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Scheme funding report

Actuarial valuation of the Clifford Chance Pension Scheme at 30 April 2022

Prepared for: Clifford Chance Pension Trustees Limited (the Trustee)
Prepared by: Keith Poulson FIA
27 September 2024

Private and Confidential

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Introduction

Why bring you this report?

Section 224(2)a of the Pensions Act 2004 requires the trustees to receive this formal report from me (as Scheme Actuary) setting out the results and conclusions from the actuarial valuation of the Final Salary Section of the Scheme at 30 April 2022.

My report summarises the key aspects of the valuation process, including:

- The funding objective and background details
- The technical provisions
- The agreed recovery plan and other contributions
- The results on the solvency basis.

Some further information is provided for compliance purposes.

Key deadlines

A copy of this report must be provided to the Employer within 7 days of receiving it.

Within a reasonable period following completion: The valuation summary and supporting documentation to the recovery plan must be submitted to The Pensions Regulator via Exchange.

By 30 April 2025: The **next** actuarial valuation must be carried out no later than three years after the effective date of this valuation.

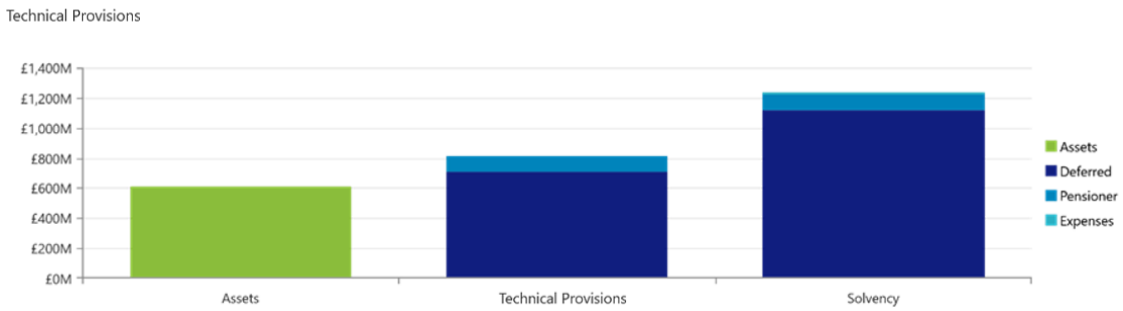
In the main part of this report, defined contribution (DC) benefits within the Final Salary Section (DC AVCs) have been **excluded** from the valuation results because in my view this provides a clearer picture. In order to comply formally with the legislation, an alternative presentation of the valuation results (which includes DC AVCs) is provided as an appendix.

A summary of any 'shorthand' legal references and a glossary of key valuation terms can be found at the back of this report.

At a glance...

As your Scheme Actuary, I have carried out an actuarial valuation of the Scheme at 30 April 2022.

Funding summary



Technical provisions

£198M

deficit

Solvency estimate

£623M

deficit

Important

This report concentrates on the Scheme's financial position at the valuation date. As time moves on, the Scheme's finances will fluctuate.

Since the valuation date the funding position has improved significantly.

Contributions

To address the Technical Provision deficit the Employer has agreed to pay:

- £1,990,316 by 31 May 2022
- £26,906,314 by 31 May 2023
- In respect of each 31 May commencing 31 May 2024 up to (and including) 31 May 2030: £28,228,106

The amount of each of the above payments due on or after 31 May 2025 shall be increased annually in line with the increase in the Retail Prices Index for the period from 1 January 2024 to 1 January immediately preceding the 31 May by which the payment is due.

The payments due by 31 May 2022, 31 May 2023 and 31 May 2024 were paid under the previous recovery plan dated 29 July 2020.

In addition to the above contributions in respect of deficit repair it has also been agreed that the Employer will pay:

- The costs of administering the Scheme
- The Pension Protection Fund levy and other levies collected by The Pensions Regulator
- The cost of any augmentations to benefits.

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Contents

Introduction 2
At a glance... 3

Background to your actuarial valuation 6
Data and benefits valued 7
Funding objectives and investment strategy 9
Method & assumptions 10

Valuation results 13
Past service results 14
Approximate developments since the valuation date 15
Solvency position 16
Funding and investment risks 18

Recovery plan and future contributions 21
Recovery plan 22
Projections 23

Certificate 24
Certificate of technical provisions 25

Appendix 26
Membership data 27
Benefits valued 28
Assets 29
If DC benefits within the Final Salary Section were included... 30
Previous valuation results 31
Notable change since the previous valuation 32
Analysis of the change since the previous valuation 33
Solvency estimate: assumptions 34
Legal framework and compliance 35
Glossary 36

