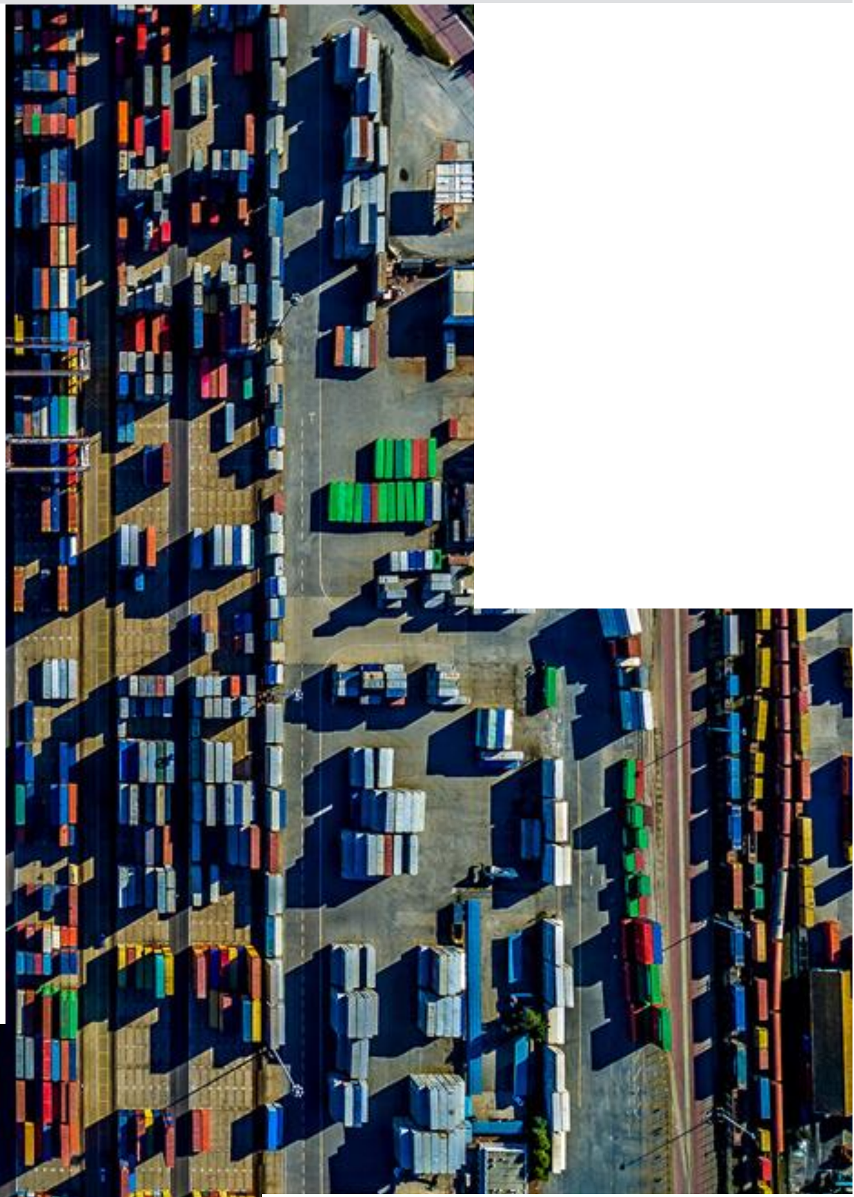
Willis Towers Watson

The Pearson Pension Plan

Actuarial report as at 1 January 2019

27 June 2019



Summary

The main results of this actuarial report and those from the latest actuarial valuation are as follows:

- Technical provisions funding level as at 1 January 2019 is estimated to have increased to 106.9% over the year

- Surplus of assets relative to technical provisions is estimated to have increased to £251 million over the year

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 amended

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

Introduction

Scope

This is the actuarial report in respect of the Pearson Pension Plan as at 1 January 2019 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 report is required under Part 3 of the Pensions Act 2004 in years when a full actuarial valuation is not conducted; a copy of this report must be provided to the Company within seven days of its receipt.

The main purpose of the actuarial report is to provide an approximate update of the development in the financial position of the Plan relative to its statutory funding objective since the latest actuarial valuation. It should be considered in conjunction with the report dated 22 November 2018 on the actuarial valuation as at 1 January 2018, which forms a component communication for the purposes of this funding update.

This report and the work involved in preparing it are within the scope of and comply with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) published by the Financial Reporting Council. However, as this report has been produced solely to meet a legislative requirement and no decisions are expected to be taken on the basis of the information set out in it, I have taken a proportionate approach when considering and applying the requirements contained within TAS 100 and TAS 300.

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 as at 1 January 2021.

In intervening years the Trustee will obtain annual actuarial reports, such as this one, on developments affecting the Plan's assets and technical provisions. The next such report, which will have an effective date of 1 January 2020, must be completed by 1 January 2021.

D. L. Webb

Debra Webb
Fellow of the Institute and Faculty of Actuaries
27 June 2019

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http://eutct.internal.towerswatson.com/clients/616100/PearsTRRET2019/Documents/Funding/Actuarial Report/Actuarial Report_2019 signed.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 report and takes no account of developments after that date except where explicitly stated otherwise.

Some of the member data (such as date of birth) 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 (DPA) and the General Data Protection Regulation (GDPR), which place certain responsibilities on those who exercise control over the data (known as 'data controllers' under the DPA and GDPR). Data controllers would include the Trustee of the Plan and may also include the Scheme Actuary and Willis 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.

Methodology

In carrying out the estimates of the updated financial position of the Plan, I have not carried out full liability valuation calculations. Instead, I have estimated how the position may have moved over the year to 1 January 2019 using approximate methods.

