Oracle UK Pension Plan

Actuarial Report at 31 May 2018

Paul Hubbold

Barnett Waddingham LLP

13 November 2018

Background and Results

Background

This report is addressed to the Trustee of the Oracle UK Pension Plan (the Plan) and is intended to provide an approximate update on the funding position of the Plan as at 31 May 2018. The results in this report should be considered alongside my report dated 26 July 2017 on the valuation of the Plan as at 31 May 2018. The figures in this report are approximate and should be discussed with me before any significant decisions are taken.

This advice complies with Technical Actuarial Standards issued by the Financial Reporting Council – in particular TAS 100: Principles for Technical Actuarial Work and TAS 300: Pensions. These are the only TASs that apply to this work. This report is not intended to assist any user other than the Trustee in making decisions or for any other purpose, and neither I nor Barnett Waddingham LLP accept liability should the report be relied upon for any other purpose.

Updated position

The table to the right shows the approximate updated funding position as at 31 May 2018. The results of the triennial valuation dated 31 May 2016 and the previous Actuarial Report as at 31 May 2017 are also shown for comparison.

Funding results (£Million)	31 May 2016 Valuation	31 May 2017 Update	31 May 2018 Update
Assets	237.6	263.3	276.1
Liabilities	403.1	536.6	531.5
Surplus / (Deficit)	**(165.5)**	**(273.3)**	**(255.4)**
Funding level	59%	49%	52%

Comments

The estimated funding position as at 31 May 2018 shows an improvement since the previous update as at 31 May 2017. The main reasons for this change are the change in market conditions and the deficit reduction contributions paid in to the Plan over the period. Membership experience has also contributed positively to the change in funding position.

The deficit at 31 May 2018 continues to be higher than that disclosed at the valuation date of 31 May 2016. This is largely due to changes in market conditions (in particular a fall in gilt yields) since the valuation was carried out. The contributions under the existing Recovery Plan, of £10M pa payable until 2035 into the escrow account until 2025 and direct to the Plan thereafter will not be sufficient to remove the currrent deficit.

Since 31 May 2018, real yields have increased by around 0.2% pa at the date of preparing this report. Combined with other changes in market conditions up to the date of this report, this is likely to have reduced the deficit by around £5M.

Next steps

The Trustee should make a copy of this report available to Oracle Corporation UK Limited (the Employer) within 7 days of receipt. The results of this review should be disclosed to members in the next Summary Funding Statement. The next actuarial valuation will be due as at 31 May 2019 and must be completed by 31 August 2020.

Provided the Trustee is comfortable with the strength of the Employer covenant it is not necessary to take any action in light of the results shown in this report, however the Trustee should continue to monitor the funding position. The remainder of this report provides further detail on my calculations.

I look forward to discussing this report further at the Trustee meeting on 11 October 2018.

Paul Hubbold FIA
Partner, Barnett Waddingham LLP
13 November 2018

Method and Assumptions

Assumptions

A summary of the key assumptions used for the funding update are shown below, alongside the corresponding assumptions for calculating the Technical Provisions as at the valuation date and the previous Actuarial Report.

Market conditions	31 May 2016	31 May 2017	31 May 2018
Gilt yields – 20 yr duration	2.30% pa	1.80% pa	1.75% pa
RPI inflation – 20 yr duration	3.25% pa	3.60% pa	3.50% pa
Assumptions			
Pre-retirement discount rate	4.30% pa	3.80% pa	3.75% pa
Post-retirement discount rate	3.20% pa	2.70% pa	2.65% pa
Inflation (RPI)	3.25% pa	3.60% pa	3.50% pa
Inflation (CPI)	2.25% pa	2.60% pa	2.50% pa
Salary growth	4.25% pa	4.60% pa	4.50% pa
Mortality table	104% of S2NA_L tables for males and 93% of S2NA tables for females		
Mortality Improvements	CMI 2015 projections with a long-term rate of improvement of 1.50% pa		
Allowance for withdrawal	Approximately 10% pa for ages 31 – 65 and 20% pa for ages less than 31		

A full list of the assumptions at the valuation date can be found in my report dated 26 July 2017. The derivation of the assumptions at each date is consistent with the Plan's Statement of Funding Principles included in that report. Other demographic assumptions are as set out in the Plan's Statement of Funding Principles.

In my opinion the assumptions set out to the left are appropriate for the purpose of this actuarial report.

Method

The figures contained in this report are based upon an approximate valuation of the Plan as at 31 May 2018.

The liabilities for members with benefits subject to the pensions underpin guarantee have been determined using membership data as at 31 May 2018. The data and benefits are summarised in Appendix 1 and in my report regarding the Underpin Reserve Check as at 31 May 2018. The financial assumptions are consistent with the principles set out in the latest Statement of Funding Principles dated 25 July 2017, but updated to reflect market conditions as at the Review Date.

The resulting liabilities are then compared with the market value of assets as at 31 May 2018. This is based on the value of investments held with the Plan's investment managers, together with the Plan's bank balance as at 31 May 2018. These figures have not been audited.

