Pearson Pension Plan
Statement of Funding Principles

This Statement has been prepared by the Trustee of The Pearson Pension Plan ("the Plan") to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Scheme Actuary, Debra Webb ("the Actuary"). The Trustee has discussed and agreed it with the Principal Company, Pearson Services Limited ("the Company"), the agreed representative of all Participating Employers to the Plan.

This Statement replaces the previous Statement dated July 2015.

Statutory funding objective

The statutory funding objective is that the Plan should have sufficient and appropriate assets to cover its technical provisions, and this Statement sets out the Trustee's policy for securing that this objective is met.

The Trustee may assume that the Plan will be able to capture part of the expected investment premium available for asset classes other than Government Securities, and may hold investments in other asset classes. The Trustee will though adopt a prudent approach to determining the investment return assumption, in particular considering whether and to what degree margins for adverse deviations should be taken into account in determining the assumption.

In particular, the Trustee will consider what a realistic allowance might be for investment returns in each future year, and will base the funding assumptions on lower returns.

In determining the base table mortality assumptions, the Trustee will take account of both the Plan's recent experience and other analyses of the expected longevity of the membership, for example by postcode. The Trustee will also make a reasonable allowance for possible future improvements in longevity.

Trustee's long term target

The Trustee's current aim is to achieve full funding on a long term funding target calculated using discount rates based on the Willis Towers Watson gilt curve with no margin applied and using prudent mortality assumptions. The Company is aware of the Trustee's long term target, however this is not a formal subsidiary funding objective.

Technical provisions

Method

For the purely defined benefit sections of the Plan, the Trustee and the Company have agreed that the technical provisions for the Plan at any given date are to be calculated as the capital value of the prospective benefits arising from service completed before that date, including allowance for prospective salary increases for those members in active service at that date. This method of calculating technical provisions is commonly known as the projected unit credit method. Money purchase benefits are taken

into account at their market value at the valuation date. For the Money Purchase 2003 Section of the Plan, the capital value of the prospective defined benefit underpin for each member is calculated in respect of service completed before the relevant date and, where higher than the member's Money Purchase account, the difference is added to the technical provisions.

For the defined benefit sections of the Plan, the employers' contribution rates, expressed as a percentage of the pensionable salary of the relevant members, is the average rate which is expected to be adequate on the assumptions made to meet the cost of benefits earned over the three years following the valuation date after allowing for members' required contributions. For the Money Purchase Sections the contribution rate includes matching contributions. For the 2018 valuation, a reserve has been included in the technical provisions in respect of death in service lump sum benefits, and ill-health and dependants' benefits, as well as Plan expenses.

Assumptions

The Trustee and the Company have further agreed that:

- the discount rates used to calculate the capital value of future cashflows will be determined for each future year and expressed relative to the forward rates on the Willis Towers Watson gilt curve.

- the discount rates applied to the insured liabilities will be based upon the above gilt curve with no margin applied. This is consistent with the approach used to value the insured assets in the Trustee Report and Accounts and to the extent that the insured benefits match the Plan's liabilities the insured liability will therefore be consistent with the insured asset.

- the discount rates applied to the balance of the liabilities will be prudent estimates which have regard to the expected investment return on the Plan's current benchmark asset allocation but which also reflects more broadly the intention that the technical provisions are set on a suitably low risk basis. s

- future price inflation and pension increase assumptions will be set on a realistic basis and take into account information in respect of bond markets and other relevant market information at the effective date of the actuarial valuation; and

- demographic assumptions will have regard to an analysis of recent changes and longer term trends in the Plan membership as well as relevant statistics applicable to similar pension schemes, and the Trustee's and Company's views about how these may change in future. In general, when there is clarity that assumptions are best estimates these will be used, other than for future improvements in mortality where the assumption will be prudent.

The Trustee and the Company have agreed that, in general, the assumptions used to determine the Plan's ongoing contributions required to cover the ongoing accrual of benefits will take into account the funding position at each valuation and be at least a best estimate of the cost of future accrual of the benefits. Note that, as detailed below, in the light of the funding position at 1 January 2018 it has been agreed that for the valuation at 1 January 2018, it is appropriate to adopt best estimate assumptions for the calculation of the contributions.

