The Pearson Pension Plan

Actuarial valuation as at 1 January 2018

22 November 2018

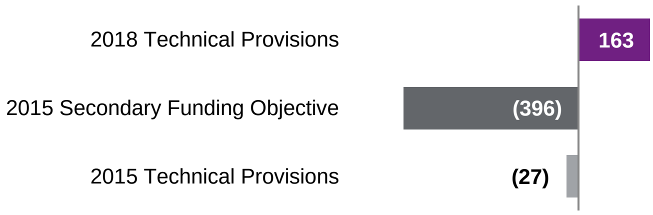
Summary

The main results of the Plan's actuarial valuation are as follows:

- The Company and Trustee agreed after the conclusion of the 2015 valuation that the approach to calculating the technical provisions for future valuations would be more prudent. In particular, it would be aligned with the approach adopted at 1 January 2015 for the stronger secondary funding objective (which leads to a funding target around 10% higher than would otherwise have applied).

- Technical provisions funding level as at 1 January 2018 has increased to 104% (2015: 99% on technical provisions, 89% on secondary funding objective)

- Surplus of assets relative to technical provisions of £163 million (2015: £27 million deficit on technical provisions, £396 million deficit on secondary funding objective)



- The Scheme Actuary's statutory estimate of solvency as at 1 January 2018 has increased to 90% (2015: 76%)

Contents

Throughout this report the following terms are used:

Plan
The Pearson Pension Plan

Trustee
Pearson Pension Trustee Limited

Company
Pearson Services Limited and other participating companies

Plan General Rules
The Plan's General Rules dated 28 June 2013, as subsequently amended

Plan Rules
Plan General Rules as supplemented by the individual Section specific Rules

Introduction

Scope

This report is the actuarial valuation of the The Pearson Pension Plan as at 1 January 2018 and I have prepared it for the Trustee. As noted in the Limitations section of this report, others may not rely on it.

The actuarial valuation is required under Rule 12.6 of the Plan General rules and Part 3 of the Pensions Act 2004; a copy of this report must be provided to the Company within seven days of its receipt.

The main purposes of the actuarial valuation are to review the financial position of the Plan relative to its statutory funding objective and to determine the appropriate level of future contributions. Rule 3.1 of the Plan General Rules specifies the process by which Company contributions are determined.

The report explains the financial position of the Plan at 1 January 2018 using several different measures of its liabilities and how it has changed since the previous valuation at 1 January 2015. It also describes the strategy that has been agreed between the Trustee and Company for financing the Plan in future and provides projections of the funding position at the expected date of the next valuation.

This report and the work involved in the actuarial valuation are within the scope of and comply with the Financial Reporting Council's Technical Actuarial Standards 100: Principles for Technical Actuarial Work and 300: Pensions.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial valuation within a reasonable period. Members may also request a copy of this report.

The financial position of the Plan and the level of Company contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out at 1 January 2021.

In intervening years the Trustee will obtain annual actuarial reports on developments affecting the Plan's assets and technical provisions. The next such report, which will have an effective date of 1 January 2019, must be completed by 1 January 2020.

Debra Webb
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company
22 November 2018

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http://eutct.internal.towerswatson.com/clients/616100/PearsTRVal01Jan18/Documents/Pearson Valuation Report_final_for_signing_22.11.18.docx

Limitations

Third parties

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Plan for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Company who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial valuation and takes no account of developments after that date except where explicitly stated otherwise.

Some of the member data (such as date of birth and salary) required for the running of the Plan, including for paying out the right benefits, is known as ‘personal data’. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as ‘data controllers’ under the Data Protection Act). Data controllers would include the Trustee of the Plan and may also include the Scheme Actuary and Towers Watson, so we have provided further details on the way we may use this data on our website at http://www.willistowerswatson.com/personal-data.

Assumptions

The choice of long-term assumptions, as set out in the Plan’s Statement of Funding Principles dated 22 November 2018, is the responsibility of the Trustee, in agreement with the Company, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Plan’s experience from time to time to be better or worse than that assumed. The Trustee and the Company must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

The funding of the Plan is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk. In particular, no explicit allowance has be made for climate-related risks.

Funding

Statutory funding objective

The Trustee's formal funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Plan's technical provisions.

The technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Benefits accrued in respect of service only up to the valuation date are taken into account in this calculation (although an allowance is made for an assumed level of future pensionable earnings increases for employed members). The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the Plan over the next 80 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 1 January 2018 have been agreed between the Trustee and Company and are documented in the Statement of Funding Principles dated 22 November 2018. As part of an agreement dated 17 July 2015, the Company and the Trustee agreed that for valuations after the 1 January 2015 valuation, the approach to calculating the technical provisions would be aligned with the approach adopted at 1 January 2015 for the secondary funding objective (which leads to a higher funding target than would otherwise have applied under the 1 January 2015 technical provisions approach). This is reflected in the 1 January 2018 calculations and in this report.

In the intervaluation period, the Trustee entered into two contracts with insurers to buy-in a significant proportion of the Plan's pensioner liabilities. For the purposes of calculating the Technical Provisions, the Trustee and Company have agreed that the following approach will be taken to reflecting these contracts:

- The liabilities covered by the two insurance contracts and the historic insured annuities have been valued using the same assumptions as those used to value these contracts in the Trustee's Report and Accounts. The discount rate adopted was the Willis Towers Watson (WTW) nominal gilt curve, with no further adjustments. The inflation assumptions are the same as those used for the technical provisions, and as set out in the Statement of Funding Principles dated 22 November 2018. The demographic assumptions are also the same as those used for the technical provisions, apart from the mortality tables, which are valued as set out below.

