Pension Protection Fund

PPF 7800 Index

31 December 2022

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

Note on 7800 methodology

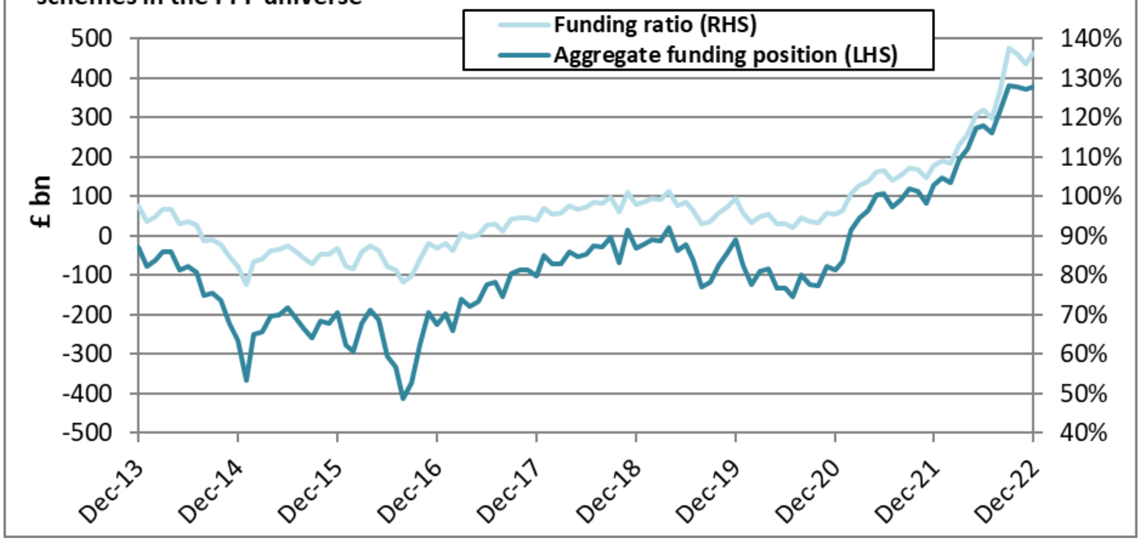
This update has been produced using our standard methodology, which is summarised in Note 4 on page 8 of this document. In particular, while the approach will capture the liability impacts of government bond yield movements, the impact on assets will often be less accurate. This is because we do not hold sufficient data to capture the impact of any structural changes to asset allocations nor to accurately capture changes in any leveraged LDI portfolios.

Highlights

- The aggregate surplus of the 5,131 schemes in the PPF 7800 Index is estimated to have increased over the month to £376.7 billion at the end of December 2022, from a surplus of £371.5 billion at the end of November 2022.
- The funding ratio increased from 133.7 per cent at the end of November 2022 to 136.5 per cent.
- Total assets were £1,409.5 billion and total liabilities were £1,032.8 billion.
- There were 686 schemes in deficit and 4,445 schemes in surplus.
- The deficit of the schemes in deficit at the end of December 2022 was £4.5 billion, down from £5.8 billion at the end of November 2022.

For a more in-depth look at the monthly changes to our data please see the link to the supporting data on the 7800 Index home page: https://ppf.co.uk/ppf-7800-index

Chart 1: Historical aggregate funding position (assets less s179 liabilities) and funding ratio of schemes in the PPF universe

