The Purple Book

DB PENSIONS UNIVERSE RISK PROFILE | 2014

Pension Protection Fund

The Pensions Regulator

The Purple Books give the most comprehensive picture of the risks faced by the PPF-eligible defined benefit pension schemes.

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Summary

This is the ninth edition of the Pensions Universe Risk Profile (The Purple Book), a joint annual publication by the Pension Protection Fund (the PPF) and the Pensions Regulator (the regulator) which focuses on the risks faced by Defined Benefit (DB) pension schemes, predominantly in the private sector.

1.1 Economic background and introduction

The main focus in each year's Purple Book is the position at the end of March for the year in question, and a comparison of how risks have changed over the last year. Over the 12 months to March 2014 the economic and financial market environment improved significantly.

- The UK economy recovered strongly, GDP rising by 3.0 per cent year-on-year in the first quarter of 2014.
- Insolvency Service statistics showed that the company liquidation rate in the year to the first quarter of 2014 was 0.6 per cent, down from 0.7 per cent in the firs t quarter of 2013.
- The total number of company insolvencies (also including receiverships, administrations, and company voluntary arrangements) was three per cent lower in the first quarter of 2014 than in the same quarter of 2013.
- The FTSE all-share index rose by 5.2 per cent in the year to March 2014.
- 10-year gilt yields rose to 2.7 per cent from 1.8 per cent while 10-year AA corporate bond yields rose from 2.9 per cent to 3.3 per cent.
- Scheme funding on a s179[1] basis improved markedly between end-March 2013 and end-March 2014 – the funding ratio (assets divided by liabilities) rose from 84[2] per cent to 94 per cent.
- The Bank of England kept its policy rate unchanged at 0.5 per cent and did not add to its asset purchases under its Quantitative Easing programme.

Since March 2014, UK GDP growth has accelerated further, to 3.2 per cent. Scheme funding on a s179 basis worsened between end-March and end-September mainly reflecting the impact of lower gilt yields on liabilities. The total number of company liquidations fell by eight per cent between the first and second quarters of 2014.

[1] The s179 basis is in broad terms what would have to be paid to an insurance company to take on payment of PPF levels of compensation.
[2] This number is based upon the A6 s179 valuation guidance, please refer to www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Section_179_Assumptions_Guidance_VA6_Apr11.pdf

Table 1.1 | UK economic and financial environment

UK	End March							
	2008	2009	2010	2011	2012	2013	2014	End Septembe r 2014
GDP growth year-on-year	2.8%	-6.8%	0.5%	1.7%	0.6%	0.7%	3.0%	3.2%*
Company liquidation rate – 12 months prior	0.6%	0.8%	0.9%	0.8%	0.8%	0.7%	0.6%	0.6%*
Total insolvency events	6,692	12,139	9,916	9,104	9,522	7,910	7,658	7,046*
FTSE all share level	2,927	1,984	2,910	3,068	3,003	3,380	3,556	3,534
10-year gilt yield	4.3%	3.2%	3.9%	3.7%	2.2%	1.8%	2.7%	2.3%
10-year index linked yield	1.0%	0.9%	0.4%	0.6%	-0.6%	-1.6%	-0.3%	-0.5%
10-year AA corporate bond yield	6.9%	6.8%	4.7%	5.1%	3.9%	2.9%	3.3%	3.1%
Bank of England policy rate	5.25%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
QE	-	£15b	£200b	£200b	£325b	£375b	£375b	£375b

Sources: Office for National Statistics, the Insolvency Service, Bank of England and Bloomberg

*These relate to Q2 2014.

**Comprised of liquidations, receiverships, administrations and company voluntary arrangements.

Much of the analysis of the 2014 Purple Book ('Purple 2014') is based on new information from 6,057 scheme returns issued in December 2013 and January 2014 and returned to the regulator by the end of March 2014. The Purple Book covers virtually all schemes in the universe of PPF-eligible schemes.

The Purple Books have focused on the risk of scheme members not receiving promised benefits and of claims on the PPF. These in turn depend on two key elements, namely the risk of the sponsoring employer becoming insolvent and the extent of scheme underfunding. The main focus of this publication is risk as at 31 March 2014.

Some of the key points from Purple 2014 are given below, followed by detailed summaries from each chapter:

Scheme demographics

- The percentage of schemes that closed to future accrual rose again in 2014 – from 30 per cent in 2013 to 32 per cent in 2014. This is a continuation of the trend that has been in place since the start of the Purple Book in 2006.
- The percentage of schemes that are open, edged lower to 13 per cent in 2014 from 14 per cent in both 2013 and 2012.
- The number of active memberships fell by 6.5 per cent in 2014, to 1.8 million. Active memberships have fallen by 50 per cent since 2006.

Scheme funding

- Scheme funding improved between end-March 2013 and end-March 2014 - from 84 per cent in 2013 to 97 per cent on a s179 basis, and from 61 per cent to 67 per cent on a full buy out basis – reflecting both the impact of higher gilt yields on liabilities and the impact of higher equity markets on assets.
- However, since end-March 2014, scheme funding has deteriorated by around 8 percentage points, reflecting lower gilt yields.

Asset allocation

- The changes in asset allocation were smaller than in earlier years.
- The equity share in scheme assets fell only slightly in 2014, from 35.1 per cent to 35.0 per cent. It has been on a downward trend since 2006 when it stood at 61.1 per cent.
- The gilts and fixed interest share fell from 44.8 per cent in 2013 to 44.1 per cent in 2014. It had been on an upward trend since 2006 when the share was 28.3 per cent.
- Within equities, the share of UK equities fell for the sixth successive year, to 28.9 per cent while the overseas share rose to 62.4 per cent. The unquoted equities share also increased to 8.7 per cent.
- Within gilts and fixed interest, the index-linked share rose from 40.9 per cent to 41.1 per cent, the fifth successive annual increase. The share in corporate fixed interest securities fell for the second successive year to 40.3 per cent. The share of government fixed interest edged higher to 18.6 per cent.
- The hedge fund share rose to 5.8 per cent in 2014 from 5.2 per cent in 2013, having been on an upward trend since 2009.

1.2 The Data

- The main body of the analysis in Purple 2014 is based on new scheme returns for a dataset of 6,057 Defined Benefit (DB) schemes, covering 11.1 million memberships[3]. This represents 99.8 per cent of PPF-eligible schemes and 99.1 per cent of universe liabilities. Complete 2014 information is not yet available for the remaining schemes and, hence, these have been excluded from the sample.
- It is estimated that the eligible universe of schemes was around 6,070, a reduction from 6,225 in March 2013. The declining universe reflects schemes winding up, scheme mergers, schemes entering assessment, schemes transferring into the PPF, and block transfers.
- The fact that the dataset accounts for such a large proportion of the universe means that results for the whole universe would only be slightly different from the results presented in Purple 2014.
- As in previous Purple Books, the bulk of the analysis uses funding on a s179 basis. This is broadly speaking what would have to be paid to an insurance company to take on the payment of PPF levels of compensation.
- The Purple Book, as usual, uses Dun and Bradstreet (D&B) failure scores as indicators of insolvency risk. D&B failure scores have been used in determining scheme levy payments.
- On 29 May 2014, the PPF launched a consultation on the introduction of a new, PPF-specific insolvency risk model for determining levy payments, developed with global information solutions company, Experian, and drawing on input and expertise from the pensions industry and employers' representatives[4]. The PPF's policy statement published on 4 October confirmed that it would be moving ahead with the new model[5].
- Purple 2015 will use the failure scores from the PPF-specific insolvency risk model.

1.3 Scheme Demographics

- 13 per cent of schemes in the dataset are open to new members, 1 per cent lower than 2013.
- 32 per cent of schemes are closed to future accrual, 2 per cent more than in 2013.
- Schemes with 10,000 or more memberships were the most likely to be closed to new members but not closed to future accrual.
- The largest single group is that of deferred members in schemes which are closed to new members (28 per cent of total members) but not closed to future accrual.
- 22 per cent of memberships in the dataset were in schemes which are open to new members.
- Active memberships fell by 6.5 per cent from 2013, compared to a fall of 9.2 per cent between 2012 and 2013.

[3] A 'membership' is one individual's participation in one scheme. One individual can have multiple memberships. Hence the number of memberships exceeds the number of individuals.
[4] http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/levy_consultation_may14.pdf
[5] http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1516_levy_consultation.pdf

- There were 1.81 million active members in 2014.
- 45 per cent of members were deferreds.
- Larger schemes tend to have relatively fewer deferred members and more actives and pensioners.
- 30 per cent of members are in manufacturing.

1.4 Scheme Funding

- The aggregate s179 funding position (total assets less total liabilities) of the schemes in the Purple 2014 data set as at 31 March 2014 was a deficit of £39.3 billion.
- The s179 funding ratio (total assets divided by total liabilities) for 2014 is 97 per cent. Total liabilities have fallen from £1,329.2 billion in 2013 to £1,176.8 billion in 2014.
- Schemes in the smallest, 2 to 99 member size group were the most likely to be funded to over 100 per cent on a s179 basis and are relatively better funded on a full buy-out basis.
- 62 per cent of the assets in the dataset are in schemes with over 10,000 members, a group comprising 3 per cent of the schemes.
- Greater maturity is associated with better funding on a s179 basis.
- Schemes closed to new members and closed to future accruals show higher weighted-average funding levels than open schemes.
- 23 per cent of schemes in wind-up are funded over 100 per cent of the estimated buy-out value
- 41 per cent of the s179 liabilities are in respect of pensioner members

1.5 Funding Sensitivities

- All the funding sensitivities in chapter 5 are on a s179 basis, taking the funding position as at 31 March 2014[6] as the base and using the Purple 2014 dataset. The sensitivities do not take into account the use of derivative instruments to hedge changes in interest rates, inflation, equity levels or longevity.
- Changes in market conditions and financial and demographic assumptions since January 2003 would have caused the monthly aggregate funding ratio of pension schemes to vary by 64 percentage points. The highest funding ratio would have been in June 2007 at 142 per cent and the lowest ratio of 78 per cent would have been in May 2012.
- These estimates take the latest level of assets and liabilities and asset allocation and roll back the assets and liabilities using movements in nominal and real gilt yields and equity markets. The main source of volatility is the impact of bond market movements on scheme liabilities rather the impact of equity markets on scheme assets.

[6] Using the previous valuation guidance as in Chapter 4 , please follow the link for more information www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Section_179_Assumptions_Guidance_VA6_Apr11.pdf

- The aggregate balance would have varied by around £539 billion (with the greatest surplus in June 2007 at £247 billion and the greatest deficit in May 2012 at £292 billion).
- The assumptions were changed on 31 March 2008, 31 October 2009, 1 April 2011 and 1 May 2014. The first three changes improved scheme funding by around £37 billion (5 per cent of liabilities), £65 billion (7 per cent of liabilities) and £24 billion (3 per cent of liabilities) respectively, while the fourth worsened scheme funding by around £39 billion[7] (3 per cent of liabilities).
- The estimated number of schemes in deficit on a s179 basis would have been at its lowest point in June 2007 at 539 schemes (9 per cent of the dataset) and would have peaked in May 2012 at 5,153 (85 per cent).
- Since end-March 2014, aggregate scheme funding has fallen from 97 per cent to 89 per cent in August 2014.
- A 0.1 percentage point (10 basis point) rise in gilt yields decreases the end-March 2014 aggregate deficit by £16.9 billion from £39.3 billion to £22.4 billion while a 2.5 per cent rise in equity prices would reduce the aggregate deficit by £10.3 billion.
- A 0.1 percentage point (10 basis point) reduction in gilt yields raises aggregate scheme liabilities by 1.8 per cent and raises aggregate scheme assets by 0.4 per cent. A 2.5 per cent rise in equity markets raises scheme assets by 0.9 per cent.
- If the assumed rate of inflation increases by 0.1 per cent, with nominal gilt yields unchanged, then the s179 liabilities for aggregate schemes increases by approximately 0.7 per cent or £8.5 billion.
- An increase in longevity such that the experienced mortality is now equivalent to that of an individual two years younger would increase aggregate schemes' liabilities by 5.4 per cent, or £63.4 billion.

1.6 Insolvency Risk

- The insolvency rate of the PPF universe (number of insolvency events for sponsors of PPF eligible schemes divided by the total number of scheme sponsors) rose less than the national insolvency rate during the financial crisis. The national insolvency rate has been falling gradually over the last two years while the PPF insolvency rate has fallen sharply over the last three quarters.
- Over the first six months of 2014, the liability-weighted insolvency probability of the 500 schemes to which the PPF has the largest exposure (in terms of scheme underfunding adjusted for the volatility of its assets) has remained broadly unchanged from Q3 2012 at around 0.65 per cent.
- The UK economy came out of recession in the fourth quarter of 2009. GDP then rose strongly until the third quarter of 2010. The euro area sovereign debt crisis then intensified and began to take its toll on the UK economy, resulting in weak growth through 2012. GDP growth picked up strongly after the end of 2012, and

[7] For more information see PPF 7800 January 2009, November 2009, May 2011 and May 2014
www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF7800January09.pdf
www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_November_09.pdf
www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_May_11.pdf
www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_May_14.pdf

GDP in the second quarter of 2014 was some 2 per cent above the pre-crisis high in the first quarter of 2008.

- The 2008/09 recession resulted in a large rise in the total level of corporate liquidations in England and Wales – up from 3,140 in the first quarter of 2008 to a peak of 5,036 in the second quarter of 2009, an increase of 64 per cent. In the second quarter of 2014, a total of 3,461 liquidations were recorded.
- The rise in company liquidations in the 2008-09 recession was much smaller than in the early 90s contraction, when liquidations more than doubled. This was most likely due to two factors: record low interest rates on one side, allowing companies to meet interest expenses, and a marked reluctance of banks to crystallise losses at a time when the pressure to repair balance sheets was high. (The growth of small companies with low debt, such as consultancies, may also have played a role in reducing the impact of the recession.)

1.7 Asset Allocation

- Between 2006 and 2013, there was a marked fall in the share of equities in total assets (from 61.1 per cent to 35.1 per cent) and a marked rise in the share of gilts and fixed interest (from 28.3 per cent to 44.8 per cent).
- In 2014, the equity share fell only slightly, from 35.1 per cent to 35.0 per cent while the gilts and fixed interest share fell from 44.8 per cent to 44.1 per cent.
- The share of "other investments" plus hedge funds rose from 8.7 per cent in 2013 to 10.1 per cent in 2014. The share of cash fell from 6.7 per cent to 6.1 per cent, having risen steadily since 2007.
- For the sixth successive year the UK proportion of total equity holdings fell, from 31.0 per cent in 2013 to 28.9 per cent in 2014, while the overseas share rose from 61.3 per cent to 62.4 per cent. The balance of holdings in unquoted equities increased for the fifth successive year, from 7.7 per cent in 2013 to 8.7 per cent in 2014.
- Within total gilts and fixed interest the changes were modest in 2014 after significant changes in earlier years. The corporate fixed interest securities' proportion decreased slightly, from 40.6 per cent in 2013 to 40.3 per cent in 2014. Meanwhile, the proportion of government fixed interest rose marginally from 18.5 per cent to 18.6 per cent. The balance of holdings in index-linked rose to 41.1 per cent from 40.9 per cent in 2013.
- Schemes provide their most recent asset allocation in the scheme return. In the 2014 return, 95 per cent of schemes provided asset allocation that was less than three years old.
- Smaller schemes tend to have a higher proportion in UK equities and a smaller proportion in overseas equities and unquoted equities. Within fixed interest, smaller schemes tend to have a higher proportion in government fixed interest and a smaller proportion in index-linked securities.
- Looking at simple averages[8], the UK equities proportion dropped to 44.9 per cent from 47.5 per cent in 2013 while for overseas equities it increased to 52.7 per cent from 50.3 per cent.

[8] Simple averages are defined as the mean without weighting for scheme size.

- As in the earlier Purple Books, more mature schemes tend to invest more heavily in gilts and fixed interest and less in equities.
- From 2012/13, the PPF levy has taken into account scheme specific investment risk by adjusting the scheme assets for a market stress[9]. For the 2013/14 levy year, 131 schemes performed compulsory bespoke tests, 331 carried out voluntary tests and 5,595 schemes followed the standard test methodology.

1.8 Overall PPF Risk Developments

- The Long-Term Risk Model (LTRM) is the key tool that the Board of the PPF uses to understand and quantify the risks it faces over the long term. It helps the Board of the PPF assess the level of resources required to meet potential future claims.
- There was a significant reduction in long-term risk to the Fund between end-March 2013 and end-March 2014, which was largely attributable to an improvement in the PPF's own funding level in the 12-month period.
- The PPF published its long-term funding strategy in August 2010. As part of this strategy the PPF aims to be self-sufficient by 2030 (i.e. fully funded, with zero exposure to market, inflation and interest-rate risk and some protection against claims and longevity risk). The funding strategy is reviewed annually to check whether the funding objective remains appropriate and whether the PPF is on track to achieve it.
- LTRM projections with a calculation date of 31 March 2014, suggest that the PPF has a 90 per cent probability of meeting this objective compared with 87 per cent one year earlier[10].

1.9 Levy Payments

- Since 2006/7, the PPF has collected a levy determined mainly by the risk schemes pose to the PPF. Over this period, it has collected a total of £4.6 billion.
- The dataset used in this chapter is based on 6,114 schemes which have been invoiced for £577 million in total. This is somewhat smaller than the £630 million the PPF expected to collect. This was mainly because under the risk-based levy assessment process the original underfunding and insolvency turned out to be lower than had been assumed.
- In 2012/13, the New Levy Framework[11] (NLF) was introduced, changing the way the Pension Protection Levy is calculated. Notable changes[12] included: assets and liabilities being smoothed to reduce data volatility and stressed to account for

[9] Schemes' assets are stressed using bespoke and standard scenarios. Schemes that have protected liabilities of £1.5 billion or more (s179 valuation) must carry out a bespoke stress calculation. All other schemes may opt to carry out a bespoke stress calculation on a voluntary basis. Further details on the stress test methodology are provided on www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1314_Investment_Risk_Appendix.pdf

[10] This probability is sensitive to a range of modelling assumptions. For a description of the modelling methodology and assumptions employed, see http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_Funding_Strategy_Document.pdf

[11] For an overview of the NLF, please visit www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1314_levy_policy_statement.pdf

[12] For full details of the levy determination please visit: http://www.pensionprotectionfund.org.uk/levy/Pages/1314_Levy_Determination.aspx

investment risk; averaging insolvency risk taken over a 12-month period and using more current data.

- In 2012/13 and 2013/14, the number of schemes paying no risk-based levy (RBL) represented 19 and 17 per cent of total schemes, respectively. The significant increase in the number of schemes paying no RBL in 2012/13 and 2013/14 in comparison to previous years is largely due to the implementation of the NLF. As a result, in 2012/13 and 2013/14, schemes that were fully funded, after taking account of their investment risk, paid no RBL. By comparison, in 2011/12 schemes had to be 155 per cent funded to pay no RBL.
- In 2013/14, 302 schemes had their RBL capped at 0.75 per cent of stressed, smoothed liabilities. This is 4.9 per cent of the total number of schemes, compared with 6.8 per cent in 2012/13. The liabilities of capped schemes equalled £6.4 billion or 0.6 per cent of total liabilities (on a stressed, smoothed basis).
- The top 100 levy payers accounted for £240 million or 41.6 per cent of the total levy compared with 43.1 per cent in 2012/13. The change in the proportion of levy that the top 100 levy payers account for is because of the reduction in scheme-based levy (SBL) as a percentage of total levy, from 11 per cent in 2012/13 to 9 per cent in 2013/14.
- Manufacturing represents the largest portion of the universe, accounting for 28.0 per cent of total liabilities (based on 5,344 comparable schemes across all Purple Books) and pays 40.7 per cent of total levy. Finance, insurance and real estate accounts for 22.5 per cent of total liabilities and 12.3 per cent of total levy.

1.10 Schemes in Assessment

- Before transferring into the PPF, all schemes go through an assessment period to determine their ability to pay PPF levels of compensation[13]. The PPF aims to complete the assessment period for most schemes within two years.
- The PPF's Annual Report and Accounts 2013/14 show that there were 182 schemes in assessment as at 31 March 2014 compared with 223 as at 31 March 2013. Of the 182 figure, 158 were recognised in provisions on the PPF balance sheet, down from 187 at 31 March 2013. In these figures, all segregated parts of schemes have been counted as separate schemes.
- In this chapter, for analytical purposes, scheme sections and segregated parts are amalgamated at scheme level; after this amalgamation there were 148 schemes (with 95,000 members) in a PPF assessment period as at 31 March 2014, compared with 172 schemes (with 111,000 members) a year earlier. As a result, the number of schemes in assessment in this chapter is less than reported in the 2013/14 Annual Report and Accounts.
- The fall over the year reflects 79 new schemes entering and remaining in assessment, 81 schemes transferring into the PPF and 22 being rescued, rejected or withdrawn.
- As at 31 March 2014, the aggregate assets of schemes in assessment totalled £5.8 billion and their liabilities £7.6 billion (equivalent to 0.6 per cent of universe liabilities) on a s179 basis. Liabilities averaged £51.1 million per scheme and assets averaged £39.5 million.

[13] See Chapter 2, The Data, for a description of the eligibility test.

- Schemes with liabilities below £5 million account for 31.8 per cent of schemes in assessment but only 1.2 per cent of the liabilities in assessment, while schemes with liabilities of over £100 million account for 7.4 per cent of schemes in assessment but 68.2 per cent of liabilities in assessment.
- The aggregate funding level (total assets divided by total liabilities) of the schemes in assessment as at 31 March 2014 was 77.3 per cent, below the aggregate funding levels of the schemes in the Purple 2014 dataset (96.7 per cent). However the funding level of schemes in assessment was higher than a year earlier (76.6 per cent).
- Schemes in assessment tended to hold slightly more of their assets in gilts and fixed interest (41 per cent) than schemes in general (39 per cent).
- The Manufacturing sector accounted for 47.3 per cent of the companies sponsoring schemes in assessment. The Services sectors account for 14.2 per cent of sponsors of schemes in assessment. The proportion of schemes pertaining to the Finance, Insurance and Real Estate sector was 12.2 per cent.
- The representation of Manufacturing in schemes in assessment (47.3 per cent) is much greater than the sector's share of scheme sponsors in the PPF universe (29.3 per cent), which in turn is greater than the share of manufacturing in the UK economy (12 per cent).
- Since 2005, there have been around 1,000 claims on the PPF with a total deficit value of £6.0 billion on a s179 basis. During the same period, total levy and recoveries were £4.6 and £1.6 billion respectively. Schemes with under 100 members accounted for 47.3 per cent of the claims since 2005. The Manufacturing sector contributed to 44.0 per cent of the total claims, higher than its contribution to the Purple 2014 dataset (29.5 per cent). The representation of the Services sector (14.5 per cent) was much lower than its share of scheme sponsors in the PPF universe (24.2 per cent).

1.11 PPF Compensation

- When an eligible Defined Benefit (DB) scheme transfers into the PPF, the PPF generally pays a starting level of compensation of 90 per cent of scheme pension (subject to a compensation cap) to members who were yet to reach their normal retirement age (NRA) at the date the scheme entered assessment. The PPF will generally pay a starting level of compensation equivalent to 100 per cent of scheme pension to those who were already over their NRA at the start of the assessment period[14].
- In 2013/14, the PPF made compensation payments of £445.1 million compared with £331.8 million in 2012/13.
- As at 31 January 2014, 95,599 members were in receipt of PPF compensation, up from 80,665 as at March 2013. Average compensation in payment stood at £4,089 a year (unless otherwise stated, totals and averages relating to pensioners include dependents). The number of members with compensation not yet in payment (deferred members) as at 31 January 2014 totalled 100,070. For these members, the average accrued periodic compensation (before any prospective application of the compensation cap at NRA) was £3,355 a year.

[14] The annualised average rate of compensation is calculated by scaling up compensation over one month to reflect one year. This measure, which excludes lump sum payments, is used in order to accurately represent periodic compensation in payment at 31 March 2014.

- As at 31 January 2014, males constituted 62 per cent of pensioner and 67 per cent of deferred members.
- Spouses and other dependants account for 15 per cent of those currently in receipt of compensation. They receive 10 per cent of the total compensation in payment.
- Around 49 per cent of all compensation is attributable to former employees of the manufacturing sector down from 51 per cent the previous year.
- The West Midlands region has the largest receipt of compensation, currently at 15 per cent of total pensioner compensation.
- 89 per cent of members are in receipt of (or have accrued) compensation of less than 25 per cent of the compensation cap (i.e. £8,717 a year).
- The majority of compensation (and liabilities) was accrued in relation to service before 6 April 1997 and is, therefore, not subject to indexation. Compensation accrued on or after 6 April 1997 is increased each year in line with Consumer Price Inflation (CPI) capped at 2.5 per cent with a floor of 0 per cent.
- Deferred compensation is re-valued over the period to NRA in line with CPI capped at 5 per cent per annum (for compensation accrued before 6 April 2009) and CPI capped at 2.5 per cent per annum (for compensation accrued on or after 6 April 2009), subject to a floor of 0 per cent in both cases.
- In 2011, the government introduced new rules to move to the use of the CPI for the purpose of the indexation and revaluation (subject to the appropriate caps and floors as detailed above). Prior to 2011, increases were based on the Retail Prices Inflation index (RPI). These changes affect pension revaluation for deferred members from April 2011 and indexation for pensioners from January 2012. All figures of compensation presented in this chapter are, where relevant, based on historical RPI inflation indexation and revaluation.

1.12 Risk Reduction

- The total number of Contingent Assets (CAs) recognised by the PPF for the 2014/15 levy year was 780, somewhat lower than in the previous year. This reflected a fall in the number of Type A contingent assets (company guarantees). Firmer standards of validation introduced by the PPF have led to the decrease in the number of recognised Type A CAs.
- The number of Type B CAs (security over holdings of cash, real estate and or securities) fell slightly.
- Schemes in the Purple 2014 dataset had by 10 April 2014 certified approximately £25.6 billion of Deficit Reduction Contributions (DRCs)[15] to reduce deficits for the 2014/15 levy year.
- Data from the Office for National Statistics (ONS) covering 350 large pension schemes (including 100 local authorities and some DC schemes) show that employers made £17.4 billion in special contributions in 2013 (i.e. those in excess of regular annual contributions), lower than £18.2 billion in 2012.

[15] The certificates cover deficit reduction contributions made since the last scheme valuation. Typically, scheme valuations are carried out every three years.

- Analysis of the Pension Regulator's latest technical provisions and recovery plan data show that in Tranche 7[16], the average recovery plan length was 8.4 years, compared with 9.7 years for Tranche 4. The funding ratio as measured by assets divided by technical provisions was 80.8 per cent, up from, 74 per cent for Tranche 4. These comparisons are appropriate given the three year valuation cycle.
- Quarterly F&C Asset Management surveys of volumes traded by investment banks suggest that:
    - £80 billion of liabilities were hedged using inflation derivatives in the year to the first quarter of 2014. Q3 2013 recorded £30 billion of liability hedging activity, the biggest amount since Q1 2009.
    - £79.5 billion of liabilities were hedged using interest rate derivatives in the year to the first quarter of 2014, up more than 60 per cent from 2013.
- Total risk transfer business covering buy-outs, buy-ins and longevity hedges amounted to £71.8 billion between the end of 2007 and the first quarter of 2014. Just under half of these deals were longevity hedges.

[16] Tranche 7 covers schemes with valuation dates between 22 September 2011 and 21 September 2012.