1

Background to your actuarial valuation

Data and benefits valued

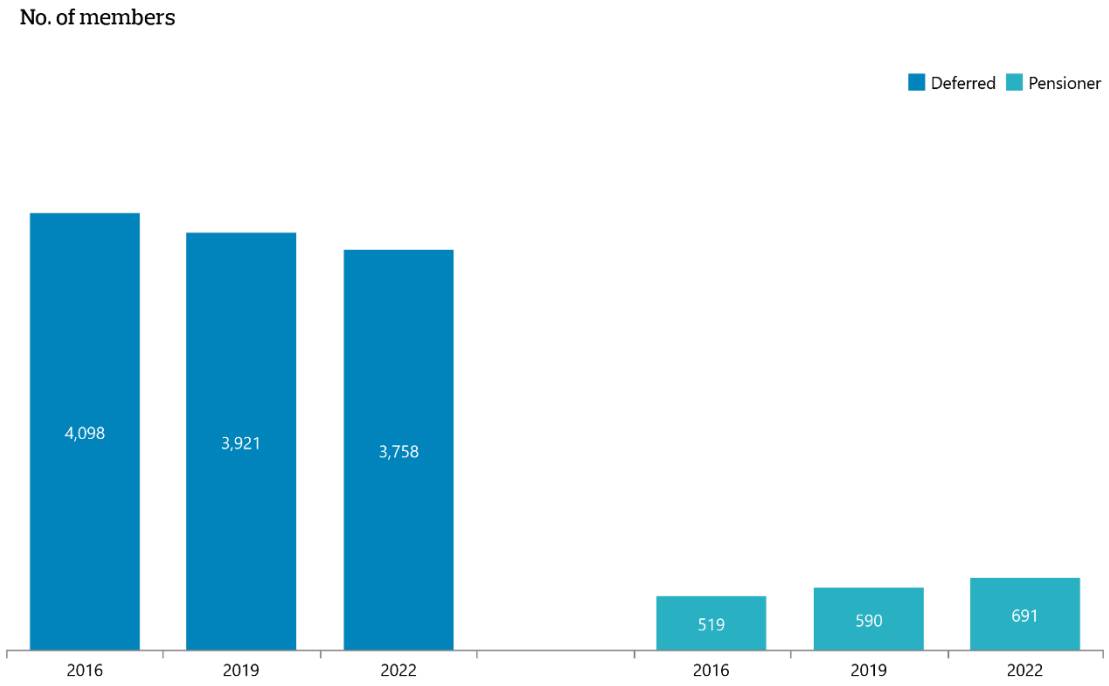
Your actuarial valuation was based on a snapshot of member data and my understanding of the Scheme's benefits.

Member data

The Scheme has continued to mature with the proportion of pensioners increasing.

The membership numbers are shown graphically below.

Further details of the membership data used for the actuarial valuation calculations are provided in an appendix.



Benefits

Members are entitled to the benefits defined in the Rules. A summary of the benefits is included in an appendix.

Discretionary benefits

No allowance has been made for discretionary benefits as the Scheme has no recent history of granting such benefits.

This is consistent with the approach at the previous valuation.

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Funding objectives and investment strategy

The Trustee's funding objective is to hold assets which are at least equal to the technical provisions (i.e. to meet the statutory funding objective).

Your funding target

The Trustee's funding objective is to be fully funded on the technical provisions basis.

Employer covenant

A key factor in setting the level of the technical provisions is the Trustee's assessment of the employer covenant. The Trustee's commissioned an independent review of the employer's covenant and this concluded that it was Tending to Strong. This has been taken into account in setting the assumptions to be adopted for the technical provisions and in agreeing the recovery plan.

Investment strategy

The assets held at the valuation date are described in the appendix.

Secondary targets

Some schemes also set secondary funding targets to aid in their longer-term planning and decision making.

The Funding Deed which is being put in place as part of the 2022 valuation agreement targets a secondary target of being fully funded on a basis that assumes discount rates of gilts+0.5% p.a. both pre and post retirement. The Employer has agreed that the contributions set out in the Schedule of Contributions will continue, if required, until this secondary target is achieved.

The Trustee's investment strategy is set out in its statement of investment principles. In summary, the Trustee's strategy aims to largely hedge movements in interest rates and inflation through the Liability Driven Investment (LDI) portfolio to protect the Scheme's funding level. The Trustee also invests in equities and other growth assets to try and generate returns to help meet benefits obligations.

In the longer-term, the Trustee aim to reduce the Scheme's reliance on growth assets.

Method & assumptions

The Trustee and Employer agreed the method and assumptions used to calculate the technical provisions.

Method

As for the previous valuation, the technical provisions have been calculated using the projected unit method.

The assets are valued at the audited value contained in the Trustee Report and Accounts for the year ended 30 April 2022. DC AVCs have been excluded in the main body of this report as the asset exactly matches the liability (an alternative presentation of the results including the DC AVCs is in included as an appendix).

Further information

Your Actuarial valuations handbook contains further information on valuation methods and Aon's approach to assumption setting

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Assumptions

The table below summarises the key assumptions, together with those used for the previous valuation, and the reasons for any change.

Further details of all the assumptions are set out in the statement of funding principles.

Assumption	Previous valuation	This valuation	Rationale for change
Pre-retirement discount rate	Fixed-interest gilt yield curve plus 3.4% p.a.	Fixed-interest gilt yield curve plus 1.75% p.a.	To reflect the Increase the level of prudence and bring the assumption more into line with those typically adopted by UK pension schemes, and more in line with TPRs expectations. This will also increase the likelihood of achieving the required returns.
Post-retirement discount rate	Fixed-interest gilt yield curve plus 0.5% p.a.	Fixed-interest gilt yield curve plus 0.5% p.a.	No change
RPI	"Break-even" RPI curve with 0.10% p.a. inflation risk premium deduction.	"Break-even" RPI curve with 0.10% p.a. inflation risk premium deduction.	No change
Pension increases	Consistent with RPI inflation assumptions and allowing for Aon's best-estimate of future inflation uncertainty.	Consistent with inflation assumptions and allowing for Aon best-estimate of future inflation uncertainty	Update for market conditions and latest views only.
Post-retirement mortality base table	105% for males and 100% for females of SAPS S3 'Light' tables	102% for males and females of SAPS S3 'Light' tables	Update for latest Demographic Horizons postcode analysis
Post-retirement mortality improvements	CMI 2018 core projections with Sk = 7, A parameter=0.5 and long-term improvement rate of 1.5% p.a.	CMI 2021 core projections with Sk = 7, A parameter=0.5 and long-term improvement rate of 1.5% p.a.	Update to allow for latest CMI core future improvements model.
Eligible dependant proportion	88% of men and 75% of women at retirement or earlier death	88% of men and 75% of women at retirement or earlier death	No change (based on latest analysis of Scheme data)

Eligible dependant characteristics	Males are assumed to be 3 years older than their partner. Females are assumed to be 3 years younger than their partner	Males are assumed to be 2 years older than their partner. Females are assumed to be 1 year younger than their partner.	Recommended change based on latest analysis of Scheme data.
Commutation	20% of pension on current commutation factors, set as 13.9 at age 65	No change	No change

2

Valuation results

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Past service results

The Scheme's technical provisions and resulting funding position have been calculated at 30 April 2022.

