

PPF 7800 Index

28 February 2023

This update provides the latest estimated funding position, on a section 179 (s179) basis, for the defined benefit pension schemes potentially eligible for entry to the Pension Protection Fund (PPF). A scheme's s179 liabilities represent, broadly speaking, the premium that would have to be paid to an insurance company to take on the payment of PPF levels of compensation. This compensation may be lower than full scheme benefits.

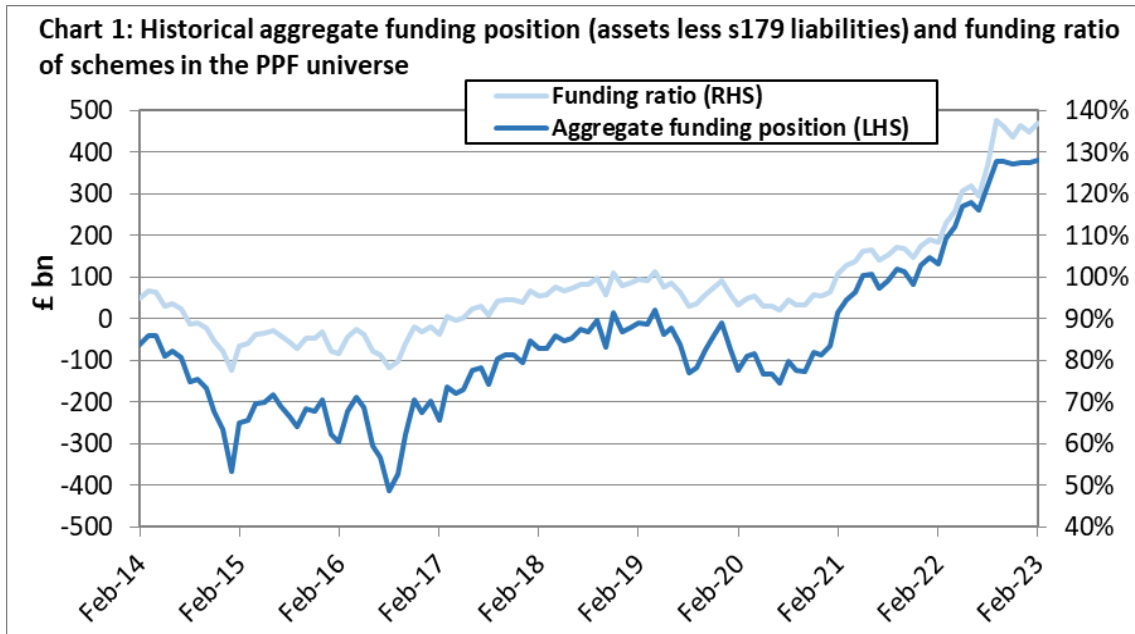
Note on 7800 methodology

We have produced this update using our standard methodology, which is summarised in Note 4 on page 8 of this document. In particular, while the approach will capture the liability impacts of government bond yield movements, the impact on assets will often be less accurate. This is because we do not hold sufficient data to capture the impact of any structural changes to asset allocations nor to accurately capture changes in any leveraged LDI portfolios.

Highlights

- The aggregate surplus of the 5,131 schemes in the PPF 7800 Index is estimated to have increased over the month to £381.4 billion at the end of February 2023, from a surplus of £374.4 billion at the end of January 2023.
- The funding ratio increased from 134.8 per cent at the end of January 2023 to 137.0 per cent.
- Total assets were £1,413.2 billion and total liabilities were £1,031.8 billion.
- There were 672 schemes in deficit and 4,459 schemes in surplus.
- The deficit of the schemes in deficit at the end of February 2023 was £4.2 billion, down from £5.0 billion at the end of January 2023.

