

Notes to the Group financial statements continued

Note 28 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements, covering both funded defined contribution and funded and unfunded defined benefit schemes. The most significant of these are the funded defined benefit pension schemes for the Group's employees in the UK and the Republic of Ireland.

Defined contribution plans

The contributions payable for defined contribution schemes of £11m (2008 – £8m) have been fully expensed against profits in the current year.

Defined benefit plans

United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme, which is a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by trustees. Watson Wyatt Limited, an independent actuary, carried out the latest triennial actuarial assessment of the scheme as at 31 March 2008, using the projected unit method.

At the date of the last actuarial valuation the actuarial deficit was £275m. The market value of the schemes' assets was £3,987m and these assets represented 94% of the benefits that had accrued to members, after allowing for expected increases in earnings and pensions in payment.

The One Stop Senior Executives Pension Scheme is a funded defined benefit scheme open to senior executives and certain other employees at the invitation of the Company. An independent actuary, using the projected unit method, carried out the latest actuarial assessment of the scheme as at 5 April 2004.

Overseas

The most significant overseas scheme is the funded defined benefit pension scheme which operates in the Republic of Ireland. An independent actuary, using the projected unit method, carried out the latest actuarial assessment of the scheme as at 1 April 2007.

The valuations used for IAS 19 have been based on the most recent actuarial valuations and updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes as at 28 February 2009. The schemes' assets are stated at their market values as at 28 February 2009. Watson Wyatt Limited have updated the most recent Republic of Ireland valuation. The liabilities relating to retirement healthcare benefits have also been determined in accordance with IAS 19, and are incorporated in the following tables.

Principal assumptions

The valuations used have been based on the most recent actuarial valuations and updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes as at 28 February 2009. The major assumptions, on a weighted average basis, used by the actuaries were as follows:

	2009 %	2008 %	2007 %
Rate of increase in salaries	3.7	5.0	4.5
Rate of increase in pensions in payment*	3.1	3.5	3.0
Rate of increase in deferred pensions*	3.2	3.5	3.0
Rate of increase in career average benefits	3.2	3.5	3.0
Discount rate	6.5	6.4	5.2
Price inflation	3.2	3.5	3.0

* In excess of any Guaranteed Minimum Pension (GMP) element.

The main financial assumption is the real discount rate i.e. the excess of the discount rate over the rate of price inflation. If this assumption increased/decreased by 0.1%, the UK defined benefit obligation would decrease/increase by approximately £110m and the annual UK current service cost would decrease/increase by approximately £11m.

UK mortality assumptions

The Company conducts analysis of mortality trends under the Tesco PLC Pension Scheme in the UK as part of the triennial actuarial valuation of the Scheme. At the latest triennial actuarial valuation as at 31 March 2008, the following assumptions were adopted for funding purposes:

Base tables:

- PMA92C00 for male members with cohort improvements to 2000 and members taken to be one year younger than actual age.
- PFA92C00 for female members with cohort improvements to 2000 and members taken to be half a year older than actual age.

This assumption was used for the calculation of the pension liability as at 28 February 2009 for the main UK scheme.

As at 28 February 2009, the mortality assumptions have been strengthened. The base tables have been updated in line with medium cohort projections with a minimum improvement of 1% per annum from 31 March 2008 to 28 February 2009. In addition, the allowance for future mortality improvements has been changed to incorporate medium cohort projections with a minimum improvement of 1% per annum.

Note 28 Post-employment benefits continued

The mortality assumptions used for the calculation of the pension liabilities as at 24 February 2007 and 23 February 2008 were based on the previous triennial actuarial valuation as at 31 March 2005, which included the following assumptions for funding purposes:

Base tables:

PMA92C00 for male members with cohort improvements to 2000 and members taken to be two years older than actual age.

PFA92C00 for female members with cohort improvements to 2000 and members taken to be half a year older than actual age.

Additionally, at the 31 March 2005 valuation an allowance was built in for future mortality improvements via a 0.2% reduction to the discount rate.

The following table illustrates the expectation of life of an average member retiring at age 65 at the Balance Sheet date and a member reaching age 65 at the same date +25 years:

		2009 in years	2008 in years	2007 in years
Retiring at Reporting date at age 65:	Male	21.5	19.0	17.5
	Female	23.3	23.3	21.9
Retiring at Reporting date +25 years at age 65:	Male	23.9	20.6	18.4
	Female	25.8	24.7	23.0

Rates of return on scheme assets

The assets in the defined benefit pension schemes and the expected nominal rates of return were:

	2009		2008		2007	
	Long-term rate of return %	Market value £m	Long-term rate of return %	Market value £m	Long-term rate of return %	Market value £m
Equities	8.9	1,482	8.9	2,205	8.1	2,420
Bonds	5.5	1,080	5.7	901	5.2	812
Property	7.3	342	7.3	351	6.7	343
Other (alternative assets)	8.9	383	8.9	512	8.1	384
Cash	3.7	133	4.5	120	4.0	48
Total market value of assets		3,420		4,089		4,007

The expected rate of return on assets is a weighted average based on the actual plan assets held and the respective returns expected on the separate asset classes. The expected rate of return on equities and cash have both been set having regard to expected returns over the medium term, as calculated by the Company's independent actuary. The expected rate of return on bonds was measured directly from actual yields for gilts and corporate bond stocks. The above rate takes into account the actual mix of UK gilts, UK corporate bonds and overseas bonds held at the Balance Sheet date.

