Sony United Kingdom Pension Scheme - Statement of Funding Principles

Introduction

This statement has been prepared by Sony (U.K.) Pension Trust Limited, the Trustee of the Sony United Kingdom Pension Scheme ("the Scheme") to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Scheme Actuary, Michael Butterfield. The Trustee has discussed and agreed it with Sony Europe Limited (the "Company").

This statement covers the Scheme's statutory funding objective, the principles used in determining that objective, the policy for securing that it is met, and the process through which the Trustee and the Company reach agreement on the contents of this statement. It contains other information required under the Act, and applies to the actuarial valuation as at 31 March 2016.

Statutory funding objective

The statutory funding objective is that the Scheme must have sufficient and appropriate assets to cover its Technical Provisions.

Technical provisions

Method

The Technical Provisions for final salary pension benefits under the Defined Benefit section of the Scheme at any given date are to be calculated as the capital value of the prospective benefits arising from service completed before that date. This method of calculating Technical Provisions is commonly known as the projected unit method.

The Scheme also holds assets in respect of the Defined Contribution section, together with Additional Voluntary Contributions and Nest Egg accounts for members of the Defined Benefit section. It should also be noted that regulatory changes since the last Actuarial Valuation at 31 March 2013 have altered the definition of money purchase benefits, meaning that some benefits previously considered to be money purchase must now be classified as defined benefit (or non-money purchase). For the purposes of calculating the Technical Provisions, we have interpreted the Nest Egg transfers-in with a GMP underpin to be either DB in their entirety where the GMP underpin bites, or money purchase in their entirety where the underpin doesn't bite. As a result, the value of assets compared with the Technical Provisions is the value of the Defined Benefit section's assets less AVCs, as shown in the Scheme's accounts, reduced further to remove Nest Egg accounts where the GMP underpin doesn't bite.

Assumptions

The Trustee will adopt a prudent approach to determining the assumptions used for calculating the Technical Provisions and will consider whether and to what degree margins for adverse deviations should be taken into account.

In this context, the strength of the Company's covenant is particularly important. The Trustee has carefully considered, and taken independent advice on, the Company's covenant, noting its financial dependence on Sony Global Treasury Services Limited (SGTS). The Trustee's assessment of the Company's covenant, incorporating the guarantee provided by SGTS, underpins the assumptions described below for the 2016 valuation. If this assessment, and/or the guarantee itself, were to change materially, the approach to funding would need to be re-considered. On this basis:

- The discount rate used to calculate the present capital value of future cashflows, which may be different for cashflows before and after retirement, will be a prudent estimate of the investment return on a notional portfolio of assets supporting the liabilities of the Scheme, based on market conditions at the effective date of the actuarial investigation. This may assume that the Scheme will capture part of the expected investment premium for asset classes other than gilts. The Trustee acknowledges that the additional return from these assets is not guaranteed and that it may be necessary to request further contributions from the Company if investment returns are below the level assumed.

- The remaining financial assumptions, in particular future retail price inflation (RPI and CPI) and pension increases linked to price inflation, will take into account market-related information at the effective date of the actuarial valuation. At 31 March 2016 the Trustee assumed a gap of 0.8% between RPI and CPI.

- Demographic assumptions will have regard to an analysis of the Scheme membership as well as relevant statistics applicable to similar pension schemes and the Trustee's views, having consulted with the Company, about how these may change in future. The mortality assumptions also have regard to projections and research carried out by the Institute of Actuaries and other external bodies.

Discretionary benefits

At the request of the Company, and upon payment by the Company of any contributions that the Trustee (with the advice of the Scheme Actuary) may consider appropriate, the Trustee may increase any benefit or provide additional benefits under the Scheme. The Trustee and the Company have agreed not to make advance provision for any such augmentations.

There are also a number of options that enable members to convert the benefit from one form into another, eg the exchange of pension for cash at retirement. The Trustee and the Company have agreed that other than for commutation where deferred members are assumed to exchange 15% of their pension for cash on retirement, no allowance will be made in the calculation of the Technical Provisions for these member options, as they are either broadly cost neutral or, in the case of the exchange of pension for cash at retirement, slightly beneficial to the Scheme's funding position.