For a more in-depth look at the monthly changes to our data please see the link to the supporting data on the 7800 Index home page: <https://ppf.co.uk/ppf-7800-index>

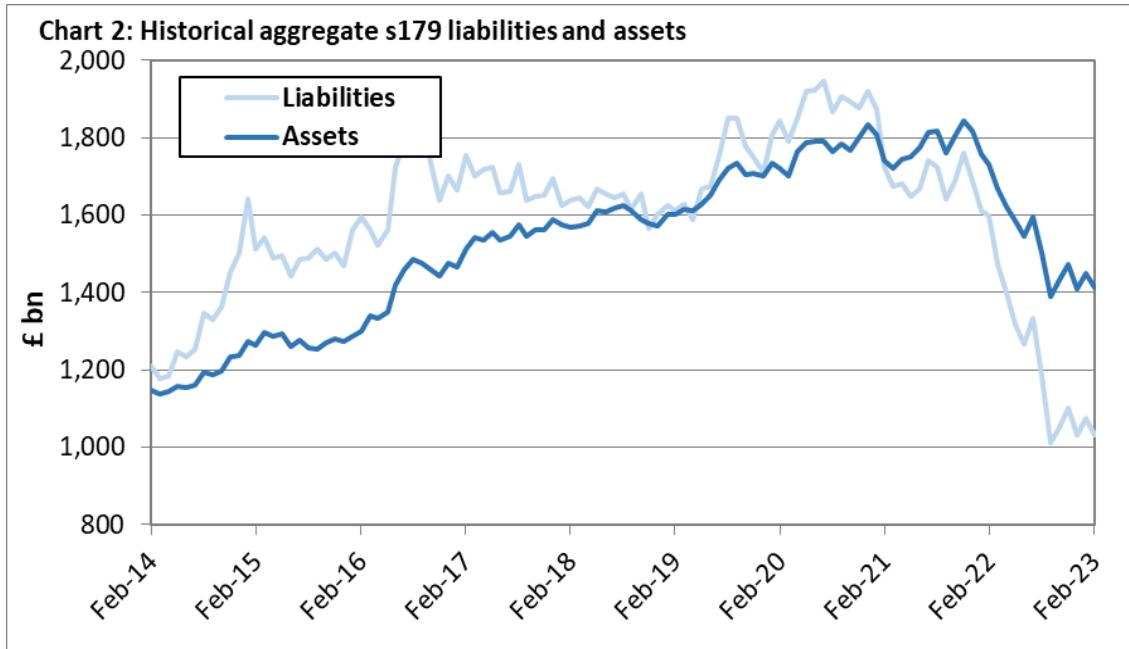


The schemes in the universe

The aggregate surplus (total assets less s179 liabilities) of the schemes in the PPF 7800 Index is estimated to have increased to £381.4 billion at the end of February 2023, from £374.4 billion at the end of January 2023.

The position has improved from a year ago, when a surplus of £133.6 billion was recorded at the end of February 2022.

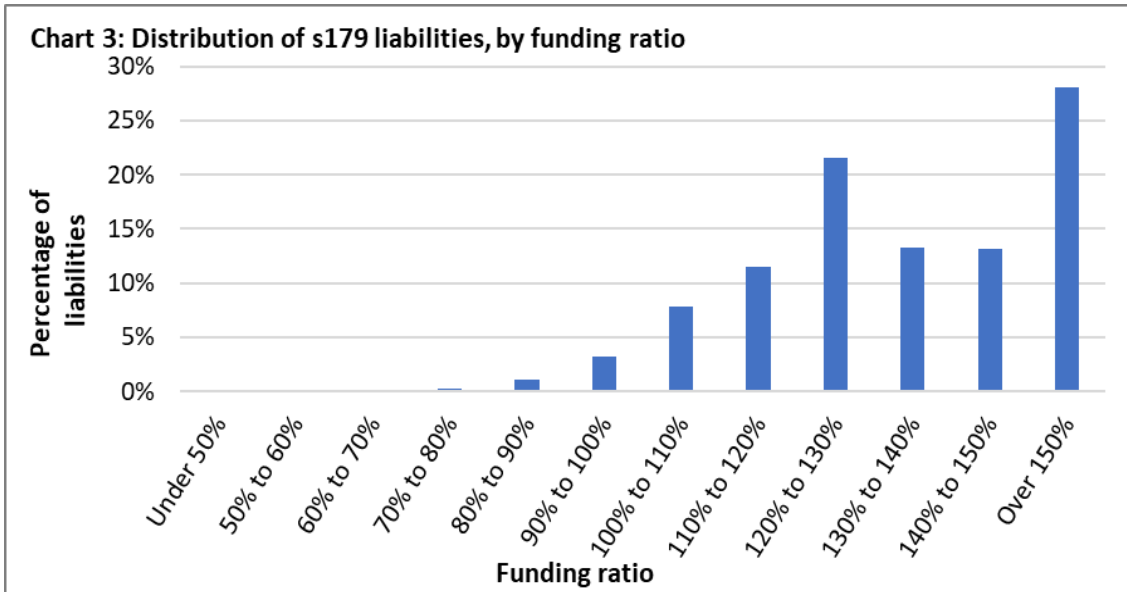
The funding ratio (assets as a percentage of s179 liabilities) of schemes increased over the month from 134.8 per cent to 137.0 per cent at the end of February 2023. The funding ratio is higher than the 108.4 per cent recorded in February 2022.