GMP equalisation

The recent Lloyd Bank case has clarified that pension schemes are required to adjust member benefits where relevant to reflect the impact on benefits of unequal GMPs. The judgement also includes a method, C2, that should be used to effect this unless agreement is reached with the Company on other, more generous, alternatives. The approach to be adopted by the Plan is not yet known and therefore approximate allowance has been made in the calculations for the adjustments that would be broadly consistent with method C2.

Discretionary Benefits

There are a number of areas where the benefits payable are subject to some exercise of discretion on the part of the Trustee and/or the Company, the principal details of which are set out below:

- Pension increases for some members of the Plan are calculated by reference to a "Price Index" defined in the Rules of the Plan. The Trustee continues to use the Retail Price Index as the appropriate index for this purpose.

- Depending on the member's Section and when the relevant pension rights accrued, the pensions in deferment or in the course of payment may be guaranteed under the Rules to receive annual increases either at a fixed rate, or in line with price inflation, subject to various minima and maxima. The Trustee and the Company have discretion to increase benefits above this guaranteed level after taking advice from the Actuary. For the purposes of calculating the technical provisions, the Trustee has agreed with the Company that it will be assumed that members will receive only the increases guaranteed in the Rules. On the advice of the Actuary, immediate additional funding from the Company may therefore be required if discretionary increases are awarded in future.

- At the request of any Participating Employer, and upon payment by that Employer of any contributions that the Trustee (with the advice of the Actuary) may consider appropriate, the Trustee may increase any benefit or provide additional benefits under the Plan. The Trustee and Company have agreed that the award of such discretionary benefits will not be taken into account in advance in the calculation of technical provisions, but if the Trustee considers it appropriate, the capital value of any such benefits granted would be paid in full by the Employer at the time the discretion is exercised.

- Active and deferred members may retire early subject to Trustee and/or Company consent. Where the terms on which the early retirement pension is granted are not cost neutral to the Plan, allowance is made in the demographic assumptions for Members to retire early in line with recent experience.

- Active and deferred members may convert part of their pension at retirement into cash. The Trustee and Company have agreed that allowance for this should be made within the technical provisions. For the valuation as at 1 January 2018, the amount of pension assumed to be commuted at retirement is in line with recent experience. The assumed commutation terms for calculating the technical provisions and future service contribution rates have been derived using an investment return assumption of 1.5% pa in excess of gilt yields.

- Where the Plan's current treatment of Guaranteed Minimum Pensions is more generous than the minimum that may be required under a strict interpretation of the contracting-out legislation, this practice has been assumed to continue in future.

- Approximate allowance has been made within the technical provisions for the expected impact of ongoing data rectification exercises.

- There may be a number of further discretions that enable members to convert the benefit from one form into another, typically at the discretion of the Trustee and the Trustee and the Company have agreed that these will be allowed for in line with recent experience, where the terms offered create a strain on the Technical Provisions assumptions.

Expenses

Investment management costs are assumed to be met out of future investment income. The valuation discount rate is therefore net of such costs.

For all members of the Plan, administrative and other non-investment expenses (including Pension Protection Fund Scheme Based levies) are allowed for by deriving an expense reserve which broadly reflects the present value of expected future costs assuming some efficiency gains over time. It is assumed that the Company will pay any required Pension Protection Fund Risk Based levies in addition.

The expense reserve at 1 January 2018 is intended to broadly cover the expected ongoing costs of the Plan over the next 20-25 years.

Actuarial investigation as at 1 January 2018

The Trustee (having taken the advice of the Actuary) and the Company have agreed on the assumptions for the investigation as at 1 January 2018, in line with the process described above. Details are set out in the table below:

	Approach	**Single equivalent rate % pa**
Discount rate for insured liabilities	Nominal gilt curve	1.70
Discount rate for non-insured liabilities	Nominal gilt curve plus 0.68% pa	2.38
Discount rate for future service	Nominal gilt curve plus 1.2% pa	2.90

The discount rate applied to the non-insured liabilities is based upon the gilt curve plus a suitable margin such that the weighted average discount rate applied to the total liabilities is the gilt curve plus a margin of 0.5% per annum. As at 1 January 2018 this margin is 0.68% per annum.

The discount rate used for future service contributions is based upon a best estimate of the investment return for the Plan's assets. This is assumed to be 0.70% per annum above the overall discount rate used to calculate the technical provisions.

The discount rate assumptions take into account the Trustee's view of the covenant of the employers, including appropriate allowance for the guarantees provided by the Company's parent, Pearson plc.