- The discount rate applied to the liabilities not covered by the two new insurance contracts or the historic insured annuities is based upon the WTW nominal gilt curve with the addition of a suitable margin such that the weighted average discount rate applied to the total Plan defined benefit liabilities is the WTW nominal gilt curve plus an addition of 0.5% per annum. As at 1 January 2018 the discount rate applied to these liabilities was 0.68% per annum higher than the WTW nominal gilt curve.

In my view, the above approach results in assets and liabilities being treated consistently for valuation purposes.

A reserve has been included to reflect the estimated impact of making changes to benefits to reflect the unequal Guaranteed Minimum Pensions (GMPs) between males and females. Detailed calculations consistent with the approach outlined in the recent judgement on the Lloyds Bank schemes have not yet been made. In my view, the reserve is a reasonable high level estimate of the impact of following approach "C2" as outlined in that judgement for the final salary sections of the Plan.

The table below summarises the main financial assumptions used to calculate the Plan's technical provisions for this valuation.

Financial assumptions	1 January 2018 % pa
Discount rate for insured liabilities	**WTW nominal gilt yield curve**
Discount rate for non-insured liabilities	**WTW nominal gilt yield curve plus 0.68% p.a.**
Retail price Inflation (RPI)	**WTW break-even RPI curve**
Consumer Price Inflation (CPI)	**WTW RPI curve less 1.0% p.a.**
General salary escalation	**WTW RPI curve plus 0.5% p.a.**
Pension increases in payment	
- RPI (minimum 0% pa)	**WTW RPI curve plus 0.1% p.a.**
- RPI (minimum 0% pa, maximum 5% pa)	**WTW RPI curve**
- Fixed	**Relevant fixed increase**
- RPI (minimum 3% pa, maximum 5% pa)	**WTW RPI curve plus 0.35% p.a.**
- RPI (minimum 4% pa)	**WTW RPI curve plus 1.10% p.a.**
- RPI (minimum 0% pa, maximum 3% pa)	**WTW RPI curve less 0.65% p.a.**
- CPI (minimum 0% pa, maximum 3% pa)	**WTW RPI curve less 1.15% p.a.**

For the main financial assumptions, the table below compares the indicative single-equivalent assumptions used to calculate the Plan's technical provisions for this valuation with the indicative single-equivalent assumptions used to calculate the Secondary Funding Objective in 2015.

Financial assumptions	1 January 2018 Technical Provisions % pa	1 January 2015 Secondary Funding Objective %pa
Discount rate for insured liabilities	**1.70**	n/a
Discount rate for non-insured liabilities	**2.38**	2.95
Retail price Inflation (RPI)	**3.40**	3.20
Consumer Price Inflation (CPI)	**2.40**	2.20
General salary escalation	**3.90**	3.70
Pension increases in payment		
- RPI (minimum 0% pa)	**3.50**	3.20
- RPI (minimum 0% pa, maximum 5% pa)	**3.40**	3.20
- Fixed 3%	**3.00**	3.00
- RPI (minimum 3% pa, maximum 5% pa)	**3.75**	3.75
- RPI (minimum 4% pa)	**4.50**	4.50
- RPI (minimum 0% pa, maximum 3% pa)	**2.75**	2.75
- CPI (minimum 0% pa, maximum 3% pa)	**2.25**	2.20

The table below summaries the demographic assumptions used to calculate the Plan's technical provisions for this valuation, with the assumptions used to calculate the Secondary Funding Objective in 2015 shown for comparison (note that, with the exception of the long term improvement assumption for mortality, the commutation terms assumed and the expense reserve, these were also the demographic assumptions adopted for the 2015 technical provisions calculations).

Demographic assumptions	1 January 2018 Technical Provisions		1 January 2015 Secondary Funding Objective
Assumptions	**Non-insured liabilities**	**Insured liabilities**	
Mortality base tables	**SAPS S2 tables, improvements from 2007 in line with CMI Core Projection**		SAPS S2 tables, improvements from 2007 in line with CMI Core Projection
Male members – low salary/pension*	**90% Male pensioners Heavy**	**90% Male pensioners Heavy**	90% Male pensioners Heavy
Male members – high salary/pension*	**90% Males pensioners Light**	**95% Males pensioners Light**	105% Males pensioners Light
Female members	**100% Female normal health**	**100% Female normal health**	95% Females normal health
Male spouses	**95% Males all**	**95% Males all**	100% Males all
Female spouses	**105% Female dependants**	**100% Female dependants**	90% Female dependants
Future improvements in longevity	**CMI_2017 projections with 1.75% long term improvement, smoothing factor 7.5**	**CMI_2016 projections with 1.5% long term improvement, smoothing factor 7.5**	CMI_2014 projections with 2.0% long term improvement
Allowance for commutation	**18% of pension commuted at retirement on commutation terms calculated using a discount rate of WTW nominal gilt yield curve plus 1.5% p.a.**		18% of pension commuted at retirement on commutation terms calculated using a discount rate of WTW nominal gilt yield curve plus 1.0%pa
Proportion married	**Where information was collected as part of the 2017 buy-in, actual marital data has been used. Otherwise 90% of males members, and 60% of female members are assumed to be married at age 62**		80% of male members, and 65% of female members are assumed to be married at age 62
Age difference	**Where information was collected as part of the 2017 buy-in, actual marital data has been used. Otherwise male members assumed to be 4 years older than their spouses, and female members assumed to be 1 year younger than their spouses**		Male members assumed to be 4 years older than their spouses and female members assumed to be 2 years younger than their spouses
Expenses	**Reserve of £90m**		1.5% of the Defined Benefit liabilities

* A male member is a "high pension" member if he has a deferred pension above £7,250 p.a. at the valuation date (deferred members) or a pension in payment above £12,750 p.a. at the valuation date

(pensioner members). The equivalent amounts as at the 1 January 2015 valuation were £7,250 p.a. and £12,250 p.a. respectively. For the 1 January 2018 valuation, all active members are assumed to have "high salary". At the 1 January 2015 valuation, active members with salaries above £48,750 p.a. were assumed to be "high salary".