Results

	Technical provisions (£M)
Value of past service benefits for:	
Deferreds	705
Pensioners	107
Total past service liabilities	812
Assets	614
Surplus / (deficit)	(198)
Funding ratio	76%

My formal certificate of your technical provisions is included in this report.

Sensitivity of the funding level

The key assumptions are the discount and inflation rates and the Scheme membership's mortality rates. The sensitivity of the **deficit** to these key assumptions is as follows:

Discount rate decreases by 0.25% p.a.

A 0.25% p.a. decrease in the discount rate increases is expected to **increase the liabilities by c£45M**.

RPI inflation increases by 0.25% p.a.

A 0.25% p.a. increase in the RPI inflation assumption (and the knock-on impact on the other assumptions derived from it) is expected to **increase the liabilities by c£35M**.

Members live longer than assumed

If the scaling factor applied to the base mortality assumption is reduced by 10% for all members, this is expected to **increase the liabilities by c£20M.**

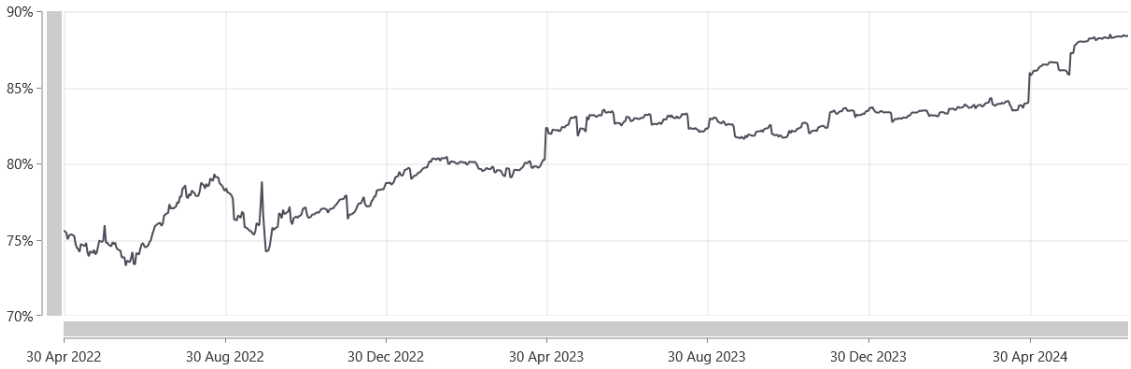
Approximate developments since the valuation date

Since the valuation date, the Scheme's funding position has improved significantly.

The chart below illustrates how the position has changed over time.

It is approximate. For example, investment returns have been assumed to be in line with index returns for the period since 30 April 2024. Similarly, mortality experience for this period has been assumed to be in line with the assumptions.

This value of the Scheme's liabilities is based on assumptions consistent with those used to calculate the technical provisions, with financial assumptions updated to reflect changes in market conditions.



Reflecting post-valuation experience

The Trustee and Employer agreed **not** to allow for post-valuation-date experience when setting the contributions in this valuation.

Solvency position

I have estimated the Scheme's statutory solvency position.

Results

	Solvency (£M)
Value of past service benefits for:	
Deferreds	1,113
Pensioners	110
Expenses	14
Total past service liabilities	1,237
Assets	614
Surplus / (deficit)	(623)
Funding ratio	50%

This solvency estimate represents the estimated cost of purchasing annuities at the valuation date from an insurance company to meet the Scheme's benefits.

The assumptions used in the solvency estimate are summarised in an appendix.

Why higher?

The solvency estimate is higher than the technical provisions.

Broadly, this is for the following reasons:

- Insurers will typically hold less risky assets which provide **lower investment returns** than are expected to be achieved on the Scheme's assets
- Insurers typically hold **larger margins**, for example by assuming that members will live longer than is assumed in calculating the technical provisions
- Insurers need to cover costs, including administering the benefits, and also make a **profit**, and

Allowance is made for the cost of **winding up** the Scheme.

In practice

Supply and demand factors mean that the actual cost of purchasing annuities may be different to the above solvency estimate. There may also be some practical barriers to voluntarily winding up the Scheme.

