

PPF 7800 Index

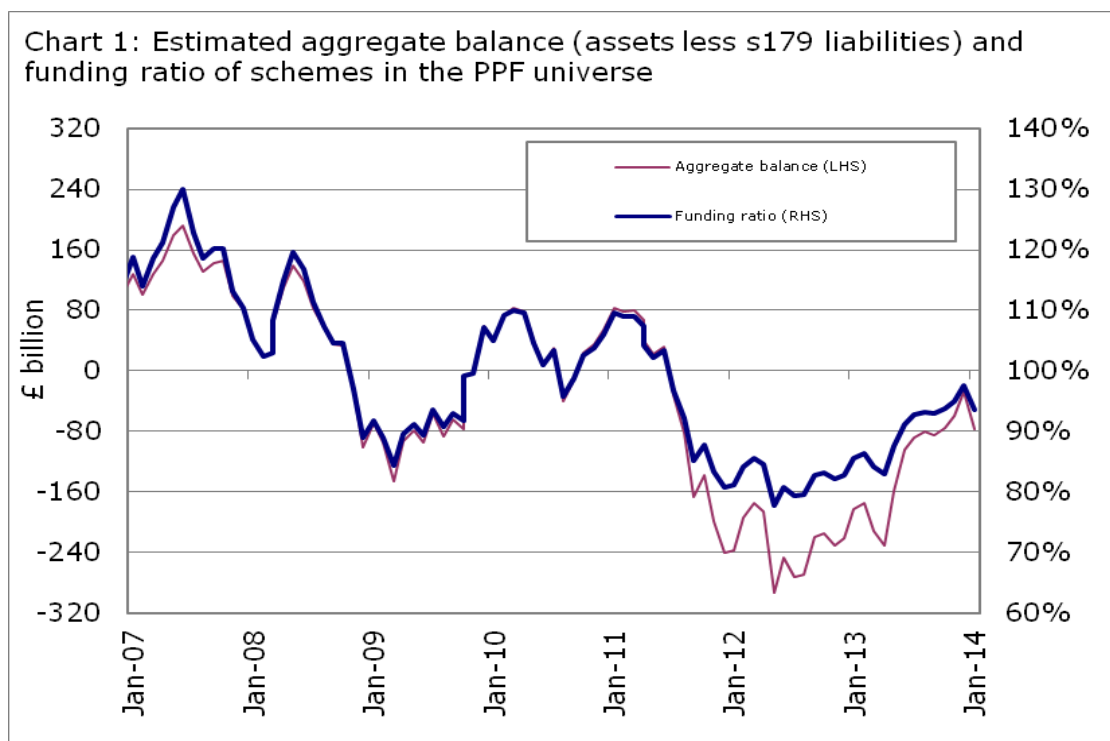
31 January 2014

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. Movements in the PPF 7800 index illustrate how the PPF's exposure to the scheme deficits in its universe of eligible schemes is changing in response to financial market movements. It should be noted that the PPF 7800 index does not take into account schemes' use of derivative instruments to hedge changes in interest rates or equity markets.

Highlights

- The aggregate deficit of the 6,150 schemes in the PPF 7800 index is estimated to have increased over the month to £76.5 billion at the end of January 2014, from a deficit of £27.6 billion at the end of December 2013.
- The funding ratio fell from 97.6 per cent to 93.7 per cent.
- Total assets were £1,130.4 billion and total liabilities were £1,206.8 billion.
- There were 4,108 schemes in deficit and 2,042 schemes in surplus.

