

## Futamura British Pension Scheme (the "Scheme")

### Statement of Funding Principles

#### Status

This statement was prepared by the Trustee on 5 December 2023 for the purposes of the actuarial valuation as at 31 December 2022 after obtaining the advice of David Thirlwell FIA, the Scheme Actuary.

For the purposes of this document, the term "Trustee" refers to the Trustee of the Scheme and the term "Employer" refers to Futamura Chemical UK Limited.

This statement replaces the Statement of Funding Principles dated 31 March 2021.

The actual assumptions adopted for the actuarial valuation as at 31 December 2022 are set out in the Appendix.

#### The Statutory Funding Objective

This statement sets out the Trustee's policy for ensuring that the Statutory Funding Objective (SFO)<sup>1</sup> is met.

#### The technical provisions

##### Method

The actuarial method to be used in the calculation of the technical provisions is the projected unit method.

##### Assumptions

###### *Discount rate*

In setting the discount rate, the Trustee will consider a prudent allowance for the expected future investment return on the Scheme's assets, taking into account their view on the strength of the Employer covenant, the additional security provided by any contingent assets (including but not limited to the parental guarantee provided by Futamura Chemical Co Limited), the Scheme's long-term investment strategy and the Scheme's funding objectives.

###### *Retail Prices Index (RPI) inflation*

The assumed rate of RPI inflation is derived by considering the future level of RPI inflation implied by the yield curves produced daily by the Bank of England. These yield curves are based on UK government bonds.

An appropriate adjustment may be made to reflect possible distortions arising from an inflation risk premium and difference in supply and demand for fixed-interest and index-linked government bonds.

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<sup>1</sup> The Statutory Funding Objective is defined in section 222 of the Pensions Act 2004. Every scheme must have sufficient and appropriate assets to cover its technical provisions.



### *Consumer Prices Index (CPI) inflation*

The assumed rate of CPI inflation is derived by adjusting the RPI inflation assumption. The adjustment will reflect historic differences between RPI and CPI inflation and expectations of future differences.

### *Basic salary increases*

Salary increases will be set with reference to future inflation, with an appropriate adjustment to reflect expectations of future real salary increases.

### *Disregard increases*

The disregard is assumed to increase in line with an appropriate inflation assumption.

### *Revaluation in deferment*

Statutory deferred revaluation over the period to the valuation date and assumed CPI inflation after the valuation date, subject to an overall limit of 2.5% pa.

### *Pension increases in payment*

The assumed pension increase rate for benefits linked to RPI inflation but subject to an annual cap, will be derived using the Black-Scholes model with an appropriate volatility assumption.

### *Mortality*

When setting the mortality assumptions, the Trustee will have regard to the latest available published mortality tables and the latest available evidence concerning future mortality improvements as at the relevant valuation date.

### *Cash commutation*

An appropriate allowance may be made for members to commute part of their pension benefit for a tax-free cash lump sum at retirement. Any assumption will be based on up-to-date cash commutation factors.

### *Other demographic assumptions*

Assumptions appropriate to the Scheme.

### *Withdrawals*

An appropriate allowance may be made for members leaving pensionable service before retirement.

### *Expenses*

An allowance for Scheme expenses and levies will be added to the future service contribution rate required to fund future service benefits and will be payable by the Employer.

## **Policy on discretionary increases and funding strategy**

The Scheme has not made any discretionary increases to pensions in the recent past. Therefore, no allowance has been made for any discretionary increases to be granted in the future.



### **Period within which and manner in which a failure to meet the Statutory Funding Objective is to be rectified**

The Trustee and the Employer have agreed that any funding shortfalls identified at an actuarial valuation should be eliminated as quickly as the Employer can reasonably afford by the payment of additional contributions over the recovery period. In determining the actual recovery period at any particular valuation, the Trustee is to take into account the following factors:

- the size of the funding shortfall;
- the business plans of the Employer;
- the Trustee's assessment of the financial covenant of the Employer (and in making this assessment the Trustee may make use of appropriate credit assessment providers); and
- any contingent security offered by the Employer.

The Trustee normally expects the recovery period to be no longer than 10 years, unless the Employer can demonstrate it is unable to make good the deficit within this period.

In assessing the contributions required to repay the deficit over the agreed recovery period, the assumptions to be used may differ from those set out above for calculating the technical provisions.

### **Arrangements by a person other than the Employer or a Scheme member to contribute to the Scheme**

The Employer's parent company, Futamura Chemical Co Limited, provides a parental guarantee, under which they would be required to make certain payments should the Employer be unable to do so. There are no other arrangements in place for anyone other than the Employer or Scheme members to contribute to the Scheme.

### **Policy on reduction of Cash Equivalent Transfer Values (CETVs)**

The Trustee will ask the Scheme Actuary to advise them at each 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. Where coverage is less than 100%, the Trustee will consider reducing CETVs as permitted under legislation, after obtaining actuarial advice as to the appropriate extent of the reduction.

If at any other time, 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 and will use the above criterion to decide whether, and to what extent, CETVs should be reduced.