The table below compares the Plan's technical provisions as at the date of the actuarial valuation (1 January 2018) with the market value of the Plan's assets and the corresponding figures from the previous actuarial valuation:

£m	1 January 2018	1 January 2015	
	Technical Provisions	Secondary Funding Objective	Technical Provisions
Amount required to provide for the Plan's liabilities in respect of:			
Employed members	**92**	330	285
Deferred pensioners	**1,285**	1,106	961
Non-insured pensioners and dependants	**578**	1,542	1,416
Insured pensioners and dependants	**1,190**	-	-
Reserve for Barber rectification and GMP reconciliation	**19**	-	-
Reserve for GMP equalisation	**32**	-	-
Expenses	**90**	46	36
AVCs and other money purchase benefits including reserves for guarantees and death-in-service and ill-health benefits*	**529**	421	378
Technical provisions	**3,815**	3,445	3,076
Market value of assets	**3,978**	3,049	3,049
Past service (deficit)/surplus (technical provisions less assets)	**163**	(396)	(27)
Funding level (assets ÷ technical provisions)	**104%**	89%	99%

* A £20 million reserve for death-in-service lump sum benefits and ill-health retirement and spouse benefits in respect of Money Purchase 2003 members was introduced for the 2018 valuation. In 2015 these benefits were included in the Company's contribution rate for Money Purchase 2003 members.

Developments since the previous valuation

There have been some significant membership changes since the last valuation, which are detailed in the additional information section of this report. These include the merger into the Plan of the TQ schemes, and the cessation of active service for those members who were employed by the FT at the time of its sale. From 6 April 2016, it ceased to be possible to contract out of the State scheme for future service, for both the final salary and Money Purchase 2003 sections. In particular, the Reference Scheme Test underpin for the Money Purchase 2003 members ceased to accrue.

Effective from 1 January 2018, the Trustee and Company agreed a change in practice in respect of the provision of Reference Scheme Test pensions at retirement for all members of the Money Purchase 2003 Section. In future, if the Reference Scheme Test pension is of greater value than the member's accumulated fund at retirement, then the Plan will provide this underpin rather than the pension being secured with an insurer through an immediate annuity contract. Furthermore all other Money Purchase 2003 section members are now offered the option of converting their DC pension into a guaranteed pension within the Plan as an alternative to taking the amount as a lump sum or securing the pension with an insurer. This new approach has been taken into account in the valuation of the technical provisions as set out in the Statement of Funding Principles dated 22 November 2018.

Taking into account the change in approach, I have first reconciled the 1 January 2015 technical provisions with the 1 January 2015 secondary funding objective, and then compared this with the 1 January 2018 technical provisions.

Reconciliation of change between 1 January 2015 technical provisions and secondary funding objective	£m	£m
Technical Provisions Surplus/(Deficit) at 1 January 2015		**(27)**
Lower discount rate and changes in pension increase assumptions	(219)	
Higher rate of long term improvement for mortality	(89)	
Higher assumed future commutation terms	(51)	
Increased expense loading	(10)	**(369)**
Secondary funding objective Surplus/(Deficit) as at 1 January 2015		**(396)**

The funding level of 89% on the secondary funding objective as at 1 January 2015 improved to a funding level of 104% on the technical provisions as at 1 January 2018. The main factors contributing to this increase are shown below.

Reconciliation of change from 2015 valuation	£m	£m
Secondary funding objective Surplus/(Deficit) at 1 January 2015		**(396)**
Interest on deficit		**(14)**
Contributions in excess of accrual		**360**
Experience over the intervaluation period		
Demographic experience (including mortality, commutation and transfers)	20	
Salary strain, impact of caps and floors in pension increases	(9)	
Special events (including FT sale, TQ merger, buy-in payments)	16	**27**
Change in market conditions		
Increase in liabilities due to change in financial assumptions	(611)	
Additional asset returns over those assumed	666	**55**
Change in assumptions		
Change in assumed terms for commutation	16	
Changes to mortality base tables and allowance for future improvements (including valuing the buy-in on best-estimate mortality assumptions)	251	
Change to assumptions relating to marital status	(32)	**235**
Other		
Increase in expense reserve	(52)	
Reserve for Money Purchase 2003 death-in-service, ill-health and spouse's benefits	(20)	
Additional reserves for GMP reconciliation and Barber equalisation	(19)	
Reserve for GMP equalisation	(32)	
Change in RST (approach, experience and market conditions)	33	
Miscellaneous	(14)	**(104)**
Technical Provisions Surplus/(Deficit) as at 1 January 2018		**163**

Contribution requirements

Future accrual of benefits

I have calculated the contributions that the Company should pay over the three years following the valuation to meet the cost of the benefits accruing in future in respect of the membership at the valuation date. As agreed between the Trustee and the Company and as set out in the Statement of Funding Principles, I have used the same assumptions as those for assessing the technical provisions for active members, with the exception of discount rate and future mortality improvements assumptions:

- The discount rate is set at the WTW nominal gilt yield curve plus 1.20% p.a.
- The future mortality improvements assume a long-term improvement of 1.5% p.a.

As agreed between the Trustee and the Company, the contribution rates no longer include an allowance for administration expenses since these are reflected in the technical provisions, but do include the cost of insuring the lump sum death benefits for defined benefit members.

Based on these assumptions, the overall Company contribution rate needed to provide the benefits that are expected to be accrued between 1 January 2018 and 1 January 2021 is a rounded 55% of pensionable salary (as defined in the Plan Rules for each Section). It has been agreed that this rate will apply for all the Sections except for the Money Purchase 2003 and Auto-Enrolment Sections. Whilst this contribution rate is less than that required to meet the cost of future accrual of benefits on assumptions consistent with those underlying the technical provisions, the shortfall in those contributions is more than sufficiently covered by the surplus in the Plan.