The gilt curve used for the discount rate assumptions is the Willis Towers Watson zero coupon gilt nominal yield curve. Further information on the derivation of this gilt curve is set out in Appendix 2.

Other financial assumptions as at 1 January 2018

The other financial assumptions that are not fixed have been set relative to the Willis Towers Watson RPI curve. Further information on the derivation of this RPI curve is set out in Appendix 2. For each pension increase type the gap relative to the Willis Towers Watson RPI curve has been determined having regard to the approximate single-equivalent RPI assumption and any caps or floors that apply assuming future inflation volatility at 1.5% pa for RPI and 1.0% pa for CPI, with some pension increase assumptions rounded up.

	Assumption	**Approximate single-equivalent rate**
		% per annum
Price inflation (CPI):	Willis Towers Watson RPI curve less 1.0%	2.40
Price inflation (RPI):	Willis Towers Watson RPI curve	3.40
Salary increases (including allowance for promotional increases):	Willis Towers Watson RPI curve plus 0.5%	3.90
Pension increases:		
RPI, max 5%	Willis Towers Watson RPI curve	3.40
RPI, max 5%, min 3%	Willis Towers Watson RPI curve plus 0.35%	3.75
RPI, max 3%	Willis Towers Watson RPI curve less 0.65%	2.75
RPI, min 0%	Willis Towers Watson RPI curve plus 0.1%	3.50
RPI, min 4%	Willis Towers Watson RPI curve plus 1.1%	4.50
Fixed 3%		3.00

Statistical assumptions as at 1 January 2018

Post-retirement mortality for the insured liabilities is the same as that used to value the insured assets included within the Trustee Report and Accounts. These are based on the Self-Administered Pension Schemes (SAPS) published tables, rolled forward to 2017 as appropriate. Improvements are assumed to be in line with the Continuous Mortality Investigation (CMI) 2016 projections, with a long-term rate of 1.5% per annum and a smoothing factor of 7.5 for males and females.

Post-retirement mortality for the non-insured liabilities is based on the Plan's actual experience and other statistical analysis of the expected longevity of the membership. These are based on the (SAPS) published tables, rolled forward to 2018 as appropriate. Improvements are assumed to be in line with the Continuous Mortality Investigation (CMI) 2017 core projections, with a long-term rate of 1.75% per annum and a smoothing factor of 7.5 for males and females. Sample rates for the agreed base tables are shown in Appendix 1 to this Statement.

Post-retirement mortality assumed for the calculation of future service contributions is the same as those used to value the non-insured liabilities, except with a long-term future improvement rate of 1.50% per annum for males and females.

Details (including sample rates) of the remaining demographic assumptions for the investigation as at 1 January 2018 are also shown in Appendix 1.

Expenses

For the 2018 valuation, administrative and other non-investment expenses (including Pension Protection Fund Scheme Based levies) are broadly allowed for by an expense reserve equal to £90m, which reflects an assumption of some efficiency gains over time. A further reserve of £20m has been included in the technical provisions in respect of death in service lump sum benefits and ill-health and dependents benefits for Money Purchase 2003 Section members.

Valuation of defined benefit underpin for Money Purchase 2003 members

For the purpose of this calculation the value of the reference scheme test (RST) benefit underpin was determined by comparing, for each member, the assets expected at retirement (calculated assuming that members' investments achieve a return of 1% per annum above gilt yields which is broadly intended to represent a prudent estimate of the investment strategy underlying the default "lifecycle" option) with the cost of providing the RST underpin. It has been assumed that this is provided through conversion within the Plan.

The terms for converting funds into a Plan pension are based upon discount rates in line with gilt yields with no margin applied and a best estimate of mortality. In particular the mortality assumption is the same as the assumption used for non-insured liabilities in the technical provisions calculation but with future improvements in line with the Continuous Mortality Investigation (CMI) 2017 core projections, with a long-term rate of 1.50% per annum and a smoothing factor of 7.5 for males and females.

Where the underpin bites, any additional funding needed is assumed to be invested with the rest of the assets before retirement, and is therefore discounted at the term dependent discount rate which is applied to the defined benefit assets using the assumptions underlying the technical provisions for non-insured liabilities. At 1 January 2018 this discount rate was the gilt curve plus a margin of 0.68% per annum. Post-retirement, the discount rate adopted is in line with gilt yields with no margin applied.

