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Executive summary

Highlights and key trends from this year's *Purple Book*.

Data

There are estimated[1] to be 5,131 schemes in the Pension Protection Fund (PPF) eligible universe as at 31 March 2022, a reduction from 5,220 as at 31 March 2021. The declining universe reflects schemes winding up, scheme mergers, and schemes entering PPF assessment. This year, *The Purple Book* dataset covers all 5,131 schemes that are eligible for PPF compensation.

Schemes with more than 5,000 members make up almost 75 per cent of each of total assets, liabilities, and members, while only forming seven per cent of the total number of schemes in *The Purple Book 2022* dataset. Conversely, schemes with fewer than 1,000 members make up 80 per cent of the total number of schemes but only around 10 per cent of total assets, liabilities and members.

Scheme demographics

The Purple Book 2022 dataset includes 9.6 million DB scheme members, down from 9.7 million last year. Of these:

- 43 per cent are pensioner members;
- 47 per cent are deferred members; and
- 10 per cent are active members.

Whilst the proportions are the same as last year, the number of active members in *The Purple Book 2022* dataset who are members of a scheme still open to new benefit accrual and who continue to accrue benefits has reduced by five per cent over the year. This is significantly higher than the percentage reduction in the universe of schemes (two per cent) and the reduction in total membership (one per cent) over the year and will reflect the fact that some members will have retired as well as the continuing trend of schemes that had previously closed to new members now closing to new benefit accrual.

The proportion of schemes that are closed to new benefit accrual has increased from 48 per cent in 2021 to 51 per cent in 2022. This now means that for the first time we have more schemes that provide no form of accrual of benefits than those that do.

Schemes that remain open tend to be larger in terms of membership. 21 per cent of members were in open schemes with a further 41 per cent in schemes that are closed to new members but open to new benefit accrual.

Scheme funding

Universe scheme funding improved in the year to 31 March 2022. The net funding position on a section 179 (s179) basis as shown in the PPF 7800 index improved to a surplus of £193.0 billion compared to a surplus of £46.9 billion the year before, while the aggregate funding ratio increased to 113.1 per cent from 102.8 per cent.

The increase in the aggregate funding ratio is mainly the result of market movements, primarily the result of higher gilt yields driving down liability values by more than the corresponding decrease in asset values, together with large increases in equity values.

There was a further increase in the aggregate funding ratio from the new s179 basis that came into force on 1 May 2021 as well as up-to-date valuations and the latest eligible universe available by updating to the new *Purple Book 2022* dataset.

Over the year we have seen the total section 179 liabilities fall by almost 12 per cent, this being the largest annual fall observed.

On an estimated full buy-out basis, the net funding position improved to a deficit of £438.4 billion from a deficit of £615.3 billion the year before and the funding ratio improved from 73.7 per cent to 79.2 per cent.

Asset allocation

The aggregate proportion of schemes' assets invested in equities and bonds were broadly unchanged from those recorded two years ago. The proportion in equities rose slightly from 19.0 per cent to 19.5 per cent while the proportion in bonds fell slightly from 72.0 per cent to 71.6 per cent.

Within bonds, the index-linked bonds proportion increased from 47.2 per cent to 47.8 per cent. The corporate bonds proportion increased from 28.2 per cent to 30.2 per cent, while the government fixed interest bonds proportion fell from 24.6 per cent to 22.0 per cent.

Within equities, the UK-quoted proportion fell from 11.6 per cent to 9.9 per cent, falling below 10 per cent for the first time. The overseas-quoted proportion increased slightly from 68.3 per cent to 68.6 per cent, while the proportion of unquoted/private equities increased from 20.1 per cent to 21.5 per cent.

Risk reduction

DB pension schemes have continued to close to new benefit accrual. Although there has been little change in the proportion of assets in bonds and equities over the last year, schemes continued to invest a large proportion (over 70 per cent) of their assets in bonds and the proportion of assets invested in equities is less than 20 per cent.

Based only on current recovery plans in place, total annual recovery plan payments are indicated to decrease by around 88 per cent over the next 10 years, from around £12.3 billion in 2022 to around £1.4 billion in 2032, as schemes increasingly become fully funded on a Technical Provisions basis. However, this only shows the current position so changes may be made to existing recovery plans and new recovery plans may be put in place in the future if experience is different from what has currently been assumed by schemes.

