XPS Group

The Pearson Pension Plan

Plan funding report on the Actuarial Valuation as at 1 January 2024

18 March 2025

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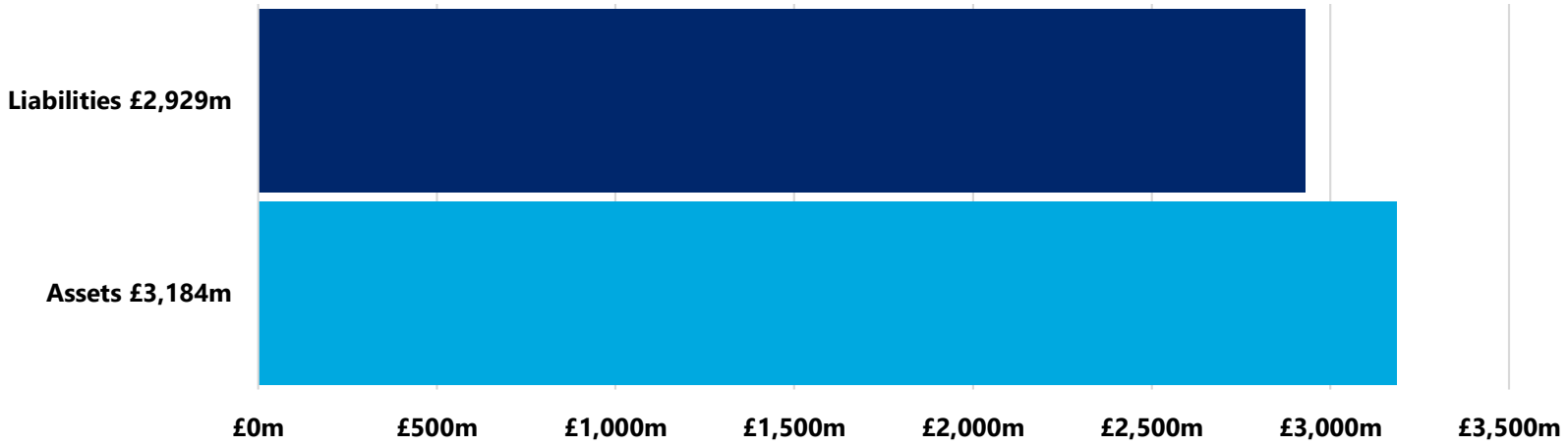
XPS Group

Executive summary

The Trustee has completed a valuation of the Plan as at 1 January 2024. This report sets out the approach adopted by the Trustee, the results obtained, and the actions taken in the light of those results. The key results are as follows.

Plan funding assessment

In funding the Plan, the Trustee's key objective is to ensure that there will be sufficient assets to meet all benefit payments as they fall due. With this in mind, the Trustee has set a target reserve for the Plan based on a prudent estimate of the amount needed to meet all payments in respect of the benefits earned up to the valuation date.



Surplus of £255m

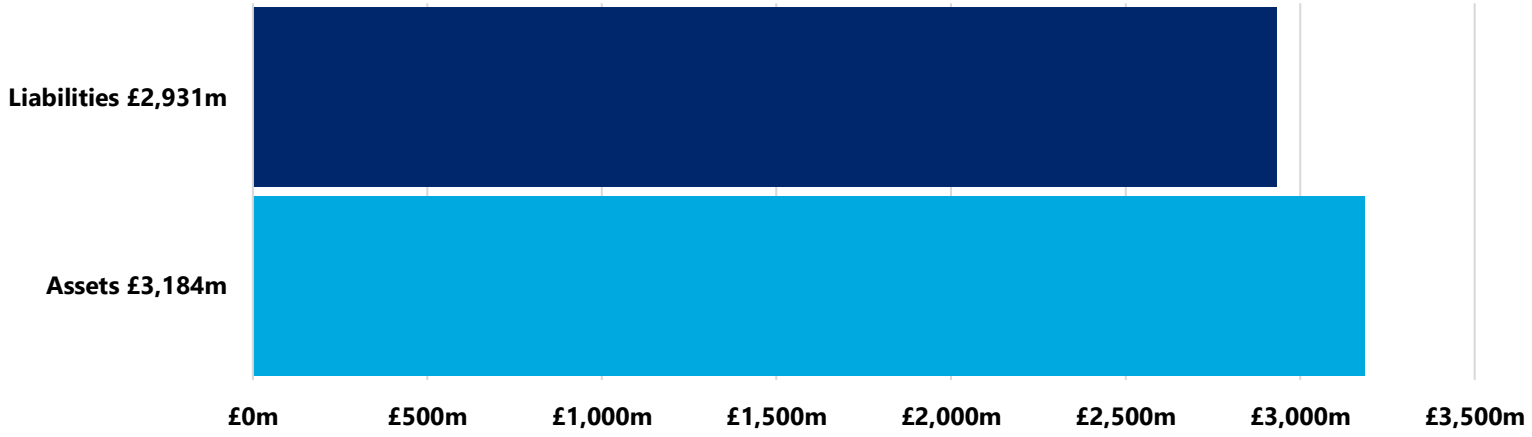
Company contributions

As the statutory funding objective was met, there is no requirement for a recovery plan and hence no deficit contributions are due. The Company will pay contributions to the Plan in respect of future accrual for defined benefit active members at the rate of 26.7% of Pensionable Salary per annum, member contributions are in addition.

Executive summary

Solvency assessment

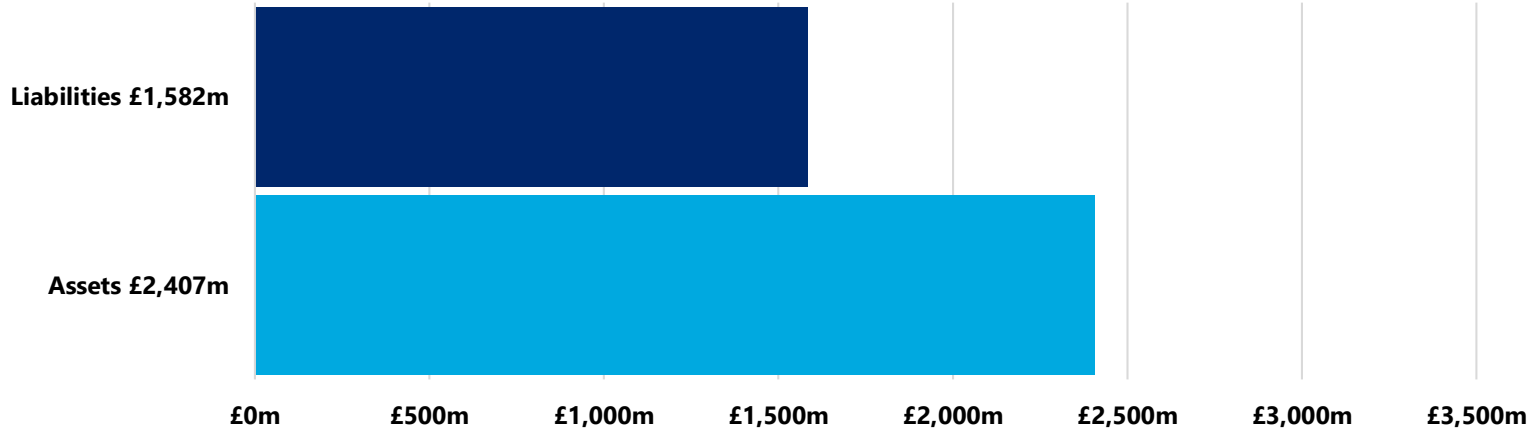
I have also completed a solvency assessment of the Plan. This estimates the extent to which the Plan's assets would be sufficient to secure members' benefits by the purchase of insurance policies if the Plan were to be wound up at the effective date of the valuation.



Surplus of £253m

Section 179 assessment

I have completed a section 179 assessment of the Plan. Once submitted, the Pension Protection Fund (PPF) will base the Plan's levy on the results of this valuation. The prescribed methodology requires the DC asset and liabilities to be excluded, hence the lower asset value.



Surplus of £825m

Introduction

Background

The Trustee of the Plan has undertaken an actuarial valuation of the Plan as at 1 January 2024.

I have already provided the Trustee with all of my advice in relation to the valuation, including the results, in a number of previous reports, letters and presentations. The purpose of this report is to set out in one place the final results of the valuation and to satisfy the legislative requirement for reporting and certifying the results of the valuation, within 15 months of its effective date.