### **Payments to the Employer**

If the Scheme were to be wound up and there were excess assets remaining after meeting all prior obligations in accordance with the Scheme Rules, the Trustee may, subject to meeting legislative requirements, make a payment to the Employer.



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

The Scheme's actuarial valuation under Part 3<sup>2</sup> was carried out as at the effective date of 31 December 2022 and subsequent valuations will in normal circumstances be carried out every three years thereafter. An actuarial report on developments affecting the Scheme's funding level will be obtained as at each intermediate anniversary of that date.

The Trustee may call for a full actuarial valuation instead of an actuarial report when, after considering the Scheme Actuary's advice, they are of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions. However, the Trustee will consult the Employer before doing so.

**This statement has been agreed by the Trustee:**

Signed on behalf of Futamura British Pension Trustee Limited

Signed: Joanne Abram

Name: JOANNE ABRAM

Position: Trustee Director

Date: 5 December 2023

**This statement has been agreed by the Employer:**

Signed on behalf of Futamura Chemical UK Limited

Signed: Adrian Cae

Name: ADRIAN CAE

Position: MANAGING DIRECTOR

Date: 5 December 2023

<sup>2</sup> Part 3 of the Pensions Act 2004 covering Scheme Funding.



## Appendix to the Statement of Funding Principles

### Assumptions adopted for the 31 December 2022 valuation

The assumptions used for the purposes of the actuarial valuation as at 31 December 2022 are shown below.

#### *Gilt yield*

The expected future return on gilts of 3.85% pa as at 31 December 2022 was derived as the estimated single equivalent yield available on nominal gilts whose cash flows approximately match the Scheme's estimated benefit cashflows at the valuation date.

#### *Discount rate*

As at 31 December 2022, the discount rate was set in line with the gilt yield. This resulted in a discount rate of 3.85% pa as at 31 December 2022.

#### *RPI inflation (before retirement)*

The future RPI inflation assumption for the period before retirement was derived as the single equivalent yield that applies before retirement from the Bank of England implied inflation yield curve based on the Scheme's estimated benefit cashflows at the valuation date.

The RPI inflation assumption for the period before retirement as at 31 December 2022 was therefore 3.45% pa.

#### *RPI inflation (after retirement)*

The future RPI inflation assumption for the period after retirement was derived as the single equivalent yield that applies after retirement from the Bank of England implied inflation yield curve based on the Scheme's estimated benefit cashflows at the valuation date.

The RPI inflation assumption for the period after retirement as at 31 December 2022 was therefore 3.25% pa.

#### *CPI inflation (before retirement)*

The future CPI inflation assumption was derived from the RPI inflation curve, with a deduction from market implied RPI inflation of 1% pa before 2030 and nil thereafter. This resulted in an average CPI inflation assumption of 2.95% pa as at 31 December 2022.

#### *Basic salary increases*

Future salary increases were assumed to be 3.45% pa, in line with the RPI inflation assumption before retirement.

#### *Disregard increases*

Future Disregard increases were assumed to be 3.45% pa, in line with the RPI inflation assumption before retirement.

#### *Revaluation of pensions in deferment*

Future revaluation in deferment was assumed to be in line with the pre-retirement CPI inflation assumption of 2.95% pa (although this is subject to an overall cap between a member's date of leaving and date of retirement of 2.5% pa)



### *Pension increases in payment*

Pension in payment that has increases linked to the RPI inflation assumption capped at 2.5% pa was assumed to increase at 2.25% pa (based on the underlying post retirement RPI inflation assumption and an inflation volatility of 1.3%).

### *Mortality*

Before retirement: Nil deaths

After retirement: 100% S3PMA\_All / 100% S3PFA\_All  
CMI 2021 model with a long-term rate of improvement of 1.5% pa and default extended parameters

### *Illustrative mortality rates applicable after retirement*

Age x	Effective date		20 years after effective date	
	Male death rate qx	Female death rate qx	Male death rate qx	Female death rate qx
60	0.004433	0.003079	0.003446	0.002455
65	0.006894	0.004654	0.005734	0.003665
70	0.011567	0.007564	0.009942	0.005945
75	0.020240	0.013518	0.017702	0.010763
80	0.038417	0.026810	0.032640	0.021327
85	0.073328	0.055442	0.059982	0.043501
90	0.141848	0.117294	0.116729	0.093961
95	0.264963	0.227349	0.221625	0.189246
100	0.406039	0.368301	0.372203	0.336457
105	0.476215	0.455906	0.459251	0.438757

### *Cash commutation*

No allowance was made for members to commute pension for cash at retirement.

### *Retirements*

All members are assumed to retire at their Normal Retirement Age.

### *Withdrawals from active service*

No allowance was made for members to leave active service before retirement.

### *Family statistics*

80% of members are assumed to be married at retirement, with husbands assumed to be three years older than their wives.

### *Expenses*

An allowance for Scheme expenses, death in service premiums and levies of 3.5% of Maximum Contributory Pay has been added to the future service contribution rate.