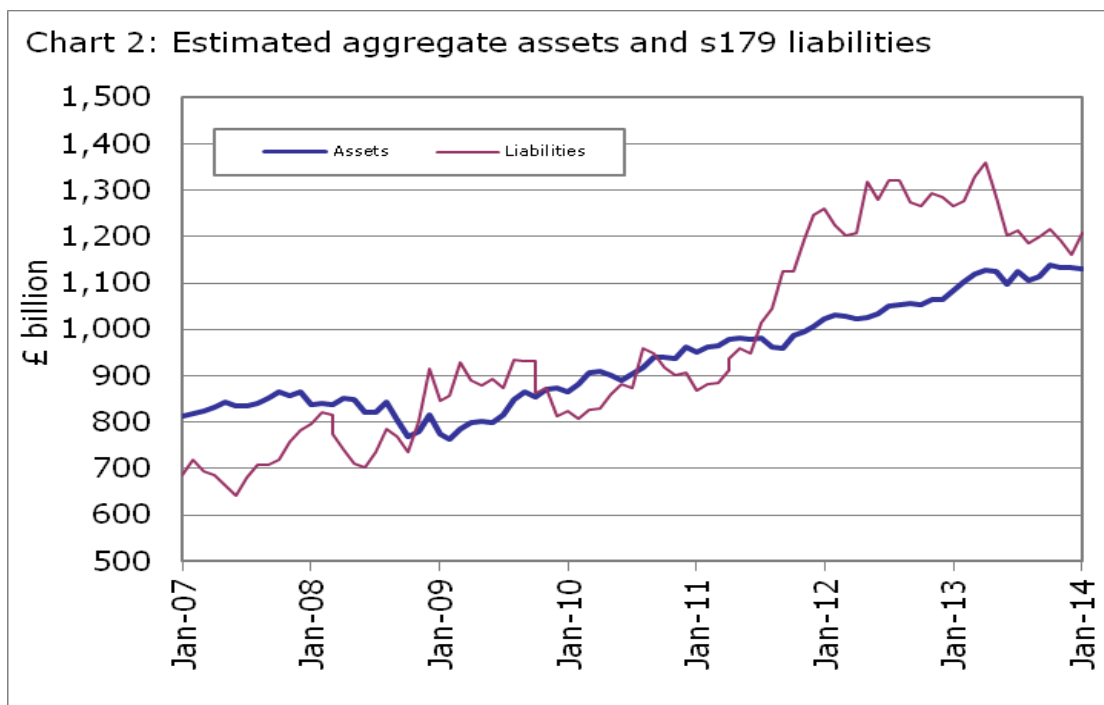
http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_underlying_data.pdf



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 increased to £76.5 billion at the end of January 2014, from £27.6 billion at the end of December 2013. The position has improved on the previous year, when a deficit of £182.6 billion was recorded at the end of January 2013.

The funding ratio (assets as a percentage of s179 liabilities) of schemes fell over this month from 97.6 per cent to 93.7 per cent at the end of January 2014. The funding ratio is higher than the 85.6 per cent recorded in January 2013.



Within the index, total scheme assets amounted to £1,130.4 billion at the end of January 2014. Over the month, scheme assets were broadly unchanged but over the year there was an increase of 4.4 per cent. Total scheme liabilities were £1,206.8 billion at the end of January 2014, an increase of 4.0 per cent over the month but a decrease of 4.6 per cent over the year.

