

PPF 7800 Index

30 November 2016

This update provides the latest estimated funding position, on a section 179 (s179) basis, for the defined benefit 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.

This month there are two changes in the way the PPF 7800 Index is calculated:

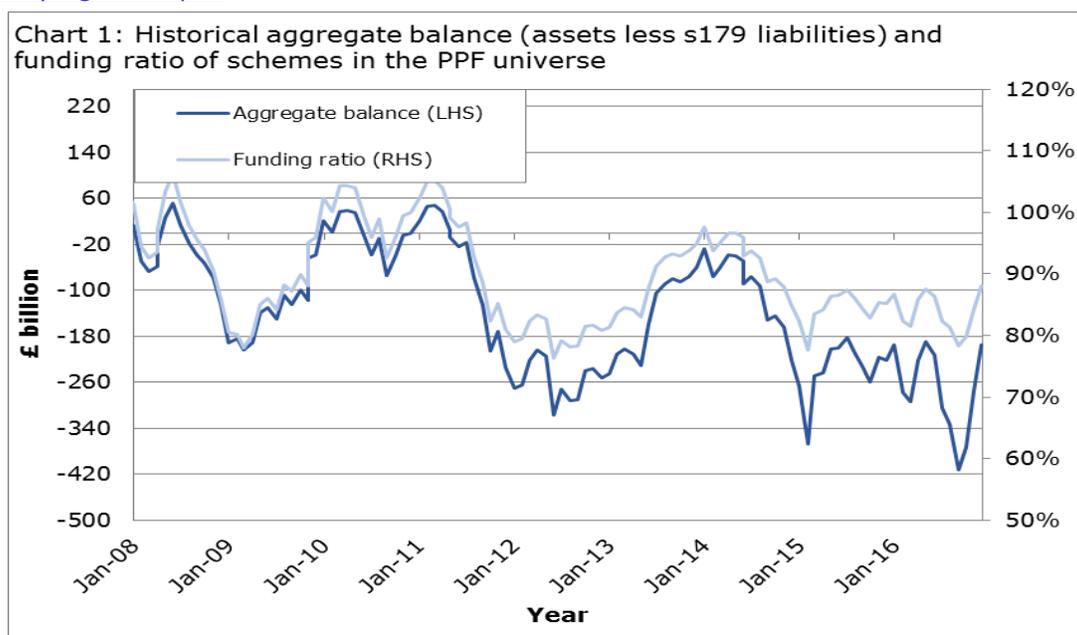
- We are moving to the new Purple 2016 dataset for the calculation of the funding levels, re-stating the funding position from March 2016 to October 2016 to reflect the new data. The impact as at 31 October 2016 is an improvement in the funding position of 2.7 percentage points (see Note 8 on page 7).
- The PPF 7800 Index for end November takes account of the new version (A8) of the actuarial assumptions for s179 valuations, introduced with effect from 1 December 2016. The impact of the change was a further improvement of the funding ratio by 1.5 percentage points (see Note 4 - page 6).

For more information on the impact of the changes on the PPF 7800 Index, please see Note 1 on page 6. All the charts and tables presented in this publication have been revised to reflect the changes described above.

Highlights

- The aggregate deficit of the 5,794 schemes in the PPF 7800 Index is estimated to have decreased over the month to £194.7 billion at the end of November 2016, from a deficit of £275.9 billion at the end of October 2016 (previously shown as £328.9 billion).
- The funding ratio improved from 84.1 per cent at end October 2016 (previously shown as 81.4 per cent) to 88.1 per cent.
- Total assets were £1,443.1 billion and total liabilities were £1,637.8 billion.
- There were 4,272 schemes in deficit and 1,522 schemes in surplus.

