

Oracle UK Pension Plan

Actuarial Report at 31 May 2021

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Barnett Waddingham LLP

26 July 2021

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 2021. 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.

It is a requirement of the Pensions Act 2004 that during the period between triennial actuarial valuations, trustees of defined benefit schemes with more than 100 members commission an annual funding report called an "actuarial report".

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 2021. The results of the triennial valuation dated 31 May 2019 and the previous actuarial report as at 31 May 2020 are also shown for comparison.

Funding results (£m)	31 May 2019	31 May 2020	31 May 2021
Assets	285	309	351
Liabilities	593	675	623
Surplus / (Deficit)	(308)	(366)	(272)
Funding level	48%	46%	56%

The estimated funding position as at 31 May 2021 has improved since the previous update as at 31 May 2020. The main reason for this change is the change in market conditions (i.e. a rise in gilt yields) over the year which has reduced the deficit by around £46m as shown on page 6.

Overall, the funding level has also improved since the valuation date of 31 May 2019. As shown on the charts on page 6, this is largely due to contributions paid by the Employer and better than expected returns on the Plan's assets. Despite a reversal of the changes in market conditions that were seen during the year to 31 May 2020, overall gilt yields have fallen slightly since the valuation date which has led to a small increase in the value of the liabilities, partially offsetting the contributions paid and positive asset performance.

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 improvement in funding position at 31 May 2021, the Plan is currently ahead of target in terms of the agreed Recovery Plan, although as discussed previously, the Trustee should be mindful of the impact on the liabilities of the RPI reforms (see below).

RPI reforms

Further detail is set out on page 4, however, as previously discussed and minuted at the Trustee meeting on 22 April 2021, I have estimated that the value of the liabilities would have increased by around 12% (c.£73m) at 31 May 2019 on the Technical Provisions basis as a result of allowing for the RPI reforms (and the corresponding impact on the CPI assumption).

Given the discussions to date with the Trustee, I have not yet incorporated the change to the CPI assumption in the main results of this actuarial report. I understand that the intention remains to incorporate the changes to the CPI assumption as part of the 2022 triennial valuation as discussed at the Trustee meeting on 22 July 2021.

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 Trustee is also required to send an updated Summary Funding Statement to members within "a reasonable period". The Pensions Regulator considers that a reasonable period is normally within 3 months of the date by which the actuarial report must be received, that is before 31 August 2022. However, in my opinion there is no reason why the Trustee cannot proceed with issuing a statement before then.

The Trustee should consider what action, if any, should be taken in light of the information contained in this report. Depending on the decisions taken further calculations may be necessary. Given the funding position is better than expected and an actuarial valuation is due as at 31 May 2022, in my opinion, no action is necessary at this stage (even taking into account the RPI reforms). 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.



Paul Hubbard FIA
Barnett Waddingham LLP
26 July 2021

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	31 May 2021
Pre-retirement discount rate	3.50% pa	2.60% pa	3.35% pa
Post-retirement discount rate	2.40% pa	1.50% pa	2.25% pa
Inflation (RPI)	3.65% pa	3.20% pa	3.70% pa
Inflation (CPI)	2.65% pa	2.20% pa	2.70% pa
Salary growth	4.65% pa	4.20% pa	4.70% 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 2021 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. This would include a review of the mortality assumptions given more up to date assumptions are available as well as incorporating the developments in relation to the RPI inflation measure, described in more detail below.

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

RPI consultation announcement

The UK Statistics Authority proposed aligning RPI in future with the Consumer Prices Index including owner occupiers' housing costs (CPIH). Changes to RPI prior to 2030 required the Chancellor's consent, and so the Government consulted on the change. On 25 November 2020, the Chancellor responded to the consultation, confirming that he will not provide consent prior to 2030, meaning that the alignment to CPIH will take effect from 2030 at the earliest.

CPIH is expected, on average, to be lower than RPI. Pension benefits that are increased in line with RPI are therefore expected to be lower from 2030 than they would otherwise have been. The change in RPI is also expected to reduce the payments due from RPI-linked investments from 2030, such as index-linked gilts (ILGs) or Liability Driven Investment (LDI). In particular, the difference between RPI and CPI inflation after 2030 is expected to be negligible. As part of the consultation response, the Treasury also confirmed that ILG holders will not be compensated for the expected reduction in post-2030 coupon payments.

The Plan's benefits are linked to CPI rather than RPI which means the announcement should not impact on the level of benefits which are expected to be paid from the Plan. However, in my opinion, the assumption for future CPI will need to be revisited as a result of the Chancellor's statement. This is because, like

many schemes, the Trustee's approach is to determine CPI by deducting a margin from the RPI assumption.

