

## Statement of Funding Principles: 2020

### Hewlett-Packard Limited Retirement Benefits Plan (the Plan) - Digital Section

#### Status

This statement was prepared by Hewlett Packard Enterprise UK Pension Trustee Limited (the Trustee) for the purposes of the actuarial valuation as at 31 October 2018 after obtaining the advice of David Eteen, the Scheme Actuary to the Plan. This statement applies to the Digital Section.

#### **The Statutory Funding Objective**

This statement sets out the Trustee's policy for ensuring that the Statutory Funding Objective (SFO) is met. The SFO is defined in section 222 of the Pensions Act 2004, which states that every scheme must have sufficient and appropriate assets to cover its Technical Provisions.

The assumptions are intended to provide a prudent estimate of the future experience of the Digital Section, with a modest allowance for the future potential outperformance over gilts from continued investment in more risky asset sectors such as equities, properties and corporate bonds. The modest outperformance allowance is included in the discount rate, which is based on gilt yields, increased by an agreed amount.

In order to meet the Statutory Funding Objective, the Trustee will ensure that a Schedule of Contributions is in place that the Scheme Actuary can certify is expected to remove the funding shortfall calculated as at the effective date of the actuarial valuation, based on market conditions as at that date.

There is an underlying assumption that the Digital Section will continue to be supported by the Employer, as well as Hewlett Packard Enterprise Company under the terms of the guarantee dated 21 October 2015. It is therefore assumed that the Plan will continue to pay benefits from the Digital Section as they fall due.

*For the purposes of this document Employer means the participating employers under the Plan as follows:*

*Hewlett-Packard Limited (Principal Employer)*

## **The Technical Provisions**

### **Definition**

The Technical Provisions are the amount that will be needed to pay benefits that relate to service up to the date of the actuarial valuation, if the assumptions made are borne out in practice.

### **Actuarial Method**

The actuarial method to be used in the calculation of the Technical Provisions is the Projected Unit Method with a one-year control period.

### **Assumptions**

The assumptions used in the calculation of the Technical Provisions are set out in Appendix A.

### **Frequency of actuarial valuations and circumstances for extra actuarial valuations**

Actuarial valuations will, in normal circumstances, be carried out at least once every three years, with the latest actuarial valuation being carried out as at 31 October 2018. In addition, an annual review will be carried out each 31 October when an actuarial valuation is not carried out. Ongoing Funding Obligation Contributions will be recalculated as part of each actuarial valuation or annual review and a new Schedule of Contributions will be prepared, as appropriate. The Trustee may as a result of any annual review commission a full actuarial valuation. The Trustee will also monitor the funding position quarterly, using approximate updates supplied by the Scheme Actuary.

The Trustee may call for a full actuarial valuation during any year at a date other than 31 October when, after considering the Scheme Actuary's advice, it is of the opinion that events have made it unsafe to continue to rely on the results of the previous actuarial valuation as the basis for future contributions. However, the Trustee will consult the Employer before doing so.

### **Monitoring employer covenant**

The Trustee has appointed an independent covenant advisor, Lincoln Pensions, who has assessed the covenant of the Employer and Hewlett Packard Enterprise Company. The Trustee will also monitor the covenant between actuarial valuations using updates provided by Lincoln Pensions.

### **Policy on discretionary pension increases**

Pensions may be increased from time to time once in payment, above guaranteed levels of increase, at the discretion of the Employer.

If discretionary increases to pensions in payment are made, the cost of the discretionary increases will be reflected in the Ongoing Funding Obligation Contributions recalculated as part of the following actuarial valuation or annual review, unless the Trustee and the Employer agree otherwise.

No allowance has been included in the calculation of the Technical Provisions for the granting of future discretionary pension increases.

One-off augmentations are treated similarly to discretionary pension increases.

### **Policy on general benefit changes**

Where there are general benefit changes, the cost of the changes will be assessed.