The contribution rates for the Plan are summarised in the table below:

Section	Member contributions	Company contributions
Final Salary Sections	Various (in line with Plan Rules for the Section)	55% of pensionable salary (as defined in the Plan Rules for each Section)
Money Purchase 2003 Section	Member's choice between 2.5% and 8.0%	Twice the member's contribution rate
Auto-Enrolment Section	3.0% of Qualifying Earnings, increasing to 5.0% from April 2019[1]	2.0% of Qualifying Earnings, increasing to 3.0% from April 2019[1]

[1] *Futher increases may be required to satisfy the minimum Auto Enrolment requirements in the future.*

It has been agreed that the Company will additionally pay for any risk-based levy element of the Pension Protection Levy (should one arise) following receipt of the relevant invoices from the PPF Board. The above contributon rates do not relate to the payment of Additional Voluntary Contributions (AVCs) or matching AVCs.

The Trustee and the Company have agreed that the Company will pay future service contributions in line with the rates set out in the table above from 1 January 2019.

The Company future service contribution of 55% of pensionable pay compares to an average future service rate weighted by pensionable salaries of 45% at the previous valuation. The most significant factor in the change in contribution rates is the changes made to the financial assumptions. The main factors contributing to the change are as shown below:

Reconciliation of change from 2015 valuation		
2015 Company contribution rate		**45%**
Change in distribution of remaining members between the sections	(0.9%)	
Change in membership profile	0.3%	
Change to financial assumptions	16.1%	
Change to commutation terms	0.9%	
Change in demographic assumptions	(4.0%)	
Removal of administration expense allowance	(1.0%)	
Miscellaneous (including rounding of final rate)	(1.4%)	**10%**
2018 Company contribution rate		**55%**

As the Plan is closed to new entrants, the average age of its active membership is expected to rise in future. Depending on the level of gilt yields at the time and the discount rate adopted, the required contribution rate may change as there will then be a shorter period over which investment returns can be earned on the contributions. In any event, the cash amount required to meet this cost will continue to fall because the number of members to whom the rate applies will fall as active members leave service, retire or die.

I understand that the Plan is used as a ‘qualifying scheme’ for automatic enrolment purposes. I will confirm separately the assessed cost of providing the benefits accruing for or in respect of active members to determine that the Plan can continue to be used as a ‘qualifying scheme’ for auto-enrolment purposes for these members.

Recovery plan

As there were sufficient assets to cover the Plan’s technical provisions at the valuation date, a recovery plan is not required.

Contingent funding agreement

The Trustee has agreed with the Company a contingent funding agreement, in which up to £50m may be paid into the Plan if any of the following events occur:

- The funding level falls below 97% using assumptions consistent with the technical provisions basis agreed for the 1 January 2018 valuation;
- Specific Company covenant metrics are breached; or
- A decision by the Trustee and Company to enter into another buy-in contract adversely affects the funding position of the Plan on the Trustee’s long term target referred to in the Statement of Funding Principles dated 22 November 2018

These events and the payment terms are set out in the Funding Agreement dated 22 November 2018 and are expected to remain in force until 31 December 2021 unless agreed otherwise by the Trustee and Company. This agreement replaces the relevant remaining provisions of the 17 July 2015 agreement.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Plan's technical provisions as at 1 January 2018 and allowing for contributions to be paid to the Plan as described above, the funding level is expected to remain in surplus until the next valuation date.

The chart below illustrates the sensitivity of the technical provisions as at 1 January 2018 to variations of individual assumptions. (If more than one of these assumptions is varied, the effect may be different to the sum of the changes from varying individual assumptions.)

Solvency

Discontinuance

In the event that the Plan is discontinued, the benefits of employed members would crystallise and become deferred pensions in the Plan. There would be no entitlement to further accrual of benefits.

If the Plan's discontinuance is not the result of the Company's insolvency, the Company would ultimately be required to pay to the Plan any deficit between the Scheme Actuary's estimate of the full cost of securing Plan benefits with an insurance company (including expenses) and the value of the Plan's assets – the "employer debt". The Trustee would then normally try to buy insurance policies to secure future benefit payments for all members. However, the Trustee may decide to run the Plan as a closed fund for a period of years before buying such policies if it is confident that doing so is likely to produce higher benefits for members or if there are practical difficulties with buying insurance policies, such as a lack of market capacity.

If the Plan's discontinuance is a result of the Company's insolvency, the "employer debt" would be determined as above and the Plan would also be assessed for possible entry to the Pension Protection Fund ("PPF").

If the assessment concluded that the assets (including any funds recovered from the Company) were not sufficient to secure benefits equal to the PPF compensation then the Plan would be admitted to and members compensated by the PPF. Otherwise the Plan would be required to secure a higher level of benefits with an insurance company.

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the Plan at the valuation date. Normally, this means an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the Plan at the valuation date. For this purpose I have assumed that no further payments are received from the Company.

I have assumed that the insurance company price would be calculated on an actuarial basis similar to that implied by bulk annuity quotations seen by Willis Towers Watson around the valuation date. I have also taken into consideration the pricing achieved by the Plan for the buy-in contracts entered into in 2017. I have assumed the cost of implementing the winding-up to be 0.9% of the estimated value of the solvency liabilities (leading to assumed winding-up costs of £40 million).

