Aon Hewitt
Retirement & Investment

Actuarial valuation at 30 April 2016

Clifford Chance Pension Scheme

Prepared for	The Trustee of the Clifford Chance Pension Scheme
Prepared by	Keith Poulson FIA
Date	24 July 2017
Signed	

Keith Poulson FIA
Scheme Actuary
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QAS Institute and Faculty of Actuaries Quality Assurance Scheme

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Executive Summary

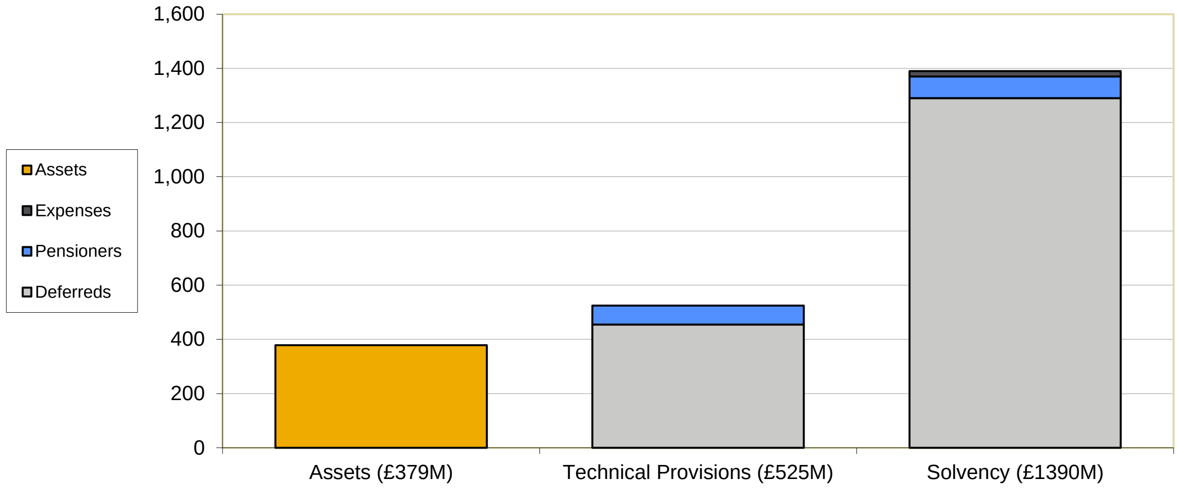
The key results of the valuation at 30 April 2016 are set out below.

There was a deficit of £146M relative to the technical provisions

(ie the level of assets agreed by the Trustee and the Company as being appropriate to meet member benefits, assuming the Scheme continues as a going concern).

There was an estimated deficit of £1,011M relative to the solvency liabilities

(ie the estimated level of assets needed to buy insurance policies for benefits earned to the valuation date).



Following discussions, it has been agreed that the Employer will pay:

- £4.9M by 31 May 2016, £13.3M by 31 May 2017, followed by £17.0M each year for 8 years with the first payment being on or before 31 May 2018. The 31 May 2019 and subsequent payments will be increased annually in line with RPI. If the assumptions play out in practice, these contributions will remove the deficit relative to the technical provisions;
- The costs of administering the Scheme;
- The Pension Protection Fund and other levies collected by the Pensions Regulator;
- The cost of any augmentations to benefits.

As part of the funding negotiations Clifford Chance LLP has agreed to provide a guarantee to cover the contributions, if not paid, set out in the current Schedule of Contributions and the following three Schedules of Contribution (based on similar principles). This is referred to as 'the LLP guarantee'.

Actuarial valuation at 30 April 2016

Clifford Chance Pension Scheme

Contents

Introduction

This report has been prepared for the Trustee. It sets out the results and conclusions of the valuation as at 30 April 2016.

- This is a scheme funding report. It relies on and draws together other pieces of work and advice from throughout the valuation process which are listed in Appendix 1.
- Appendix 1 also sets out the legal framework within which the valuation has been completed.
- Throughout the body of this report, defined contribution (DC) benefits (including DC AVCs) have been excluded from the valuation results because in my view this provides a clearer picture.
- Some shorthand used in this report is explained opposite. Some technical pensions terms are explained in the glossary in Appendix 7.

