

## PPF 7800 Index

30 April 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.

As indicated last month, the PPF7800 index for end-April takes account of updated valuation guidance for s179 valuations. In summary, the assumption changes to both s179 and s143 valuations are to:

- reduce the effective yields used to discount future payments for compensation in payment,
- increase the yields used to discount future payments for compensation in deferment,
- update the assumption about current mortality rates and future longevity improvements, and
- increase the assumption for expenses.

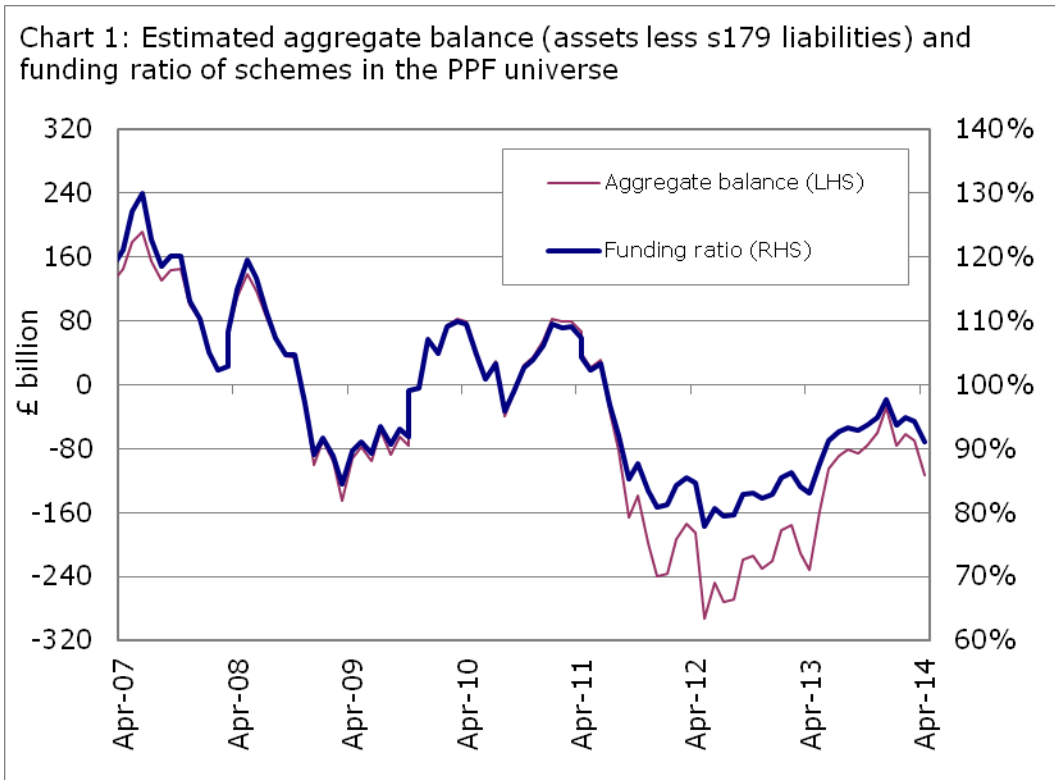
The impact of the change is to raise estimated s179 liabilities by 3.4 per cent and reduce the aggregate balance by £41.3bn. Strictly speaking, the new assumptions apply to valuations from 1 May 2014. For more information on the change in assumptions see Note 3 on page 7 and:

[http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Section\\_179\\_Assumptions\\_Guidance\\_VA7\\_May14.pdf](http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Section_179_Assumptions_Guidance_VA7_May14.pdf)

### Highlights

- Virtually all of the change to scheme funding on an aggregate level is due to the change in assumptions as opposed to changes in gilt yields and equity markets. Without the change in assumptions, scheme funding would have fallen from 94.3 per cent to 94.2 per cent and the aggregate deficit would have increased from £70.0 billion to £71.0 billion.
- The aggregate deficit of the 6,150 schemes in the PPF 7800 index is estimated to have increased over the month to £112.3 billion at the end of April 2014, from a deficit of £70.0 billion at the end of March 2014.
- The funding ratio fell from 94.3 per cent to 91.1 per cent.
- Total assets were £1,154.5 billion and total liabilities were £1,266.8 billion.
- There were 4,328 schemes in deficit and 1,822 schemes in surplus.