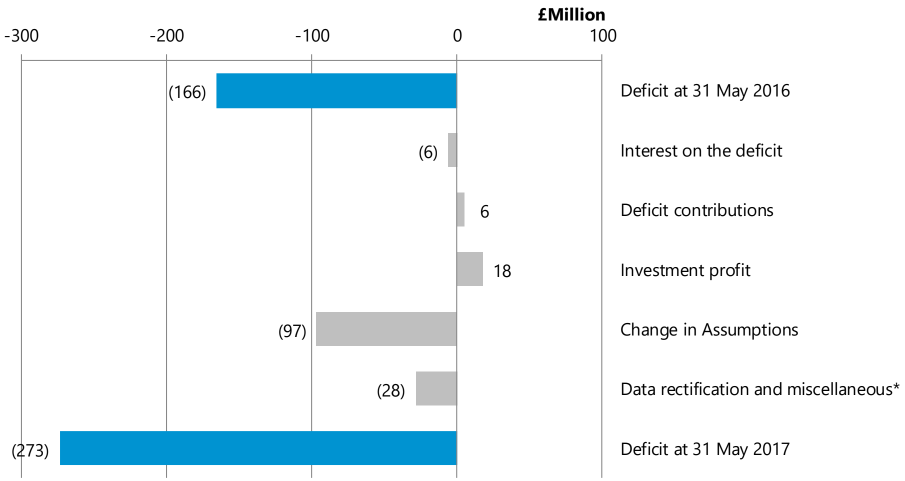
The Trustee should note the approximate nature of this valuation. Although I have carried out reasonableness checks on the data and the liability calculations, my checks have not been as rigorous as those adopted for the triennial valuation.

I believe this methodology is reasonable for the purposes of this report and suitably reflects development of the Plan's funding position over the period.

Developments since the previous valuation

For the 12 months to 31 May 2017

My report dated 11 October 2017 describes the developments over the year from the Valuation Date to 31 May 2017. The increase in deficit over this period can be broadly broken down as follows:



**includes member movements and inflation experience*

For the 12 months to 31 May 2018

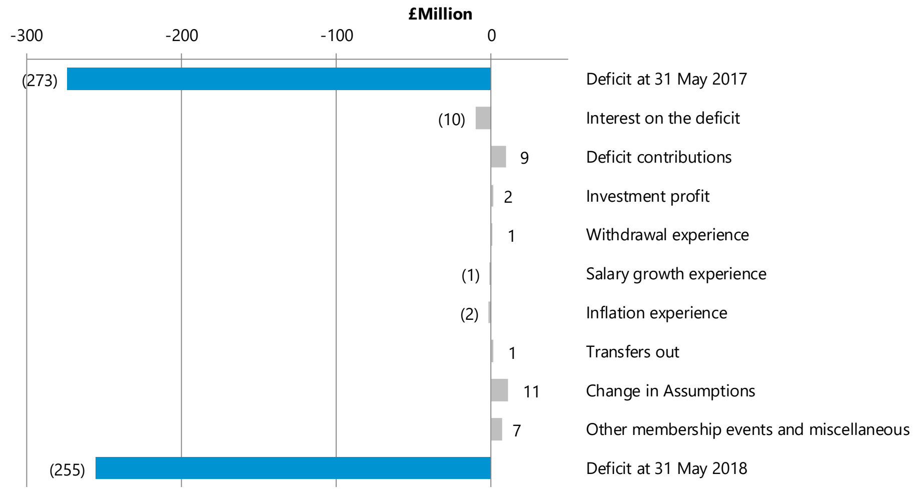
The following information excludes all Non-Core DC assets not subject to the pensions underpin guarantee and any contributions held in the escrow account.

- Deficit reduction contributions of £9.2M were paid into the Plan in December 2017 following completion of the Annual Review of the underpin reserve as at 31 May 2017.
- Pension payments of £1.0M and other benefit payments of £6.8M were paid from the Plan.
- The Plan's assets returned approximately 4% over the year.
- The annual increase awarded on 1 April 2018 for pensions linked to CPI was 3%.

Based on information provided by the Plan's investment managers and administrators I have taken the unaudited market value of the Plan's assets to be £276.1M at the Review Date.

No discretionary benefits were awarded over the year to the Review Date and no allowance has been made for the potential requirement to equalise GMPs.

The reduction in deficit over the 12 month period can be broadly broken down as follows:



Solvency position

The table below shows the change in the Plan's funding position over time if the Plan had wound up and the liabilities had been secured with an insurance company.

Solvency estimate (£Million)	31 May 2016 Valuation	31 May 2017 Update	31 May 2018 Update
Assets	238	263	276
Solvency liabilities	795	1,063	986
Surplus / (Deficit)	**(557)**	**(800)**	**(710)**
Funding level	30%	25%	28%

Over the year to 31 May 2018, I estimate that the solvency deficit is likely to have reduced to approximately £710M, representing an approximate solvency funding level of 28%. This reflects the change in market conditions over the year (in particular a small increase in real yields) and also reflects our updated views on bulk annuity pricing by insurance companies. This has been determined using a consistent approach to that set out for the triennial valuation as at 31 May 2016. Further details are set out in my report on the valuation dated 26 July 2017.

Appendix 1 Membership data

A summary of the membership data as at 31 May 2018 is set out below based on an extract taken shortly after the Review Date, which we have carried out reasonableness checks on. Whilst this should not be seen as a full audit of the data, I am happy that the data is sufficiently accurate for the purposes of this update.

In service deferred members at 31 May 2018

	Number	Average age	Underpin Pension at review date £M pa
Males	455	52.0	3.5
Females	148	51.3	0.8
	603	51.8	4.3

Deferred members at 31 May 2018

	Number	Average age	Underpin Pension at Date of Leaving £M pa
Males	2,889	52.8	8.9
Females	1,328	51.0	3.3
	4,217	52.2	12.2

Pensioner members at 31 May 2018

	Number	Average age	Pension at review date £M pa
Males	171	67.0	0.8
Females	68	66.5	0.2
	239	66.8	1.0

In addition there are a further 19 in service deferred members and 337 deferred members who have no Pensions Underpin benefits.