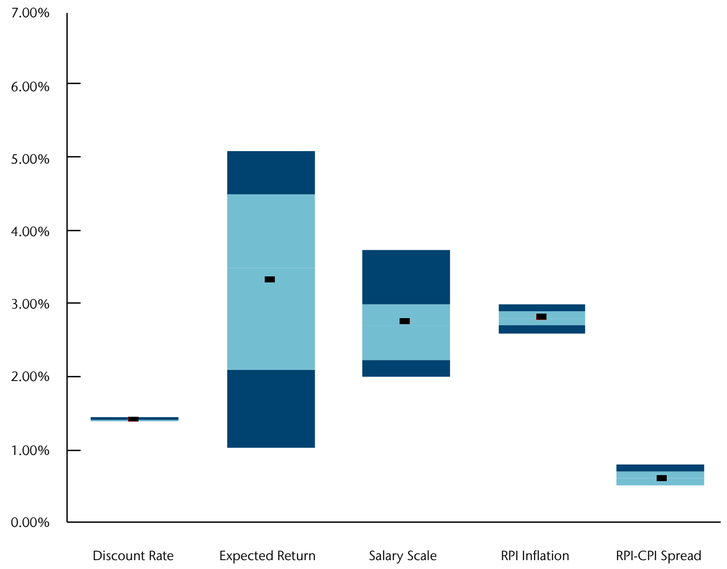
- Average

75th-90th %ile

25th-75th %ile

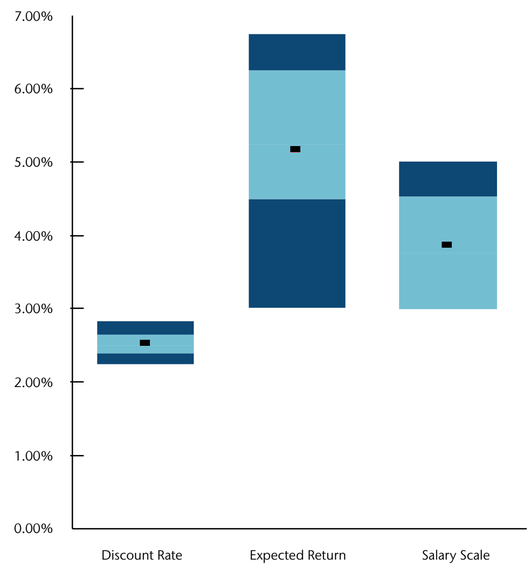
10th-25th %ile

## United Kingdom




| Statistic | Discount Rate | Expected Return | Salary Scale | RPI Inflation | RPI-CPI Spread |
|---|---|---|---|---|---|
| Count | 123 | 17 | 72 | 123 | 122 |
| Average | 1.40% | 3.33% | 2.76% | 2.81% | 0.60% |
| 90th %ile | 1.45% | 5.10% | 3.75% | 3.00% | 0.80% |
| 75th %ile | 1.41% | 4.50% | 3.00% | 2.90% | 0.70% |
| Median | 1.40% | 3.50% | 2.71% | 2.80% | 0.60% |
| 25th %ile | 1.40% | 2.10% | 2.23% | 2.70% | 0.50% |
| 10th %ile | 1.38% | 1.02% | 2.01% | 2.60% | 0.50% |

## United States




| Statistic | Discount Rate | Expected Return | Salary Scale |
|---|---|---|---|
| Count | 201 | 172 | 100 |
| Average | 2.53% | 5.17% | 3.87% |
| 90th %ile | 2.84% | 6.75% | 5.00% |
| 75th %ile | 2.65% | 6.25% | 4.53% |
| Median | 2.50% | 5.25% | 3.77% |
| 25th %ile | 2.39% | 4.50% | 3.00% |
| 10th %ile | 2.25% | 3.01% | 3.00% |

**Legend**

- Average

75th-90th %ile

25th-75th %ile

10th-25th %ile

Below is a table showing the prevalent mortality table used for 2020 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 2021 as well as for a retiree age 65 in 2061. 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 22.1 to 24.9 years.

| Country | Base Table (Mortality Improvement if Separate From Base Table) | Life Expectancy | | | |
|---|---|---|---|---|---|
| | | Men | | Female | |
| | | 2021 | 2061 | 2021 | 2061 |
| Canada | CPM Private (MI2017) | 22.1 | 24.9 | 24.6 | 27.2 |
| Germany | Heubeck Richttafeln RT 2018 G | 20.5 | 25.8 | 24.0 | 28.3 |
| Netherlands | Prognosetafel 2020 | 20.0 | 24.1 | 22.9 | 26.5 |
| Switzerland | BVG 2020 (CMI 2019 1.50%) | 21.9 | 25.7 | 23.6 | 27.2 |
| United Kingdom | S2PMA/S2PFA (CMI 2019 s=7.0, A=0.0) | 21.6 | 24.6 | 23.6 | 26.6 |
| United States | PRI-2012 (MP2020) | 20.5 | 23.4 | 22.4 | 25.2 |

## For More Information

If you would like further information on accounting assumptions for defined benefit plans, contact your local Aon actuarial consultant.

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## About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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