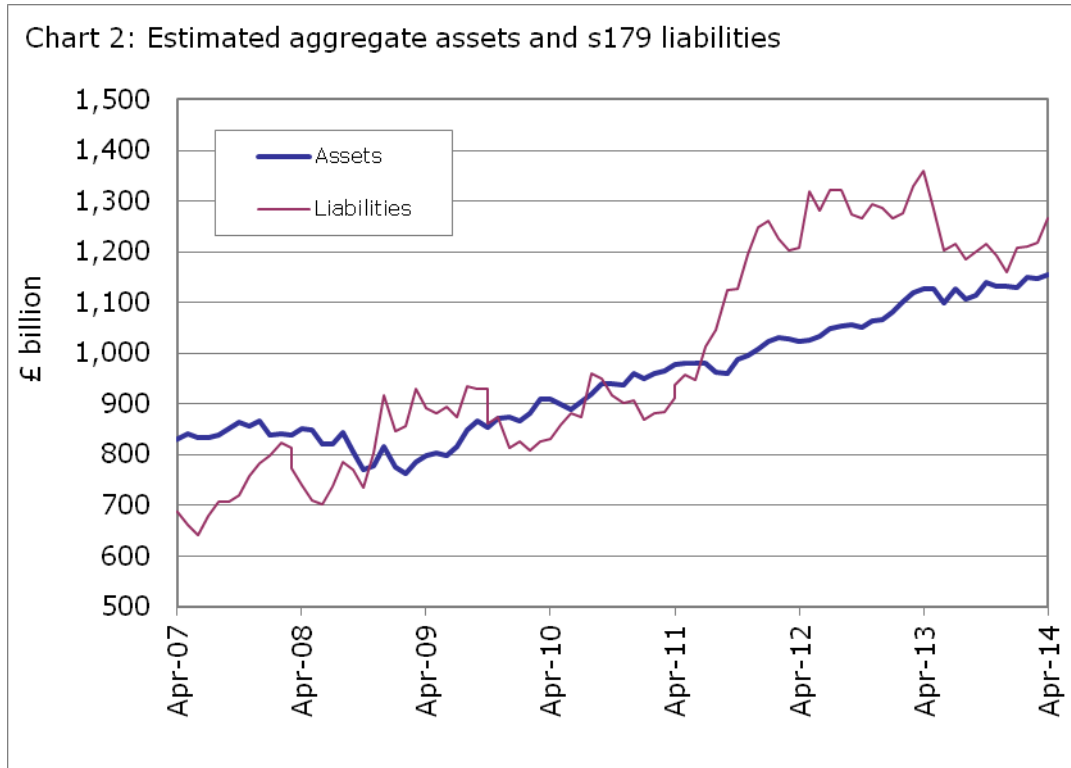
[http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF\\_7800\\_underlying\\_data.pdf](http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_underlying_data.pdf)



### 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 £112.3 billion at the end of April 2014, from £70.0 billion at the end of March 2014. The position has improved on the previous year, when a deficit of £231.3 billion was recorded at the end of April 2013.

The funding ratio (assets as a percentage of s179 liabilities) of schemes fell over this month from 94.3 per cent to 91.1 per cent at the end of April 2014. The funding ratio is higher than the 83.0 per cent recorded in April 2013.



Within the index, total scheme assets amounted to £1,154.5 billion at the end of April 2014. Total scheme assets increased by 0.6 per cent over the month and by 2.4 per cent over the year. Total scheme liabilities were £1,266.8 billion at the end of April 2014, an increase of 4.0 per cent over the month but a decrease of 6.8 per cent over the year.