Actuarial valuation as at 31 March 2016

The Trustee, having taken the advice of the Scheme Actuary, and the Company have agreed the assumptions for calculating the Technical Provisions for the valuation as at 31 March 2016, in line with the approach described above, and these are shown below. In setting the discount rate assumption it has been assumed that the notional portfolio of assets will be index-linked gilts, plus an allowance for a premium, in respect of the period after a member's retirement (including for those members who have not yet retired) and a mixture of growth assets (for example equities), bonds and gilts for the period prior to retirement (having regard to the actual assets held, or expected to be held in future, by the Scheme).

Financial assumptions as at 31 March 2016	Nominal %pa	Real %pa
Discount rate:		
▪ Pre-retirement	Gilt curve +1.55%	
▪ Post retirement	Gilt curve +0.1%	
Price inflation (RPI)	3.2	-
Price inflation (CPI)	2.4	(0.8)
Pension increases in deferment (in excess of GMP)	2.4	(0.8)
Pension increases in payment (in excess of GMP)		
▪ RPI capped at 5%	3.1	(0.1)
▪ RPI capped at 3%	2.4	(0.8)
▪ RPI subject to minimum of 3% and maximum of 5%	3.7	0.5

Demographic and statistical assumptions as at 31 March 2016

The Scheme's pensioner population is too small to carry out a meaningful mortality investigation. Hence, standard tables must be used, as produced from time to time by the actuarial profession.

The Trustee has adopted as a base table the standard "SAPS Pensioner Amounts, All" table published by the Continuous Mortality Investigation Bureau in February 2014. The "SAPS" series of standard mortality tables is derived from data obtained between 2004 and 2011 from Self-Administered Pension Schemes (like the Sony United Kingdom Pension Scheme) and as such is expected to be the most relevant series of standard tables available.

The standard table has been adjusted to take account of the results of a postcode mortality analysis of the Scheme's membership carried out by Willis Towers Watson in 2016. As a result of this exercise the standard table, rolled forward with CMI projections (2015) with a long term rate of improvement of 1.5% pa from 2007 to 2016, has been adjusted by the use of various multipliers applied to the mortality rates of different sections of membership, split by male / female, pensioner / non-pensioner status and Basingstoke / UK sections. The multipliers used include a margin for prudence.

Therefore, including the adjustments outlined above, the base tables adopted are expected to give a prudent estimate of future Scheme experience, allowing for the geographical make-up of the actual membership.

It has been assumed that future improvements in mortality will be in line with the core CMI projections (2015) with a long term rate of improvement of 1.5% pa.

The current mortality assumptions and the allowance for future improvements in life expectancy will be reviewed at each investigation.

Details for both the mortality and the other demographic assumptions are shown in the appendix (including sample rates and the multipliers applied to the base tables).

Expenses

Investment management costs are assumed to be met out of future investment income. The valuation discount rate is therefore net of such costs. Administrative and other expenses will continue to be paid separately by the Company.

Eliminating a shortfall

The Trustee will negotiate a Recovery Plan with the Company following each actuarial investigation at which the statutory funding objective has not been met. The intention is that the statutory funding objective should be met as quickly as the Company can reasonably afford through the payment of additional contributions, expressed as fixed monetary amounts.

In determining the recovery period at any investigation, without limitation the Trustee will take into account:

- The size of the funding shortfall;
- The risk that the value of the Scheme's assets may deteriorate further against the Technical Provisions of the Scheme;
- The business plans of the Company;
- The Trustee's assessment of the financial covenant of the Company; and
- Any guarantee or contingent security offered by the Company.

For the 2016 valuation, the Trustee has agreed with the Company that the shortfall relative to the statutory funding objective should be made good over a period of not more than eight Scheme years and one Scheme month from the valuation date.

The assumptions employed for determining the payments to be made are the same as for determining the Technical Provisions, except that investment returns over the recovery period are assumed to be in line with the single-equivalent pre-retirement discount rate of 3.7% pa.

Frequency of actuarial investigations

Each valuation should be made no more than three Scheme years after the preceding one. As at each anniversary between valuations the Scheme Actuary will provide an estimate of the up-to-date financial position of the Scheme.

The Trustee and the Company recognise that there is likely to be short term volatility between the value of the assets and the amount required to cover the Technical Provisions, and the updates provided by the Scheme Actuary will not normally lead to changes in the required contributions ahead of the next valuation.

