

# *Office of Manpower Economics*

Comparison of Pay in the Armed Forces  
and the Civilian Sector  
Updated pay comparability information

November 2015



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# **1. Introduction**

## ***Background and purpose***

- This paper provides an update on a comparison of pay between members of the Armed Forces and that of civilian sector (public and private sector) roles for the Armed Forces Pay Review Body (“AFPRB”).
- This report is an update to the review conducted by PwC for the AFPRB in 2013 which compared levels of pay in the different armed forces’ ranks with levels of pay of roles of similar job size in the civilian sector which are of comparable job size.
- Using our job evaluation system, we compared 286 Armed Forces jobs with 35,385 civilian jobs in both the public and the private sectors and benchmarked pay levels in 2013.
- This report follows on from our update paper at the end of 2014/early 2015, and checks the extent to which this data has moved and whether the position of Armed Forces pay has changed.

# Update on economic environment

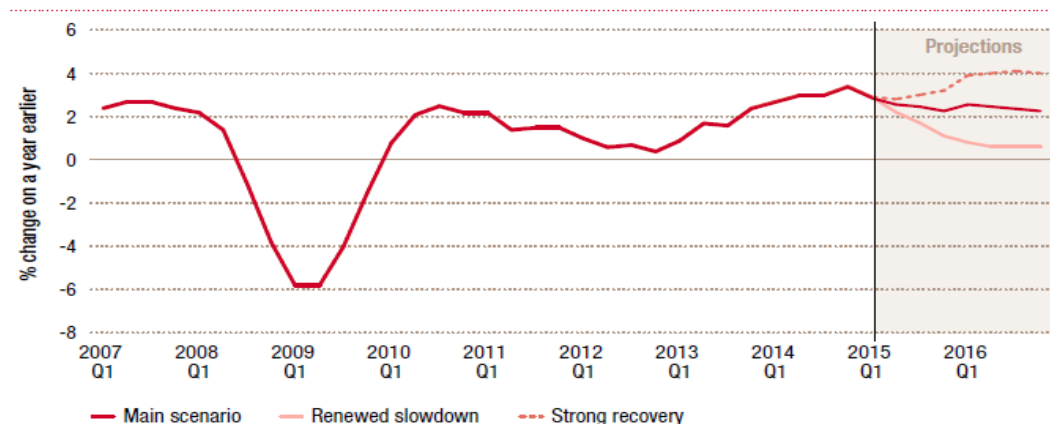
## Pay considerations in the current economic climate

- Across the UK, pay increases remain muted, despite a cautious improvement in the economy and labour market generally.
- Our recent survey of FTSE 350 organisations indicates that 2/3rds of companies plan pay budgets to be the same as 2015.
- As a result, organisations in the private sector are predicting pay budgets of 2% to 3% in 2016. This is higher than the public sector where a further year of 1% pay adjustments is planned.
- While we have seen a fall in the number of organisations operating pay freezes (from 14% to 5%), there appears to be greater variability in bonus outcomes across sectors and levels.

- The challenge for organisations is that the labour market is more buoyant and therefore talent retention comes back to the fore.
- The changes to the National Minimum Wage will also have an impact, at those levels directly benefitting but also those individual at the next tier, where a rise in pay levels at the tier below will have a knock on effect in due course. We are therefore observing the following:

- More focused differentiation in pay levels (for particular hot spots such as legal or technical roles)
- Increased focus on performance management to drive productivity
- Addressing broader pay governance issues such as equal pay
- Greater choice and flexibility in benefits
- Reviewing the role of incentives as the pensions landscape continues to change

Actual/projected GDP change year on year



Summary of UK economic prospects

Indicator (% change on previous year)	OBR forecasts (July 2015)		Independent forecasts (June 2015)		PwC Main scenario (July 2015)		2014	2015
	2015	2016	2015	2016	2015	2016		
GDP	2.4	2.3	2.5	2.3	2.6	2.4		
Unemployment rate*							6.2%	5.6%
Long term unemployment*							35.4%	31.6%
Average gross weekly earnings*							£480	£490

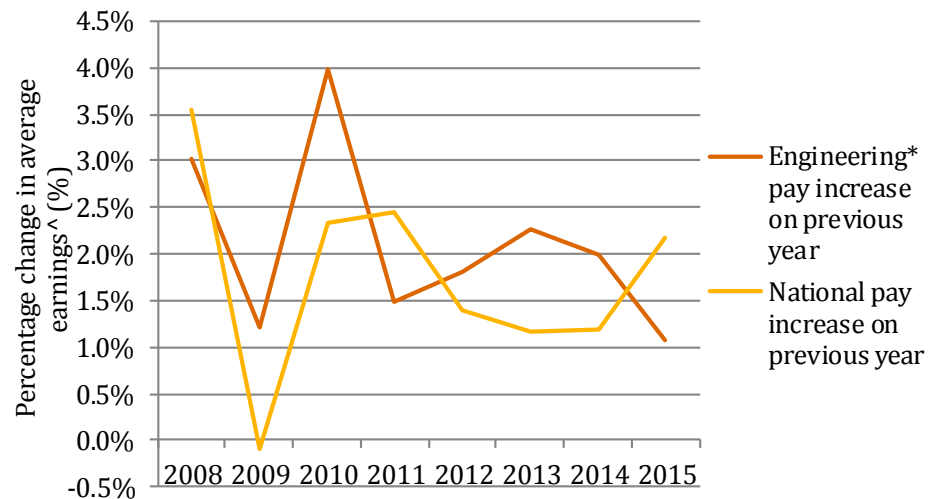
Sources:  
PwC Economic Outlook, July 2015  
ONS Summary of labour market statistics, 14 October 2015

\*2015 data only available up to August 2015

# Update on economic environment

## Overview of engineering industry

- Pay increases in the engineering industry (which covers defence organisations as well as broader manufacturing) has fallen from its peak in recent years, with this trend looking set to continue into 2016.
- However, in comparison to other sectors, pay increases for engineering roles appear to be slightly higher. In 2015 for example, the average pay increase for technical roles was 3% (compared to 2.73% across the board).
- Similarly, organisations in the technology sector made pay adjustments for managerial staff of 5%, well above national levels.
- These higher levels may be due to the pressure on UK engineering organisations to attract STEM (Science, Technology, Engineering and Maths) talent with the requisite skills.
- There will be hotspots within this population. The oil & gas sector is undergoing significant restructuring and therefore certain areas directly impacted (such as Aberdeen) where there is downward pay pressure.
- Other areas such Research & Development, Electrical and Mechanical engineers and roles such as Assemblers are seeing greater pressure, directly because of shortage of supply.



Source: ONS Average Weekly Earnings, October 2015

^ Average earnings include regular pay and bonuses but exclude arrears of pay.

\*The data above also includes pay across the wider manufacturing industry.