In order to estimate the liabilities on this basis, the projected benefit payments have been discounted using the Willis Towers Watson gilt yield curve plus a fixed margin of 0.15% p.a. for pensioners and less a fixed margin of 0.45% p.a. for non-pensioners. The cashflows themselves have been calculated using the same assumptions as the technical provisions with the exception of:

- Consumer Price Inflation (CPI) which is assumed to be 0.5% p.a. below RPI
- No allowance is made for commutation
- Some of the pension increase assumptions are higher than those used to calculate the technical provisions reflecting either the fact that the CPI assumption is higher or the fact that insurers may make a more prudent assumption for increases with an unusual cap and/or floor
- Future mortality improvements are in line with CMI 2016 projections, with a 1.5% long-term rate and a smoothing factor of 7.5
- A GMP equalisation reserve of 1.5% of liabilities
- An expense allowance consistent with the PPF's guidance A8 for undertaking a S179 valuation, except that an expense reserve of 0.5% of liabilities in excess of £100 million is assumed (rather than 1% of liabilities)

The table below compares the indicative single equivalent rates for the main assumptions used to estimate the Plan's solvency position at this and the previous actuarial valuation.

Financial assumptions	1 January 2018 % pa	1 January 2015 % pa
Pensioner discount rate	**1.85**	2.30
Non-pensioner discount rate	**1.25**	1.90
Retail Price Inflation (RPI)	**3.40**	3.20
Consumer Price Inflation (CPI)	**2.90**	2.90
Pension increases:		
- RPI (minimum 0% pa)	**3.50**	3.20
- RPI (minimum 0% pa, maximum 5% pa)	**3.40**	3.20
- Fixed 3%	**3.00**	3.00
- RPI (minimum 3% pa, maximum 5% pa)	**3.85**	3.75
- RPI (minimum 4% pa)	**4.60**	4.50
- RPI (minimum 0% pa, maximum 3% pa)	**2.75**	2.75
- CPI (minimum 0% pa, maximum 3% pa)	**2.75**	2.75

My estimate of the solvency position of the Plan as at 1 January 2018 is that the assets of the Plan would have met 90% of the cost of buying insurance policies to secure the benefits at that date, based on the assumptions described above. Further details are set out in the table below alongside the corresponding details as at the previous valuation date:

Valuation statement	1 January 2018 £m	1 January 2015 £m
Total estimated cost of buying out liabilities, including expenses	**4,415**	4,027
Market value of assets	**3,978**	3,049
Solvency (deficit)/surplus (total estimated cost less assets)	**(437)**	(978)
Solvency level (assets ÷ total estimated cost)	**90%**	76%

The change in the solvency level from 76% to 90% is due mainly to Company contributions over the last three years, in addition to an estimated decrease in insurance company prices, positive investment returns over the period and the impact of changes in mortality assumptions.

The solvency estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by obtaining specific quotations for buying the insurance policies required to secure the benefits.

The coverage for particular benefits depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Plan's own rules and would normally be that they are secured in full before any other benefits.

- category 1 – benefits relating to certain pension annuities secured by the Plan before 6 April 1997;
- category 2 – the cost to the Plan of securing the compensation that would otherwise be payable by the PPF if the Company became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above;
- category 4 – all other pensions and benefits due under the Plan, including pension increases (where these exceed those under the PPF).

As the Plan assets covered the Section 179 liabilities as at 1 January 2018 but were less than the estimated cost of securing benefits with an insurer, the Plan would not have qualified for entry to the PPF had the Company become insolvent at 1 January 2018, so that benefits in excess of PPF compensation, but below full entitlements, would likely have been secured with an insurer.

Relationship between the cost of securing benefits and the technical provisions

My estimate of the cost of securing benefits with an insurance company of £4,415 million is £600 million higher than the Plan's technical provisions of £3,815 million.

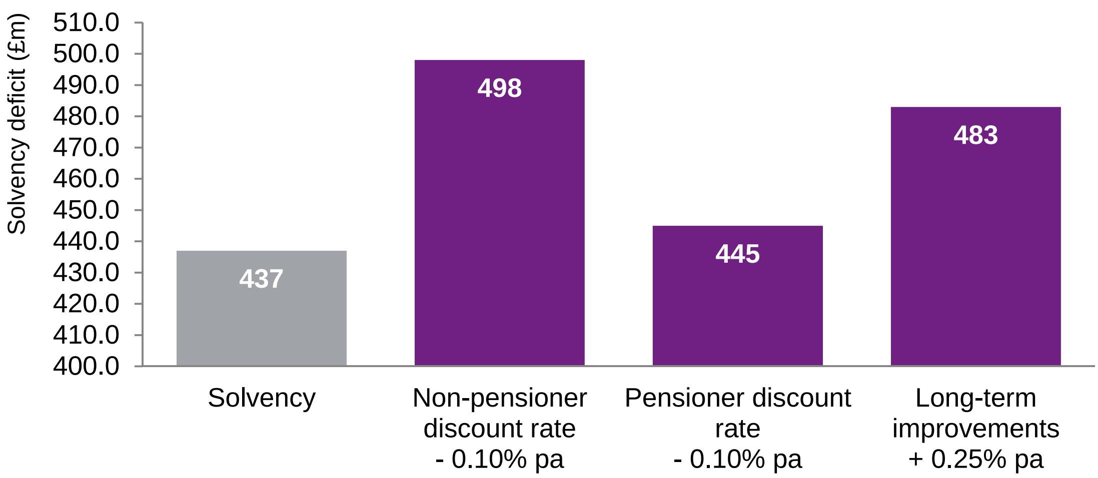
The technical provisions are intended to be a prudent assessment of the assets required under the Plan's investment strategy to meet future benefit payments as and when they fall due but with some reliance placed on the Company being able to support the Plan in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the Plan without having recourse to future contributions from the Company.

If the statutory funding objective had been exactly met on 1 January 2018 (i.e. there had been no funding surplus or deficit), I estimate that the solvency level of the Plan would have been 86%. This compares with 76% at the 1 January 2015 actuarial valuation.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Plan's technical provision as at 1 January 2018 and allowing for contributions to be paid to the Plan summarised in the Funding section of this report, the solvency level is projected to increase slightly over the recovery period.

The table below illustrates the sensitivity of the solvency position as at 1 January 2018 to variations of individual key assumptions. (If more than one of these assumptions is varied, the effect may be different to the sum of the changes from varying individual assumptions.)