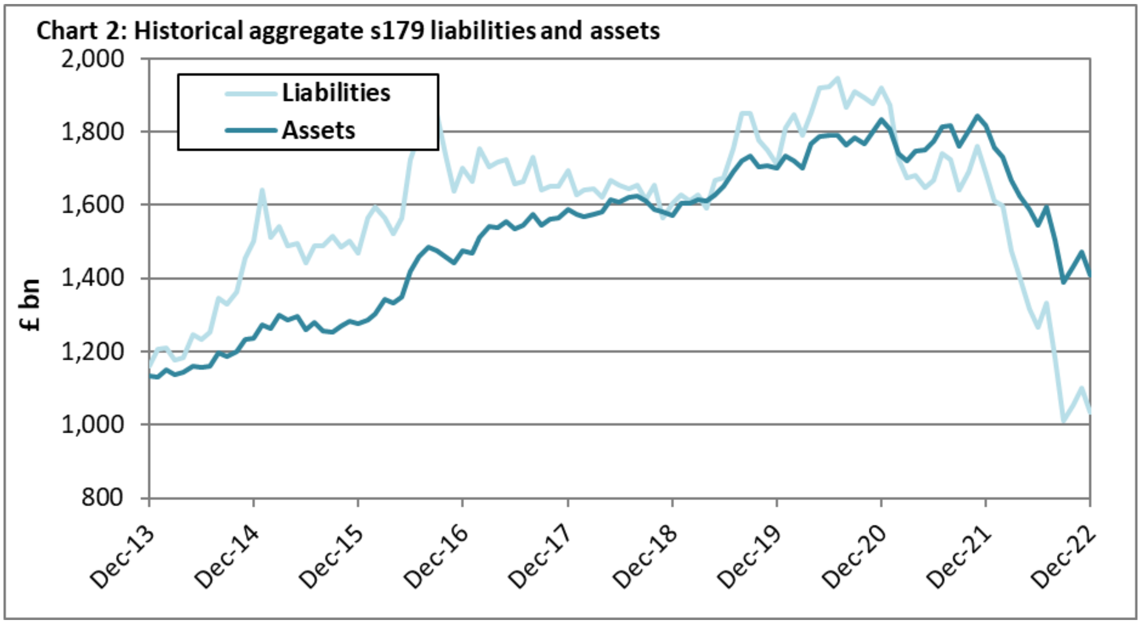


The schemes in the universe

The aggregate surplus (total assets less total s179 liabilities) of the schemes in the PPF 7800 Index is estimated to have increased to £376.7 billion at the end of December 2022, from £371.5 billion at the end of November 2022.

The position has improved from a year ago, when a deficit of £129.3 billion was recorded at the end of December 2021.

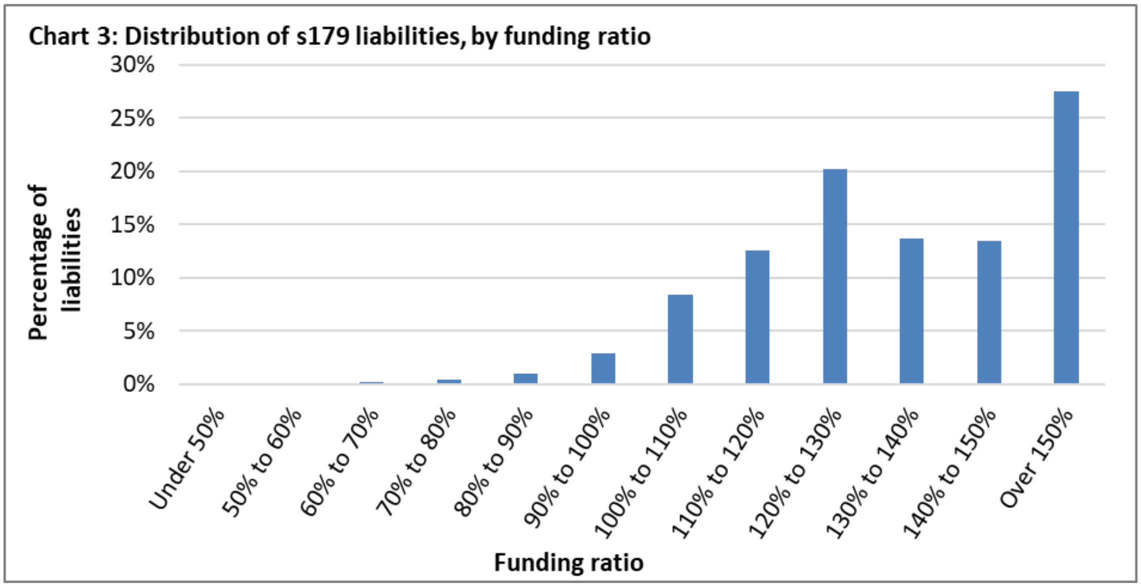
The funding ratio (assets as a percentage of s179 liabilities) of schemes increased over the month from 133.7 per cent to 136.5 per cent at the end of December 2022. The funding ratio is higher than the 107.7 per cent recorded in December 2021.



Within the Index, total scheme assets amounted to £1,409.5 billion at the end of December 2022. Total scheme assets experienced a decrease of 4.3 per cent over the month and a decrease of 22.5 per cent over the year. Total scheme liabilities were £1,032.8 billion at the end of December 2022, a decrease of 6.2 per cent over the month and a decrease of 38.8 per cent over the year.