The report is addressed to the Trustee. Legislation requires the Trustee to make it available to the Company within 7 days of receipt.

Throughout the report:

- 'Plan' refers to the Pearson Pension Plan
- 'Trustee' refers to the Trustee of the Pearson Pension Plan
- 'Company' refers to Pearson Services Limited and other participating employers

The following documents are relevant to the results in this report:

- The Trustee's "Statement of Funding Principles", signed 20 January 2022.
- My report "Plan Funding report", dated 25 January 2022.
- Trustee training: 1 January 2024 Valuation produced for the Strategy Day on 5 July 2023
- XPS's paper presented at the Valuation Working Party meeting on 11 October 2023
- XPS's paper presented at the Valuation Working Party meeting on 27 February 2024
- XPS's paper presented at the Strategy Day 22 June 2024
- My report "XPS Analytics – DB demographic assumptions" dated June 2024
- Penfida's report "Covenant review" dated 25 June 2024
- XPS's paper presented at the Valuation Working Party meeting on 3 July 2024
- The document "Summary of Valuation results for Pearson Plc" dated July 2024
- The results prepared November 2024 in response to the Company's views

Funding objectives and assumptions

The funding objective

The Trustee's key funding objective is to ensure that there will be sufficient and appropriate assets to cover its technical provisions (value of the liabilities on the Plan's funding assumptions).

The Trustee also aims to maintain full funding on a long-term funding target basis. This uses discount rates based on the Bank of England ("BoE") gilt nominal curve (which has been extended beyond 40 years, with no margin applied). All other assumptions are consistent with the Plan's technical provisions basis with the exception of the allowance for GMP equalisation of £28m, an expense reserve of £120m for administration and other non-investment expenses, and no allowance for members taking transfer values at retirement. The Company is aware of the Trustee's long-term target, however this is not a formal subsidiary objective.

Method and assumptions

In carrying out the valuation of the Plan, a number of assumptions need to be made. For the Plan funding valuation, the method and assumptions are set out in the Trustee's statement of funding principles dated 18 March 2025 which has been agreed with the Company. The statement of funding principles is included in Appendix E.

Company covenant

The Plan is supported by the covenant of the Company. It also benefits from a Guarantee provided by Pearson plc (the Guarantor). Generally speaking, covenant is the extent of a sponsor's obligation and financial ability to support its pension plan now and in the future. The sponsor's covenant underwrites the risks to its pension plan.

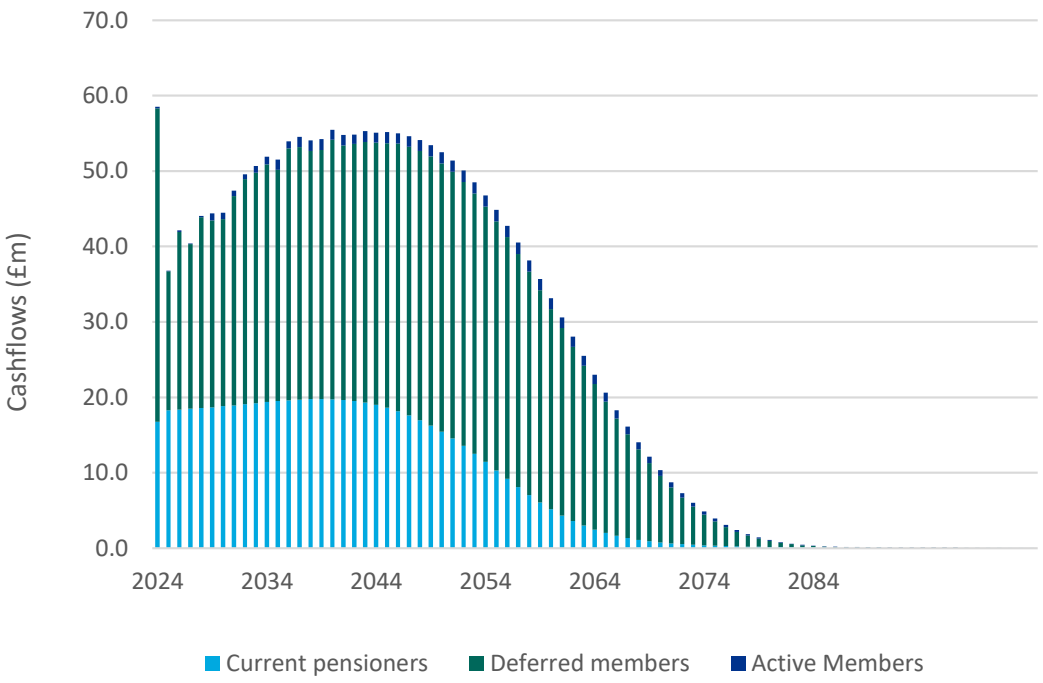
An assessment of the covenant of the Company and Guarantor was carried out for the Trustee by Penfida as part of the actuarial valuation as at 1 January 2024. This incorporated a review of the Company's detailed financial projections for 2024 as well as longer term projections and its wider activities.

The Trustee concluded that the Company's covenant has improved from tending to strong at the 1 January 2021 valuation and is now considered to be strong. The covenant assessment is subjective, and the covenant strength may change in the future.

Plan Funding Results

The projected benefit payments

I have used the Plan funding assumptions to project the estimated benefits that will be paid to all defined benefit members in respect of their entitlements at the valuation date. These projections are set out in the chart below and represent all cash payments expected to be made over the lifetime of the Plan.



The Plan is open to the future accrual of defined benefits for a small number of existing members.

The Plan is made up of those members who have already retired (pensioner members) and those who have not yet retired (active and deferred members). The last defined benefit member is expected to retire in 2046, at which point the benefits of all defined benefit members are expected to be in payment.

The MP03 Section and AE Section are excluded from the graphic, as both these sections are open to new members and the cashflow profile is very different.

The projected defined benefit cashflows are calculated on the Plan funding assumptions and are therefore dependent on these assumptions being realised.

The level of actual benefits paid will depend on:

- the level of future inflation compared to that assumed (which affects salary increases and increases to pensions in deferment and in payment).
- the commutation factors used to calculate retirement benefits (the valuation makes an assumption of commutation factors).
- whether the Reference Scheme Test benefit 'bites' at the point of retirement and is paid as a pension.

The actual timing of the cashflows will be dependent on the following factors and how they compare to that assumed:

- how long members and dependants live compared to assumed;
- whether members take cash at retirement (it is assumed that members commute 18% of their pension into cash at retirement);
- whether members retire early or late (compared to the assumptions made); and
- members transferring out their benefits from the Plan (7.5% of members are assumed to take a transfer value at retirement).

Plan Funding Results

	As at 1 January 2021 £m	As at 1 January 2024 £m
Past service liabilities		
Active members	56	21
Deferred members	1,257	607
Current pensioners	334	343
Insured pensioners	1,785	1,121
Reserves for Barber rectification and GMP reconciliation	10	-
Reserve for GMP equalisation	19	19
Expense reserve	90	100
Death-in-service and ill-health benefits reserve	20	20
Reserve for small benefit improvements	-	2
Money Purchase benefits including reserve for guarantees	647	679
AVCs	15	17
Total past service liabilities (L) ('Technical provisions')	**4,233**	**2,929**
Assets		
Invested assets	2,003	1,354
Defined benefit net current assets	36	17
Insured pensioners	1,785	1,121
Money Purchase Funds	554	675
AVCs	15	17
Total Assets (A)	**4,393**	**3,184**
Funding surplus / (deficit) (A minus L)	**160**	**255**
Funding level (A as a percentage of L)	**104%**	**109%**

Reconciliation with the previous valuation

Since the last valuation, the surplus has increased by £95m, from £160m at 1 January 2021 to £255m at 1 January 2024. The table below provides a detailed reconciliation of the changes in the Plan's funding position over the period.

Further information on the investment returns and the contributions paid in the period between the two valuations can be found in Appendix C.