Additional Information

Risks

The table below summarises the main risks to the financial position of the Plan and the actions taken to manage them:

Risk	Approach taken to risk
Company unable to pay contributions or make good deficits in the future	At each valuation the Trustee takes advice from an independent specialist on the ability of the Company to pay contributions to the Plan and, in particular, to make good any shortfall that may arise if the experience of the Plan is adverse. This advice is taken into account when determining the level of technical provisions and in considering the appropriateness of any recovery plan to remove a deficit relative to the technical provisions. Between valuations the Trustee monitors the Company's financial strength regularly.
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	The Trustee takes advice from the Scheme Actuary and the investment consultant on possible assumptions for future investment returns. For the calculation of the Plan's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the Plan assets. The Trustee is able to agree further contributions with the Company at subsequent valuations if future returns prove insufficient. The Scheme Actuary and investment consultant work closely together to ensure that the investment strategy and funding strategy of the Plan are aligned. The Trustee, through its Investment Committee and Property Committee, regularly reviews the investment strategy of the Plan. The Plans investment strategy is reviewed periodically and the funding position of the Plan is monitored regularly. Buy-in transactions are entered into when appropriate which reduce the aggregate Plan investment risk.
Investment returns on future income could be lower than the returns available at the valuation date	The Trustee takes this risk into account when determining the Plan's technical provisions, by incorporating a level of prudence into the investment return assumptions. The Plan currently hedges its exposure to changes in interest rates through its holding in the QIAIF fund and the insurance contracts.
Price inflation could be different from that assumed which could result in higher liabilities	The Trustee invests in assets that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation. Such assets include equities, property and index-linked bonds. The Plan currently hedges its exposure to inflation risk through its holding in the QIAIF fund and the insurance contracts, which closely match the pension increase provisions in the Rules.
Falls in asset values might not be matched by similar falls in the value of the Plan's liabilities	The Trustee considers this risk when determining the Plan's investment strategy, and retains only limited exposure to such assets. Detailed Asset Liability modelling exercises are undertaken in conjunction with each actuarial valuation by the Plan's investment consultants to understand and improve where appropriate the extent to which the assets of the Plan match the nature of the Plan. The Trustee consults with the Company in order to understand the Company's appetite for bearing this risk and takes advice on the Company's ability to make good any shortfall that may arise. To the extent that such falls in asset values result in deficits before 31 December 2021, the contingent funding agreement will ensure the deficit is removed in a timely manner. To the extent that such falls in asset values results in deficits at future valuations, the Company would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.
Failure of a provider of insurance contracts to the Plan	If one of the providers of insurance in respect of the pensioner liabilities were to fail, the value of the contract may fall below that required to cover the relevant pensioner liabilities in full. The Trustee has agreed collateral arrangements with the insurers which are monitored on a regular basis to hedge this risk.

Risk	Approach taken to risk
Plan members live longer than assumed	As part of the actuarial valuation of the Plan, a detailed analysis of the Plan's mortality experience was conducted by the Scheme Actuary. In addition, a postcode analysis of expected longevity of current pensioners was conducted to assist the Trustee in formulating appropriate mortality assumptions. For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that it regards as prudent estimates of the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary. The Plan currently hedges approximately 2/3rds of this risk in respect of pensioner members through the insurance contracts it holds.
Options exercised by members could lead to increases in the Plan's liabilities	The Trustee sets the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Plan's finances as far as is reasonably possible without disadvantaging members. In particular, the terms for early retirement, late retirement and commutation are intended to be "cost neutral" having regard to best estimate assumptions for the expected returns on the Plan's assets. Moreover, where the terms are set out in the Rules and are such that a strain would arise on exercise of that option (for example, on early retirement from active service for some Sections) an appropriate allowance is made for this in setting the funding assumptions. The terms are kept under regular review, generally following each actuarial valuation.
Legislative changes could lead to increases in the Plan's liabilities	The Trustee takes legal and actuarial advice on changes in legislation and consults with the Company, where relevant.

Economic risk	Demographic risk	Legal risk

Benefits summary

The Plan is a registered pension scheme under the Finance Act 2004 and (apart from the Auto-Enrolment Section) was contracted-out of the State Second Pension until 5 April 2016.

Summary of benefits valued

Summaries of the benefits provided from each of the sections of the Plan can be found on the Plan's website, the address of which is given below.

https://www.pearson-pensions.com/

In valuing the benefits, I have referenced the Plan Rules.

Discretionary benefits

No future discretionary benefits or discretionary increases in benefit have been allowed for in the calculation of the technical provisions and statutory estimate of solvency, other than our understanding of established practices in benefit calculations. These practices include the granting of generous early retirement terms for active members, the Plan's practice in relation to revaluing GMP prior to the GMP payment date and the use of the Retail Prices Index for the "Price Index", where pension increases are set with reference to the Price Index as defined in the Plan Rules.

Changes to the benefits

Since the valuation as at 1 January 2015 no changes have been made to the Plan's benefits.

GMP equalisation

An allowance of 1% of liabilities has been made in the calculation of the technical provisions as an estimate for the possible changes to the benefits that, following the judgement in the Lloyds Bank case, are now understood to be required to ensure that any discriminatory impact on member benefits of the Plan provisions in respect of Guaranteed Minimum Pensions is addressed using method "C2" as proposed in that judgement. Similarly, an allowance of 1.5% of liabilities has been made in the statutory estimate of solvency.

Uncertainty about the benefits

There are also currently uncertainties in the benefits resulting from the ongoing GMP reconciliation and Barber rectification exercises. A reserve of £19m has been made in the calculation of both the technical provisions and the statutory estimate of solvency to allow for any increase to the Plan's liabilities as a result of these rectification exercises.

