



The Pearson Pension Plan

Actuarial Report as at 1 January 2025

11 June 2025

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Disclaimers and compliance

This report has been commissioned by and is addressed to the Trustee of the Pearson Pension Plan for its exclusive use. Its scope and purpose is to provide the Trustee with advice in relation to the ongoing funding position of the Plan. I am providing this report in my capacity as Scheme Actuary.

We have used the asset and cash flow information provided in the Plan's draft accounts, which we have accepted without independent checking. We do not accept responsibility for any errors that may arise that are due to such information being incorrect.

It is noted that this report will be shared with Pearson Services Limited. This report may not be shared with any other party without our prior written consent, except to comply with statutory requirements. No parties other than the Trustee 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 Group") and any employees of XPS 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.

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01 Introduction

01.01 Background and purpose

This report provides information on the development of the technical provisions of the Pearson Pension Plan (the “Plan”) over the period since the actuarial valuation as at 1 January 2024 in line with the requirements of Section 224 of the Pensions Act 2004. As such, this report constitutes an ‘actuarial report’.

This report provides an update of the funding position of the Plan as at 1 January 2025 and is the first update report following the 1 January 2024 actuarial valuation

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

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

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

02 Approach adopted

02.01 Asset data

We have obtained the current market valuation of the assets, including Additional Voluntary Contributions (“AVCs”), Money Purchase fund values and net current assets based on information from the draft Trustee’s report and accounts for the year ended 31 December 2024. There may be differences between the draft accounts and the final published accounts which would affect the results shown in this report. No adjustments have been made to the illiquid assets throughout this report. The value of the insured annuities used in this report is calculated to be identical to the related liability. The assumptions used are set out in Section 03.01.

02.02 Liability data and calculation methodology

For this update, we have performed full liability calculations as at 1 January 2025 for the Defined Benefit sections of the Plan, based on membership data received for the actuarial valuation as at 1 January 2024. We have then made an approximate global allowance for membership movements since 1 January 2024 by adjusting the liabilities for cash flow information from the Plan’s accounts.

Discretionary increases at 1 April 2024 and 1 January 2025 were awarded to some members of the Plan. An approximate allowance of £14m has been made to the liabilities in respect of these awards.

The Trustee should note that the results of these calculations may differ from the actual position disclosed if we were to carry out more detailed calculations based on membership data at 1 January 2025. However, we consider the approach adopted to be adequate for the purposes of assessing the progression of the Plan’s funding level since the previous formal actuarial valuation.

Benefits in relation to insured annuities and Money Purchase members, including those with the Reference Scheme Test (“RST”) underpin, have been valued using membership data and fund values as at 1 January 2025. These details have been supplied by the Pearson Pensions team.

Approach adopted

02.03 Actuarial assumptions

The statement of funding principles dated 18 March 2025 ("2024 SFP") sets out how the assumptions to calculate the technical provisions are to be derived.

The main financial assumptions I have used, based on market conditions as at 1 January 2025, are summarised in the table below (together with the assumptions used at 1 January 2024):

The discount rates at 1 January 2025 are higher than at 1 January 2024 resulting in a decrease in the value of the liabilities

Funding assumptions (p.a.)	1 January 2024	1 January 2025
Discount rate for non-pensioners*	4.25%	5.23%
Discount rate for pensioners*	4.00%	4.98%
Future Retail Prices Index ('RPI')*	3.46%	3.51%
Future Consumer Prices Index ('CPI')	Pre 2030: RPI inflation less 1.0% pa Post 2030: RPI inflation less 0.0% pa	
General salary escalation*	3.96%	4.01%
Expected returns on Money Purchase funds*	6.00%	6.98%
Pension increases	Set using the assumed rate of inflation and a Black-Scholes model with inflation volatility of 1.5% per annum for RPI linked increases and 1.0% for CPI linked increases	
Mortality pre- and post-retirement	As detailed in 2024 SFP	2024 SFP except: CMI 2023 with w2020, w2021 of 0% and w2022, w2023 of 30%
Commutation	18% of pension using factors in force at each valuation date	
Transfer values	7.5% of members assumed to take a transfer value at retirement, equal to 87% of the value of the technical provision liability	
Proportion married at retirement	87% (M), 73% (F), or actual marital data where available	
Expense reserve	£100m	
GMP Equalisation	£19m allowance (GMP historic cases - £2m) (GMP current members - £17m)	

*The actual assumptions used are based on full gilt yield curves and inflation yield curves. The figures quoted in the table above are based on the Bank of England spot yield at the duration of the Plan's liabilities (14 years at 1 January 2024) and are shown for illustrative purposes only.

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

03 Results

£263m

Surplus at
1 January 2025

03.01 Results of funding update

The technical provisions represents a prudent estimate of the amount needed at the valuation date to meet the projected benefit payments as they fall due. The technical provisions and the resultant funding position at 1 January 2025 are set out in the following table. The corresponding results from the previous year is shown for comparison purposes.

Funding position (£ms)	At 1 January 2024	At 1 January 2025
Plan liabilities in respect of:		
> Defined benefits	2,092	1,808
> Expenses & reserves	141	141
> AVCs and other money purchase benefits	696	770
Technical Provisions (L)	2,929	2,719
Value of Assets (A)	3,184	2,982
Surplus/(Shortfall) (A – L)	255	263
Funding Level (A / L)	109%	110%

110%

Funding level at
1 January 2025

In the table above 'AVCs and other money purchase benefits' includes the sum of the Defined Contribution Section assets and the RST underpin strain. At 1 January 2025 these were (respectively) £768m and £2m. The 'Expenses & reserves' includes an allowance for expenses, GMP equalisation, death in service lump sums, ill health retirement and spouses' benefits for Money Purchase 2003 members.

The value of insured annuities in the draft Plan accounts at 31 December 2024 is £941m. The insured asset and liability figures in our funding assessment at 1 January 2025 have been updated to use CMI 2023 with 0% weighting applied to 2020 and 2021 data and 30% weighting applied to 2022 and 2023 data. This reduces the value of the insured annuities to £936m. There is no item of surplus or deficit relating to the insured population.

Results

£8m

Gain over the period

03.02 Reconciliation with the results of the previous valuation

Since 1 January 2024, the Plan's surplus has increased from £255m to £263m. This increase in surplus is a result of:

- Gilt yields ended 2024 higher than they began the year. This change in financial conditions (which underlies the actuarial assumptions used to value the liabilities) has placed a lower value on the liabilities. This was offset by a corresponding fall in the value of the Plan's matching assets.
- The Plan's growth assets performed better than expected over the year which has caused the surplus to increase.
- Discretionary increases at 1 April 2024 and 1 January 2025 were awarded to some members of the Plan which caused the surplus to decrease.

A more detailed breakdown of this increase in the surplus since 1 January 2024 is provided below:

	12 months to 1 January 2025 £m
Surplus at start of year	255
Interest on surplus	18
Contributions received less cost of accrual & expenses	(9)
DC contributions	(7)
Change in interest rate and inflation assumptions net of asset experience	15
Increase in surplus due to RST underpin pensions	2
Discretionary increases awarded at 1 April 2024 and 1 January 2025	(14)
Update to mortality assumptions to use CMI 2023	3
Surplus at end of year	263

04 Formal reassessment of funding

The next formal actuarial valuation of the Plan is due no later than 1 January 2027 when we will provide further details of how the Plan’s funding level has developed. In addition, we will provide further details of how the Plan’s funding level is developing in my actuarial report dated 1 January 2026.

1 January
2027

Next formal
valuation due

Signature

Date

11 June 2025

Name

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Qualification

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