Pension
Protection
Fund

# Strategic Plan 2013

# Contents

# Foreword

Our Strategic Plan for the next three years confirms our continued commitment to our core responsibility of providing security to the scheme members we protect.

In this document we launch our three updated strategic objectives. They reflect a mature organisation with significant experience of managing risks in the defined benefit pensions universe, focussed on what we need to achieve as we continue to face significant growth and change in the years ahead.

Meeting our funding target through prudent and effective management of our balance sheet, an objective retained from the previous three years, remains essential in ensuring we have the funds to continue to pay compensation to our members. We are 84 per cent confident of achieving self-sufficiency by 2030, but improving that position will be challenging as the economic and pension scheme environment continues to be difficult. We will be able to make the most of investment opportunities for the PPF, however: with our £12.1 billion investment portfolio expected to nearly double in size to over £21 billion in 2016 we will have a market position reserved for the largest schemes. We are pleased to be making the most of this in one high-profile area with our decision to become a founding investor in the Pensions Infrastructure Platform.

Emphasising the importance of customer service through a specific strategic objective is a new development for us, but builds on our work in previous years. Our increase in asset size will be matched by significant growth in membership. We now have 176,000 members in compensation and 146,000 in assessment and we expect to have over 400,000 members in assessment or compensation by 31 March 2016, with a further 164,000 FAS members protected. Last year, understanding that this scale created an opportunity for change, we decided to bring member services for PPF members in-house from 2014, the biggest strategic change the PPF has ever embarked upon.

Although our members do not have a choice about whether or not they get their service from the PPF, we will treat them as if they do, and bringing member services into the PPF puts us in a position to be more responsive to their changing needs. That treatment will be extended to our wider stakeholders, including our levy payers. Building on the successes of the last two years, we will continue to improve the assessment process through partnerships and panels, and maintain our on-going drive to improve pension scheme data quality for the benefit of members and levy payers.

Risk management has always been one of our key strategic objectives. Internally, we are implementing an enhanced risk management framework, which will ensure financial and non-financial risk management is embedded across all areas of the PPF, with room to innovate within a strong framework. Within the wider pensions landscape, we have made progress in using the perspective offered by our unique role to offer support to the industry in areas such as the IORP II directive, and that remains an important area of our work. Communication is vital in achieving this aim, and it remains essential to ensuring we work together internally and with our customers and stakeholders. It is crucial that all who are affected by our work understand why we do things the way we do, which requires a transparent approach.

Achieving all of these objectives depends, of course, on our people. We must attract and retain the right staff, providing them with personal and career development opportunities and making effective and efficient use of our resources.

So, we are pleased to embark on another challenging year at the PPF, working closely with, and balancing the interests of, all our stakeholders. In the current climate we are acutely aware of the responsibilities of protecting people's pensions that have been entrusted to us.

**Lady Judge CBE**
Chairman

**Alan Rubenstein**
Chief Executive

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# About us

## 1.1 This is what we do

### Pension Protection Fund

We protect millions of people who belong to defined benefit, eg final salary, pension schemes in the United Kingdom.

If their employers fail, and their pension schemes cannot afford to pay what they promised, we will pay compensation for their lost pensions.

Tens of thousands of people are now receiving compensation and hundreds of thousands more will do so in the future.

Compensation, and the cost of running the PPF, are paid for through levies on eligible pension schemes. We also generate income from our own investments, taking on the assets of schemes that transfer to the PPF – and recovering money, and other assets, from insolvent employers of the schemes we take on.

We are a public corporation, set up by the Pensions Act 2004, run by an independent Board which is responsible to Parliament through the Secretary of State for Work and Pensions.

The Board is committed to promoting the highest standards of behaviour in public life, and maintaining best practice eg ensuring standards regularly feature on Board agendas.

### Fraud Compensation Fund

We also pay compensation to members of pension schemes of all types whose employers fail and whose schemes have lost out financially due to dishonesty.

This compensation is paid for through a separate levy on all pension schemes.

### Financial Assistance Scheme

We manage the Financial Assistance Scheme (FAS) on behalf of the Government which funds it.

The FAS pays financial assistance to people who belonged to certain defined benefit pension schemes which are ineligible for compensation from the PPF – in particular, those which started winding-up between January 1997 and April 2005.

## 1.2 Our strategic framework

Our people are united in pursuit of our vision, mission, values and strategic objectives. Our vision will be realised as we fulfil our mission; to do this we must also be successful in delivering our strategic objectives, working from strong foundations and with the values that all PPF employees share, and which drive everything we do.

### Vision:

- Protecting people's futures

### Mission:

- Pay the right people the right amount at the right time

### Foundations:

- People, Communications, Efficiency and Effectiveness

### Strategic Objectives:

1. Meet our funding target through prudent and effective management of our balance sheet
2. Deliver excellent customer service to our members, levy payers and other stakeholders
3. Pursue our mission within a high calibre framework of risk management

### Values:

| Integrity | Collaboration | Accountability | Respect | Excellence |
|---|---|---|---|---|
| 'Do the right thing' | 'Work as one' | 'Own your actions' | 'Value every voice' | 'Be your best' |

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integrity | collaboration | accountability | respect | excellence

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# The next three years: 2013—2016

## 2.1 Our vision of the PPF in 2016

**Last year we published our vision for 2015, which described how we want the PPF to look when we celebrate our first decade in two years' time. Now we look out to 2016.**

In 2016, over 500,000 PPF and FAS members are secure in retirement. The PPF has assets of £22 billion and six years into our funding strategy we remain on course for self-sufficiency in 2030. We are equivalent in size to one of the five largest pension funds in the country.