2 The Data

2.1 Summary

- The main body of the analysis in Purple 2014 is based on new scheme returns for a dataset of 6,057 Defined Benefit (DB) schemes, covering 11.1 million memberships[1]. This represents 99.8 per cent of PPF-eligible schemes and 99.1 per cent of universe liabilities. Complete 2014 information is not yet available for the remaining schemes and, hence, these have been excluded from the sample.
- It is estimated that the eligible universe of schemes was around 6,070, a reduction from 6,225 in March 2013. The declining universe reflects schemes winding up, scheme mergers, schemes entering assessment, schemes transferring into the PPF, and block transfers.
- The fact that the dataset accounts for such a large proportion of the universe means that results for the whole universe would only be slightly different from the results presented in Purple 2014.
- As in previous Purple Books, the bulk of the analysis uses funding on a s179 basis. This is broadly speaking what would have to be paid to an insurance company to take on the payment of PPF levels of compensation.
- The Purple Book, as usual, uses Dun and Bradstreet (D&B) failure scores as indicators of insolvency risk. D&B failure scores have been used in determining scheme levy payments.
- On 29 May 2014, the PPF launched a consultation on the introduction of a new, PPF-specific insolvency risk model for determining levy payments, developed with global information solutions company, Experian, and drawing on input and expertise from the pensions industry and employers' representatives.[2] The PPF's policy statement published on 4 October confirmed that it would be moving ahead with the new model[3].
- Purple 2015 will use the failure scores from the PPF-specific insolvency risk model.

2.2 Introduction

[1] A 'membership' is one individual's participation in one scheme. One individual can have multiple memberships. Hence the number of memberships exceeds the number of individuals.
[2] http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/levy_consultation_may14.pdf

[3] http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1516_levy_consultation.pdf

The PPF covers certain DB occupational schemes and DB elements of hybrid schemes. Some DB schemes will be exempt from the PPF, including:

- unfunded public sector schemes;
- some funded public sector schemes, for example, those providing pensions to local government employees;
- schemes to which a Minister of the Crown has given a guarantee; and
- schemes which began to wind up, or were completely wound up, prior to 6 April 2005.

For a more comprehensive list see 'eligible schemes' on the PPF's website at:

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

The information used in Chapters 3 to 8 of this publication comes from three primary sources, as described below. There may be some additions to the eligible universe in coming years given the Pensions Act 2011 clarification of the definition of money purchase benefits[4].

Scheme returns provided to the Pensions Regulator

Most of the analysis in this year's publication is based on new scheme returns issued in December 2013 and January 2014 and returned by 31 March 2014.

Voluntary form reporting

Electronic forms are available on the Pensions Regulator's website for pension schemes to provide data regarding Contingent Assets (CAs), valuation results on a s179 basis, Deficit Reduction Contributions (DRCs) and the s179 valuation results following block transfers. More information on DRCs and CAs is given in Chapter 12, Risk Reduction.

Sponsor failure scores supplied by Dun & Bradstreet (D&B)

The D&B failure scores (ranging from 1 to 100), which cover all the scheme sponsors of PPF-eligible DB schemes, are designed to predict the likelihood that a sponsor will cease operations without paying all creditors over the next 12 months. Each score corresponds to a probability of insolvency, which is used in the PPF's risk-based levy calculations. A score of 1 represents the businesses with the highest probability of insolvency and 100 the lowest.

On 29 May 2014, the PPF launched a consultation on the introduction of a new, PPF-specific insolvency risk model for determining levy payments, developed with global information solutions company, Experian, and drawing on input and expertise from the pensions industry and employers' representatives. The PPF's policy statement on 4 October confirmed that it would be moving ahead with the new model. This will be used in calculating scheme levies from 2015/16 and will be used in Purple 2015.

The data used in Chapters 9 (Levy Payments), 10 (Schemes in Assessment) and 11 (PPF Compensation) are derived from the PPF's business operations.

[4] Following the Bridge Judgement in 2011, section 29 of the Pensions Act 2011 clarified the definition of money purchase benefits. The new definition of money purchase benefits is restricted to schemes where no deficit can ever arise. Schemes that offer internal annuitisation or guaranteed investment returns up to retirement are examples of schemes that should now be treated as defined benefit instead of money purchase. After the regulations come into force, such schemes will become eligible for PPF protection and will be levied accordingly by the PPF. The same will apply to sections of schemes in the case of hybrid schemes. The detailed regulations will be put out for consultation by DWP in due course.

The Purple 2014 sample covers almost all of the estimated number of PPF-eligible schemes.

2.3 The PPF-eligible DB universe[5]

Table 2.1 | Distribution of schemes excluding those in assessment by number of members as at 31 March 2014

Number of members	Fewer than 100	100 – 999	1,000 – 4,999	5,000 – 9,999	10,000+	Total Schemes (final estimate)
Estimated Purple 2014 universe	2,188	2,684	802	188	208	6,070
Purple 2014 dataset	2,183	2,680	802	187	205	6,057
Purple 2014 dataset as % of 2014 PPF-eligible DB universe	99.8%	99.9%	100.0%	99.5%	98.6%	99.8%

Source: PPF / The Pensions Regulator

The Purple 2014 sample covers around 99 per cent of all scheme liabilities.

Table 2.2 | Distribution of s179 liabilities (£ billion) excluding those in assessment process by number of members as at 31 March 2014

Number of members	Fewer than 100	100 – 999	1,000 – 4,999	5,000 – 9,999	10,000+	Total Liabilities
Estimated Purple 2014 universe	12.8	108.8	189.9	144.6	731.6	1187.7
Purple 2014 dataset	12.8	108.7	189.9	143.9	721.4	1176.7
Purple 2014 dataset as a % of 2014 PPF-eligible universe	99.8%	99.9%	100.0%	99.5%	98.6%	99.1%

Source: PPF / The Pensions Regulator

[5] The universe estimates are based on an assessment of the number of additional schemes for which full data will become available.

The declining universe reflects schemes winding up, scheme mergers, schemes transferring into the PPF and block transfers.

Table 2.3 | Purple datasets and universe estimates*

	2010	2011	2012	2013	2014
Estimated eligible DB universe	6,850	6,550	6,460	6,225	6,070
Purple dataset (as a percentage of final universe)	6,596 (96.3%)	6,432 (98.2%)	6,316 (97.8%)	6,150 (98.8%)	6,057 (99.8%)

Source: PPF / The Pensions Regulator

* Since Purple 2010, schemes in assessment have been excluded from the universe and dataset estimates. This has been done so as to capture accurately the risk present in DB schemes whose employers had not experienced insolvency.

2.4 Funding Schemes

As in previous Purple Books, the bulk of the analysis uses funding estimates on a section 179 (s179) basis. This is, broadly speaking, what would have to be paid to an insurance company to take on the payment of PPF levels of compensation. The PPF uses estimates of scheme funding on a s179 basis in the calculation of scheme-based levies. The analysis in Chapter 4, Scheme Funding, uses data that, as far as possible, reflects the position at 31 March 2014 with the s179 assumptions that came into effect on 1 April 2012.

A small portion of assets and liabilities could not be accurately allocated to schemes due to the block transfer process whereby assets transfer from one scheme to another. It is estimated that £3.20bn assets and £3.15bn liabilities are still in the PPF universe, and is not reported in this edition.

As in previous years, actuaries at the PPF and the Pensions Regulator have also produced full buy-out estimates of the funding position for the Purple 2014 dataset.

3 Scheme Demographics

3.1 Summary

- 13 per cent of schemes in the dataset are open to new members, 1 per cent lower than 2013.
- 32 per cent of schemes are closed to future accrual, 2 per cent more than in 2013.
- Schemes with 10,000 or more memberships were the most likely to be closed to new members but not closed to future accrual.
- The largest single group is that of deferred members in schemes which are closed to new members (28 per cent of total members) but not closed to future accrual.
- 22 per cent of memberships in the dataset were in schemes which are open to new members.
- Active memberships fell by 6.5 per cent from 2013, compared to a fall of 9.2 per cent between 2012 and 2013.
- There were 1.81 million active members in 2014.
- 45 per cent of members were deferreds.
- Larger schemes tend to have relatively fewer deferred members and more actives and pensioners.
- 30 per cent of members are in manufacturing.

3.2 Introduction

In this chapter the composition of the dataset used for this year's edition of the Purple Book is described. Figures for the total number of schemes and total scheme membership are included, with breakdowns by size, maturity, scheme status and industrial classification.

For each edition of the Purple Book, a dataset is collated including all appropriate schemes where scheme return information has been processed and cleaned. In subsequent months, more scheme returns are processed and cleaned and in 2006 and 2007 these were incorporated into the existing dataset to produce an 'extended' dataset. For 2006 and 2007, the increased coverage produced significantly different results to the original datasets. However, since then datasets have been much larger and the increased coverage made only a small difference. Accordingly comparisons are made with previous publications as follows:

- Purple 2006 and 2007 - extended dataset
- Purple 2008 to 2014 - original dataset

3.3 Scheme Status

Scheme status in this Purple Book is split between:

- open schemes, where new members can join the DB section of the scheme and accrue benefits;
- schemes closed to new members, in which existing members continue to accrue benefits;
- schemes closed to future accruals, where existing members can no longer accrue new years of service; and
- schemes that are winding up.

Because many larger employers have adopted the strategy of migrating their pension provision towards Defined Contribution (DC) by opening a DC section in an existing DB scheme, many hybrid schemes may accept new members but no longer allow new (or existing) members to accrue defined benefits.

This has been handled differently across different editions of the Purple Book. In Purple 2006, 40 per cent of memberships were in the open category and 25 per cent were categorised as 'part open'. It was noted that the 'part open' category included a significant number of hybrids for which the DB element was closed. In Purple 2007, the 'part open' category was removed and the percentage of schemes classified as open increased in comparison with Purple 2006. Many hybrid schemes which had previously identified themselves as 'part open' now identified themselves as 'open'. In Purple 2008 and Purple 2009, we analysed the largest 100 schemes (by membership) in the hybrid category separately so as to adjust the information provided in the scheme return and remove potential misinterpretation caused by hybrid schemes with closed DB sections declaring themselves as open.

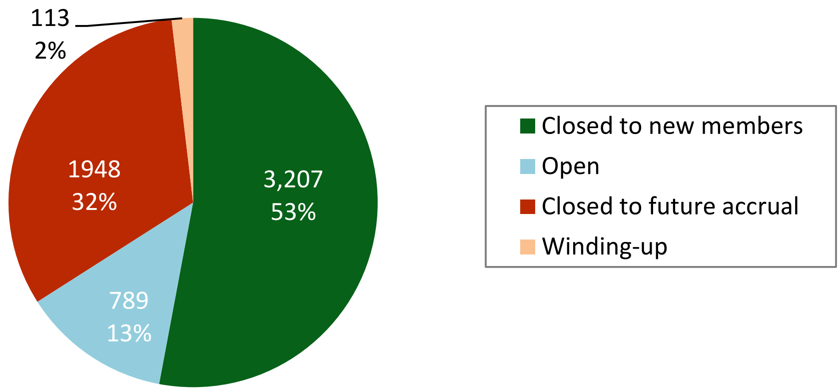
Improved levels of information on hybrid schemes are now available from the scheme returns and since Purple 2010 we have been able to adjust hybrid statuses to 'closed' where DB provision is not available to new members. A total of 504 open hybrids had their status adjusted to 'closed' in 2010 covering approximately 1.7 million members.

Since 2013, those hybrids which no longer admit new defined benefit accruing members are categorised as 'closed to new members'. In addition, where those schemes have no active defined benefit membership it is assumed that the scheme is closed to future accrual. For the 2014 Purple Book 303 open hybrid schemes with approximately 1.26 million members were reclassified as closed to new members and a further 114 open hybrid schemes with approximately 278 thousand members had their status amended to closed to future accrual.

The changes to the information available and consequent developing approach across the various editions of the Purple Book should be taken into account when comparing figures from different editions.

13 per cent of schemes in the data set are open to new members.

Chart 3.1 | Distribution of schemes by status



Source: PPF / The Pensions Regulator

32 per cent of schemes are closed to future accrual, 2 per cent more than in 2013. This has increased steadily since 2007.

Table 3.1 | Distribution of schemes by status

Percentage of schemes	Extended Purple 2007	Purple 2008	Purple 2009	Purple 2010	Purple 2011	Purple 2012	Purple 2013	Purple 2014
Open	36%	31%	27%	18%	16%	14%	14%	13%
Closed to new members	45%	50%	52%	58%	58%	57%	54%	53%
Closed to future accruals	16%	17%	19%	21%	24%	26%	30%	32%
Winding up	2%	2%	2%	2%	2%	2%	2%	2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: PPF / The Pensions Regulator

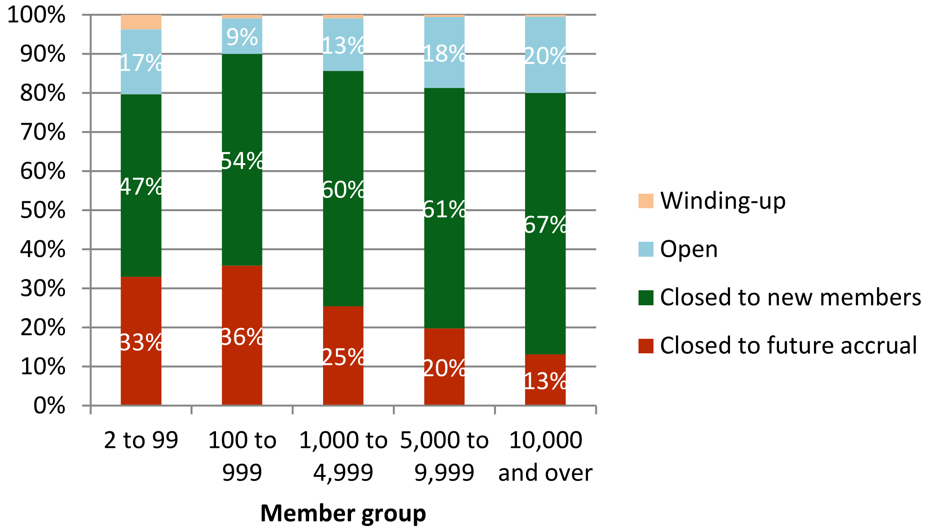
Table 3.2 | Distribution of schemes by status (excluding hybrid schemes)

Percentage of schemes	Extended Purple 2007	Purple 2008	Purple 2009	Purple 2010	Purple 2011	Purple 2012	Purple 2013	Purple 2014
Open	33%	26%	22%	21%	18%	17%	16%	15%
Closed to new members	49%	52%	55%	54%	54%	53%	51%	50%
Closed to future accruals	17%	19%	20%	23%	26%	29%	31%	33%
Winding up	1%	3%	3%	2%	2%	2%	2%	2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: PPF / The Pensions Regulator

Schemes with 10,000 or more memberships were most likely to be closed to new members but not closed to future accrual.

Chart 3.2 | Scheme status by member group

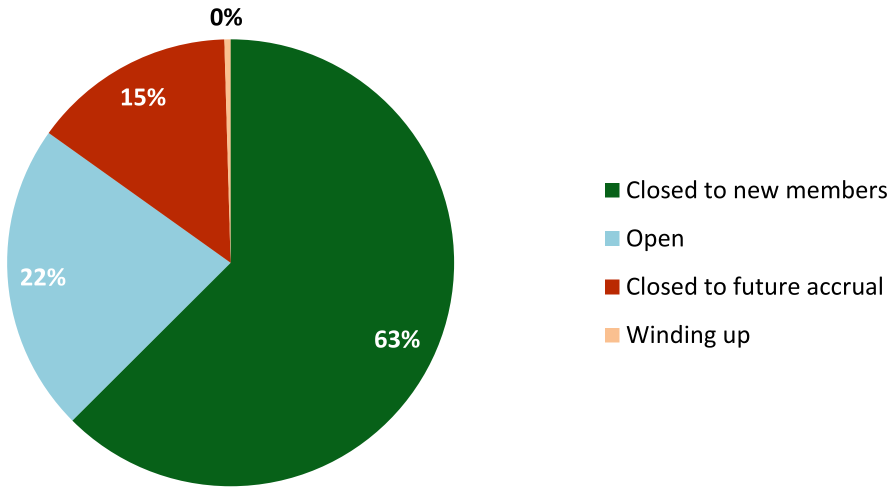


Source: PPF/The Pensions Regulator

3.4 Scheme status and scheme membership

The largest single group is that of deferred members in schemes which are closed to new members but not closed to future accrual.

Chart 3.3 | Percentage distribution of memberships by scheme status



Source: PPF/The Pensions Regulator

22 per cent of memberships in the dataset were in schemes which are open to new members.

Table 3.3 | Distribution of membership by status

Percentage of memberships	Extended Purple 2007	Purple 2008	Purple 2009	Purple 2010	Purple 2011	Purple 2012	Purple 2013	Purple 2014
Open	50%	44%	37%	34%	31%	28%	23%	22%
Closed to new members	46%	52%	59%	60%	62%	64%	65%	62%
Closed to future accruals	3%	4%	4%	5%	6%	8%	12%	15%
Winding up	0%	0%	0%	1%	0%	0%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: PPF/The Pensions Regulator

Table 3.4 | Distribution of membership by status (excluding hybrid schemes)

Percentage of memberships	Extended Purple 2007	Purple 2008	Purple 2009	Purple 2010	Purple 2011	Purple 2012	Purple 2013	Purple 2014
Open	55%	46%	38%	38%	34%	30%	27%	25%
Closed to new members	41%	49%	57%	56%	58%	61%	61%	60%
Closed to future accruals	3%	4%	5%	6%	8%	9%	11%	14%
Winding up	0%	0%	0%	1%	0%	0%	0%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: PPF/The Pensions Regulator

3.5 Scheme membership

There were 1.81 million active members in 2014.

Table 3.5 | Membership by membership type and status, 31 March 2014*

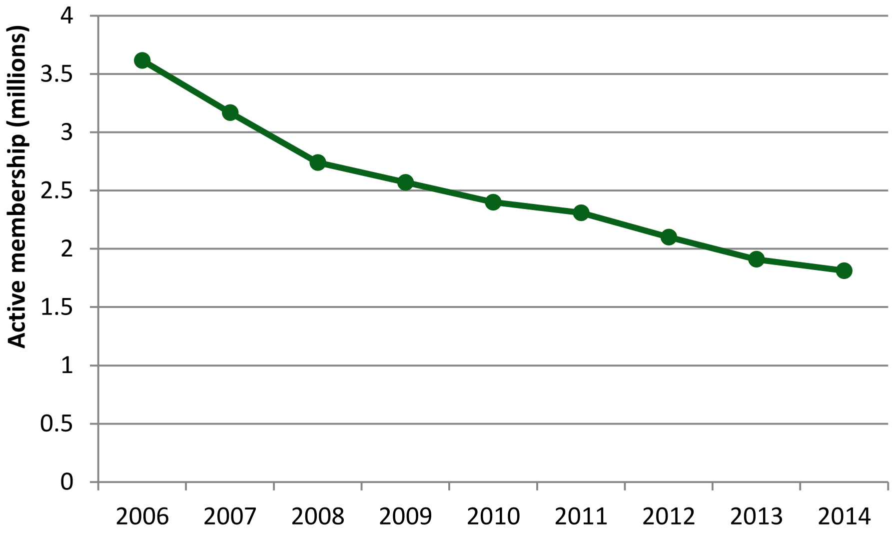
	Open	Closed	Closed to future accrual	Winding Up	Total
Active members (millions)	0.81	1.00	n/a	n/a	1.81
Deferred members (millions)	0.89	3.14	0.99	0.03	5.06
Pensioner members (millions)	0.77	2.79	0.64	0.03	4.23
Total	2.48	6.94	1.63	0.05	11.10

Source: PPF/The Pensions Regulator

* Note that for various reasons a small number of schemes have breakdowns of membership by active, deferred and pensioner types which do not match the total figure for membership. Therefore, totals may not match figures calculated from the component parts. Where members are listed as active in the information provided by closed schemes they are assumed to be deferred members.

Active memberships fell by 6.5 per cent from 2013, and have fallen by 50% since 2006.

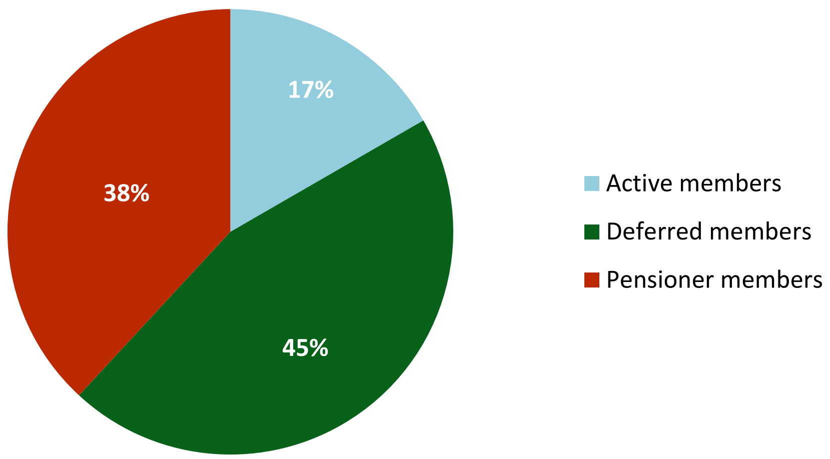
Chart 3.4 | Active memberships



Source: PPF/The Pensions Regulator

45 per cent of members were deferred.

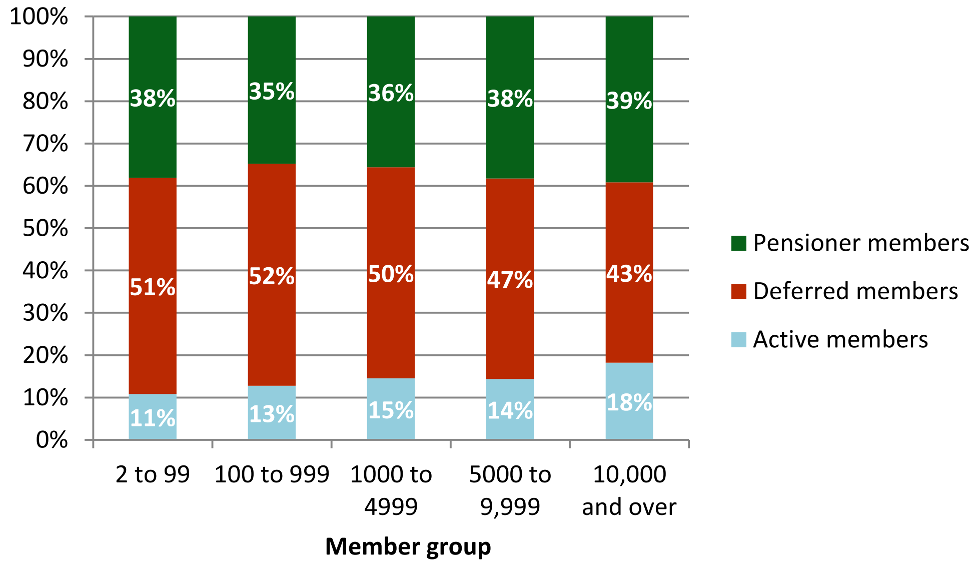
Chart 3.5 | Distribution of member types



Source: PPF/The Pensions Regulator

Larger schemes tend to have a smaller proportion of deferred members.

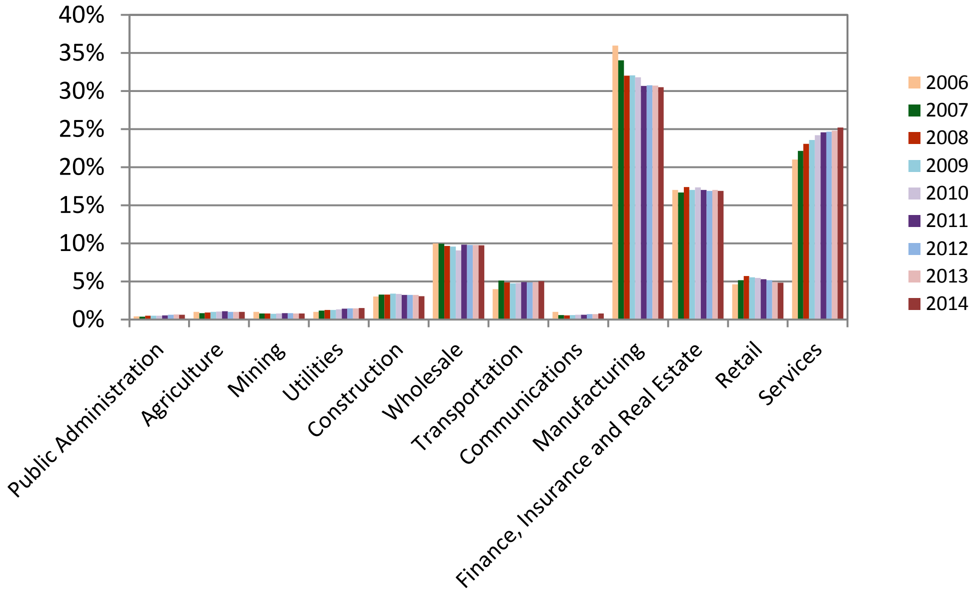
Chart 3.6 | Distribution of member types by member group



Source: PPF/The Pensions Regulator

30 per cent of schemes are in manufacturing.

Chart 3.7 | Proportion of schemes by industry classification



Source: PPF/The Pensions Regulator

4 Scheme Funding

4.1 Summary

- The aggregate s179 funding position (total assets less total liabilities) of the schemes in the Purple 2014 dataset as at 31 March 2014 was a deficit of £39.3 billion.
- The s179 funding ratio (total assets divided by total liabilities) for 2014 is 97 per cent. Total liabilities have fallen from £1,329.2 billion in 2013 to £1,176.8 billion in 2014.
- Schemes in the smallest, 2 to 99 member size group were the most likely to be funded to over 100 per cent on a s179 basis and are relatively better funded on a full buy-out basis.
- 62 per cent of the assets in the dataset are in schemes with over 10,000 members, a group comprising 3 per cent of the schemes.
- Greater maturity is associated with better funding on a s179 basis.
- Schemes closed to new members and closed to future accruals show higher weighted-average funding levels than open schemes.
- 23 per cent of schemes in wind-up are funded over 100 per cent of the estimated buy-out value
- 41 per cent of the s179 liabilities are in respect of pensioner members

4.2 Introduction

This chapter primarily deals with funding on a s179 basis as at 31 March 2014. Funding information supplied in scheme returns is processed so that the funding levels can be estimated at a common date, allowing consistent totals to be used. A scheme 100 per cent funded on a s179 basis is, broadly speaking, at the level which would have to be paid to an insurance company for it to take on the payment of PPF levels of compensation. In addition, full buy-out funding information is included.

The processing of s179 results allows for the different assumptions used for the s179 valuations at different effective dates. The s179 figures form the basis for PPF levy calculations, subject to subsequent adjustments in defined circumstances. Estimates of liabilities on the full buy-out basis have used the same valuation assumptions and underlying data but allow for the difference between the PPF level of compensation and full scheme benefits. The buy-out calculations are hypothetical, as only small numbers of buy-outs actually occur and the terms achieved are confidential and not necessarily obtainable for other schemes.

4.3 Overall funding

The aggregate s179 funding position of the schemes in the Purple 2014 dataset as at 31 March 2014 was a deficit of £39.3 billion.

