

PPF 7800 Index

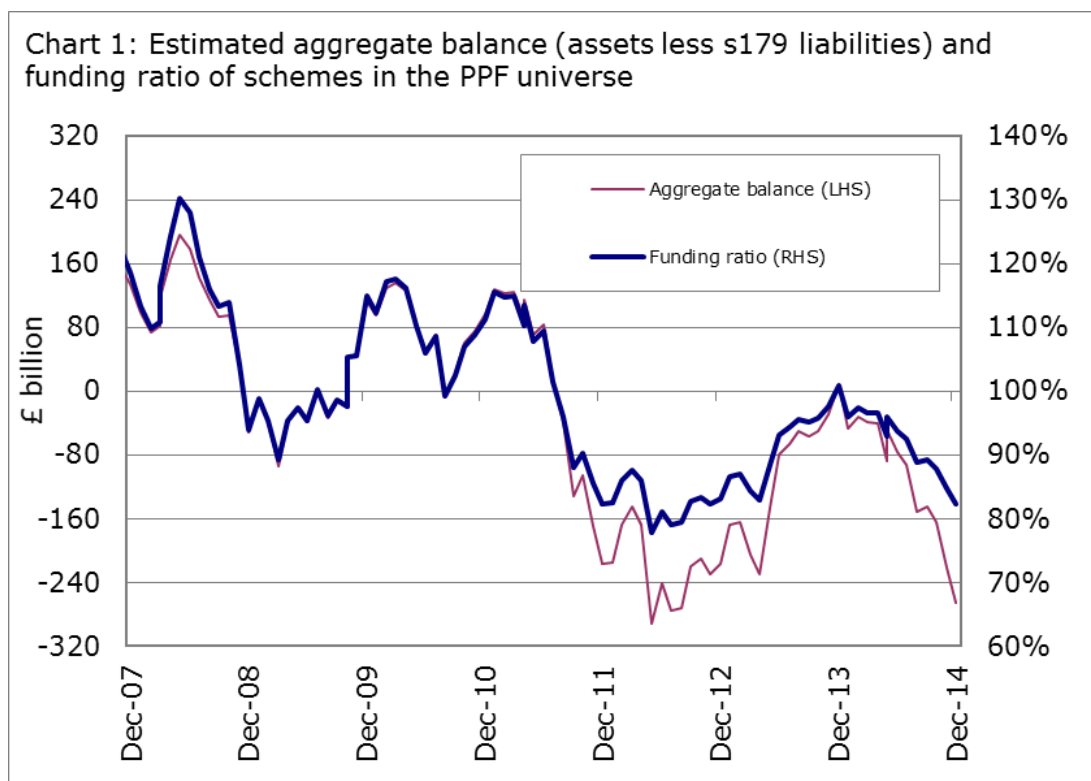
31 December 2014

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 6,057 schemes in the PPF 7800 index is estimated to have increased over the month to £266.3 billion at the end of December 2014, from a deficit of £221.1 billion at the end of November 2014.
- The funding ratio decreased from 84.8 per cent to 82.3 per cent.
- Total assets were £1,236.6 billion and total liabilities were £1,502.9 billion.
- There were 4,936 schemes in deficit and 1,121 schemes in surplus.