Movement in pension deficit during the year

Changes in the fair value of defined benefit pension plan assets are as follows:

	2009 £m	2008 £m	2007 £m
Opening fair value of plan assets	4,089	4,007	3,448
Expected return	338	301	255
Actuarial (losses)/gains	(1,270)	(465)	82
Contributions by employer	376	340	321
Actual member contributions	8	7	7
Foreign currency translation	11	9	(2)
Benefits paid	(132)	(112)	(104)
Acquisitions through business combinations	–	2	–
Closing fair value of plan assets	3,420	4,089	4,007



Notes to the Group financial statements continued

Note 28 Post-employment benefits continued

Changes in the present value of defined benefit obligations are as follows:

	2009 £m	2008 £m	2007 £m
Opening defined benefit obligation	(4,927)	(4,957)	(4,659)
Current service cost	(428)	(461)	(466)
Interest cost	(313)	(254)	(221)
Gain on change of assumptions	760	672	71
Experience losses	(117)	(21)	(41)
Foreign currency translation	(13)	(8)	4
Benefits paid	132	112	104
Actual member contributions	(8)	(7)	(7)
Past service gains	–	–	258
Acquisitions through business combinations	–	(3)	–
Closing defined benefit obligation	(4,914)	(4,927)	(4,957)

The amounts that have been charged to the Group Income Statement and Group Statement of Recognised Income and Expense for the year ended 28 February 2009 are set out below:

	2009 £m	2008 £m	2007 £m
Analysis of the amount (charged)/credited to operating profit:			
Current service cost	(428)	(461)	(466)
Past service gains	–	–	258
Total charge to operating profit	(428)	(461)	(208)
Analysis of the amount credited/(charged) to finance income:			
Expected return on pension schemes' assets	338	301	255
Interest on pension schemes' liabilities	(313)	(254)	(221)
Net pension finance income (note 5)	25	47	34
Total charge to the Group Income Statement	(403)	(414)	(174)

In 2007, in line with changes to the Finance Act 2006, the scheme rules were amended from 6 April 2006 to allow employees to commute (convert) a larger proportion of their pension for a cash lump sum at retirement. Accordingly, the assumptions made in calculating the Group's defined benefit pension liability have been revised, resulting in a gain of £250m being recognised in Group operating profit in 2006/7. Revisions to this assumption will be reflected in the Group Statement of Recognised Income and Expense. Changes to scheme rules in the Republic of Ireland affecting early retirement have reduced pension liabilities by a further £8m, which was also shown as a past service gain in the Group Income Statement in 2006/7.

	2009 £m	2008 £m	2007 £m
Analysis of the amount recognised in the Group Statement of Recognised Income and Expense:			
Actual return less expected return on pension schemes' assets	(1,270)	(465)	82
Experience losses arising on the schemes' liabilities	(117)	(21)	(41)
Foreign currency translation	(2)	1	2
Changes in assumptions underlying the present value of the schemes' liabilities	760	672	71
Total (loss)/gain recognised in the Group Statement of Recognised Income and Expense	(629)	187	114

The cumulative losses recognised through the Group Statement of Recognised Income and Expense since the date of transition to IFRS are £1,001m (2008 – £372m).

Note 28 Post-employment benefits continued**Summary of movements in deficit during the year**

	2009 £m	2008 £m	2007 £m
Deficit in schemes at beginning of the year	(838)	(950)	(1,211)
Current service cost	(428)	(461)	(466)
Past service gains	–	–	258
Other finance income	25	47	34
Contributions by employer	376	340	321
Foreign currency translation	(2)	1	2
Actuarial (loss)/gain	(627)	186	112
Acquisitions through business combinations	–	(1)	–
Deficit in schemes at end of the year	(1,494)	(838)	(950)

History of movements

The historical movement in defined benefit pension schemes assets and liabilities and history of experience gains and losses are as follows:

	2009 £m	2008 £m	2007 £m	2006 £m
Total market value of assets	3,420	4,089	4,007	3,448
Present value of liabilities relating to unfunded schemes	(39)	(34)	(27)	(17)
Present value of liabilities relating to partially funded schemes	(4,875)	(4,893)	(4,930)	(4,642)
Pension deficit	(1,494)	(838)	(950)	(1,211)
Experience (losses)/gains on scheme assets	(1,270)	(465)	82	309
Experience losses on plan liabilities	(117)	(20)	(41)	(24)

Post-employment benefits other than pensions

The Company operates a scheme offering retirement healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability as at 28 February 2009 of £10m (2008 – £11m) was determined in accordance with the advice of independent actuaries. In 2008/9, £0.7m (2007/8 – £0.6m) has been charged to the Group Income Statement and £0.5m (2007/8 – £0.7m) of benefits were paid.

A change of 1.0% in assumed healthcare cost trend rates would have the following effect:

	2009 £m	2008 £m	2007 £m
Effect of a 1% increase in assumed healthcare cost trend rate on:			
Service and interest cost	0.1	0.1	0.1
Defined benefit obligation	1.6	1.6	1.3
Effect of a 1% decrease in assumed healthcare cost trend rate on:			
Service and interest cost	(0.1)	(0.1)	(0.1)
Defined benefit obligation	(1.3)	(1.3)	(1.3)

Expected contributions

A formal actuarial valuation is carried out triennially for the scheme trustees by a professionally qualified independent actuary. The purpose of the valuation is to agree a funding plan to ensure that present and future contributions should be sufficient to meet future liabilities. The actuarial valuation of approved schemes as at 31 March 2008 has been concluded and company contributions are increasing to 11.1% from 10.9%. On this basis the Group expects to make contributions of approximately £410m to defined benefit pension schemes in the year ending 27 February 2010.