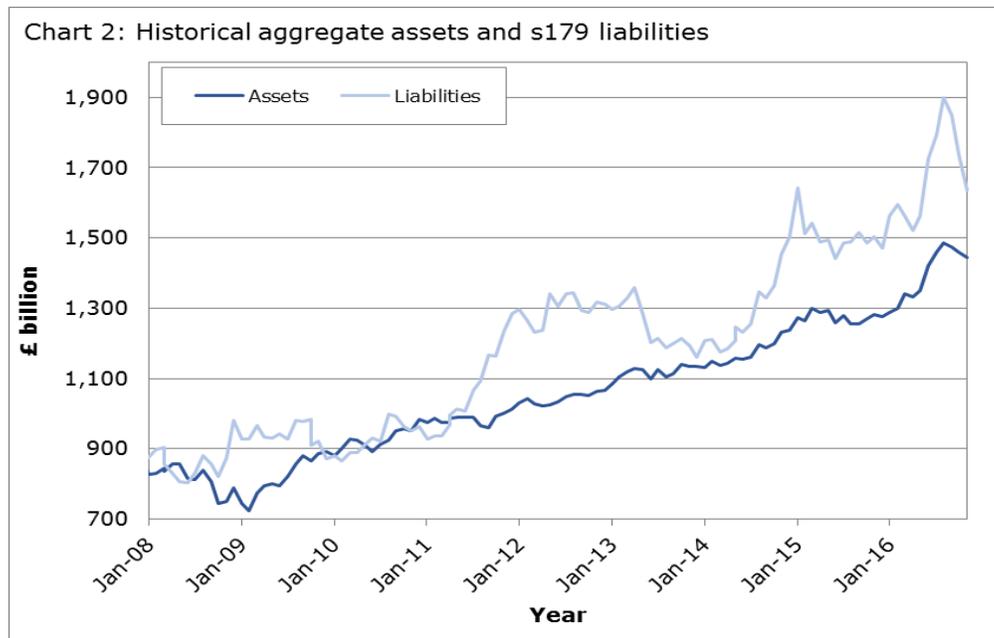
http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_underlying_data.pdf



The schemes in the universe

The aggregate deficit (total s179 liabilities minus total assets) of the schemes in the PPF 7800 Index is estimated to have decreased to £194.7 billion at the end of November 2016, from £275.9 billion at the end of October 2016. The position has improved from the previous year, when a deficit of £221.4 billion was recorded at the end of November 2015.

The funding ratio (assets as a percentage of s179 liabilities) of schemes increased over this month from 84.1 per cent to 88.1 per cent at the end of November 2016. The funding ratio is higher than the 85.3 per cent recorded in November 2015.



Within the index, total scheme assets amounted to £1,443.1 billion at the end of November 2016. Total scheme assets decreased by 1.2 per cent over the month and increased by 12.6 per cent over the year (this includes the impact of updated data from Purple 2015 to Purple 2016). Total scheme liabilities were £1,637.8 billion at the end of November 2016, a decrease of 5.7 per cent over the month (this includes the impact of updated s179 assumptions from A7 to A8) and an increase of 9.0 per cent over the year (this includes the impact of updated data from Purple 2015 to Purple 2016 and the impact of updated s179 assumptions from A7 to A8).