Impact of items on overall gain/loss on the Technical Provisions basis	£m
Surplus at 1 January 2021	**160**
> Interest on surplus	3
> Employer contributions paid from Plan surplus in 2023	(14)
> Expenses paid	(23)
> Inflationary increases on members' benefits higher than assumed	(189)
> 1 January 2023 discretionary pension increase	(5)
> Removal of Barber and GMP rectification reserve (related change in member data in Other Experience)	10
> Change in inflation methodology (allowing for known inflation at calculation date)	8
> Other experience	(3)
> Net impact of changes in asset values and expected inflation and interest rates on liabilities (excluding RST strain)	253
> Reduction in RST strain	96
Surplus at 1 January 2024 on 2021 valuation basis updated for market conditions	**296**
> Change non-pensioner discount rate to gilts + 0.25%	(30)
> Rationalising some death in retirement benefits to simplify administration	(2)
> Change in mortality assumptions	14
> Change in other demographic assumptions (transfer values at retirement, marital statistics and commutation)	(6)
> Change in expense reserve	(10)
> Increase in GMP equalisation reserve	(7)
Surplus at 1 January 2024 on Technical Provisions basis	**255**

Future service results

I have assessed the contributions required to fund benefits that are being accrued by in-service members as set out below. The discount rate used to calculate future defined benefit service benefits is different to the Technical Provisions assumptions, it is based on a rate of 1.2% p.a. in excess of the BoE gilt curve.

The rate calculated in 2024 is considerably less than the rate calculated in 2021. The increase in the gilt curve is the single largest reason for this change.

2021	
Final salary section	Company contribution of 62.5% of Pensionable Salary per annum, with member contributions in addition.

2024	
Final salary section	Company contribution of 26.7% of Pensionable Salary per annum. Member contributions are in addition at (as a % of Pensionable Salary): 1.5% Civil Service Classic (non-Salary Exchange Members) 2.0% Civil service Premium (non-Salary Exchange Members) 5.0% Final Pay (non-Salary Exchange Members) 1.5% TQ Classic (non-Salary Exchange Members) 3.5% TQ Classic Plus (non-Salary Exchange Members)

Developments since the effective date

Since the effective date of the valuation, 1 January 2024, to the date of this report, financial conditions have fluctuated. Gilt yields at the date of this report are c1.1% higher than at the valuation date

Surplus was used to pay the Company's contributions in respect of the months January 2024 to June 2024. Discretionary increases were made to certain pensioner members in April 2024 and January 2025.

These developments have not had a material impact on the Plan Technical Provisions funding level since the effective date, although both Plan assets and liabilities have reduced.

The Trustee and the Company have agreed that they will not explicitly take account of any post-valuation experience. I have therefore, as agreed, certified the schedule of contributions as at the effective date of the valuation, and the certification can be found in Appendix E.

Projected funding level to the next valuation

I have projected the funding position to 1 January 2027 when the next formal valuation of the Plan is due, when the funding position and future contributions are required to be reviewed again.

I have assumed that experience is in line with the assumptions as set out in the statement of funding principles, assumed investment returns on invested assets at gilts+1.6% (no allowance has been made for the discretionary increases or contribution holidays awarded since the valuation date, the RST strain is assumed to remain the same).

The results of my estimated projection are a projection of 113% to 1 January 2027 from a current funding level of 109% as at 1 January 2024.

My projection is for an increase in the funding position, this is because the valuation surplus will generate more surplus.

In practice the Plan is exposed to a number of risks as set out in the next section, which mean that the funding level at the next valuation date is uncertain.

Risk and prudence

Key Risks

There are a number of risks which might ultimately affect the Trustee's ability to pay benefits to members. Foremost among these are the risks relating to:

- Funding risks – if experience turns out to be less favourable than was assumed for the funding assessment, for example members living longer than assumed, inflation higher than assumed or legislation introduces unanticipated liabilities, additional contributions may be required from the Company.
- Company covenant – the Company may become less able to continue to make contributions or unwilling to support the Plan, therefore leading to a loss of long-term security.
- Investment risks – where future investment returns are below those assumed or there is an asset/liability mismatch where an increase in liabilities (e.g. from decrease in bond yields) is not matched by an increase in asset values. This is particularly true for the reference scheme test underpin that some members benefit from.
- Climate risks – climate change introduces physical, transition, regulatory and legal risks which for a pension Plan can increase uncertainty and manifest as funding, investment and covenant risks.

Risk mitigation measures

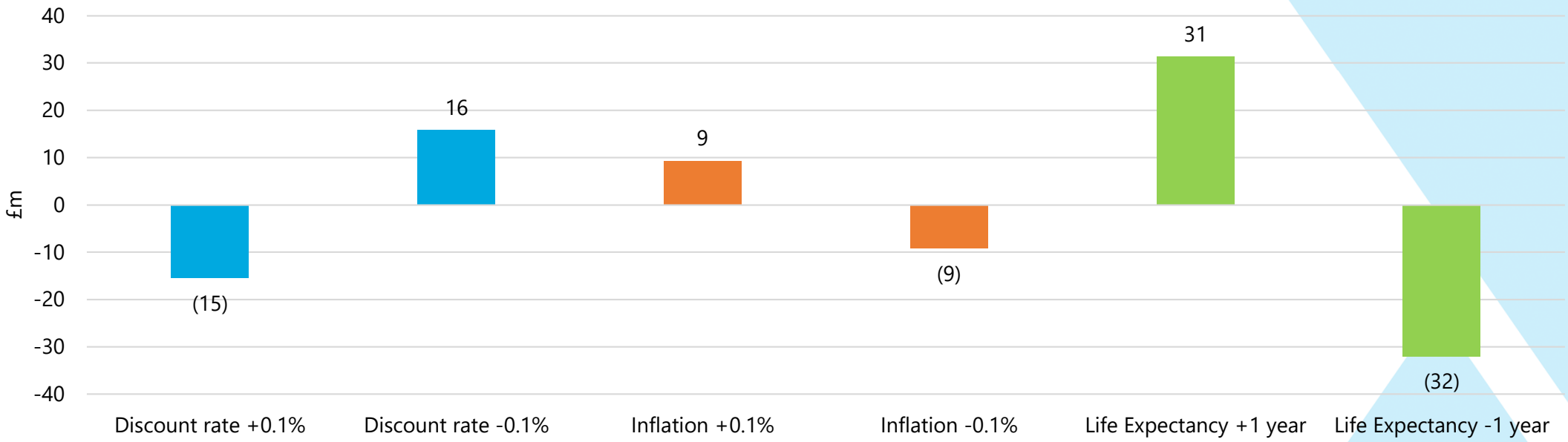
The Trustee has taken a number of actions to mitigate the risks. These include:

- Funding – the assumptions used in the funding assessment have been chosen prudently, making it less likely that experience will turn out to be worse than assumed.
- Covenant – the Plan benefits from a guarantee provided by Pearson plc
- Monitoring – regular updates are received by the Trustee to keep abreast of any changes in the Company's covenant and the funding position. More detail can be found in the Plan's integrated risk management plan.
- Investment – Asset liability modelling is carried out by the Plan's investment consultants alongside the actuarial valuation, in order to better understand and improve the extent that the Plan's assets match the nature of the liabilities. Buy-in transactions and a matching portfolio reduce the Plan's aggregate investment risk.
- Climate – the Trustee assesses and monitors risks, and opportunities associated with climate change insofar as it concerns the Plan's investments, liabilities and sponsor covenant.

Sensitivity to assumptions

To give an idea of the extent of some of the key risks, I set out below the sensitivity of the non-insured members' technical provisions to some of the key assumptions. These show the impact on liabilities of changing each assumption in isolation, in practice the investment strategy is intended to mitigate some of the changes. Please note that these calculations are approximate and intended for illustration only.

Impact of change in assumptions on technical provisions



Level of prudence in funding results

The assumptions used in calculating the technical provisions must be chosen prudently, usually including an appropriate margin for adverse deviation.

The Plan's invested assets are expected to generate a return 1.6% per annum above the Bank of England gilt nominal curve (as advised by the Trustee's investment adviser, LCP). The discount rates used to value non-pensioner and pensioner members on the technical provisions basis assume more prudent investment returns. They assume returns of 0.25% and 0.00% per annum above the Bank of England gilt nominal curve for non-pensioners and pensioners respectively.

Solvency assessment

Background and methodology

Background

I am required to assess the winding-up or "solvency" position of the Plan assuming that it ceases at the valuation date, where all benefits would be secured by the purchase of insurance policies. This differs from the Plan funding valuation, which assumes that the Plan operates until its last member dies. It can also differ from a planned, orderly wind-up of the Plan.

Methodology

The only accurate way to assess the true cost of winding up would be to obtain quotations from a number of insurance companies. I have not done this, but instead have estimated the cost using assumptions that have been derived with reference to general pricing information received from insurers.

Clearly, this approach will not be as accurate as obtaining actual quotations, but I am satisfied that it is sufficient for the present purpose. An actual wind-up, at a different date, could have a significantly different funding position and would depend on investment market conditions and the terms available from insurance companies at the date of securing benefits or obtaining a firm quotation.