Shorthand

Scheme

Clifford Chance Pension Scheme

Trustee

Clifford Chance Pension Trustees Limited

Employer

Clifford Chance London Limited

Rules

The Scheme's Trust Deed and Rules

Snapshot view

The report concentrates on the Scheme's financial position at the valuation date. As time moves on, the Scheme's finances will fluctuate. If you are reading this report some time after it was produced, the Scheme's financial position could have changed significantly.

Update since the previous valuation

The key results from the previous valuation at 30 April 2013 were:

The Scheme's assets were £308M and the technical provisions were £432M, which corresponded to a deficit of £124M and a funding level of 71%.

The Scheme was 30% funded using a solvency measure.

The Trustee and the Employer agreed a recovery plan that was designed to restore the funding level to 100% by 30 September 2024 through a combination of:

- Additional contributions of £12.7M each year, increasing annually with inflation, for 11 years and 5 months from the valuation date.

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

- the costs of administering the Scheme;
- the Pension Protection Fund and other levy payments collected by the Pensions Regulator

Membership data & key developments

This valuation is based on membership data as at 30 April 2016 supplied to us by Andrew Darlison of Clifford Chance on your behalf.

Membership data

A summary of the membership data is included in Appendix 2.

The chart below shows how the membership profile of the Scheme has changed over the last three valuations. I have carried out some general checks to satisfy myself that:

- The information used for this valuation is sensible compared with the information used for the previous valuation and also with that shown in the Scheme's Trustee Report and Accounts.
- The results of this valuation can be traced from the results of the previous valuation.

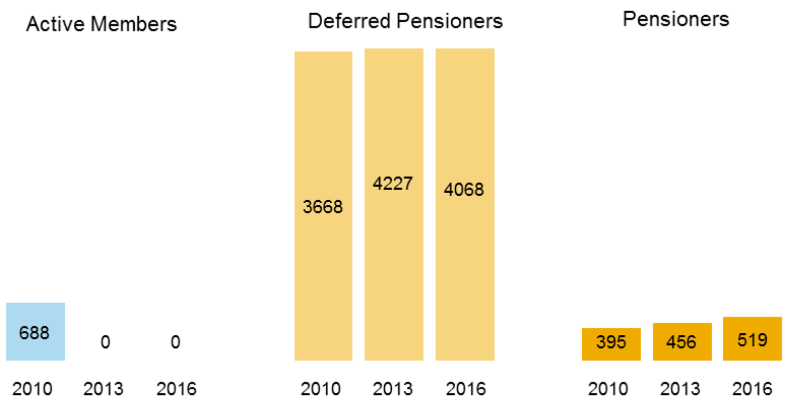
However, the results in this report rely entirely on the accuracy of the information supplied. If you believe the data I have used may be incomplete or inaccurate, please let me know.

Benefits valued

Members are entitled to benefits defined in the Rules and summarised in Appendix 3.

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

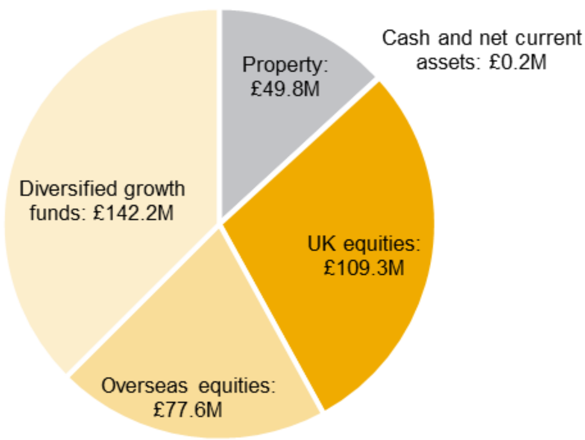
Membership profile of the Scheme



Asset data

The audited accounts for the Scheme for the year ended 30 April 2016 show the total net assets of the Scheme to be £416.8M. Of these assets £11.4M is attributable to the Money Purchase Section and £26.3M is attributable to members' additional voluntary contributions. I have therefore taken the assets in respect of the Final Salary Section to be £379.1M.

The balance of the assets of £379.1M is invested as follows:



The Trustee's primary objectives for setting the investment strategy of the Final Salary Section of the Scheme are:

- "funding objective" - to return the Scheme to full funding using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy; and
- "security objective" – to ensure that the solvency position of the Scheme (as assessed on a gilt basis) is expected to improve. The Trustee will take into account the strength of the employer's covenant when determining the expected improvement in the solvency position of the Scheme.