We are a member focused financial institution. It has been over a year since we brought our member services into the heart of the PPF, driving members experience of the PPF reflecting their needs and reinforcing their confidence in us. We want our members to feel we treat them as customers and that we provide them with the level of service customers are entitled to expect. Now we have more control over the service we provide and increased flexibility when members' needs change. The opportunity to be innovative and create a new area of operation for the PPF has motivated our people to work together to provide the best service we can for members. That's how we maintain confidence in our ability to pay the right people the right amount at the right time.

With the second triennium of the New Levy Framework now begun, we look back at some difficult decisions about the levy estimate, as the PPF's risk was higher than expected during the first two years. But invoices are predictable: the rules are fixed for three years, and invoice amounts only change with risk, and even then less dramatically than in the past. The invoicing service works well too; from data collection to payment it is fast and reliable, aided by improvements in technology.

Our successful investment strategy and risk management are another source of confidence in the PPF. We're in year three of a process improvement plan for investment that has helped enhance our ability to deliver our dual objectives of protecting our liabilities and achieving class-leading returns in difficult economic circumstances. We're also reviewing our recent transition to a new model for multi-manager investment that will handle the increased volumes of work brought by rapid fund growth. Our re-designed financial risk management framework and asset allocation will ensure that we are resourced in-house and with our strategic partners to capture the investment opportunities from a large fund with predictable liabilities, to protect the funds that will end up in members' pockets. All of this fits within our overall funding strategy, which guides our policy, positions and decision-making in all financial areas of our business and where we wish to continue to be an example of best practice.

Outside the organisation, our unique position and expertise means we can assist Government and the industry in improving the way things work. At the same time, close relationships with the Pensions Regulator (TPR) and other Government bodies in the UK and Europe create a better understanding of our business.

We are a high-performing organisation that focuses both on our objectives, and how we set about achieving them. The objectives in our Strategic Plan cascade down through the organisation in our balanced scorecards; at every level, we know how we help the PPF achieve its goals. Alongside our scorecards, a small number of key objectives are the focus for staff engagement and tracking our achievements. We pursue all of these in the way we're asked to by the PPF competencies. Demonstrating to all of our stakeholders that the PPF offers the best value for money is integral to maintaining our success and customer confidence in us.

Our maxim is *inspire* and be inspired by each other. Senior managers lead in developing the environment of inspiration in an organisation with the right mix of skills. What matters at the PPF is getting the right people in first, people who grow with the organisation as we broaden our influence. We keep our people engaged, give the most talented responsibility and support everyone in their wider development. In this way, our people are equipped to ensure the PPF fulfils its mission and achieves its strategic objectives. The experience our people gain at the PPF gives them a competitive edge as they move on in their career and chosen industry. This in turn benefits the PPF through stronger relationships and by broadening the understanding of our aims and the way we work.

Many of us moved to the PPF to be part of something young and innovative, with freedom to create. Our appetite remains undiminished. We have used our energy and enthusiasm to maximise the value PPF creates for the public and we are continually looking to do more.

## 2.2 How we're going to achieve it

**Our operations are built on the strong foundation of our people working efficiently and effectively and communicating what we do, both within the organisation and outside it, thus giving confidence in our ability to deliver our mission.**

## Our foundations

### People

The PPF has a unique place in the pensions landscape. Our people bring a range of experiences and professional skills to their work. Together, we apply those experiences and skills to encourage innovation, developing understanding and contributions to risk management across the organisation and striving to be recognised as a skilled and responsive organisation.

We have grown a lot since 2005 and we have all had to adapt alongside that growth. In order to ensure we deliver on our objectives, our people need to continue to develop. That is why we are focused on their development and career needs and why we recognise and show that we value their efforts and their contribution to the PPF.

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# The next three years: 2013–2016 continued ...

We measure the views of our employees and of our members. In this way we aim to understand better how we are doing in helping our people to deliver the service we are committed to giving our members, and how those members perceive that service. We were again pleased to be placed on the Sunday Times Best Companies to Work For list as 'one to watch' in 2013 and will continue to use the feedback Best Companies provides to drive improvements in the workplace.

## Communications

We have always placed a great emphasis on communicating the PPF's actions and the reasons for them to anyone interested in what we do. In a period of economic uncertainty and challenges for pension schemes it is even more important that we continue to provide confidence and certainty to the members we protect. Equally we must continue to listen to our stakeholders and ensure our approach to our future development is both transparent and understandable.

Over the next three years we will continue to use a number of communication channels to support our strategic objectives, including face-to-face meetings, telephone support, our website, webcasts and written communications.

As we continue to mature as a financial institution we will also need to broaden our engagement with stakeholders, using our expertise, experience, data and analysis to engage with Government and industry in debates such as IORP II or initiatives like the Pensions Infrastructure Platform.

## Efficiency and effectiveness

As a well-established organisation, we must demonstrate the efficiency of our processes and continually strive for excellence. This concept underpins the operational improvements we will deliver over the next three years, through our 'cost to deliver' programme – which will provide more detailed analysis of direct and indirect business costs – alongside the greater control the use of administration, legal and actuarial panels will bring to schemes in the assessment process. In the next year we will also introduce new measures to assess unit costs for all our business services, improving our understanding of our own resource and financial expenditure.

*To deliver our mission we must meet our critical business objectives keeping our funding strategy on a steady course and delivering excellent customer service to our members. And, as a key pillar of the pensions protection regime in the UK, we must ensure we remain a beacon for effective risk management.*

# Our objectives

## 1. Meet our funding target through prudent and effective management of our balance sheet

We have set ourselves a funding objective to be self sufficient, in broad terms, by 2030. We chose 2030 because our research suggests that by that time future claims would be low relative to the size of PPF liabilities. We also anticipate the Pension Protection Levy will have ceased to be significant by that time.

As with any financial institution we face uncertainty in the current economic climate, and short- and long-term risks to our plans. This makes managing our balance sheet properly a critical part of how we ensure we meet our commitments to members.