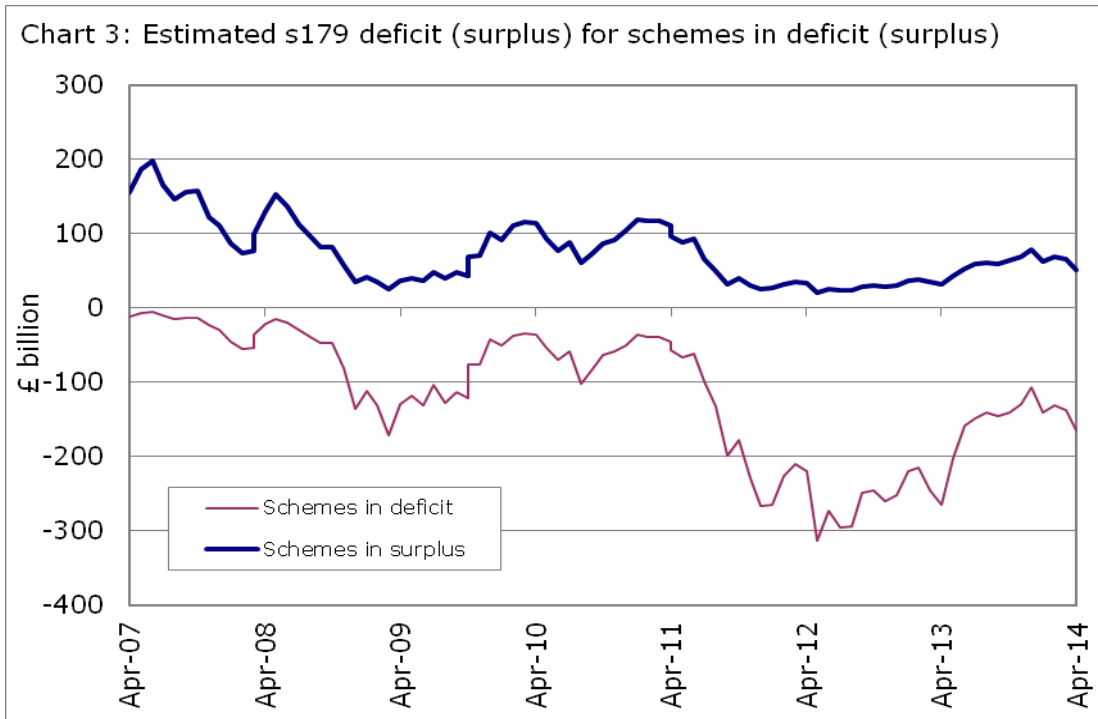
### Funding Comparisons

	April 2013	March 2014	April 2014
<b>Aggregate balance</b>	-£231.3bn	-£70.0bn	-£112.3bn
<b>Funding ratio</b>	83.0%	94.3%	91.1%
<b>Aggregate assets</b>	£1,127.4bn	£1,148.2bn	£1,154.5bn
<b>Aggregate liabilities</b>	£1,358.8bn	£1,218.1bn	£1,266.8bn

### Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of April 2014 is estimated to have increased to £164.0 billion from £136.5 billion at the end of March 2014. At the end of April 2013, the equivalent figure was £264.3 billion.

At the end of April 2014, the total surplus of schemes in surplus fell to £51.7 billion from £66.5 billion at the end of March 2014. At the end of April 2013, the total surplus of all schemes in surplus stood at £32.9 billion.