While it is difficult to say if my estimate is prudent relative to buy-out terms which might have been available at the valuation date, I have not added explicit margins for prudence. Full details of the assumptions used are set out in Appendix D.

The solvency valuation is also my statutory estimate of the Plan as required under section 7 of the Occupational Pension Plan (Scheme Funding) Regulations 2005 and I have set the assumptions for the estimate based on the principles set out above.

Solvency Assessment Results

The solvency assessment results at the 2021 and 2024 valuation dates (for comparison) are set out below

	Solvency Assessment as at 1 January 2021 £m	Solvency Assessment as at 1 January 2024 £m
Solvency liabilities		
Active members	72	19
Deferred members	1,720	675
Current pensioners	333	330
Insured pensioners	1,785	1,121
GMP equalisation reserve	31	30
Solvency and payment expenses	20	54
Reserves for Barber rectification	10	-
Money Purchase benefits including reserve for guarantees	703	685
AVCs	15	17
Total past service liabilities (L)	**4,689**	**2,931**
Assets		
Invested	2,003	1,354
Defined benefit net current assets	36	17
Insured pensioners	1,785	1,121
Money Purchase funds	554	675
AVCs	15	17
Total assets (A)	**4,393**	**3,184**
Solvency surplus / (deficit) (A minus L)	**(296)**	**253**
Solvency funding level (A as a percentage of L)	**94%**	**109%**

Comparison to Plan funding results

The funding level on the solvency basis is around the same as the Plan funding basis set out in the Plan Funding Results section of this report. Although using different assumptions for the two measures, the net result is a similar liability at the valuation date. This relationship may not always be the case.

Projected Solvency funding level to the next valuation

The method and approach taken to projecting the estimated solvency funding level to the next valuation is the same as that used for the projection of the Plan funding level as set out in the 'projected funding level' section but using the Plan's solvency basis and best estimate asset return (Gilts +1.60%) which is higher than the discount rate; this together with the surplus assets generating further surplus leads to the projected improvement in funding. The RST strain is assumed to remain the same.

Projected results

	Valuation as at 1 January 2024	Projected to 1 January 2027
Solvency funding level	109%	113%

I would expect that the estimated solvency funding level would have improved by the date of the next valuation if the assumptions as set out in the statement of funding principles are borne out in practice and insurance pricing remains unchanged. This is largely because investments are expected to achieve a return in excess of the discount rate used to value benefits on a solvency basis.

Effect on member's benefits

The estimate shows that the Plan is expected to have sufficient funds as at 1 January 2024 to provide all benefits with an insurance company.

If the Plan was less than 100% funded on a solvency measure and the Company was unable to cover the winding-up debt, but the Plan was over 100% funded on the PPF's section 179 basis, the Plan would, in theory, be required to purchase benefits with an insurance company (or run on as a closed scheme if the PPF approve). In this situation, members' benefits may be reduced and secured in line with the Plan's rules.

If there were insufficient assets to purchase benefits at least as great as the compensation levels paid by the PPF, the Plan would, in theory, be eligible to enter the PPF. In this situation, members' benefits would be reduced to the compensation levels paid by the PPF. The "compensation" paid by the PPF is based on the benefits accrued by each member within their own pension Plan, but with some adjustments. For example:

- Members yet to reach their Normal Pension Age have their benefits reduced by 10% and restricted so that they are no greater than a cap set by the PPF.
- No increases are applied to pension accrued before April 1997.
- Increases to pension accrued after April 1997 are limited to a maximum of 2.5% each year (or the increase in the Consumer Prices Index if lower).

Section 179 valuation

Section 179 valuation

Background

I have carried out a Pension Protection Fund (PPF) Levy (section 179) valuation of the Plan as at 1 January 2024 and enclose, in Appendix F, a copy of my certified results. The assumptions are set by the PPF and are designed to broadly reflect the cost of buying out the PPF benefits with an insurance company. Details on the assumptions used are set out in the section below. From there it will be shared with the PPF who will use it to calculate the Plan's annual PPF levy.

Assumptions

The PPF's benefits are generally lower than the Plan's benefits and are prescribed under legislation. Further information is available from the PPF website: www.ppf.co.uk. The assumptions I have used are those set by the PPF in its guidance. More details of these can be found in:

> version A11 of its paper "Guidance on assumptions to use when undertaking a valuation in accordance with section 179 of the Pensions Act 2004"; and

> version G10 of its paper "Guidance for undertaking the valuation in accordance with section 179 of the Pensions Act 2004".

Methodology

I have estimated the value of the Plan's section 179 liabilities as at 1 January 2024 using the same data and valuation model as used for the scheme funding assessment, as described in this report.

The PPF requires that insured annuity contracts are taken into account in the section 179 valuation. Accordingly, I have:

> Valued as a liability the PPF compensation which would be paid to insured pensioners, as described above.

> Valued as an asset the full annuities payable to the Trustee in respect of the insured pensioners.

My liability calculations consider the future benefit payments from the Plan, which are then discounted to the valuation date. I am comfortable that my representation of the Plan, including any approximations made is appropriate for the purpose of the valuation, in terms of its relevance and completeness and is as permitted by the PPF in part 3 of its guidance. An approximation is generally considered "prudent" if actual experience has a more than 50% chance of being better than assumed. This means that, where I have had to make approximations, I have erred on the side of being cautious.

The methodology requires the value of DC assets and liabilities to be excluded from the totals.

Section 179 valuation

Allowance for GMP equalisation

As a result of the Lloyd's case judgment on 26 October 2018 the PPF has confirmed how it expects actuaries to allow for the effects of GMP equalisation in section 179 valuations.

The PPF has set out that they expect schemes to include an interim allowance for GMP equalisation as a result of the October 2018 judgment to be used within the section 179 calculations. They acknowledge that this may need to be amended once GMP equalisation for the affected group of members is implemented.

The PPF expects that the GMP equalisation method used for a section 179 valuation should be consistent with the analysis undertaken for another purpose. It is therefore appropriate to look to the Plan's existing analysis when making an allowance for GMP equalisation in the section 179 valuation.

This valuation includes an allowance for GMP equalisation for current members. This allowance for all members has been set at £17m. I am satisfied that the allowance for GMP equalisation as a result of the first (2018) ruling is appropriately prudent for use in the Plan's section 179 valuation.

On 20 November 2020 a further judgment was passed down on the Lloyds case, confirming that pension scheme trustees are also responsible for equalising GMP benefits that have already been transferred out of their schemes by individual members. This new judgment therefore relates to members who have left the Plan; these members were not in the scope of the original estimate of the impact of GMP equalisation as that judgment applied to members who were still in the Plan. The PPF has confirmed that schemes do not *need* to make an allowance for this second ruling at this time. However, an allowance of £2m (which is used for the technical provisions) has also been used for these section 179 calculations in respect of GMP equalisation for transferred out members and I am satisfied that this allowance for GMP equalisation as a result of the second (2020) ruling is appropriately prudent.

Section 179 valuation results

On the Section 179 basis, as at 1 January 2024, the Plan had assets of £2,407m and liabilities of £1,582m, equivalent to a funding level of 152% and surplus of around £825m. Further details are provided in Appendix F.

This compares with assets of £3,913m and liabilities of £2,989m assessed as at 1 January 2021, equivalent to a funding level of 131% and surplus of around £924m.

Next steps

Next Steps

The signing of this document, the statement of funding principles and the schedule of contributions concludes the valuation formalities. The next step is for the details of the valuation to be submitted to the Pensions Regulator via Exchange.

Between now and the next valuation

The effective date of the next valuation should be no later than 1 January 2027. Between now and then I will provide the statutory annual reports to the Trustee, setting out how the funding position has evolved and the key reasons for any changes.

These reports, along with regular reviews of the Company's covenant and regular funding updates, will enable the Trustee to monitor the funding of the Plan. If it appears to the Trustee that it is no longer likely to meet the funding objective, the Trustee should review their integrated risk management plan to consider what remedial actions might be taken.

Signature

Date
18 March 2025

Name
Steve Leake
Plan Actuary

Qualification
Fellow of the Institute
and Faculty of Actuaries

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Appendices

Appendix A – Plan benefits

The Plan benefits are described in the Plan's General Rules dated 28 June 2013 and subsequent amending deeds and announcements for the Plan, along with Plan section specific trust deed and rules. Summaries of the benefits for the various sections of the Plan can be found on the Plan's website at www.pearson-pensions.com.