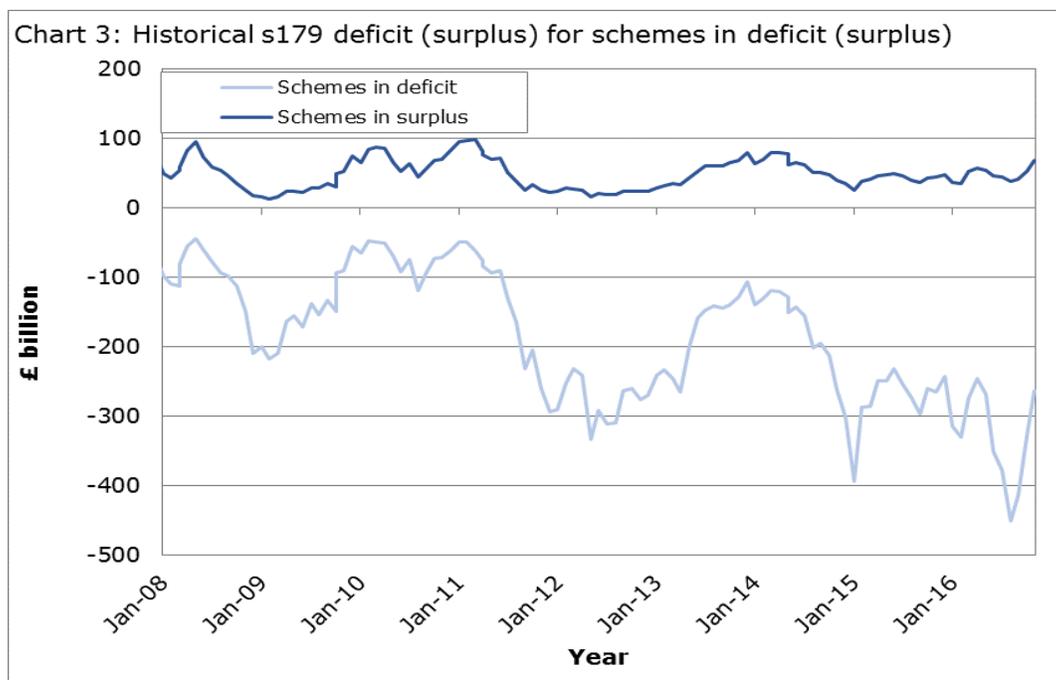
Funding Comparisons

	November 2015	October 2016	November 2016
Aggregate balance	-£221.4bn	-£275.9bn	-£194.7bn
Funding ratio	85.3%	84.1%	88.1%
Aggregate assets	£1,281.7bn	£1,460.0bn	£1,443.1bn
Aggregate liabilities	£1,503.2bn	£1,735.9bn	£1,637.8bn
Data set/Assumptions	Purple 2015 – A7	Purple 2016 – A7	Purple 2016 – A8

Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of November 2016 is estimated to have decreased to £263.6 billion from £327.9 billion at the end of October 2016 (previously shown as £370.0 billion). At the end of November 2015, the equivalent figure was £265.2 billion.

At the end of November 2016, the total surplus of schemes in surplus increased to £68.9 billion from £52.0 billion at the end of October 2016 (previously shown as £41.1 billion). At the end of November 2015, the total surplus of all schemes in surplus stood at £43.8 billion.

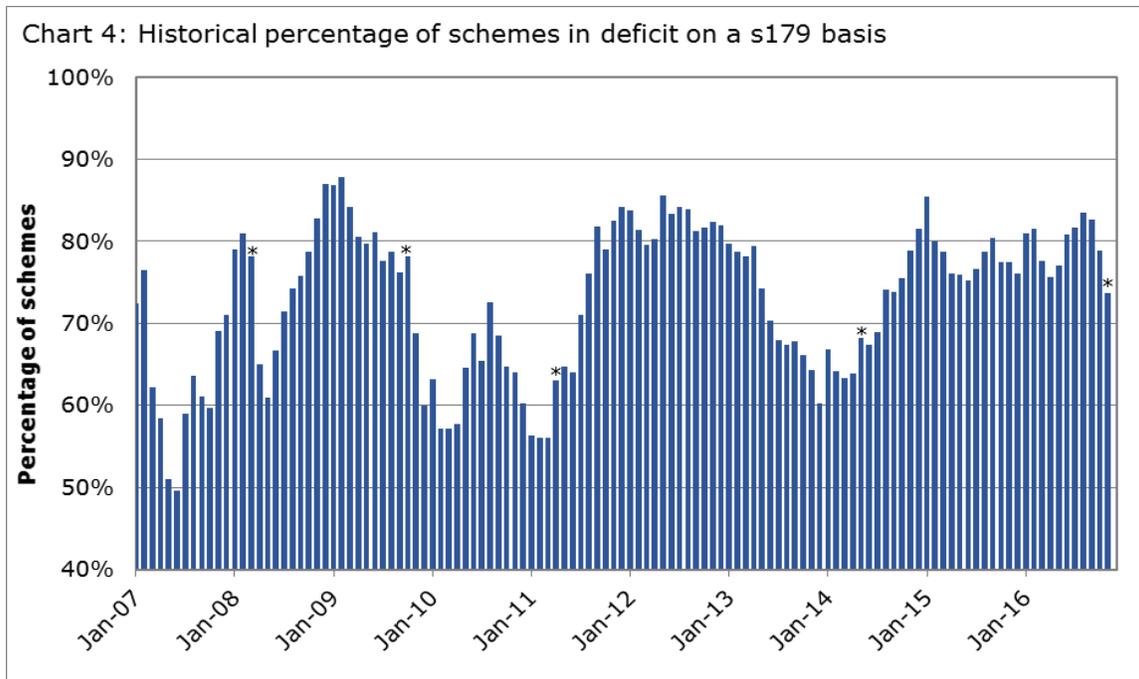


The number of schemes in deficit at the end of November 2016 decreased to 4,272, representing 73.7 per cent of the total 5,794 defined benefit schemes. There were 4,566 schemes in deficit at the end of October 2016 (78.8 per cent) and 4,606 schemes in deficit at the end of November 2015 (77.5 per cent).