Within the Index, total scheme assets amounted to £1,413.2 billion at the end of February 2023. Total scheme assets experienced a decrease of 2.6 per cent over the month and a decrease of 18.4 per cent over the year. Total scheme liabilities were £1,031.8 billion at the end of February 2023, a decrease of 4.1 per cent over the month and a decrease of 35.5 per cent over the year.

Funding comparison

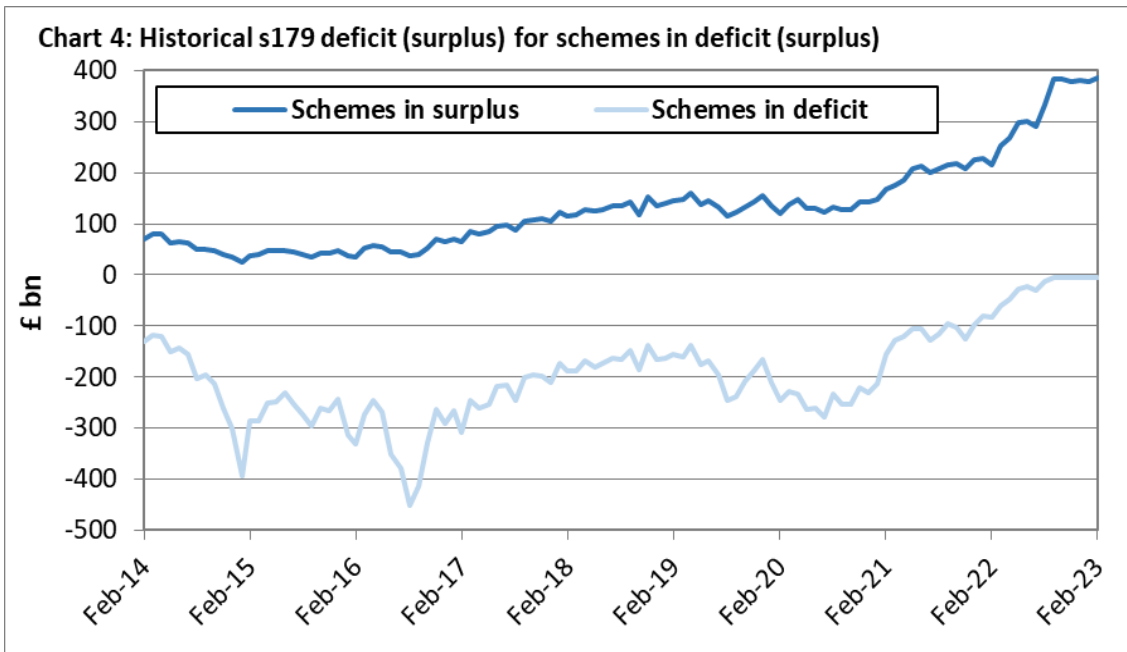
	February 2022	January 2023	February 2023
Aggregate funding position	£133.6bn	£374.4bn	£381.4bn
Funding ratio	108.4%	134.8%	137.0%
Aggregate assets	£1,732.2bn	£1,450.6bn	£1,413.2bn
Aggregate liabilities	£1,598.6bn	£1,076.2bn	£1,031.8bn
Dataset / Assumptions	Purple 21 / A10	Purple 22 / A10	Purple 22 / A10



Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of February 2023 is estimated to have decreased to £4.2 billion from £5.0 billion at the end of January 2023. At the end of February 2022, the equivalent figure was £83.1 billion.

At the end of February 2023, the total surplus of schemes in surplus increased to £385.6 billion from £379.4 billion at the end of January 2023. At the end of February 2022, the total surplus of all schemes in surplus stood at £216.7 billion.