Equalisation

With the exception of Guaranteed Minimum Pension (GMP), the Plan appears to comply with the main equal treatment requirements of the European Court, as far as these are known, and the valuation has been prepared on this basis. I have assumed that these requirements have been validly incorporated in the trust deed and rules and the benefits supplied by the administrators reflect the rules.

However, like many UK pension plans, however, the Plan's benefits still differ between men and women as a result of differences in Guaranteed Minimum Pension (GMP).

The 2018 Lloyds judgement confirmed that trustees must take the necessary actions to equalise benefits for the effect of unequal Guaranteed Minimum Pensions and consider methods for achieving this. On 20 November 2020 a further judgment was passed down by Justice Morgan on the Lloyds case, confirming that pension plan trustees are also responsible for equalising GMP benefits that have been transferred out of their DB plan, giving the obligation to pay compensation to members who have transferred out.

My valuation includes a reserve that allows for any additional liabilities that will arise when benefits are equalised to remove these differences for members with GMP.

Plan and legislative developments since the 2021 valuation

There have been no amending deeds implemented since the 2021 valuation that impact the accrued benefits. Any changes that are material to the valuation are covered above.

A number of legislative developments have occurred or have been proposed since the 2021 valuation. These developments have been brought to the Trustee's attention where appropriate and are covered in this report where they are relevant to the valuation.

Appendix A – Plan benefits

Discretionary practices and member options

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 Plan 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 (unless the Trustee and Company agree otherwise). On the advice of the Plan 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 Plan 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 the technical provisions, but if the Trustee considers it appropriate, the capital value of any such benefits granted would be paid in full by the Company at the time the discretion is exercised.
- Active and deferred members may retire early subject to Trustee and/or Company consent. Allowance is made in the demographic assumptions for active members and deferred members of the Extel section to retire early.
- 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 2024, 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 1.0% pa in excess of gilt yields.
- Members can transfer their benefits out of the Plan by taking a transfer value. The Trustee and Company have agreed that allowance for this should be made within the technical provisions. For the valuation as at 1 January 2024, 7.5% of members are assumed to take a transfer value at retirement, with transfer values being set at 87% of the value of the technical provisions liability.

Appendix B – Membership data

I have been provided with membership data as at 1 January 2024 by the Plan's administrators. I have performed a number of checks on the data and I am satisfied that it is sufficiently accurate for the purposes of this valuation. A summary of the data is set out below.

Actives (DB)	**1 January 2021**	**1 January 2024**
Number	63	39
Pensionable Salary (£000s)	3,666	2,440
Average age	50.3	52.6
Deferred members (DB)		
Number	5,055	3,804
Total annual deferred pension at date of leaving (£000s)	20,113	16,638
Average age	55.6	57.9
Pensioner and dependant members		
Number	8,624	8,710
Total annual pension (£000s)	90,714	99,670
Average age	71.2	73.0
Of which the number insured is	6,419	5,965
Actives (MP03)		
Number	2,254	2,736*
Pensionable Salary (£000s)	102,689	122,081
Average age	42.9	43.1
Deferred members (MP03)		
Number	7,687	11,039**
Total RST benefit at date of leaving (£000s)	7,993	8,146
Average age	47.9	46.5

*686 of these members have an RST benefit and the RST underpin is projected to bite for 1 member using the assumptions

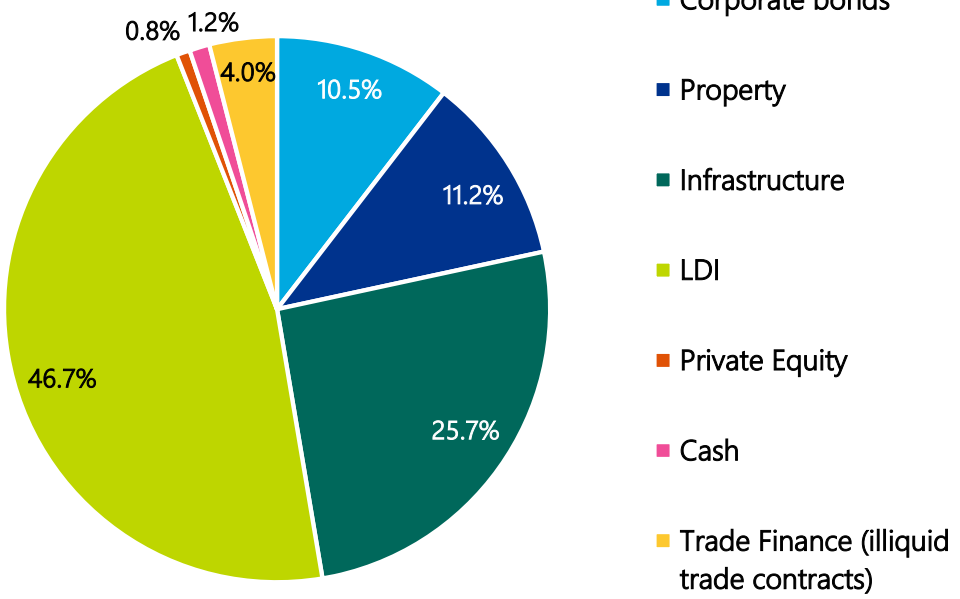
**7,278 of these members have an RST benefit and the RST underpin is projected to bite for 388 of these members using the assumptions.

Appendix C – Assets and investment strategy

Assets held at the valuation date

I have taken the value of the Plan's assets from the Trustee's audited Report and Accounts as at 1 January 2024. The accounts state that at that date the Plan had defined benefit invested assets of £1,353.7m (excluding AVCs). The following chart illustrates how those assets were invested.

Distribution of invested assets at 1 January 2024



In addition to the assets set out (on the left) the accounts show that there were net current assets. This gives a total asset value for use in my assessment, as follows.

	Assets as at 1 January 2021 £m	Assets as at 1 January 2024 £m
Invested assets (excluding AVCs)	2,003	1,354
Defined benefit net current assets	36	17
AVCs and Money Purchase Funds	569	692
Insured pensioners	1,785	1,121
Total available assets	**4,393**	**3,184**

Appendix C – Assets and investment strategy

Investment strategy

The Trustee's strategy consists of investing in return-seeking asset classes and matching assets. This distribution is intended to reflect the liability profile of the Plan and the Trustee will keep the division of assets under review. For the purposes of this valuation the Trustee have instructed me to assume that the distribution of assets will remain unchanged over the immediate future.

As part of the matching fund, the Plan has liability hedging in place. This aims to ensure that adverse movements in the Plan's liabilities due to changes in interest rates and inflation expectations are matched by corresponding movements in the value of the Plan's assets.

Investment returns on non-insured defined benefit assets

The Plan's investments at 1 January 2021 were expected to return 1.4% per annum in excess of gilts (based on LCP advice around that time). The returns over the period averaged -10.4% per annum (and include the movements in LDI assets).

Contributions paid to the Plan

The contributions actually paid between the 2021 and 2024 valuations were as follows:

Year ending	Employee contributions	Company contributions		Total
	Normal Contributions (£000s)	Normal Contributions (£000s)	Augmentations (£000s)	
31 December 2021	152	2,482	0	**2,634**
31 December 2022	137	1,905	0	**2,042**
31 December 2023	116	0	149	**265**
Total	**405**	**4,387**	**149**	**4,941**

Appendix D – Summary of key assumptions

Key financial assumptions – Plan funding basis

	As at 1 January 2021	As at 1 January 2024
Non-pensioner discount rate	BoE gilt curve plus 0.60% p.a.	BoE gilt curve plus 0.25% p.a
Pensioner discount rate	BoE gilt curve	BoE gilt curve
Future price inflation (RPI)	BoE gilt RPI inflation curve	BoE gilt RPI inflation curve
Future price inflation (CPI)	Pre 2030: RPI inflation less 1.0% p.a. Post 2030: RPI inflation less 0.0% p.a.	Pre 2030: RPI inflation less 1.0% p.a. Post 2030: RPI inflation less 0.0% p.a.