Table 4.1 | Key funding statistics as at 31 March 2014

	s179	Full buy-out
Total number of schemes	6,057	6,057
Total assets (£ billion)	1,137.5	1,137.5
Total liabilities (£ billion)	1,176.8	1,690.3
Aggregate funding position (£ billion)	-39.3	-552.8
Total balance for schemes in deficit (£ billion)	-119	-558.2
Total balance for schemes in surplus (£ billion)	79.7	5.43
Funding Level	97%	67%

The s179 funding ratio for 2014 is 97%. Total liabilities have fallen from £1,329.2 billion in 2013 to £1,176.8 billion this year.

Table 4.2 | Historical funding figures on an s179 basis

Year	No. of schemes	Total assets (£ billion)	s179				
			Liabilities (£ billion)	Aggregate funding (s179) (£ billion)	Deficit of schemes in deficit (£ billion)	Surplus of schemes in surplus (£ billion)	Funding Ratio
2006	7,751	769.5	792.2	-22.7	-76.3	53.5	97%
2007	7,542	837.7	769.9	67.8	-46.8	96.5	109%
2008	6,897	837.2	842.3	-5.1	-67.7	62.6	99%
2009	6,885	780.4	981	-200.6	-216.7	16	80%
2010	6,596	926.2	887.9	38.3	-49.1	87.4	104%
2011	6,432	968.5	969.7	-1.2	-78.3	77.1	100%
2012	6,316	1,026.8	1,231.0	-204.2	-231.3	27.1	83%
2013	6,150	1,118.5	1,329.2	-210.8	-245.8	35	84%
2014	6,057	1137.5	1176.8	-39.3	-119	79.7	97%

Table 4.3 | Historical funding figures on a full buy-out basis

Year	Full buy-out				
	Liabilities (£ billion)	Aggregate funding (£ billion)	Deficit of schemes in deficit (£ billion)	Surplus of schemes in surplus (£ billion)	Funding ratio
2006	1,273.5	-504	n/a	n/a	60%
2007	1,289.3	-451.6	n/a	n/a	65%
2008	1,356.0	-518.6	-520.4	1.6	62%
2009	1,351.6	-571.2	-572.3	1.1	58%
2010	1,359.2	-433	-436.5	3.5	68%
2011	1,435.5	-467	-470.7	3.7	67%
2012	1,702.6	-675.8	-677.3	1.5	60%
2013	1,826.7	-708.2	-709.9	1.7	61%
2014	1,690.3	-552.8	-558.2	5.4	67%

62 per cent of the assets in the sample are in schemes with over 10,000 members, a group comprising 3 per cent of the schemes.

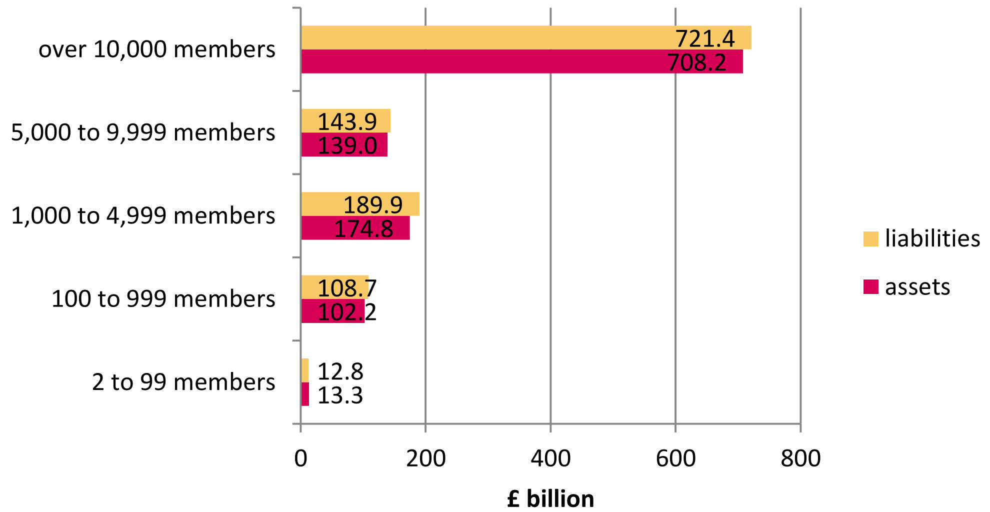
4.4 Analysis of funding by scheme size

Table 4.4 | s179 funding levels by size of scheme membership, as at 31 March 2014

Membership group	Number of schemes in sample	Market value of assets (£ billion)	Liabilities (£ billion)	Balance (£ billion)	Weighted average funding level	Simple average funding level*
2 to 99 members	2,183	13.3	12.8	0.5	104%	102%
100 to 999 members	2,680	102.2	108.7	-6.5	94%	91%
1,000 to 4,999 members	802	174.8	189.9	-15.1	92%	90%
5,000 to 9,999 members	187	139	143.9	-5	97%	94%
Over 10,000 members	205	708.2	721.4	-13.2	98%	97%
total	**6,057**	**1,137.5**	**1,176.8**	**-39.3**	**97%**	**95%**

*Note that schemes with unusual funding arrangements were excluded from the simple averages in this table to avoid distortions. Twenty four schemes were removed on the basis that their buy-out funding level was equal to or greater than 200%.

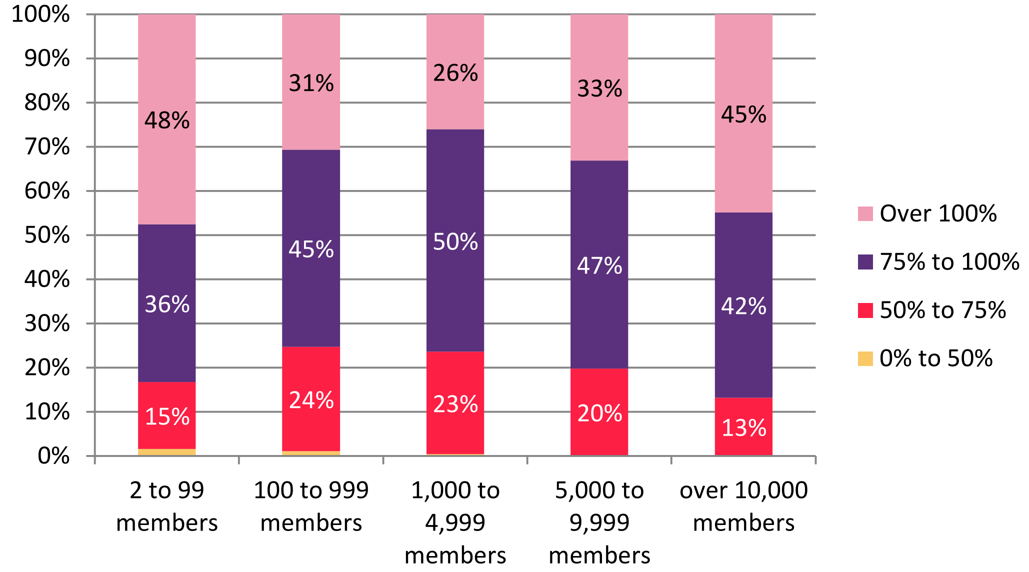
Chart 4.1 | Total assets and liabilities on a s179 basis as at 31 March 2014



Source: PPF / The Pensions Regulator

Schemes in the 2 to 99 member size group were most likely to be funded to over 100 per cent on an s179 basis and are relatively better funded on a full buy-out basis.

Chart 4.2 | Distribution of s179 funding levels by size of scheme membership as at 31 March 2014



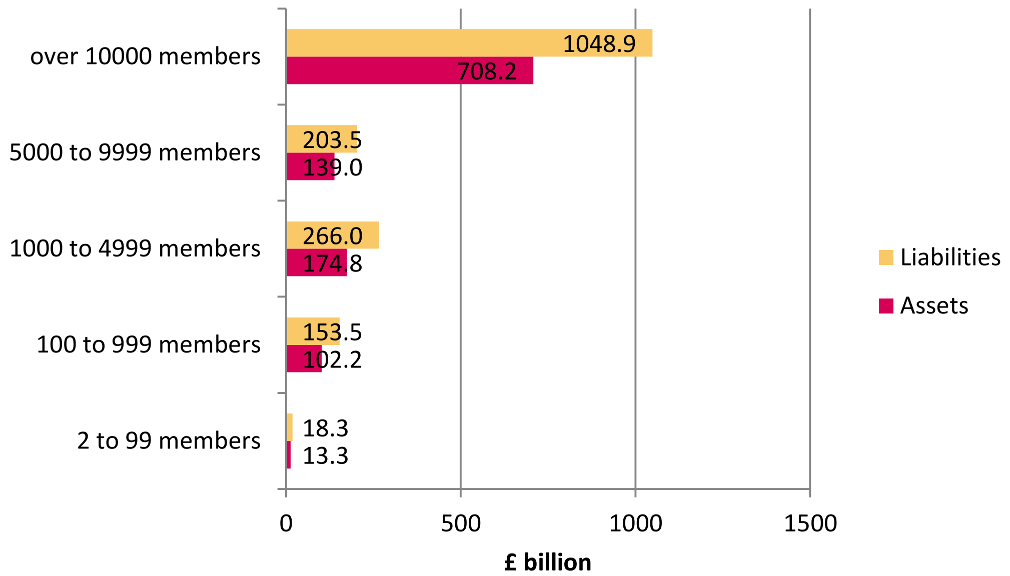
Source: PPF / The Pensions Regulator

Table 4.5 | Estimated full buy-out levels by size of scheme membership as at 31 March 2014

Membership group	Number of schemes in sample	Market value of assets (£ billion)	Liabilities (£ billion)	Balance (£ billion)	Weighted average funding level	Simple average funding level*
2 to 99 members	2,183	13.3	18.3	-4.9	73%	73%
100 to 999 members	2,680	102.2	153.5	-51.3	67%	66%
1,000 to 4,999 members	802	174.8	266	-91.2	66%	65%
5,000 to 9,999 members	187	139	203.5	-64.6	68%	67%
Over 10,000 members	205	708.2	1048.9	-340.7	68%	68%
total	**6,057**	**1,137.5**	**1,690.3**	**-552.8**	**67%**	**68%**

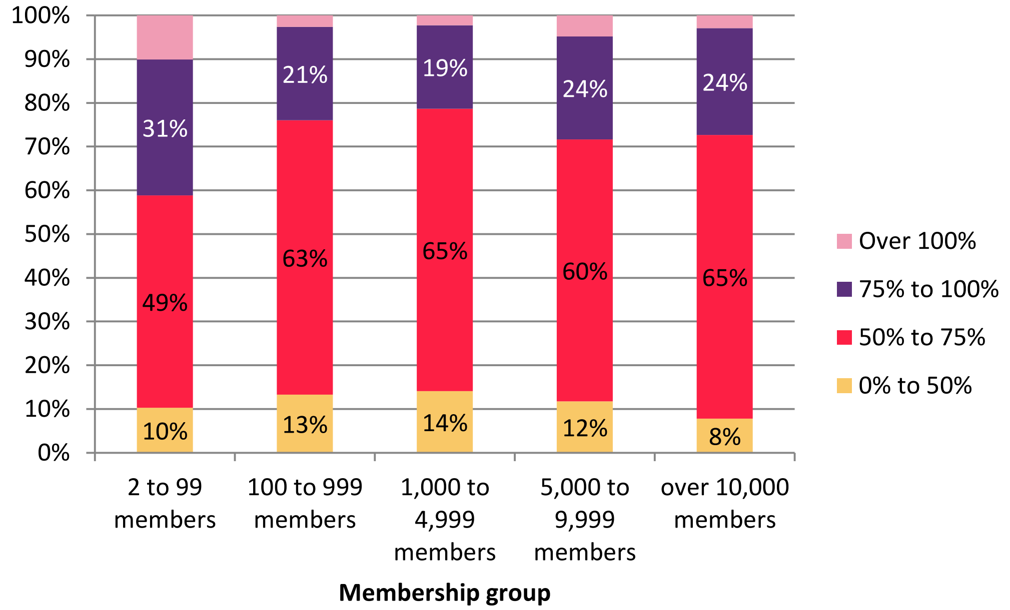
Source: PPF / The Pensions Regulator
*Note that schemes with unusual funding arrangements were excluded from the simple averages in this table to avoid distortions. Twenty four schemes were removed on the basis that their buy-out funding level was equal to or greater than 200%.

Chart 4.3 | Total assets and liabilities by size of scheme membership on an estimated full buy-out basis as at 31 March 2014



Source: PPF / The Pensions Regulator

Chart 4.4 | Distribution of buy-out funding levels by size of scheme membership as at 31 March 2014



Source: PPF / The Pensions Regulator

Greater maturity is associated with better funding on a s179 basis.

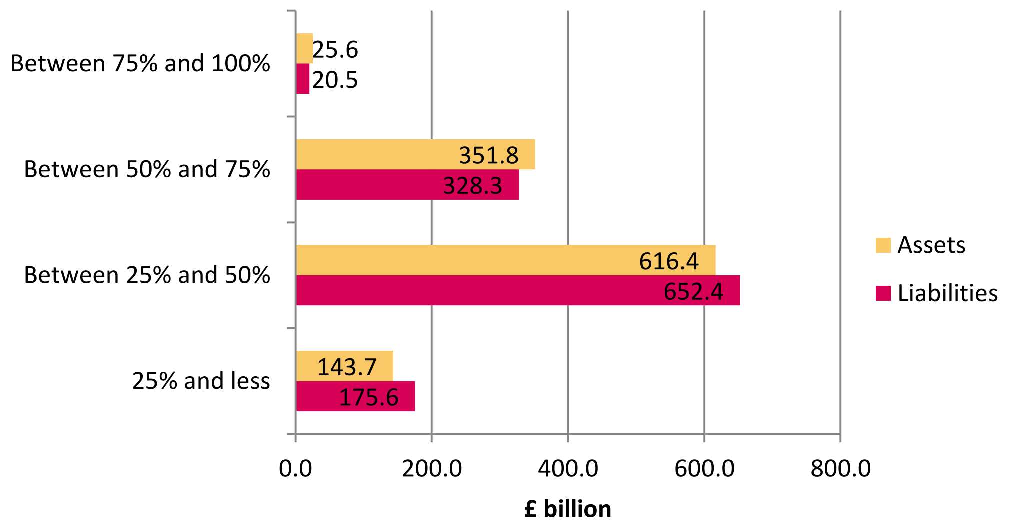
4.5 Analysis of funding by scheme maturity

Table 4.6 | Analysis of s179 funding levels by scheme maturity as at 31 March 2014

Proportion of s179 liabilities relating to pensioners	Number of schemes in sample	Market value of Assets (£ billion)	Liabilities (£ billion)	Balance (£ billion)	Weighted Average funding level	Simple average funding level*
25% and less	1,957	143.7	175.6	-31.9	82%	89%
Between 25% and 50%	2,800	616.4	652.4	-36	94%	92%
Between 50% and 75%	1097	351.8	328.3	23.5	107%	108%
Between 75% and 100%	203	25.6	20.5	5.1	125%	126%
total	**6,057**	**1,137.5**	**1,176.8**	**-39.3**	**97%**	**95%**

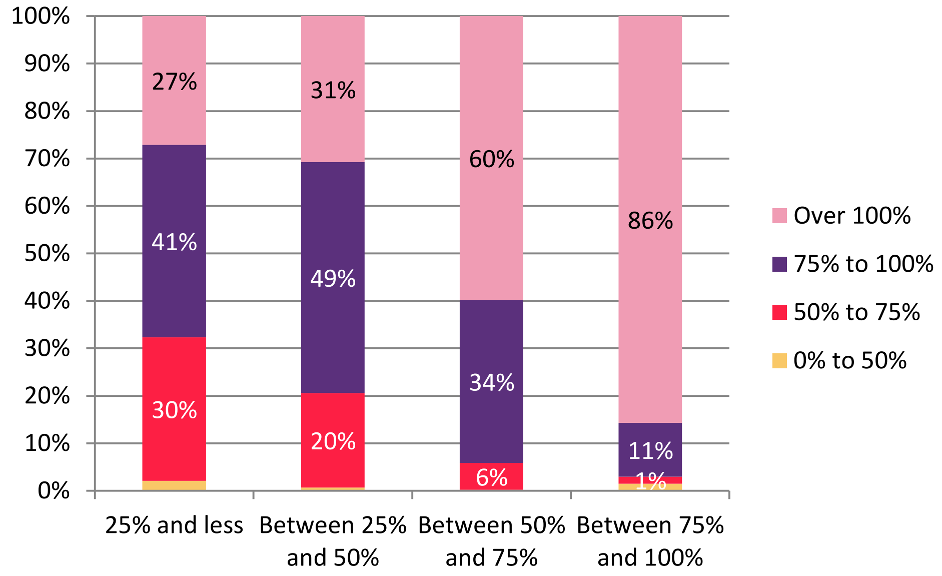
Source: PPF / The Pensions Regulator
*Note that schemes with unusual funding arrangements were excluded from the simple averages in this table to avoid distortions. Twenty four schemes were removed on the basis that their buy-out funding level was equal to or greater than 200 per cent.

Chart 4.5 | Distribution of s179 assets and liabilities by scheme maturity as at 31 March 2014



Source: PPF / The Pensions Regulator

Chart 4.6 | Distribution of funding levels on a s179 basis by scheme maturity as at 31 March 2014



Source: PPF / The Pensions Regulator

4.6 Analysis of funding by scheme status

Schemes closed to new members and closed to future accruals show higher weighted average funding levels than open schemes.

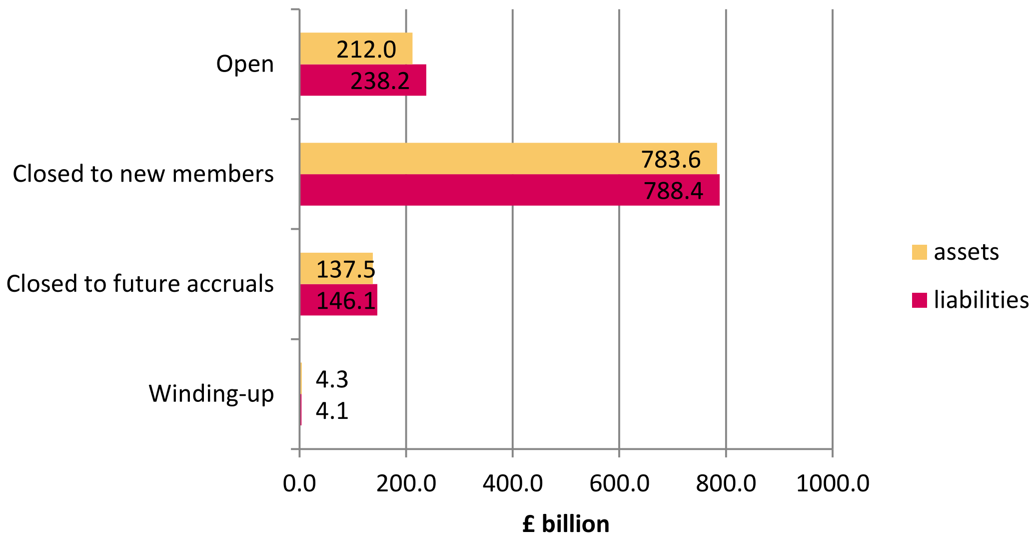
Table 4.7 | Analysis of s179 funding levels by scheme status as at 31 March 2014

Status	Number of schemes in sample	Market value of Assets (£ billion)	Liabilities (£ billion)	Balance (£ billion)	Weighted Average funding level	Simple average funding level*
Open	789	212	238.2	-26.2	89%	95%
Closed to new members	3,207	783.6	788.4	-4.8	99%	96%
Closed to future accrual	1,948	137.5	146.1	-8.5	94%	93%
Winding up	113	4.3	4.1	0.2	106%	113%
total	**6,057**	**1,137.5**	**1,176.8**	**-39.3**	**97%**	**95%**

Source: PPF / The Pensions Regulator

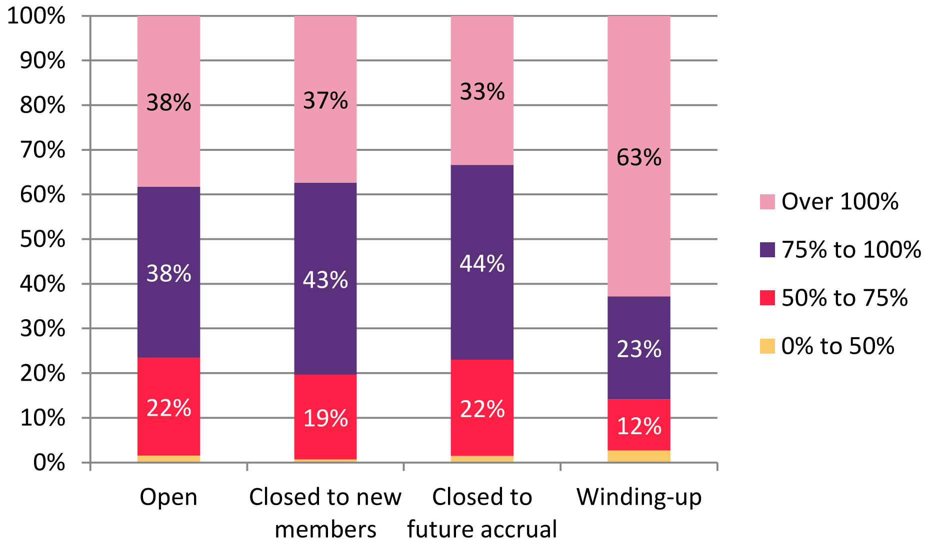
*Note that schemes with unusual funding arrangements were excluded from the simple averages in this table to avoid distortions. Twenty four schemes were removed on the basis that their buy-out funding level was equal to or greater than 200%.

Chart 4.7 | Distribution of s179 assets and liabilities by scheme status as at 31 March 2014*



Source: PPF / The Pensions Regulator
*Note the winding-up figures can be seen in Table 4.6

Chart 4.8 | Distribution of schemes by s179 funding levels within scheme status groups as at 31 March 2014



Source: PPF / The Pensions Regulator

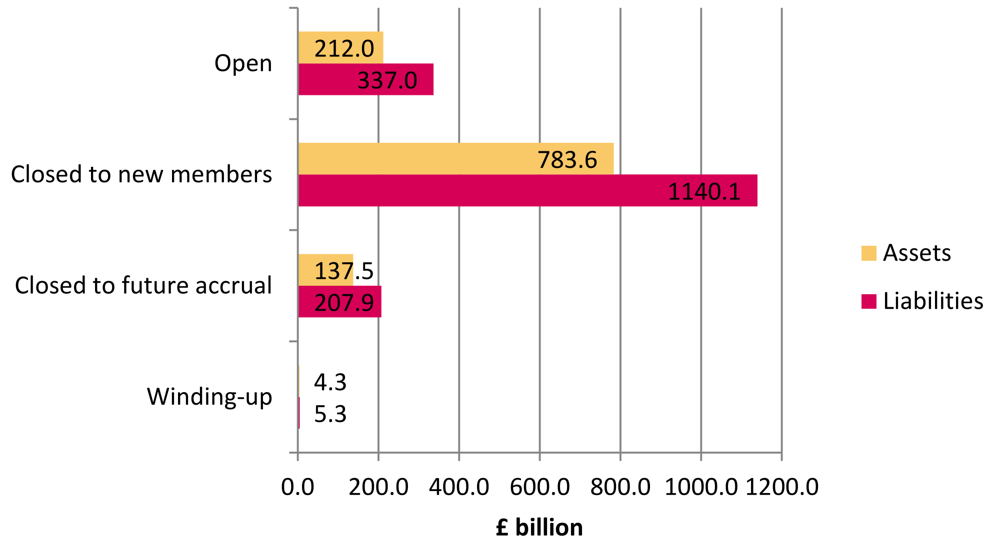
Table 4.8 | Analysis of estimated full buy-out funding levels by scheme status as at 31 March 2014

Status	Number of schemes in sample	Market value of assets (£ billion)	Liabilities (£ billion)	Balance (£ billion)	Weighted average funding level	Simple average funding level*
Open	789	212	337	-125	63%	71%
Closed to new members	3,207	783.6	1,140.10	-356.5	69%	69%
Closed to future accrual	1,948	137.5	207.9	-70.3	66%	67%
Winding-up	113	4.3	5.3	-1	81%	83%
total	**6,057**	**1,137.5**	**1,690.3**	**-552.8**	**67%**	**68%**

Source: PPF / The Pensions Regulator

*Note that schemes with unusual funding arrangements were excluded from the simple averages in this table to avoid distortions. Twenty four schemes were removed on the basis that their buy-out funding level was equal to or greater than 200%.