Membership data

A summary of the data provided for this and the previous valuation is presented below.

Membership information

The Trustee's membership information supplied to us by the Plan's administrator for the purposes of the actuarial valuation is summarised below; the corresponding information for the previous valuation is shown for comparative purposes.

Actives	1 January 2018			1 January 2015		
	Number	**Pensionable salary £000s**	**Average age**	Number	Pensionable salary £000s	Average age
Civil Service	5	230	45.0	7	318	45.3
Financial Times	1	98	63.0	59	4,700	55.3
Longman	6	387	58.0	11	617	56.2
Pearson	3	180	53.6	6	523	55.2
Penguin	1	60	54.0	1	55	51.0
TQ	8	250	56.6	-	-	-
Final Pay	102	5,980	48.9	392	24,474	48.2
Total	**126**	**7,185**	**49.9**	**476**	**30,687**	**49.5**
MP 2003	2,095	94,863	42.6	3,427	145,649	40.9

Deferreds	1 January 2018			1 January 2015		
	Number	**Deferred pension at DOL £000s**	**Average age**	Number	Deferred pension at DOL £000s	Average age
Camco	56	50	62.5	66	67	60.3
Civil Service	14	89	47.0	13	62	41.2
DK	422	849	54.8	440	920	52.3
EDI	49	107	54.8	58	165	54.0
Extel	641	1,515	56.4	721	1,999	54.6
Fairey	662	97	65.4	770	149	62.5
Final Pay	1,844	13,881	51.2	1,751	10,738	49.3
Financial Times	452	3,296	56.8	512	2,649	55.7
Public Services	23	20	52.5	24	22	50.0
Ladybird	31	152	60.3	43	189	57.7
Longman	212	582	60.4	268	833	57.9
Paramount	299	360	54.0	331	429	52.3
Pearson	50	231	56.0	56	242	54.3
Penguin	320	716	55.5	371	903	53.9
Thames	229	591	58.7	308	1,010	56.5
TQ	79	312	55.0	-	-	-
Tussauds	134	296	58.8	164	391	56.3
West Press	628	769	57.7	789	1,173	56.8
Total	**6,145**	**23,913**	**53.5**	**6,685**	**21,941**	**52.3**

In addition, there were 7,318 deferred members in the Money Purchase section as at 1 January 2018 (5,970 as at 1 January 2015).

Pensioners	1 January 2018			1 January 2015		
	Number	Pension £000s	Average age	Number	Pension £000s	Average age
Camco	142	681	77.2	159	692	75.5
Civil Service	5	103	66.1	4	89	63.8
DK	93	796	67.3	76	689	65.2
EDI	56	361	72.5	51	282	70.4
Extel	703	6,320	76.2	739	6,186	75.5
Fairey	538	915	83.9	601	1,110	84.0
Final Pay	762	6,066	65.6	654	4,562	63.1
Financial Times	1,216	21,909	73.7	1,218	19,971	72.3
Public Services	4	4	67.2	3	2	66.9
Ladybird	136	892	75.4	138	858	74.0
Longman	702	6,136	73.7	711	5,616	71.9
Paramount	180	549	72.7	170	464	71.4
Pearson	72	3,055	79.4	76	2,786	78.2
Penguin	380	3,221	74.5	367	2,891	73.4
Thames	1,120	18,224	76.0	1,133	16,941	73.9
TQ	85	625	71.1	-	-	-
Tussauds	215	1,549	75.4	207	1,419	73.6
West Press	2,084	13,048	76.9	2,198	12,995	76.1
Total	**8,493**	**84,455**	**74.6**	**8,505**	**77,553**	**73.3**

The figures above include children – at 1 January 2015 there were 48 children and at 1 January 2018 there were 42 children.

The average ages shown in the table above are weighted by pensionable salary, deferred pension at date of leaving and pension at valuation date respectively.

Summary of significant membership events

On 30 April 2015, the TQ Pension Scheme merged with the Plan with a new category of benefits being provided for its membership. The impact of this was allowed for when determining the Recovery Plan for the 1 January 2015 valuation.

On 30 November 2015 the active members employed by the FT left the Plan and became deferred pensioners.

Asset information

Movements in the market value of assets

The audited accounts supplied as at 31 December 2017 show that the market value of the Plan's assets was £3,978 million. This includes Additional Voluntary Contributions (AVCs) and Money Purchase Section assets which amounted to £457m

The change in the Plan's assets from £3,059 million as at 31 December 2014 to £3,978 million as at 1 January 2018 is detailed in the Trustee's Report and Financial Statements over that period. The table below summarises a broad reconciliation of the change:

	£m	£m
Assets at 1 January 2015 (incl Money Purchase and AVCs)		**3,059***
Assets at 1 January 2015 (excl Money Purchase and AVCs)		2,726*
Contributions paid:		407
- Company's normal contributions	31	
- Company's augmentation contributions	1	
- Company's deficit contributions	373	
- Members' normal contributions	2	
Other income:		21
- Bulk transfer in (TQ members)	20	
- Other	1	
Benefits paid:		383
- Pension payments	240	
- Commutation lump sums at retirement	25	
- Individual transfers-out	116	
- Other benefits	2	
Expenses		17
Other payments (insurance premiums)		1
Changes in market value of investments and investment income		768
Assets at 1 January 2018 (excl Money Purchase and AVCs)		3,521
Assets at 1 January 2018 (incl Money Purchase and AVCs)		**3,978**

** Note: the assets quoted as at the last valuation were based on the 31 December 2014 Trustee Report and Accounts. There was a change in accounting policy in 2015, which led to a change in the starting value of the assets shown in the reconciliation above.*

Investment strategy

According to the Plan's current Statement of Investment Principles, dated 24 May 2018, the Plan's strategic investment is made up of two sections: the Insurance Portfolio and the Main Portfolio. The Insurance Portfolio consists of assets which are held in the form of insurance contracts matching a portion of the liabilities of the Plan. The Main portfolio consists of all Plan assets outside of the Insurance Portfolio. The Main portfolio is composed of Matching and Return Seeking assets. The primary focus of the Plan's allocation of investments is accurate cashflow matching and risk control. Liability Driven Investment is a key component of the Plan's Matching Assets as it allows for accurate cashflow matching and risk reduction. A small allocation to Return Seeking Assets has been maintained in the Plan's asset allocation. For more details, please see the Trustee's latest Statement of Investment Principles effective 24 May 2018.