Pension increase assumptions – Plan funding basis

	As at 1 January 2021	As at 1 January 2024
Revaluation of deferred pensions before retirement	RPI/CPI curves with relevant caps and floors	RPI/CPI curves with relevant caps and floors
Pension increases in payment	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	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

Appendix D – Summary of key assumptions

Demographic assumptions – Plan funding basis

	As at 1 January 2021	As at 1 January 2024
Base table	SAPS S3 tables	SAPS S4 PA table for members SAPS S4 DA table for dependants
Adjustment to base table	95%(M), 97%(F)	94% (M) / 86% (F) Members 102% (M) / 100% (F) Dependants
Projection	CMI 2019 projections with 1.5% long term improvement, smoothing factor 7.0 and an initial addition of 0.0%/0.4% for non-insured/insured members	CMI 2022 projections with 1.6% long term improvement, smoothing factor 7.0 and an initial addition of 0.2%, w2020 and w2021 0%, w2022 30%
Allowance for commutation	18% of pension commuted at retirement on commutation terms calculated using investment returns of 1.5% above the Bank of England gilt yield curve	18% of pension commuted at retirement on commutation terms calculated using investment returns of 1.0% above the Bank of England gilt yield curve
Proportion married	Where information was collected as part of a buy-in tranche, actual marital data has been used. Otherwise, 85% of males and 60% of females are assumed to be married at retirement	Where information was collected as part of a buy-in tranche, actual marital data has been used. Otherwise, 87% of males and 73% of females are assumed to be married at retirement
Age difference of dependants	Actual date of birth used where available, otherwise assumed that male members are 4 years older than their female spouses and female members are 2 years younger than their male spouses	Actual date of birth used where available, otherwise assumed that male members are 3.4 years older than their female spouses and female members are 1.1 years younger than their male spouses
Expenses	Reserve of £90m	Reserve of £100m

Other assumptions – Plan funding basis

GMP Equalisation allowance	0.5% of liabilities + £2m for GMP Historic cases	£19m allowance (GMP Historic cases - £2m) (GMP Current members - £17m)
RST fund value investment return	BoE gilt curve plus 2% p.a.	BoE gilt curve plus 2% p.a.
Discount rate for future service cost	BoE gilt nominal curve plus 1.2% pa	BoE gilt nominal curve plus 1.2% pa

Appendix D – Summary of key assumptions

Key financial assumptions – Solvency basis

	As at 1 January 2021	As at 1 January 2024
Discount rate non-pensioners	BoE gilt curve less 0.35% p.a.	BoE gilt curve less 0.25% p.a.
Discount rate pensioners	BoE gilt curve plus 0.10% p.a.	BoE gilt curve plus 0.30% p.a.
Future price inflation (RPI)	Swap RPI curve	Moody's Analytics swap RPI inflation curve
Future price inflation (CPI)	Pre 2030: RPI less 0.6% p.a. Post 2030: Equal to RPI	Pre 2030: RPI less 0.6% p.a. Post 2030: Equal to RPI

Appendix D – Summary of key assumptions

Pension increase assumptions – Solvency basis

	As at 1 January 2021	As at 1 January 2024
Revaluation of deferred pensions before retirement:	RPI/CPI curves with relevant caps and floors	RPI/CPI curves with relevant caps and floors
Pension increases in payment:	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	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
RPI max 3%	Moody's Analytics LPI3 curve	Set using the assumed rate of inflation and a Black-Scholes model with inflation volatility of 1.5% per annum
RPI max 5%	Moody's Analytics LPI5 curve	Set using the assumed rate of inflation and a Black-Scholes model with inflation volatility of 1.5% per annum
RPI max 5%, min 3%	Moody's Analytics LPI(3,5) curve	Set using the assumed rate of inflation and a Black-Scholes model with inflation volatility of 1.5% per annum
RPI min 4%	RPI curve with 4% floor	RPI curve with 4% floor
RPI min 0%	RPI curve with 0% floor	RPI curve with 0% floor

Appendix D – Summary of key assumptions

Demographic assumptions – Solvency basis

Assumptions	As at 1 January 2021	As at 1 January 2024
Base table	SAPS S3 tables	SAPS S4 PA table for members SAPS S4 DA table for dependants
Adjustment to base table	95% (M), 97% (F)	94% (M) / 86% (F) Members 102% (M) / 100% (F) Dependants
Projection	CMI 2019 projections with 1.5% long term improvement, smoothing factor 7.0 and an Initial addition of 0.2%	CMI 2022 projections with 1.5% (M),1.25% (F) long term improvement, smoothing factor 7.0 and an initial addition of 0.2%, w2020 and w2021 0%, w2022 30%
Allowance for commutation	No allowance	No allowance
Proportion married	Where information was collected as part of a buy-in tranche, actual marital data has been used. Otherwise, 85% of males and 60% of females are assumed to be married at retirement	Where information was collected as part of a buy-in tranche, actual marital data has been used. Otherwise, 87% of males and 73% of females are assumed to be married at retirement
Age difference of dependants	Actual date of birth used where available, otherwise assumed that male members are 4 years older than their female spouses and female members are 2 years younger than their male spouses	Actual date of birth used where available, otherwise assumed that male members are 3.4 years older than their female spouses and female members are 1.1 years younger than their male spouses

Other assumptions – Solvency basis

Allowance for wind-up expenses	0.50% of liabilities	£54m
GMP equalisation allowance	0.75% of liabilities	£29.5m allowance (GMP Historic cases - £2m) (GMP Current members - £27.5m)
RST fund value investment return	BoE gilt curve plus 2% p.a.	BoE gilt curve plus 2% p.a.

Appendix E – Actuary's certificate of the calculation of technical provisions

Name of Plan: 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 2024 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 March 2025.

Signed: _____

Date: _____

Steve Leake

Fellow of the Institute and Faculty of Actuaries
XPS Group
Tempus Court
Onslow Street
Guildford
GU1 4SS

2024 Statement of Funding Principles

The Pearson Pension Plan ("the Plan")

This statement was prepared by the Trustee of the Pearson Pension Plan ("the Plan") for the purposes of the actuarial valuation as at 1 January 2024, to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Plan Actuary, Steve Leake ("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 20 January 2022.

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 aim is to maintain at least full funding on a long-term funding target basis using discount rates based on the Bank of England("BoE") gilt nominal curve, which has been extended beyond 40 years, with no margin applied. All other assumptions are consistent with the Plan's technical provisions basis with the exception of the allowance for GMP equalisation of £28m, an expense reserve of £120m for administration and other non-investment expenses and no allowance for members taking transfer values at retirement. The Company is aware of the Trustee's long-term target, however this is not a formal subsidiary objective.

Technical Provisions

Method

For the purely defined benefits 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 ("MP03") Section of the Plan the capital value of the projected defined benefit underpin for each member is calculated in respect of service completed before 5 April 2016 (when contracting out ended and RST pension accrual

ceased) and, where higher than the member's Money Purchase account (plus an assumed 3 years' of contributions for active members), the difference is added to the technical provisions.

For the defined benefit sections of the Plan, the employers' contribution rate, 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 year following the valuation date after allowing for members' required contributions.

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

A full list of all assumptions that have been used to calculate the technical provisions can be found in Appendix A.

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 BoE gilt nominal curve;
- the discount rates applied to the pensioner 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;
- 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 the 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 2024 it has been agreed that for the valuation at 1 January 2024, it is appropriate to adopt closer to best estimate assumptions for the calculation of the contributions.

GMP equalisation

The Lloyds 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 Trustee and Company are expecting to equalise using Method B. An approximate allowance has been added to the liabilities as a reserve ahead of the completion of the Trustee's ongoing GMP equalisation project. The reserve includes an allowance for 'closed cases' such as those who have previously transferred out of the Plan.

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 (unless the Trustee and Company agree otherwise). On the advice of the Actuary, immediate additional funding from the Company may therefore be required if discretionary increases are awarded in future. Discretionary increases granted prior to the valuation date are included in the calculations.
- 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. Allowance is made in the demographic assumptions for active members and deferred members of the Extel section to retire early.
- 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 2024, 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 1.0% pa in excess of gilt yields.
- 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.

2024 Statement of Funding Principles continued

Expenses

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

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 2024 is intended to broadly cover the expected ongoing costs of the Plan over a 15 year period.

For the 2024 valuation administrative and other non-investment expenses (including Pension Protection Fund Scheme Based levies) are broadly allowed for by an expense reserve equal to £100m, which reflects project work in the short term and some efficiency gains over time.

Actuarial investigation as at 1 January 2024

The Trustee (having taken the advice of the Actuary) and the Company have agreed on the assumptions for the investigation as at 1 January 2024, in line with the process described above. Details are set out in the table below:

	Approach	Illustrative spot rate % pa
Discount rate for pensioner liabilities	BoE gilt nominal curve	4.00%*
Discount rate for non-pensioner liabilities	BoE gilt nominal curve plus 0.25% pa	4.25%*
Discount rate for future service	BoE gilt nominal curve plus 1.2% pa	5.20%*

*Shown for illustrative purposes only and are based on the Bank of England spot yield at the duration of the Plan liabilities (14 years).