In our 2010 Funding Strategy we first set out how we intend to become financially self-sufficient by 2030. We also stressed the importance of regular, close monitoring of our position. In October 2012 we published our second review of the strategy which showed the Fund in a strong position: assets valued at seven per cent more than liabilities and an 84 per cent probability of meeting the 2030 target.

We are however not complacent and are mindful that there are clear risks to us over the next three years: scheme deficits remain near record levels, while bond yields remain low and economic growth is slow. In the short term this environment means the Fund is likely to absorb larger deficits from transferring schemes than has historically been the case.

Although it is too soon to draw any conclusions about whether the current economic conditions are the 'new normal' we will be closely monitoring developments, and if it becomes appropriate to review the time horizon of our Funding Strategy we will. These considerations will form part of our Triennial Levy Review and when we undertake a PPF-equivalent Own Risk Solvency Assessment (ORSA) as part of our annual funding review.

By 2016 our investment portfolio is forecast to be over £20 billion. Making the Fund's assets work as effectively as possible so as to enable us to protect our members in uncertain times remains a key focus. We intend to continue to track our liabilities closely and to target returns of 1.8 per cent above their value, while remaining true to our risk tolerances.

We are closely monitoring the potential effects of legislative developments. European initiatives such as the European Market Infrastructure Regulation (EMIR) – introducing potentially more expensive mandatory centralised clearing for some derivative transactions - may require us to flex our investment strategy in order to maintain existing levels of performance.

# 2 The next three years: 2013—2016 continued ...

On the other hand, the continued growth of the Fund provides investment opportunities that are available only to large-scale asset owners. Size offers us the potential to exert a positive influence over the long-term that will enhance the security for our members. In the short-term we intend to continue to diversify our investment portfolio, implementing our objective of investing 20 per cent of the Fund into alternatives including new areas such as Infrastructure, Timber and Farmland.

Recoveries from insolvent employers continue to be an important income stream. We have made, or expect to realise in the future, close to £1.3 billion for schemes. We will continue to work closely with the Pensions Regulator in this area.

The size and complexity of the fund and the assets that transfer from schemes following assessment require a high level of expertise. Our people strategy will ensure that we bring the right mix of industry experience into the business while developing our existing employees to meet the future challenges. We recognise that it can be difficult to attract people into our organisation as well as retaining our talent, particularly in the current economic climate. We intend to develop our brand as an employer of choice, fostering our position as a customer focused financial organisation delivering a strong social mission.

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## 2. Deliver excellent customer service to our members, levy payers and other stakeholders

The PPF has always been a member focused organisation; providing members with confidence about their future and delivering that promise is what we are here to do.

Last year we announced that providing our members with an experience that they would expect as customers would be at the forefront of our thinking over the coming years, and as an evolving financial institution with a growing membership our approach would have to keep pace.

We also implemented the New Levy Formula, following an extensive review of the risks in the DB universe and collaboration and consultation with levy payers about their needs. This will deliver greater certainty and predictability for levy payers.

Delivering a positive experience for our members and levy payers is also about our people; we need to make sure our people can be the best they can be and, in what continues to be a challenging time for the public service, we remain committed to retaining and developing a high calibre, customer focused workforce.

### Changing our delivery model for member administration

To make this happen we have embarked on the biggest strategic change to our delivery model since our inception. In 2014 we plan to bring PPF member services in house. This means we will provide customer service to members directly, and will no longer use an external supplier to do this on our behalf. It was not a decision we took lightly, and was made only after months of analysis, research and discussions with experts in the field.

By the end of the period of this plan we anticipate providing around 300,000 members with a PPF customer experience tailored to suit our immediate and long-term growth.

While we will continue to provide FAS assistance through our outsourced partner, the customer experience in both PPF and FAS will continue to be closely aligned.

### Managing schemes through the assessment process

Transforming the way we manage schemes through the assessment process continues to be important to us. Our focus over the three years ahead will be about implementing our use of partnership working, with the ambition of completing the majority of scheme assessment periods in less than two years. During this period we also expect to close the portfolio of FAS schemes, allowing us to focus on paying and administering assistance for our 164,000 FAS members.

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# The next three years: 2013—2016 continued ...

We remain committed to improving our operating model and systems to achieve certainty for schemes, members and to provide and obtain value for money through our 'cost to deliver' programme. We will also take greater control over delivery costs through the use of administration, legal, actuarial and trustee panels - that reward good and penalise poor performance. At the same time we will strengthen our integrated systems. We will seek to remain a market leader in pension scheme data quality assurance and work with the industry and the Pensions Regulator to improve the quality of data held and managed by pension schemes and their administrators.

We have recently confirmed our approach to implementing Guaranteed Minimum Pension (GMP) equalisation for PPF compensation, and we intend to implement the methodology for transferred schemes as soon as practicable, whilst all schemes transferring from assessment after 1 June 2013 will be expected to have implemented our methodology.

## Data

We will continue to improve our service to customers by increasing the quality of member data to ensure that we can pay the right people the right amount at the right time. We will pro-actively engage levy payers who have had data issues, reviews or queries in the past and seek to provide the best support we can to all customers in each and every area of our operations. We will continue to enhance the validation rules in the Pensions Regulator's Exchange system to maximise the quality of data available to us.

## 3. Pursue our mission within a high calibre framework of risk management

We exist to protect the pensions of many thousands of people who would otherwise suffer unfortunate losses when the sponsor of their occupational pension scheme fails. As such we are a key pillar, together with the Pensions Regulator and the various Trustee bodies of UK defined benefit schemes, in ensuring that risks to pension provision – in their absolute widest sense – are managed effectively. This is critical today given the uncertain prospects for economic recovery and the degree of interest in pension scheme "solvency" at the European level.