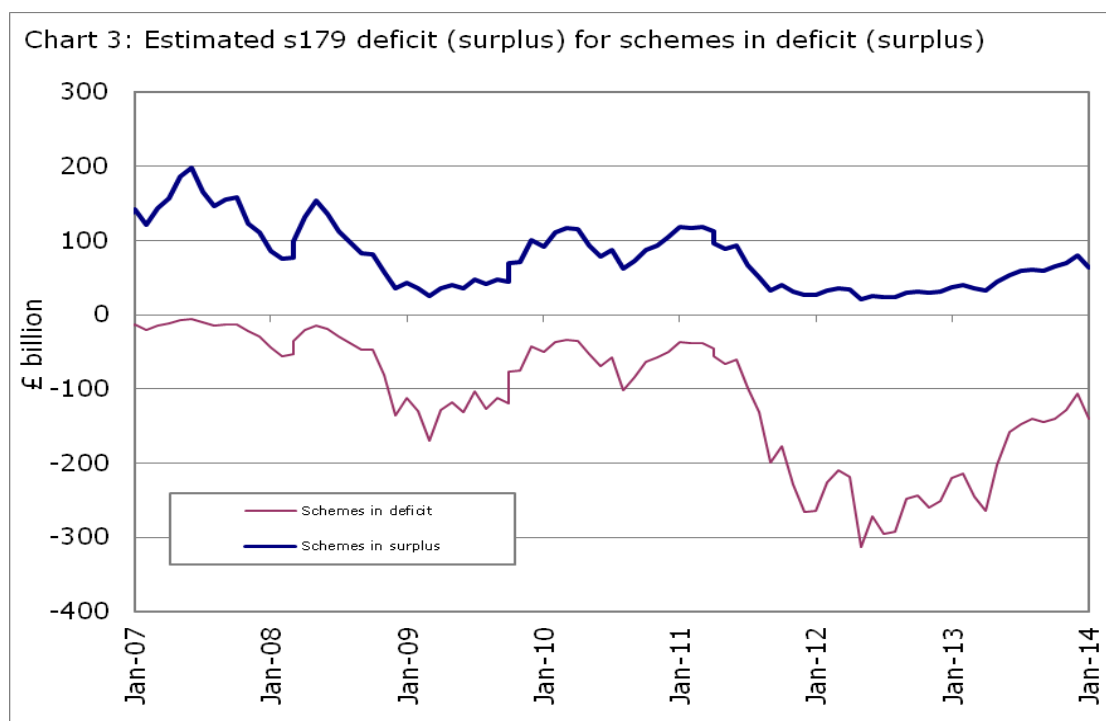
Funding Comparisons

	January 2013	December 2013	January 2014
Aggregate balance	-£182.6bn	-£27.6bn	-£76.5bn
Funding ratio	85.6%	97.6%	93.7%
Aggregate assets	£1,082.5bn	£1,133.0bn	£1,130.4bn
Aggregate liabilities	£1,265.1bn	£1,160.5bn	£1,206.8bn

Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of January 2014 is estimated to have increased to £139.7 billion from £106.9 billion at the end of December 2013. At the end of January 2013, the equivalent figure was £219.6 billion.

At the end of January 2014, the total surplus of schemes in surplus fell to £63.2 billion from £79.4 billion at the end of December 2013. At the end of January 2013, the total surplus of all schemes in surplus stood at £37.0 billion.

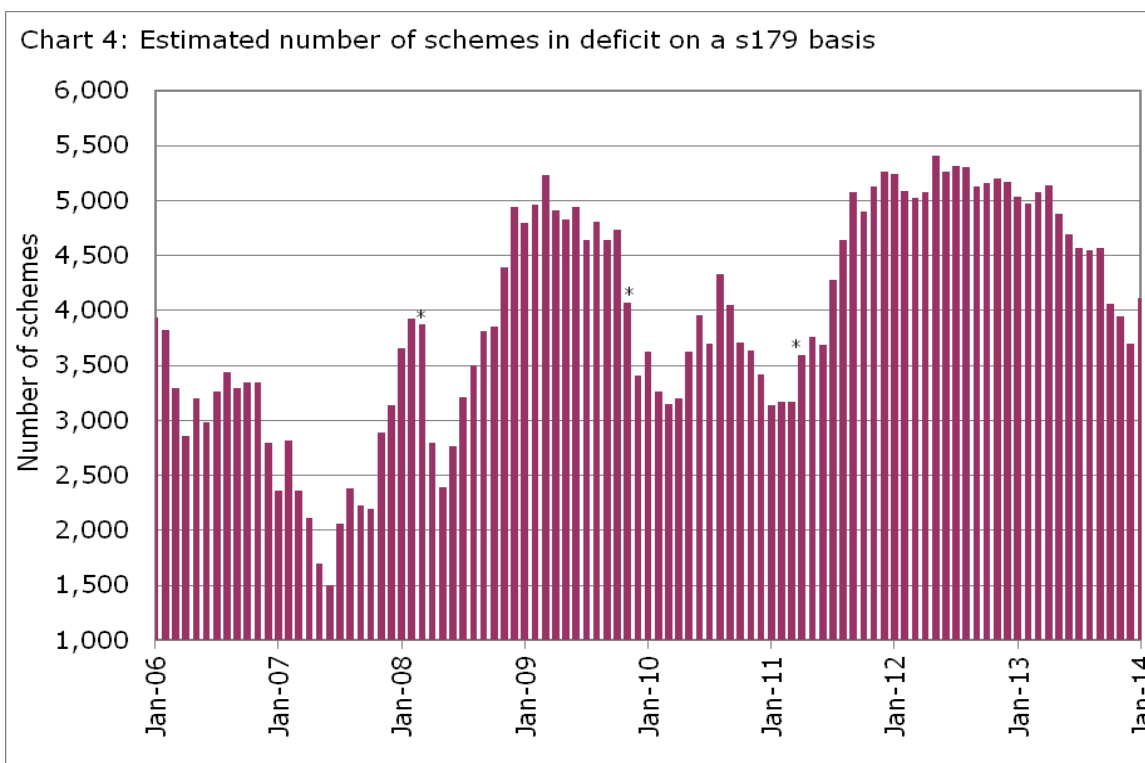


The number of schemes in deficit at the end of January 2014 increased to 4,108, representing 66.8 per cent of the total 6,150 defined benefit schemes. There were 3,701 schemes in deficit at the end of December 2013 and 4,721 schemes in deficit at the end of January 2013.