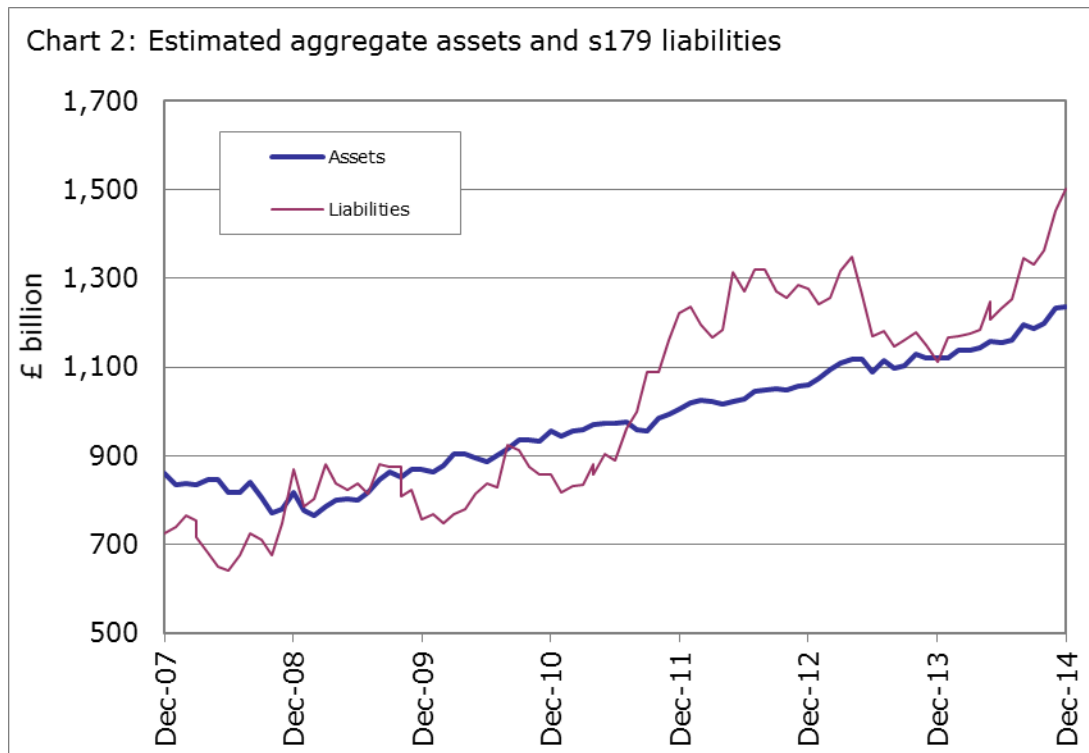
http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_underlying_data.pdf



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 £266.3 billion at the end of December 2014, from £221.1 billion at the end of November 2014. The position has worsened from the previous year, when a surplus of £8.7 billion was recorded at the end of December 2013.

The funding ratio (assets as a percentage of s179 liabilities) of schemes decreased over this month from 84.8 per cent to 82.3 per cent at the end of December 2014. The funding ratio is lower than the 100.8 per cent recorded in December 2013.



Within the index, total scheme assets amounted to £1,236.6 billion at the end of December 2014. Total scheme assets increased by 0.3 per cent over the month and increased by 10.2 per cent over the year. Total scheme liabilities were £1,502.9 billion at the end of December 2014, an increase of 3.4 per cent over the month and an increase of 35.0 per cent over the year.