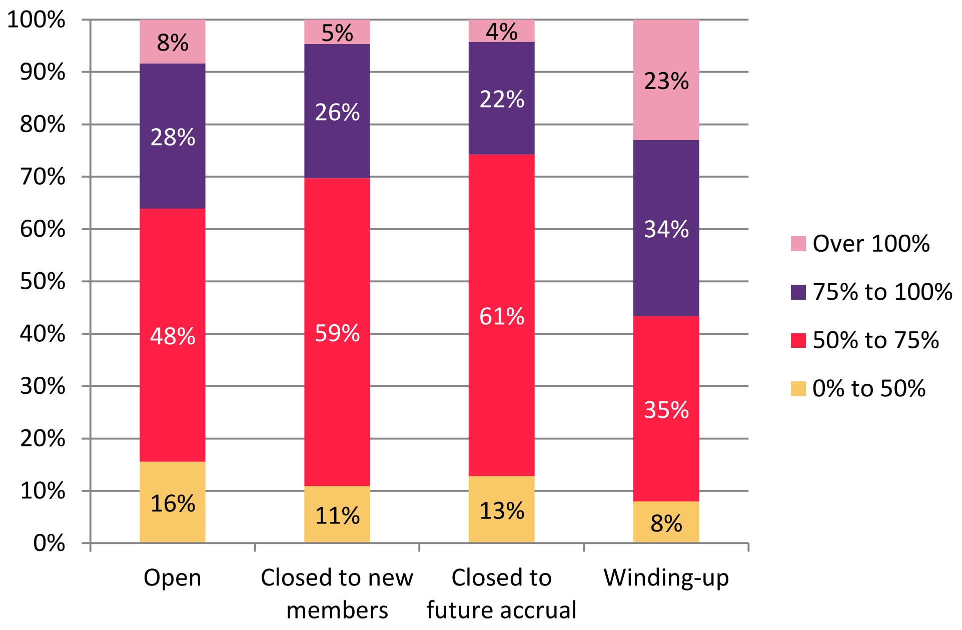
Chart 4.9 | Distribution of estimated full buy-out assets and liabilities by status as at 31 March 2014



Source: PPF / The Pensions Regulator

23% of schemes in wind-up are funded over 100 per cent of the estimated buy out value

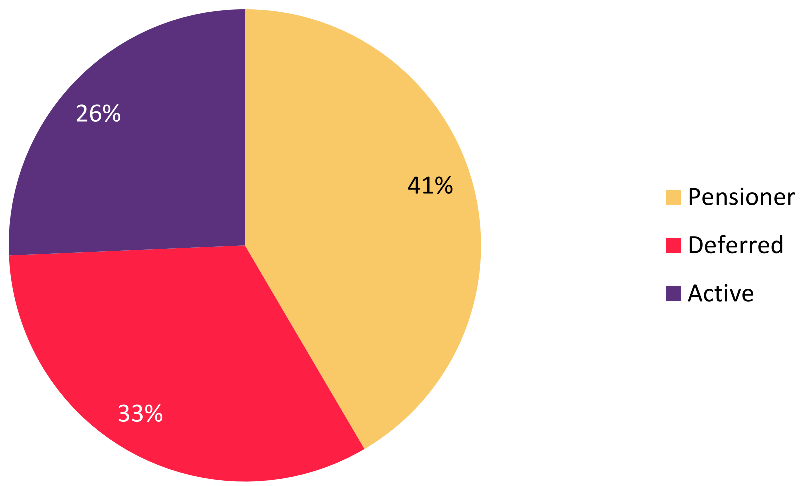
Chart 4.10 | Distribution of estimated full buy-out funding levels by scheme Status as at 31 March 2014



Source: PPF / The Pensions Regulator

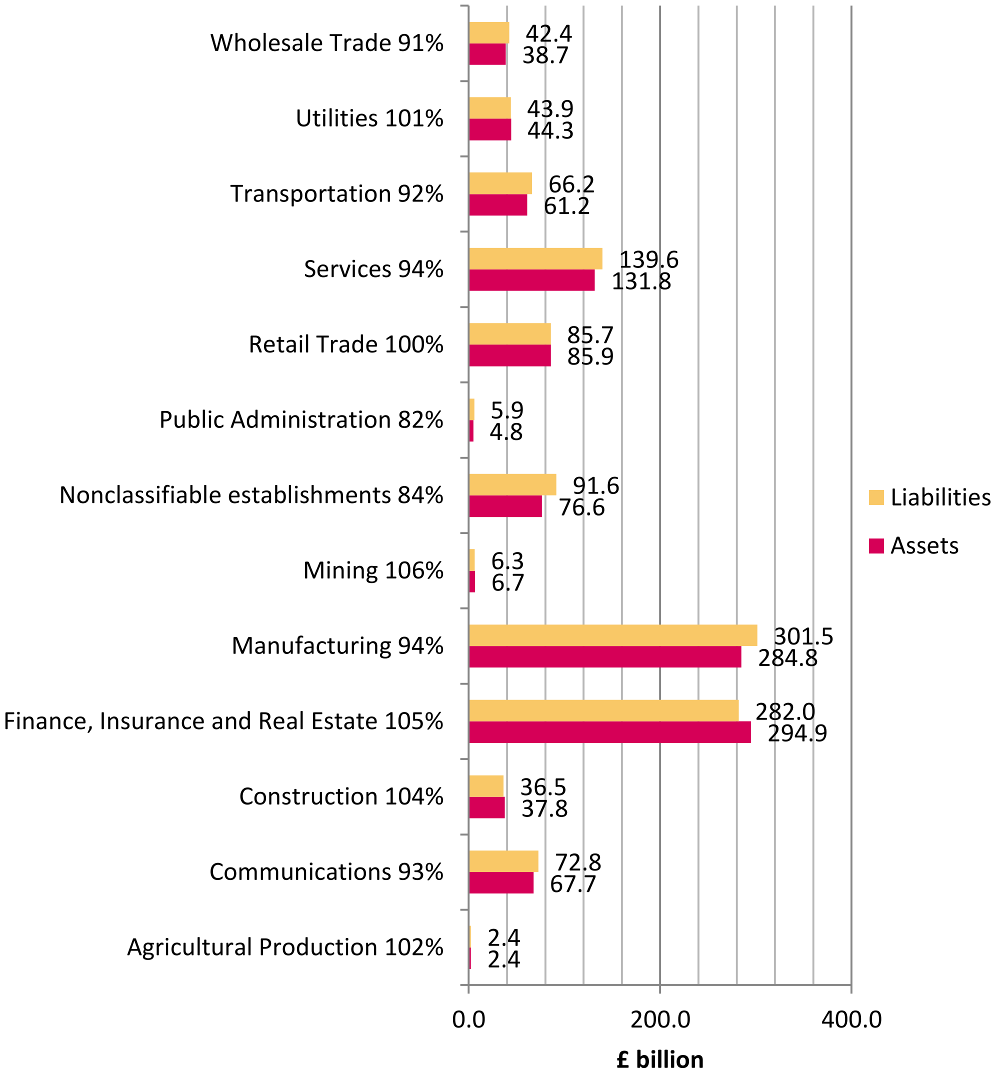
41% of the s179 liabilities are in respect of pensioner members

Chart 4.11 | s179 liabilities by active, deferred and pensioner members



Source: PPF / The Pensions Regulator

Chart 4.12 | s179 assets and liabilities by industry with overall funding level as at 31 March 2014



Source: PPF / The Pensions Regulator

5 Funding Sensitivities

5.1 Summary

- All the funding sensitivities in chapter 5 are on a s179 basis, taking the funding position as at 31 March 2014[1] as the base and using the Purple 2014 dataset. The sensitivities do not take into account the use of derivative instruments to hedge changes in interest rates, inflation, equity levels or longevity.
- Changes in market conditions and financial and demographic assumptions since January 2003 would have caused the monthly aggregate funding ratio of pension schemes to vary by 64 percentage points. The highest funding ratio would have been in June 2007 at 142 per cent and the lowest ratio of 78 per cent would have been in May 2012.
- These estimates take the latest level of assets and liabilities and asset allocation and roll back the assets and liabilities using movements in nominal and real gilt yields and equity markets. The main source of volatility is the impact of bond market movements on scheme liabilities rather the impact of equity markets on scheme assets.
- The aggregate balance would have varied by around £539 billion (with the greatest surplus in June 2007 at £247 billion and the greatest deficit in May 2012 at £292 billion).
- The assumptions were changed on 31 March 2008, 31 October 2009, 1 April 2011 and 1 May 2014. The first three changes improved scheme funding by around £37 billion (5 per cent of liabilities), £65 billion (7 per cent of liabilities) and £24 billion (3 per cent of liabilities) respectively, while the fourth worsened scheme funding by around £39 billion[2] (3 per cent of liabilities).
- The estimated number of schemes in deficit on a s179 basis would have been at its lowest point in June 2007 at 539 schemes (9 per cent of the dataset) and would have peaked in May 2012 at 5,153 (85 per cent).
- Since end-March 2014, aggregate scheme funding has fallen from 97 per cent to 89 per cent in August 2014.
- A 0.1 percentage point (10 basis point) rise in gilt yields decreases the end-March 2014 aggregate deficit by £16.9 billion from £39.3 billion to £22.4 billion while a 2.5 per cent rise in equity prices would reduce the aggregate deficit by £10.3 billion.

[1] Using the previous valuation guidance as in Chapter 4 , please follow the link for more information www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Section_179_Assumptions_Guidance_VA6_Apr11.pdf

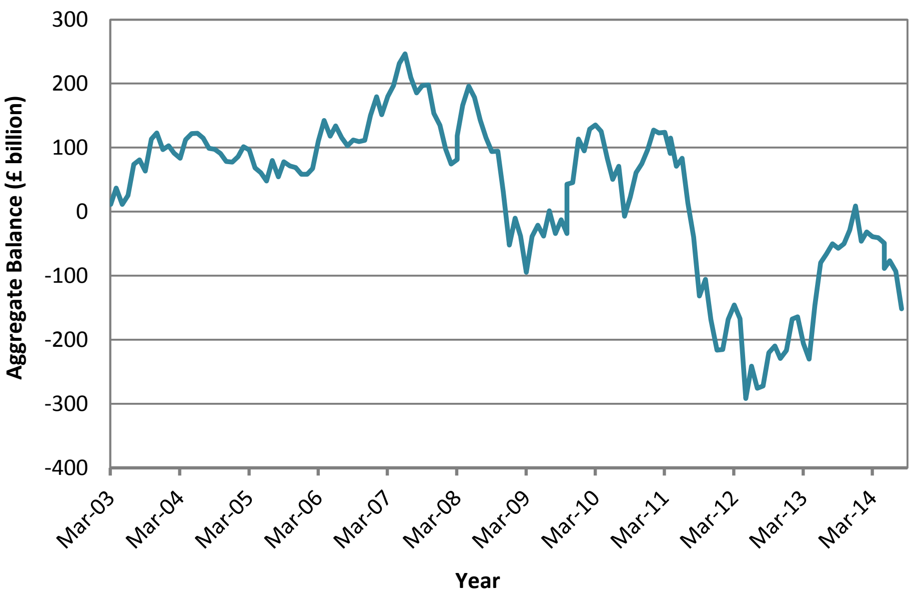
[2] For more information see PPF 7800 January 2009, November 2009, May 2011 and May 2014
www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF7800January09.pdf
www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_November_09.pdf
www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_May_11.pdf
www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_May_14.pdf

- A 0.1 percentage point (10 basis point) reduction in gilt yields raises aggregate scheme liabilities by 1.8 per cent and raises aggregate scheme assets by 0.4 per cent. A 2.5 per cent rise in equity markets raises scheme assets by 0.9 per cent.
- If the assumed rate of inflation increases by 0.1 per cent, with nominal gilt yields unchanged, then the s179 liabilities for aggregate schemes increases by approximately 0.7 per cent or £8.5 billion.
- An increase in longevity such that the experienced mortality is now equivalent to that of an individual two years younger would increase aggregate schemes' liabilities by 5.4 per cent, or £63.4 billion.

Market movements would have resulted in a variation in the s179 aggregate balance of around £538 billion with the largest surplus of £247 billion in June 2007 and the largest deficit of £292 billion in May 2012.

5.2 Impact of changes in markets and assumptions since 2003

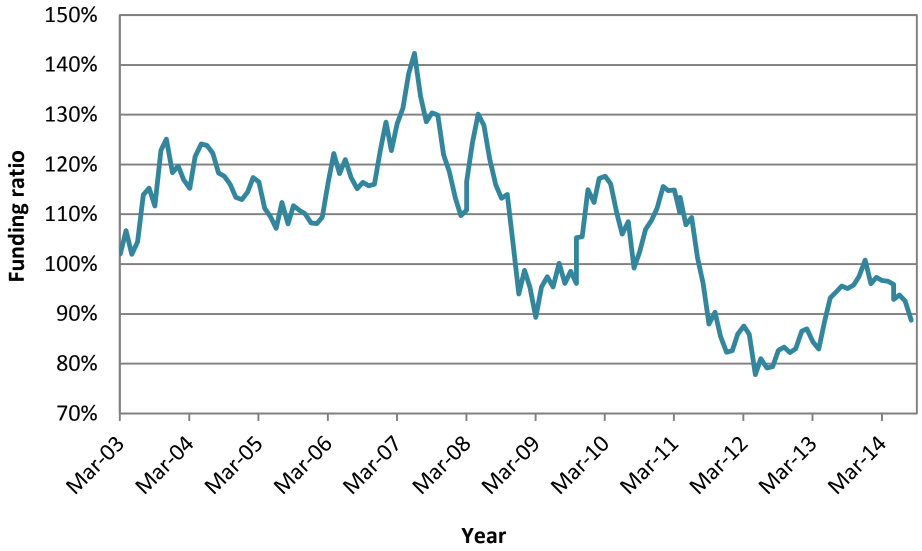
Chart 5.1 | Estimated s179 aggregate balance (assets less liabilities) of pension schemes in the Purple 2014 dataset



Source: PPF / The Pensions Regulator

Market movements would have resulted in a variation in the funding ratio of around 65 percentage points with the highest ratio of 142 per cent in June 2007 and the lowest ratio of 78 per cent in May 2012.

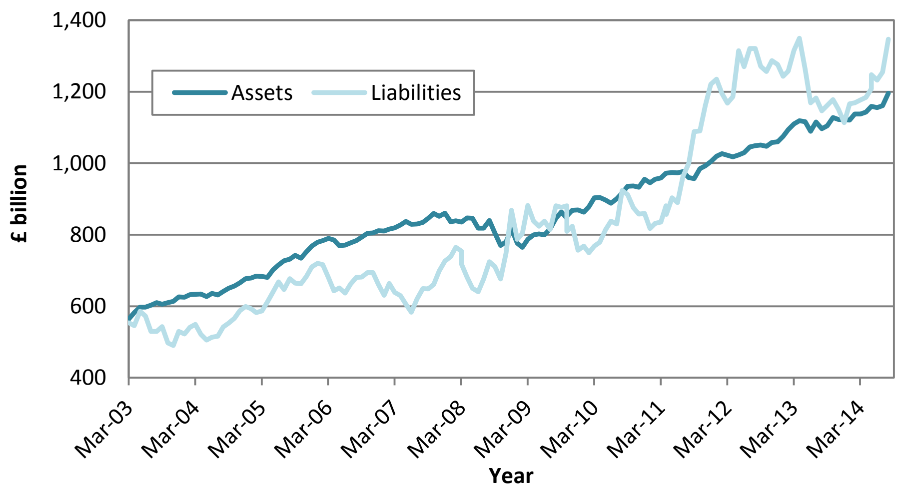
Chart 5.2 | Estimated s179 funding ratio (assets as a percentage of liabilities) of pension schemes in the Purple 2014 dataset



Source: PPF / The Pensions Regulator

Total assets of schemes would have risen by £58.0 billion between March and August 2014 whilst liabilities would have risen by £170.3 billion over the same period.

Chart 5.3 | Estimated movements in assets and s179 liabilities of schemes in the Purple 2014 dataset

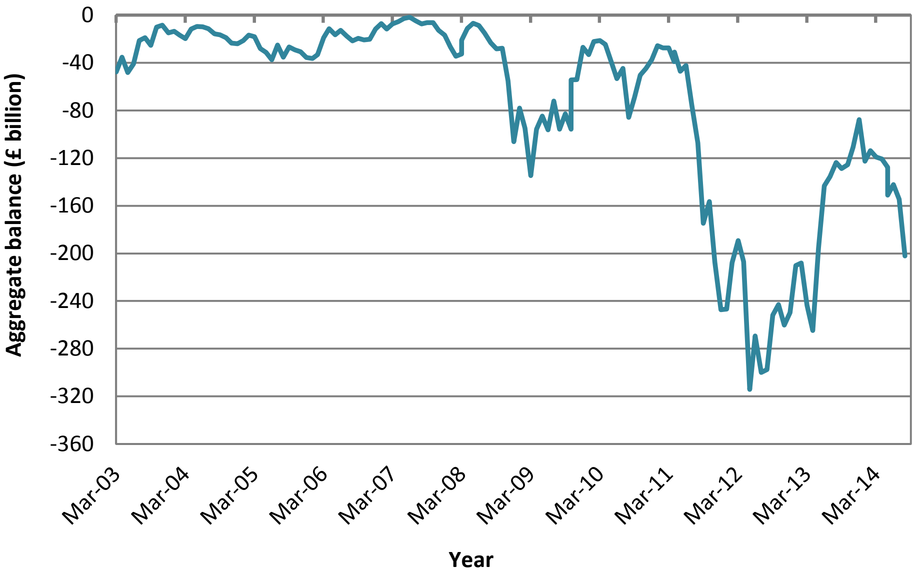


Source: PPF / The Pensions Regulator

When scheme funding was at its lowest in May 2012, the aggregate deficit of the schemes in deficit would have been £314 billion.

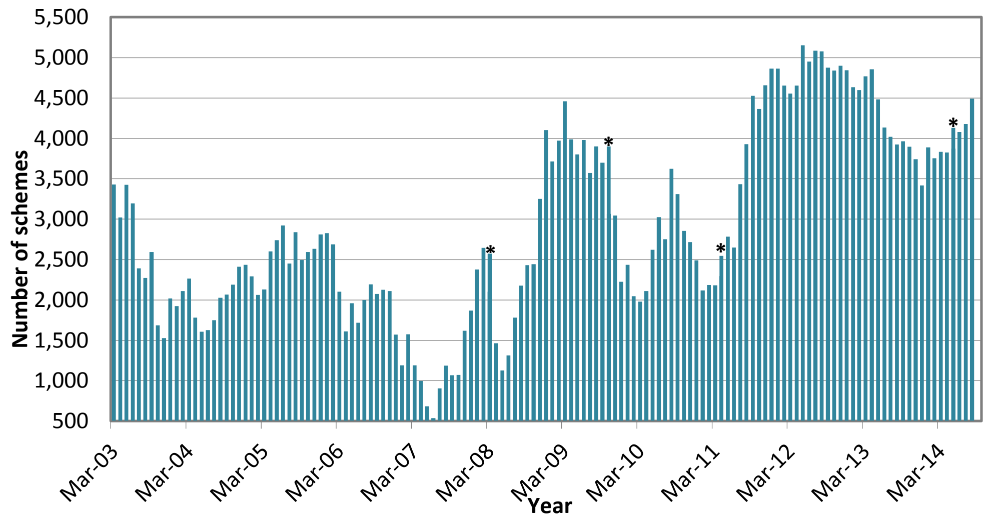
In August 2014, there would have been around 4,493 schemes in deficit (74 per cent of the total). This would be 660 schemes less than the peak in May 2012.

Chart 5.4 | Estimated aggregate assets less aggregate liabilities for schemes in deficit



Source: PPF / The Pensions Regulator

Chart 5.5 | Estimated number of schemes in deficit each month in the Purple 2014 dataset*

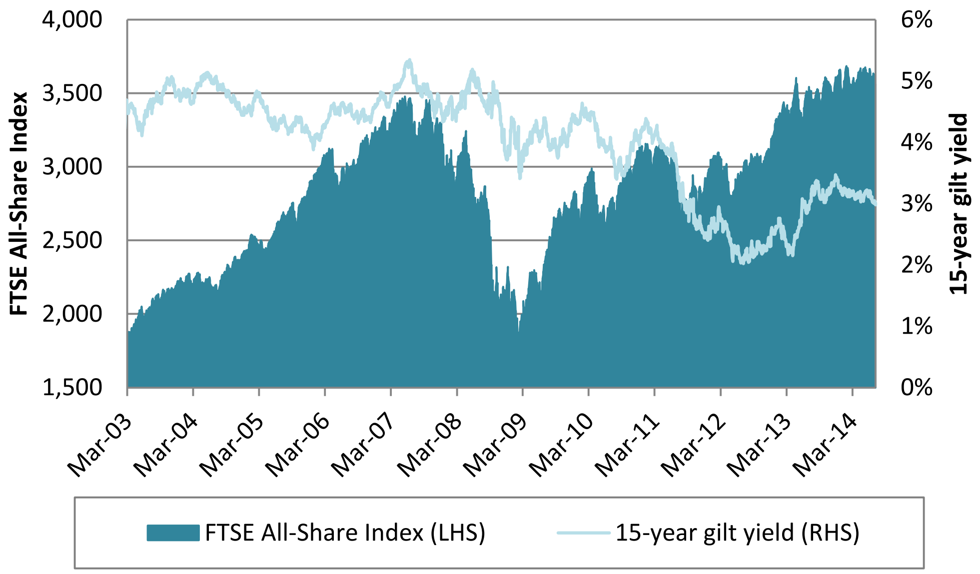


Source: PPF / The Pensions Regulator

*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 in assumptions in May 2014 raised the number of schemes in deficit by 259.

The highest funding ratio in June 2007 reflected high levels for both gilt yields and equity markets, while the lowest funding ratio in May 2012 mainly reflected low levels for 15-year gilt yields.

Chart 5.6 | Movements in stock markets and gilt yields



Source: Bloomberg

A 0.1 percentage point (10 basis point) rise in gilt yields would have improved the end March 2014 s179 aggregate deficit by £16.9 billion from £39.3 billion (bold) to £22.4 billion (shaded), somewhat larger than the impact of 2.5 per cent increase in equity prices which result in a deficit of £29 billion (shaded).

5.3 Funding Sensitivities: rules of thumb

Table 5.1 | Impact of changes in gilt yields and equity prices on s179 funding levels from a base aggregate deficit of £39.3 billion, as at 31 March 2014

Assets less s179 liabilities (£ billion)							
Movement in equity prices	Movement in gilt yields						
	-0.3pp	-0.2pp	-0.1pp	0.0pp	0.1pp	0.2pp	0.3pp
7.5%	-58.8	-42.1	-25.3	-8.4	8.4	25.4	42.3
5.0%	-69.1	-52.4	-35.6	-18.7	-1.8	15.1	32.0
2.5%	-79.4	-62.7	-45.9	-29.0	-12.1	4.8	21.7
0.0%	-89.7	-72.9	-56.1	**-39.3**	-22.4	-5.5	11.5
-2.5%	-100.0	-83.2	-66.4	-49.6	-32.7	-15.8	1.2
-5.0%	-110.3	-93.5	-76.7	-59.9	-43.0	-26.1	-9.1
-7.5%	-120.5	-103.8	-87.0	-70.1	-53.3	-36.3	-19.4

Source: PPF / The Pensions Regulator

A 2.5 per cent increase in equity prices would have raised scheme assets by 0.9 per cent. A 0.3 per cent decrease in gilt yields would increase scheme assets by 1.3 per cent.

Table 5.2 | Impact of changes in gilt yields and equity prices on assets from a base of 100, as at 31 March 2014

Assets relative to a base of 100							
Movement in equity prices	Movement in gilt yields						
	-0.3pp	-0.2pp	-0.1pp	0.0pp	0.1pp	0.2pp	0.3pp
7.5%	104.0	103.6	103.1	102.7	102.3	101.9	101.5
5.0%	103.1	102.7	102.2	101.8	101.4	101.0	100.6
2.5%	102.2	101.8	101.3	100.9	100.5	100.1	99.7
0.0%	101.3	100.9	100.4	**100.0**	99.6	99.2	98.7
-2.5%	100.4	99.9	99.5	99.1	98.7	98.3	97.8
-5.0%	99.5	99.0	98.6	98.2	97.8	97.4	96.9
-7.5%	98.6	98.1	97.7	97.3	96.9	96.4	96.0

Source: PPF / The Pensions Regulator

A 0.1 percentage point (10 basis points) reduction or increase in gilt yields increases or reduces s179 liabilities by around 2 per cent.

Table 5.3 | Impact of changes in gilt yields on s179 liabilities from a base of 100, as at 31 March 2014

s179 liabilities relative to a base of 100							
s179 liabilities relative to March level (=100)	Movement in gilts yields						
	-0.3pp	-0.2pp	-0.1pp	0.0pp	0.1pp	0.2pp	0.3pp
	106.0	104.0	102.0	**100.0**	98.0	96.0	94.0

Source: PPF / The Pensions Regulator

A 2.5 per cent increase in equity prices would decrease the scheme deficit by £6.3 billion from a base case of £119.0 billion. A 0.3 per cent decrease in gilt yields would increase the scheme deficit by 36.0 billion from a base of £119.0 billion

Table 5.4 | Impact of changes in gilt yields and equity prices on the s179 funding position from a base total deficit of £119 billion, excluding schemes in surplus, as at 31 March 2014

Assets less s179 liabilities (£ billion)							
Movement in equity prices	Movement in gilt yields						
	-0.3pp	-0.2pp	-0.1pp	0.0pp	0.1pp	0.2pp	0.3pp
7.5%	-136.3	-124.3	-112.3	-100.3	-88.2	-76.1	-64.1
5.0%	-142.6	-130.6	-118.5	-106.5	-94.5	-82.4	-70.3
2.5%	-148.8	-136.8	-124.8	-112.7	-100.7	-88.6	-76.5
0.0%	-155.0	-143.0	-131.0	**-119.0**	-106.9	-94.8	-82.7
-2.5%	-161.2	-149.2	-137.2	-125.2	-113.1	-101.1	-89.0
-5.0%	-167.5	-155.5	-143.5	-131.4	-119.4	-107.3	-95.2
-7.5%	-173.7	-161.7	-149.7	-137.7	-125.6	-113.5	-101.4

Source: PPF / The Pensions Regulator

If the assumed rate of inflation increases by 0.1 percentage points and nominal rates remain unchanged then the s179 liabilities rise by 0.7 per cent or £8.5 billion

Table 5.5 | Impact of changes in the rate of RPI inflation on s179 liabilities (base = £1,176.8 billion), as at 31 March 2014

s179 liabilities				
	Increase in inflation, Change in nominal yields		Increase in inflation, Change in real yields	
	-0.1pp	0.1pp	-0.1pp	0.1pp
£ billion	1,190.7	1,162.9	1,185.3	1,168.3
Percentage change	1.2%	-1.2%	0.7%	-0.7%

Source: PPF / The Pensions Regulator

An increase in longevity such that experienced mortality is now equivalent to that of an individual two years younger would cause total scheme s179 liabilities to increase by £63.4 billion, or 5.4 per cent.

Table 5.6 | Impact of changes in longevity assumptions on s179 liabilities (base = £1,176.8 billion), as at 31 March 2014

	s179 liabilities (£ billion)	% Change from base
Age Rating + 2 years	1,112.0	-5.5%
Age Rating - 2 years	1,240.1	5.4%

Source: PPF / The Pensions Regulator

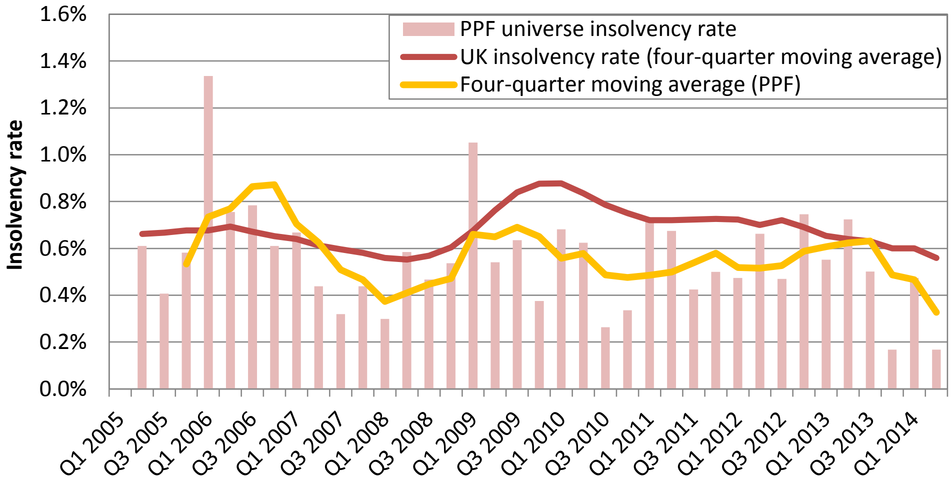
6 Insolvency Risk

6.1 Summary

- The insolvency rate of the PPF universe (number of insolvency events for sponsors of PPF eligible schemes divided by the total number of scheme sponsors) rose less than the national insolvency rate during the financial crisis. The national insolvency rate has been falling gradually over the last two years while the PPF insolvency rate has fallen sharply over the last three quarters.
- Over the first six months of 2014, the liability-weighted insolvency probability of the 500 schemes to which the PPF has the largest exposure (in terms of scheme underfunding adjusted for the volatility of its assets) has remained broadly unchanged from Q3 2012 at around 0.65 per cent.
- The UK economy came out of recession in the fourth quarter of 2009. GDP then rose strongly until the third quarter of 2010. The euro area sovereign debt crisis then intensified and began to take its toll on the UK economy, resulting in weak growth through 2012. GDP growth picked up strongly after the end of 2012, and GDP in the second quarter of 2014 was some 2 per cent above the pre-crisis high in the first quarter of 2008.
- The 2008/09 recession resulted in a large rise in the total level of corporate liquidations in England and Wales – up from 3,140 in the first quarter of 2008 to a peak of 5,036 in the second quarter of 2009, an increase of 64 per cent. In the second quarter of 2014, a total of 3,461 liquidations were recorded.
- The rise in company liquidations in the 2008-09 recession was much smaller than in the early 90s contraction, when liquidations more than doubled. This was most likely due to two factors: record low interest rates on one side, allowing companies to meet interest expenses, and a marked reluctance of banks to crystallise losses at a time when the pressure to repair balance sheets was high. (The growth of small companies with low debt, such as consultancies, may also have played a role in reducing the impact of the recession.)