We are committed to fulfilling our role in this macro structure of "enterprise" risk management by using our experience and evidence (eg The Purple Book) of the pensions system to interpret the effects of the current economic outlook, advise on policy initiatives and help to identify trends and challenges to the system. We are keen, for example, to support the UK authorities in identifying the potential consequences for pension protection arising from the European Commission's review of the IORP Directive.

Within our own organisation, we interpret "enterprise risk management" to be a joined up approach to risk identification, risk tolerance and risk management that helps us achieve our goals, identify opportunities for improvement and mitigate the effects of the sort of confluence of risk "incidents" that have troubled many financial and non-financial firms in recent times.

In general, we have a cautious risk appetite in respect of all our risk categories; this reflects our preference for safe delivery options that have a low degree of residual risk, with a strong control framework in place for investment operations. Our risk management framework is not intended to stifle initiative but rather to empower our people to work within a transparent, well-managed structure.

Over the next three years we will continue to implement an enhanced framework for managing risks to the PPF through our 'three lines of defence' approach. This includes operational management of risk, overseen by our risk management functions, supported by internal auditing. Our approach intends to ensure all levels of the organisation are involved in identifying and managing risk, and day to day decisions are made with a full appreciation of the associated risks. This will enable us to pro-actively engage with any related threats, opportunities and uncertainties. In a turbulent economic environment controlling our risks is more critical than ever, and vital to safely delivering our promise to protect people's futures.

We began the expansion of our processes last year with financial risk, the most obvious of our activities in this area. The investment in people and systems has ensured we have kept up with best practice and enhanced our monitoring of investment risk, and will be an area we will continue to focus on as we transition to our new multi-manager investment model. Our intention is to suitably tailor this expansion across all our risk areas: Strategy/Environmental; Legal; Operational; Reputational; Organisational/Design/Culture, continuing to develop understanding of our approach to risk management across all levels of the organisation in tandem.

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# Our operating environment

## 3.1. Legislative regime

Our powers and responsibilities were originally set out in the Pensions Act 2004 and are amended and augmented in subsequent primary (Acts) and secondary (Regulations) legislation. Changes introduced in the Pensions Act 2011 will affect the operation of PPF and FAS, as will the PPF Miscellaneous Regulations 2013.There are further legislative changes that would impact on the PPF such as clarifying the definition of money purchase benefits following the Bridge judgement and the proposed new objective for the Pensions Regulator.

## 3.2. The Economic Environment and the implications for Pension Scheme Risk

As part of our strategic planning process we keep critical economic indicators under review, as well as developing and monitoring a funding strategy for the long term.

At a macro level, the economic outlook has deteriorated over the last 18 months, as shown in **Chart 1**.

In summer 2011, there was cautious optimism about the year ahead with economists forecasting UK economic growth of just over two per cent for 2012. However, the economy returned to mild recession, and it now looks likely that GDP was unchanged for 2012 as a whole. Forecasters are expecting only weak growth of one per cent in 2013. Growth has also disappointed in the US and euro area, and has slowed in the large emerging economies such as China and Brazil.

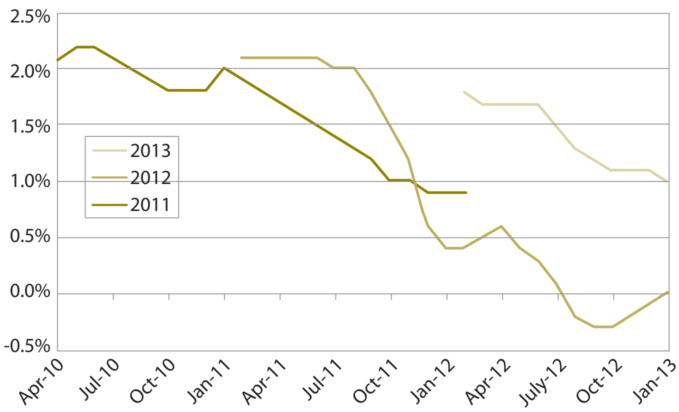


**Chart 1: UK growth forecasts (average, independent) revised down**

*Source: H.M. Treasury, Forecasts for the UK economy*

Focusing more narrowly on the risk to the PPF, there was a marked deterioration in scheme funding on a section 179 (s179) PPF funding basis for our universe of schemes, shown in **Chart 2**.

The funding ratio (assets divided by liabilities) for our universe of schemes fell from 100 per cent in March 2011 to 83 per cent in March 2012 since which time it has been broadly unchanged. The aggregate deficit of schemes in deficit has leapt from £76 billion in March 2011 to £269 billion in December 2012, as shown in **Chart 3**.

The value of defined benefit schemes' assets are driven by trustees' choice of assets and their market value. The value of pension scheme liabilities depends on more factors:

- bond yields;
- changes in estimated pricing in the bulk annuity market[1];
- inflation; and
- longevity assumptions.

Bond yields and market inflation expectations change continuously and rapidly and can cause large swings in scheme deficits. The assumptions on longevity and estimated pricing in the bulk annuity market used in the estimates of scheme funding on a s179 basis are changed less frequently, and tend to be less significant. The last change was made in April 2011 and worsened scheme funding by £45 billion.

1 The Board of the PPF is responsible for keeping the assumptions for s179 valuations in line with such estimated pricing.