The discount rate used for future service contributions recognises that the Plan assets are anticipated to return greater than the technical provisions discount rate. This is assumed to be 1.20% per annum above the Bank of England gilt nominal curve.

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 discount rate for non-pensioner liabilities is also used to discount the value of members' reference scheme test ("RST") underpin that exceeds their estimated money purchase fund value at their Normal Retirement Date.

Other financial assumptions as at 1 January 2024

The other financial assumptions that are not fixed have been set relative to the BoE gilt RPI curve.

Following the announcement of the convergence of RPI and CPIH from 2030 onwards CPI price inflation has been derived as RPI price inflation less a deduction of 1% per annum pre 2030, and equal to RPI post 2030.

The pension increases assumptions have been derived by applying the Black-Scholes model to the appropriate inflation assumption, with a volatility of 1.5% per annum for RPI linked increases and volatility of 1% per annum for CPI linked increases.

	Assumption	Illustrative spot rate % per annum
Price inflation (RPI):	BoE gilt RPI curve	3.46%*
Price inflation (CPI): > Pre 2030 > Post 2030	 RPI less 1.0% pa Equal to RPI	 2.46%* 3.46%*
Salary increases (which includes an allowance for promotional increases):	RPI plus 0.5% pa	3.96%*
Pension increases:		
RPI, max 5%	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	3.33%*
RPI, max 5%, min 3%		3.74%*
RPI, max 3%		2.59%*
RPI, min 0%		3.47%*
RPI, min 4%		4.39%*
CPI, max 3%		2.59%*
Fixed 3%		3.00%

*Shown for illustrative purposes only, based on the Bank of England RPI spot yield at the duration of the Plan liabilities (14 years).

Statistical assumptions as at 1 January 2024

Post-retirement mortality is based on the Plan's actual experience and other statistical analysis of the expected longevity of the membership. These are based on the Self-Administered Pension Schemes (SAPS) published tables, rolled forward as appropriate. Improvements as at the valuation date are assumed to be in line with the Continuous Mortality Investigation (CMI) 2022 projections, with a long-term rate of 1.6% per annum and a default smoothing factor of 7.0 for males and females and an initial addition of 0.2%. No weight has been applied to 2020 and 2021 mortality data and a 30% weight has been applied to 2022 mortality data (w2020, w2021 and w2022 respectively). Sample rates for the agreed base tables are shown in Appendix B to this Statement. For future years the latest available CMI projection model will be adopted with all parameters unchanged other than the w parameters which will be adjusted appropriately.

Post-retirement mortality assumed for the calculation of future service contributions is the same as used to value the non-insured liabilities.

For the long term target basis the mortality assumptions are the same as the technical provisions.

Details (including sample rates) of the remaining demographic assumptions for the investigation as at 1 January 2024 are also shown in Appendix B.

Reserves

A 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. In addition to this, reserves have been included which relate to the liability impact of equalising the Plan's GMPs and also making small benefit improvements to simplify Plan administration. The reserves included are as follows.

- £17m of the technical provisions liabilities and £28m of the Long Term Target liabilities for the estimated liability impact of equalising the Plan's GMPs;
- £2m for the cost of equalising historic transfer values; and
- £2m for small benefit improvements to simplify Plan administration. At the time of writing, these benefits improvements have not been formally agreed to.

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 2.0% per annum above BoE gilt nominal curve, extended beyond 40 years, in the period before retirement. This 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 any underpin is provided through conversion within the Plan.

The terms for converting funds into a Plan pension are based upon discount rates in line with BoE gilt nominal curve with no margin applied.

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 2024 this discount rate was the gilt curve plus a margin of 0.25% 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 2024 it has been assumed that active members remain in service for three years (subject to retirement before 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 2024 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 £255m in surplus on the technical provisions basis at 1 January 2024 using the assumptions as set out in this Statement of Funding Principles, and therefore no shortfall contributions have been calculated.

Frequency of actuarial investigations
The Plan's seventh actuarial valuation under Part 3 of the Pensions Act 2004 has been carried out as at 1 January 2024. 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 2027. 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:

Name	Date
Signature	**Position**

Signed on behalf of the Trustee of the Plan:

Name	Date
Signature	**Position**

Appendix A
Technical Provisions Assumptions

Financial Assumptions

Item	Derivation
Non-pensioners discount interest rate:	Gilt curve* plus 0.25% per annum
Pensioners discount interest rate:	Gilt curve*
Price inflation (RPI)	Inflation curve**
Price inflation (CPI)	Pre 2030: RPI less 1.0% per annum Post 2030: RPI less 0.0% per annum
Salary inflation	RPI plus 0.5% per annum
Deferred pension revaluation	Set using the assumed rate of inflation with the relevant caps and floors
Pension increases post-retirement:	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
Expected returns on Money Purchase funds (RST valuation)	Gilt curve* plus 2.0% per annum

* The gilt curve referenced above is the Bank of England gilt nominal curve, extended by assuming the curve is flat beyond 40 years.

** The inflation curve referenced above is the Bank of England gilt RPI curve, extended by assuming the curve is flat beyond 40 years

Technical Provisions Assumptions continued

Demographic Assumptions

Sample rates for each assumption can be found in Appendix B.

Item	Assumption
Mortality pre- and post-retirement	94% (M) / 86% (F) of S4PA base tables for members, 102% (M) / 100% (F) of S4DA base tables for dependants. Base mortality table projected forward on a year of birth basis for each individual from 2017 with CMI 2022 projections, a smoothing parameter of 7.0, an initial addition parameter of 0.2%, w2020 and w2021 of 0%, w2022 30% and a long-term annual improvement rate of 1.6% per annum For future years the latest available CMI projection model will be adopted.
New entrants	No allowance
Withdrawals from active service	Active members are assumed to withdraw from active service in line with the table set out in Appendix B
Transfer values	7.5% of members assumed to take a transfer value at retirement, with transfer values being set at 87% of the value of the technical provisions liability. No allowance in Long Term Target liabilities.
Ill health retirements	Some ill health early retirement assumed for active defined benefit members in line with the table set out in Appendix B
Early retirement	Active members: 10% (M) & 5% (F) of members retiring at age 55, 20% of members retiring at age 60, with the remainder retiring at their Normal Retirement Age Deferred members: Extel Section: Members assumed to retire at age 62 Other Sections: Members assumed to retire at NRA
Late retirement	No allowance
Age difference of dependants	Used dependants actual date of birth where available, where this is not available it has been assumed that male members are 3.4 years older than their female dependants and female members are 1.1 years younger than their male dependants.
Commutation	Members assumed to commute 18% of pension at retirement. The assumed commutation terms have been derived using investment returns of 1.0% above nominal gilt yields.
Proportion married	Used actual dependant existence data where available, where this is not available it has been assumed that 87% of males and 73% of females are married at retirement
Expenses	Administration and other non-investment expenses (including PPF scheme-based levies): • Expense reserve of £100m within the technical provisions liabilities • Expense reserve of £120m within the long-term target liabilities
Death in service lump sums and ill-health and dependants pension	Reserve of £20m
Investment Expenses	No explicit allowance. Discount rates are net of investment expenses
GMP Equalisation	Technical Provisions liabilities include £17m allowance for GMP equalisation Long Term Target liabilities include £28m allowance for GMP equalisation £2m additional allowance for the cost of equalising historic transfer values

Appendix B
Sample Rates for Standard Tables used

Life expectancy (main life)

Age	Male life expectancy	Female life expectancy
60	86.8	90.3
65	87.1	90.2
70	87.6	90.4
75	88.5	90.9
80	89.9	91.8

Early retirement from active service

Age	Male early retirement assumption	Female early retirement assumption
55	0.10	0.05
60	0.20	0.20

Ill health retirement from active service (defined benefits)

Age	Male ill health assumption	Female ill health assumption
35	0.00012	0.00012
40	0.00037	0.00037
45	0.00053	0.00053
50	0.00083	0.00083
55	0.00156	0.00156
60	0.00306	0.00306

Withdrawal from active service

Age	Male withdrawal assumption	Female withdrawal assumption
25	0.120	0.120
30	0.120	0.120
35	0.096	0.096
40	0.084	0.084
45	0.048	0.048
50	0.024	0.024

2025 Schedule of contributions

The Pearson Pension Plan

This schedule of contributions has been prepared by the Trustee of the Pearson Pension Plan ("the Plan") to satisfy the requirements of Section 227 of the Pensions Act 2004 after obtaining the advice of the Plan Actuary. The Trustee has discussed and agreed this schedule with the Principal Company, Pearson Services Limited ("the Company"). The Company has agreed this Schedule on behalf of itself and the other participating employers.