If the Scheme were to be discontinued with no solvent employer, the assets are unlikely to be sufficient to provide the benefits in full. If this were the case then:

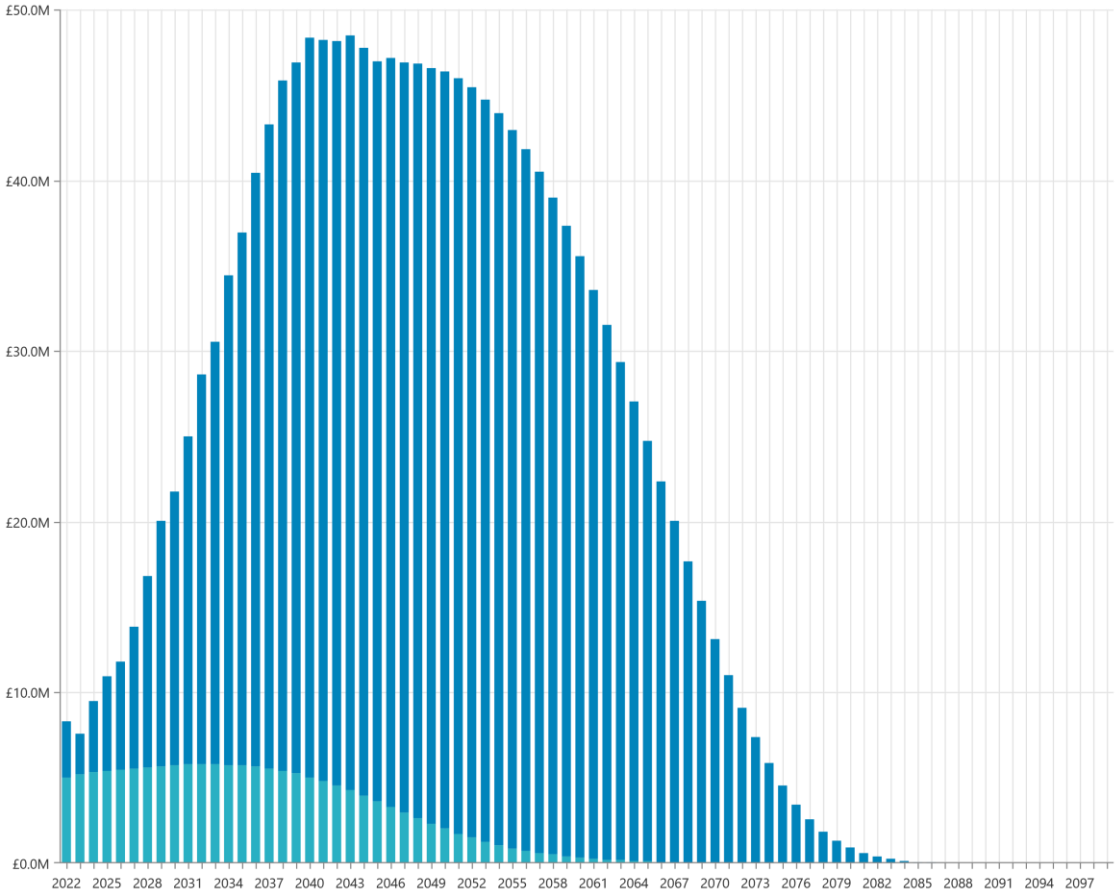
- Benefits corresponding to those covered by the PPF would be met first (either through the PPF or, if there were sufficient funds, by securing these benefits with an insurance company).
- Any remaining assets would be used to secure part of the remaining benefits with an insurance company.

The proportion of full benefits provided will vary from member to member and may be higher or lower than the statutory estimate of solvency quoted above.

Funding and investment risks

The Scheme's funding level is likely to exhibit volatility.

The benefit payments from the Scheme are expected to be made for a very long period. The chart below shows the projected cashflows on the technical provisions basis for the Scheme.



Key risks

The Scheme faces a number of key risks which could affect its future cashflows and funding position, including:

Funding risk

The risk that the technical provisions are set too low and prove insufficient to meet the liabilities (e.g. in the event of unexpected discontinuance).

Investment risk

The risk that investment returns are lower than assumed in the valuation, and also that the assets are volatile and move out of line with the liabilities, so the funding position is volatile.

Liquidity risk

The risk that cashflows are higher than expected as members commute more than is assumed or take transfer values, possibly leading to the sale of assets at inopportune times.

Longevity risk

The risk that Scheme members live for longer than assumed and that pensions would therefore need to be paid for longer.

Inflation risk

The risk that the relevant inflation metric is higher than assumed, increasing the pensions that need to be paid.

Sponsor risk

This is the risk that the sponsor is no longer willing or able to support the Scheme to fund the recovery plan and any future losses that arise.

Other risks

The Scheme is exposed to other risks too, which may also impact on the funding, investments and sponsor covenant:

- **Member options risk**: The risk that members exercise options resulting in unanticipated extra costs. For example, members could swap less of their pension for cash at retirement than assumed.
- **Concentration risk**: The risk of a significant effect on the total liabilities due to the experience of only a small number of members.
- **Legislative risk**: The risk that new legislation, or clarification to existing legislation, increases the benefits due to members. Please note the results shown in this report reflects our understanding of the benefits due at the date of the report make no allowance for any potential impact on benefits of recent case law.
- **Other risks:** For example, those relating to climate change and other environmental issues as well as long-term uncertainty around geopolitical, societal and technological shifts.

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Risk mitigation

The Trustee takes an integrated approach to managing the Scheme's risks. The key actions taken to mitigate the risks include:

Investment

- Adopting a diversified investment strategy.
- Investing in liability-driven investments, so that changes in the value of the liabilities will be partially matched by changes in the asset values, thus reducing the funding volatility.

Covenant

As well as obtaining a covenant review at the time of a triennial valuation, the Trustee informally monitors the covenant position between valuations by receiving financial updates from the Employer.

Funding

- Making prudent assumptions in the technical provisions.

