

Oracle UK Pension Plan

Actuarial Report at 31 May 2020

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16 November 2020

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 2020. The results in this report should be considered alongside my report on the results of the valuation of the Plan as at 31 May 2019, dated 29 October 2020. The figures in this report are approximate and should be discussed with me before any significant decisions are taken.

The calculations for the annual funding update should refer to the valuation methodology and assumptions set out in the Plan's Statement of Funding Principles (the latest version of which is dated 23 October 2020) and market conditions at the date of calculation. The calculations should also reflect any significant changes to the Plan's Technical Provisions since the last actuarial valuation or actuarial report.

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.

Results

The table below displays the approximate updated funding position as at 31 May 2020. The results of the triennial valuation dated 31 May 2019 are also shown for comparison.

Funding results (£m)	31 May 2019	31 May 2020
Assets	285	309
Liabilities	593	675
Surplus / (Deficit)	(308)	(366)
Funding level	48%	46%

The estimated funding position as at 31 May 2020 has deteriorated since the valuation as at 31 May 2019. The main reason for this change is the change in market conditions over the period which has increased the deficit by around £72m as shown on page 5.

The contributions under the Recovery Plan agreed as part of the 2019 valuation were £10m in the first year followed by £35m pa for 9 years. Payment of contributions is split between the Plan and the Escrow Account, with the payment terms covered by a funding deed dated 23 October 2020. Following the increase in the deficit disclosed at 31 May 2020, the Recovery Plan will not be sufficient to remove the current deficit.

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.

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.

The next actuarial valuation will be due with an effective date of 31 May 2022 and must be completed before 31 August 2023.

I look forward to discussing this report further with the Trustee.



Paul Hubbard FIA
Barnett Waddingham LLP
16 November 2020

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.

Financial assumptions	31 May 2019	31 May 2020
Pre-retirement discount rate	3.50% pa	2.60% pa
Post-retirement discount rate	2.40% pa	1.50% pa
Inflation (RPI)	3.65% pa	3.20% pa
Inflation (CPI)	2.65% pa	2.20% pa
Salary growth	4.65% pa	4.20% pa
Demographic assumptions		
Mortality table	100% of S3NA "light" tables	
Mortality Improvements	CMI 2018 projections with a long term rate of improvement of 1.5% pa and initial improvement parameter of 1%	
Allowance for cash commutation	None	
Allowance for withdrawals	10% pa	

A full list of the assumptions at the valuation date can be found in my report dated 29 October 2020. The derivation of the financial and demographic assumptions is consistent with the Plan's Statement of Funding Principles dated 23 October 2020, allowing for market conditions at each review date.

The Trustee should note that if a full valuation were carried out as at 31 May 2020 then detailed advice on the assumptions would be required. Under a full valuation the Trustee would need to satisfy itself that the assumptions were sufficiently prudent in light of prevailing conditions and its view of the Employer Covenant.

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 2020.

The liabilities for members with benefits subject to the pensions underpin guarantee have been determined using membership data as at 31 May 2020. The data and benefits are summarised in Appendix 1. The financial assumptions are consistent with the principles set out in the latest Statement of Funding Principles, 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 2020. This is based on the value of investments held with the Plan's investment managers, together with the Plan's bank balance and net current assets as at 31 May 2020, which was supplied by the Plan's administrators. 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.

In line with the latest actuarial valuation I have included an allowance of 1.5% of the Plan's liabilities as an approximation of the impact of GMP equalisation.

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 2020

The following information excludes all Non-Core DC assets.

- Contributions of £15m were due following the Annual Review as at 31 May 2019. Deficit reduction contributions of £10m were paid into the Plan in monthly instalments over the year to 31 May 2020. The outstanding contributions are included as a net current asset.
- Pension payments of £1.7m and other benefit payments of £2.9m were paid from the Plan.
- The Plan's assets returned approximately 5% over the year.
- The annual increase awarded on 1 April 2020 for pensions linked to CPI was 1.8%.
- No discretionary benefits were awarded over the year to the Review Date.

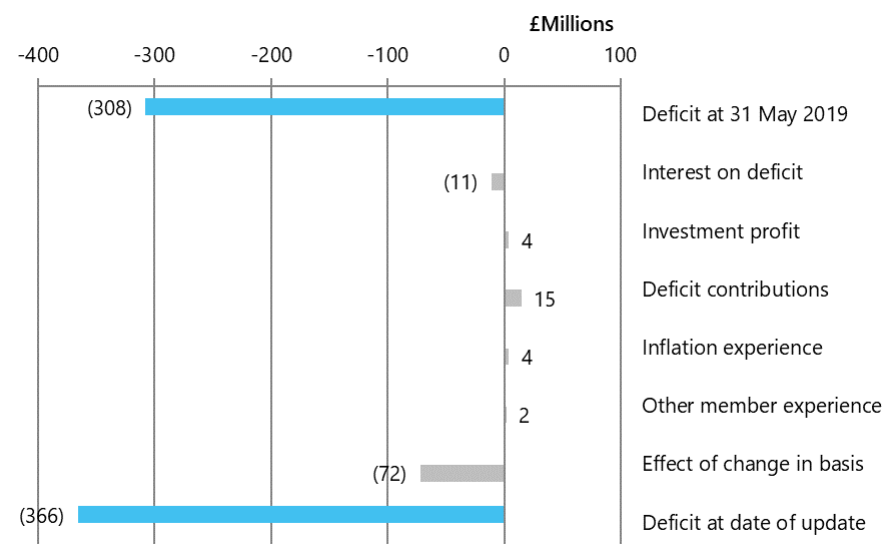
Based on information provided by the Plan's investment managers and administrators I have taken the unaudited market value of the Plan's assets to be £309m at the Review Date which is made up as follows:

Assets (£m)	31 May 2020
Core funds	243
Trustee Reserve Account	9
Pensioner Reserve Fund	44
Underpin reserve bank account and net current assets	13
Total	309

In addition to the asset value used in this report, £19.7m was held in the Escrow Account as at the Review Date.

Change in deficit

The increase 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 (£m)	31 May 2019 Valuation	31 May 2020 Update
Assets	290	310
Solvency liabilities	1,080	1,210
Surplus / (Deficit)	(790)	(900)
Funding level	27%	26%

Over the year to 31 May 2020, I estimate that the solvency deficit is likely to have increased to approximately £900m, representing an approximate solvency funding level of 26%. This reflects the change in market conditions over the year (in particular a fall 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 2019. Further details are set out in my report on the results of the valuation dated 29 October 2020.

Appendix 1 Membership data

A summary of the membership data as at 31 May 2020 is set out below, which we have carried out reasonableness checks on. Whilst this should not be seen as a full audit of the data and has some small differences to the membership statistics shown in the draft Trustees' Report and Accounts, I am happy that the data is sufficiently accurate for the purposes of this update.

In service deferred members at 31 May 2020

	Number	Average age	Underpin Pension at review date £m pa
Males	395	53.6	3.2
Females	133	53.1	0.8
	528	53.5	4.0

Deferred members at 31 May 2020

	Number	Average age	Underpin Pension at Date of Leaving £m pa
Males	2,780	54.3	8.6
Females	1,308	52.8	3.3
	4,088	53.8	11.9

Pensioner members at 31 May 2020

	Number	Average age	Pension at review date £m pa
Males	273	67.5	1.5
Females	89	66.0	0.3
	362	67.1	1.8

In addition there are a further 13 in service deferred members and 309 deferred members who have no Pensions Underpin benefits.