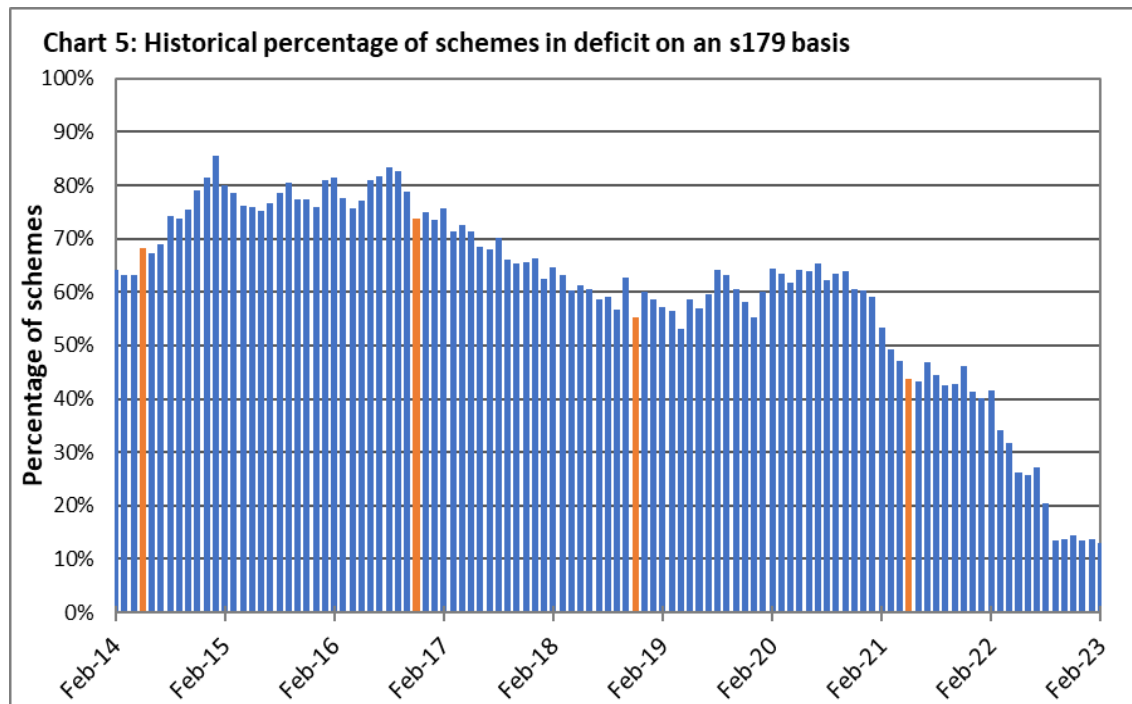


The number of schemes in deficit at the end of February 2023 decreased to 672, representing 13.1 per cent of the total 5,131 defined benefit schemes. There were 706 schemes in deficit at the end of January 2023 (13.8 per cent) and 2,172 schemes in deficit at the end of February 2022 (41.6 per cent).

The number of schemes in surplus increased to 4,459 at the end of February 2023 (86.9 per cent of schemes) from 4,425 at the end of January 2023 (86.2 per cent). There were 3,043 schemes in surplus at the end of February 2022 (58.4 per cent).

Schemes in deficit (surplus)

	February 2022	January 2023	February 2023
Number of schemes in deficit	2,172	706	672
Deficit for schemes in deficit	£83.1bn	£5.0bn	£4.2bn
Number of schemes in surplus	3,043	4,425	4,459
Surplus for schemes in surplus	£216.7bn	£379.4bn	£385.6bn
Number of schemes in Universe	5,215	5,131	5,131
Dataset / Assumptions	Purple 21 / A10	Purple 22 / A10	Purple 22 / A10



Note: The red bars indicate months in which we made changes to the actuarial assumptions used to value schemes on an s179 measure. The most recent change was made in May 2021 and implemented in the end of May 2021 PPF 7800 Index. This served to reduce the number of schemes in deficit by 210 (4.0 per cent of the number of schemes in the universe).