The insolvency rate of the PPF universe[1] rose less than the national insolvency rate during the financial crisis. The national insolvency rate has been falling gradually over the last two years while the PPF insolvency rate fell sharply over the last three quarters.

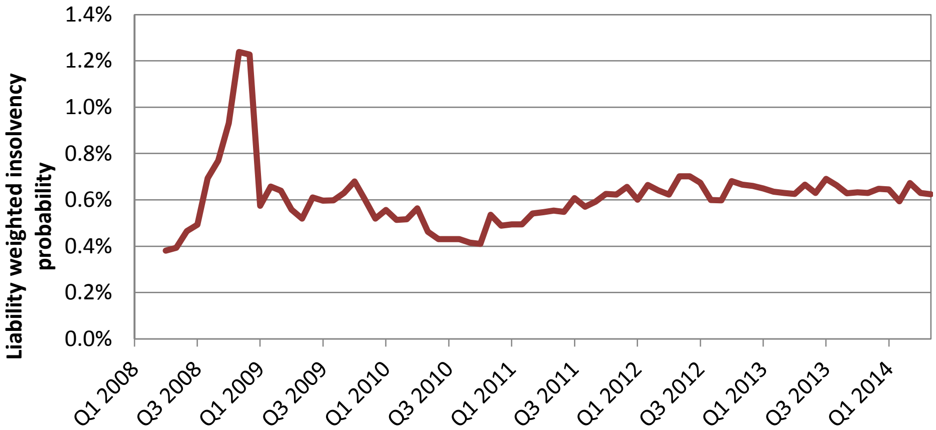
Chart 6.1 | PPF universe and UK insolvency rates*



Source: The UK Insolvency Service and the PPF / The Pensions Regulator
*There are around 2.7 million companies in the UK, compared to around 14,000 in the PPF universe.

The weighted 1-year ahead insolvency probability of the PPF's 500 largest exposures increased markedly in the last recession. It fell to a three-year low of 0.4 per cent in Q4 2010. It then moved up gradually to 0.7 per cent in Q3 2012, but has been broadly unchanged since then.

Chart 6.2 | Liability-weighted 1 year ahead insolvency probability* of the PPF's 500 largest scheme exposures**



Source: PPF / The Pensions Regulator

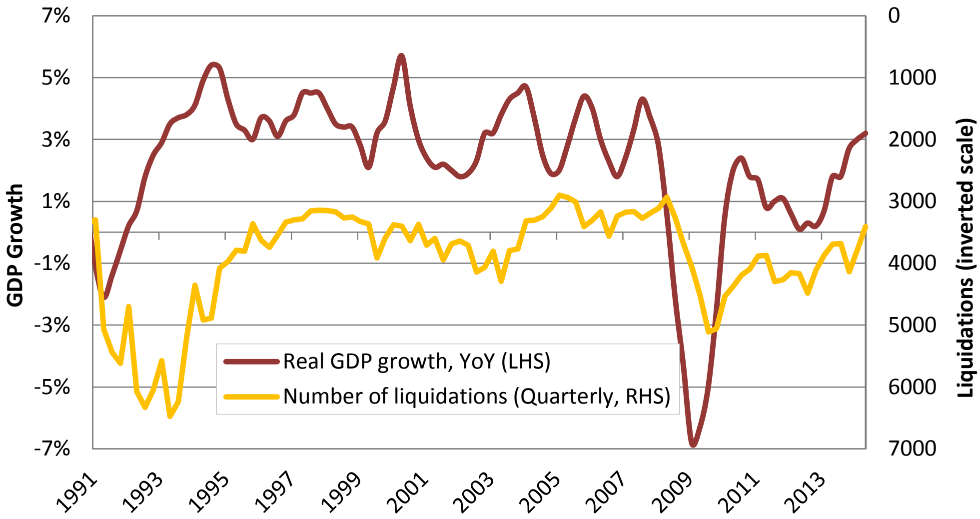
* Where available, the insolvency probabilities have been derived from credit ratings, including market-implied ratings, supplied by Moody's and Fitch. Market-implied ratings are constructed on the basis of information from the equity, bond and credit default swap markets. For pension fund sponsors who do not have publicly quoted equities or bonds and are not rated by ratings agencies, Dun & Bradstreet (D&B) failure scores are used. Around 40 per cent of the insolvency probabilities are derived from D&B failure scores.

**Largest scheme exposures in terms of scheme underfunding adjusted for volatility of assets.

[1] Number of insolvency events for sponsors of PPF eligible schemes divided by the total number of scheme sponsors

GDP growth has been strong since the end of 2012, and GDP in Q2 2014 was two per cent above the pre-crisis level in Q1 2008. The number of company liquidations has been on a downward trend since Q4 2012, apart from a one-off increase in Q4 2013.

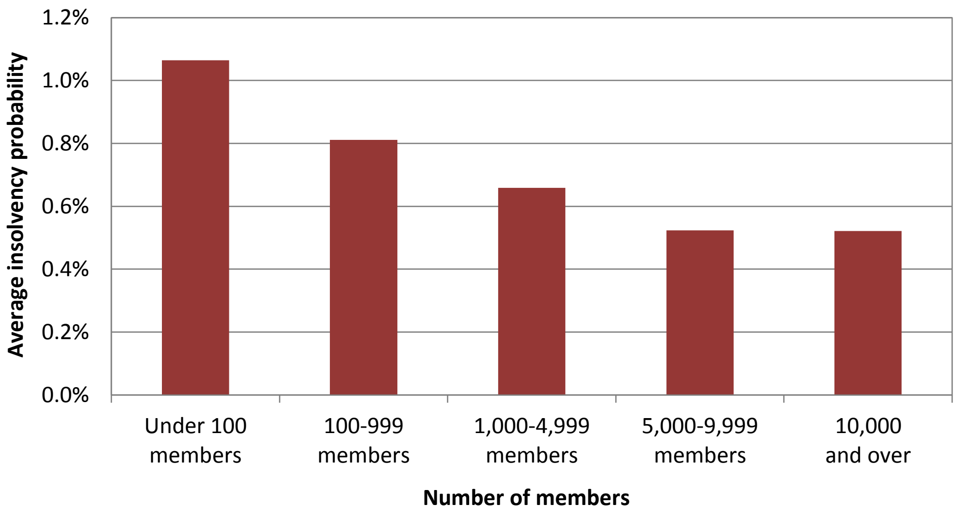
Chart 6.3 | UK company liquidations



Source: Office for National Statistics and the UK Insolvency Service

Smaller schemes (as measured by membership size) tend to have higher insolvency probabilities.

Chart 6.4 | Average one-year ahead insolvency probability based on D&B failure scores* by scheme size as measured by number of members, as at 31 March 2014



Source: PPF/The Pensions Regulator

*Which are converted into credit ratings and then the probability of insolvency over the next year, using a mapping matrix that factors into account historical company insolvencies.

7 Asset Allocation

7.1 Summary

- Between 2006 and 2013, there was a marked fall in the share of equities in total assets (from 61.1 per cent to 35.1 per cent) and a marked rise in the share of gilts and fixed interest (from 28.3 per cent to 44.8 per cent).
- In 2014, the equity share fell only slightly, from 35.1 per cent to 35.0 per cent while the gilts and fixed interest share fell from 44.8 per cent to 44.1 per cent.
- The share of "other investments" plus hedge funds rose from 8.7 per cent in 2013 to 10.1 per cent in 2014. The share of cash fell from 6.7 per cent to 6.1 per cent, having risen steadily since 2007.
- For the sixth successive year the UK proportion of total equity holdings fell, from 31.0 per cent in 2013 to 28.9 per cent in 2014, while the overseas share rose from 61.3 per cent to 62.4 per cent. The balance of holdings in unquoted equities increased for the fifth successive year, from 7.7 per cent in 2013 to 8.7 per cent in 2014.
- Within total gilts and fixed interest the changes were modest in 2014 after significant changes in earlier years. The corporate fixed interest securities' proportion decreased slightly, from 40.6 per cent in 2013 to 40.3 per cent in 2014. Meanwhile, the proportion of government fixed interest rose marginally from 18.5 per cent to 18.6 per cent. The balance of holdings in index-linked rose to 41.1 per cent from 40.9 per cent in 2013.
- Schemes provide their most recent asset allocation in the scheme return. In the 2014 return, 95 per cent of schemes provided asset allocation that was less than three years old.
- Smaller schemes tend to have a higher proportion in UK equities and a smaller proportion in overseas equities and unquoted equities. Within fixed interest, smaller schemes tend to have a higher proportion in government fixed interest and a smaller proportion in index-linked securities.
- Looking at simple averages[1], the UK equities proportion dropped to 44.9 per cent from 47.5 per cent in 2013 while for overseas equities it increased to 52.7 per cent from 50.3 per cent.
- As in the earlier Purple Books, more mature schemes tend to invest more heavily in gilts and fixed interest and less in equities.
- From 2012/13, the PPF levy has taken into account scheme specific investment risk by adjusting the scheme assets for a market stress[2]. For the 2013/14 levy year, 131 schemes performed compulsory bespoke tests, 331 carried out voluntary tests and 5,595 schemes followed the standard test methodology.

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[1] Simple averages are defined as the mean without weighting for scheme size.

[2] Schemes' assets are stressed using bespoke and standard scenarios. Schemes that have protected liabilities of £1.5 billion or more (s179 valuation) must carry out a bespoke stress calculation. All other schemes may opt to carry out a bespoke stress calculation on a voluntary basis. Further details on the stress test methodology are provided on www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1314_Investment_Risk_Appendix.pdf

About 95 per cent of schemes provided an asset allocation which was less than two years old.

7.2 Scheme return data[3]

Table 7.1 | Distribution of schemes by asset allocation date*

Asset allocation year	Number of schemes	Percentage of Purple dataset
Before 2006	3	0.0%
2006	6	0.1%
2007	6	0.1%
2008	5	0.1%
2009	16	0.3%
2010	60	1.0%
2011	216	3.6%
2012	2,048	33.8%
2013	3,677	60.7%
2014	20	0.3%

Source: PPF / The Pensions Regulator

*There can be a significant gap between the date of the scheme return and the date at which the asset allocation was taken. This means that the date at which asset allocation data is provided differs from scheme to scheme.

Allocation to gilts and fixed interest dropped while the proportion in equities decreased only slightly in 2014.

Table 7.2 | Average asset allocation in total assets

	Extended Purple 2006	Extended Purple 2007	Extended Purple 2008	Purple 2009	Purple 2010	Purple 2011	Purple 2012	Purple 2013	Purple 2014
Equities	61.1%	59.5%	53.6%	46.4%	42.0%	41.1%	38.5%	35.1%	35.0%
Gilts and fixed interest	28.3%	29.6%	32.9%	37.1%	40.4%	40.1%	43.2%	44.8%	44.1%
Insurance policies	0.9%	0.8%	1.1%	1.4%	1.4%	1.6%	0.2%	0.1%	0.1%
Cash and deposits	2.3%	2.3%	3.0%	3.9%	3.9%	4.1%	5.1%	6.7%	6.1%
Property	4.3%	5.2%	5.6%	5.2%	4.6%	4.4%	4.9%	4.7%	4.6%
Other Investments									
- 'Other'	3.1%	2.5%	3.8%	4.5%	5.4%	6.3%	3.6%	3.5%	4.3%
- Hedge Funds	n/a	n/a	n/a	1.5%	2.2%	2.4%	4.5%	5.2%	5.8%

Source: PPF / The Pensions Regulator

[3] Asset allocations submitted by schemes are not adjusted for market movements.

Allocation to hedge funds and 'other' investments continued to increase.

Table 7.3 | Asset allocation: simple averages

	Simple averages								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Equities	52.6%	53.5%	50.2%	46.6%	43.1%	43.7%	43.7%	40.6%	39.4%
Gilts and fixed interest	22.6%	24.0%	26.5%	29.2%	32.6%	32.6%	36.1%	39.1%	39.0%
Insurance policies	14.9%	13.7%	13.0%	12.4%	12.3%	11.8%	4.4%	2.0%	1.8%
Cash and deposits	3.9%	3.7%	4.4%	5.6%	5.7%	4.9%	5.5%	6.2%	6.4%
Property	2.1%	2.5%	2.9%	2.8%	2.6%	2.7%	3.5%	3.6%	3.5%
Other Investments									
- 'Other'	3.6%	2.6%	2.9%	2.6%	2.8%	3.3%	3.2%	3.5%	3.9%
- Hedge Funds	n/a	n/a	n/a	0.7%	0.9%	1.0%	3.7%	5.0%	6.2%

Source: PPF / The Pensions Regulator

Within gilts and fixed interest, the weighted average corporate bond proportion fell for the second successive year while the proportion of index-linked continued to rise.

Table 7.4 | Gilt and fixed interest splits

Year	Gilts and fixed interest					
	Government fixed interest securities		Corporate fixed interest securities		Index linked securities	
	Average share	Weighted average share	Average share	Weighted average share	Average share	Weighted average share
2008	47.2%	33.2%	33.0%	32.6%	19.8%	33.9%
2009	45.6%	29.0%	37.3%	38.3%	17.1%	32.6%
2010	37.3%	24.6%	43.0%	42.2%	19.8%	33.1%
2011	31.2%	19.6%	47.1%	44.3%	21.7%	36.1%
2012	28.2%	17.7%	49.4%	44.8%	22.4%	37.5%
2013	27.0%	18.5%	49.6%	40.6%	23.4%	40.9%
2014	23.8%	18.6%	51.9%	40.3%	24.4%	41.1%

Source: PPF / The Pensions Regulator

Within equities the weighted average overseas and unquoted equity proportions rose further. For the first time the overseas equity share is more than double the UK share.

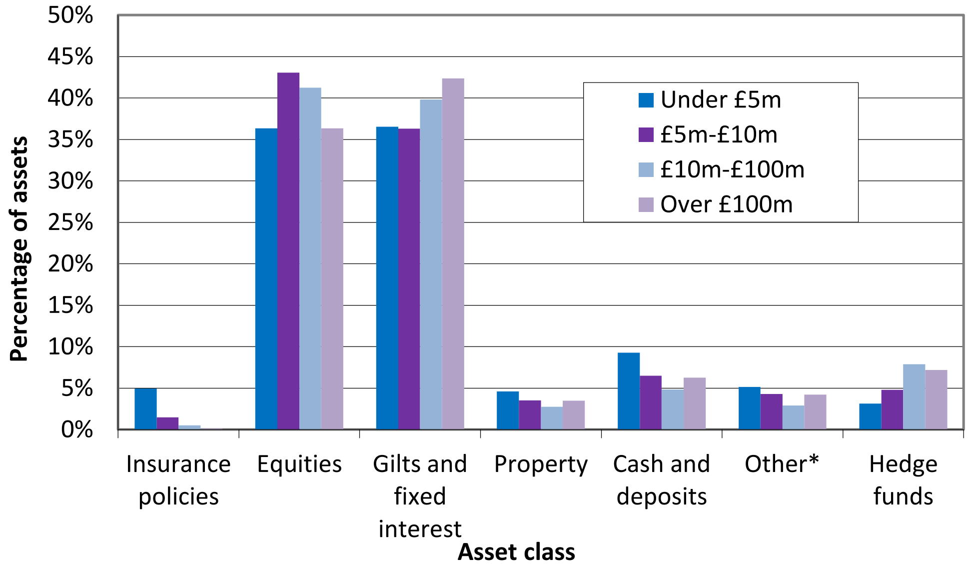
Table 7.5 | Equity splits

Year	Equities					
	UK equities		Overseas equities		Unquoted equities	
	Average share	Weighted average share	Average share	Weighted average share	Average share	Weighted average share
2008	60.4%	48.0%	39.6%	51.6%	n/a	n/a
2009	57.6%	44.2%	41.7%	53.8%	0.7%	1.9%
2010	55.3%	40.1%	43.7%	55.3%	1.0%	4.4%
2011	52.7%	38.0%	46.1%	57.2%	1.2%	4.8%
2012	49.9%	33.9%	48.5%	60.0%	1.7%	6.1%
2013	47.5%	31.0%	50.3%	61.3%	2.2%	7.7%
2014	44.9%	28.9%	52.7%	62.4%	2.4%	8.7%

Source: PPF / The Pensions Regulator

The proportion of assets held in gilts and fixed interest and in hedge funds tends to increase with scheme size. The proportions held in insurance policies and cash and deposits tend to decrease with scheme size.

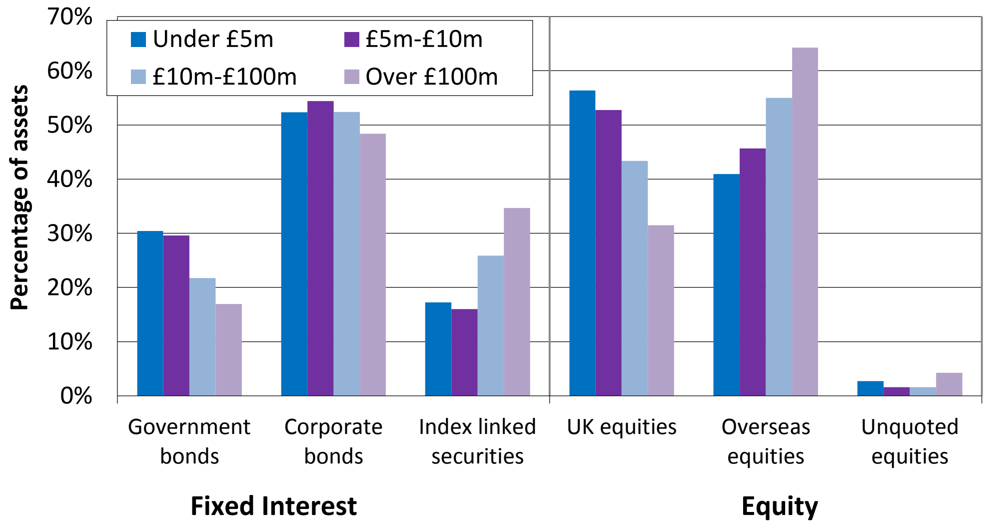
Chart 7.1 | Simple average asset allocation of schemes by asset size



*Other alternative Investments ex-hedge funds
Source: PPF / The Pensions Regulator

Within total gilts and fixed interest, the average allocation to government bonds declines with scheme size while the allocation to indexed-linked securities increases with size. Within equities the allocation to overseas equities increases with scheme size while the allocation to UK equities decreases.

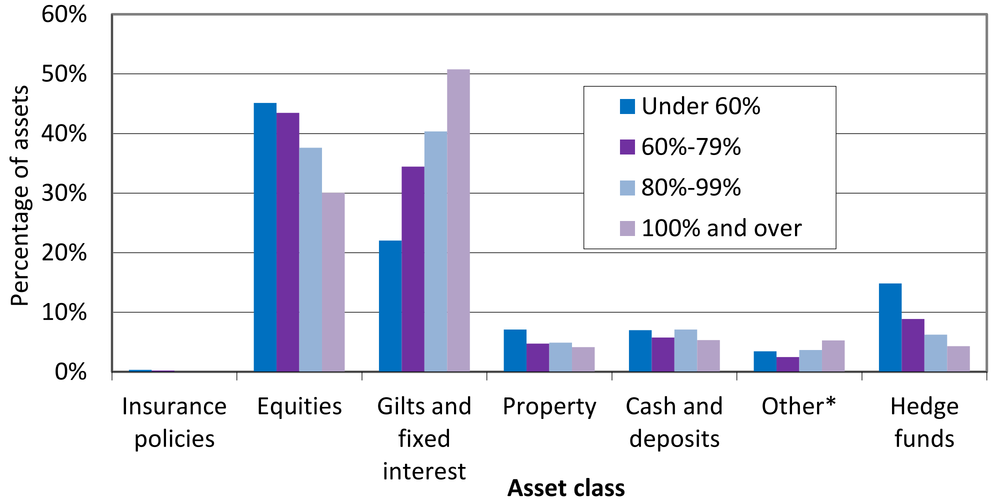
Chart 7.2 | Simple average of equities and fixed interest assets split by asset size



Source: PPF / The Pensions Regulator

The best funded schemes tend to have the greatest proportion of their assets invested in gilts and fixed interest, and a smaller proportion invested in equities.

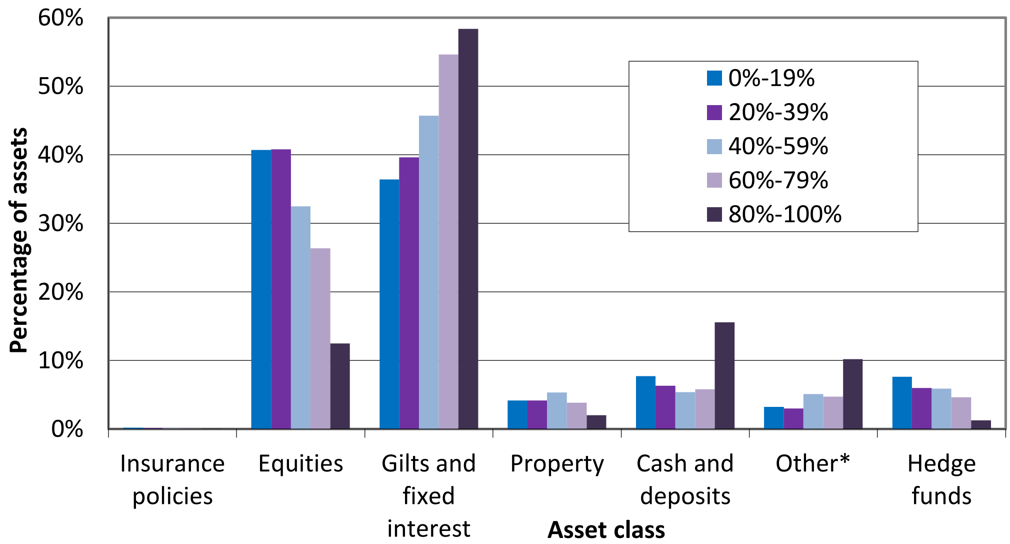
Chart 7.3 | Weighted-average asset allocation by s179 funding level



*Other Investments ex. Hedge Funds
Source: PPF / The Pensions Regulator

The proportion of equities in total assets falls with scheme maturity (as measured by the percentage of pensioner liabilities) while the proportion of gilts and fixed interest rises.

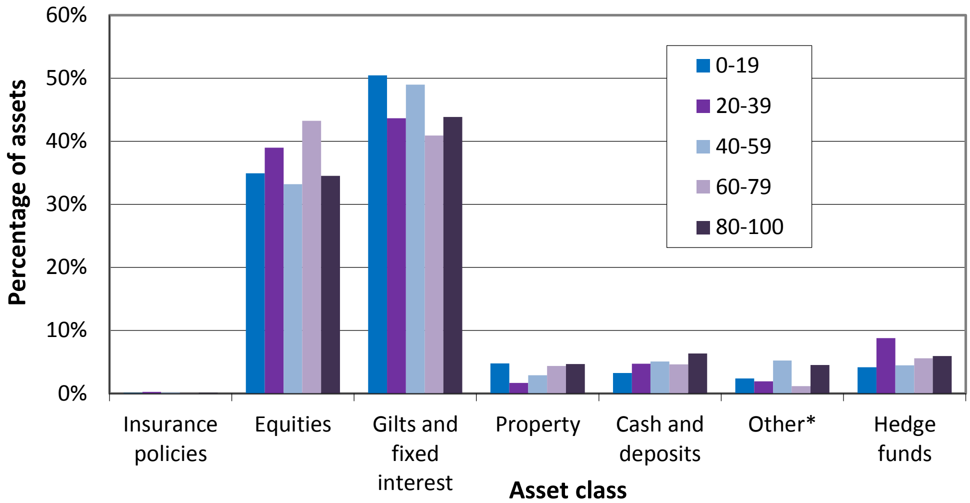
Chart 7.4 | Weighted-average asset allocation of schemes by current pensioner liabilities as a percentage of total liabilities



*Other investments ex. Hedge Funds
Source: PPF / The Pensions Regulator

There appears to be no relationship between asset allocation and D&B failure score.

Chart 7.5 | Weighted-average asset allocation of schemes by Dun & Bradstreet (D&B) failure score (the higher the score the lower the predicted probability of insolvency)



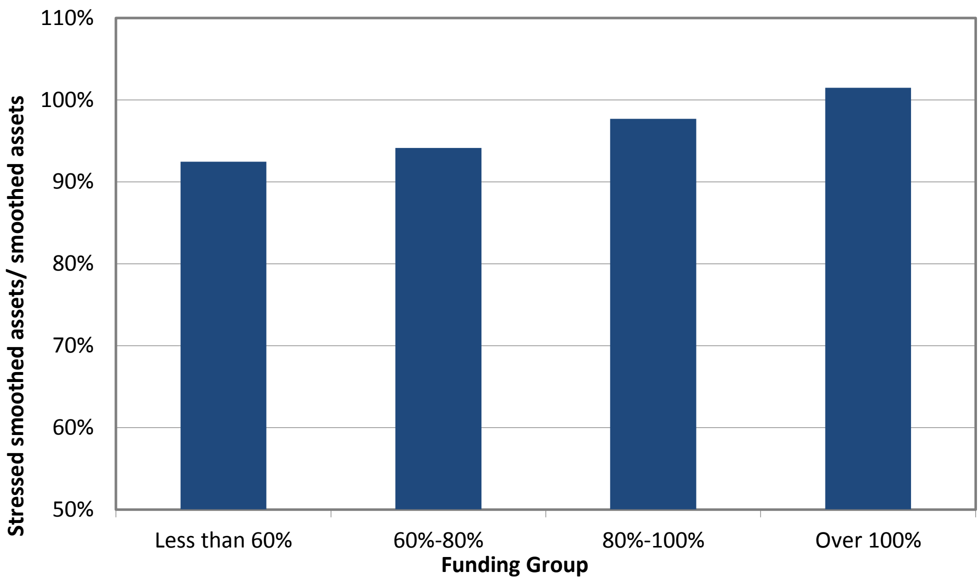
*Other investments ex. Hedge Funds

Source: PPF / The Pensions Regulator

7.3 Investment risk-ratio of stressed assets to assets[4]

Investment risk declines as scheme funding level rises.

Chart 7.6 | Investment risk by s179 funding level

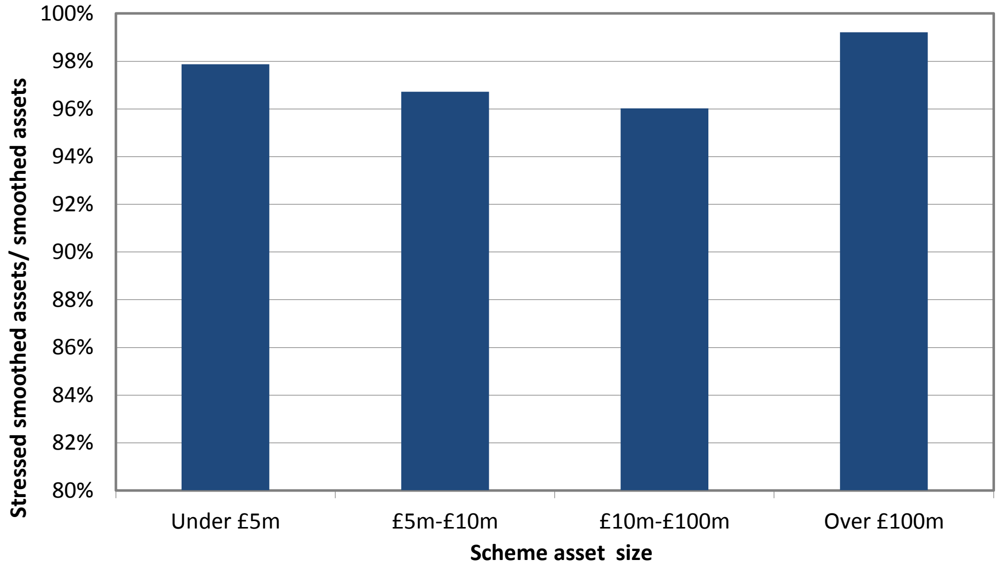


Source: PPF / The Pensions Regulator

[4] Further details on the stress test methodology are provided on http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1314_Investment_Risk_Appendix.pdf or please refer to Chapter 8.