Changes to future service benefits or past service benefits will be reflected in the Ongoing Funding Obligation Contributions recalculated as part of the following actuarial valuation or annual review, unless the Trustee and the Employer agree otherwise.

### **Policy on addressing a failure to meet the statutory funding objective**

For actuarial valuations or annual reviews carried out as at a date on or after 31 October 2018 pre-existing deficits will not be re-amortised at subsequent actuarial valuations or annual reviews, unless re-amortising the whole deficit would result in higher Ongoing Funding Obligation Contributions.

Any new funding shortfall revealed at an actuarial valuation or annual review carried out as at a date on or after 31 October 2018 will be amortised as follows:

- The amount of any deficit below 85% of the Technical Provisions is amortised over 1 year from the date of the actuarial valuation or annual review
- The amount of any deficit between 85% and 95% of the Technical Provisions is amortised over 3 years from the date of the actuarial valuation or annual review
- The amount of any deficit between 95% and 100% of the Technical Provisions is amortised over 5 years from the date of the actuarial valuation or annual review

### **Policy on surpluses**

The Trustee and the Employer have agreed that any future funding surplus (compared with the Technical Provisions) as identified at a future actuarial valuation or annual review will be used to reduce employer contributions in accordance with the terms listed below relating to the effective date of that actuarial valuation or annual review.

For actuarial valuations or annual reviews carried out as at a date on or after 31 October 2018

- The amount of any surplus above 115% of the Technical Provisions is amortised over 1 year from the date of the actuarial valuation or annual review
- The amount of any surplus between 105% and 115% of the Technical Provisions is amortised over 3 years from the date of the actuarial valuation or annual review
- The amount of any surplus between 100% and 105% of the Technical Provisions is amortised over 5 years from the date of the actuarial valuation or annual review

At subsequent actuarial valuations or annual reviews, any pre-existing surpluses will not be re-amortised.

## **Calculation of Ongoing Funding Obligation Contributions**

For the Digital Section, the Ongoing Funding Obligation Contributions will be calculated as follows:

- The future cost of accrual of benefits calculated using assumptions underlying the Technical Provisions; less
- The amount by which the expected return on the assets for the year exceeds the amount of interest on the assets for the year assumed in calculating the Technical Provisions; plus
- An adjustment (either positive or negative) to allow for deficit or surplus as outlined above

The above calculation is subject to a minimum contribution of zero.

Ongoing Funding Obligation Contributions will be recalculated as at each 31 October and a new Schedule of Contributions will be put in place as appropriate. Ongoing Funding Obligation Contributions are payable by the 30 April following the date of the actuarial valuation or annual review. If following an annual review the updated Schedule of Contributions cannot be certified as at the date of the latest actuarial valuation (which is likely to be due to an improvement in the funding level since the date of the actuarial valuation) an additional contribution will be added to the final year of the Schedule of Contributions in order that the Schedule can be certified as at the effective date of the latest actuarial valuation.

Further details of the Ongoing Funding Obligation Contributions calculated as part of the actuarial valuation as at 31 October 2018 are set out in Appendix B.

### **Assumption for expected return on assets**

The assumption for the expected return on the Digital Section's assets is the expected return on assets used for Hewlett Packard Enterprise Company's ASC 715 calculations as at the same date of the actuarial valuation/annual review.

For the actuarial valuation as at 31 October 2018, the expected return on assets assumed to calculate the Ongoing Funding Obligation Contributions for the Plan Year from 1 November 2018 to 31 October 2019 and the Plan Year from 1 November 2019 to 31 October 2020 was 3.60% p.a.

### **Salary Sacrifice Funding Obligation Contributions**

In addition to the Ongoing Funding Obligation Contributions calculated above, Salary Sacrifice Funding Obligation Contributions are payable monthly by the Employer. These are the member ordinary contributions that would have otherwise been payable by the members which the Employer will pay to the Digital Section as a result of the salary sacrifice arrangements. For the avoidance of doubt, the Salary Sacrifice Funding Obligation Contributions are always payable monthly for so long as the Employer is operating a salary sacrifice arrangement and are payable even if the Ongoing Funding Obligation Contributions calculated above are zero.