Whilst a member remains in active service, their money purchase funds are expected to increase in line with contributions paid and with investment returns. However RST pension accrual ceased with effect from 5 April 2016. From that point onwards, an active member's RST pension remains fixed until they leave service. After leaving service, the RST pension increases in line with deferred revaluation. For the technical provisions at 1 January 2018 it has been assumed that active members remain in service for three years following the valuation date.

The Trustee and the Company have agreed that Money Purchase 2003 Section members should be given the option to convert their fund values into a pension from the Plan at retirement regardless of whether the RST underpin bites. Therefore it is appropriate to make allowance for a proportion of Money Purchase 2003 Section members to be provided with pensions from the Plan even where the RST underpin is not expected to apply. For the technical provisions at 1 January 2018 it has been assumed that 50% on average of members for whom the RST underpin does not bite opt to convert their funds to pension within the Plan and the remaining 50% transfer out at retirement.

Eliminating a shortfall

The Trustee and the Company have agreed that any funding shortfalls identified at an actuarial valuation should be eliminated as quickly as the Participating Employers can reasonably afford by the payment of additional fixed annual contributions over the agreed recovery period. In determining the actual recovery period at any particular valuation the Trustee will take into account the following factors to the extent that these are relevant; amongst others:

- the size of the funding shortfall
- the risk that the value of the Plan's assets may deteriorate further relative to the technical provisions, the secondary funding objective and the solvency liabilities of the Plan
- independent advice received by the Trustee on the financial position of Pearson plc, the Company and/or the Participating Employers and their ability to pay the required contributions
- the impact, if any, of proposed deficit payments on the credit rating of Pearson plc

The Plan is calculated to be in surplus on the technical provisions basis at 1 January 2018, and therefore no shortfall contributions have been calculated.

Frequency of actuarial investigations

The Plan's fifth actuarial valuation under Part 3 of the Pensions Act 2004 has been carried out as at 1 January 2018. The Actuary will provide an estimate of the up-to-date financial position of the Plan, relative to the statutory funding objective and the solvency liabilities, as at each 1 January for which a full valuation is not requested. In the normal course of events, such annual updates would not be expected to lead to changes to the agreed Schedule of Contributions.

In general, the Trustee will request subsequent valuations three years after the preceding one and the intention is that the next valuation will be as at 1 January 2021. However, the Trustee may call for a formal funding valuation at any date if they are of the opinion that events have made it unsafe to rely on the results of the previous valuation for funding purposes. In reaching such a view, the Trustee will consider the advice of the Actuary and consult with the Company.

Arrangements for other parties to make payments to the Plan

Other than as reflected in the terms of the guarantee from Pearson plc, there are no arrangements for a person other than the Participating Employers or a member of the Plan to contribute to the funds held by the Plan.

Paying funding surpluses to the employer

The General Rules do not include provisions for the Trustee to make payments to the Company out of funds held for the purposes of the Plan unless a surplus exists following a winding-up of the Plan.

Cash equivalent transfer value calculations

The Trustee will ask the Actuary to advise them on a regular basis of the extent to which assets are sufficient to provide cash equivalent transfer values for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries. The Trustee's policy is not to reduce cash equivalent transfer values paid to members unless the Actuary advises that the Plan's assets are materially insufficient to provide cash equivalent transfer values in full to all members, on the method and assumptions adopted for that purpose, in which case it will consider whether or not transfer values should be scaled back.

Dates of review of this Statement

This Statement will be reviewed, and if necessary revised, by the Trustee either

- within 15 months after the effective date of each actuarial valuation; or
- within a reasonable period after any occasion on which the Regulator has used its powers to modify future accrual of the Plan, directed as to the manner in which technical provisions are to be calculated or the period over which failure to meet the statutory funding objective is to be remedied, or imposed a Schedule of Contributions.

The Trustee may also elect to review, and if necessary revise, the Statement at other appropriate times.

Signed on behalf of the Company:

Signature: .....

Print name: ..... GORAM WILLIAMS .....

Position: ..... CHIEF FINANCIAL OFFICER .....

Date: 22.11.2018

Signed on behalf of the Trustee of the Plan:

Signature: .....

Print name: ..... JAMES DALY .....

Position: ..... CHAIRMAN OF THE TRUSTEES .....