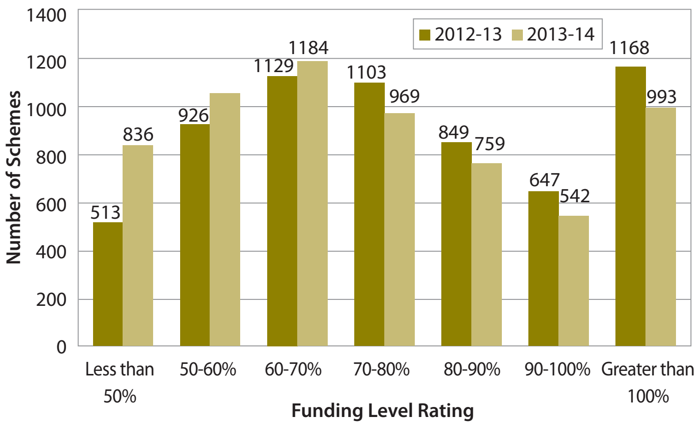


**Chart 2: More schemes badly funded for 2013-14 levy year**

*Source: 2013/14 PPF Levy Consultation Document*

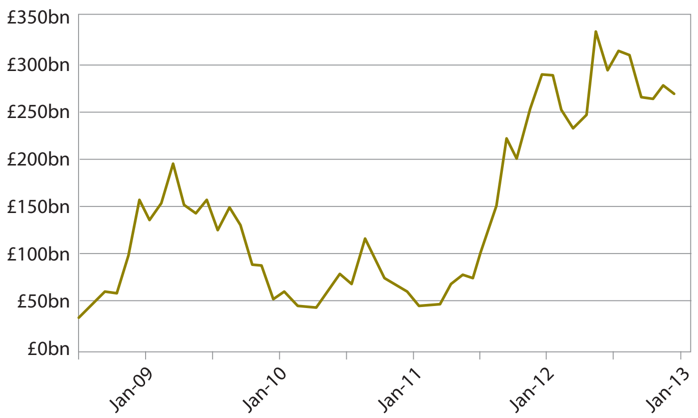


**Chart 3: Deficit of schemes in deficit (s179 basis, top 500 risks only)**

*Source: PPF*

# Our operating environment continued ...

Insolvency risk has risen a little since mid 2011, as shown in **Chart 4**. The 1-year ahead insolvency probability for the company sponsors of our 500 biggest risks moved up from under 0.6 per cent to 0.7 per cent in the summer of 2012 and has been broadly unchanged since then. The uncertainties regarding the number of future claims remain very great, not just regarding the outlook for the economy but also on the relationship between the economy and claims on the PPF.

Combining this increased insolvency risk for the universe of PPF eligible schemes and the increase in deficits of schemes in deficit raises our expected annual claim amount, before recoveries, to around £1.8 billion, as shown in **Chart 5**. This compares with claims of close to £1 billion in the first nine months of 2012/13. Indications for claims in January 2013 and outputs from the Long Term risk Model suggesting that by the end 2012/13 net claims will be in the £1-1.4 billion range.

The impact of this rise in risk was reflected in our plans for the levy for 2013/14 published for consultation in September 2012, and set out in final form on 17 December. Under the New Levy Framework, the levy scaling factor would ordinarily have been held constant so that the Levy Estimate was allowed to float freely, as 2013/14 is the second year of the levy triennium. However the very significant rise in risk seen since 2011 meant that using the same parameters would have resulted in a levy estimate in excess of the maximum of £685 million that the Framework allowed us to set.

We chose to set a levy estimate at £630 million (rather than at the maximum £685 million), to reflect the particularly difficult economic circumstances at present. We also indicated that we would expect that the levy parameters we are setting for 2013/14 will be retained for 2014/15, the last year of the levy triennium. We noted that holding the levy parameters constant in 2014/15 would mean levies would rise in that year, if market conditions continue as now, or risk otherwise increased.

We published our Annual Report and Accounts in October 2012, which presented our funding position as at 31 March 2012. Alongside this we provided an update on our Funding Strategy at that time. This emphasised that, as with any financial institution, we face considerable uncertainty in our finances over the long-term.

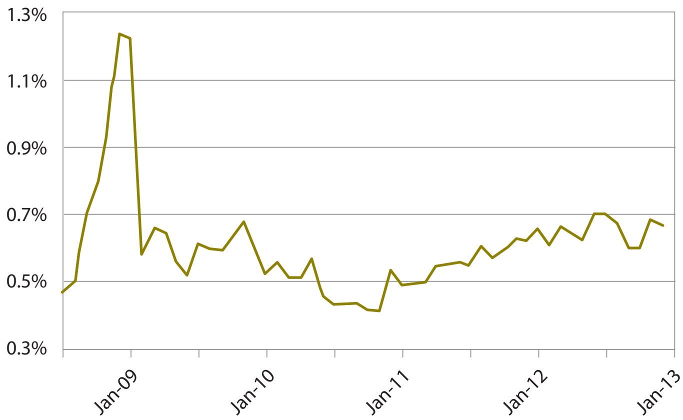


**Chart 4: Insolvency probability (liability weighted) for our 500 largest risks**

*Source: PPF*

One of the ways we monitor this uncertainty is through our funding strategy, which is a quantitative framework that captures as many of the key risks as possible. Since we first published our funding strategy in August 2010, we have stressed how important it is that we keep it under review to make sure that we know what is required for us to meet our target of financial self-sufficiency by 2030.

As at the end of March 2012 the fund was in a strong position, its assets being valued at seven per cent more than its liabilities and the probability of our achieving self-sufficiency by 2030 being assessed at 84 per cent.

However, there are clear risks to us over the long-term. Gilt yields remain close to historic lows, which has pushed up scheme deficits to record levels. Over the year to March 2012, for example, the PPF 7800 index moved from being slightly in surplus to being over £200 billion in deficit. Furthermore, low levels of economic growth suggest that we will remain exposed to the risk of a significant uptick in insolvency rates materialising during a period of high pension scheme underfunding.

It is clear our funding target has to be kept under close, constant review, particularly in light of current market tensions. We are also mindful that while financial models provide a view on the world that is useful to inform strategic decisions, models are fallible. We are therefore careful to test the sensitivity of our results to changes in our assumptions so that we can assess the strength of any conclusions that can be gauged from our base case.