Actual base salary increases by sector*	2013	2014	2015	Actual pay increases by function	2015
Basic Materials	3.05%	3.00%	3.20%	Technical	3.00%
Consumer Goods	3.00%	3.10%	3.00%	HR	2.90%
Consumer Services	3.00%	2.80%	2.70%	Legal	2.90%
Financials	3.10%	3.00%	3.00%	Operations	2.80%
Industrials	2.90%	3.00%	2.50%	Finance	2.80%
Oil & Gas	3.75%	3.80%	2.80%	IT	2.70%
Technology	3.95%	5.00%	5.00%	Communications	2.70%
Telecommunications	1.55%	2.70%	2.40%	Strategy	2.50%
Utilities	2.70%	3.50%	2.00%	Sales and marketing	2.50%
				Manufacturing and operations	2.50%
				<b>Average pay increase</b>	<b>2.73%</b>

Source: PwC Executive Reward Surveys 2013, 2014 and 2015.

\*Calculated as an average of FTSE 100 and FTSE 250 data.

# Pay comparison results

## Approach to pay comparison – Elements of pay

We typically approach the comparison of market pay in the following categories:

- **Annual Base Salary:** The annual contracted level of pay, adjusted on an annual basis in line with market comparison, internal equity and incumbent development. This will typically form the basis of calculations for incentive targets (e.g. target expressed as a % of salary) and pension calculations. Base salary does not include variable cash payments such as performance related pay and profit sharing bonus;
- **Annual Total Cash:** The total direct amount received by the incumbent in a given year and will include annual base salary, contractual allowances (related to status of the job) and any incentive award (e.g. bonus, profit share, sales incentive) that may be made in the given year; and
- **Annual Total Reward:** The total amount received by the incumbent in a given year and will include the annual total cash plus a cash valuation of benefits including the value of employer contribution into a defined contribution pension scheme.

For the purposes of this review, we have used the following comparisons:

Category	Armed Forces	External Market
Annual Base Salary	2013 Military Pay Ranges or Bespoke Pay Spine ranges (e.g. Nurses, Chaplain, etc.)	Annual Base Salary
Annual Total Cash	Annual Base Salary plus allowances (e.g. LSA)	Annual Base Salary plus allowances plus incentives
Annual Total Reward	Annual Total Cash plus pensions benefits	Annual Total Cash plus pension benefits

We note the following:

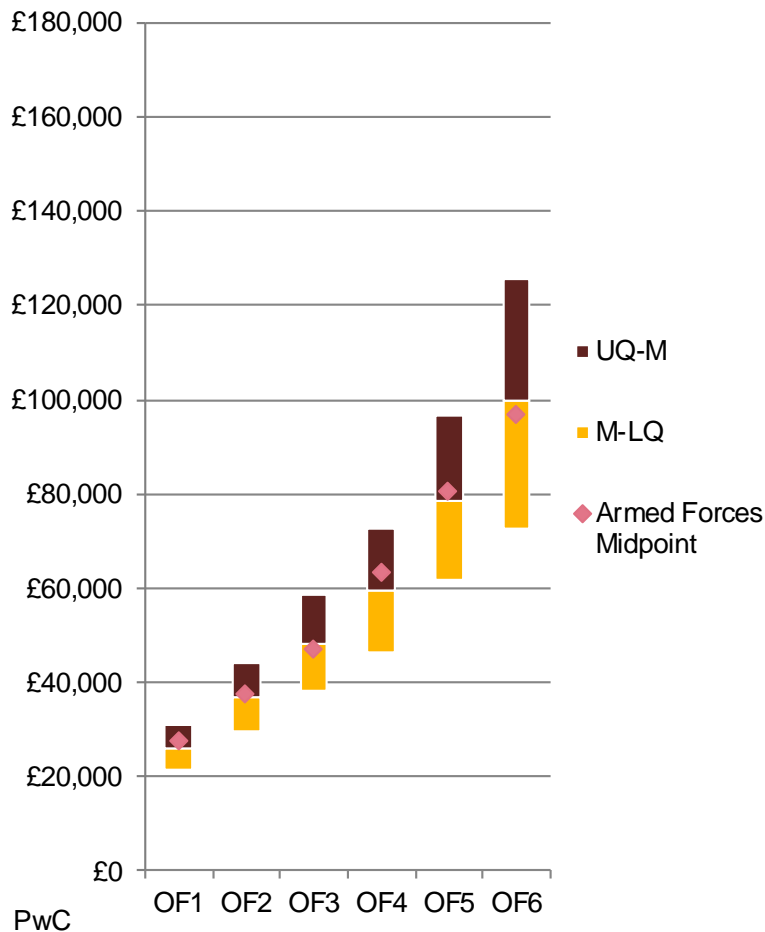
1. X-Factor for the composition of Armed Forces base salary is excluded.
2. We have also excluded any additional Armed Force allowances for RRP, accommodation (SFA, SLA) and food as these represent elements that are not typically indicative of a specific rank or role and as such, should be viewed as “job need” rather than “job status” allowances.
3. We have not taken overtime into account when looking at market pay comparisons.

# Pay comparison results

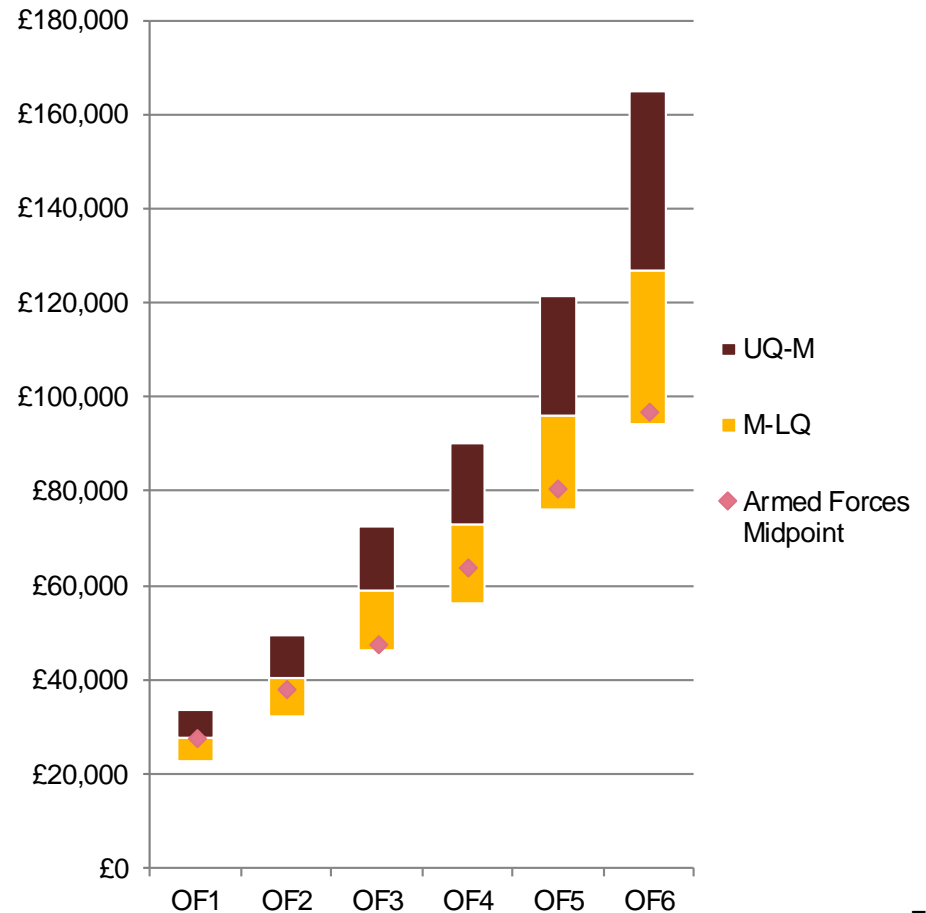
## OF population compared to Civilian employees