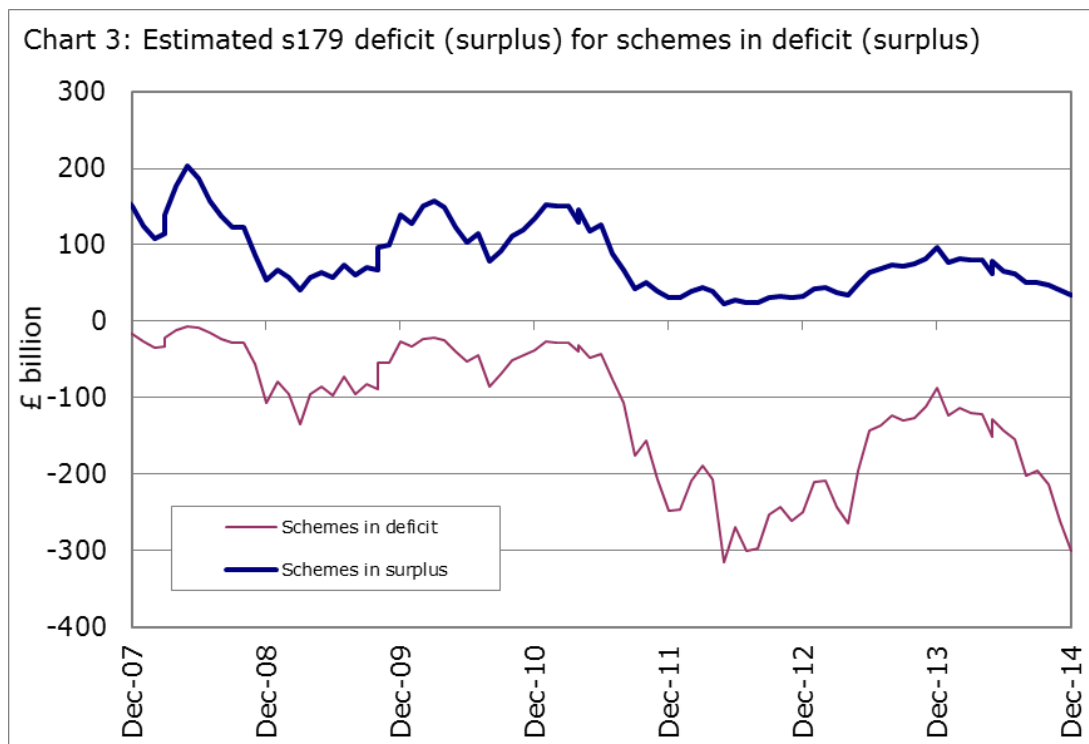
Funding Comparisons

	December 2013	November 2014	December 2014
Aggregate balance	£8.7bn	-£221.1bn	-£266.3bn
Funding ratio	100.8%	84.8%	82.3%
Aggregate assets	£1,121.9bn	£1,232.9bn	£1,236.6bn
Aggregate liabilities	£1,113.2bn	£1,454.0bn	£1,502.9bn

Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of December 2014 is estimated to have increased to £300.7 billion from £261.6 billion at the end of November 2014. At the end of December 2013, the equivalent figure was £87.6 billion.

At the end of December 2014, the total surplus of schemes in surplus decreased to £34.3 billion from £40.4 billion at the end of November 2014. At the end of December 2013, the total surplus of all schemes in surplus also stood at £96.4 billion.

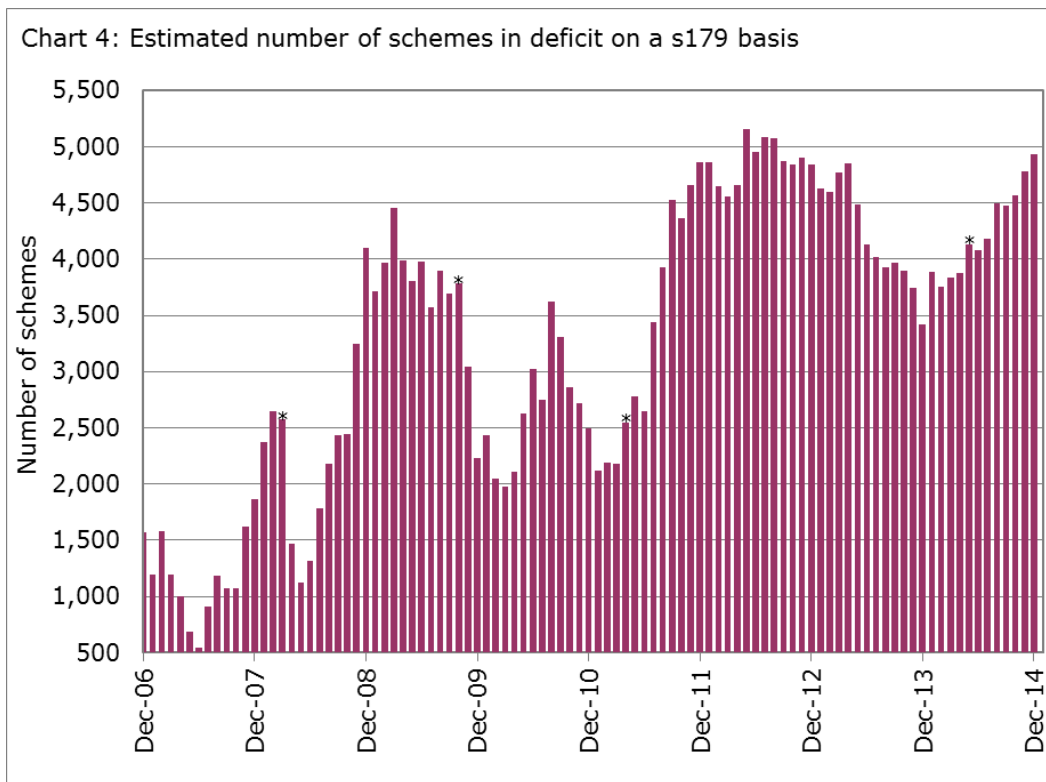


The number of schemes in deficit at the end of November 2014 rose to 4,936, representing 81.5 per cent of the total 6,057 defined benefit schemes. There were 4,781 schemes in deficit at the end of November 2014 and 3,416 schemes in deficit at the end of December 2013.