The number of schemes in surplus fell to 2,042 at the end of January 2014 (33.2 per cent of schemes) from 2,449 at the end of December 2013. There were 1,429 schemes in surplus at the end of January 2013.

Schemes in deficit (surplus)

	January 2013	December 2013	January 2014
Number of schemes in deficit	4,721	3,701	4,108
Deficit of schemes in deficit	£219.6bn	£106.9bn	£139.7bn
Number of schemes in surplus	1,429	2,449	2,042
Surplus of schemes in surplus	£37.0bn	£79.4bn	£63.2bn



*Note: the changes to assumptions in March 2008 and October 2009 reduced the number of schemes in deficit by 490 and 667 respectively, while the change in assumptions in April 2011 raised the number of schemes in deficit by 281.

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 are usually the biggest driver behind changes in scheme assets.

Over the month, assets remained broadly unchanged. Liabilities increased by 4.0 per cent over the same period, reflecting lower nominal and index-linked gilt yields.

Over the month of January 2014, 15-year gilt yields fell by 26 basis points, 15 year index-linked gilt yields fell by 5 basis points and the FTSE All-Share Index fell by 3.1 per cent. Over the year to January 2014, 15-year gilt yields were up by 53 basis points and the FTSE All-Share Index rose by 6.4 per cent.

¹ This effect amounts to around 0.3 per cent to 0.4 per cent a month or historically 4 per cent to 5 per cent since the start of the PPF.