Understanding the impact of market movements

Equity markets and gilt yields are the main drivers of changes in funding ratios. S179 liabilities are sensitive to the yields available on a range of conventional and index-linked gilts. Liabilities are also time-sensitive in that, even if gilt yields were unchanged, scheme liabilities would increase as the point of payment approaches.¹

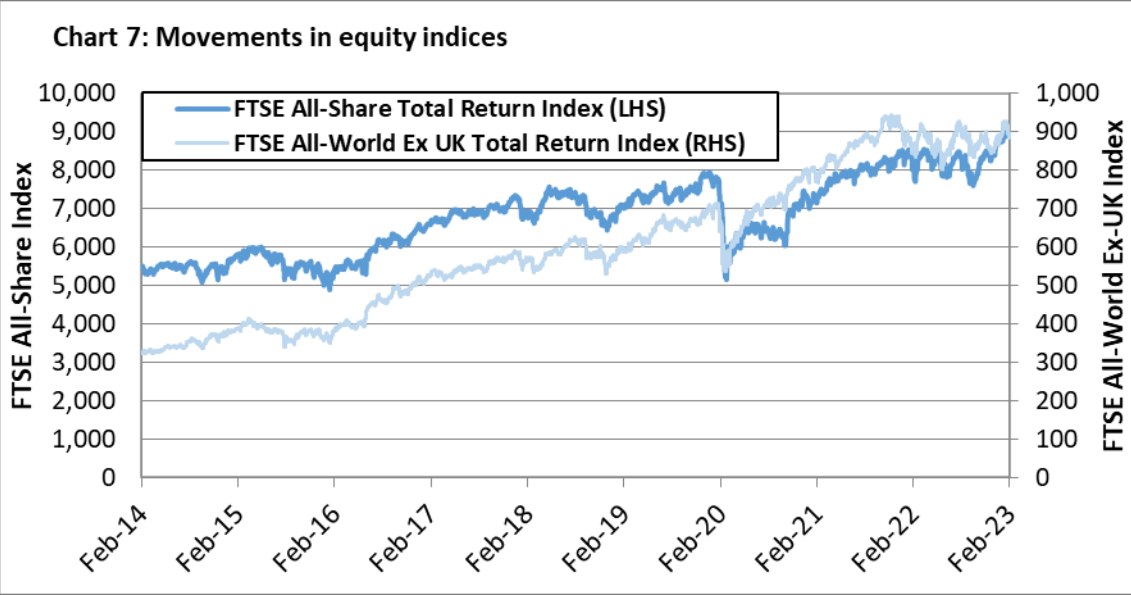
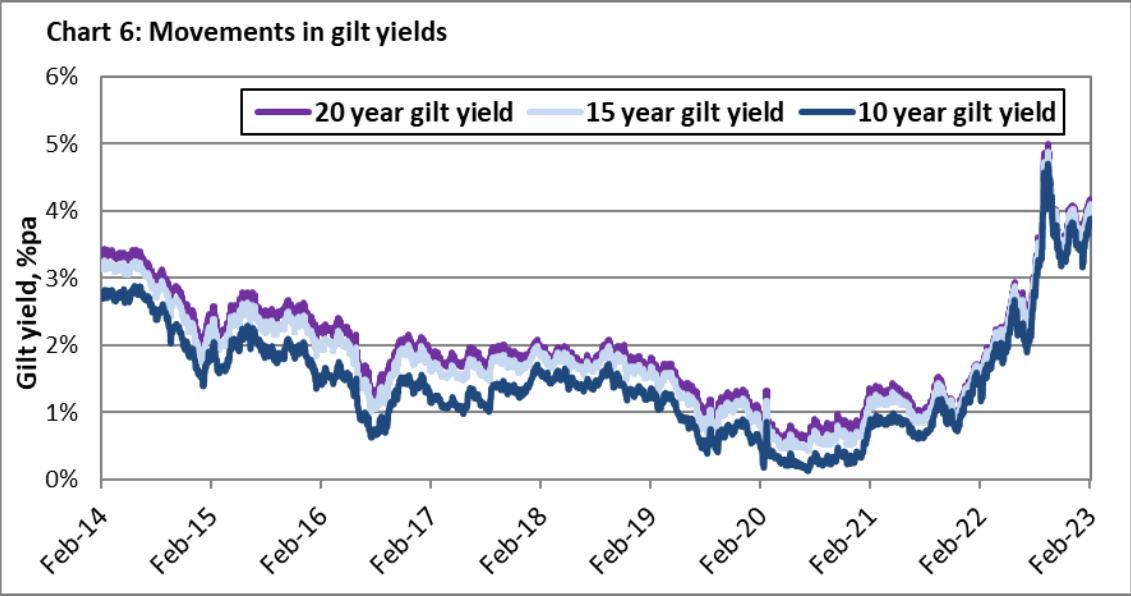
The value of scheme assets is affected by the change in prices of all asset classes, but owing to the volume invested and the volatility, equities and bonds are the biggest drivers behind changes – bonds have a higher weight in asset allocation, but equities tend to be more volatile.