The number of schemes in surplus fell to 1,121 at the end of November 2014 (18.5 per cent of schemes) from 1,276 at the end of November 2014. There were 2,641 schemes in surplus at the end of December 2013.

Schemes in deficit (surplus)

	December 2013	November 2014	December 2014
Number of schemes in deficit	3,416	4,781	4,936
Deficit of schemes in deficit	£87.6bn	£261.6bn	£300.7bn
Number of schemes in surplus	2,641	1,276	1,121
Surplus of schemes in surplus	£96.4bn	£40.4bn	£34.3bn



**Note: the changes to assumptions in March 2008, October 2009 and April 2011 reduced the number of schemes in deficit by 473, 714 and 253 respectively, while the changes to assumptions in May 2014 raised the number of schemes in deficit by 259.*

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 December 2014, liabilities rose by 3.4 per cent, reflecting decreases in nominal and index-linked gilt yields. 15-year gilt yields fell by 17 basis points and 15 year index-linked gilt yields fell by 9 basis points. Meanwhile, assets rose by 0.3 per cent; although equities fell by 1.7 per cent, this was more than offset by the rise in gilt prices.

Over the year to December 2014, 15-year gilt yields were down by 124 basis points and the FTSE All-Share Index fell by 2.1 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

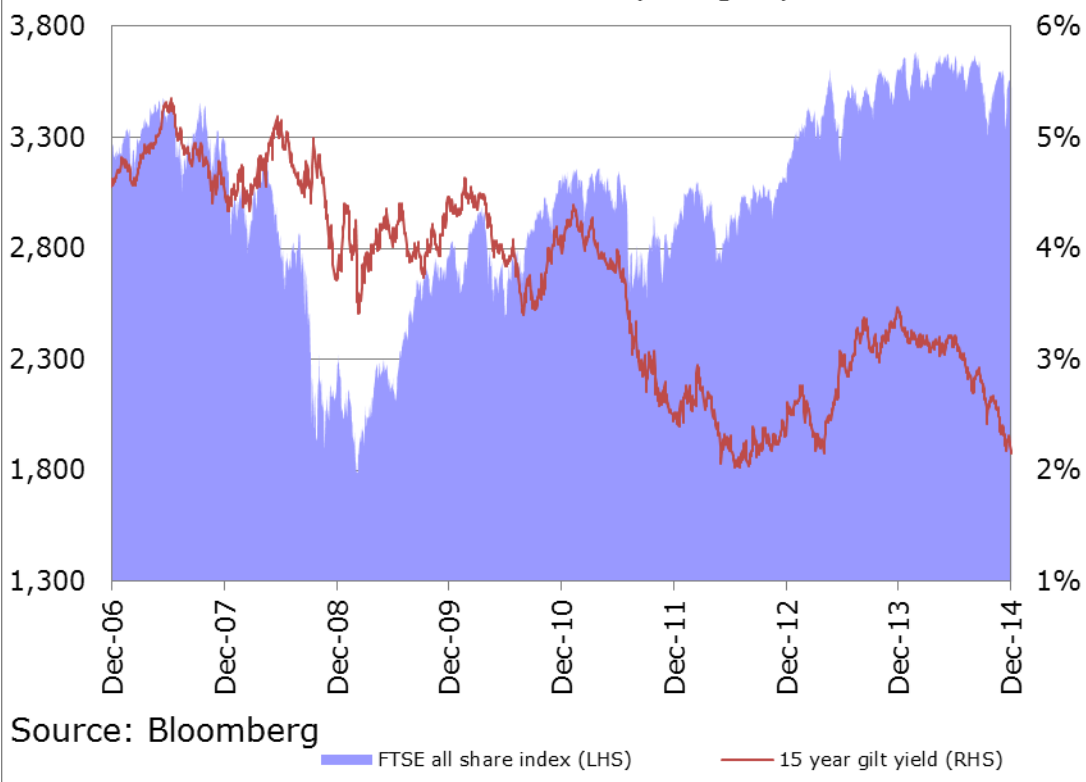
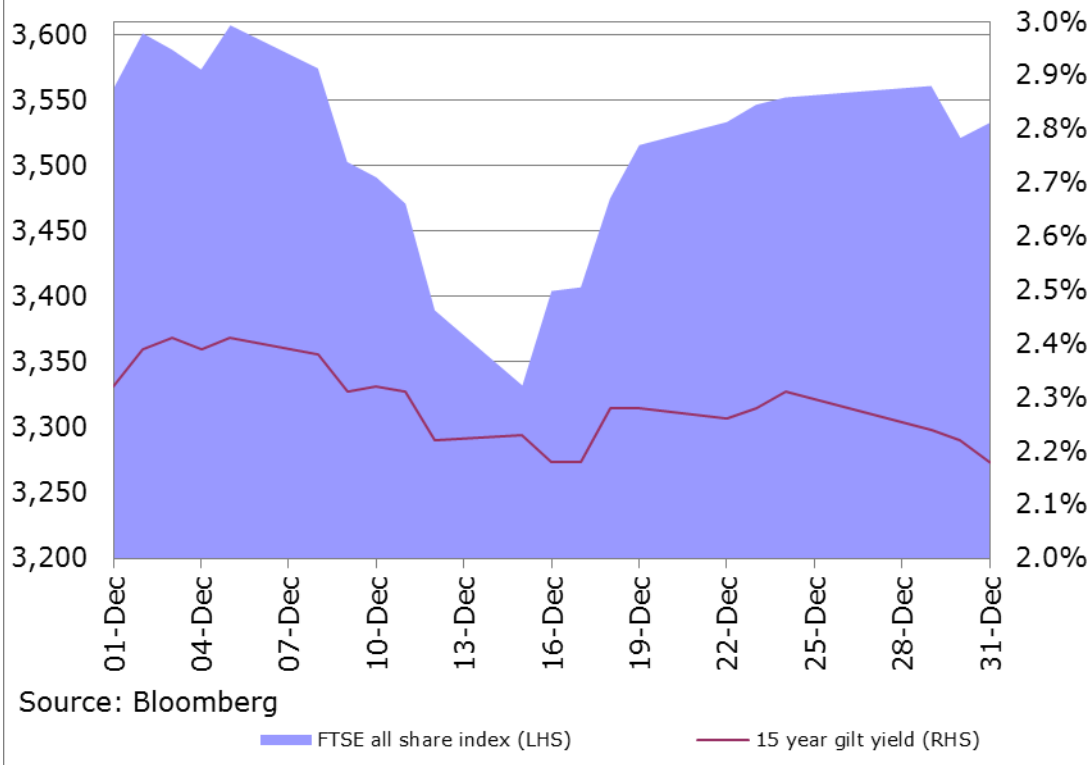


Chart 6: FTSE all share index and 15-year gilt yields



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 1 May 2014, 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 3.2 per cent and reduce the aggregate balance by £39.2bn. The assumptions had previously been revised in March 2008, October 2009 and May 2011. The impact was to improve the aggregate balance by £37.0 billion, £64.5 billion and £24.1 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 2.7 per cent while a 0.3 per cent rise in gilt yields reduces scheme assets by 1.3 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 2014 level. For more information see Chapter 5 of the Purple Book 2014.

7. Moving to the Purple 2014 dataset

In October 2014 we moved to a dataset consistent with the Purple Book 2014 covering 6,057 schemes. The Purple 2014 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 September 2014 by 1.4 percentage points and the aggregate balance by £22.2bn. The aggregate balance as at September 2014 was -£144.3bn (89.2 per cent funded) compared with -£166.5bn (87.8 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.

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

Press enquiries

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