For the 2012 funding review we provided the results of two stresses to the base case assumptions. These have been compiled with the assistance of Oxford Economics, and we are pleased to say that the Fund is resilient to the particular stresses that we have looked at. While we can take some comfort from this, we strike a note of caution in that no one stress test can be considered definitive. A large part of our on-going risk management is to devise scenarios and stress tests that are realistic and reflect changes in the global economy and developments in defined benefit pension provision.

In summary, we believe our funding strategy remains appropriate, we continue to make good progress against it, and will closely monitor it over the period of this strategic plan. However, there are clear risks in the current economic climate, and regular monitoring of our position remains vital.

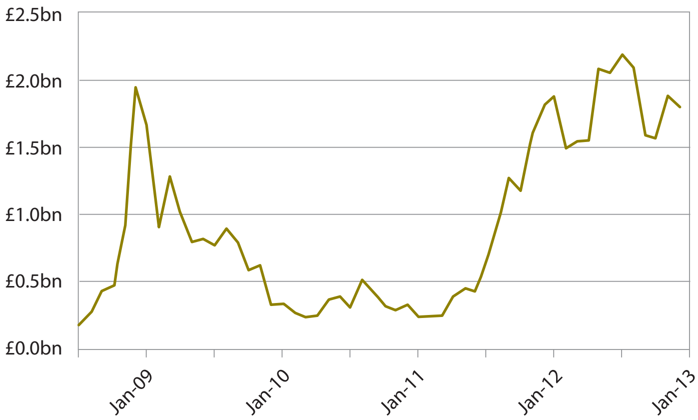


**Chart 5: Expected 1-year claims based on funding and insolvency risk**

*Source: PPF top 500 risks*

# Our operating environment continued ...

## 3.3 Our assumptions for 2013-2016

As explained above, our economic environment, and hence our workload, changes continuously. Insolvencies determine cases entering assessment, which determine the scheme assets to transfer to the PPF. Using our modelling outputs and analysis of current economic trends, we have produced the assumptions below to help us estimate the resources we need for the years ahead.

Inevitably these assumptions are subject to significant uncertainty. For example, we currently expect between 100 and 140 cases to enter PPF assessment in 2013/14, and so have set our assumption at 120. And we have made a flat assumption for later years. However, a change in the economic or regulatory environment could easily affect the number of insolvencies – for example a rise in interest rates even if part of a general recovery, could see an increase in the number of schemes entering assessment – albeit that their typical funding position might be better. Equally, a worsening in the economic environment could also trigger a higher level of insolvencies.

| **Estimates for end of financial year:** | **2012/2013** | **2013/2014** | **2014/2015** | **2015/16** |
|---|---|---|---|---|
| **Schemes** | | | | |
| **PPF** | | | | |
| New cases entering assessment in the year | **130** | **120** | **120** | **120** |
| Cases transferred to the PPF | 150 | 120 | 120 | 120 |
| Cases leaving assessment by other means | 37 | 30 | 30 | 30 |
| Total cases completing assessment | **187** | **150** | **150** | **150** |
| Cases in assessment at year end | **236** | **206** | **176** | **146** |
| **FAS** | | | | |
| FAS 2 qualifying schemes transferring | **140** | **110** | **107** | - |
| FAS 1 qualifying schemes transferring | **39** | **15** | - | - |
| Members | | | | |
| **PPF** | | | | |
| Members in assessment at year end | **146,000** | **137,000** | **128,000** | **119,000** |
| Cumulative members in compensation | **176,000** | **214,000** | **252,000** | **290,000** |
| **FAS** | | | | |
| Cumulative members transferred | **110,000** | **142,000** | **164,000** | **164,000** |
| **Assets** | | | | |
| **PPF** | | | | |
| Assets Under Management (£) | 12.1bn | 15bn | 18.5bn | 22.1bn |

# Our Business Plan for 2013/14

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## 4.1 Meet our funding target through prudent and effective management of our balance sheet

| Activity/Action | KPI/Milestone |
|---|---|
| Actively manage outstanding levy debt | • Collect 90 per cent of the outstanding uncontested 2013/14 levy by 31 December 2013. |
| Monitor the progress of the PPF funding strategy, particularly against the threshold likelihood of achieving self-sufficiency by the year 2030, this threshold being in accordance with the comfort level expressed by the Board | • Maintain a likelihood of self-sufficiency by the year 2030 of at least 84 per cent.<br>• Triennial Levy Review encompassing ORSA<br>• Maximise recovery of assets from insolvent scheme sponsors. |
| Enhanced investment framework for tactical decision making and implementation to improve the risk adjusted returns for the Fund. | • Improvement in risk adjusted return based on rolling 3 year excess return of LIBOR+1.8% per annum and 4% tracking error of assets against liabilities.<br>• Improved timeframe from investment decision making to transacting. |
| Ensure best practice is applied and value for money achieved from all cost generating activities, and governance/delivery processes are appropriate to meet business needs | • Embed activity based cost reporting into regular Management Information processes by 31 March 2014.<br>• Develop scope and plan for increasing control over third party costs during scheme transition process by 31 March 2014. |
| Develop the PPF investment process in light of the Fund's increasing scale | • Review our approach to managing an increasing portfolio of external managers<br>• Develop investment ideas and strategies that make use of increasing scale and influence. |
| Recruit and retain appropriately experienced and qualified people to bring innovative approaches to delivering our mission | • Resource (time and cost) to recruit reduced.<br>• Staff survey shows people's intention to continue working for PPF remains the same or greater than in 2012/13. |

