The Pearson Pension Plan

Actuarial Report as at 1 January 2023

10 May 2023

Contents

01 **Introduction**

01.01 Background and purpose

This report provides information on the development of the technical provisions of the Pearson Pension Plan (the "Plan") over the period since the last formal actuarial valuation as at 1 January 2021 in line with the requirements of Section 224 of the Pensions Act 2004. As such, this report constitutes an 'actuarial report'.

This report provides an update of the funding position of the Plan as at 1 January 2023 and is the second update report following the 1 January 2021 actuarial valuation

This report provides a comparison of how the value of the Plan's assets compares to the value of its accrued liabilities (otherwise known as its technical provisions), using the scheme funding assumptions and so the information provided only relates to the progress made by the Plan towards meeting the statutory funding objective.

Legislation requires the Trustee to make this report available to Pearson Services Limited ("the Employer") and other participating companies ("the Company") within seven days of receiving it.

This report, and the work undertaken to produce it, is compliant with TAS 100 and TAS 300, set by the Financial Reporting Council. No other TASs apply. The report has been written on the basis that decisions (other than simply deciding not to bring forward the effective date of the next valuation) will not be based on its contents. Appropriate advice should be obtained before any follow up actions are taken.

02 **Approach adopted**

Gilt yields at 1 January 2023 are higher than at 1 January 2021 resulting in a decrease in the value of the liabilities

02.01 Asset data

We have obtained the current market valuation of the assets, including AVCs and money purchase fund values, insured annuities and net current assets based on information from the draft Trustee's report and accounts for the year ended 31 December 2022. There may be differences between the draft accounts and the final published accounts which would affect the results shown in this report. As advised by LCP, the Plan's investment advisers, no adjustments have been made to the illiquid assets.

02.02 Liability data and calculation methodology

For this update, we have performed full liability calculations as at 1 January 2023 for the Defined Benefit sections of the Plan, based on membership data as at 1 January 2021. We have then made an approximate global allowance for membership movements since 1 January 2021 by adjusting the liabilities for cash flow information from the Plan's accounts.

At 1 January 2023 a discretionary increase was awarded to some members of the Plan. An approximate allowance of £4m has been made to the liabilities in respect of this award. A liability reserve of £15m has been included in respect of Company contributions which will be paid from Plan assets over the course of 2023. The estimate of the Company contributions has been prepared with input from the Pearson Pensions Team by annualising the amounts from the first quarter of 2023.

The Trustee should note that the results of these calculations may differ from the actual position disclosed if we were to carry out more detailed calculations based on membership data at 1 January 2023. However, we consider the approach adopted to be adequate for the purposes of assessing the progression of the Plan's funding level since the last formal actuarial valuation.

Benefits in relation to Money Purchase members, including those with the Reference Scheme Test underpin, have been valued using membership data and fund values as at 1 January 2023.

Approach adopted

02.03 Actuarial assumptions

The statement of funding principles ("SFP") sets out how the assumptions to calculate the technical provisions are to be derived.

The main financial assumptions we have used, based on market conditions as at 1 January 2023, are summarised in the table below (together with the assumptions used at 1 January 2021 and 1 January 2022):

The discount rates at 1 January 2023 are higher than at 1 January 2021 resulting in a decrease in the value of the liabilities

Funding assumptions (p.a.)	1 January 2021	1 January 2022	1 January 2023
Discount rate for non-pensioners*	1.18%	1.78%	4.75%
Discount rate for pensioners*	0.58%	1.18%	4.15%
Future RPI*	3.38%	3.87%	3.59%
Future CPI	Pre 2030: RPI inflation less 1.0% pa Post 2030: RPI inflation less 0.0% pa		
General salary escalation*	3.88%	4.37%	4.09%
Expected returns on Money Purchase funds*	2.58%	3.18%	6.15%
Pension increases	Set using the assumed rate of inflation and a Black-Scholes model with inflation volatility of 1.5% per annum for RPI linked increases and 1.0% for CPI linked increases		
Mortality pre and post retirement	As detailed in 2021 SFP	2021 SFP except: CMI 2020 with w2020 of 0%	2021 SFP except: CMI 2021 with w2020 and w2021 of 0%
Commutation	18% of pension		
Transfer values	10% at retirement		
Proportion married at retirement	85% (M) / 60% (F)		
GMP Equalisation	0.5% of liabilities plus £2m allowance for historic transfers		