The following graphs show a comparison of the Armed Forces by each OF rank against a combined sample of private and public sector peers:

**Civilian sector annual base salary**



**Civilian sector annual total cash**

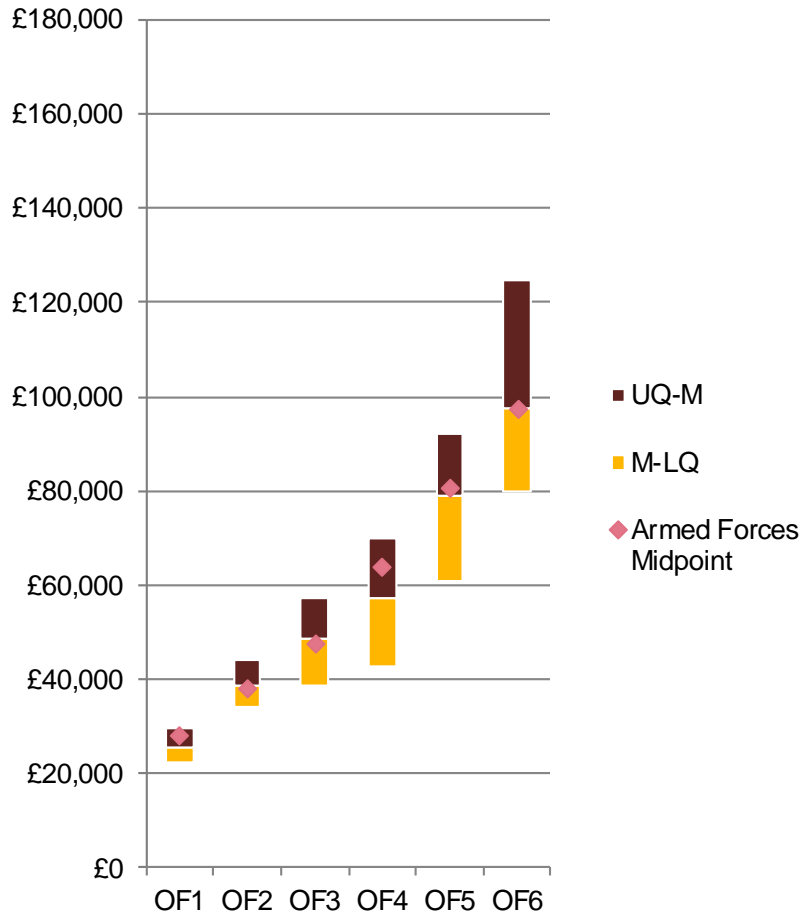


# Pay comparison results

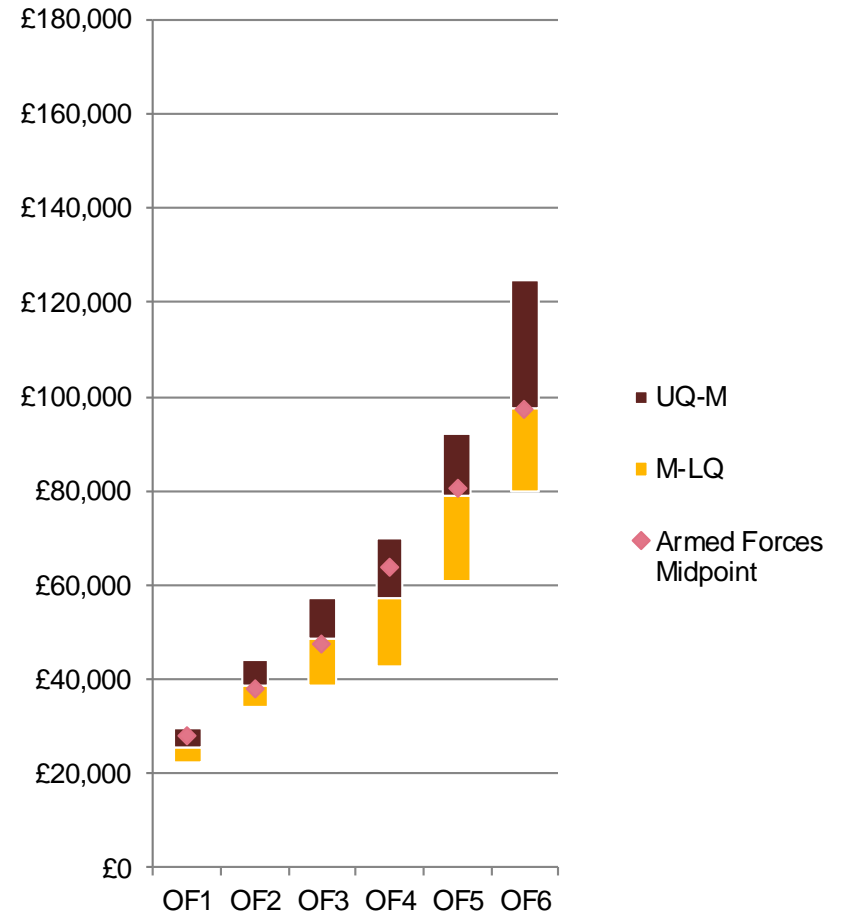
## OF population compared to the Public sector

The following graphs show a comparison of the Armed Forces by each OF rank across public sector job matches:

**Public sector annual base salary**



**Public sector annual total cash**



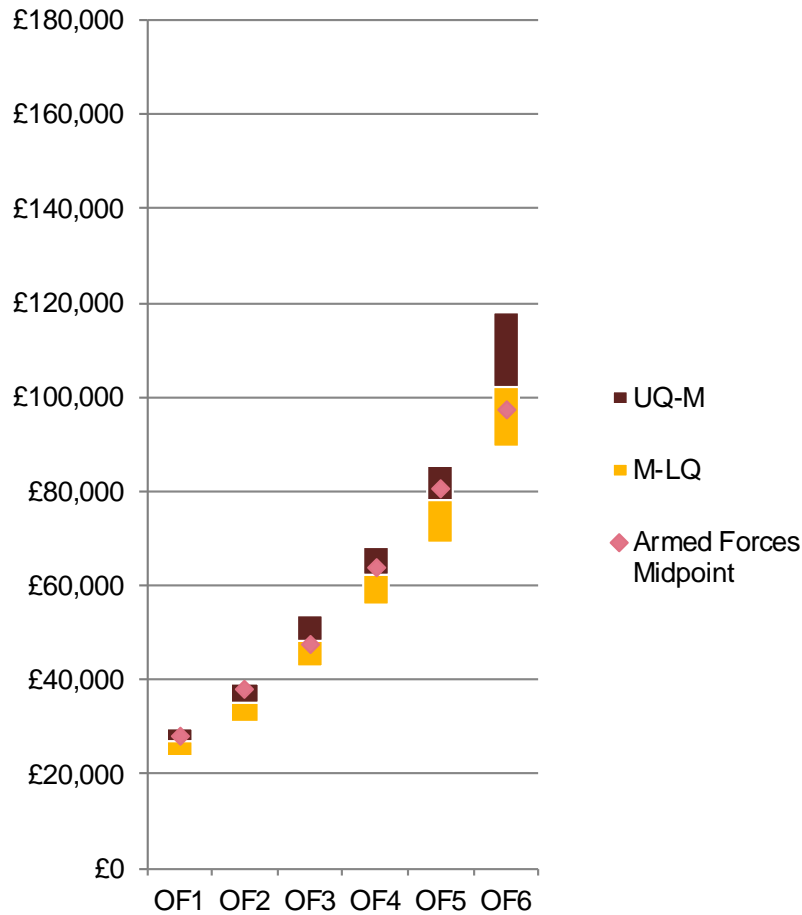


# Pay comparison results

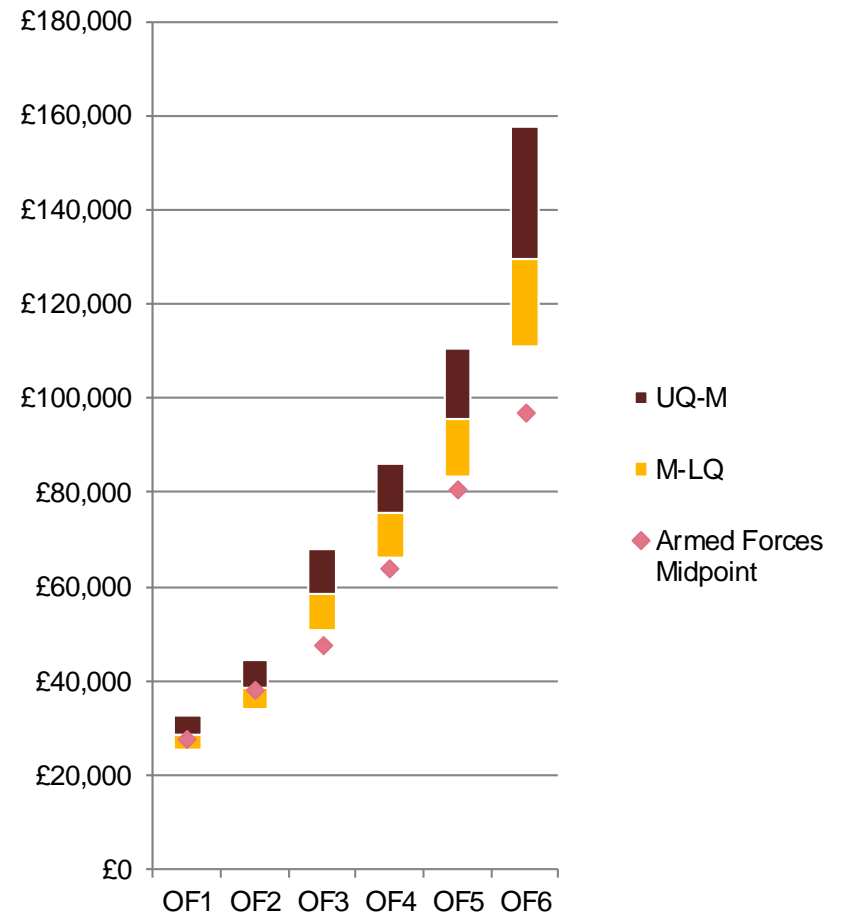
## OF population compared to the Private sector

The following graphs show a comparison of the Armed Forces by each OF rank across private sector comparators based on job evaluation:

**Private sector annual base salary**



**Private sector annual total cash**

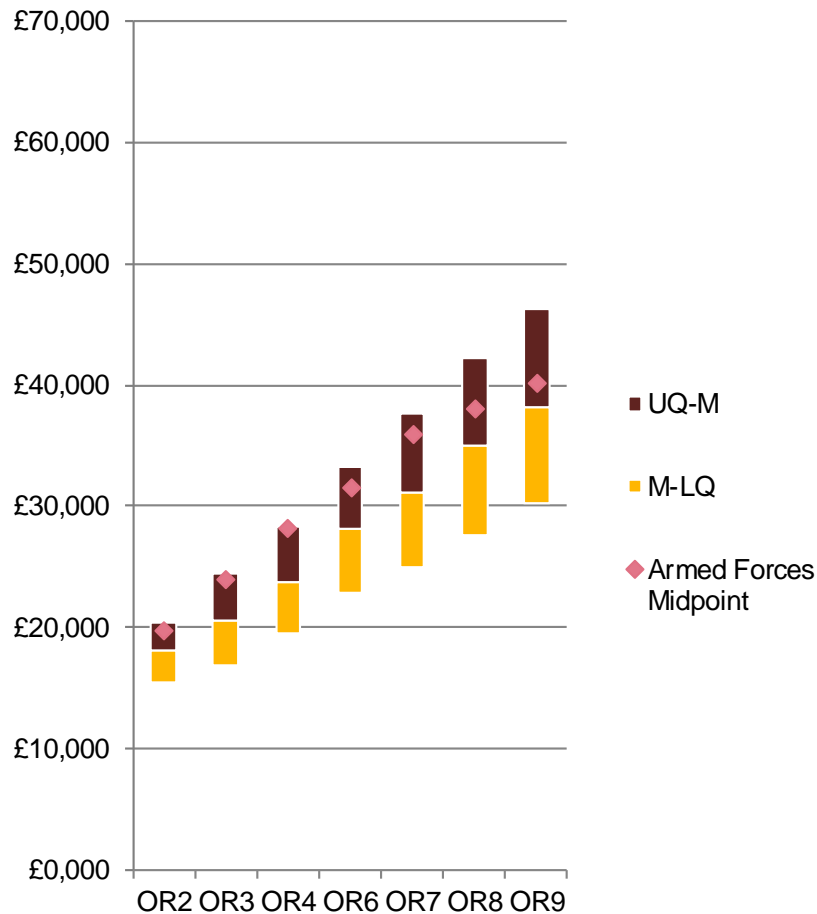


# Pay comparison results

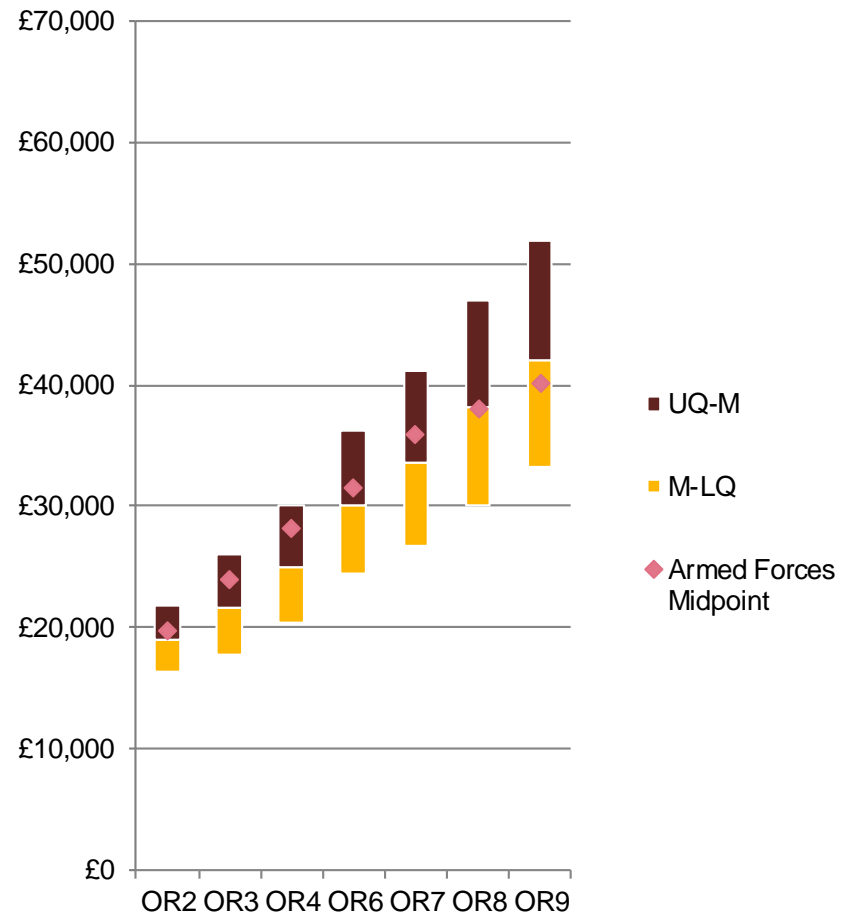
## OR population compared to Civilian employees

The following graphs show a comparison of the Armed Forces by OR rank against a combined sample of private and public sector peers:

**Civilian sector annual base salary**



**Civilian sector annual total cash**

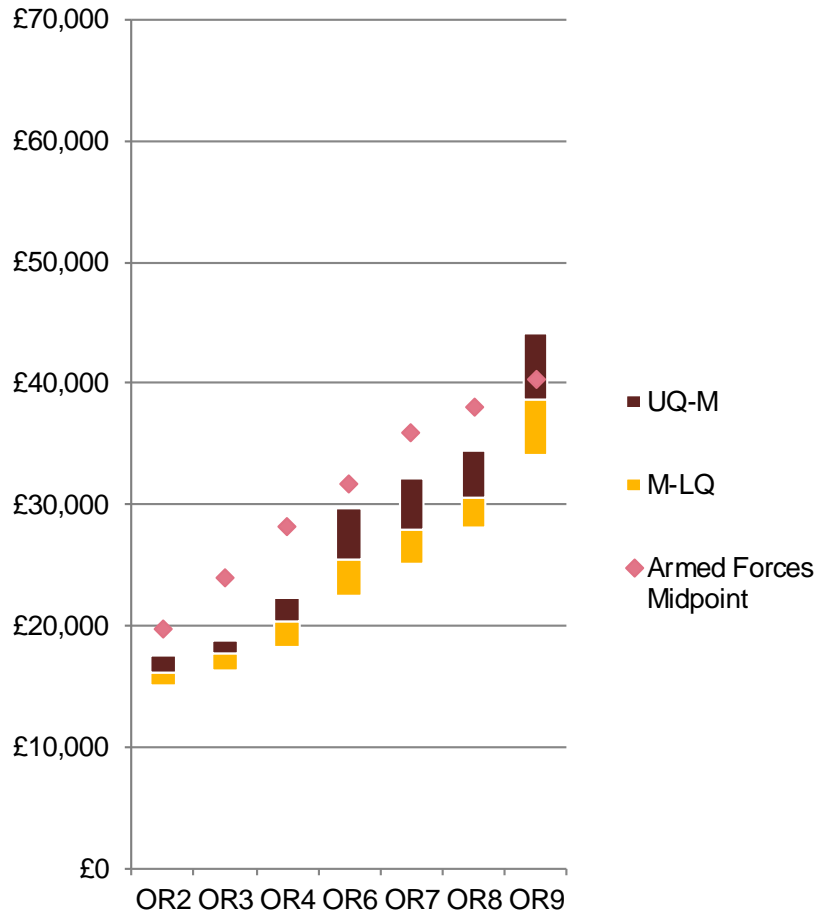


# Pay comparison results

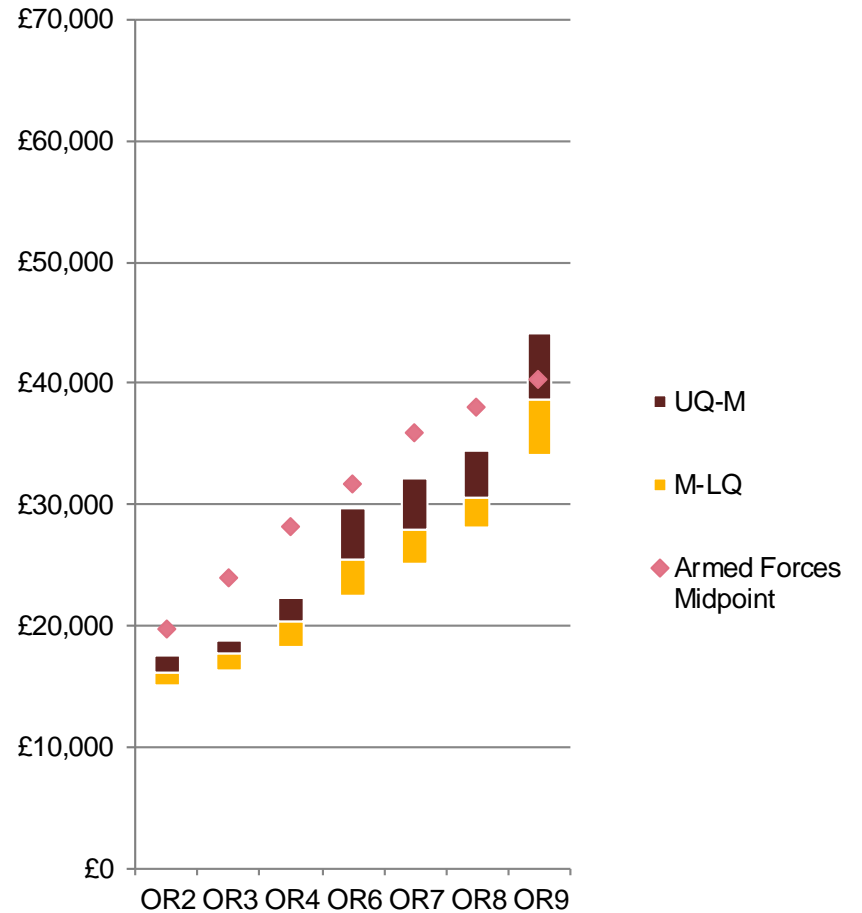
## OR population compared to the Public sector

The following graphs show a comparison of the Armed Forces by each OR rank across public sector job matches:

**Public sector annual base salary**



**Public sector annual total cash**

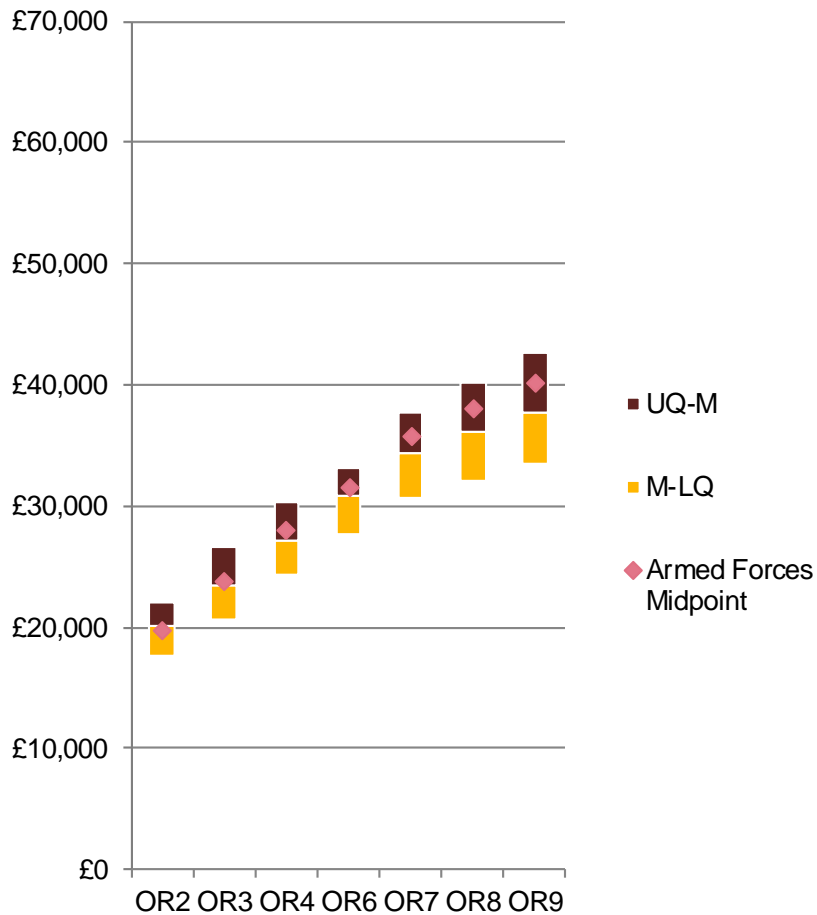


# Pay comparison results

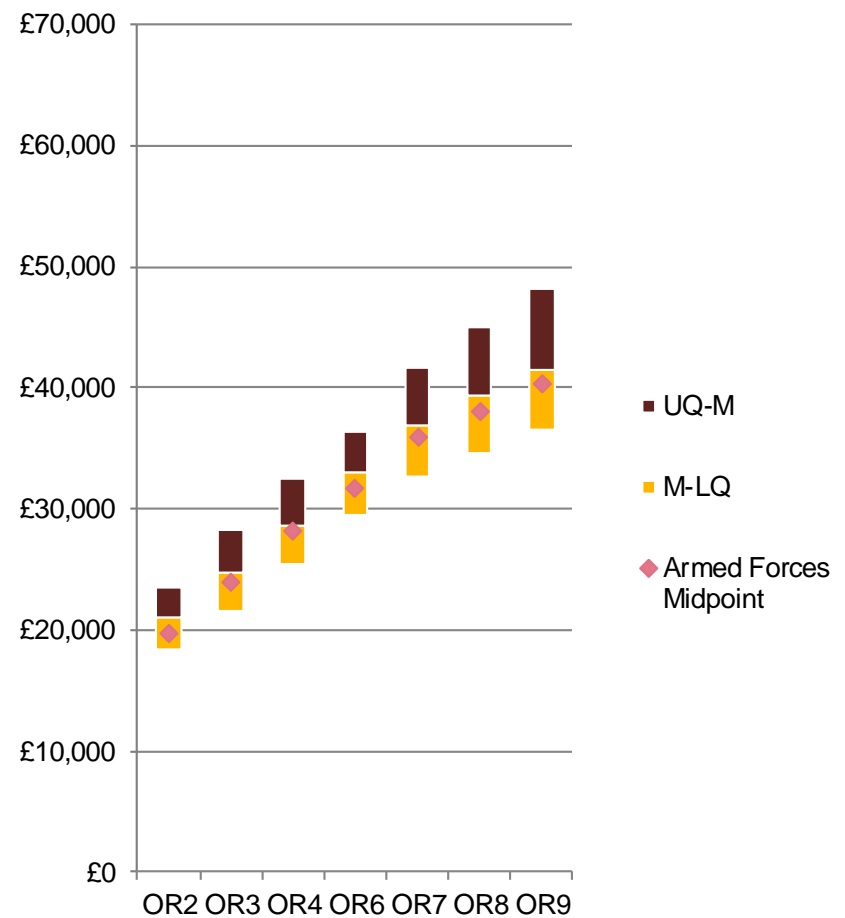
## OR population compared to the Private sector

The following graphs show a comparison of the Armed Forces by each OR rank across private sector comparators based on job evaluation:

### Private sector annual base salary



### Private sector annual total cash



# Detailed pay comparison findings

## Annual base salary

Rank	Min	Midpoint	Max	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median
	Armed Forces*			Civilian Sector				Public Sector				Private Sector			
<b>OF6</b>	£95,060	£97,084	£99,113	£72,850	£99,794	£125,741	97%	£79,810	£97,366	£124,848	100%	£89,483	£102,223	£117,809	95%
<b>OF5</b>	£76,409	£80,579	£84,752	£61,951	£78,419	£96,456	103%	£60,809	£78,866	£92,274	102%	£69,272	£77,972	£85,590	103%
<b>OF4</b>	£60,582	£63,772	£70,148	£46,556	£59,688	£72,819	107%	£42,634	£57,238	£69,830	111%	£56,140	£62,137	£68,443	103%
<b>OF3</b>	£43,165	£47,424	£51,696	£38,235	£48,399	£58,563	98%	£38,922	£48,652	£57,410	97%	£42,914	£48,146	£53,945	99%
<b>OF2</b>	£34,267	£37,968	£40,752	£29,522	£36,903	£44,283	103%	£34,039	£38,704	£44,123	98%	£31,309	£35,101	£39,355	108%
<b>OF1</b>	£22,246	£27,798	£29,556	£21,455	£26,165	£31,136	106%	£22,388	£25,390	£29,706	109%	£23,899	£26,940	£29,843	103%
<b>OR9</b>	£38,031	£40,171	£42,255	£30,195	£38,221	£46,248	105%	£34,039	£38,704	£44,123	104%	£33,513	£37,738	£42,570	106%
<b>OR8</b>	£36,647	£37,998	£39,090	£27,620	£34,962	£42,304	109%	£28,091	£30,536	£34,505	124%	£32,082	£36,059	£40,182	105%
<b>OR7</b>	£33,398	£35,833	£37,998	£24,937	£31,171	£37,717	115%	£25,166	£27,963	£32,157	128%	£30,651	£34,379	£37,793	104%
<b>OR6</b>	£29,604	£31,532	£33,376	£22,811	£28,161	£33,230	112%	£22,388	£25,390	£29,706	124%	£27,703	£30,933	£33,191	102%
<b>OR4</b>	£24,937	£28,075	£29,989	£19,467	£23,741	£28,251	118%	£18,311	£20,312	£22,295	138%	£24,393	£27,170	£30,374	103%
<b>OR3</b>	£21,758	£23,864	£26,154	£16,885	£20,591	£24,503	116%	£16,282	£17,647	£18,727	135%	£20,551	£23,535	£26,547	101%
<b>OR2</b>	£15,830	£19,678	£23,864	£15,526	£18,053	£20,400	109%	£15,102	£16,077	£17,527	122%	£17,683	£20,030	£22,073	98%