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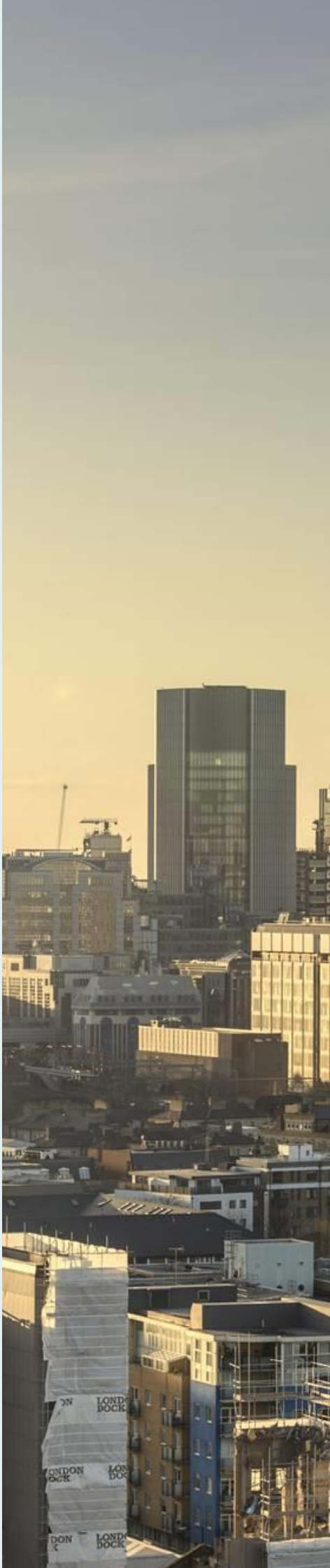
Recovery plan and future contributions



Recovery plan

The Trustee and the Employer have agreed a recovery plan.

Contributions

To address the Technical Provision deficit the Employer has agreed to pay:

- £1,990,316 by 31 May 2022
- £26,906,314 by 31 May 2023
- In respect of each 31 May commencing 31 May 2024 up to (and including) 31 May 2030: £28,228,106

The amount of each of the above payments due on or after 31 May 2025 shall be increased annually in line with the increase in the Retail Prices Index for the period from 1 January 2024 to 1 January immediately preceding the 31 May by which the payment is due.

The payments due by 31 May 2022, 31 May 2023 and 31 May 2024 were paid under the previous recovery plan dated 29 July 2020.

In addition to the above contributions in respect of deficit repair it has also been agreed that the Employer will pay:

- The costs of administering the Scheme
- The Pension Protection Fund levy and other levies collected by The Pensions Regulator
- The cost of any augmentations to benefits.

The recovery plan is designed to eliminate the deficit at the valuation date relative to the technical provisions sooner than the end of the recovery period (at the valuation date full funding was expected by 30 November 2028) through additional contributions and assuming investment returns of 2.5% p.a. above gilts.

The other assumptions underlying the recovery plan are the same as for the technical provisions.

Schedule of contributions

These contributions are set out in the schedule of contributions.

As agreed, my certification of the schedule is based on the position at the valuation date.

A full review of the Employer's contributions will be completed no later than following the next valuation, which is due to take place at 30 April 2025.

Projections

I have illustrated below how I expect the Scheme's funding position to develop over the future.

Projected future funding levels

Based on the position at the 30 April 2022 the funding level was expected to be:

- c85% on the **technical provisions** basis by 30 April 2025, and
- c60% on the **solvency** basis by 30 April 2025.

Assumptions

These estimates are based on information available at 30 April 2022 and assume that:

- The experience of the Scheme between the two valuation dates is in line with the assumptions underlying the technical provisions and recovery plan (including that the return on the Scheme's assets is 2.5% p.a. above gilts).
- The assumptions underlying the technical provisions and solvency bases remain unchanged.
- The contributions on the previous page are received.

Rationale

The main reasons for the expected improvement in the technical provisions funding level are:

- The deficit contributions payable under the recovery plan
- The investment return exceeding the discount rate

Although not illustrated, it is also reasonable to expect that actual experience will lead to further improvements in the funding position to the extent that the assumptions underlying the technical provisions are prudent.

The solvency level is expected to improve more strongly, mainly due to:

- The solvency assumptions typically containing more prudence
- The scheme maturing, particularly members retiring which removes uncertainty and so improves the terms of annuity purchase.

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Certificate

Certificate of technical provisions

Actuarial certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: Clifford Chance Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 30 April 2022 is made in accordance with regulations under section 222 of the Pensions Act 2004.

The calculation uses a method and assumptions determined by the trustees of the scheme and set out in the statement of funding principles titled "Statement of Funding Principles – September 2024 Clifford Chance Pension Scheme".

Keith Poulson	27 September 2024
Signature	**Date**

Name	Keith Poulson
Employer	Aon Solutions UK Limited
Qualification	Fellow of the Institute & Faculty of Actuaries
Address	Verulam Point Station Way St Albans AL1 5HE

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Appendix

Membership data

The results in this report are based on the membership data summarised below.

I have conducted high level checks on the membership data provided and I am satisfied with its adequacy for the purpose of this actuarial valuation.

The average ages shown in these tables are unweighted.

Deferred members	Number	Average age	Total pension (£000 p.a.)	Average pension (£ p.a.)
2016	4,098	48.2	24,579	6,042
2019	3,921	51.0	26,313	6,711
2022	3,758	53.5	28,560	7,600

Note: The deferred pension amounts include revaluations up to the valuation date.

Pensioners	Number	Average age	Total pension (£000 p.a.)	Average pension (£ p.a.)
2016	519	70.1	3,081	5,936
2019	590	71.0	3,869	6,558
2022	691	71.7	4,957	7,174

Note: The pension amounts include the increase awarded in January 2022.

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Benefits valued

A summary of the key details of the Scheme benefits considered in this valuation is set out below.