**The actual assumptions used are based on full gilt yield curves and inflation yield curves. The figures quoted in the table above are based on the Bank of England spot yield at the duration of the Plan's liabilities (16 years at 1 January 2021) and are shown for illustrative purposes only.*

03 Results

No explicit allowance for climate-related risk is made in the assumptions in the statement of funding principles, and therefore are not allowed for in the figures in this report.

£325m

Surplus at 1 January 2023

03.01 Results of funding update

The Trustee's target reserve (known as 'technical provisions') represents a prudent estimate of the amount needed at the valuation date to meet the projected benefit payments as they fall due. The technical provisions and the resultant funding position at the valuation date are set out in the following table. The corresponding results from previous years are shown for comparison purposes.

Funding position (£ms)	At 1 January 2021	At 1 January 2022	At 1 January 2023
Plan liabilities in respect of:			
> Defined benefits	3,432	3,239	2,160
> Expenses & reserves	119	118	113
> AVCs and other money purchase benefits	682	747	657
Technical Provisions (L)	4,233	4,104	2,930
Value of Assets (A)	4,393	4,348	3,255
Surplus/(Shortfall) (A – L)	160	244	325
Funding Level (A / L)	103.8%	105.9%	111.1%

111.1%

Funding level at 1 January 2023

In the table above 'AVCs and other money purchase benefits' includes the sum of the Defined Contribution Section assets, the RST underpin strain and a reserve. At 1 January 2023 these were (respectively) £634m, £3m and £20m. The reserve covered death in service lump sum, ill health retirement and spouses' benefits for Money Purchase 2003 members.

The results shown are based on the same membership data as for the last formal actuarial valuation adjusted for cash flows and overall changes in pensionable payroll. These details have been supplied by the Pearson Pensions team or taken from the Plan's accounts. Benefits in relation to Money Purchase members have been valued using membership data and fund values as at 1 January 2023.

The value of insured annuities in the draft Plan accounts at 31 December 2022 is £1,182m. We have used this figure as the insured asset and liability in our funding assessment at 1 Janaury 2023, so that there is no item of surplus or deficit relating to the insured population.

Results

03.02 Reconciliation with the results of the previous valuation

£269m

Gain over the period due to the change in interest rate and inflation assumptions net of asset experience

Since 1 January 2022, the Plan's surplus has increased from £244m to £325m.

Gilt yields ended 2022 much higher than they began the year. This change in financial conditions which underlies the actuarial assumptions used to value the liabilities has placed a substantially lower value on the liabilities. Plan assets have significantly reduced over the year too, but not by as much as liabilities. Overall this has improved the surplus.

High headline RPI and CPI inflation lead to higher deferred revaluation and pension increases than was assumed at the start of 2022, leading to a drag on the surplus.

A more detailed breakdown of this increase in the surplus since 1 January 2022 is provided below:

	12 months to 1 January 2023 £m
Surplus at start of year	**244**
Interest on surplus	8
Contributions received less cost of accrual & expenses	(5)
Change in interest rate and inflation assumptions net of asset experience	269
Inflation higher than assumed during 2022	(163)
Increase in surplus due to RST underpin pensions	(10)
Discretionary increases awarded at 1 January 2023	(4)
Reserve for 2023 Company contributions	(15)
Update to mortality assumptions	1
Surplus at end of year	**325**

The Trustee should note that the results of the approximate calculations may differ from the actual position disclosed if we were to carry out more detailed calculations. However, we consider the approach adopted to be adequate for the purposes of assessing the progression of the Plan's funding level since the last formal actuarial valuation.

04 Formal reassessment of funding

The next formal actuarial valuation of the Plan is due no later than 1 January 2024 when we will provide further details of how the Plan's funding level has developed.

1 January 2024

Next formal valuation due

Signature

Date

10 May 2023

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