Schemes with assets over £100m have the lowest investment risk as they have the highest allocation to gilts and fixed interest.

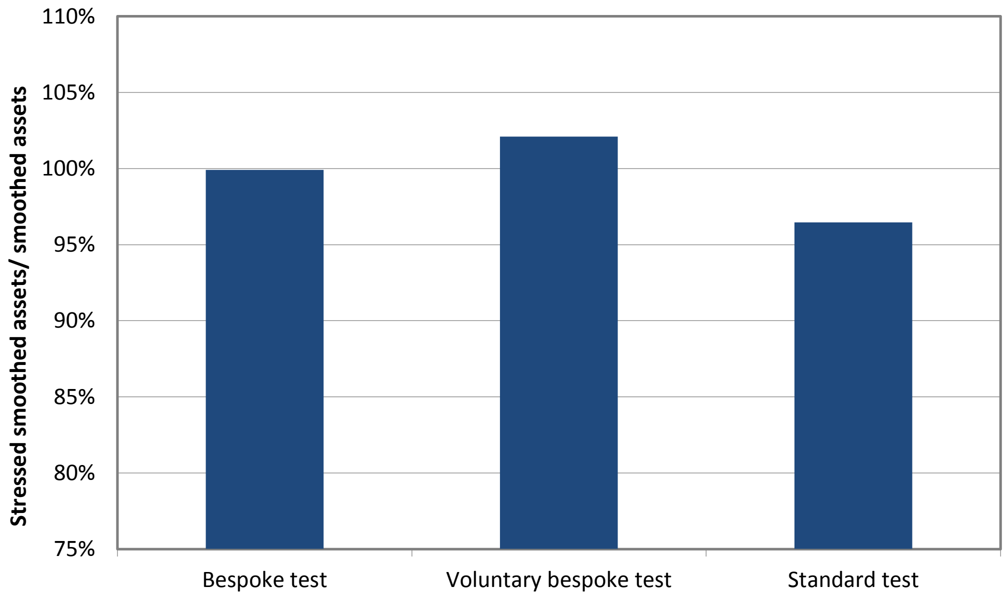
Chart 7.7 | Investment risk by scheme asset size



Source: PPF / The Pensions Regulator

Schemes which carried out bespoke stress testing on a voluntary basis reported a lower investment risk than schemes using the standard test and compulsory bespoke test.

Chart 7.8 | Impact of stress testing on investment risk*



*Based on 131 schemes who performed compulsory bespoke tests, 331 voluntary tests and approximately 5,595 schemes which followed the standard test methodology for their 2013/14 levy calculation.

Source: PPF / The Pensions Regulator

8 PPF Risk Developments

8.1 Summary

- The Long-Term Risk Model (LTRM) is the key tool that the Board of the PPF uses to understand and quantify the risks it faces over the long term. It helps the Board of the PPF assess the level of resources required to meet potential future claims.
- There was a significant reduction in long-term risk to the Fund between end-March 2013 and end-March 2014, which was largely attributable to an improvement in the PPF's own funding level in the 12-month period.
- The PPF published its long-term funding strategy in August 2010. As part of this strategy the PPF aims to be self-sufficient by 2030 (i.e. fully funded, with zero exposure to market, inflation and interest-rate risk and some protection against claims and longevity risk). The funding strategy is reviewed annually to check whether the funding objective remains appropriate and whether the PPF is on track to achieve it.
- LTRM projections with a calculation date of 31 March 2014, suggest that the PPF has a 90 per cent probability of meeting this objective compared with 87 per cent one year earlier[1].

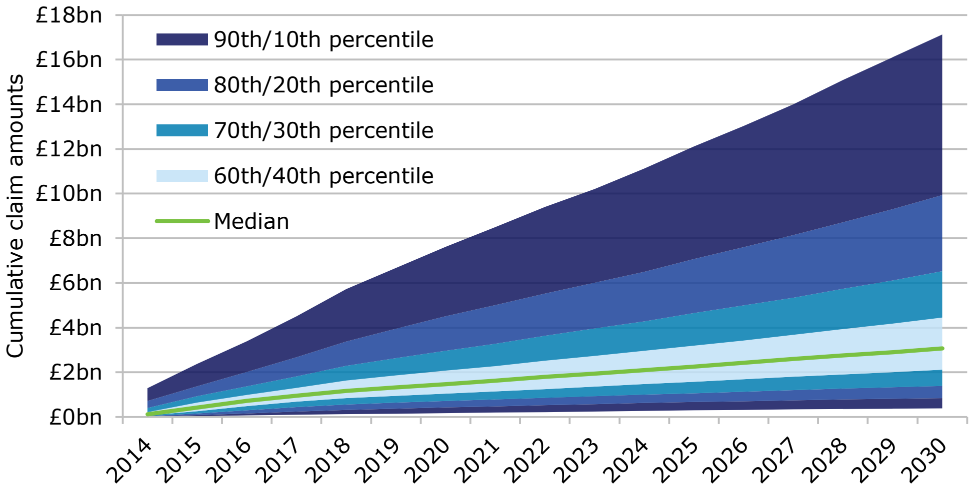
[1] This probability is sensitive to a range of modelling assumptions. For a description of the modelling methodology and assumptions employed, see http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_Funding_Strategy_Document.pdf

The PPF faces a significant tail-risk, i.e. high impact, low probability claims

The LTRM projection of expected (mean) claims on the PPF over five years has decreased from £3.5 billion at March 2013 to £2.3 billion at March 2014.

8.2 Long-Term Risk

Chart 8.1 | Cumulative deficits of schemes entering the PPF from 31 March 2014*



Source: PPF / The Pensions Regulator

*As projected in the LTRM model. The fan chart depicts the probability that the cumulative deficits of schemes entering the PPF from 31 March 2014 will be within certain boundaries.

Table 8.1 | LTRM Projections of five-year claims on the PPF (s179 basis) from 2009 to 2014

March LTRM run	Present value of total claim over five years (£ billion)				
	Median	Mean	75th percentile	90th percentile	95th percentile
2014	1.2	2.3	2.8	5.7	8.5
2013	1.8	3.5	4.2	8.5	12.6
2012	2.3	3.8	4.7	8.9	12.4
2011	0.6	1.2	1.4	2.9	4.4
2010	1.2	2.5	3.0	6.3	9.4
2009	2.1	3.5	4.5	8.4	11.9

Source: PPF / The Pensions Regulator

8.3 The PPF's Long-Term Funding Strategy[2]

- The PPF published its Long-Term Funding Strategy in August 2010 and its most recent annual update was in July 2014. The strategy established a long-term funding objective and a framework for monitoring the Fund's progress towards this target.
- The PPF's long-term funding objective is to be self-sufficient by 2030. Self-sufficiency means that the PPF is fully-funded with zero exposure to market, inflation and interest rate risk and protection against the risk of future claims and members living longer than expected. Exposure to market, inflation and interest rate risk can be reduced using conventional hedging arrangements and investment in low-risk securities. Analysis of LTRM output suggests that a funding reserve equivalent to 10 per cent of PPF liabilities at 2030 would be sufficient to cover unexpected claims, longevity risk and operational risk (over the lifetime of the Fund) in nine out of 10 scenarios.
- Output from the LTRM is used to model the probability of the PPF meeting the funding objective. The LTRM projects a range of PPF balance sheet outcomes at 2030. The probability of meeting the funding objective is calculated as the percentage of outcomes in which PPF funding exceeds the level required by self-sufficiency. As at 31 March 2014, this probability was 90 per cent. When the funding strategy was first set up in 2010, the Board expressed comfort with circumstances in which this probability is greater than 80 per cent.
- There is perpetual and non-zero risk of a large PPF deficit occurring as a result of significant claims. In order to measure the dispersion of adverse funding outcomes, the PPF has constructed a 'downside risk' measure. This is calculated by taking the 90th percentile of the largest deficits to develop at any point in each of the 500,000 projected balance sheet scenarios. As at 31 March 2014, the PPF's downside risk to 2030 was £4 billion. Both the probability of meeting the funding objective and the downside risk measure are sensitive to a series of modelling assumptions. Table 8.2 below illustrates the sensitivity to a selection of these.
- The long-term funding strategy provides a clear and comprehensive overview of the PPF risk environment, strengthening the basis on which PPF policy is formed and improving communication of the Fund's financial prospects to stakeholders. The Board of the PPF intends to continue reviewing the strategy on an annual basis.

[2] For a full explanation of the PPF long-term funding strategy, including modelling methodology and assumptions, see http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_Funding_Strategy_Document.pdf
For the July 2014 review of the funding strategy, see:
http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Funding_Strategy_Review_2014.pdf

The base-case probability of the PPF meeting its funding objective is 90 per cent, up from 87 per cent a year ago. The probability of meeting the funding objective and the downside risk are subject to modelling assumptions as illustrated in the table.

Table 8.2 | Modelled probability of the PPF meeting its funding objective, as at 31 March 2014

Scenario	Probability of meeting funding objective	Downside risk (£ billion)
Base case	90%	4
Scheme funding levels 10% lower	87%	8
Recovery plans 5 years longer	89%	5
Reduction in asset returns of 0.25% pa (excluding cash and government bonds)	88%	5
No market in CPI instruments emerges	88%	6
Levy reduced by 10 per cent	89%	4 to 5
Initial PPF funding reduced by 10 percentage points	87%	7
Sponsor insolvency probabilities increased by 20 per cent	88%	6
Scheme Technical Provisions reduced by 10 per cent (relative to S179 basis)	87%	6
No risk margin in our funding target (i.e. aim for 100% funding rather than 110%)	95%	4
No closure to new accruals	89%	5
Longevity stress (reduced each qx by 10%)	89%	5

Source: PPF / The Pensions Regulator

9 PPF Levy Payments 2013/14

9.1 Summary

- Since 2006/7, the PPF has collected a levy determined mainly by the risk schemes pose to the PPF. Over this period, it has collected a total of £4.6 billion.
- The dataset used in this chapter is based on 6,114 schemes which have been invoiced for £577 million in total. This is somewhat smaller than the £630 million the PPF expected to collect. This was mainly because under the risk-based levy assessment process the original underfunding and insolvency turned out to be lower than had been assumed.
- In 2012/13, the New Levy Framework[1] (NLF) was introduced, changing the way the Pension Protection Levy is calculated. Notable changes[2] included: assets and liabilities being smoothed to reduce data volatility and stressed to account for investment risk; averaging insolvency risk taken over a 12-month period and using more current data.
- In 2012/13 and 2013/14, the number of schemes paying no risk-based levy (RBL) represented 19 and 17 per cent of total schemes, respectively. The significant increase in the number of schemes paying no RBL in 2012/13 and 2013/14 in comparison to previous years is largely due to the implementation of the NLF. As a result, in 2012/13 and 2013/14, schemes that were fully funded, after taking account of their investment risk, paid no RBL. By comparison, in 2011/12 schemes had to be 155 per cent funded to pay no RBL.
- In 2013/14, 302 schemes had their RBL capped at 0.75 per cent of stressed, smoothed liabilities. This is 4.9 per cent of the total number of schemes, compared with 6.8 per cent in 2012/13. The liabilities of capped schemes equalled £6.4 billion or 0.6 per cent of total liabilities (on a stressed, smoothed basis).
- The top 100 levy payers accounted for £240 million or 41.6 per cent of the total levy compared with 43.1 per cent in 2012/13. The change in the proportion of levy that the top 100 levy payers account for is because of the reduction in scheme-based levy (SBL) as a percentage of total levy, from 11 per cent in 2012/13 to 9 per cent in 2013/14.
- Manufacturing represents the largest portion of the universe, accounting for 28.0 per cent of total liabilities (based on 5,344 comparable schemes across all Purple Books) and pays 40.7 per cent of total levy. Finance, insurance and real estate accounts for 22.5 per cent of total liabilities and 12.3 per cent of total levy.

[1] For an overview of the NLF, please visit
www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1314_levy_policy_statement.pdf

[2] For full details of the levy determination please visit:
http://www.pensionprotectionfund.org.uk/levy/Pages/1314_Levy_Determination.aspx

Actual levy payments being lower than the levy estimate in 2013/14 levy year was mainly because the level of underfunding and insolvency estimates turned out to be lower than had been assumed.

Table 9.1 | Levy Payments*

	2006/07	2007/08	2008/09	2009/10
Actual levy payments (£ m)	271	585	651	592
Levy as percentage of assets**	0.03%	0.07%	0.08%	0.07%
Estimated collection (£ m)***	575	675	675	700
Number of capped schemes	310	411	564	340
	2010/11	2011/12	2012/13	2013/14
Actual levy payments (£ m)	663	596	648	577
Levy as percentage of assets**	0.09%	0.08%	0.08%	0.06%
Estimated collection (£ m)***	720	600	550	630
Number of capped schemes	679	626	427	302

Source: PPF / The Pensions Regulator

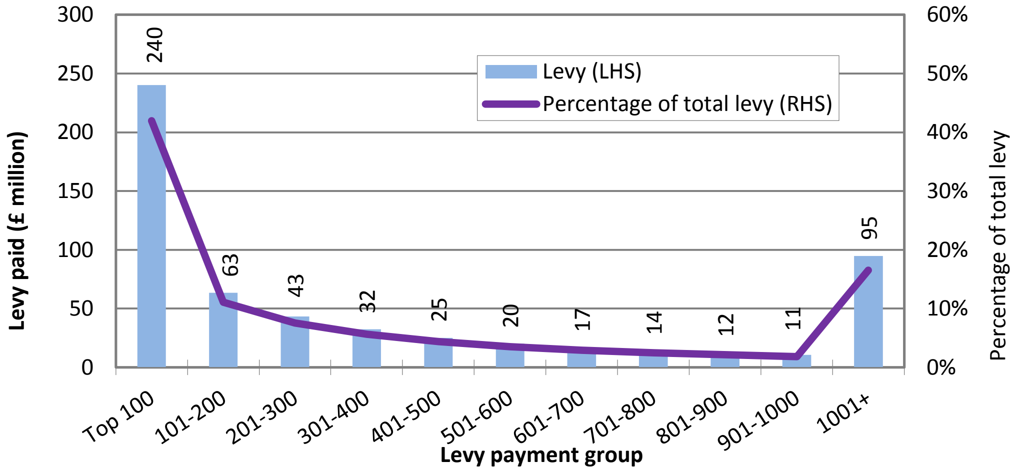
* Actual levy payments are the total amount collected in each year. The remainder of the figures quoted in this chapter are based on the total levy invoiced for the dataset of 6,114 schemes in 2013/14, or from prior years' Purple Books where relevant.

**Actual levy payments as a percentage of total assets of schemes paying a levy. The 2013/14 assets are stressed and smoothed, in line with the NLF, and thus not directly comparable with 2011/12 or earlier.

*** The estimated collection represents the Board's published estimate made in the 2013/14 levy policy statement[3].

In 2013/14, the top 100 levy payers accounted for £240 million, or 42 per cent of the total levy, but 36 per cent of total stressed, smoothed liabilities.

Chart 9.1 | Distribution of levy payments by largest levy payers in 2013/2014



Source: PPF / The Pensions Regulator

Note: the 1,001+ category accounts for a relatively large percentage of the total levy as it contains more than 5,000 schemes.

[3] For details of the levy policy statement, please visit:
http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1314_levy_policy_statement.pdf

17 per cent of schemes paid no RBL in 2013/14.

Table 9.2 | Schemes paying no risk-based levy by levy year

	Number of schemes	Percentage of total schemes	s179 liabilities (£ billion)[4]	s179 liabilities as percentage of total
2006/07	345	5%	44.1	6%
2007/08	570	9%	83.0	12%
2008/09	473	7%	71.8	10%
2009/10	363	6%	32.7	5%
2010/11	195	3%	8.8	1%
2011/12	296	5%	24.6	3%
2012/13	1,191	19%	199.3	19%
2013/14	1,056	17%	171.1	15%

Source: PPF / The Pensions Regulator

In 2013/14, 302 schemes had their RBL capped. The proportion of schemes in each levy band which are capped increases with levy rates (from band 5 onwards). The large fall in the number of schemes which had their RBL capped over the year reflects a general improvement in scheme funding as gilt yields have picked up.

Table 9.3 | Number of schemes with capped risk-based levies by levy band

Levy band[5]	Levy rate	Total number of schemes	Number of capped schemes[6]	Percentage of schemes in levy band which are capped
1	0.0018	1,723	0	0.0%
2	0.0028	1,067	0	0.0%
3	0.0044	795	0	0.0%
4	0.0069	552	0	0.0%
5	0.0110	814	2	0.2%
6	0.0160	305	14	4.6%
7	0.0201	313	52	16.6%
8	0.0260	132	43	32.6%
9	0.0306	84	29	34.5%
10	0.0400	329	162	49.2%
Total		6,114	302	

Source: PPF / The Pensions Regulator

4 Liabilities are stressed and smoothed from 2012/13 onwards, in line with the NLF.

5 For full details of the levy bands, please visit http://www.pensionprotectionfund.org.uk/levy/Pages/1314_Levy_Determination.aspx

6 For the definition of capped schemes, please visit http://www.pensionprotectionfund.org.uk/levy/Pages/1314_Levy_Determination.aspx

The proportion of schemes which are capped decreases as the funding level improves, as lower underfunding makes the application of the cap less likely.

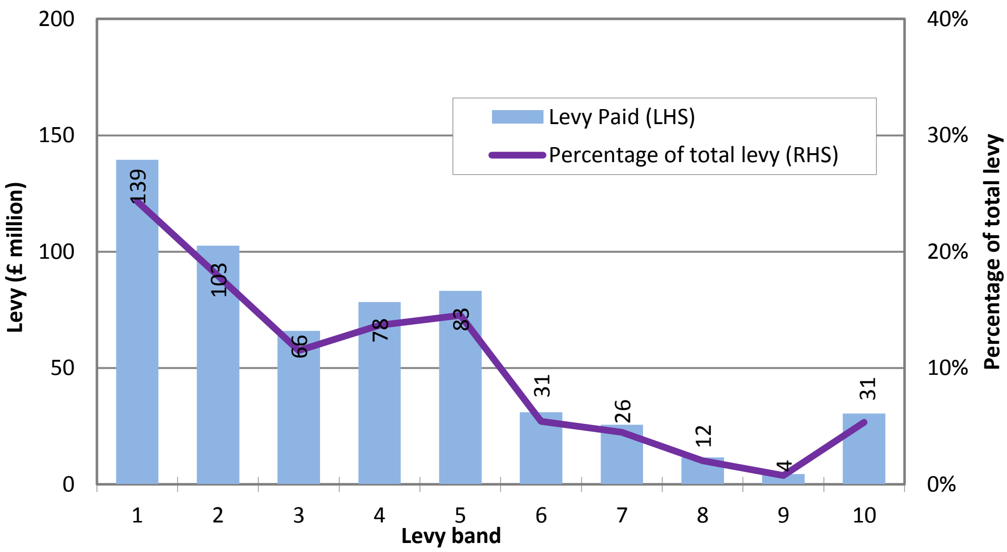
Table 9.4 | Number of schemes with capped risk-based levies by funding level

Funding level	Number of capped schemes	Percentage of schemes in funding band which are capped
Less than 50%	129	16.2%
50%-75%	163	5.9%
75%-100%	10	0.6%
Greater than 100%	0	0.0%

Source: PPF / The Pensions Regulator

Levy band 1 made the largest contribution to total levy receipts, paying £139 million, or 24.3 per cent, of total levy collected. This is lower than in 2012/13, when levy band 1 contributed £191m, or 28.6 per cent of the total, as the number of schemes in levy band 1 decreased from last year.

Chart 9.2 I Levy distribution by levy band[7]

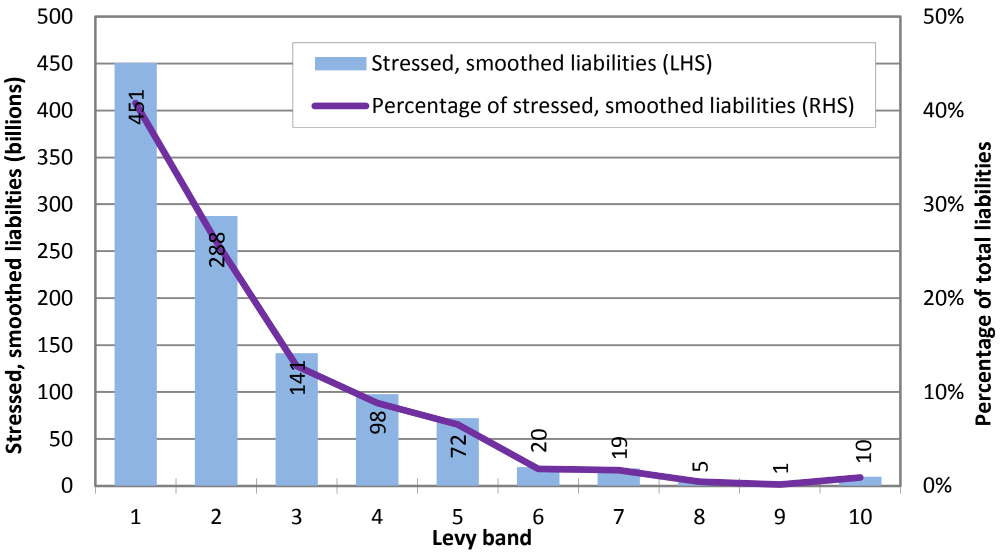


Source: PPF/The Pensions Regulator

[7] For the definition of scheme and risk-based levy, please visit: http://www.pensionprotectionfund.org.uk/levy/Pages/1314_Levy_Determination.aspx

Levy band 1 accounts for 40.8 per cent of the total stressed, smoothed liabilities, down from 52.6 per cent the previous year as the number of schemes in levy band 1 has decreased.

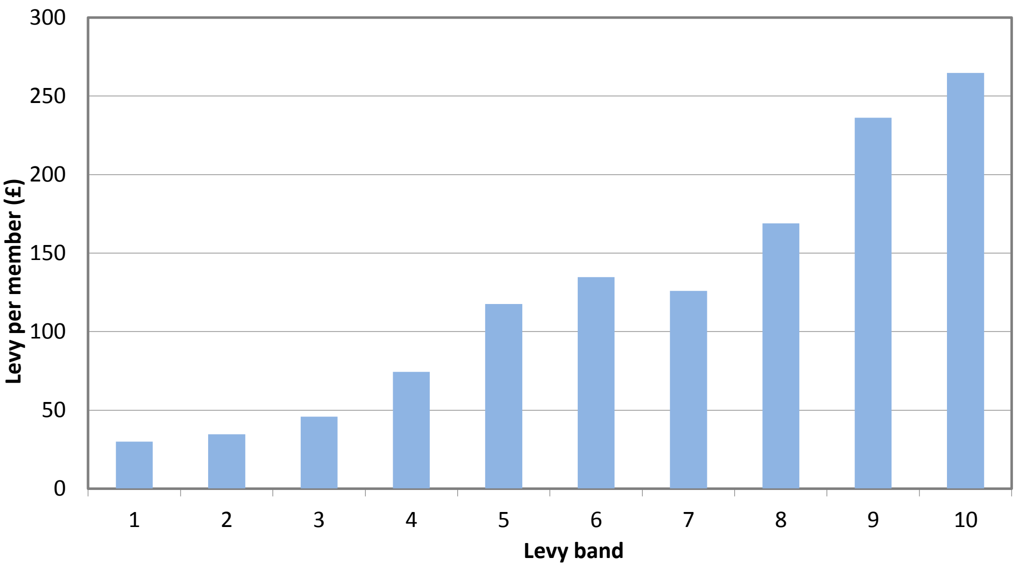
Chart 9.3 | Stressed, smoothed liabilities by levy band



Source: PPF / The Pensions Regulator

The average levy per member is £50.01 in 2013/14. Unlike in previous years, there is an increase in levy between levy bands 9 and 10. This is because the percentage of schemes in band 10 that have a capped RBL has decreased from 63 per cent to 49 per cent (as higher gilt yields have led to a general improvement in scheme funding).

Chart 9.4 | Levy per member by levy band[8]

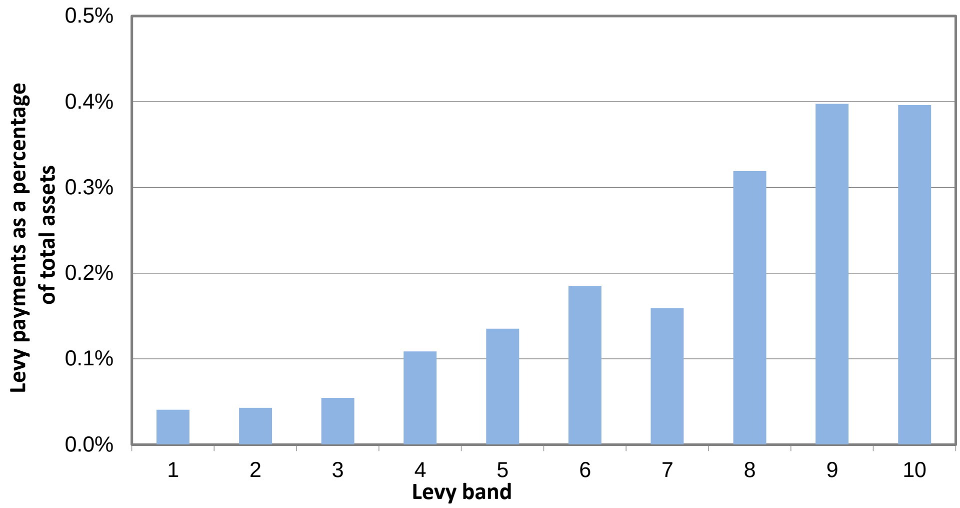


Source: PPF / The Pensions Regulator

[8] For the definition of scheme and risk-based levy, please visit: http://www.pensionprotectionfund.org.uk/levy/Pages/1314_Levy_Determination.aspx

The PPF levy is very small compared with the value of total stressed, smoothed assets. The average was 0.06 per cent in 2013/14, compared to 0.08 in 2012/13.