Funding comparison

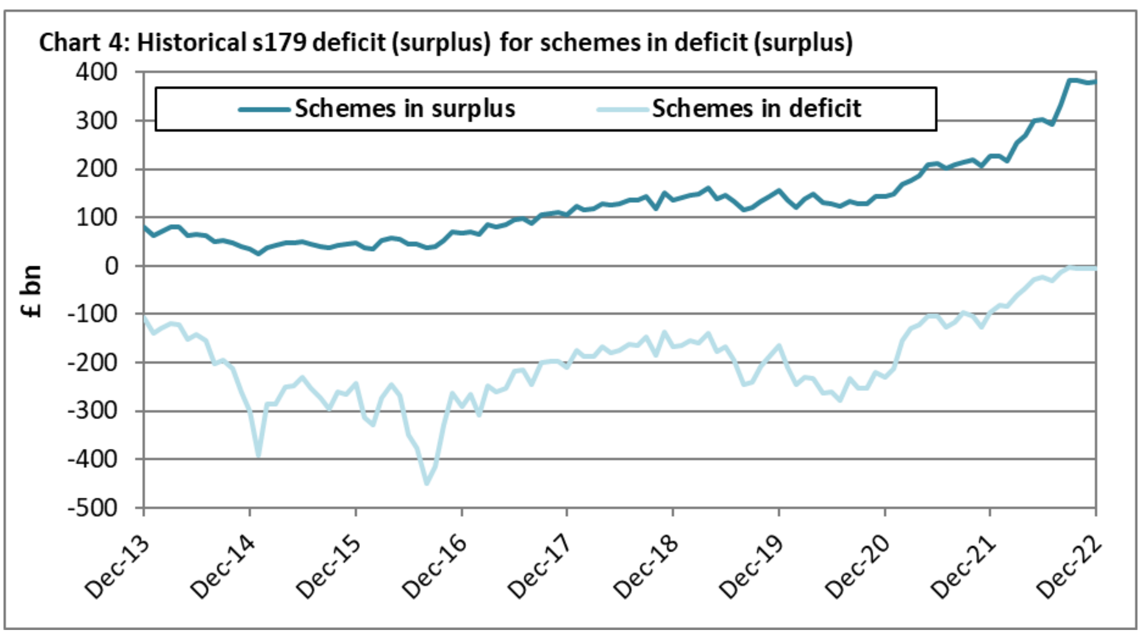
	December 2021	November 2022	December 2022
Aggregate funding position	£129.3bn	£371.5bn	£376.7bn
Funding ratio	107.7%	133.7%	136.5%
Aggregate assets	£1,818.0bn	£1,472.8bn	£1,409.5bn
Aggregate liabilities	£1,688.7bn	£1,101.3bn	£1,032.8bn
Dataset / Assumptions	Purple 21 / A10	Purple 22 / A10	Purple 22 / A10



Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of December 2022 is estimated to have decreased to £4.5 billion from £5.8 billion at the end of November 2022. At the end of December 2021, the equivalent figure was £97.0 billion.

At the end of December 2022, the total surplus of schemes in surplus increased to £381.2 billion from £377.3 billion at the end of November 2022. At the end of December 2021, the total surplus of all schemes in surplus stood at £226.3 billion.



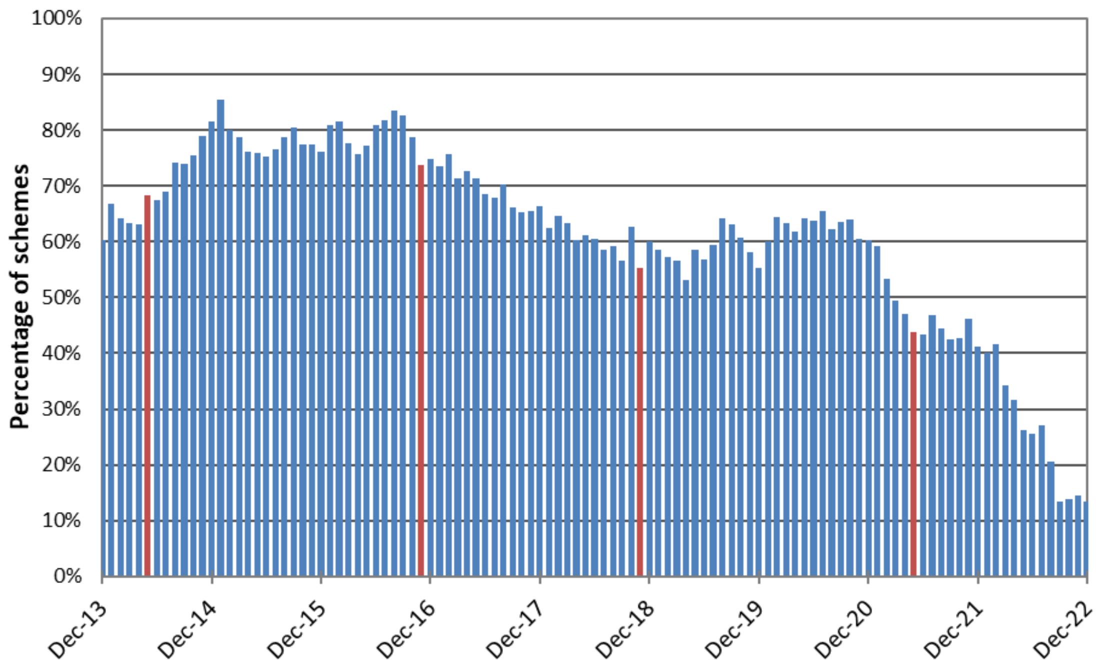
The number of schemes in deficit at the end of December 2022 decreased to 686, representing 13.4 per cent of the total 5,131 defined benefit schemes. There were 746 schemes in deficit at the end of November 2022 (14.5 per cent) and 2,152 schemes in deficit at the end of December 2021 (41.3 per cent).