Funding objective

Terminology

Technical provisions

The funding target for a scheme agreed as part of the actuarial valuation.

Statutory funding objective

To hold sufficient and appropriate assets to meet the technical provisions.

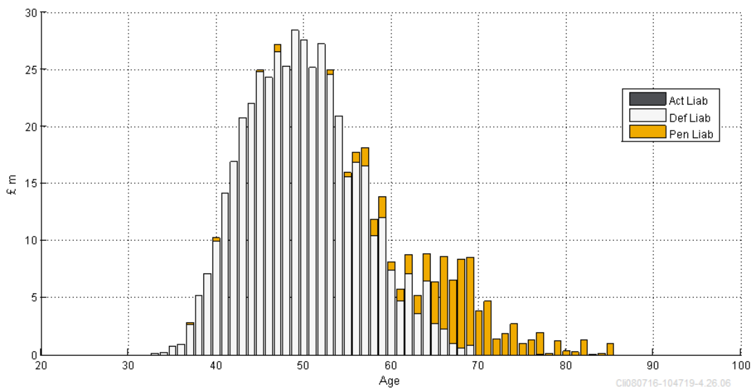
Statement of funding principles

Sets out the Trustee's policy for meeting the statutory funding objective.

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.

In order to calculate the technical provisions, the benefits paid out by the Scheme are estimated for each year into the future. The estimated benefit payments are then 'discounted back' to the valuation date using an agreed rate of interest known as the discount rate.

The benefit payments from the Scheme are expected to be made for a very long period illustrated by the chart below which shows the breakdown of Technical Provisions by age.



Note that most of the Scheme's cashflows are linked to future levels of inflation.

A key factor in setting the funding objective is the Trustee's assessment of the employer covenant. The Trustee commissioned an independent review of the employer's covenant and this concluded that on an ongoing basis it is tending to strong. The covenant strength rating is similar to when assessed in the 2013 valuation and this has been taken into account in setting the assumptions to be adopted for technical provisions and in agreeing the recovery plan.

Summary of method and assumptions for technical provisions

The Trustee and Employer have agreed the assumptions that will be used to calculate the technical provisions. 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 of the assumptions are set out in Appendix 4.

Assumption	This valuation	Previous valuation	Rationale for change
Pre-retirement discount rate	6.10% pa	6.75% pa	Reflects change in market outlook at valuation date.
Post-retirement discount rate	3.10% pa	3.80% pa	Reflects change in market conditions.
RPI inflation	3.30% pa	3.50% pa	Reflects change in market conditions.
Pensionable increases in payment **- Pre 2005** **- Post 2005**	 3.20% pa 2.50% pa	 3.35% pa 2.50% p.a.	Reflects change in market conditions and updated views in respect to inflation volatility.
Post-retirement mortality assumption – base table	100% for males and 90% for females of SAPS S2 'Light' tables	SAPS 'Light' tables with 100% scaling factors	Updated scaling factors adopted based on updated mortality analysis for the Scheme.
Post-retirement mortality assumption – future improvements	CMI 2014 core projections with long-term improvement rate of 1.50% pa for men and women	CMI 2012 core projections with long-term improvement rate of 1.50% pa for men and women	Allows for an updated CMI model.
Cash Commutation	Assumed 20% of pension commuted for cash at a factor of 13.9 at age 65	Assumed 20% of pension commuted for cash at a factor of 16.9 at age 65	Updated to assume commutation factors currently in force in the Scheme.

The technical provisions have been calculated using the projected unit method.

Technical provisions

The Scheme's technical provisions are shown below. They have been calculated using the assumptions and method in the previous section.