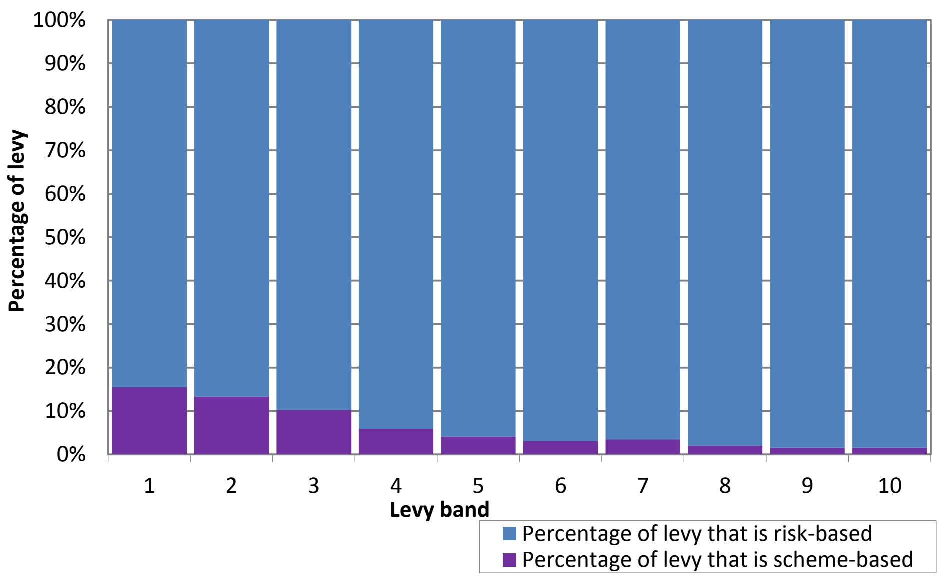
Chart 9.5 | Levy payments as a proportion of stressed, smoothed assets by levy band



Source: PPF / The Pensions Regulator

Chart 9.6 | Percentage of total levy that is scheme- and risk-based[9] by levy band

The share of RBL tends to rise and the share of SBL fall as the levy band increases.

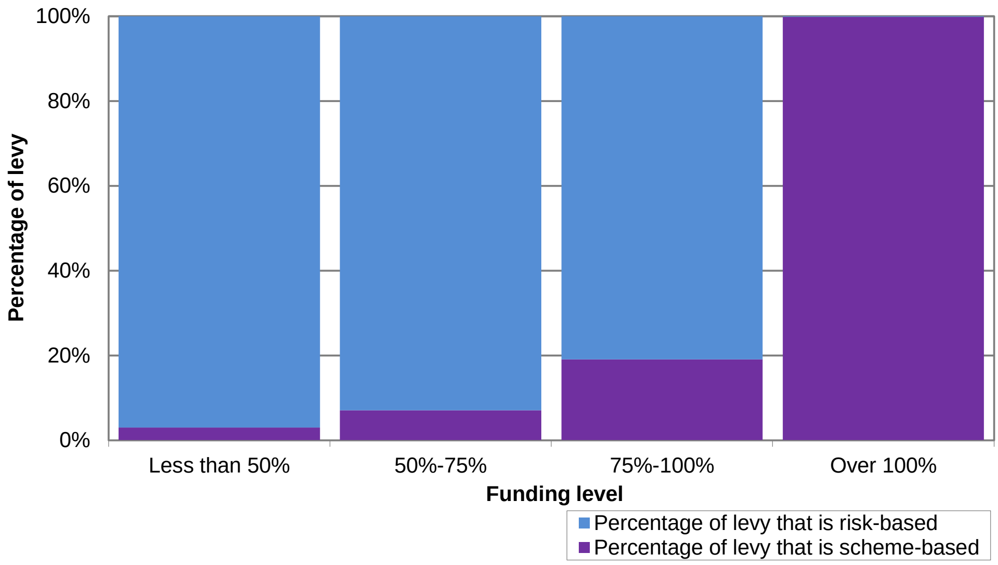


Source: PPF / The Pensions Regulator

[9] For the definition of scheme and risk based levy, please visit: http://www.pensionprotectionfund.org.uk/levy/Pages/1314_Levy_Determination.aspx

The proportion of RBL declines as scheme funding improves. The levy paid by schemes which are over 100 per cent funded consists of 100 per cent SBL. This results from the removal of the taper under the NLF, so that schemes with a funding level of at least 100 per cent now pay no RBL.

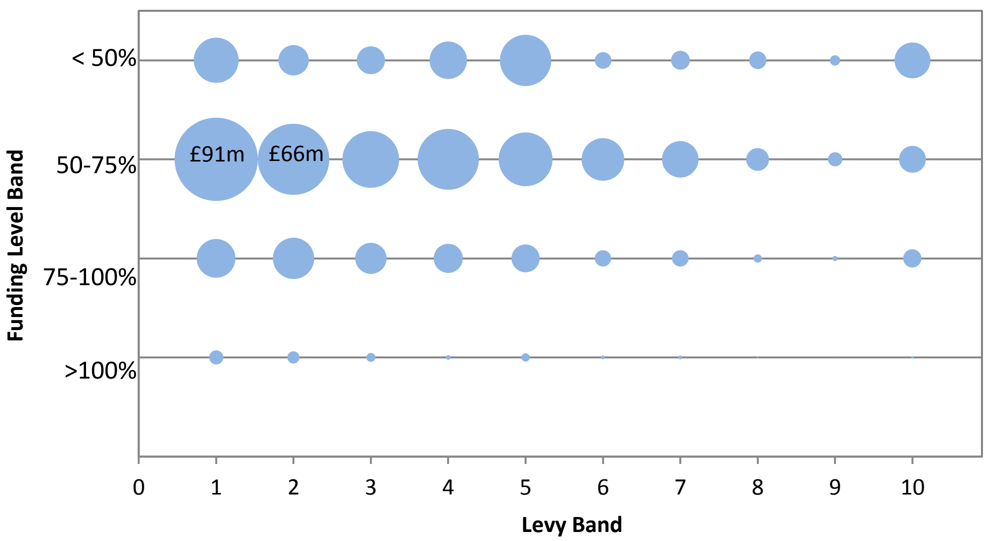
Chart 9.7 | Percentage of total levy that is scheme- and risk-based by funding level (on a stressed, smoothed basis)



Source: PPF / The Pensions Regulator

Levy bands 1 to 5 account for 82 per cent of the total levy and 94 per cent of the total number of members.

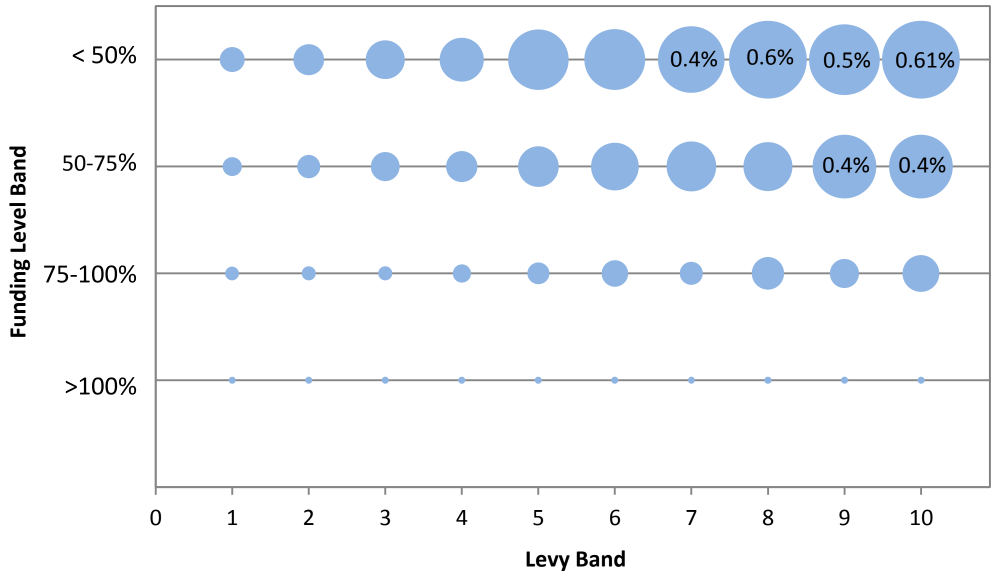
Chart 9.8 | Total levy by levy and funding bands



Source: PPF / The Pensions Regulator

Those schemes which are below 75 per cent funded (on a stressed, smoothed basis) pay more levy per £ of stressed, smoothed liabilities compared with other schemes grouped in the same levy band.

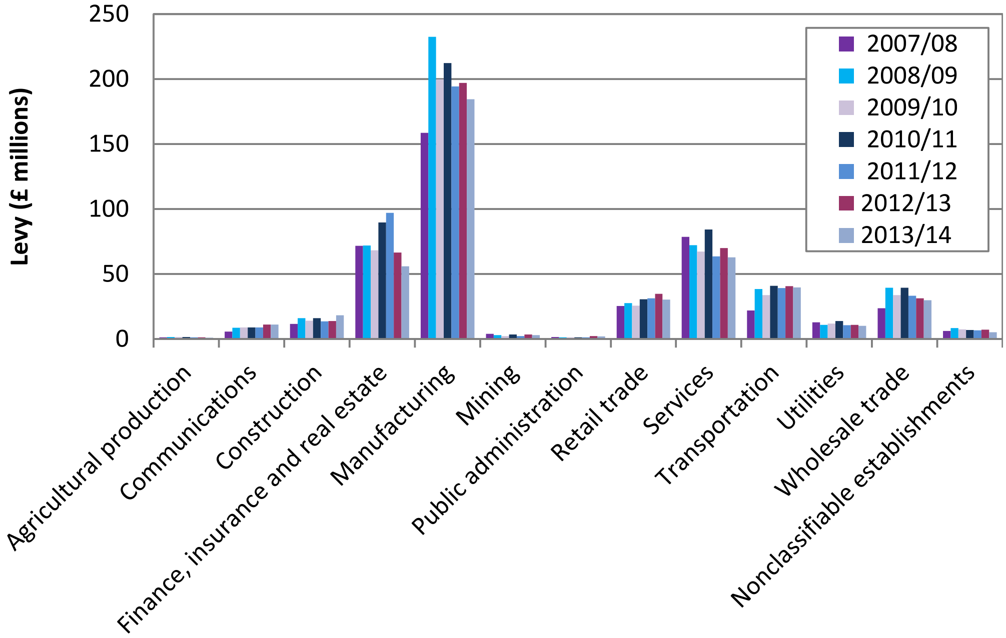
Chart 9.9 | Levy per £ of stressed, smoothed liabilities by levy and funding bands



Source: PPF/The Pensions Regulator

Manufacturing, Finance, insurance and real estate, and Services are the highest levy paying industries, in line with their proportion of the eligible DB universe.

Chart 9.10 | Total levy by industry[10]



Source: PPF/The Pensions Regulator

[10] These figures are based on a sample of 5,344 schemes across all years. Industry data is based on the 1972 US Standard Industrial Classification.

10 Schemes in Assessment

10.1 Summary

- Before transferring into the PPF, all schemes go through an assessment period to determine their ability to pay PPF levels of compensation[1]. The PPF aims to complete the assessment period for most schemes within two years.
- The PPF's Annual Report and Accounts 2013/14 show that there were 182 schemes in assessment as at 31 March 2014 compared with 223 as at 31 March 2013. Of the 182 figure, 158 were recognised in provisions on the PPF balance sheet, down from 187 at 31 March 2013. In these figures, all segregated parts of schemes have been counted as separate schemes.
- In this chapter, for analytical purposes, scheme sections and segregated parts are amalgamated at scheme level; after this amalgamation there were 148 schemes (with 95,000 members) in a PPF assessment period as at 31 March 2014, compared with 172 schemes (with 111,000 members) a year earlier. As a result, the number of schemes in assessment in this chapter is less than reported in the 2013/14 Annual Report and Accounts.
- The fall over the year reflects 79 new schemes entering and remaining in assessment, 81 schemes transferring into the PPF and 22 being rescued, rejected or withdrawn.
- As at 31 March 2014, the aggregate assets of schemes in assessment totalled £5.8 billion and their liabilities £7.6 billion (equivalent to 0.6 per cent of universe liabilities) on a s179 basis. Liabilities averaged £51.1 million per scheme and assets averaged £39.5 million.
- Schemes with liabilities below £5 million account for 31.8 per cent of schemes in assessment but only 1.2 per cent of the liabilities in assessment, while schemes with liabilities of over £100 million account for 7.4 per cent of schemes in assessment but 68.2 per cent of liabilities in assessment.
- The aggregate funding level (total assets divided by total liabilities) of the schemes in assessment as at 31 March 2014 was 77.3 per cent, below the aggregate funding levels of the schemes in the Purple 2014 dataset (96.7 per cent). However the funding level of schemes in assessment was higher than a year earlier (76.6 per cent).
- Schemes in assessment tended to hold slightly more of their assets in gilts and fixed interest (41 per cent) than schemes in general (39 per cent).
- The Manufacturing sector accounted for 47.3 per cent of the companies sponsoring schemes in assessment. The Services sectors account for 14.2 per cent of sponsors of schemes in assessment. The proportion of schemes pertaining to the Finance, Insurance and Real Estate sector was 12.2 per cent.
- The representation of Manufacturing in schemes in assessment (47.3 per cent) is much greater than the sector's share of scheme sponsors in the PPF universe (29.3 per cent), which in turn is greater than the share of manufacturing in the UK economy (12 per cent).
- Since 2005, there have been around 1,000 claims on the PPF with a total deficit value of £6.0 billion on a s179 basis. During the same period, total levy and recoveries were

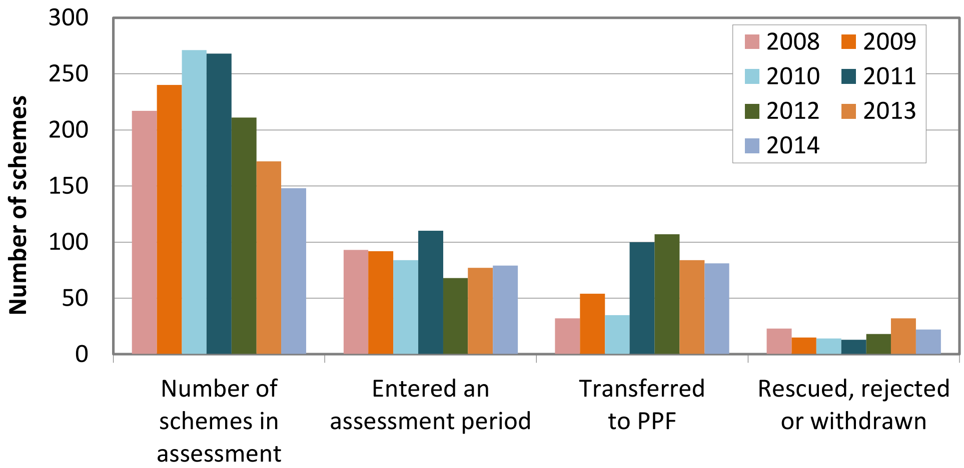
[1] See Chapter 2, The Data, for a description of the eligibility test.

£4.6 and £1.6 billion respectively. Schemes with under 100 members accounted for 47.3 per cent of the claims since 2005. The Manufacturing sector contributed to 44.0 per cent of the total claims, higher than its contribution to the Purple 2014 dataset (29.5 per cent). The representation of the Services sector (14.5 per cent) was much lower than its share of scheme sponsors in the PPF universe (24.2 per cent).

The number of schemes in assessment has been declining since 2011.

10.2 Schemes entering assessment

Chart 10.1 | Number of schemes in assessment each year, as at 31 March 2014



Source: PPF / The Pensions Regulator

At 31 March 2014, scheme funding for schemes in assessment was 77.3 per cent compared with 76.6 per cent the year before.

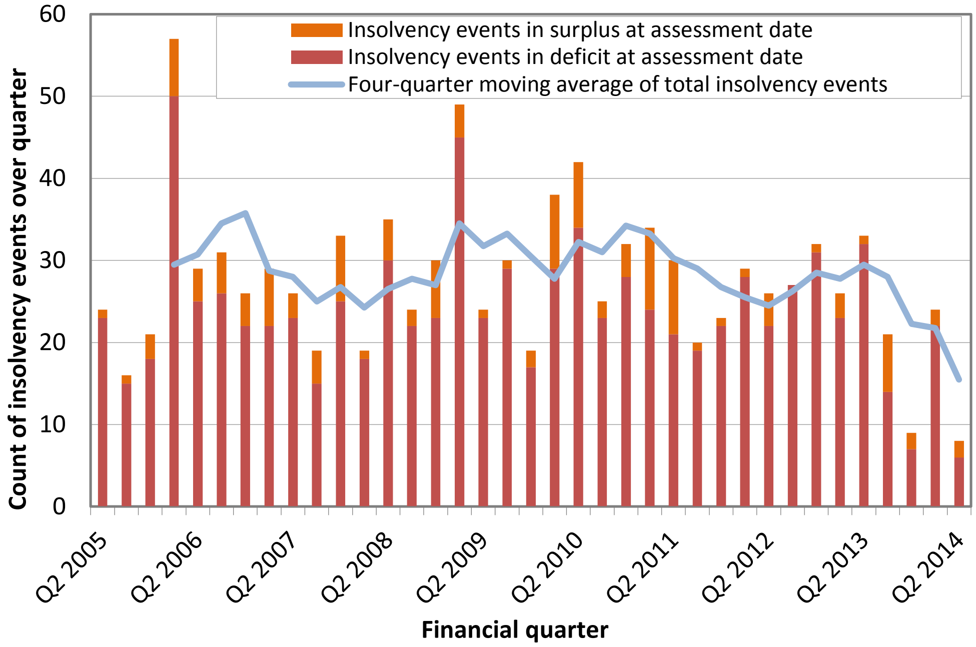
Table 10.1 | Funding statistics for schemes in assessment each year, as at 31 March 2014

Year	Assets (£billion)	s179 Liabilities (£billion)	Balance (£billion)	Funding ratio	Universe Funding Ratio
2007	4.0	4.7	-0.7	85.1%	109%
2008	4.2	5.4	-1.2	77.8%	99%
2009	6.7	9.4	-2.8	70.8%	80%
2010	8.9	10.0	-1.1	88.7%	104%
2011	9.5	10.9	-1.4	86.8%	100%
2012	6.2	8.4	-2.2	74.0%	83%
2013	5.8	7.6	-1.8	76.6%	84%
2014	5.8	7.6	-1.7	77.3%	97%

Source: PPF / The Pensions Regulator

The number of insolvency events has been trending down over the past three years.

Chart 10.2 | Number of qualifying insolvency events by date of insolvency*

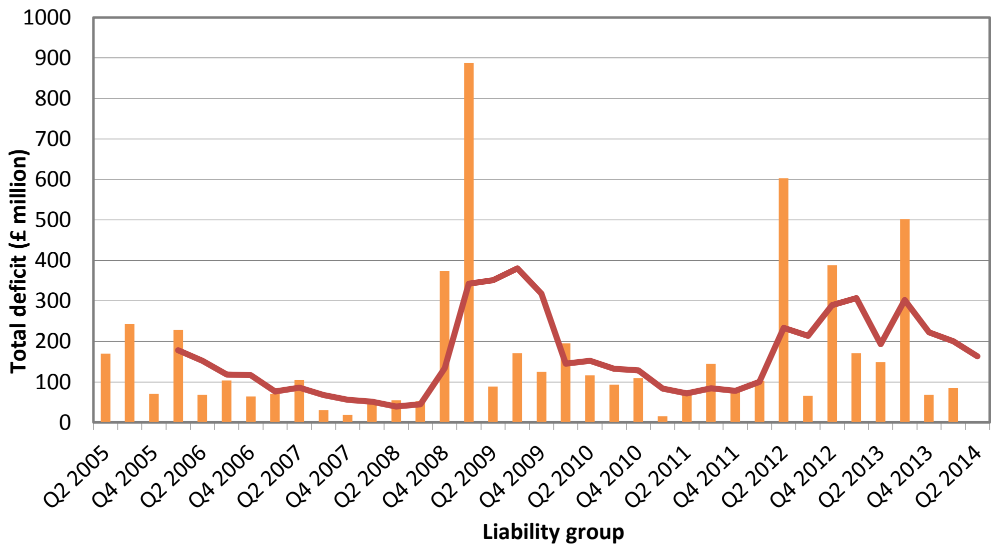


Source: PPF / The Pensions Regulator

*Sections and segregated schemes not amalgamated.

The total deficit of schemes entering assessment in the year to Q1 2014 was £803 million, down from £1,227 million in the year to Q1 2013.

Chart 10.3 | Total s179 deficits for schemes entering an assessment period

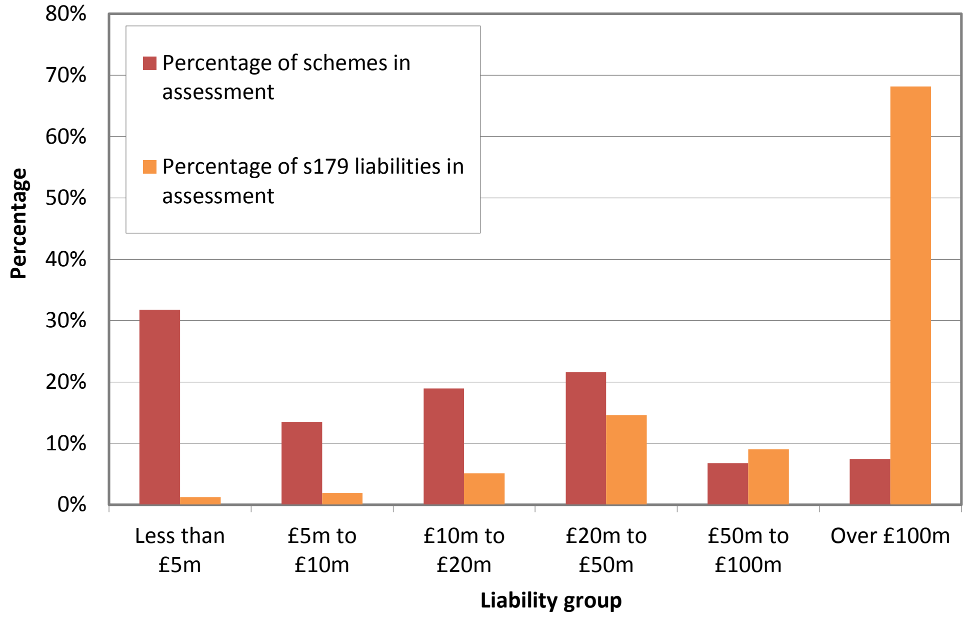


Source: PPF / The Pensions Regulator

Schemes with liabilities of more than £100 million represent 7.4 per cent of schemes in assessment but 68.2 per cent of liabilities.

10.3 Scheme Demographics

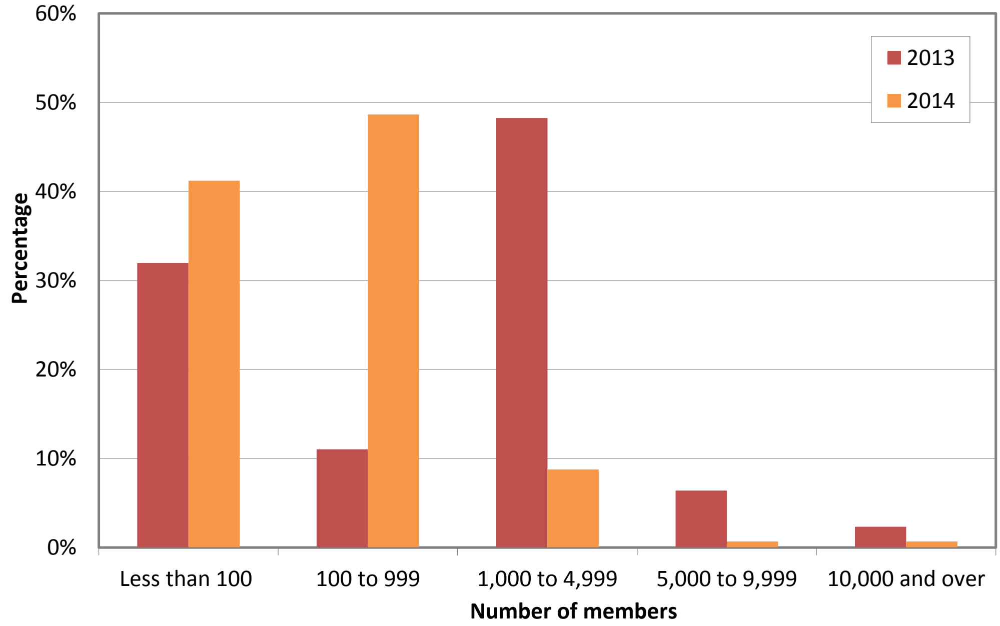
Chart 10.4 | Percentage of schemes and percentage of s179 liabilities grouped by size of liabilities for schemes in assessment, as at 31 March 2014



Source: PPF / The Pensions Regulator

In 2014, 49 per cent of the schemes in assessment were in the 100-999 membership range. 41 per cent had fewer than 100 members.

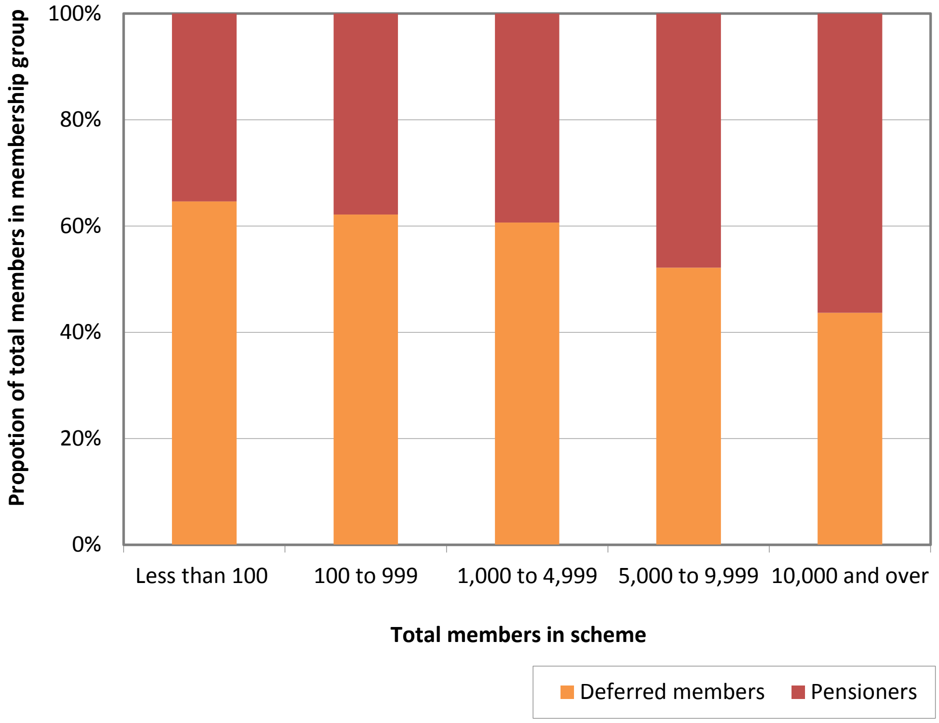
Chart 10.5 | Proportion of schemes in assessment by number of members



Source: PPF / The Pensions Regulator

Schemes in assessment in the 10,000 and over membership range are the most mature schemes.

