Economic assumptions

124. Economic assumptions are used to discount the expected cashflow from the scheme. Related assumptions, for example on the rates of future inflation and pay increases, will impact on the expected cashflow. The factors which need to underlie these assumptions are almost entirely independent of the scheme. They are driven by:
    - the current yields on United Kingdom government securities of appropriate terms which informs the expected return on low risk investments and other parameters (for example, price inflation), and
    - broader economic and financial factors (for example, economic growth and wage inflation, and the expected returns on, and risks associated with, asset classes other than UK government securities).

125. Discount rates used in setting technical provisions must be chosen prudently[66], taking into account either:
    - the yield on assets held by the scheme to fund future benefits and the anticipated future investment returns and/or
    - the market redemption yields on government or high quality bonds.

126. Trustees should seek a funding outcome that reflects a reasonable balance between the need to pay promised benefits and minimising any adverse impact on an employer's sustainable growth. They may use the flexibility available in setting the discount rates for technical provisions to reach the balance that best suits the scheme's circumstances. When considering any flexibilities in setting discount rates trustees should take account of any expected future changes to their investment policy.

127. The assumptions made for the relative returns of different asset classes may rise or fall from preceding actuarial valuations reflecting changes in market conditions and the outlook for future returns.

128. Asset and liability measures should be consistent. Smoothing of the discount rates is inconsistent with the requirement to measure assets at market value.