\*Pay data is based on figures used in PwC's 2014 report on *Comparison of Pay in the Armed Forces and the Civilian Sector* plus 1% flat rate 2015 pay increase added to all employees included in this analysis. X-Factor for the composition of Armed Forces base salary is also excluded.

# Detailed pay comparison findings

## Annual total cash

Rank	Midpoint	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median
	Armed Forces*	Civilian Sector				Public Sector				Private Sector			
OF6	£98,270	£94,017	£126,753	£164,879	78%	£79,810	£97,366	£124,848	101%	£111,039	£129,668	£157,676	76%
OF5	£81,765	£76,161	£96,182	£121,400	85%	£60,809	£78,866	£92,274	104%	£83,428	£95,668	£110,434	85%
OF4	£64,958	£56,325	£72,748	£90,110	89%	£42,634	£57,238	£69,830	113%	£66,154	£75,504	£86,193	86%
OF3	£48,611	£46,294	£58,723	£72,649	83%	£38,922	£48,652	£57,410	100%	£50,951	£58,442	£67,989	83%
OF2	£39,155	£32,327	£40,409	£49,542	97%	£34,039	£38,704	£44,123	101%	£33,977	£38,436	£44,357	102%
OF1	£28,984	£22,816	£27,866	£33,687	104%	£22,388	£25,390	£29,706	114%	£25,299	£28,692	£32,470	101%
OR9	£41,357	£33,252	£42,043	£51,981	98%	£34,039	£38,704	£44,123	107%	£36,532	£41,512	£48,231	100%
OR8	£39,184	£30,137	£38,109	£47,024	103%	£28,091	£30,536	£34,505	128%	£34,678	£39,304	£45,050	100%
OR7	£37,019	£26,807	£33,509	£41,223	110%	£25,166	£27,963	£32,157	132%	£32,714	£36,957	£41,661	100%
OR6	£32,719	£24,388	£30,133	£36,187	109%	£22,388	£25,390	£29,706	129%	£29,435	£33,098	£36,439	99%
OR4	£29,262	£20,417	£24,928	£30,032	117%	£18,311	£20,312	£22,295	144%	£25,480	£28,528	£32,411	103%
OR3	£25,051	£17,708	£21,621	£26,048	116%	£16,282	£17,647	£18,727	142%	£21,492	£24,712	£28,312	101%
OR2	£20,864	£16,248	£18,956	£21,754	110%	£15,102	£16,077	£17,527	130%	£18,484	£21,031	£23,576	99%

\*Pay data is based on figures used in PwC's 2014 report on Comparison of Pay in the Armed Forces and the Civilian Sector plus 1% flat rate 2015 pay increase added to all employees included in this analysis. X-Factor for the composition of Armed Forces base salary is also excluded.

# Impact of Armed Forces Pension on Annual Total Reward

## Annual total reward

Rank	Midpoint	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	LQ	Median	UQ	AF Midpoint as % of Median	
	<b>Armed Forces*</b>	<b>Civilian Sector</b>					<b>Public Sector</b>				<b>Private Sector</b>			
<b>OF6</b>	£135,551	£106,861	£146,213	£192,123	93%	£93,948	£118,786	£154,837	114%	£123,899	£147,046	£176,587	92%	
<b>OF4</b>	£88,490	£62,037	£81,403	£102,227	109%	£49,056	£66,968	£83,453	132%	£72,057	£82,961	£95,638	107%	
<b>OF3</b>	£56,341	£49,888	£64,168	£80,272	88%	£42,614	£54,247	£65,243	104%	£55,101	£63,738	£74,633	88%	
<b>OF2</b>	£44,660	£34,689	£43,988	£54,553	102%	£36,440	£42,343	£49,217	105%	£36,771	£41,946	£48,710	106%	
<b>OR9</b>	£47,624	£37,793	£48,923	£61,613	97%	£39,659	£47,219	£56,044	101%	£40,532	£46,795	£54,457	102%	
<b>OR6</b>	£37,291	£26,386	£33,160	£40,425	112%	£24,315	£28,309	£33,794	132%	£31,897	£36,191	£40,275	103%	
<b>OR4</b>	£32,968	£21,937	£27,231	£33,256	121%	£19,571	£22,221	£24,968	148%	£27,643	£31,245	£35,780	106%	
<b>OR2</b>	£22,950	£17,142	£20,310	£23,650	113%	£15,739	£17,042	£18,877	135%	£19,986	£22,834	£25,779	101%	

\*Pay data is based on figures used in PwC's 2014 report on Comparison of Pay in the Armed Forces and the Civilian Sector plus 1% flat rate 2015 pay increase added to all employees included in this analysis. X-Factor for the composition of Armed Forces base salary is also excluded.

# ***Observations of 2015 report***

## ***Conclusions***

In the context of limited changes to pay in the wider market, the overall positioning of Armed Forces' pay has not changed.

### **Officer Ranks**

- In general, the Officer population midpoint salaries remain within the adjusted pay ranges overall for the Civilian sector
- This position slips when considering total cash
- The midpoint salary for the Armed Forces is at or just above the median when compared against the Public sector for both base pay and total cash, with the exception of OF3 which is just below median
- Against the private sector, salary is also positioned around the median but falls behind the total cash ranges – particularly at OF3 and above reflecting the impact of incentives in the private sector
- When pension is included, the total reward position varies by role

### **Other Ranks**

- When compared against the overall Civilian sector, base salary is broadly above median
- Total cash is also above median for most roles up to OR8 and OR9
- Against the public sector, salaries and total cash for all OR posts are above upper quartile with the exception of OR9 which is just above median
- Against the private sector, while base pay is at or above median, the total cash position is just below median
- Total reward is above median against the Civilian sector with the exception of OR9 which is just behind the market



# *Appendices*

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# **Appendix A: Approach to pay comparison**

## **Data sources used**

The pay data on which the comparisons have been based have been drawn from the following sources:

- Our pay database which contains unpublished data on a range of jobs, covering all aspects of reward ranging from salary, bonus and pension to benefits such as private medical cover, financial planning and health insurance;
- Data brought in from surveys (including third party surveys) where we are able to make a robust assessment of the size of the role through the PwC JES; and
- Publically available data in respect of groups of employees where roles can be (or have been) evaluated using the PwC JES. These will include jobs in both the public and private sector.