Eligibility	The scheme closed to new entrants with effect from 1 January 2005 and closed to future accrual from 30 April 2011.
Normal Retirement Age	65
Pensionable Service	Complete years and months of Scheme membership plus any earlier service credited under previous schemes.
Pensionable Salaries	Basic annual salary (limited to the Earnings Cap, which was £123,600 when the Scheme closed to accrual, for Post 1 June 1989 joiners) including any guaranteed bonus. For leavers after 1 May 2006, Pensionable Salary is restricted so that increases after this date are the lower of the member's actual salary increase and inflation (capped at 5% pa over the period to retirement or leaving).
Final Pensionable Salaries	Pensionable Salaries, applicable at the date of leaving, death or retirement.
Normal retirement pension	i. 1/100th of the Final Pensionable Salaries below the Upper Earnings Limit for each year of Pensionable Service; plus ii. 1/60th of Final Pensionable Salary above the Upper Earnings Limit for each year of Pensionable Service
Normal retirement lump sum	Pension can be exchanged for cash in accordance with the rules of the Scheme
Early retirement	Members may take benefits from age 55 with Trustee consent; the benefit will be reduced actuarially for early payment
Pension increases (in payment and deferment)	RPI (with a maximum of 5% p.a.). Pension increases in payment for benefits accrued after 5 April 2005 receive pension increases of inflation capped at 2.5% p.a.
Death after retirement spouse's pension	50% of the member's pension at date of death before any exchange for cash
Death after retirement lump sum	Balance of first 5 years pension instalments
Death before retirement benefits	Spouse's pension of 50% of the member's pension revalued to the date of death

Since 2008 the Scheme has applied a Scheme specific Upper Earnings Limit (UEL).
There are no further practices of discretionary benefits being provided by either the Trustee or the Employer.

Note the results in this report reflect our understanding of the benefits due at the date of the report. Other than where stated, they make no allowance for any potential impact on benefits of recent case law.

Assets

Information on the assets used in this valuation is covered here.

Your scheme's audited accounts for the year ended 30 April 2022 give net assets of £614M. These can be categorised as follows:

Asset category	%
Property	12.3%
Global Equities	17.2%
DGF	19.7%
Absolute Return Bond	4.8%
LDI	35.0%
Infrastructure	9.9%
Cash and net current assets	1.0%
Total	**100.0%**

I have excluded from the assets and liabilities £30M of Additional Voluntary Contributions (AVCs) in respect of money purchase benefits not yet in payment that are invested separately from the rest of your scheme's assets.

I have included the £10M advanced contributions which are shown in the Trustee Report and Accounts as a current liability.

If DC benefits within the Final Salary Section were included...

The results shown in this report **exclude** DC benefits. On this page, I present the results if they had been **included**.

Defined contribution benefits (DC AVCs) amounted to £30M at the valuation date. If these benefits are included in the valuation:

- The value of the assets is £644M.
- The technical provisions are £842M (funding level of 76%).
- The value of the solvency liabilities is £1,267M (solvency ratio 51%).

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Previous valuation results

This page sets out the results and conclusions of the previous actuarial valuation of the Scheme at 30 April 2019.

Key results

The key results from the previous valuation at 30 April 2019 were:

There was a deficit of £176M relative to the technical provisions, which corresponded to a funding level of 74%.

Recovery plan

The Trustee and the Employer agreed a recovery plan that was designed to restore the funding level to 100% by May 2030 with contributions of:

- £6,642,360 by 31 May 2019
- £17,899,275 by 31 May 2020
- £6,000,000 by 31 August 2020
- In respect of each 31 May from 31 May 2021, up to and including 31 May 2030, £22M each year increasing annually with RPI inflation

It was also agreed that the Employer would continue to pay the following contributions:

- The costs of administering the Scheme
- The Pension Protection Fund levy and other levy payments collected by The Pensions Regulator
- The cost of any augmentations to benefits.

As part of the 2019 funding negotiations Clifford Chance LLP agreed to provide a further guarantee to cover all present and future obligations and liabilities of Clifford Chance London Limited to make payments to the Scheme under a schedule of contributions or under sections 75 or 75A of the Pension Act 1995.

Notable change since the previous valuation

Scheme sponsorship

With effect from 1 December 2021, Clifford Chance LLP replaced Clifford Chance London Limited as the Principal Employer of the Scheme. Based on the covenant advice received by the Trustee the more formal backing of the LLP is deemed to have slightly improved the covenant to that at the previous valuation.

Analysis of the change since the previous valuation

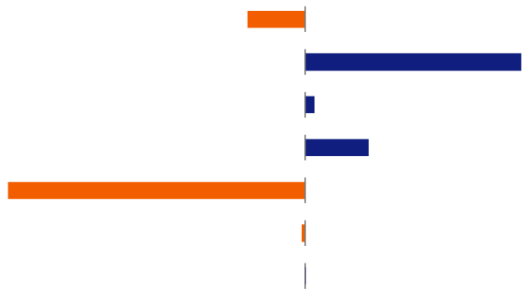
I have analysed the change in the past service result from the previous valuation to this new one.

Past service changes

The past service results show that the deficit of £176M in the Scheme at the previous valuation has increased to a deficit of £198M at this valuation.

The chart below quantifies the key reasons for this change:

Surplus/(Deficit) at previous valuation	*(£176M)*
Interest on deficit	(£21M)
Employer contributions	£80M
Investment returns above discount rate	£4M
Impact of change in market conditions	£24M
Impact of change in financial assumption	(£109M)
Impact of change in demographics assumption	(£1M)
Miscellaneous	£1M
Surplus/(Deficit) at this valuation	(£198M)



Key factors

The analysis shows that the main factors affecting the funding position since the previous valuation have been:

- Changes in financial assumptions, most notably the pre-retirement discount rate has reduced increasing liabilities.
- Deficit contributions made by the Employer have also reduced the deficit.
- Gilt yields have risen reducing liabilities.
- The impact of the proposed changes to the other assumptions are broadly neutral.