The Trustee's Statement of Funding Principles assumes that CPI will be 1.0% pa lower than RPI at all terms, i.e. not allowing for the impact of the RPI consultation.

When the Chancellor's statement was made many expected to see an observed fall in longer term RPI expectations (i.e. post-2030). Under this scenario maintaining the 1% pa CPI difference would have meant a fall in longer term CPI expectations, which would not be appropriate given the change to RPI was to better align it with CPIH. Therefore, the deduction for CPI would need to be reduced to maintain an appropriate CPI assumption.

However, immediately following the Chancellor's response to the consultation, the movement in gilt-implied RPI inflation rates applying after 2030 was muted. This could be for many reasons, but one potential reason is that the market had already reflected the expectation of the change. The consequence of this is that reducing the deduction to CPI with no change to RPI will increase the value placed on the liabilities.

As previously discussed and minuted at the Trustee meeting on 22 April 2021, if the CPI assumption was set equal to RPI after 2030, the value of the liabilities would have increased by around 12% (c.£73m) at 31 May 2019 on the Technical Provisions basis.

Given the discussions to date with the Trustee, I have not yet incorporated the change to the CPI assumption in the main results of this actuarial report. I understand that the intention remains to incorporate the changes to the CPI assumption as part of the 2022 triennial valuation as discussed at the Trustee meeting on 22 July 2021.

Method

The figures contained in this report are based upon an approximate valuation of the Plan as at 31 May 2021.

The liabilities for members with benefits subject to the pensions underpin guarantee have been determined using membership data as at 31 May 2021. 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 2021. 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 2021, 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. However, the Trustee should note that no allowance has been made in respect of the impact of GMP equalisation for past transfers (i.e. the Lloyds 3 case).

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

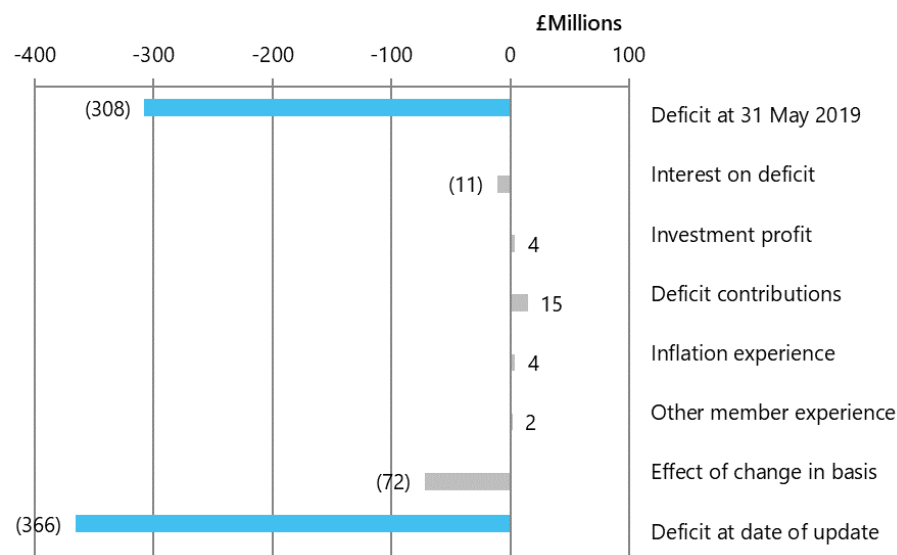
Risks and sensitivities

My actuarial valuation report dated 29 October 2020 included a summary of the main risks facing the Plan and the sensitivity of the results to changes in the main assumptions.

Developments since the previous valuation

For the 12 months to 31 May 2020

My report dated 16 November 2020 describes the developments over the year from the Valuation Date to 31 May 2020. The increase in deficit over this period can be broadly broken down as follows:



For the 12 months to 31 May 2021

The following information excludes all Non-Core DC assets.

- Deficit reduction contributions:
 - Contributions of £20.8m were paid into the Plan over the year to 31 May 2020. However, a net asset of £11.7m was allowed for as at 31 May 2020 in respect of outstanding contributions following the 2019 Annual Review. Therefore there has been

£9.1m of new contributions (£20.8m less £11.7m) to allow for as part of this funding update.

- **Contributions of £11.2m were due** following the Annual Reviews as at 31 May 2018 (final instalment of £4.2m) and 31 May 2019 (second instalment of £7m).
- The **outstanding contributions of £2.1m** (£11.2m less £9.1m) are included as a net current asset for the purpose of this report.

This is implicitly assumed to be paid either directly from the Escrow Account or as an Employer contribution in the future (this is consistent with the approach taken in previous years). Given these amounts are “deferred” contributions from previous annual reviews, I understand that they remain due and therefore I have assumed that they came into payment during the relevant year. The Trustee confirmed it is happy with this approach and to treat this amount as a net current asset at the Trustee meeting on 22 July 2021.