### **Payments to the Employer from the Digital Section**

The Rules of the Digital Section do not allow any refund of assets to the Employer.

## **Funding Agreement**

This Statement of Funding Principles is consistent with the Hewlett-Packard Limited Retirement Benefits Plan Funding Agreement for Digital and Hewlett-Packard Section dated 27 April 2012 as amended between the Trustee of the Plan and Hewlett-Packard Limited ('the Funding Agreement'). This Statement of Funding Principles has been prepared on the basis that the Digital Section has not been terminated as at the date of signing. The Funding Agreement was signed by the Trustee and the Employer and requires additional payments to be made to the Digital Section over and above the Employer contributions required under this Statement of Funding Principles in the event that the Digital Section is terminated.

## **Policy on reduction of cash equivalent transfer values (CETVs)**

The Trustee will ask the Scheme Actuary to advise them at or following each actuarial valuation of the extent to which assets are sufficient to provide CETVs for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries.

If, after obtaining advice from the Scheme Actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee will commission a report from the Scheme Actuary regarding the extent to which CETVs should be reduced or additional Employer contributions required in order to avert such action.

## **Other points**

A guarantee has been provided by Hewlett Packard Enterprise Company (registered in the State of Delaware, United States of America) which may require Hewlett Packard Enterprise Company to make contributions to the Digital Section in the event that the Employer does not pay certain contributions due to the Digital Section. In the event that Hewlett Packard Enterprise Company is required to contribute to the Digital Section it may appoint one or more of its directly or indirectly wholly owned subsidiaries to make a payment on its behalf. This guarantee is seen by the Trustee as an important part of the Employer covenant supporting the Digital Section.

A guarantee has also been provided by Hewlett-Packard The Hague B.V. (incorporated under the laws of the Netherlands) which may require Hewlett-Packard The Hague B.V. to make contributions to the Digital Section in the event that the Employer does not pay any contributions due to the Digital Section. This guarantee was originally put in place to help reduce PPF levies.

## **Review**

The Trustee will review this statement at least every three years. The Trustee will take advice from the Scheme Actuary and consult with the Employer over any changes to the statement.

This statement has been agreed by Hewlett-Packard Limited:  
Signed on behalf of Hewlett-Packard Limited:

.....  
Name: PHILIPPA ORAM

Position: Director

Date: 22 JAN 2020

*Note: Hewlett-Packard Limited has been nominated as the participating employers' representative for this purpose.*

This statement was agreed by the Trustee:  
Signed on behalf of the Trustee:

.....  
Name: Paul Early

Position: Chairman of the Trustee

Date: 23 January 2020

Signed:

.....  
Name: JONATHAN LLOYD

Position: Trustee

Date: 23 JAN 2020

This Statement is dated 23 January 2020.

## **Appendix A – Assumptions used to calculate the Technical Provisions**

### **Derivation of assumptions**

The details below set out how the assumptions were derived as part of the actuarial valuation, together with the assumptions derived as at 31 October 2018. Assumptions will be derived in the same manner at future annual reviews.

### **Financial assumptions**

#### **Discount rate:**

The discount rate will be set equal to the single equivalent yield of the "Term-Dependent Discount Rate". The Term-Dependent Discount Rate is equal to the forward gilt curve plus an addition of:

- 1.0% p.a. to the forward rates commencing before 31 October 2030.
- 0.5% p.a. to the forward rates commencing on or after 31 October 2030.

The single equivalent yield used at each actuarial valuation and/or annual review will be such that the value placed on the liabilities using this discount rate is broadly the same as the value that would be have been placed on the liabilities had the discount rate applied to each cashflow of a particular term been set equal to the relevant term-dependent yields on the Term-Dependent Discount Rate..