# 4

# Our Business Plan for 2013/14 continued ...

## 4.2 Deliver excellent customer service to our members, levy payers and other stakeholders

| Activity/Action | KPI/Milestone |
|---|---|
| Continue working with trustees and advisors to move schemes through the assessment and wind-up processes as quickly as possible to provide certainty for members | • 150 PPF schemes to complete assessment by end of March 2014.<br>• 15 FAS1 and 110 FAS2 schemes to complete assessment by end of March 2014. |
| Pay the right person the right amount at the right time | • PPF/FAS data quality standards are maintained at 95 per cent or higher. |
| Issue levy bills in a timely and effective manner | • 90 per cent of schemes invoices issued by 31 October 13. |
| Maintain a pro-active and integrated communications and stakeholder engagement programme. Maintain member confidence at the highest level | • Member satisfaction exceeds 80% and complaints are minimal.<br>• At least 80 per cent of stakeholders are confident in the PPF's ability to deliver on its statutory objectives. |
| Ensure effective insourcing of member services, so that they are developed and delivered with a high level of customer service at their heart | • Develop an in-house member administration and payroll solution that supports delivery of a high level of customer service.<br>• Develop member-focused processes and letters for the insourced service by 31 March 14.<br>• Recruit and train member services staff to ensure they are proficient in delivering a high level of customer service. |
| Recognised as an established, highly skilled, responsive organisation | • Our people recognise talent development as part of our culture and feel proud to work for our organisation (measured by our staff survey)<br>• Our members describe our service positively (measured by our customer perception audit) |

## 4.3 Pursue our mission within a high calibre framework of risk management

| Activity/Action | KPI/Milestone |
|---|---|
| Maintain effective financial risk management | • Review investment operational risks quarterly.<br>• Monitor financial risks including investment and funding risks monthly, maintaining appropriate resources and systems.<br>• Ensure risks remain within the Board's agreed tolerances.<br>• Review our systems of risk management and governance across the financial and non-financial areas.<br>• Produce a PPF equivalent of the ORSA as part of our annual funding review. |
| Maintain effective operational risk management | • Monitor all the operational risks facing the PPF monthly.<br>• Maintain ISO 27001 accreditation to ensure effective management of information security risks. |
| Market lead with the data quality we hold on behalf of our members | • Compliant to anti fraud requirements (NFI bi-annual).<br>• Mitigation of Fraud risk in place for overseas book. |
| Contribute to the understanding of risk in the pensions landscape | • Publish the Purple Book annually.<br>• Ongoing engagement with policy initiatives such as the IORP review. |
| Develop people to understand and contribute to a broader approach to risk management across the organisation | • Deliver development activity which continues to advance understanding of our approach to risk management across all levels of the organisation. |

# 5 Updated financial plan and budget estimate

## 5.1 Funding

Our Administration Fund covers the majority of our operating and capital expenditures. It is financed by the PPF administration levy, which is raised by DWP on eligible pension schemes. We draw down Grant-in-Aid funds from DWP to cover these costs.

The Pension Protection Fund is financed by the protection levy, the transfer of assets from schemes completing the PPF assessment process, recoveries from insolvent employers and investment returns. Regulations require certain costs to be charged to the Protection Fund. These include investment and investment risk management fees, insolvency fees, some member payroll services fees and their associated staff costs.

All costs related to running the Financial Assistance Scheme are covered by Grant-in Aid drawn down from DWP; FAS is not funded by PPF levy payers.

## 5.2 Three-year financial plan

Our financial plan is based on the key volume assumptions in section 3.3. Our costs are driven in a number of areas by events that are difficult to forecast and control, such as insolvencies, legal claims and the financial markets. The planning process therefore delivers a "most-likely" case forecast and is subject to significant risks.

**Table 1** opposite gives our view of total estimated expenditure for the three years to 2015/16.

The cumulative number of PPF and FAS members is forecast to grow by 59 per cent to 454,000 by 2015/16. The current contract with Capita, our outsourced member payroll provider, comes to an end in 2014 and member volumes have reached the critical size to benefit from economies of scale. This has driven the decision to insource PPF member payroll services from July 2014. The full benefit of this will emerge in the future as we continue to grow and improve efficiency but our expenditure will be higher in 2013/14 as we implement the new model and undertake essential renewal of our infrastructure. For the foreseeable future Capita will remain a strategic partner and continue to provide the administration services for the FAS.

Over the planning period controlled overheads will increase by 11 per cent from £35 million in 2012/13 to £39 million in 2015/16, mostly reflecting the cost of employing and accommodating an estimated one hundred member servicing staff and the cost of the administration system. This is partly offset by a reduction of £2 million in staff costs and other professional services attributed to the wind up of FAS operations and the completion of strategic change projects.

Outsourced delivery services are expected to increase by 77 per cent from £85 million to £151 million. The key driver is the 61 per cent increase in fund manager fees in line with anticipated growth in assets under management (see section 3.3). These fees are forecast to remain stable at 0.6 per cent of assets under management for the three years to 2015/16 and will vary with the level of assets transferred in and fluctuations in market value.

The increased level of insolvency professional services fees in the three years to 2015/16 relates to the PPF's potential legal responsibility to prosecute a major claim following the issue of a contribution notice by the Pension Regulator. Both timelines and costs are very broad estimates at this stage.