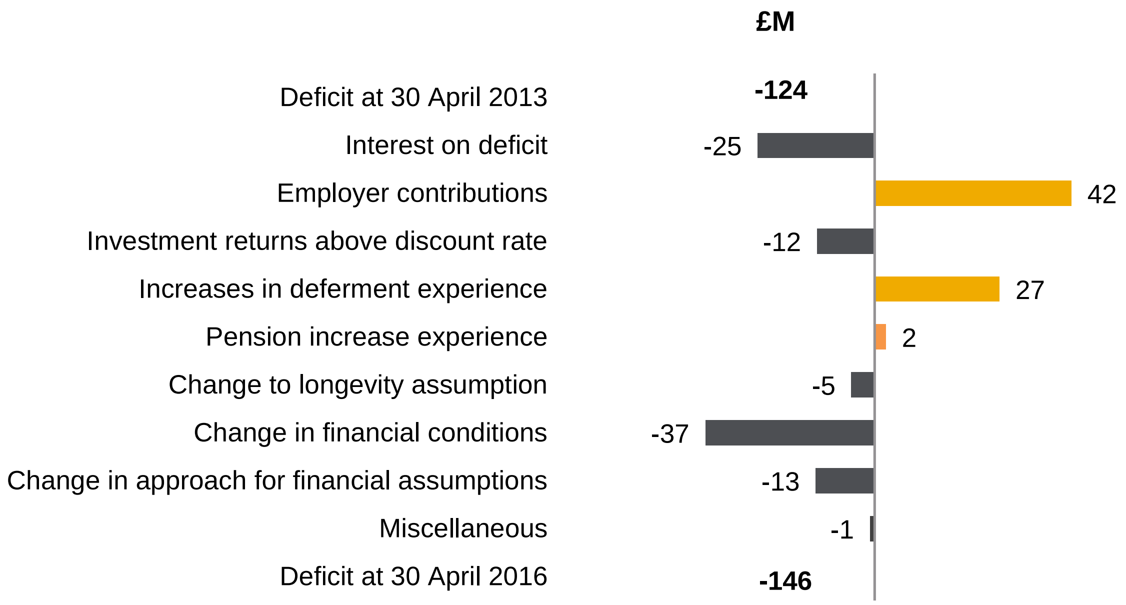
	£M
Value of past service benefits for	
Deferreds	455
Pensioners	70
Total i.e. technical provisions	525
Value of assets	379
Past service surplus (deficit)	(146)
Funding ratio	72%

My statutory certification of the Scheme's technical provisions is attached as Appendix 6.

Reasons for change in past service position

At the previous valuation, the Scheme had a deficit of £124M. The funding position has therefore worsened by £22M over the period.

The chart below shows the key reasons for the change in funding position.



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

- Employer contributions and lower than anticipated increases to deferred benefits which have improved the position; and

- Changes in financial conditions and interest on the deficit at the previous valuation which have worsened the position.