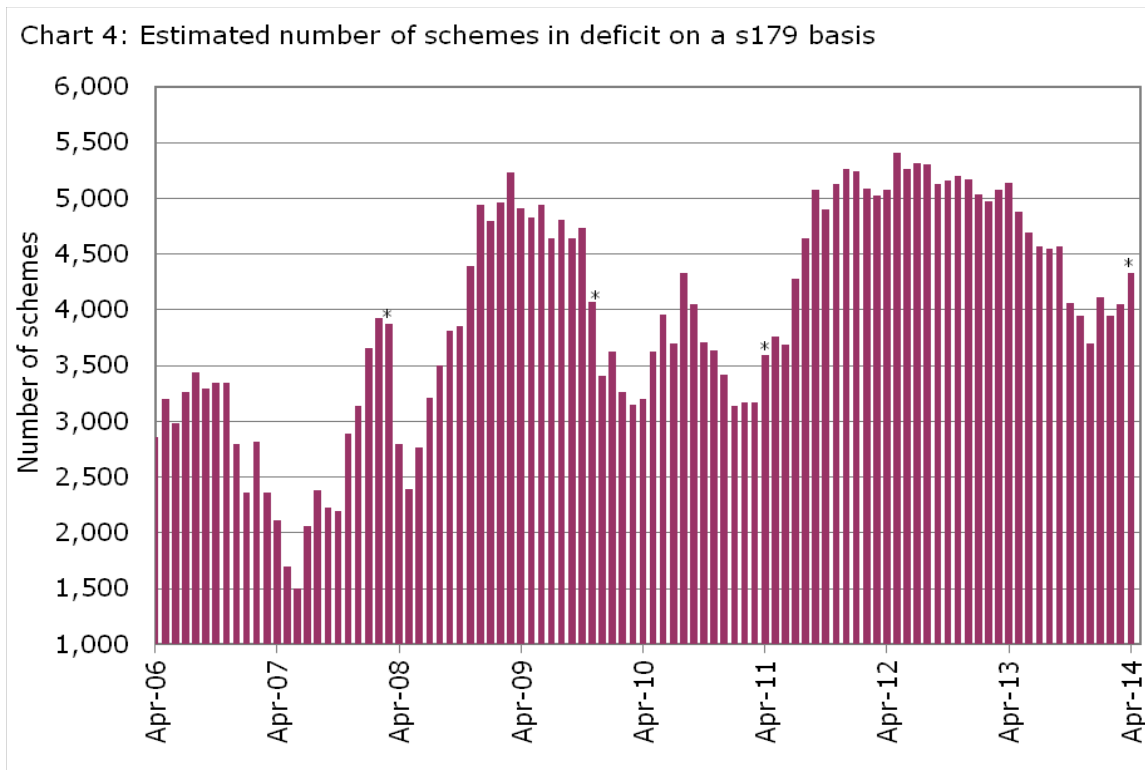


The number of schemes in deficit at the end of April 2014 rose to 4,328, representing 70.4 per cent of the total 6,150 defined benefit schemes. There were 4,046 schemes in deficit at the end of March 2014 and 4,882 schemes in deficit at the end of April 2013.

The number of schemes in surplus fell to 1,822 at the end of April 2014 (29.6 per cent of schemes) from 2,104 at the end of March 2014. There were 1,268 schemes in surplus at the end of April 2013.

### Schemes in deficit (surplus)

	April 2013	March 2014	April 2014
<b>Number of schemes in deficit</b>	4,882	4,046	4,328
<b>Deficit of schemes in deficit</b>	£264.3bn	£136.5bn	£164.0bn
<b>Number of schemes in surplus</b>	1,268	2,104	1,822
<b>Surplus of schemes in surplus</b>	£32.9bn	£66.5bn	£51.7bn



*\*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 changes to assumptions in April 2011 and May 2014 raised the number of schemes in deficit by 281 and 294 respectively.*