Date: 22.11.2018

Appendix 1 – Statistical assumptions for actuarial investigation as at 1 January 2018

1 ACTIVE MEMBERS

In service rates

Age	Withdrawal	Death in service		Ill health	Age retirement		Proportion married	
	Unisex	Males	Females	Unisex	Males	Females	Males	Females
25	0.12000	0.00013	0.00008	0.00000	0.00000	0.00000	0.90000	0.60000
30	0.12000	0.00013	0.00009	0.00000	0.00000	0.00000	0.90000	0.60000
35	0.09600	0.00014	0.00010	0.00012	0.00000	0.00000	0.90000	0.60000
40	0.08400	0.00017	0.00015	0.00037	0.00000	0.00000	0.90000	0.60000
45	0.04800	0.00027	0.00026	0.00053	0.00000	0.00000	0.90000	0.60000
50	0.02400	0.00052	0.00050	0.00083	0.00000	0.00000	0.90000	0.60000
55	0.00000	0.00109	0.00099	0.00156	0.10000	0.05000	0.90000	0.60000
60	0.00000	0.00232	0.00195	0.00306	0.20000	0.20000	0.90000	0.60000

Allowance for commutation

Members assumed to commute 18% of pension at retirement. The assumed commutation terms have been derived using investment returns of 1.5% above forward nominal gilt yields.

Age difference

Male members four years older than their female spouses. Female members one year younger than their male spouses.

2 DEFERRED PENSIONERS

Assumed retirement age

Thames Section: Members assumed to retire at age 59 (NRA = 60)

Extel Section: Members assumed to retire at age 62 (where NRA = 65)

Members assumed to retire at age 60 (where NRA = 62)

Members assumed to retire at age 59 (where NRA = 60)

Other Sections: Members assumed to retire at NRA

Proportion married / allowance for commutation / age difference

As per active members

3 PENSIONERS

Proportion married

Where information was collected as part of the 2017 buy-in, actual marital data has been used. For all other pensioner members the assumed proportion married is as per active members, reduced in line with pensioner survival rates implied by mortality tables from age 62.

Age difference

Where information was collected as part of the 2017 buy-in, actual marital data has been used. For all other pensioner members the assumed age difference is as per active members.

4 MORTALITY TABLES

Insured members

The base mortality tables for members for whom an insurance contract has been taken out in the Trustee's name is the same as those used to value the insured part of the assets within the Trustee Report and Accounts. In particular:

Male members with high pensions*:	95% of SAPS S2 light table for all males
Male members with low pensions*:	90% of SAPS S2 heavy table for all males
Female members:	100% of SAPS S2 table for normal health females
Male dependants:	95% of SAPS S2 table for all males
Female dependants:	100% of SAPS S2 table for all female dependants

* For current pensioners a 'high pension' is a pension above £12,750 pa.

In all cases, the tables include improvements to 2017 in line with the Continuous Mortality Investigation (CMI) core projections.

Allowance is made for future improvements to these rates in line with the CMI 2016 core projections, with a long-term rate of 1.5% per annum for males and females and a smoothing factor of 7.5.

Non-insured members

The base mortality tables for all other members after leaving active service are:

Male members with high pensions/salary*:	90% of SAPS S2 light table for all males
Male members with low pensions/salary*:	90% of SAPS S2 heavy table for all males
Female members:	100% of SAPS S2 table for normal health females
Male dependants:	95% of SAPS S2 table for all males
Female dependants:	105% of SAPS S2 table for all female dependants

* For current pensioners a 'high pension' is a pension above £12,750 pa. For deferred pensioners, a 'high pension' is a deferred pension greater than £7,250 pa. For active members, all members are assumed to have a 'high salary'.

For Money Purchase 2003 Section members, the base table for males is in line with "Male dependants" and the base table for females in line with "Female members" for the non-insured members above.

In all cases, the tables include improvements to 2018 in line with the Continuous Mortality Investigation (CMI) core projections.

The mortality rates for non-insured members on the agreed base tables at sample ages are shown in the table below.

Age	Members			Dependants	
	Males with high pensions	Males with low pensions	Females	Males	Females
60	0.003449	0.007850	0.003755	0.004780	0.004918
65	0.005272	0.010857	0.005299	0.007394	0.007243
70	0.008669	0.016535	0.008606	0.012103	0.011241
75	0.015740	0.027452	0.015444	0.021219	0.018368
80	0.029975	0.046723	0.029292	0.038099	0.031765
85	0.060872	0.082457	0.059574	0.072199	0.060860

Allowance is made for future improvements to these rates in line with the CMI 2017 core projections, with a long-term rate of 1.75% per annum for males and females and a smoothing factor of 7.5.