The number of schemes in surplus increased to 4,445 at the end of December 2022 (86.6 per cent of schemes) from 4,385 at the end of November 2022 (85.5 per cent). There were 3,063 schemes in surplus at the end of December 2021 (58.7 per cent).

Schemes in deficit (surplus)

	December 2021	November 2022	December 2022
Number of schemes in deficit	2,152	746	686
Deficit for schemes in deficit	£97.0bn	£5.8bn	£4.5bn
Number of schemes in surplus	3,063	4,385	4,445
Surplus for schemes in surplus	£226.3bn	£377.3bn	£381.2bn
Number of schemes in Universe	5,215	5,131	5,131
Dataset / Assumptions	Purple 21 / A10	Purple 22 / A10	Purple 22 / A10

Chart 5: Historical percentage of schemes in deficit on an s179 basis



Note: The red bars indicate months in which we made changes to the actuarial assumptions used to value schemes on an s179 measure. The most recent change was made in May 2021 and implemented in the end of May 2021 PPF 7800 Index. This served to reduce the number of schemes in deficit by 210 (4.0 per cent of the number of schemes in the universe).

Understanding the impact of market movements

Equity markets and gilt yields are the main drivers of changes in funding ratios. S179 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 asset classes, but owing to the volume invested and the volatility, equities and bonds are the biggest drivers behind changes – bonds have a higher weight in asset allocation, but equities tend to be more volatile.

The following table sets out the changes in s179 liabilities and assets, and some key market indicators, in the month and year to 31 December 2022. The changes in s179 liabilities and assets:

- in the month are the result of market movements.
- in the year to 31 December 2022 are the result of market movements and the impact of the updated dataset in November 2022.

	Change over the…	
	Month	**Year**
s179 liabilities	-6.2%	-38.8%
Assets	-4.3%	-22.5%
Market indicator		
10-year fixed interest gilt yield	48bps	283bps
15-year fixed interest gilt yield	50bps	287bps
20-year fixed interest gilt yield	49bps	286bps
5-15 year index-linked gilt yield	45bps	312bps
FTSE All-Share Total Return Index	-1.4%	0.3%
FTSE All-World Ex-UK Total Return Index	-4.8%	-7.8%

[1] This effect amounts to around 0.3 per cent a month in the current environment