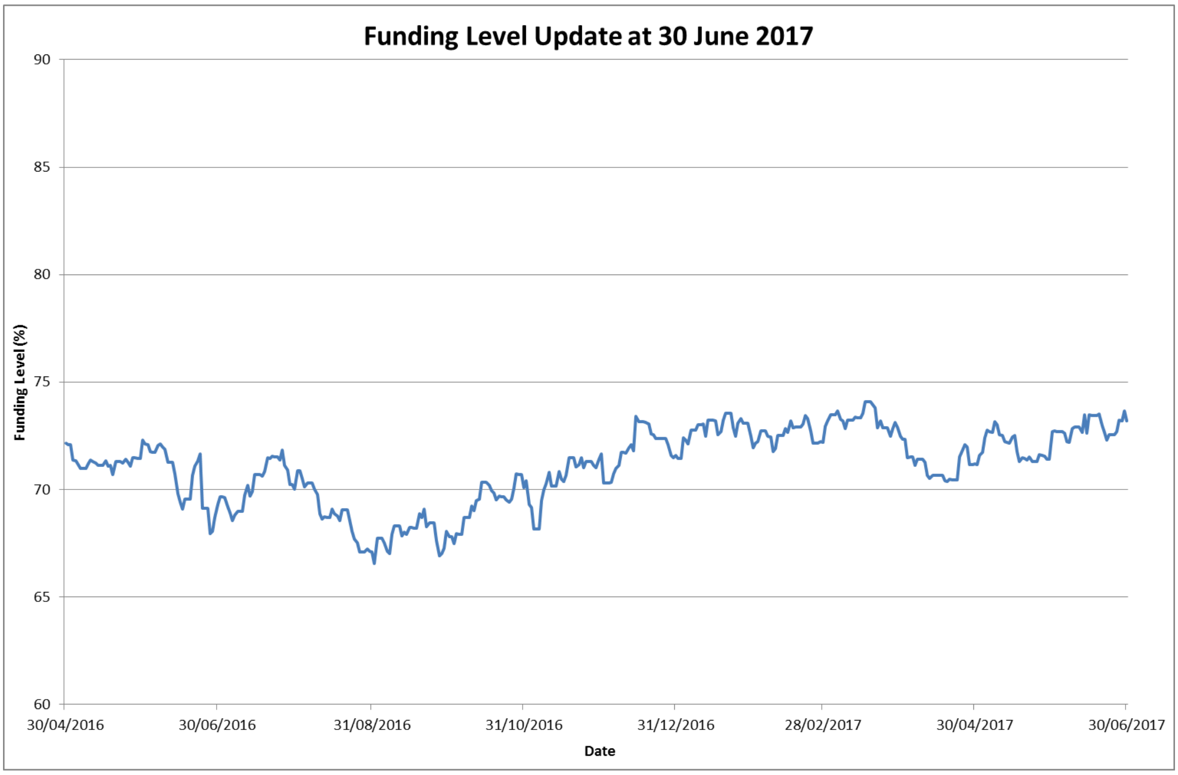
Update since the valuation date

Since the valuation date, the funding position is estimated to have remained relatively level.

This is based on assumptions consistent with those used to calculate the technical provisions, with financial assumptions updated to reflect changes in market conditions.

The assets used in the funding level update below use actual assets to 31 May 2017, projected thereafter in line with suitable indices.

The chart below illustrates how the position has changed since 30 April 2016. Note that this is more approximate than a full valuation.



Recovery plan

Following discussions, the Trustee and the Employer have agreed a recovery plan.

Taking into account a number of considerations set out in the Trustee's statement of funding principles, the Trustee has agreed to extend the recovery plan end date from 30 September 2024 to 31 May 2026.

The Employer's recovery plan contributions are to increase to £17M, commencing on 31 May 2018 and increasing annually thereafter in line with RPI inflation.

The recovery plan is designed to eliminate the deficit at the valuation date relative to the technical provisions by the end of the recovery period.

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

Terminology

Recovery plan

A plan for making good any deficit relative to the technical provisions.

Solvency

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

The assumptions include an allowance for the expenses of winding-up the Scheme. Further details and the assumptions used in the solvency estimate are summarised in Appendix 5.

	£M
Value of past service benefits for	
Deferreds	1,290
Pensioners	80
Expenses	20
Value of liabilities (solvency estimate)	1,390
Value of assets	379
Deficit (statutory estimate of solvency)	(1,011)
Solvency ratio	27%

In practice, if the Scheme were to be discontinued with no solvent employer then 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 ratio quoted above.

Risks and uncertainties

The Scheme faces a number of key risks which could affect its funding position.

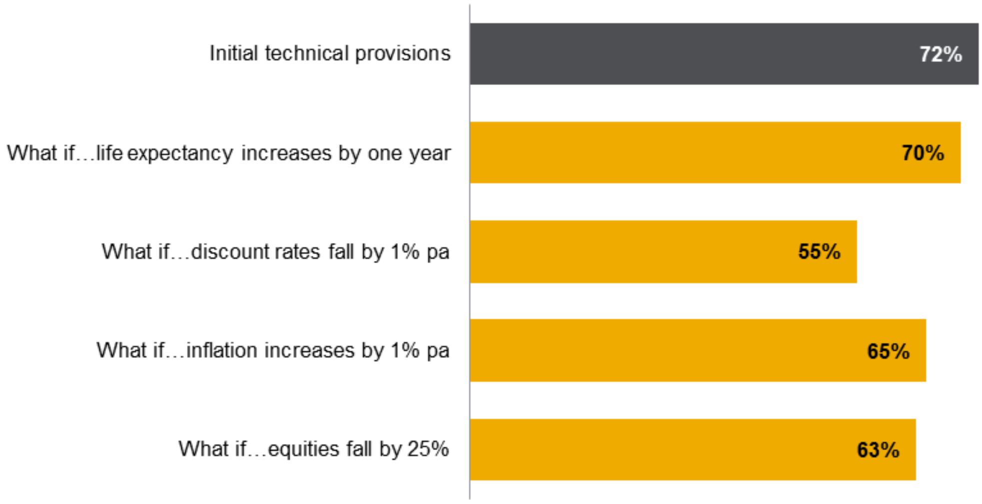
These risks include:

- 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 discontinuance).
- Sponsor covenant risk – the risk that the Employer is no longer willing or able to support the Scheme, if things go wrong.
- Investment risks – 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 not stable.
- 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 inflation is higher than assumed, increasing the pensions that need to be paid.