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Solvency estimate: assumptions

The key assumptions used in calculating the solvency estimate are summarised below.

Statutory solvency estimate

The solvency estimate has been calculated in line with statutory requirements. I have taken into account the investment strategies that an insurer is likely to use to back its annuity business and the resulting pricing I would expect to see under the market conditions at the valuation date, taking into account the size of the Scheme.

Estimate vs actual cost

This estimate is only a guide.

The true position can only be established by conducting a competitive buy-out auction and fully defining the scope and likely cost of a wind-up process for the Scheme.

The solvency estimate considers the position if:

- The Scheme were discontinued on the valuation date and member benefits were crystallised
- Discretionary benefits were suspended permanently.
- The assets were used to buy immediate and deferred annuities from an insurer.

The solvency estimate is a regulatory requirement and also provides a useful benchmark against which the Trustee and others can assess the relative prudence of other funding measures. The basis used is described below.

Assumption	Solvency
Discount rate for current pensioners in payment	Aon Bulk Annuity Market Monitor yield curve for pensioners, which is constructed from swap and UK corporate bond market curves
Discount rate for current non-pensioners (both before and after retirement)	Aon Bulk Annuity Market Monitor yield curve for non-pensioners, which is constructed from swap and UK corporate bond market curves
RPI	Term-dependent rates derived from the RPI swap markets
Pension increases	Derived from the price inflation assumptions with allowance for caps and floors and with the aim of approximately reflecting the cost of hedging these increases using LPI-linked swaps
Post-retirement mortality	As for the technical provisions, except using CMI_2020 projections and a long-term rate of improvement of 1.75% p.a. for both men and women
Commutation and discretionary benefits	No allowance
Expenses of winding-up	Allowance made to cover expenses and insurance company charges associated with winding-up.

Legal framework and compliance

Legal framework

This report is produced in compliance with:

- Clause 17.1 of the Scheme's Rules.
- Section 224 of the Pensions Act 2004.
- The terms of the Scheme Actuary Agreement between the Trustee and me, on the understanding that it is solely for the benefit of the addressee.

Shorthand to this report

Scheme: Clifford Chance Pension Scheme

Trustee: Clifford Chance Pension Trustees Limited

Employer: Clifford Chance LLP

Rules: The Scheme's Trust Deed and Rules dated 13 December 2001

TAS compliance

This document, and the work relating to it, complies with 'Technical Actuarial Standard 100: General Actuarial 'Standards' ('TAS 100') and 'Technical Actuarial Standard 300: Pensions' ('TAS 300').

The compliance is on the basis that Clifford Chance Pension Trustees Limited is the addressees and the only user and that the document is only to be used as a summary of the outcome of the valuation. If you intend to make any decisions after reviewing this document, please let me know and I will consider what further information I need to provide to help you make those decisions.

This document should be read in conjunction with:

- Your statement of funding principles for the previous valuation dated 29 July 2020.
- My report "Actuarial Valuation at 30 April 2019, dated 29 July 2020
- My report "Actuarial valuation at 30 April 2022 – initial results" dated 11 August 2022 The Aon document " Actuarial Valuations handbook"
- My report "Consideration of Employer Proposal" dated 22 January 2024

If you require further copies of any of these documents, please let me know.

Glossary

This glossary explains some common terms from the actuarial valuation process. Not all of them are used in this report

Best estimate assumption	It is equally likely that actual experience will be better-than or worse-than such an assumption. Best estimate assumptions are subjective and therefore those referenced in one report may differ from best estimate assumptions derived elsewhere.
Deficit	This arises where the funding target is greater than the value of assets, with the difference called a deficit.
Discount rate	This is used to place a present value on a future payment. A 'risk-free' discount rate is usually derived from the investment return achievable by investing in government gilt-edged stock. A discount rate higher than the 'risk-free' rate is often used to allow for some of the extra investment return that is expected from investing in assets other than gilts.
Discretionary benefits	These are benefits which are not guaranteed under a scheme's rules and which are only granted to members at the discretion of the trustees and/or the sponsor.
Duration of liabilities	The duration of a scheme's liabilities represents the average term to payment of the liabilities. In broad terms, if a scheme has a duration of 20 years, then it will respond to changes in discount rate in the same way that a single cashflow which is payable in 20 years' time would. In practice, there are several different technical definitions of duration.
Forward rate	A forward rate is a rate which is expected to apply over a future time period. For example, to discount a single payment from one future date (say, five years from now) back to a closer future date (say, three years from now).
Funding level (or funding ratio)	This is the ratio of the value of assets to the funding target.
Funding target	An assessment of the present value of the benefits that will be paid from the scheme in the future, normally based on pensionable service prior to the valuation date. Often, the funding target is equal to the technical provisions.
Gilt yield curve	The term-dependent yields on gilts derived from fixed-interest gilts. This may be based on either yields published by the Bank of England, which are then extended by Aon for years beyond those published, or derived wholly by Aon based on gilt prices.