- Contributions of £20m are due over the year to 31 May 2022, which will exceed the current outstanding contributions of £2.1m and the additional contributions due of £7m (final instalment from the 2019 Annual Review) so the debt owing from the Escrow Account will be cleared by 31 May 2022. Please refer to my Annual Review proposal paper dated 25 August 2020 for further information.

- Pension payments of £2.0m and other benefit payments of £3.6m were paid from the Plan.
- The Plan’s assets returned approximately 9% over the year.
- The annual increase awarded on 1 April 2020 for pensions linked to CPI was 0.5%.

- No discretionary benefits were awarded over the year to the Review Date.

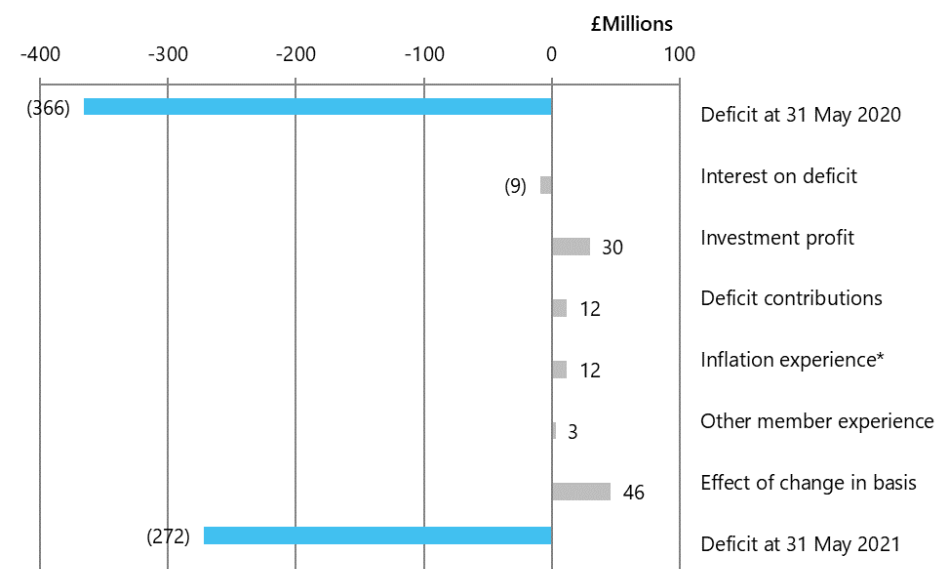
Based on information provided by the Plan's investment managers and administrators I have taken the unaudited market value of the Plan's assets to be £350.7m at the Review Date which is made up as follows:

Assets (£m)	31 May 2021
Core funds	269.7
Trustee Reserve Account	23.0
Pensioner Reserve Fund	55.3
Underpin reserve bank account and net current assets	2.7*
Total	350.7

**includes £2.1 net asset in respect of outstanding contributions as described on the previous page*

In addition to the asset value used in this report, £35.9m was held in the Escrow Account as at the Review Date.

The reduction in deficit can be broadly broken down as follows:



**including salary inflation*

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	31 May 2021 Update
Assets	290	310	351
Solvency liabilities	1,080	1,210	1,090
Surplus / (Deficit)	(790)	(900)	(739)
Funding level	27%	26%	32%

Over the year to 31 May 2021, I estimate that the solvency deficit is likely to have decreased to approximately £739m, representing an approximate solvency funding level of 32%. This reflects the change in market conditions over the year (in particular an 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 2019 and the previous funding update as at 31 May 2020. Further details are set out in my report on the results of the valuation dated 29 October 2020.

Although the solvency position will also be affected by the RPI reforms (in particular in relation to the CPI assumption), the impact is not as significant. This is due to the solvency basis previously having a smaller difference between RPI and CPI assumptions.

Appendix 1 Membership data at 31 May 2021

A summary of the membership data as at 31 May 2021 is set out below, which was provided by the Plan's administrators in June 2021 and 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

	Number	Average age	Underpin Pension at review date £m pa
Males	361	55.2	2.8
Females	126	54.8	0.7
	487	55.1	3.5

Deferred members

	Number	Average age	Underpin Pension at Date of Leaving £m pa
Males	2,713	56.7	8.5
Females	1,284	55.4	3.2
	3,997	56.4	11.7

Pensioner members

	Number	Average age	Pension at review date £m pa
Males	339	67.6	1.9
Females	106	66.6	0.4
	445	67.4	2.3

In addition there are a further 316 deferred members who have no Pensions Underpin benefits.