To help the Trustee understand the susceptibility of the funding position to some of these risks, the chart on the following page shows the approximate impact in isolation of the following one-off step changes on the Scheme's funding position on the technical provisions basis:

- Mortality rates are 10% lower than assumed (broadly equivalent to members living one year longer than anticipated).
- Discount rate decrease by 1% pa (with no change in assets).
- Real yields on index-linked gilts decrease by 1% pa (with fixed-interest gilt yields, corporate bond yields and equity markets unchanged)—this is equivalent to a 1% pa increase in the assumed rate of inflation.
- The market value of equities falls by 25% (with no change in bond markets). Note for this simplistic analysis it has been assumed that only pure equity holdings are affected, and not for example the diversified growth funds (DGFs). In reality we would expect such an extreme fall in equities to affect the value of the DGFs.

Risks and uncertainties



The analysis emphasises that the Scheme is highly susceptible to:

- Equity markets falling
- Lower future returns than assumed
- Rising inflation expectations
- Members living longer than expected

The scenarios considered are not 'worst case' scenarios, and could occur in combination (rather than in isolation).

The Solvency measure is also highly sensitive to these factors.

Agreed contributions

Following discussions, the Employer will pay:

- £4.9M by 31 May 2016 and £13.3M by 31 May 2017, followed by;
- £17M each year for 8 years from with the first payment by 31 May 2018.
- the costs of administering the Scheme;
- the Pension Protection Fund and other levies collected by the Pensions Regulator;
- the cost of any augmentation to benefits

Note if the assumptions play out in practice, these contributions are expected to correct the deficit relative to the technical provisions by 31 May 2026;

A full review of the Employer's contributions will be undertaken no later than following the next valuation, which is due to take place at 30 April 2019.

The contributions above are set out in the schedule of contributions. As agreed, my certification of the schedule will be based on the position at the valuation date.

As part of the funding negotiations Clifford Chance LLP has agreed to provide a guarantee to cover the contributions, if not paid, set out in the current Schedule of Contributions and the following three Schedules of Contribution (based on similar principles). This is referred to as 'the LLP guarantee

Terminology

Schedule of contributions

Specifies the amounts and dates of contributions payable by the Employer and the members over the next five years or the recovery period, if longer. I am required to certify that the contributions in the schedule are expected to remove the deficit over the period stated based on the agreed assumptions.

Agreed contributions

I estimate that, by the next valuation, these contributions will have:

- Increased the technical provisions funding ratio to about 82%; and

- Increased the solvency level to around 30% to 35%.

These estimates 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.

- The assumptions underlying the technical provisions and solvency bases remain unchanged.

Next steps

As part of the valuation, the Trustee and the Employer have already agreed a statement of funding principles.

The next steps are:

- For the Trustee to provide a copy of this report to the Employer within 7 days.
- For the Trustee and the Employer to sign the recovery plan and schedule of contributions by 31 July 2017 i.e. within 15 months of the valuation date.
- To submit the valuation summary and supporting documentation to the recovery plan to the Pensions Regulator via Exchange.
- To provide a summary funding statement to members by 31 October 2017 ie 18 months from valuation date.

Checklist

The valuation process is complete when all of the following have been agreed and are in place:

- Statement of funding principles
- The LLP guarantee
- This scheme funding report
- Recovery plan
- Schedule of contributions
- Actuarial certification of the schedule of contributions

The statutory deadline for completing the valuation process is 31 July 2017, ie 15 months after the valuation date.

Appendix 1: Legal framework and alternative presentation

It is a legal requirement to carry out a full valuation at least once every three years.

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 dated 12 March 2008 between the Trustee and me, on the understanding that it is solely for the benefit of the addressees.