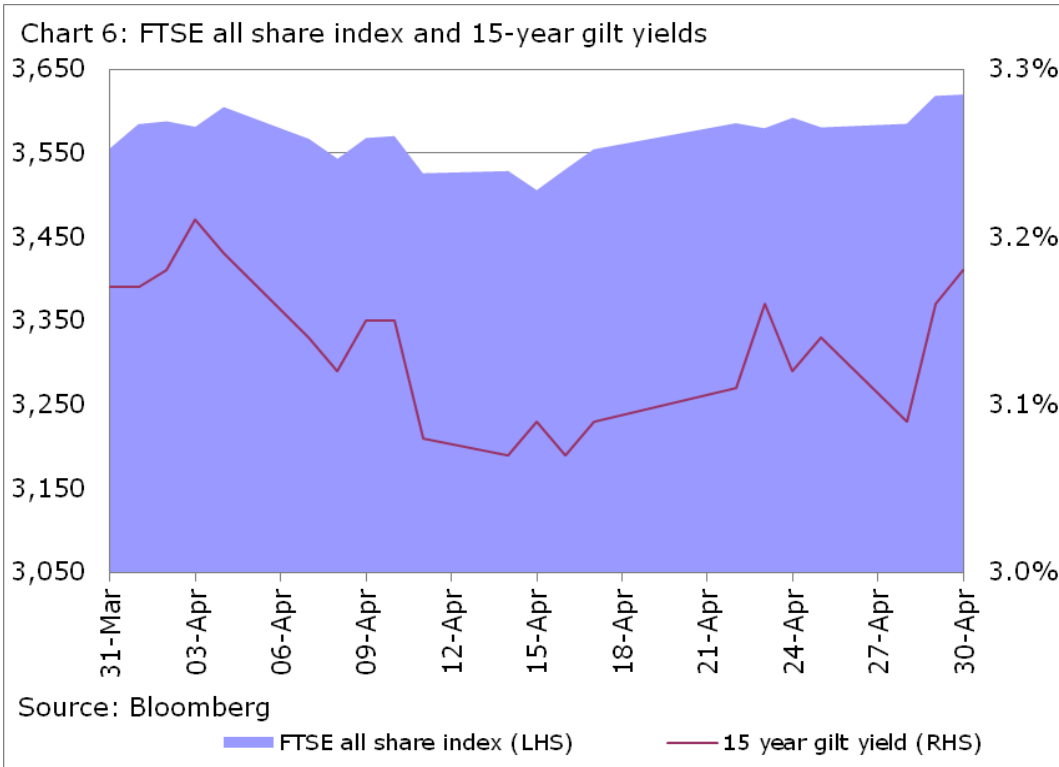
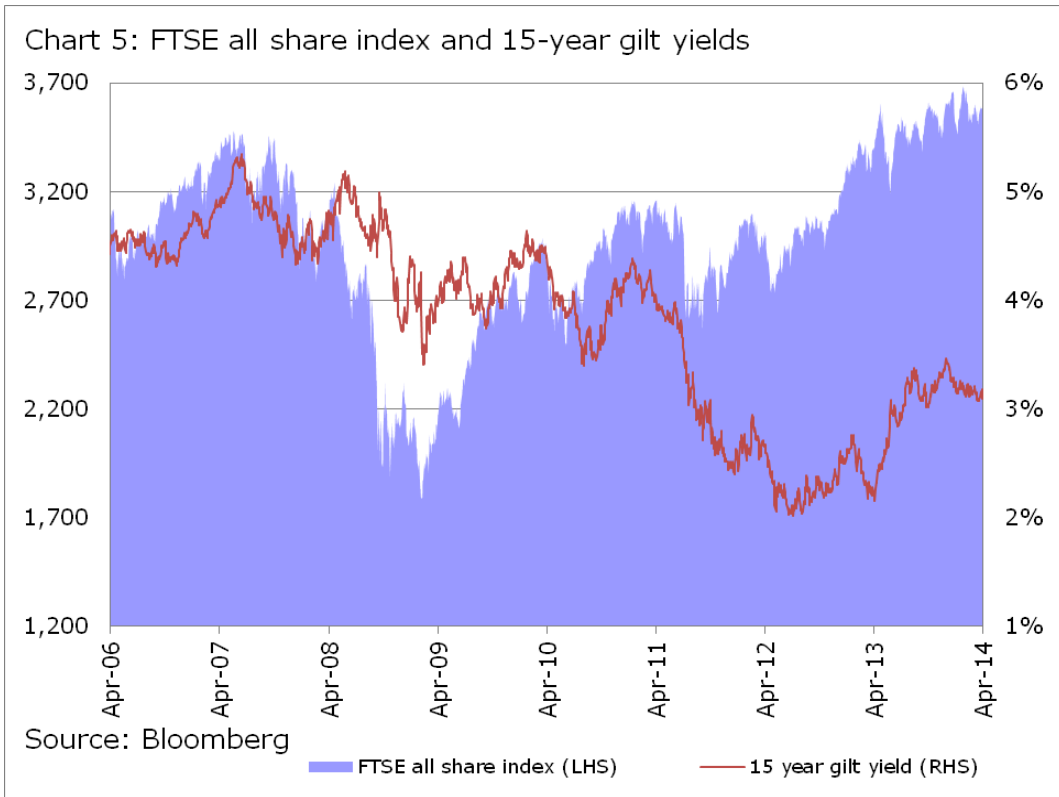
### Understanding the impact of market movements

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.<sup>1</sup> 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 increased by 0.6 per cent along with a 1.8 per cent rise in equity markets. Liabilities rose by 4.0 per cent over the same period; however this is reflecting the changes in assumptions as opposed to changes in nominal and index-linked gilt yields.

Over the month of April 2014, 15-year gilt yields rose by 1 basis point, 15 year index-linked gilt yields fell by 2 basis points and the FTSE All-Share Index rose by 1.8 per cent. Over the year to April 2014, 15-year gilt yields were up by 97 basis points and the FTSE All-Share Index rose by 6.8 per cent.

<sup>1</sup> 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.



## 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 3.4 per cent and reduce the aggregate balance by £41.3bn. The assumptions had previously been revised in March 2008, October 2009 and May 2011. The impact in March 2008 and October 2009 was to improve the aggregate balance by £48.0 billion and £74.5 billion respectively, whilst the impact in May 2011 was to reduce the aggregate balance by £34.9 billion.

### 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](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.
--

### **Press enquiries**

#### **PPF Press Office**

**Richard Williams: 020 8633 5925**