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

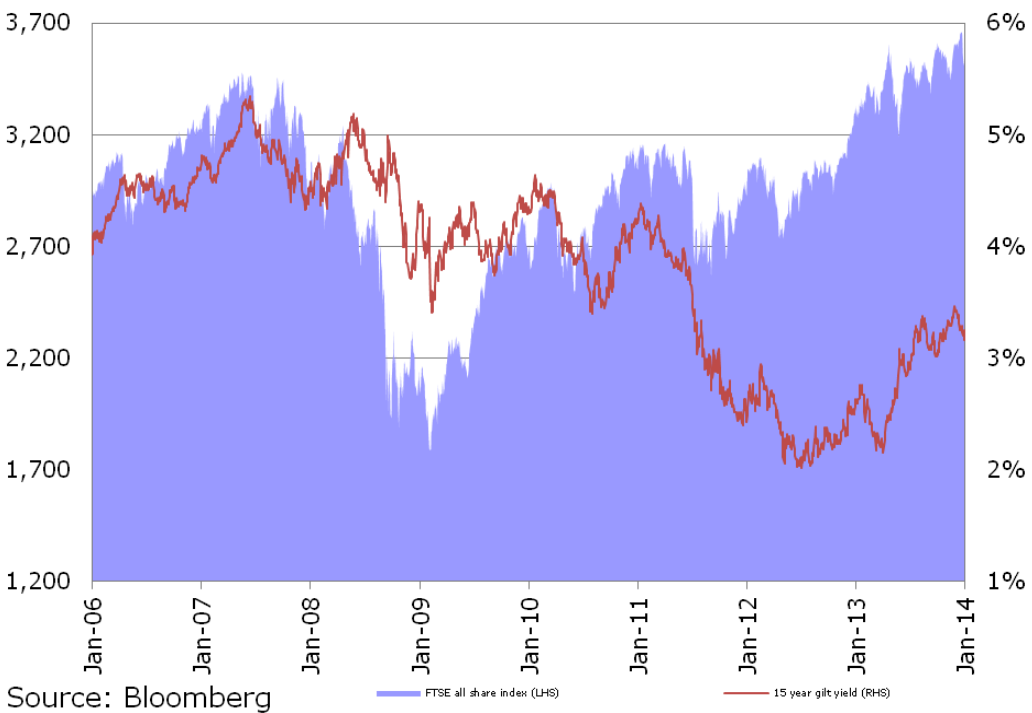
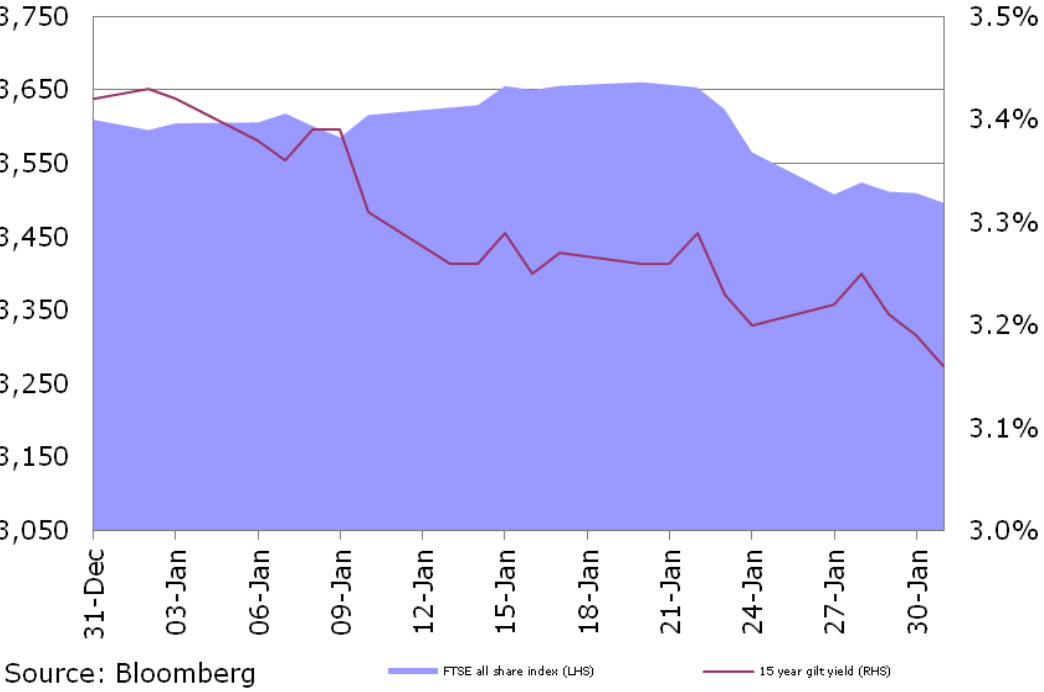


Chart 6: FTSE all share index and 15-year gilt yields



Notes

1. 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>

2. PPF compensation

For individuals who have reached their scheme's normal pension age or are already in receipt of 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 suffer 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 £31,380 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>

3. s179 assumptions

On 14 May 2011, the Pension Protection Fund updated its valuation assumption guidance for both s179 and s143 valuations. The impact of the change was to raise liabilities by 3.6 per cent and reduce the aggregate balance by £34.9bn. The assumptions had previously been revised in March 2008 and October 2009 when the impact was to improve aggregate funding by £48.0 billion and £74.5 billion respectively.

4. 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 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 2013.

http://www.pensionprotectionfund.org.uk/Documents/Purple_Book_2013_chapter4.pdf

5. 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.

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

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 2.8 per cent while a 0.3 per cent rise in gilt yields reduces scheme assets by 1.4 per cent. Meanwhile, a 0.3 per cent rise in gilt yields reduces scheme liabilities by 6.0 per cent. The rules of thumb strictly speaking only apply to small changes from the 31 March 2013 level. For more information see Chapter 5 of the Purple Book 2013.

7. Moving to the Purple 2013 dataset

In October 2013 we moved to a dataset consistent with the Purple Book 2013 covering 6,150 schemes. The Purple 2013 dataset is estimated to include 99 per cent of liabilities of PPF eligible schemes. The impact of the change was to improve the funding ratio at October 2013 by 2.2 per cent and the aggregate balance by £28.9bn. The aggregate balance as at October 2013 was -£75.6bn (93.8 per cent funded) compared with -£104.6bn (91.6 per cent funded) using the old dataset. Taking out schemes in assessment reduced the aggregate deficit by just over £1.0bn. The remaining improvement in funding was a result of more up-to-date information.

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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