This schedule specifies the rates and due dates of employer and employee contributions to the Plan for the period from 1 April 2025 to 31 March 2030. It is subject to review and, if necessary, revision from time to time as required by legislation and following actuarial valuations.

The contributions for the period 1 January 2024 to 30 June 2024 were payable in accordance with the Schedule of Contributions certified on 21 December 2023. The contributions for the period 1 July 2024 to 31 March 2025 were payable in accordance with the Schedule of Contributions certified on 18 July 2024.

Members' contributions

The level of member contributions is dependent upon the Section of the Plan to which the member belongs, as follows:

Section	% of Pensionable Salary
Civil Service Classic (non-Salary Exchange Members)	1.5
Civil Service Premium (non-Salary Exchange Members)	2.0
Final Pay (non-Salary Exchange Members)	5.0
TQ Classic (non-Salary Exchange Members)	1.5
TQ Classic Plus (non-Salary Exchange Members)	3.5
Money Purchase 2003 (non-Salary Exchange Members)	Various, between 3.0% and 8.0%
Auto Enrolment (non-Salary Exchange Members)	5.0% of Qualifying Earnings per annum
Salary Exchange Members	Nil

Members may pay additional voluntary contributions to the Plan.

Due Dates

With the exception of the first month's contributions for members of the Auto Enrolment section, these contributions are payable to the Trustee within 19 days from the end of the month in which the deduction from members' earnings was made. The members' first deductions from the Auto Enrolment section are payable by the end of the second month after the month in which the auto enrolment date fell.

2025 Schedule of contributions continued

Employer Contributions

The Company will pay contributions to the Plan in respect of future accrual for active members at the following rates:

Regular contributions (non-Salary Exchange Members)

	1 April 2025 to 31 March 2030
Final salary sections	26.7% of Pensionable Salary per annum
Money Purchase 2003	The employer will pay twice the member's contribution rate as a percentage of Pensionable Salary.
Auto Enrolment	3.0% of Qualifying Earnings per annum. This rate will be increased if and when required to satisfy the minimum Auto Enrolment requirements.

Regular contributions (Salary Exchange Members)

	1 April 2025 to 31 March 2030
Money Purchase 2003	Two times the amount of the earnings which a Salary Exchange Member has exchanged for pension contributions.
Auto Enrolment	3.0% of Qualifying Earnings per annum. This rate will be increased if and when required to satisfy the minimum Auto Enrolment requirements.

Exchange contributions (Salary Exchange Members)

	1 April 2025 to 31 March 2030
Money Purchase 2003	The amount of the earnings which a Salary Exchange Member has exchanged for pension contributions. Additional contributions may be due if the member elects to pay additional voluntary contributions through the Salary Exchange.
Auto Enrolment	5.0% of Qualifying Earnings per annum. This rate will be increased if and when required to satisfy the minimum Auto Enrolment requirements. Additional contributions may be due if the member elects to pay additional voluntary contributions through the Salary Exchange.

Employer regular contributions are payable to the Trustee on the same Due Dates as the employee contributions.

2025 Schedule of contributions continued

Other employer contributions

In addition to the contributions shown on the previous page, the participating employers shall pay the following:

A. Additional contributions as may be required under the Rules in specific circumstances, for example to cover augmentation, AVC matching for specified individuals or as a result of the bulk transfers.
B. Additional contributions to meet the cost of any Risk Based Levy payable to the Pension Protection Fund, within 28 days of the Plan receiving a levy invoice requiring payment of such levy.
C. Where alternative agreements are not reached with the Trustee, additional contributions in respect of any statutory debt arising from the withdrawal of a participating employer.
D. Such other contributions as are, from time to time, agreed by the Trustee and participating employers.

Definitions of Pensionable Salary

The definition of Pensionable Salary is set out in the Rules for each section. The definition of Qualifying Earnings, on which the contributions for the Auto Enrolment section are based, is set out in the Rules for the Auto Enrolment section.

Agreed by Pearson Services Limited

Name **Date**

Signature **Position**

Agreed by Pearson Pension Trustee Limited

Name **Date**

Signature **Position**

Actuary's certification of schedule of contributions

The Pearson Pension Plan

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 1 January 2024 to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2.I hereby certify that, in my opinion, this schedule of contributions is consistent with the 2024 Statement of Funding Principles.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Plan's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature

Date

Name
Steve Leake
Plan Actuary

Qualification
Fellow of the Institute
and Faculty of Actuaries

Address
XPS Group
Tempus Court
Onslow Street
Guildford
GU1 4SS

Employer
XPS Pensions Consulting Limited

Section 179 Valuation Certificate

This certificate summarises the key data used in, and the results of, the section 179 ("s179") valuation of The Pearson Pension Plan as at 31 December 2023. The results are required by the Pensions Regulator and are used in the calculation of the Plan's PPF levy.

Scheme / Section details

Full name of Scheme	The Pearson Pension Plan
Name of section, if applicable	n/a
Pension Scheme Registration Number	10157215
Address of Scheme (or section, where appropriate)	The Pearson Pension Plan 80 Strand London WC2R 0RL United Kingdom

S179 Valuation

Effective date of this valuation	31/12/2023

Guidance and Assumptions

S179 Guidance used for this valuation	G10
S179 Assumptions used for this valuation	A11

Assets

Total assets (this figure should not be reduced by the amount of any external liabilities and should include the insurance policies referred to below)	£2,407,000,000
Date of relevant accounts	31/12/2023
Percentage of the assets shown above held in the form of a contract of insurance where this is not included in the asset value recorded in the relevant scheme accounts	-3.6%

Liabilities

Active members (excluding expenses)	£16,131,000
Deferred members (excluding expenses)	£524,493,000
Pensioner members (excluding expenses)	£1,030,807,000
Estimated expenses of winding up	£3,000,000
Estimated expenses of benefit installation/payment	£7,660,000
External liabilities	£0
Total protected liabilities	£1,582,091,000

Section 179 Valuation Certificate continued

Please provide the percentage of the liabilities shown above that are fully matched by insured annuity contracts:

Active members	0%
Deferred members	0%
Pensioner members	75.5%

Proportion of Liabilities

Please show the proportion of liabilities which relate to each period of service for:

	Before 6 April 1997	6 April 1997 to 5 April 2009 (inclusive)	After 5 April 2009
Active members	1%	37%	62%
Deferred members	30%	56%	14%
Pensioner members	85%	15%	

Number of Members & Average Ages

For each member type, please show the number of members and the average age (weighted by protected liabilities) as at the effective date of this valuation. Average ages should be rounded to the nearest whole year.

	Number	Average Age
Active members	40	53
Deferred members	4,222	58
Pensioner members	8,818	73

I certify that this valuation has been carried out in accordance with the Pension Protection Fund (Valuation) Regulations 2005 and with the appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund.

Signature

Date

Name
Steve Leake

Qualification
Fellow of the Institute
and Faculty of Actuaries

Address

XPS Group
Tempus Court
Onslow Street
Guildford
GU1 4SS

Employer

XPS Pensions Consulting Limited

Legal and compliance notices

Disclaimers, confidentiality and non-disclosure

This report has been commissioned by and is addressed to the Trustee of the Pearson Pension Plan ("Our Client"). The intended user of this report is Our Client. Its scope and purpose is to provide Our Client with the final results of the Plan's funding valuation as at 1 January 2024 and to satisfy the legislative requirements of reporting and certifying the results of the valuation. I am providing this report as an external adviser under the terms of our engagement and in my capacity as Plan Actuary.

This report may not be shared with any other party without my prior written consent, except to comply with statutory requirements. No other parties other than Our Client may rely on or make decisions based on this report (whether they receive it with or without our consent). XPS Pensions Group plc and its subsidiaries ("XPS Pensions Group") and any employees of XPS Pensions Group acknowledge no liability to other parties. This report has no wider applicability. It is not necessarily the advice that would be given to another client or third party whose objectives or requirements may be different. This report is up to date as at the date of writing and will not be updated unless we confirm otherwise. We retain all copyright and intellectual property rights.

This report, and the work undertaken to produce it, are compliant with Technical Actuarial Standard (TAS) 100 and TAS 300, set by the Financial Reporting Council. No other TASs apply.

XPS Group

Contact us

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