For the actuarial valuation as at 31 October 2018 the discount rate is 2.57% p.a.

#### **Retail Price Index (RPI) inflation:**

25% of RPI linked liabilities are valued in line with market implied RPI (or the proportion of RPI linked liabilities that have been hedged if greater) and 75% of RPI linked liabilities are valued assuming RPI equals 3.00% p.a. (or the appropriate lesser percent if more than 25% of RPI linked liabilities are valued in line with market implied retail price inflation).

99% of RPI linked liabilities were hedged as at 31 October 2018 and for the actuarial valuation as at 31 October 2018, the assumed increase in RPI is 3.48% p.a.

If prior to the next actuarial valuation there is a significant change in the methodology used to derive RPI the derivation of this assumption may (but need not) be updated with the written agreement of the Trustee and the Employer.

#### **Consumer Price Index (CPI) inflation:**

CPI inflation is assumed to increase in line with the RPI assumption less:

- A deduction of 0.9% p.a. for deriving assumptions relating to pension revaluations in deferment
- A deduction of 0.8% p.a. for deriving assumptions relating to pension increases in payment

For the actuarial valuation as at 31 October 2018, CPI is assumed to increase at 2.58% p.a. for revaluations in deferment and at 2.68% p.a. for increases in payment.

If prior to the next actuarial valuation there is a significant change in the methodology used to derive RPI or a significant change in the difference between expected future RPI and market-implied RPI, the derivation of this assumption may (but need not) be updated with the written agreement of the Trustee and the Employer.

#### **Increases to pensions in deferment:**

Assumptions for increases in deferment on pension in excess of GMP linked to CPI are set equal to the CPI inflation assumption derived as above, but adjusted for any maximum or minimum that may apply. No assumption is needed for increases in GMP in deferment as GMPs increase at a fixed rate.

**Increases to pension in payment:**

For increases in payment linked to RPI or CPI the pension increase in payment assumption is derived from the relevant price inflation derived above allowing for any maximum or minimum that might apply. For this purpose an allowance is made for any maximum and/or minimum that may apply based on the inflation volatility as at the date of the actuarial valuation or annual reviews as advised by the Scheme Actuary.

For the actuarial valuation as at 31 October 2018, the rates assumed are as follows:

Members who left service before 6 April 1997

- 0% p.a. for pension in respect of pre 6 April 1997 service (in excess of GMP)
- 0% p.a. for pension in respect of In Plan AVCs
- 0% p.a. for GMP accrued before 6 April 1988
- 2.30% p.a. for GMP accrued from 6 April 1988 (CPI min 0% p.a. max 3% p.a.)

Members who left service between 6 April 1997 and 6 March 2000 inclusive

- 0% p.a. for pension in respect of pre 6 April 1997 service (in excess of GMP)
- 0% p.a. for pension in respect of In Plan AVCs
- 0% p.a. for GMP accrued before 6 April 1988
- 2.30% p.a. for GMP accrued from 6 April 1988 (CPI min 0% p.a. max 3% p.a.)
- 2.67% p.a. for pension in respect of service from 6 April 1997 (CPI min 0% p.a. max 5% p.a.)

Active members and members who left service after 6 March 2000:

- 0% p.a. for pension in respect of pre 6 April 1997 service (in excess of GMP)
- 0% p.a. for pension in respect of In Plan AVCs that are not In-Scope
- 2.36% p.a. for pension in respect of In-Scope In Plan AVCs accrued from 6 April 1997 to 30 June 2005
- 1.60% p.a. for pension in respect of In-Scope In Plan AVCs accrued from 30 June 2005 to 31 October 2005
- 0% p.a. for GMP accrued before 6 April 1988
- 2.30% p.a. for GMP accrued from 6 April 1988 (CPI min 0% p.a. max 3% p.a.)
- 3.37% p.a. for pension in respect of service from 6 April 1997 to 30 June 2005 (RPI min 0% p.a. max 5% p.a.)
- 3.37% p.a. for pension in respect of post 30 June 2005 service for 5% LPI Members (RPI min 0% p.a. max 5% p.a.)
- 2.29% p.a. for pension in respect of post 30 June 2005 service for members who are not 5% LPI Members (RPI min 0% p.a. max 2.5% p.a.)