Using the data gathered from these sources, we have reviewed the comparison with reference to the JE results and included all job records appropriate to each Armed Forces rank.

The job samples were then divided into three groups to provide different points of comparison:

1. All jobs eligible for comparison to the Armed Forces rank, becoming the “Civilian Sector” comparator group;
  2. All jobs eligible for comparison and are currently employed by a private sector organisation, becoming the “Private Sector” comparator group; and
  3. All jobs eligible for comparison and are currently employed by a public sector organisation, becoming the “Public Sector” comparator group.
- In the case of each Armed Forces rank, we then proceeded to undertake an analysis of the pay levels with reference to the pay categories outlined on page 6 of this report.

*It should be noted that JE does not guarantee a perfect comparison between the Armed Forces ranks and the Civilian sector jobs. The roles within the Armed Forces are all unique by nature and so have no direct counterparts outside the organisation; however, by using JE to establish the relative size of jobs to compare against peers, we are able to obtain an illustration of pay levels and track these over time.*

## Appendix A: Composition of data sample

We outline below the composition of our Civilian sector sample below which shows the break-down between the Private and Public sub-sectors in terms of organisations and jobs. Please note that the overall total of organisations shown for the Private and Public sector refers to the total number of organisations used in the overall sample.

We have also weighted the distribution of jobs in the Civilian sector to ensure that the Private sector does not overly dominate the sample used in the analysis for each rank. This weighting is based on our experience and judgement of these scenarios to create a representative picture of the external market (e.g. ONS figures indicate that the Public sector typically represent between 20% and 25% of the UK market depending on level and location).

### Distribution of jobs by rank in terms of organisation and jobs

Rank	Private Sector		Public Sector		Civilian Sector				
	Number of organisations	Jobs	Number of organisations	Jobs	Total organisations	Total jobs	Number of Total Jobs as % of Overall Total	Number of private jobs as % of Total Jobs	Number of public jobs as % of Total Jobs
<b>OF6</b>	366	644	46	109	412	753	2%	86%	14%
<b>OF5</b>	377	1,157	80	199	457	1,356	4%	82%	18%
<b>OF4</b>	385	1,815	131	410	516	2,225	6%	75%	25%
<b>OF3</b>	389	2,134	157	860	546	2,994	8%	71%	29%
<b>OF2</b>	383	2,435	149	767	532	3,202	9%	72%	28%
<b>OF1</b>	348	2,287	132	427	480	2,714	8%	73%	27%
<b>OR9</b>	382	2,200	131	410	513	2,610	7%	74%	26%
<b>OR8</b>	384	2,671	157	860	541	3,531	10%	71%	29%
<b>OR7</b>	384	2,671	149	767	533	3,438	10%	72%	28%
<b>OR6</b>	357	1,920	132	427	489	2,347	7%	73%	27%
<b>OR4</b>	340	2,653	79	223	419	2,876	8%	81%	19%
<b>OR3</b>	318	2,828	88	261	406	3,089	9%	78%	22%
<b>OR2</b>	318	3,994	75	255	393	4,249	12%	81%	19%
<b>Overall Total</b>	389	29,410	157	5,975	546	35,385	100%	71%	29%

# Appendix B: Impact of Armed Forces Pension on Annual Total Reward

## Comparing pensions benefits

The value of the pensions benefits for the Armed Forces was derived from the 2012 review of Armed Forces pensions<sup>^</sup> by PwC. The review methodology set out eight career paths (four each at Officer and Other Rank), defined by career length and rank on leaving. It should be noted that the analysis has been developed with a number of caveats;

1. The 2012 pension scheme valuation was developed around a series of typical career paths rather than in relation to all ranks of the Armed Forces with assumptions on exit points. We have extrapolated from the information on the assumption that this leaving rank will provide a reference point for these specific ranks and the job equivalence in other sectors as per our job matching approach.

Rank	Career path	Length of service	Example rank on leaving	Pension benefits as a percentage of salary*
<b>Other Ranks</b>	<b>A</b>	4	Private	10.6
	<b>B</b>	12	Corporal	13.2
	<b>C</b>	22	Sergeant	14.5
	<b>D</b>	22	WO1	15.6
<b>Officers</b>	<b>E</b>	8	Captain	14.5
	<b>F</b>	18	Major	16.3
	<b>G</b>	33	Lt Colonel	36.9
	<b>H</b>	33	Brigadier	38.4

Table 5.2 from PwC Pension Scheme Valuation (pg. 39 of AFPRB Forty-Second Report, March 2013)

\*The definition of salary here includes X-Factor of 14.5% of base salary, i.e. military salary

2. We have not made any adjustments on the impact of early departure payments (EDI) and immediate pension (IP) as we believe this is a risk of under-representing the pensions benefits in these specific career scenarios. This should however be factored into any final considerations of the pay analysis.
3. The value of the pension scheme shown in the pensions review relates to a specific length of service in the Armed Forces. However as the length of service in the Armed Forces is generally shorter than alternative careers in other sectors, it is important to bear in mind that this pension benefit may not be a whole career benefit. EDI and IP are intended to balance the requirement to find a second career after service with the Armed Forces but this may still lead to some shortfall in career earnings.

<sup>^</sup>Report available at <https://www.gov.uk/government/publications/armed-forces-pension-scheme-valuation-2012>

# Appendix B: Impact of Armed Forces Pension on Annual Total Reward

## Market practice on pension benefits

We have reviewed our understanding of market practice on levels of pensions benefits, assuming average life expectancy. This draws on organisation practice, both defined benefit and defined contribution, and converted to a defined contribution value. This excludes the impact of employee contributions.

### Pension Benefits expressed as % of Base Salary

Employee Group	Private Sector			Public Sector		
	LQ	Med	UQ	LQ	Med	UQ
Senior Management	12.5%	17.5%	25.0%	14.5%	22.0%	30.8%
Management	10.0%	12.0%	15.0%	13.9%	21.0%	29.4%
Professionals	7.1%	8.0%	15.0%	7.6%	11.5%	16.1%
Supervisory / Junior Professionals	5.1%	7.5%	10.8%	6.2%	9.4%	13.2%
Administrative/Technician	3.8%	6.0%	8.0%	4.3%	6.5%	9.1%
Manual	3.6%	5.5%	7.5%	4.0%	6.0%	8.4%

We have matched the Armed Forces ranks to the typical levels of pensions benefits in the Private and Public sectors in our market comparison:

Rank	Armed Forces	Private Sector (median)	Public Sector (median)
OF 6	38.4%	17.5%	22.0%
OF 4	36.9%	12.0%	17.0%
OF 3	16.3%	8.0%	11.5%
OF 2	14.5%	7.5%	10.2%
OR 9	15.6%	8.0%	15.0%
OR 6	14.5%	7.5%	8.6%
OR 4	13.2%	6.0%	7.5%
OR 2	10.6%	5.5%	7.0%

It should however be noted that as jobs become more senior, the application of pension benefits does begin to alter, particularly where individuals start to reach salary levels that no longer have tax-efficiency benefits. This can then lead to alternative practices such as separate cash allowances, which are difficult to represent in market analysis due to lack of available data at this time.

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