The number of schemes in surplus rose to 1,522 at the end of November 2016 (26.3 per cent of schemes) from 1,228 at the end of October 2016 (21.2 per cent). There were 1,339 schemes in surplus at the end of November 2015 (22.5 per cent).

Schemes in deficit (surplus)

	November 2015	October 2016	November 2016
Number of schemes in deficit	4,606	4,566	4,272
Deficit of schemes in deficit	£265.2bn	£327.9bn	£263.6bn
Number of schemes in surplus	1,339	1,228	1,522
Surplus of schemes in surplus	£43.8bn	£52.0bn	£68.9bn
Number of schemes in universe	5,945	5,794	5,794
Data set/Assumptions	Purple 2015 – A7	Purple 2016 – A7	Purple 2016 –A8



**Note: The changes to assumptions in March 2008 and October 2009 reduced the number of schemes in deficit by 412 (5.6 per cent) and 566 (8.5 per cent) respectively, while the changes to assumptions in April 2011 and May 2014 raised the number of schemes in deficit by 107 (1.7 per cent) and 259 (4.3 per cent) respectively. The changes to assumptions on December 2016 and implemented in the end November PPF 7800 Index reduced the number of schemes in deficit by 157 (2.7 per cent).*

Understanding the impact of market movements

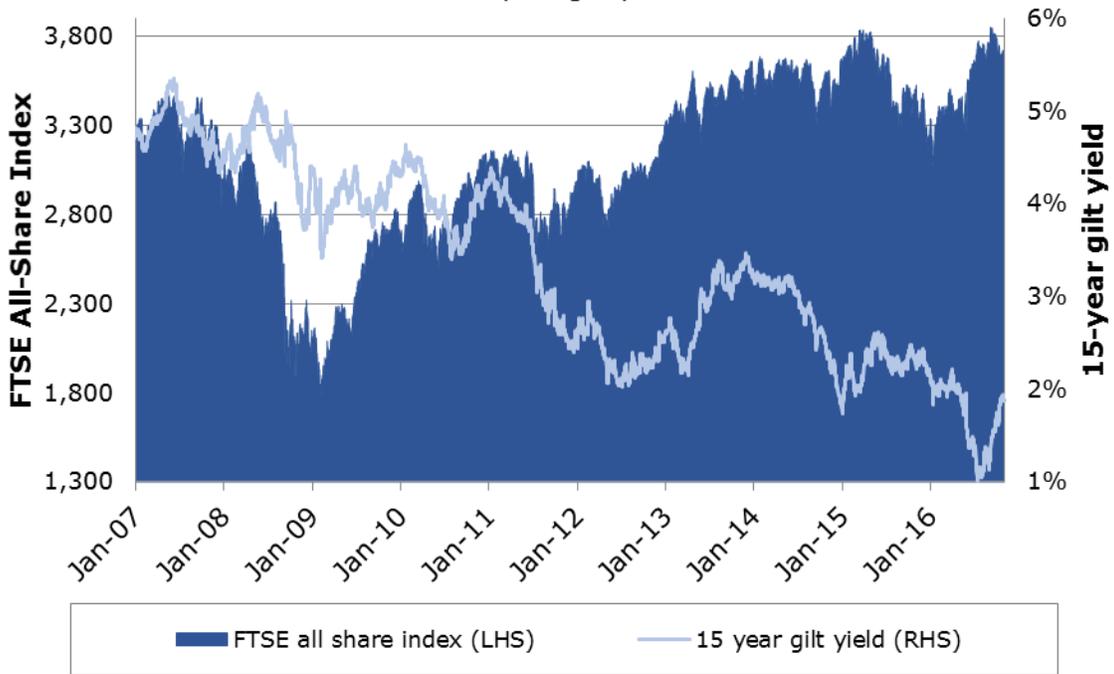
Equity markets and gilt yields are the main drivers of funding levels. Scheme liabilities are sensitive to the yields available on a range of conventional and index-linked gilts. Liabilities are also time-sensitive in that, even if gilt yields were unchanged, scheme liabilities would increase as the point of payment approaches.¹ The value of scheme assets is affected by the change in prices of all the major asset classes, not just equity markets. However, due to their weight in asset allocation and volatility, equities and bonds are the biggest drivers behind changes in scheme assets; bonds have a higher weight in asset allocation, but equities tend to be more volatile.