5% LPI Members are members who chose with effect from 1 July 2005 to increase his or her basic contributions in order to continue to receive 5% LPI pension increases on their accrual from 1 July 2005.

**Annual salary increases:**

Annual salaries are assumed to increase at the rate of 3.00% p.a. This includes an allowance for promotional increases.

**Basic state pension increases:**

The Basic State Pension is assumed to increase at the rate of 4.00% p.a.



## **Demographic assumptions**

### **Mortality: before retirement**

90% of AMC00 standard tables for males and AFC00 standard tables for females.

### **Mortality: after retirement**

Male members: 109% of standard SAPS S3 'Light' tables based on year of birth making allowance for future mortality improvements in line with CMI\_2018 projections with a long term rate of 1.25% p.a. a period smoothing parameter ( $S_K$ ) of 7.0., and an initial addition to mortality improvements parameter (A) of 0.5% p.a..

Female members: 102% of standard SAPS S3 'Light' tables based on year of birth making allowance for future mortality improvements in line with CMI\_2018 projections with a long term rate of 1.25%p.a., a period smoothing parameter of 7.0, and an initial addition to mortality improvements parameter of 0.5% p.a.

At future annual reviews or actuarial valuations the latest CMI projections will be adopted with the above parameters unless agreed otherwise by the Trustee and the Employer. For illustration, this results in the following life expectancies for retired members, measured in 2018, and members expected to be retired in 2038:

*Expectation of life:*

	<b>Cohort</b>	<b>Period</b>
Life expectancy for a male aged 65 now	87.8	86.7
Life expectancy at age 65 for a male aged 45 now	89.0	-
Life expectancy for a female aged 65 now	89.6	88.5
Life expectancy at age 65 for a female aged 45 now	90.9	-

The Employer will pay due consideration to any proposal put forward by the Trustee to update the long term mortality improvement assumption as part of the next actuarial valuation to ensure it remains a best estimate assumption in light of Aon's latest house guidance and the latest evidence on mortality trends at that time. The next actuarial valuation is required to be carried out no later than as at 31 October 2021.

The period smoothing parameter and initial addition to mortality improvements parameter will also be reviewed as part of the next actuarial valuation and may be updated with the agreement of the Trustee and the Employer.

### **Mortality Reserve:**

2% is added to the liabilities by way of a reserve for possible adverse future mortality experience.

**Leaving service:**

Allowance is made for active members to withdraw from pensionable service before their Normal Pension Date. The rates are given below.

*Withdrawal rates for active members – proportion of members assumed to leave each year:*

Age	Withdrawal rate (Males and Females)
Below age 60	11%
60 and over	100%

As part of future actuarial valuations this assumption will be updated to reflect experience over the 6 year period ending on, or near to, the effective date of the actuarial valuation.

**Retirement – Active Members:**

Allowance is made for active members to retire directly from active service before their Normal Pension Date. The rates are given below.

*Early retirement rates for active members - proportion of members assumed to retire each year:*

Age	Early retirement rate (Males and Females)
Below 55	0%
55	10%
56	10%
57	10%
58	10%
59	10%
60 or over	100%

As part of future actuarial valuations this assumption will be updated to reflect experience over the 6 year period ending on, or near to, the effective date of the actuarial valuation.

**Retirement - Deferred Members:**

Allowance is made for deferred members to retire before their Minimum Pension Age. A member's Minimum Pension Age is the earliest age at which he or she can retire on an unreduced pension without the need to obtain consent from either the Trustee of the Employer. The rates are given below:

*Early retirement rates for deferred members - proportion of members assumed to retire each year:*

Year before Minimum Pension Age	Early retirement rate (Males and Females)
>5	0%
5	3%
4	3%
3	3%
2	3%
1	3%
0	100%

As part of future actuarial valuations this assumption will be updated to reflect experience over the 6 year period ending on, or near to, the effective date of the actuarial valuation.