The table below shows the future life expectancy of a pensioner aged 62 in 2018 and a pensioner aged 62 in 2038 allowing for the assumed future improvements in longevity.

	Future life expectancy / years	
	Pensioner aged 62 in 2018	Pensioner aged 62 in 2038
Male with high pension	26.6	28.6
Male with low pension	23.4	25.8
Female	27.0	29.1

Contributions for accrual of future service

For the calculation of contributions in respect of future service, the same assumptions have been adopted as for the non-insured members, except for the long-term future mortality improvement rate, where the assumption is a long-term rate of 1.50% per annum for males and females.

Appendix 2 – Willis Towers Watson nominal gilt and RPI curves

Gilt curve methodology

The zero-coupon gilt nominal yield curve represents the interest rate term structure of UK nominal government securities (conventional gilts).

Willis Towers Watson receives the daily prices of conventional gilts from FTSE International, and sources GC (general collateral) repo rates from BBA LIBOR. Based on this data, an annual zero-coupon nominal yield curve is fitted by using a variable roughness penalty (VRP) approach. This method strikes a balance between discounting gilts exactly to their market value whilst achieving a reasonable and smooth curve shape.

The approach is very similar to the Bank of England's gilt nominal yield curve construction method, although Willis Towers Watson uses slightly different parameters to achieve slightly better accuracy at the cost of a slightly less smooth curve.

Unlike the Bank of England, Willis Towers Watson uses a two-stage process for extrapolating the gilt nominal curve:

- In the first stage a curve is constructed and then extrapolated to derive the price of a hypothetical 100 year zero-coupon gilt. This extrapolation assumes that the 10 year forward rate beyond the maturity of the longest dated bond remains constant (that is, it remains as per the 10 year forward rate up to the maturity of the longest bond).

- In the second stage the curve is reconstructed using the same VRP method, again using repo rates and gilt prices, but now also including this hypothetical 100 year gilt.

The result is the Willis Towers Watson zero-coupon gilt nominal yield curve with annual maturity yields from one year to 100 years.

Discounting the cashflows of conventional gilts using the Willis Towers Watson gilt nominal curve typically gives present values within 0.5% of the observed market price of each gilt. We believe this level of error tolerance achieves an acceptable balance between accuracy and having reasonably shaped curves for purposes, such as calculating the market-consistent present value of the liabilities of a pension scheme.

RPI curve methodology

The zero-coupon gilt breakeven inflation (BEI) curve represents the term structure of future inflation which would result in equivalent conventional gilts and index-linked gilts (ILGs) producing the same return.

The prices of ILGs, the Retail Price Index (RPI) historic time series and the gilt nominal curve described above are the inputs for calculating the gilt BEI curve. FTSE International supplies the ILG prices via a direct data feed and the historic RPI time series can be obtained from a number of publicly available sources (such as the Office for National Statistics). Based on this data, an RPI series projection is fitted, taking into account inflation seasonality, such that the present value of the projected nominal cashflows of each ILG is equal to its observed market price. An annual gilt BEI curve is then calculated and extrapolated out to the 100 year maturity by assuming that the 10 year forward rate beyond the maturity of the longest dated bond remains constant. The resulting curve is then adjusted and smoothed using an iterative technique to ensure maximum accuracy with respect to the input data for a given level of smoothness.

Discounting the projected cashflows of ILGs using the Willis Towers Watson gilt nominal and BEI curves typically gives present values within 0.5% of the observed market price of each ILG. We believe this level of error tolerance achieves an acceptable balance between accuracy and having reasonably shaped curves.

It is important to note that the gilt BEI curve is calculated assuming a two month inflation lag for the RPI series projection. The shape of the curve (and also the shape of the real yield curve discussed below) would therefore change if a different inflation lag is used. However, the adopted approach provides flexibility to derive inflation and real yield curves with different inflation lags, if this is deemed to be necessary.

The above method gives rise to projected RPI figures for each future month, and these are also available to users who wish to make specific timing adjustments (for example, to allow for the reference month for pension increases).