24 Post-employment benefits

Significant accounting policy

Pension obligations

The Group operates two types of pension plans:

- defined contribution plans where the Group makes contributions to a member's pension plan, but has no further payment obligations once the contributions have been paid
- defined benefit plans which provide pension payments upon retirement to members as defined by the plan rules

For defined contribution plans, the Group pays contributions to separately administered pension plans. The contributions payable by the Group are charged to the consolidated income statement when they are due. Payments made to state-managed schemes are treated as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution pension plan.

For defined benefit plans, the calculation of the defined benefit obligation is performed half-yearly by a qualified actuary using the projected unit credit method. A current service cost is recognised which represents the expected present value of the defined benefit pension entitlement earned by members in the period. The consolidated balance sheet reflects a net asset or net liability for each defined benefit pension plan. The net asset or liability recognised is the present value of the defined benefit obligation discounted using the yields on high-quality corporate bonds, less the fair value of plan assets (at bid price), if any. If the fair value of the plan assets exceeds the defined benefit obligation, a pension surplus is only recognised if the Group considers that it has an unconditional right to a refund.

For the UK defined benefit plan, the Group considers that it has an unconditional right to a refund of a surplus, assuming the gradual settlement of the plan liabilities over time until all members have left the plan. The trustees cannot unconditionally wind up the plan or use the surplus to enhance member benefits without employer consent. The Group's judgement is that these trustee rights do not prevent the Group from recognising an unconditional right to a refund and therefore a surplus.

Net interest income (if a plan is in surplus) or net interest expense (if a plan is in deficit) is calculated using yields on high-quality corporate bonds and recognised in the consolidated income statement.

Remeasurements, which include gains and losses as a result of changes in actuarial assumptions, the effect of the limit on the plan surplus (if any) and returns on plan assets (other than amounts included in net interest) are recognised in the consolidated statement of comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Other post-employment obligations

Some Group companies provide other post-employment benefits. The expected costs of these benefits are accrued over the period of employment using a similar basis to that used for defined benefit pension schemes. Actuarial gains and losses are recognised immediately in the consolidated statement of comprehensive income.

The non-qualified deferred compensation plan in the US (Rabbi Trust) does not meet the definition of a defined contribution plan under IAS 19 and is, therefore, accounted for as a defined benefit plan.

Major source of estimation uncertainty

The present value of defined benefit liabilities is estimated based on actuarial assumptions determined with independent actuarial advice, including discount rates, inflation, pension and salary increases, and mortality and other demographic assumptions. A reasonably possible change in the assumptions used to derive these estimates could have a material effect on the present value of defined benefit liabilities in the next 12 months. The key assumptions used to value the liabilities, together with sensitivity analysis, are set out below.

Climate change

Plan assets

The trustees of the Compass Group Pension Plan (UK Plan), the Group's largest defined benefit plan, have integrated climate change considerations into their long-term decision-making and reporting processes across all classes of assets, actively engaging with all fund and portfolio managers.

Defined benefit obligations

The actuarial assumptions used to calculate the present value of defined benefit obligations comprise financial and demographic assumptions. The key financial assumptions are discount rates and inflation and, as these reflect long-term market expectations, they implicitly reflect the market's expectations of the potential impact of climate change. The directors have considered the potential impact of climate change on demographic assumptions, in particular on the long-term mortality assumptions and, at the present time, do not believe that there is sufficient evidence to require a change in the assumptions used in the calculation of the defined benefit liabilities. The directors will continue to monitor any potential future impact on the assumptions used.