Over the month of November 2016, liabilities decreased by 5.7 per cent, 4.0 per cent of this due to market movements and 1.7 per cent as a result of updating the s179 assumptions from A7 to A8. Conventional 15-year gilt yields rose by 19 basis points, while index-linked over 15-year gilt yields rose by 23 basis points. Assets decreased by 1.2 per cent in November 2016 reflecting the impact of lower gilt prices and lower equity markets. The FTSE All-Share Index fell by 2.0 per cent over the month.

Over the year to November 2016, 15-year gilt yields were down by 41 basis points, index-linked over 15-year gilt yields were down by 65 basis points and the FTSE All-Share Index was up by 5.7 per cent.

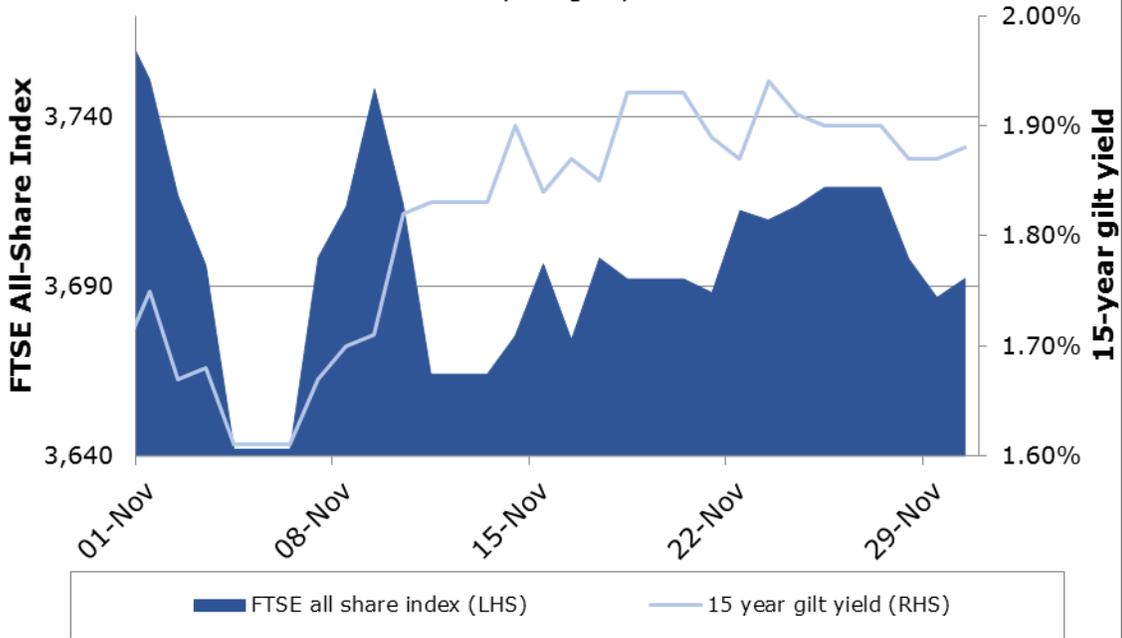
¹ This effect amounts to around 0.1-0.2 per cent a month in the current environment of low yields.