**Age difference of spouse:**

A male member is assumed to be three years older than his spouse. The spouse is assumed to be female.

A female member is assumed to be one year younger than her spouse. The spouse is assumed to be male.

**Percentage married:**

92% of male members are assumed to be married at retirement or earlier death. It is assumed that the spouse is female.

73% of female members are assumed to be married at retirement or earlier death. It is assumed that the spouse is male.

**New entrants:**

No allowance is made for new entrants to the Digital Section.

**Commutation:**

Allowance is made, assuming that all non-pensioner members will commute 16% of their pension on retirement for cash sums. It is assumed that commutation factors in force as at the actuarial valuation or annual review continue to apply in the future without change.

As part of future actuarial valuations this assumption will be updated to reflect experience over the 6 year period ending on, or near to, the effective date of the actuarial valuation.

**Cash equivalent transfer values:**

It will be assumed that 15% of active and deferred members take a CETV out of the Plan rather than retiring in the Plan. The impact of this will be approximated by reducing the Funding Target for active and deferred members by 1.5%.

This assumption will be reviewed as part of each actuarial valuation and will be updated if the Trustee and the Employer agree.

**Guaranteed Minimum Pension (GMP) Equalisation:**

Until such time as the Trustee has equalised benefits to reflect the different impact GMP has on benefits payable to males and females, it will be assumed equalisation will increase the liabilities of the Digital Section by 0.6%.

**Administration Expenses and Levies:**

An expense reserve will be included in the Funding Target set equal to 1.5% of liabilities. This assumption will be reviewed as part of each actuarial valuation and will be updated if the Trustee and the Employer agree.

## **Appendix B - Calculation of contributions as part of the actuarial valuation as at 31 October 2018**

### **Ongoing Funding Obligation Contributions**

The Ongoing Funding Obligation Contribution for the Plan Year from 1 November 2018 to 31 October 2019 was confirmed as £3,800,000 and paid into the Digital Section in April 2019. This was calculated based on the position as at 31 October 2018 before allowing for any assumption changes agreed as part of the actuarial valuation as at 31 October 2018.

The Ongoing Funding Obligation Contribution for the Plan Year from 1 November 2019 to 31 October 2020 was confirmed to be nil. This was calculated based on the position as at 31 October 2019 before allowing for any assumption changes agreed as part of the actuarial valuation as at 31 October 2018.

The Ongoing Funding Obligation Contributions payable in future Plan Years set out in the Schedule of Contributions agreed as part of the actuarial valuation as at 31 October 2018 have been calculated allowing for the assumptions set out in this Statement of Funding Principles. When calculating these contributions it was also assumed that:

- Market conditions as at 31 October 2018 remain unchanged, including that the UK Gilt Curve will unwind in line with the implied forward rates as at 31 October 2018. This means that the discount rate expected to be used at future actuarial valuations and annual reviews will vary
- 98% of RPI linked liabilities remain hedged throughout the period covered by the Schedule of Contributions
- The increase in Technical Provisions as a result of assumption changes agreed as part of the actuarial valuation as at 31 October 2018 is amortised over 5 years from 31 October 2016
- The expected return on assets at future actuarial valuations and annual reviews will remain at 3.60% p.a. throughout

The Scheme Actuary will certify the Schedule Contributions based on market conditions as at the date of the actuarial valuation, allowing for the expected return on assets set out above. It will also be assumed that administration expenses and levies incurred will be £2,000,000 p.a.

In practice, the Ongoing Funding Obligation Contributions will be re-calculated each 31 October as part of an actuarial valuation or annual review and a new Schedule of Contributions will be put in place as appropriate.