The approach taken to calculate the estimates will not be as robust as the calculations performed as part of a full actuarial valuation, but should be sufficient, in normal circumstances, to obtain a reasonable indication of how the funding position might have moved since the last assessment.

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 only 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 method and assumptions for calculating the technical provisions as at 1 January 2018 were agreed between the Trustee and Company and documented in the Statement of Funding Principles dated 22 November 2018. The table below summarises the main financial assumptions used to estimate the Plan's technical provisions for this actuarial report and the latest actuarial valuation.

Financial assumptions[1]	**1 January 2019 % pa**	1 January 2018 % pa
Discount rate for insured liabilities	**1.80**	1.70
Discount rate for non-insured liabilities	**2.48**	2.38
Retail Price Inflation (RPI)	**3.40**	3.40
Consumer Price Inflation (CPI)	**2.40**	2.40
General salary escalation	**3.90**	3.90
Pension increases in payment:		
- RPI (minimum 0% pa)	**3.50**	3.50
- RPI (minimum 0% pa, maximum 5% pa)	**3.40**	3.40
- 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**	2.25

[1]Indicative single-equivalent rates

I regard the financial assumptions adopted for this actuarial report as consistent with those used for determining the Plan's technical provisions at 1 January 2018, adjusted for changes in market conditions, and in my view they are appropriate for the purpose of this actuarial report.

The demographic assumptions used for the purposes of this update are consistent with those adopted for the actuarial valuation as at 1 January 2018, as set out in the Plan's Statement of Funding Principles dated 22 November 2018. For clarity, I note that I have updated two of the assumptions from those adopted as at 1 January 2018, namely:

- For the non-buy-in liabilities, assumed future improvements in line with the CMI 2018 model, with a long-term improvement rate of 1.75%, a smoothing parameter of 7.5 and no initial addition to mortality improvements (2018: CMI 2017 model with a long-term improvement rate of 1.75%, a smoothing parameter of 7.5 and no initial addition to mortality improvements)

- Included an allowance of 0.5% of the liabilities in my calculations for the potential cost of equalising GMPs (2018: 1% of liabilities)

If the Trustee and Company were to consider all the assumptions in detail as part of a formal valuation process it is likely that some of these assumptions would change.

The allowance made for discretionary benefits is also in line with the Plan's Statement of Funding Principles. In particular, under the Statement of Funding Principles, where the early retirement terms are not cost neutral an allowance is made for active and deferred members to retire early in line with the Plan's recent experience. For the purpose of this update I have assumed the same incidence of early retirement as assumed for the 2018 valuation. Allowance has also been made for the Plan's current practice with regard to GMP revaluation in deferment, 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. No allowance has been made for any other discretionary benefits, including discretionary pension increases.

As well as an allowance for GMP equalisation, 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 the technical provisions, in line with the reserve at the 2018 valuation. No allowance has been made for any other benefit uncertainty.

The table below compares the estimated technical provisions as at the effective date of the actuarial report with the market value of the Plan's assets and the corresponding figures from the latest actuarial valuation:

Valuation statement	**1 January 2019** **£m**	1 January 2018 £m
Amount required to provide for the Plan's liabilities in respect of:		
Defined benefits	**3,031**	3,196
Expenses	**90**	90
AVCs and other money purchase benefits	**522**	529
Technical provisions	**3,643**	3,815
Market value of assets	**3,894**	3,978
Past service (deficit)/surplus (technical provisions less assets)	**251**	163
Funding level (assets ÷ technical provisions)	**106.9%**	104.3%

Developments since the latest valuation

The funding level is estimated to have increased to 106.9% from 104.3% at the previous valuation. The main factors contributing to this change were:

- Investment returns on the Plan assets in excess of changes in gilt yields exceeding those assumed
- A reduction in assumed life expectancies, and consequently in liabilities, due to the adoption of the CMI2018 mortality improvements model; and
- A reduction in the estimated liability impact of GMP equalisation on the Plan.

There will also be other factors that have affected the funding position over the year to 1 January 2019. We do not have sufficient information to analyse these in any detail, but do not expect membership experience materially to affect the calculations.

Additional Information

Data provided

Membership data – DB sections

For the DB sections of the Plan the membership data on which the calculations underlying this actuarial report have been based are unchanged from the data used for the actuarial valuation as at 1 January 2018. Membership information as at 1 January 2018, supplied to us by the Plan's administrator, is summarised below. For further information, I refer you to my actuarial valuation report for the 1 January 2018 valuation.

	Number	Total salary/pension £000s	Average age
Pensioners (inc. dependants)	8,493	84,455	74.6
Deferred pensioners (DB only)	6,145	23,913	53.5
Active members (DB only)	126	7,185	49.9

- The figures above include children – at 1 January 2018 there were 42 children.
- Deferred pension amounts are as at date of leaving.

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.

Membership data – Money Purchase Section

Updated membership information was available and was used in assessing the assets and liabilities relating to the Money Purchase Section. This information, as at 30 September 2018 was supplied by Karen Wiltshire from the Pearson Pensions team on 29 November 2018.

There were 2,182 active members and 7,396 deferred members in the Money Purchase section as assessed as at 1 January 2019 (2,095 and 7,318 respectively as at 1 January 2018).

Under the Money Purchase 'conversion' arrangements, in which retiring members are able to convert their Money Purchase fund to an annuity within the Plan, a number of new pensioners now exist within the DB Section of the Plan who have converted from MP membership in this way. I have made an approximate allowance for this within the calculations as at 1 January 2019.

Asset information

The draft accounts supplied as at 31 December 2018 shows that the total market value of the Plan's assets was £3,894 million. This includes assets held in respect of members of Additional Voluntary Contributions (AVCs) and Money Purchase Section assets which amounted to £453 million.

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.

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.

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

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

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.