Analysis of The Pensions Regulator's latest Technical Provisions and recovery plan data shows that in Tranche 15[2], the average recovery plan length was 6.4 years, a year less than that of Tranche 12 (comparable given the three-year valuation cycle). Assets as a percentage of Technical Provisions was 88.8 per cent in both Tranche 12 and Tranche 15.

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1 The number of schemes in the PPF eligible universe as at 31 March 2022 could be different from 5,131 if any of these schemes are discovered to be ineligible for PPF protection or if any other schemes are discovered to be eligible for PPF protection as at 31 March 2022.

2 Tranche 15 covers schemes with valuation dates between 22 September 2019 and 21 September 2020. https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/scheme-funding-analysis-2022/scheme-funding-analysis-2022-annex

Executive summary continued

The total number of contingent assets submitted to the PPF for the 2022/23 levy year was 303, compared with 317 in 2021/22.

There were £43 billion worth of risk transfer deals (buy-ins, buy-outs and longevity swaps) in 2021, down from £56 billion the previous year. This is a relatively small amount in the context of the whole universe of schemes.

PPF levy, claims, and compensation

- In 2021/22, the levy totalled £476 million, down from £630 million the previous year.
- The top 100 levy payers accounted for 58 per cent of the total levy, up from 55 per cent last year.
- 34 per cent of schemes had no risk-based levy while 3.3 per cent of schemes saw the cap of 0.25 per cent of smoothed liabilities apply to their risk-based levy.
- 84 per cent of the total levy came from schemes sponsored by employers categorised as 'Non-Subsidiaries £30 million+ and Large Subsidiaries', 'Credit Rated' or 'Group £50m+' for D&B scorecard purposes.

In the year to 31 March 2022, 14 new schemes entered PPF assessment. This is lower than last year when there were 30 new schemes. The total value of the year's claims was £12 million (as measured on an s179 basis), which is lower than last year's claims of around £200 million.

In the year to 31 March 2022, the PPF made compensation payments of £1,115 million compared with £1,006 million in the previous year. As at 31 March 2022, there were 193,983 records in respect of members receiving compensation[1], up from 184,844 a year earlier. The average annual payment per record to members receiving compensation was £4,825, which is comparable to the 31 March 2021 average of £4,829.

PPF risk developments

We published our funding strategy review in September 2022, which explains our approach to financial risk management as we move into a new phase of our funding journey. We enter this new stage in a strong financial position, and our strategic aim will shift from growing our reserves to 'Maintaining our Financial Resilience', which is our revised funding objective.

We defined a set of funding priorities to monitor our financial resilience. The strategic decisions on our future investment and levy strategies will be guided by how our reserves compare to these priorities. We therefore need to understand how our own funding and that of the schemes we protect may change over time. For that, we use the Long-Term Risk Model (LTRM), a stochastic model that runs a million different scenarios to project what the future may look like, allowing for future claims, levies, investment returns and changes in economic conditions.

Like any complex modelling exercise, LTRM projections are subject to significant uncertainty. They depend crucially on modelling assumptions, which we continually refine to reflect how experience and expectations develop over time. We carried out sensitivity testing to understand the key financial risks to which we are exposed. Under each of these tests, we are comfortable that our current strategic decisions would be unchanged. We also continue to monitor, and seek to understand, the impacts of the key risks we face, including climate change risk, macro-economic changes and the COVID-19 pandemic.

Over the last year, there has been a material improvement in our funding position and in that of the schemes we protect. This has increased the likelihood of us 'Maintaining our Financial Resilience'. The general economic environment remains volatile, but our modelling indicates that we are well placed to cope with the uncertainty.

Economy and market background

The following table sets out how some key market indicators in the assessment of universe scheme assets and s179 liabilities have changed over the year:

Market indicator	Change over the year to 31 March 2022
10-year fixed interest gilt yield	0.72pp
15-year fixed interest gilt yield	0.58pp
20-year fixed interest gilt yield	0.47pp
5–15 year index-linked gilt yield	-0.06pp
FTSE All-Share Index (TR)	13.03%
FTSE All-World Ex-UK Index (TR)	12.62%

pp = percentage point(s)
TR = Total Return

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1 Some members have more than one record in the data.