The following table sets out the changes in s179 liabilities and assets, and some key market indicators, in the month and year to 28 February 2023. The changes in s179 liabilities and assets:

- in the month are the result of market movements.
- in the year to 28 February 2023 are the result of market movements and the impact of the updated dataset in December 2022.

	Change over the...	
	Month	Year
s179 liabilities	-4.1%	-35.5%
Assets	-2.6%	-18.4%
Market indicator		
10-year fixed interest gilt yield	40bps	245bps
15-year fixed interest gilt yield	38bps	247bps
20-year fixed interest gilt yield	38bps	251bps
5-15-year index-linked gilt yield	16bps	314bps
FTSE All-Share Total Return Index	1.5%	7.3%
FTSE All-World Ex-UK Total Return Index	-1.3%	2.0%

¹ This effect amounts to around 0.3 per cent a month in the current environment



Notes

1. The PPF universe

The PPF covers certain occupational defined benefit pension schemes and defined benefit elements of hybrid schemes. For more information about eligible schemes see the PPF's website at:

<https://www.ppf.co.uk/levy-payers/what-levy-and-who-has-pay-it/your-scheme-eligible>

2. PPF compensation

For individuals who have reached their scheme's normal pension age or are already in receipt of a survivor's pension or pension on the grounds of ill health, the PPF will generally pay compensation at the 100 per cent level, i.e., these members will not see any reduction in retirement income when their scheme sponsor becomes insolvent. For most people below their scheme's normal pension age the PPF will generally pay compensation at the 90 per cent level. Increases in future payments for members may not be as much as they would have been under their pension schemes. For more information about PPF compensation see the PPF's website at:

<https://www.ppf.co.uk/what-it-means-ppf>

3. s179: one of many different funding measures

s179 is one particular measure of funding. The change in the deficit of schemes in deficit on an s179 basis is an illustration of the impact of changes in financial markets on the PPF's total exposure. Schemes in surplus on an s179 basis at the time of insolvency usually do not enter the PPF. For more information, please see our official s179 assumptions guidance at:

<https://www.ppf.co.uk/trustees-advisers/valuation-guidance>

In addition to s179, there are many different measures of a scheme's funding position. Among the other common measures are full buy-out (what would have to be paid to an insurance company for it to take on the payment of full scheme benefits), IAS19 or FRS102 (the measures used in UK company accounts), and Technical Provisions (that are used in the UK's scheme funding regime). The different measures can give very different levels of scheme funding at any point in time and move very differently over time.

4. Methodology

The figures shown throughout this document are based on adjusting the scheme valuation data supplied to The Pensions Regulator as part of the schemes' annual scheme returns, including Deficit Reduction Contribution certificates. We transform this data on an s179 valuation basis at various dates using changes in market indices for principal asset classes. Conventional and index-linked gilt yields are used to value liabilities. We do not hold sufficient data to capture the impact of any structural changes to asset allocations nor to accurately capture changes in any leveraged LDI portfolios.

5. Estimating the impact of changes in market conditions on the PPF 7800 Index

We have developed a number of 'rules of thumb' to estimate the impact of changes in asset prices on scheme assets and s179 liabilities. A 7.5 per cent rise in equity markets boosts aggregate scheme assets by 1.7 per cent while a 0.3 percentage point rise in gilt yields reduces scheme assets by 2.6 per cent. Meanwhile, a 0.3 percentage point rise in gilt yields reduces aggregate scheme liabilities by 5.2 per cent. The rules of thumb only apply to small changes from the 31 March 2022 level. For more information see Chapter 5 of the Purple Book 2022, available on the PPF's website at:

https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdf

6. The Purple Book 2022 dataset

The 5,131 schemes in the Purple Book 2022 dataset are estimated to include over 99 per cent of liabilities of PPF eligible schemes. These datasets are updated annually through a standard procedure performed after the publication of the Purple Book.

The PPF 7800 is produced in accordance with the UK Statistics Authority Code for official statistics which came into force in February 2009.

Press enquiries

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