Chart 6: Movements in gilt yields

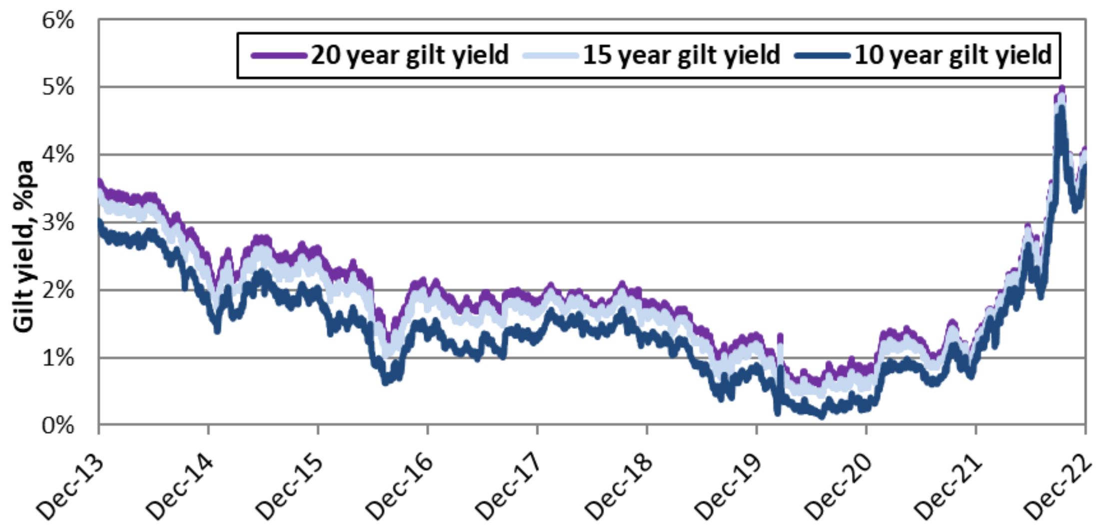
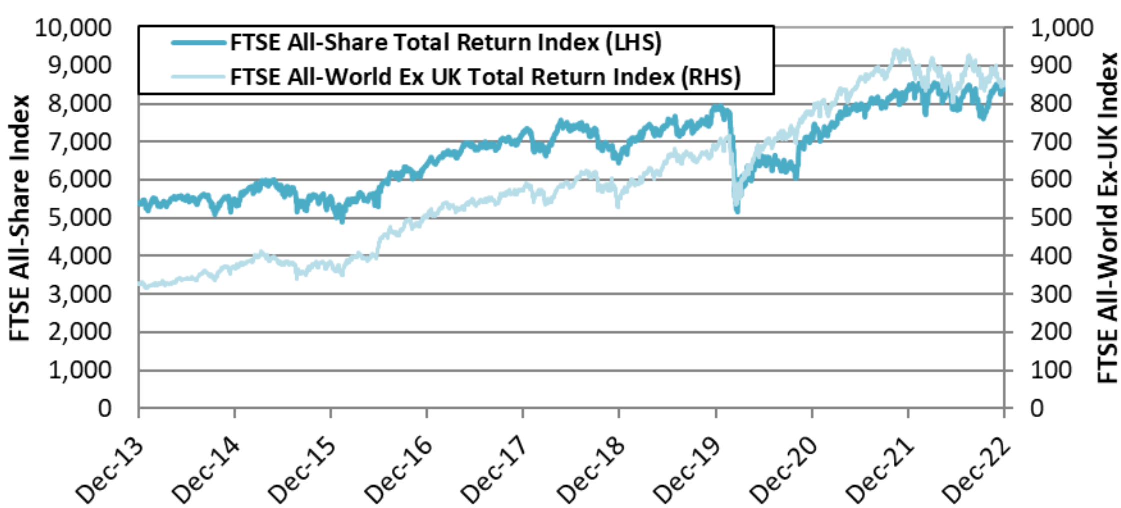


Chart 7: Movements in equity indices



Notes

1. The PPF universe

The PPF covers certain occupational defined benefit pension schemes and defined benefit elements of hybrid schemes. For more information about eligible schemes see the PPF's website at:
https://www.ppf.co.uk/levy-payers/what-levy-and-who-has-pay-it/your-scheme-eligible

2. 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 PPF 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 becomes insolvent. For the majority of people below their scheme's normal pension age the PPF will generally pay compensation at the 90 per cent level. 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:
https://www.ppf.co.uk/what-it-means-ppf

3. s179: one of many different funding measures

s179 is one particular measure of funding. The change in the deficit of schemes in deficit on an s179 basis is an illustration of the impact of changes in financial markets on the PPF's total exposure. Schemes in surplus on an s179 basis at the time of insolvency usually do not enter the PPF. For more information, please see our official s179 assumptions guidance at:
https://www.ppf.co.uk/trustees-advisers/valuation-guidance

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 UK'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.

4. Methodology

The figures shown throughout this document are based on adjusting the scheme valuation data supplied to The Pensions Regulator as part of the schemes' annual scheme returns, including Deficit Reduction Contribution certificates. This data is transformed on an 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. We do not hold sufficient data to capture the impact of any structural changes to asset allocations nor to accurately capture changes in any leveraged LDI portfolios.

5. Estimating the impact of changes in market conditions on the PPF 7800 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 aggregate scheme assets by 1.7 per cent while a 0.3 percentage point rise in gilt yields reduces scheme assets by 2.6 per cent. Meanwhile, a 0.3 percentage point rise in gilt yields reduces aggregate scheme liabilities by 5.2 per cent. Strictly speaking, the rules of thumb only apply to small changes from the 31 March 2022 level. For more information see Chapter 5 of the Purple Book 2022, available on the PPF's website at:
https://www.ppf.co.uk/sites/default/files/2022-11/PPF_PurpleBook_2022.pdf

6. The Purple Book 2022 dataset
The 5,131 schemes in the Purple Book 2022 dataset are estimated to include over 99 per cent of liabilities of PPF eligible schemes. These datasets are updated annually through a standard procedure performed after the publication of the Purple Book.

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

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