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Hedging	A liability is said to be hedged if a scheme holds investments which respond in the same way as it does to changes in the risk being hedged (e.g. interest rates or inflation). Gilts and swaps are examples of investments which are commonly used to hedge liabilities.
Inflation risk premium (IRP)	The difference between the best estimate of future inflation and its market price.
Inflation uncertainty	Whilst, over the medium to long term, inflation is often considered to be reasonably stable, and a simple single assumption is often used for projections, in reality inflation can vary up and down significantly from one year to the next. This variation is sometimes referred to as inflation uncertainty.
Limited Price Indexation (LPI)	The Pensions Act 1995 required schemes to provide a minimum level of annual increase to pensions in payment. The minimum level is the smaller of 5% and the increase in inflation* and applies to the pension earned from 6 April 1997 to 5 April 2005. With effect from 6 April 2005, the cap for statutorily required LPI for future service was reduced from 5% to 2.5%. *Until 2010, inflation for the purpose of this minimum was defined with reference to changes in the Retail Prices Index. From 2011, inflation was defined with reference to changes in the Consumer Prices Index.
Longevity risk	This is the risk that life expectancies exceed those assumed and the pension scheme's liabilities are therefore higher than expected.
Mortality future improvements	This is the assumption about how the number of people dying each year will reduce in the future. A higher rate of improvement will lead to a higher life expectancy. Also referred to as future longevity improvements.
Mortality rate	A mortality rate measures the likelihood that an individual will die between one birthday and the next.
Mortality table	Mortality tables summarise mortality rates across all ages.
Pension Protection Fund (PPF)	The PPF was established with effect from 6 April 2005. The PPF will normally take over the assets of a pension scheme in the event of its sponsor becoming insolvent and the scheme having insufficient assets to provide the PPF benefits. The PPF will not provide the scheme benefits in full. The PPF is financed by a levy on most defined benefit pension schemes. The PPF benefits are broadly 100% of benefits for pensioners over normal retirement age and 90% of benefits up to a cap for all other members. Pension increases granted on benefits are at lower levels than apply in many schemes, in particular, benefits earned before 6 April 1997 would not be given any pension increases within the PPF.

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Present value	Actuarial valuations involve projections of pay, pensions and other benefits into the future. To express the value of the projected benefits in terms of a cash amount at the valuation date, the projected amounts are discounted back to the valuation date by a discount rate. This value is known as the present value. For example, if the discount rate was 6% a year and if we had to pay a lump sum of £1,060 in one year's time the present value would be £1,000.
Projected unit method	This is one of the common methods used by actuaries to calculate actuarial liabilities and contribution rates. This method allows for full projected future increases to pay through to retirement or withdrawal.
Prudent assumption	It is more likely that actual experience will be better than a prudent assumption than that it will be worse. The value of the liabilities will be higher when measured using prudent assumptions than using best estimate assumptions.
Recovery plan	Where a valuation shows a funding shortfall against the technical provisions, trustees must prepare a recovery plan setting out how they plan to meet the statutory funding objective.
Retail Prices Index (RPI)	Measure of UK price inflation published monthly by the Office of National Statistics. It is no longer the Government's preferred measure of inflation. As well as being based on different items and weightings to the Consumer Prices Index (CPI), it is also calculated using a different formula. However, it is the index that pension benefits have historically tended to be linked to and is the index used to determine increases in index-linked gilt coupons.
RPI inflation curve	The term-dependent RPI inflation expectations derived from fixed-interest and index-linked gilts published by the Bank of England which are extended by Aon for years beyond those published.
Scaling factor	Differences in life expectancy between schemes are typically allowed for by multiplying the chance of dying at each age by a scaling factor. Scaling factors of less than 100% mean that people are assumed to live longer than under the standard tables. For example, a scaling factor of 90% means that a member has a 10% less chance of dying each year than is assumed in the standard mortality tables. Similarly, scaling factors of more than 100% mean that people are assumed to live for less time than under the standard tables.
Schedule of contributions	Trustees of pension schemes must prepare and maintain a schedule of contributions. This shows the dates and amounts of contributions due from the sponsor and members. Under the Pensions Act 2004, the schedule must be put in place within 15 months of the valuation date.

Solvency estimate	This represents an estimate of the cost of buying out a scheme's benefits with an insurance company at the valuation date. Supply and demand factors also mean that no single solvency estimate can be relied on and so this estimate is unlikely to be the same as the actual cost of buying out the benefits. Assumptions are set by the Scheme Actuary.
Solvency ratio	This is the ratio of the market value of a scheme's assets to the estimated cost of securing a scheme's liabilities in the event of the discontinuance of the scheme.
Sponsor covenant	A sponsoring employer's 'covenant' is their legal obligation and financial ability to support the pension scheme, both now and in the future.
Spot rate	A rate which is expected to apply between now and a future date. For example, to discount a single payment at a future date (say, five years from now) all the way back to time 0.
Statement of funding principles	The Pensions Act 2004 requires trustees to prepare (and from time to time review and, if necessary, revise) a written statement of their policy for securing that the statutory funding objective is met. This is referred to as a statement of funding principles.
Statutory funding objective	Under the Pensions Act 2004, every scheme is subject to the statutory funding objective, which is to have sufficient and appropriate assets to cover its technical provisions.
Surplus	This arises where the value of the assets is greater than the funding target, with the difference called a surplus.
Swap yield curve	The term-dependent yields on fixed-interest swaps derived by Aon from market data.
Technical provisions	This is the present value of the benefits members are entitled to, based on their pensionable service to the valuation date and assessed using the assumptions agreed between a scheme's trustees and the sponsor. It generally allows for projected future increases to pay through to retirement or date of leaving service.
Transfer value	Members generally have a legal right to transfer their benefits to another pension arrangement before they retire. In taking a transfer, members give up their benefits in a scheme, and a sum of money (called the transfer value) is paid into another approved pension scheme; this is used to provide pension benefits on the terms offered in that scheme.

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Keith Poulson FIA
Partner

T: 01727 888622
E : keith.poulson@aon.com

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