Appendix 2: Membership data

Deferred pensioners		Number	Average age	Total pension (£000 pa)	Average pension (£000 pa)
Men	2016	1,575	48.5	17,244	10.9
	2013	*1,626*	*45.8*	*12,664*	*7.8*
Women	2016	2,523	48.1	18,606	7.4
	2013	*2,601*	*45.4*	*13,305*	*5.1*
Total	2016	4,098*	48.2	35,851	8.7
	2013	*4,227*	*45.5*	*25,969*	*6.1*

Note: The deferred pension amounts shown above are at date of exit from the Scheme.
**These figures include a small number of members with more than one record.*

Pensioners		Number	Average age	Total pension (£000 pa)	Average pension (£000 pa)
Men	2016	154	70.6	1,750	11.4
	2013	*149*	*69.8*	*1,443*	*9.7*
Women	2016	315	69.9	1,331	4.2
	2013	*307*	*68.7*	*1,107*	*3.6*
Total	2016	469	70.1	3,081	6.6
	2013	*456*	*69.0*	*2,550*	*5.6*

Note: The pension amounts shown above do not include the increase awarded in April 2016.

Appendix 3: Benefits

The Scheme is defined benefit in nature and is not contracted out of the State Second Pension. The benefits of the Scheme used for the purposes of this valuation are summarised in the following table (note the details below are not intended to be an exhaustive list of the benefits which are set out in the Scheme's Trust Deed and Rules).

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 at the valuation date, 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. $1/100^{th}$ of the Final Pensionable Salaries below the Upper Earnings Limit for each year of Pensionable Service; plus ii. $1/60^{th}$ 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% pa). Pension increases in payment for benefits accrued after 5 April 2005 receive pension increases of inflation capped at 2.5% pa.
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.

Appendix 4: Assumptions for technical provisions

The assumptions used for calculating the technical provisions are summarised below. Different assumptions are used for the solvency estimate, as set out in Appendix 5.

Financial Assumptions

Pre-retirement discount rate	6.1% pa
Post-retirement discount rate	3.1% pa
Rate of (RPI) price inflation	3.3% pa
Rate of pension increases (on benefits accrued before 6 April 2005)	3.2% pa
Rate of pension increases (on benefits accrued after 6 April 2005)	2.5% pa
Rate of deferred pension increases	3.3% pa

Appendix 4: Assumptions for technical provisions

Demographic Assumptions

Mortality Assumption	Base mortality table: ▪ Males: 100% of SAPS S2 'Light' tables together with improvements from 2007 until the valuation date ▪ Females: 90% of SAPS S2 'Light' tables together with improvements from 2007 until the valuation date An allowance for improvements between 2007 and 2016 and an allowance for future improvements has been made in line with the CMI_2014 Core Projections assuming a long-term annual rate of improvement in mortality rates of 1.5% for men and women.
Early retirements	No allowance.
Commutation	Each member is assumed to commute 20% of their pension on retirement, based on the commutation factors currently in force, set as 13.9 at age 65.
Family details	▪ A man is assumed to be three years older than his wife or dependant. ▪ 93% of men and women are assumed to be married or have a dependant at retirement or earlier death.
Expenses	▪ No allowance
Discretionary benefits	▪ No allowance

Appendix 5: Assumptions for solvency estimate

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

However, 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 basis used is described on the next page.

Solvency estimate

This considers the position if:

- The Scheme were discontinued on the valuation date.
- Member benefits were crystallised.
- Discretionary benefits were suspended permanently.
- The assets were used to buy immediate and deferred annuities from an insurance company, with an extra margin needed to cover the expenses of shutting down the Scheme.

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

Appendix 5: Assumptions for solvency estimate

The table below shows the main assumptions used in calculating the solvency estimate, where these are different from those used for the technical provisions.

Pensioner discount rate	Derived from the 25 year nominal spot yield published by the Bank of England less 0.3% pa.
Non-pensioner discount rate (before and after retirement)	Derived from the 25 year nominal spot yield published by the Bank of England less 0.9% pa.
Increase in RPI	Derived from the 25 year RPI spot rate published by the Bank of England.
Pension increases	Derived from the price inflation assumptions with allowance for caps and floors in line with the assumptions used for the Technical Provisions.
Commutation	No allowance
Discretionary benefits	No allowance
Post-retirement mortality	As for the technical provisions, except using a long-term rate of improvement of 1.75% pa for both men and women.
Expenses	Allowance made to cover expenses and insurance company charges associated with winding-up.

Appendix 6: Certificate of technical provisions

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

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 2016 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 scheme and set out in the Statement of Funding Principles dated 24 July 2017.