However, the Trustee, after having considered the Scheme Actuary's opinion and having consulted the Company, may call for a full actuarial valuation at any time if it is of the opinion that developments may make it inappropriate to rely on the results of the previous valuation. For example and without limitation, the Trustee may wish to consider doing so:

- Following a request from the Company;
- If there is a significant fall in the value of the assets;
- If there is a material change in the Trustee's assessment of the Company covenant and/or the guarantee from SGTS;
- If there is a change in principal employer;
- If there is a significant change in the membership for any reason (for example if a significant number of deferred members transfer out); or
- If there is a significant change in economic or demographic factors or the legislative environment changes significantly.

Arrangements for other parties to make payments to the Scheme

There are no arrangements for a person other than the Company or other Participating Employers to contribute to the assets held by the Scheme.

Paying funding surpluses to the employer

Except upon winding-up in the event of a surplus remaining, the Scheme's Rules do not allow for a refund of surplus to the Company

Cash equivalent transfer value calculations and policy on reduction

The Trustee will ask the Scheme Actuary to advise it at each valuation of the extent to which the assets are sufficient to provide full cash equivalent transfer values for all members (ignoring for this purpose that only deferred pensioners have the right to take a transfer). The Trustee's current policy is not to reduce cash equivalent transfer values. This policy is reviewed from time to time in the light of the Scheme's financial position and the amount and volume of cash equivalent payments made from the Scheme. The policy will be reviewed whenever the basis of calculation of cash equivalent transfer value changes.

Dates of review of this Statement

This Statement will be reviewed, and if necessary revised, by the Trustee either:

- Within 15 months after the effective date of each subsequent actuarial valuation; or
- Within a reasonable period after any occasion on which the Regulator has used its powers to direct as to the manner in which Technical Provisions are to be calculated or the period over which the shortfall relative to the statutory funding objective is to be remedied, or imposed a schedule of contributions.

The Trustee may also elect to review, and with the Company's agreement revise, the statement at other times.

Signed on behalf of the Trustee	**Signed on behalf of the Company**
Name …………………………………………….	Name …………………………………………
Signed ………………………………………………	Signed …………………………………………
Date: 20 September 2017	Date: 20 September 2017

Appendix – Demographic assumptions

Mortality (pre and post retirement)

Tables used are the ‘SAPS Pensioners Amounts All’ ‘S2’ tables projected from 2007 to 2016 with CMI projections (2015) with a long term rate of improvement of 1.5% pa; and include various multipliers as shown in the table below:

Multiplier	UK		Basingstoke	
	Male	Female	Male	Female
Non-pensioners	97%	90%	87%	90%
Pensioners	88%	93%	81%	94%

Future improvements are assumed to be in line with core CMI projections (2015) with a long term rate of improvement of 1.5% pa.

Example rates of mortality and life expectancies (for UK Section members) can be seen in the table below:

	Rates of mortality per 1000 members at the effective date of the valuation (31 March 2016)	
Age	Men	Women
50	2	2
55	3	3
60	4	4
65	7	6
70	11	9
Life expectancy (years) for members		
▪ age 60 in 2016	28.3	30.0
▪ age 60 in 2036	29.8	32.7

Retirement ages

Section	Assumed retirement/vesting age
Basingstoke – male post 1/11/87 joiners	60
Basingstoke – male pre 1/11/87 joiners	60*
UK – male post 17/5/90 leavers	60*
UK – male pre 17/5/90 leavers	65
UK and Basingstoke – females	60

* Pre-Barber benefits for members in these categories which can only be taken unreduced from age 65 have been valued assuming they are taken at 60 but have been reduced for early payment from age 65.

Spouses’ and dependants’ pensions

The proportion of deceased members assumed to give rise to a spouse’s or dependant’s pension at normal retirement age is 90% for male members and 80% for female members.

Age difference between members and spouses

All members are assumed to have an age difference (male - female) of two years.

Allowance for option of members to commute pension for cash at retirement

All deferred members are assumed to commute 15% of pension benefits for cash at retirement, based on current terms.

GMP equalisation

No allowance has been made in the technical provisions for the possible impact of equalising for the effect of GMP.