The assets, excluding Money Purchase assets and AVCs, were invested as summarised below as at 1 January 2018 and 1 January 2015:

	Market value as at 1 January 2018		Market value as at 1 January 2015	
	£m	%	£m	%
Equities	45	1.3%	692	25.5%
Qualifying Investor Alternative Investment Fund (LDI)	1,390	39.4%	-	-
Fixed interest bonds	-	-	524	19.3%
Index-linked bonds	-	-	708	26.1%
Property	285	8.1%	293	10.8%
Alternatives	502	14.3%	473	17.5%
Insurance policies	1,190	33.8%	-	-
Cash and current assets	109	3.1%	23	0.8%
Total	3,521	100%	2,713	100%

Significant events

In November 2015, the Plan implemented a liability driven investment mandate, for which a Qualifying Investor Alternative Investment Fund (QIAIF) was established, managed by a subsidiary of Legal & General Investment Management (LGIM). The objective of the fund is to reduce interest rate and inflation risks, using accurate cashflow matching and risk control.

During the third and fourth quarters of 2017, the Plan purchased two separate buy-in policies, which broadly covered a 2/3rds cross-section of the pensioner population.

Willis Towers Watson yield curves

The table below shows the Willis Towers Watson GBP Zero Coupon Nominal Gilt Yield Curve and the Willis Towers Watson GBP Zero Coupon Gilt-Implied Break-Even Inflation Rate Curve at 1 January 2018. The financial assumptions used to calculate the Technical Provisions and the statutory estimate of solvency were derived using these curves.

Year	Fixed interest gilt spot yield (% pa)	Break-even RPI spot rate (% pa)
1	0.350	2.994
2	0.390	2.912
3	0.474	2.841
4	0.586	2.824
5	0.711	2.880
6	0.836	2.977
7	0.956	3.050
8	1.068	3.079
9	1.174	3.098
10	1.271	3.147
11	1.361	3.238
12	1.443	3.319
13	1.518	3.369
14	1.585	3.409
15	1.645	3.454
16	1.698	3.499
17	1.744	3.530
18	1.783	3.547
19	1.816	3.572
20	1.843	3.608
21	1.864	3.636
22	1.879	3.651
23	1.889	3.653
24	1.893	3.644
25	1.892	3.627
26	1.886	3.604
27	1.876	3.577
28	1.861	3.547
29	1.843	3.517
30	1.823	3.488
31	1.800	3.465
32	1.776	3.446
33	1.751	3.425
34	1.726	3.398
35	1.702	3.365
36	1.678	3.330
37	1.655	3.299
38	1.634	3.276
39	1.615	3.262
40	1.597	3.255
41	1.581	3.250
42	1.567	3.243
43	1.555	3.234
44	1.544	3.222
45	1.535	3.209
46	1.528	3.198
47	1.522	3.194

Year	Fixed interest gilt spot yield (% pa)	Break-even RPI spot rate (% pa)
48	1.517	3.198
49	1.513	3.207
50	1.510	3.216
51	1.507	3.223
52	1.506	3.226
53	1.504	3.226
54	1.504	3.224
55	1.503	3.222
56	1.503	3.220
57	1.503	3.217
58	1.504	3.216
59	1.504	3.214
60	1.505	3.212
61	1.505	3.211
62	1.506	3.209
63	1.506	3.208
64	1.507	3.207
65	1.507	3.205
66	1.507	3.204
67	1.507	3.203
68	1.507	3.201
69	1.507	3.200
70	1.506	3.199
71	1.505	3.198
72	1.504	3.197
73	1.503	3.196
74	1.501	3.195
75	1.499	3.194
76	1.497	3.193
77	1.494	3.192
78	1.491	3.191
79	1.488	3.190
80	1.485	3.189
81	1.481	3.188
82	1.477	3.187
83	1.473	3.186
84	1.468	3.186
85	1.463	3.185
86	1.458	3.184
87	1.453	3.183
88	1.447	3.183
89	1.441	3.182
90	1.434	3.181
91	1.428	3.181
92	1.421	3.180
93	1.414	3.179
94	1.406	3.179
95	1.399	3.178
96	1.391	3.177
97	1.383	3.177
98	1.375	3.176
99	1.366	3.176
100	1.358	3.175

Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **The Pearson Pension Plan**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Plan's technical provisions as at 1 January 2018 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Plan and set out in the Statement of Funding Principles dated 22 November 2018.

Debra Webb
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company
22 November 2018

Towers Watson Limited
Watson House
London Road
Reigate
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Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Plan's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Contingent asset: An arrangement separate from the assets already held by the trustees under trust (or agreed and documented in the schedule of contributions) that provides for the trustees to receive certain assets should certain pre-defined events take place.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The trustees' assessment of the sponsor's covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Plan members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Plan and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Plan. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Plan, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Plan. See also statutory funding objective.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. I have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a "best estimate" assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (i.e. the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the "recovery period").

Schedule of contributions: A document that sets out in detail the agreed contributions payable to a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the trustees to perform certain statutory duties for the Plan.

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which govern the funding of occupational defined benefit pension schemes in the UK.

Statement of Funding Principles (SFP): The SFP sets out the trustees' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the trustees' policy for investing the Plan's assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Plan (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Plan's technical provisions.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Plan.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Winding-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.