Signature: Keith Poulson

Name: Keith Poulson

Fellow of the Institute and Faculty of Actuaries

Date: 24 July 2017

Aon Hewitt Limited

Verulam Point, Station Way,
St Albans, AL1 5HE

Appendix 7: Glossary

Attained age method

This is one of the methods used by actuaries to calculate a contribution rate to the scheme. This method calculates the present value of the benefits expected to accrue to members over their expected remaining membership of the scheme expressed as a percentage of their expected future pensionable pay. It allows for projected future increases to pay through to retirement or date of leaving service. The method is based on the current membership and takes no account of the possibility of further members joining the scheme. If there are no new members, this method would be expected to result in a stable contribution rate, once surpluses or shortfalls are taken into account, and if all the other assumptions are borne out. However, if more members join the scheme to replace older leavers, the contribution rate can be expected to fall.

Cash transfer sum

This is a benefit available to early leavers who have between three months and two years of pensionable service. It is calculated in the same way as the cash equivalent transfer value payable to longer serving early leavers, and is calculated at the date of leaving pensionable service.

Deficit

This is the funding target less the value of assets. If the value of assets is greater than the funding target, then the difference is called the surplus.

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 by investing in assets other than gilts.

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.

Guaranteed Minimum Pensions (GMPs)

Most schemes that were contracted out of the State Earnings Related Pension Scheme (SERPS) before April 1997 have to provide a pension for service before that date at least equal to the Guaranteed Minimum Pension (GMP). This is approximately equal to the SERPS pension that the member would have earned had the scheme not been contracted out. GMPs ceased to build up on 6 April 1997 when the legislation changed.

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.

Appendix 7: Glossary (continued)

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 employer 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.

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

One of the common methods used by actuaries to calculate a contribution rate to a scheme.

This method calculates the present value of the benefits expected to accrue to members over a control period (often one year) following the valuation date. The present value is usually expressed as a percentage of the members' pensionable pay. It allows for projected future increases to pay through to retirement or date of leaving service. Provided that the distribution of members remains stable with new members joining to take the place of older leavers, the contribution rate calculated can be expected to remain stable, if all the other assumptions are borne out. If there are no new members however, the average age will increase and the contribution rate can be expected to rise.

Protected Rights

Prior to April 2012, schemes could contract out of SERPS/S2P on a protected rights basis. The accumulated National Insurance rebates in respect of each member as a result of being contracted out (known as protected rights) must be applied as an underpin to the member's benefits. Schemes that were contracted out on this basis before 6 April 1997 provided this underpin instead of GMPs.

Prudent

Prudent assumptions are assumptions that, if a scheme continues on an ongoing basis, are more likely to overstate than understate the amount of money actually required to meet the cost of the benefits.

Recovery plan

Where a valuation shows a funding shortfall against the technical provisions, Trustee must prepare a recovery plan setting out how they plan to meet the statutory funding objective.

Appendix 7: Glossary (continued)

Schedule of contributions

Trustee of pension schemes must prepare and maintain a schedule of contributions. This shows the dates and amounts of contributions due from the employer and members. Under the Pensions Act 2004 the schedule must be put in place within 15 months of the valuation date.

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.

The Statement of Funding Principles

The Pensions Act 2004 requires Trustee 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 estimate of solvency

This is the difference between the market value of a scheme's assets and the estimated cost of securing a scheme's liabilities in the event of the discontinuance of the scheme.

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 is the value of assets less the funding target. If the funding target is greater than the value of assets, then the difference is called a deficit.

Technical provisions

This is the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between a scheme's Trustee and the company. 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.

Report Framework

This report has been prepared in accordance with the framework below.

TAS compliant

This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100') and 'Technical Actuarial Standard 300: Pensions' ('TAS 300')

The compliance is on the basis that the Trustee is the addressee and the only user and that the report is only to be used for the purpose of considering the funding of the Scheme at 30 April 2016. If you intend to make any other decisions after reviewing this report, please let me know and I will consider what further information I need to provide to help you make those decisions.

The report has been prepared under 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.

This report should be read in conjunction with:

- My presentation to the Trustee dated 27 January 2016
- My report on 'Assumptions advice' dated 22 June 2016
- My report setting out the initial results dated 22 June 2016

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