

Risks associated with the scheme

The Scheme exposes the Company to some risks, the most significant of which are:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.
Inflation risk	A proportion of the Scheme's benefit obligations are linked to inflation, and higher inflation leads to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Change in bond yields	A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.
Life expectancy	The majority of the Scheme's obligations are to provide benefits for the lifetime of the member, so increases in life expectancy will result in an increase in the liabilities.

Funding requirements

UK legislation requires that pension schemes are funded prudently. The ongoing funding valuation of the Scheme was carried out by a qualified actuary as at 30 April 2018 and showed a deficit of £0.2m. The Company paid deficit contributions of £70,000 for the year ending 31 March 2019 (2018: £70,000), and has committed to contribute £140,000 per annum from 1 April 2019, which is expected to make good this shortfall by 31 March 2020. The next funding valuation is due no later than 30 April 2021, at which progress towards full-funding will be reviewed. The Company also pays expenses and PPF levies incurred by the Scheme.

Assumptions used

The last triennial actuarial valuation of the Scheme was performed by an independent professional actuary at 30 April 2018 using the projected unit method of valuation. For the purposes of IAS 19 (revised) the actuarial valuation as at 30 April 2018 has been updated on an approximate basis to 31 March 2019. There have been no changes in the valuation methodology adopted for this year's disclosures compared to the prior year's disclosures.

The principal financial assumptions used to calculate the liabilities under IAS 19 (revised) are as follows:

	2019 %	2018 %
Discount rate for scheme liabilities	2.45	2.60
CPI inflation	2.35	2.25
RPI inflation	3.45	3.35
Pension increases		
Pre 1988 GMP	-	-
Post 1988 GMP	2.10	2.10
Pre 2004 non GMP	5.00	5.00
Post 2004	3.35	3.25

The financial assumptions reflect the nature and term of the Scheme's liabilities.

The Group has assumed that mortality will be in line with nationally published mortality table S2NA with CMI 2018 projections related to members' years of birth with long-term rate of improvement of 1.5% per annum. These tables translate into an average life expectancy for a pensioner retiring at age 65 as follows:

	2019		2018	
	Men Years	Women Years	Men Years	Women Years
Member aged 65 (current life expectancy)	86.8	88.9	87.3	89.3
Member aged 45 (life expectancy at age 65)	88.5	90.7	89.0	91.1

It is assumed that 50% of non-retired members of the Scheme will commute the maximum amount of cash at retirement (2018: 50% of non-retired members of the Scheme will commute the maximum amount of cash at retirement).