Chart 5: FTSE all share index and 15-year gilt yields



Source: Bloomberg

Chart 6: FTSE all share index and 15-year gilt yields



Source: Bloomberg

Notes

1. Impact of the changes on the funding ratio

The end November 2016 funding ratio was equal to 88.1 per cent, reducing the aggregate balance to -£194.7 billion. The change in scheme funding of 6.7 percentage points between what was reported for October (81.4 per cent) in last month's release and end of November reflects three factors:

- The impact of the Purple 2016 dataset change was an improvement in the funding position by 2.7 percentage points to 84.1% for the month of October. The respective aggregate balance was -£275.9 billion at the end of the month. For more information on this, please see Note 8.
- Without using the new actuarial assumptions, the funding ratio for end November would have been 86.6 per cent, an increase of 2.5 points over the month, mainly due to an increase of 21 basis points on average in gilt yields. The aggregate balance would have been reduced by £51.7 billion to -£224.2 billion.
- The impact of the change in the actuarial assumptions (see Note 4) was a further improvement in the funding ratio by 1.5 percentage points. Strictly speaking, the new assumptions come into effect on 1 December 2016.

2. The PPF universe

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

<http://www.pensionprotectionfund.org.uk/About-Us/eligibility/Pages/Eligibility.aspx>

3. 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 Pension Protection Fund 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 goes insolvent. For the majority of people below their scheme's normal pension age the Pension Protection Fund will generally pay compensation at the 90 per cent level. This is subject to a cap which is currently equal to £33,678.38 at age 65, after the 90 per cent has been applied. 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:

<http://www.pensionprotectionfund.org.uk/Pages/Compensation.aspx>

4. s179 assumptions

On 1 December 2016, the Pension Protection Fund updated its valuation assumption guidance for both s179 and s143 valuations. In summary, the changes concern:

- the use of separate discount rates for pensioners and non-pensioners post retirement;
- the use of yield indices that have durations that better match average liability durations, including the introduction of a new index-linked gilt yield; and
- the mortality assumptions.

The impact of the change in the actuarial assumptions was an improvement of the funding ratio by 1.5 percentage points due to an improvement of £29.5 billion in the aggregate balance. The assumptions had previously been revised in March 2008, October 2009, April 2011 and May 2014. The impact was to improve the aggregate balance by £35.6 billion, £74.1 billion and reduce it by £12.0 billion and £39.2 billion respectively.

For more information about the new actuarial assumptions you can visit PPF's website at

<http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/S179%20Assumptions%20Guidance.pdf>

5. s179: one of many different funding measures

s179 is one particular measure of funding. The change in the deficit of schemes in deficit on a s179 basis is an illustration of the impact of changes in financial markets on the Pension Protection Fund's total exposure. Schemes in surplus on a s179 basis at the time of insolvency usually do not enter the Pension Protection Fund.

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 FRS17 (the measures used in UK company accounts), and technical provisions (that are used in the regulator'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. For more details see the Purple Book 2016.

http://www.pensionprotectionfund.org.uk/Documents/Purple_Book_2016.pdf

6. Methodology

The figures shown in the charts are based on adjusting the scheme valuation data supplied to the PPF as part of their annual scheme return. This data is transformed on a 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. The approximation does not allow for benefit accrual or outgo, contributions paid or actual scheme experience. No account is taken of schemes hedging using derivatives.

7. Estimating the impact of changes in market conditions on the Funding 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 s179 assets by 2.2 per cent while a 0.3 per cent rise in gilt yields reduces scheme assets by 1.8 per cent. Meanwhile, a 0.3 per cent rise in gilt yields reduces scheme liabilities by 5.9 per cent. The rules of thumb strictly speaking only apply to small changes from the 31 March 2016 level. For more information see Chapter 5 of the Purple Book 2016.

8. Moving to the Purple 2016 dataset

In November 2016 we moved to a dataset consistent with the Purple Book 2016 covering 5,794 schemes. The Purple 2016 dataset is estimated to include over 98 per cent of liabilities of PPF eligible schemes. The new dataset is based on a more up-to-date universe of schemes, excluding for example schemes that have entered PPF assessment, and it also uses more up-to-date funding information from the schemes in our universe. This is a standard procedure performed annually after the publication of the Purple Book. The impact of the change was to improve the funding ratio at 31 October 2016 by 2.7 percentage points and the aggregate balance by £53.0 billion. The aggregate balance as at 31 October 2016 was -£275.9 billion (84.1 per cent funded) compared with -£328.9 billion (81.4 per cent funded) using the old dataset. Moving to the new Purple dataset reduced the aggregate deficit by £51.8 billion as at 31 March 2016.

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

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