### Table 1: Expenditure by year

| All figures in £m | 2012/13 Fcst | 2013/2014 Plan | 2014/2015 Plan | 2015/2016 Plan |
|---|---|---|---|---|
| Fund Manager Fees | 75.1 | 94.5 | 108.6 | 120.9 |
| Custodian Fees | 0.9 | 1.0 | 1.3 | 1.5 |
| Scheme Wind Up Services | 2.1 | 1.3 | 1.5 | 0.5 |
| Member Payroll Services | 6.2 | 6.9 | 4.2 | 2.9 |
| Insolvency Professional Services | 0.5 | 13.0 | 25.0 | 25.0 |
| Levy Risk Scoring Services | 0.4 | 0.5 | 0.7 | 0.4 |
| **Outsourced Delivery Services** | **85.2** | **117.2** | **141.3** | **151.2** |
| Staff Costs | 20.4 | 25.2 | 24.2 | 23.1 |
| Training & Recruitment | 1.3 | 1.9 | 1.2 | 1.2 |
| Travel and Meetings | 0.2 | 0.2 | 0.2 | 0.2 |
| **Staff Related** | **21.9** | **27.3** | **25.6** | **24.5** |
| Accommodation & General Office | 2.4 | 3.8 | 3.2 | 3.1 |
| Communication & Publications | 0.1 | 0.1 | 0.1 | 0.1 |
| IT & Telecommunications | 2.9 | 5.5 | 5.8 | 5.8 |
| **Infrastructure** | **5.4** | **9.4** | **9.1** | **9.0** |
| Investment Advisory Fees | 1.8 | 2.1 | 1.8 | 1.7 |
| General Legal Services | 2.3 | 2.5 | 2.5 | 2.5 |
| Audit & Assurance | 0.6 | 0.6 | 0.6 | 0.6 |
| Other Professional Services | 1.7 | 2.0 | 1.0 | 1.0 |
| **Assurance and Advisory** | **6.4** | **7.2** | **5.9** | **5.8** |
| **Controlled Overheads** | **33.7** | **43.9** | **40.6** | **39.3** |
| **Depreciation** | **0.7** | **1.1** | **2.6** | **2.5** |
| **Total Expenditure** | **119.6** | **162.2** | **184.5** | **193.0** |
| **Capital Expenditure** | **0.3** | **10.0** | **0.0** | **0.0** |

We will work to reduce our reliance on external advisers but will continue to do so where this represents value for money and where we are obliged to do so. Other professional services include amounts payable to GAD, non-executive directors and certain necessary advice. Costs are higher in 2013/14 due to the insourcing project and work on GMP equalisation.

**Table 2** below shows the planned expenditure by funding source. The increase in FAS expenditure in 2013/14 is mainly driven by the increased use of outsourced scheme wind up service costs as we near the end of this activity. The admin fund costs rise slightly over the next couple of years but then fall back by 2015/16. The remainder of our expenditure is in the Protection Fund and follows the commentary set out above.

### Table 2: Expenditure by funding source

| All figures in £m | 2012/13 Fcst | 2013/2014 Plan | 2014/2015 Plan | 2015/2016 Plan |
|---|---|---|---|---|
| Protection Fund | 92.1 | 133.5 | 156.6 | 167.6 |
| PPF Admin Levy | 19.2 | 19.9 | 19.7 | 19.3 |
| FAS Admin Levy (Tax Payer) | 8.3 | 8.8 | 8.2 | 6.1 |
| **Total** | **119.6** | **162.2** | **184.5** | **193.0** |

# Updated financial plan and budget estimate continued...

**Table 3** below summarises estimated full time equivalent staff (FTE) over the strategic plan years. The increase in 2013/14 is in line with insourcing member payroll services. The decrease in 2014/15 is mainly as a result of temporary staff to support major projects and also reflects the continued wind up of FAS operations which is planned to complete by 2015/16.

**Table 4** below summarises estimated capital expenditure over the strategic plan years. Capital expenditure in 2013/14 reflects estimated costs to implement our new IT managed service and costs of moving to and fitting out a new building. The allocation to the Protection Fund is higher than other funds as the move to a new building is driven by the decision to insource member payroll services.

**Table 3: Total FTE**

| FTE | 2012/13 Fcst | 2013/2014 Plan | 2014/2015 Plan | 2015/2016 Plan |
|---|---|---|---|---|
| **Total** | **278** | **380** | **340** | **330** |

**Table 4: Capital Expenditure by funding source**

| All figures in £m | 2012/13 Fcst | 2013/2014 Plan | 2014/2015 Plan | 2015/2016 Plan |
|---|---|---|---|---|
| Protection Fund | 0.0 | 5.1 | 0.0 | 0.0 |
| PPF Admin Levy | 1.4 | 2.1 | 0.0 | 0.0 |
| FAS Admin Levy (Tax Payer) | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **1.4** | **7.2** | **0.0** | **0.0** |

## 5.3 2013/14 budget estimate

The £162 million budget reflects the estimated cost to deliver 150 schemes through our assessment process; £630 million levy collection and 150 FAS scheme wind ups plus the continued successful implementation of our Statement of Investment Principles and running an outsourced member payroll and administration function.

The budget is 36 per cent higher than £120 million forecast for 2012/13. The main reason for the increase is a £19 million increase in fund manager fees in line with the anticipated £3 billion growth in assets under management and the inclusion of £13 million in respect of possible major insolvency litigation as described in section 5.2.

The £0.7 million increase in member payroll services costs versus 2012/13 reflects more members transferring to the PPF and increased costs for data quality tracing.

We use an outsourced provider to deliver scheme wind-up services (PPF assessment and FAS wind-up). These costs were higher in 2012/13 due to additional case specific charges that were incurred in the year.

Staff related costs are expected to increase by £5.4 million with the temporary project costs to manage the insourcing of the member payroll service (including costs of training and recruiting new staff).

## Further Reading

For further detail on the PPF and our work, please visit the following pages:

The Pension Protection Fund
**http://www.pensionprotectionfund.org.uk**

PPF Long-Term Funding Strategy (and updates)
Pension Protection Fund Annual Report & Accounts 2011/12
Risk Appetite Statement
**http://www.pensionprotectionfund.org.uk/About-Us/Pages/About-Us.aspx**

The Purple Book
**http://www.pensionprotectionfund.org.uk/Pages/ThePurpleBook.aspx**

PPF 7800 Index
**http://www.pensionprotectionfund.org.uk/Pages/PPF7800Index.aspx**

For more information on the Pensions Regulator, see:

The Pensions Regulator
**http://www.thepensionsregulator.gov.uk/**

Pension
Protection
Fund

Pension Protection Fund
Knollys House
17 Addiscombe Road
Croydon
Surrey CR0 6SR

T: 0845 600 2541
F: 020 8633 4903

www.pensionprotectionfund.org.uk

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