Chart 10.6 | Maturity of schemes in assessment by membership size*



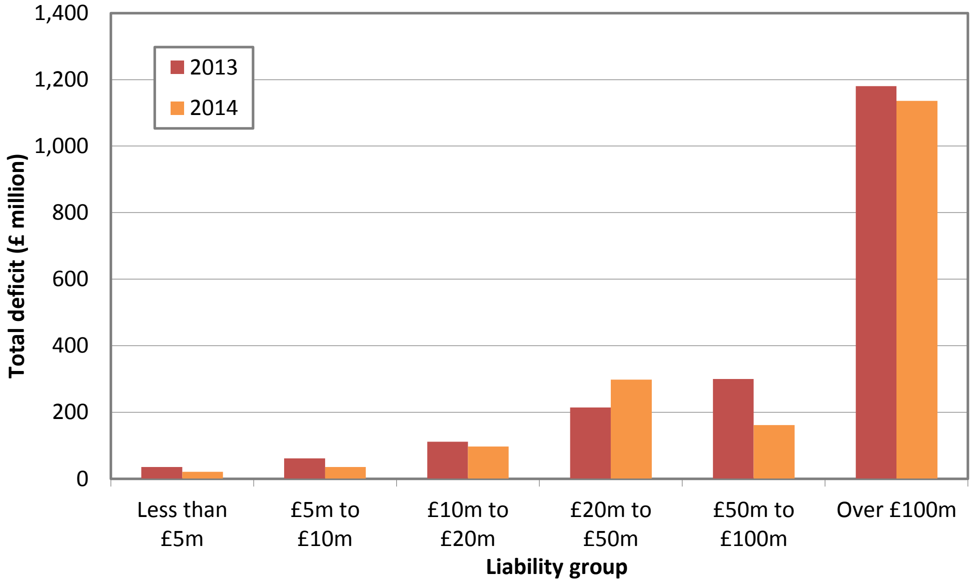
Source: PPF / The Pensions Regulator

*Only pensioners and deferred members are considered.

2014 saw an increase in the deficit of the schemes in the £20 million to £50 million liability group.

10.4 Funding level

Chart 10.7 | Total s179 deficit of schemes in assessment by liability size

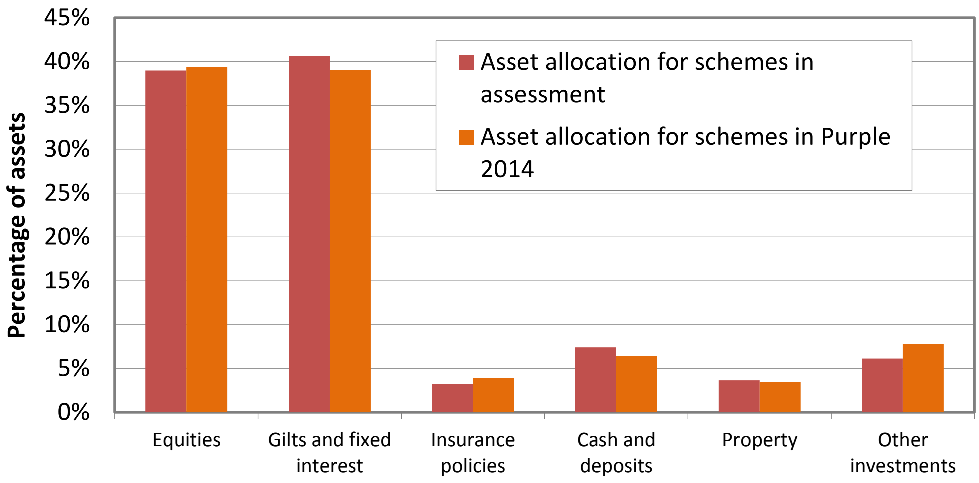


Source: PPF / The Pensions Regulator

Prior to assessment, schemes had a similar asset allocation to schemes in general.

10.5 Asset allocation

Chart 10.8 | Simple-average asset allocations prior to assessment for schemes in assessment and the Purple 2014 dataset as at 31 March 2014.

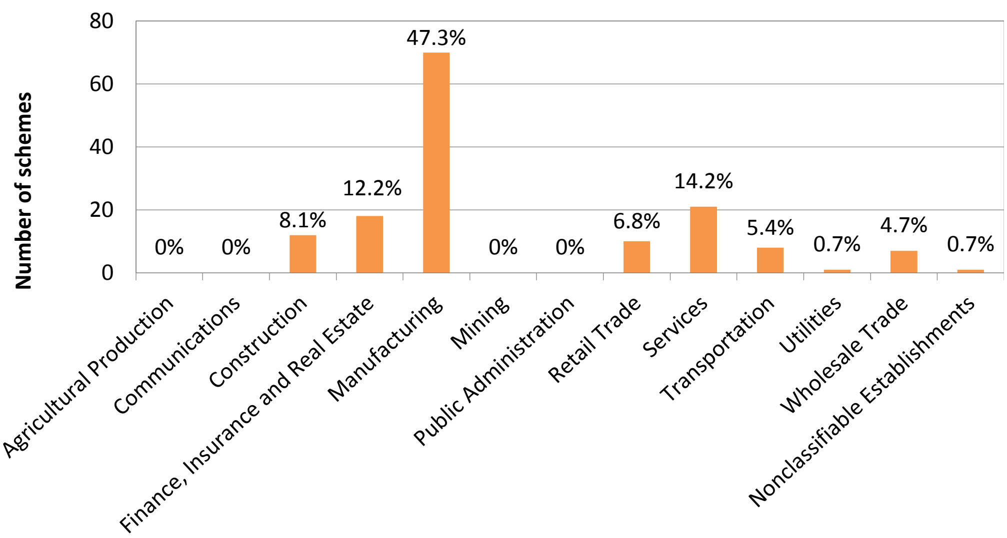


Source: PPF / The Pensions Regulator

10.6 Industry Classification

Manufacturing made up 70 of the 148 schemes in assessment (47.3 per cent).

Chart 10.9 | Distribution of schemes in assessment by industry classification

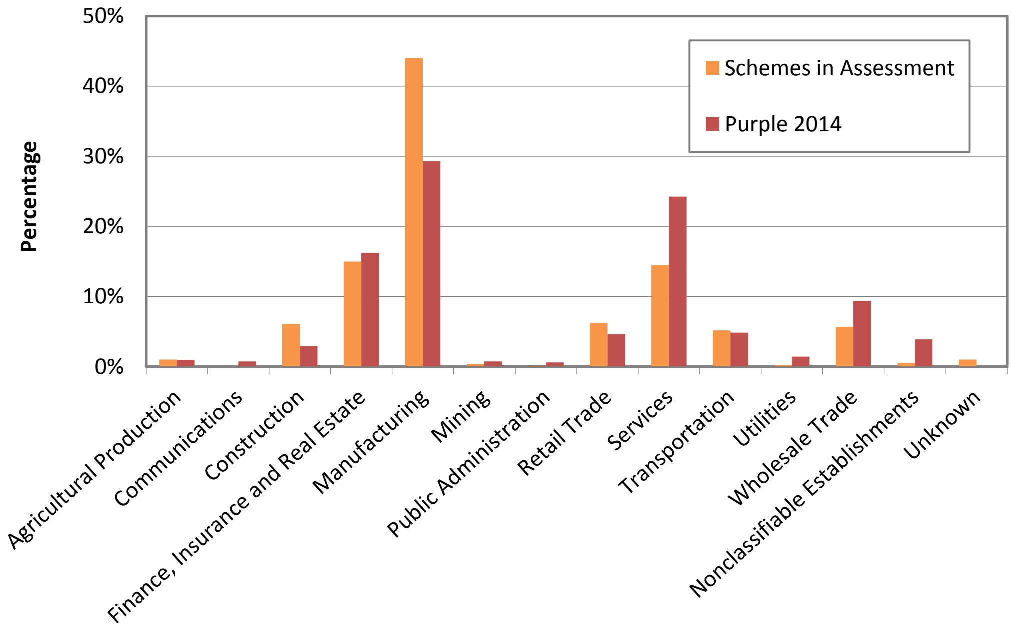


Source: PPF / The Pensions Regulator

Manufacturing contributed 44.0 per cent of the schemes entering assessment since 2005. This is much higher than its proportion in the DB universe.

10.7 Total Claims since 2005[2] up to 31 March 2014

Chart 10.10 | Distribution of schemes entering an assessment period since 2005 by industry classification*

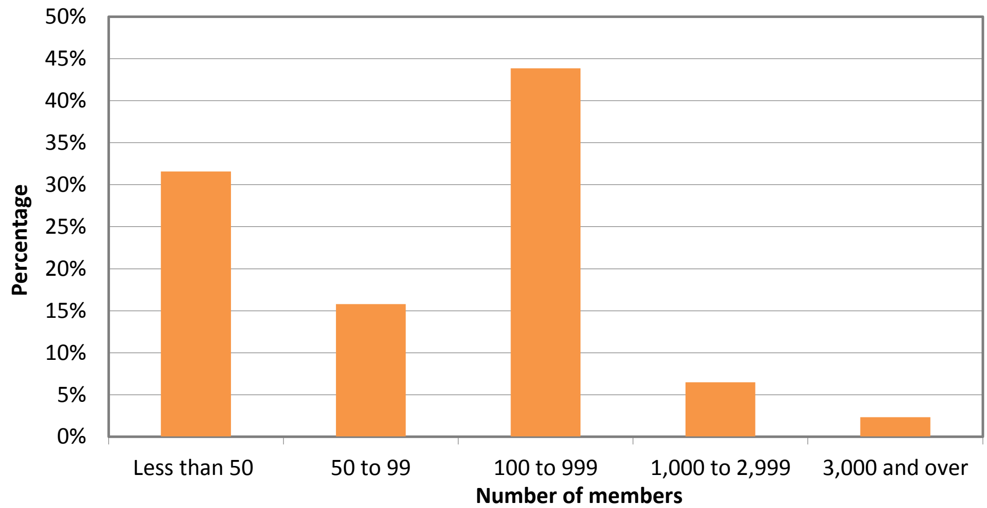


Source: PPF / The Pensions Regulator

*Based on US 1972 Standard Industrial Classification

43.9 per cent of claims since 2005 came from schemes in the 100-999 membership range. Schemes under 100 members make up 47.3 per cent of the claims since 2005.

Chart 10.11 | Proportion of claims since 2005 by membership size



Source: PPF / The Pensions Regulator

[2] Sections and segregated schemes not amalgamated.

11 PPF Compensation 2013/14

11.1 Summary

- When an eligible Defined Benefit (DB) scheme transfers into the PPF, the PPF generally pays a starting level of compensation of 90 per cent of scheme pension (subject to a compensation cap) to members who were yet to reach their normal retirement age (NRA) at the date the scheme entered assessment. The PPF will generally pay a starting level of compensation equivalent to 100 per cent of scheme pension to those who were already over their NRA at the start of the assessment period[1].
- In 2013/14, the PPF made compensation payments of £445.1 million compared with £331.8 million in 2012/13.
- As at 31 January 2014, 95,599 members were in receipt of PPF compensation, up from 80,665 as at March 2013. Average compensation in payment stood at £4,089 a year (unless otherwise stated, totals and averages relating to pensioners include dependents). The number of members with compensation not yet in payment (deferred members) as at 31 January 2014 totalled 100,070. For these members, the average accrued periodic compensation (before any prospective application of the compensation cap at NRA) was £3,355 a year.
- As at 31 January 2014, males constituted 62 per cent of pensioner and 67 per cent of deferred members.
- Spouses and other dependants account for 15 per cent of those currently in receipt of compensation. They receive 10 per cent of the total compensation in payment.
- Around 49 per cent of all compensation is attributable to former employees of the manufacturing sector down from 51 per cent the previous year.
- The West Midlands region has the largest receipt of compensation, currently at 15 per cent of total pensioner compensation.
- 89 per cent of members are in receipt of (or have accrued) compensation of less than 25 per cent of the compensation cap (i.e. £8,717 a year).
- The majority of compensation (and liabilities) was accrued in relation to service before 6 April 1997 and is, therefore, not subject to indexation. Compensation accrued on or after 6 April 1997 is increased each year in line with Consumer Price Inflation (CPI) capped at 2.5 per cent with a floor of 0 per cent.
- Deferred compensation is re-valued over the period to NRA in line with CPI capped at 5 per cent per annum (for compensation accrued before 6 April 2009) and CPI capped at 2.5 per cent per annum (for compensation accrued on or after 6 April 2009), subject to a floor of 0 per cent in both cases.

[1] The annualised average rate of compensation is calculated by scaling up compensation over one month to reflect one year. This measure, which excludes lump sum payments, is used in order to accurately represent periodic compensation in payment at 31 March 2014.

- In 2011, the government introduced new rules to move to the use of the CPI for the purpose of the indexation and revaluation (subject to the appropriate caps and floors as detailed above). Prior to 2011, increases were based on the Retail Prices Inflation index (RPI). These changes affect pension revaluation for deferred members from April 2011 and indexation for pensioners from January 2012. All figures of compensation presented in this chapter are, where relevant, based on historical RPI inflation indexation and revaluation.

Total compensation paid has increased over the year from £331.8 million to £445.1 million.

11.2 Total compensation and number of members

Table 11.1 | Total compensation and number of members

	Year			
	2007	2008	2009	2010
Total compensation (£ million, year to 31 March)	1.4	17.3	37.6	81.6
Total pensioner members (31 March)	1,457	3,596	12,723	20,775
Total deferred members (31 March)	5,621	8,577	18,009	26,058
	Year			
	2011	**2012**	**2013**	**2014***
Total compensation (£ million, year to 31 March)	119.5	203.3	331.8	445.1
Total pensioner members (31 March)	33,069	57,506	80,665	95,599
Total deferred members (31 March)	42,063	70,608	91,353	100,070

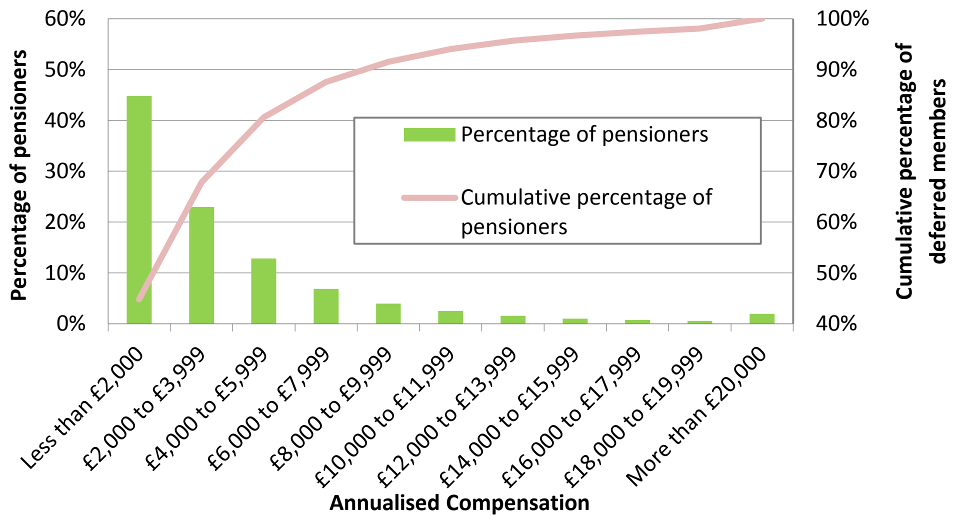
Source: PPF / The Pensions Regulator

*Pensioner and deferred membership at 31 January 2014.

81 per cent of pensioner members are in receipt of annualised compensation of less than £6,000.

11.3 Distribution of compensation

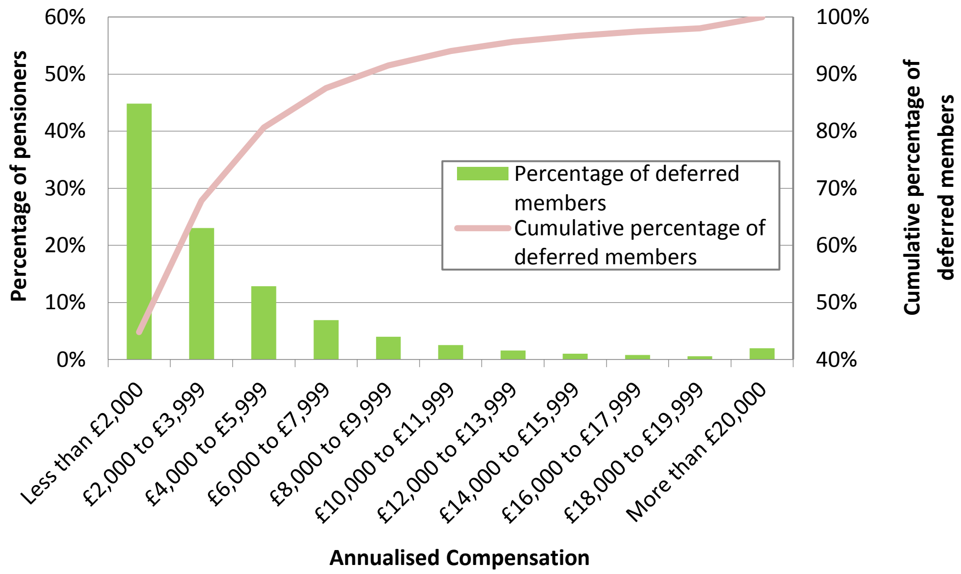
Chart 11.1 | Distribution of pensioners by annualised compensation level



Source: PPF / The Pensions Regulator

83 per cent of deferred members have accrued annualised compensation of less than £6,000.

Chart 11.2 | Distribution of deferred members by annualised compensation levels

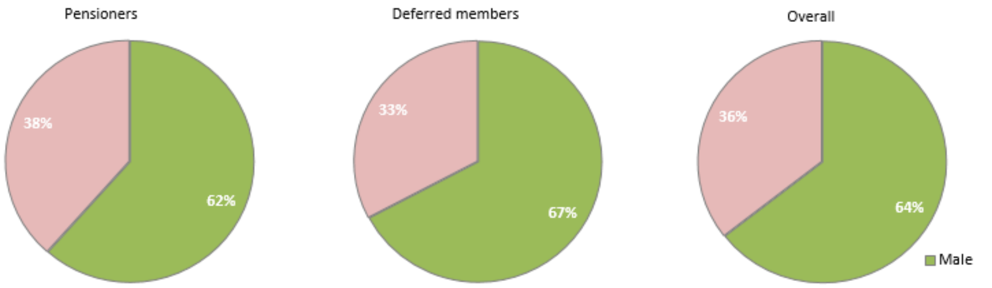


Source: PPF / The Pensions Regulator

Overall, males make up 64 per cent of members of transferred schemes.

11.4 Gender

Chart 11.3 | Gender composition of pensioners and deferred members



Source: PPF / The Pensions Regulator

Spouses and other dependants constitute 15 per cent of total pensioners and 10 per cent of compensation.

11.5 Spouses and other dependants

Table 11.2 | Proportions of spouses and other dependants, and members within the PPF current pensioner population

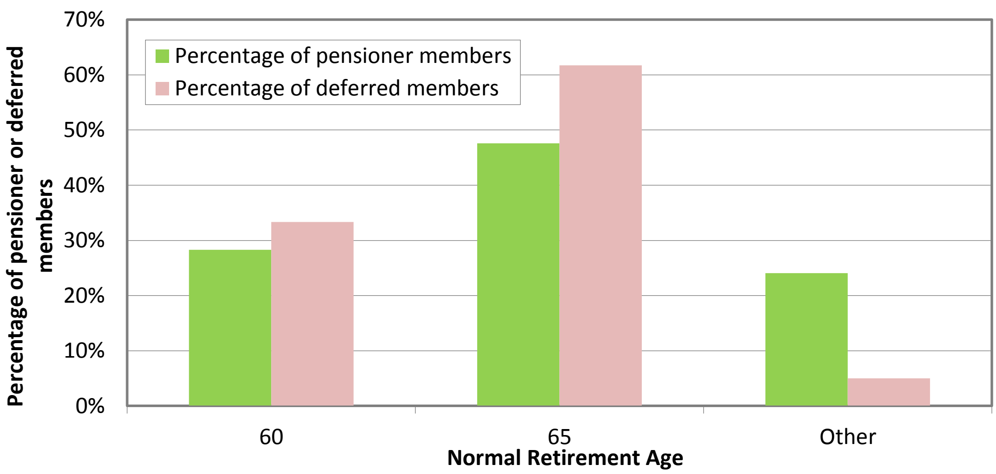
	Number within pensioner population	Percentage of total population	Annualised compensation (£000, pa)	Percentage of total annualised compensation
Dependents	14,804	15%	£39,871	10%
Members	80,795	85%	£351,012	90%
Total	**95,599**	**100%**	**£390,883**	**100%**

Source: PPF / The Pensions Regulator

48 per cent of pensioner and 62 per cent of deferred members have an NRA of 65. Last year, 50 per cent of pensioner and 62 per cent of deferred members had an NRA of 65.

11.6 Normal Retirement Age (NRA)

Chart 11.4 | Distribution of pensioner and deferred members by NRA

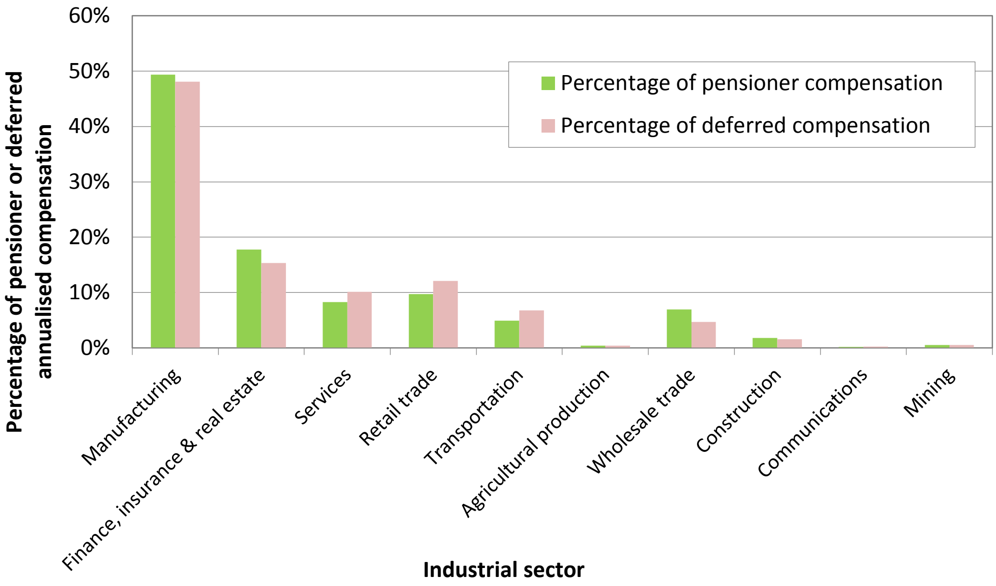


Source: PPF / The Pensions Regulator

The proportion of compensation directed to former employees of the manufacturing industry has fallen to 49 per cent from 51 per cent the previous year.

11.7 Industry

Chart 11.5 | Pensioner and deferred member annualised compensation by individual sector*



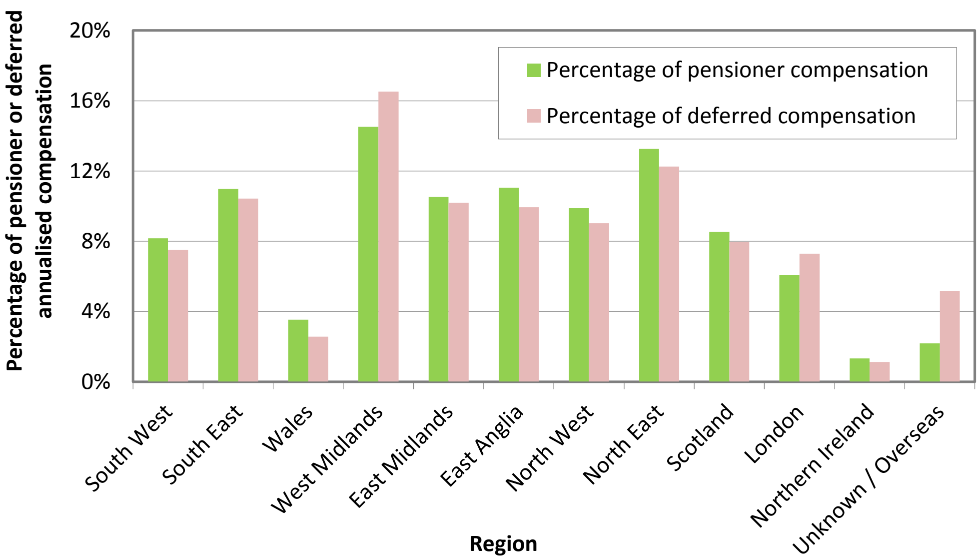
Source: PPF / The Pensions Regulator

*Based on US 1972 Standard Industrial Classification

The largest share of compensation goes to the West Midlands, due to the high number of relevant sponsor insolvencies in the region.

11.8 Geography

Chart 11.6 | Pensioner and deferred member annualised compensation by UK region



Source: PPF / The Pensions Regulator

The majority of compensation for pensioners was accrued in relation to service before April 1997.

11.9 Period of service

Table 11.3 | Pre- and post-April 1997 annualised compensation for pensioners and deferred members

	Pensioners		Deferred	
	Compensation (£000s, pa)	Percentage of total	Compensation (£000s, pa)	Percentage of total
Pre-April 1997	299,045	77%	£165,877	48%
Post-April 1997	91,838	23%	£183,130	52%
Total	390,883	100%	£349,007	100%

Source: PPF / The Pensions Regulator

Table 11.4 | Value of non-AVC liabilities[2] attributable to pre- and post-April 1997 compensation for pensioners and deferred members

	Pensioners		Deferred	
	Liabilities (000s)	%	Liabilities (000s)	%
Pre-April 97	4,043,232	69%	£2,822,586	44%
Post-April 97	1,844,063	31%	£3,665,609	56%
Total	5,887,295	100%	£6,488,195	100%

Source: PPF / The Pensions Regulator

[2] On the basis used for the PPF's Annual Report and Accounts 2013/14. AVC are additional voluntary contributions.

12 Risk Reduction

12.1 Summary

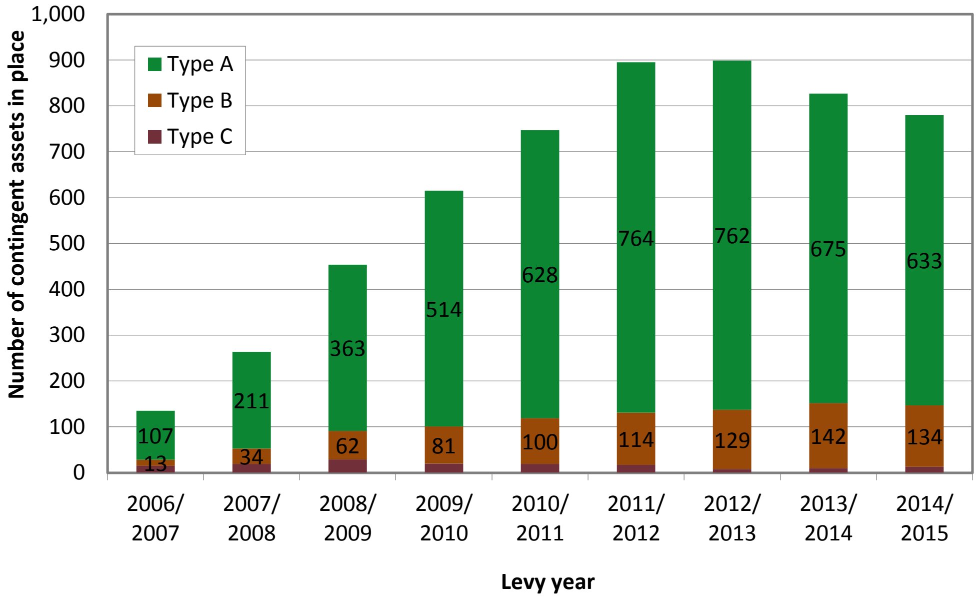
- The total number of Contingent Assets (CAs) recognised by the PPF for the 2014/15 levy year was 780, somewhat lower than in the previous year. This reflected a fall in the number of Type A contingent assets (company guarantees). Firmer standards of validation introduced by the PPF have led to the decrease in the number of recognised Type A CAs.
- The number of Type B CAs (security over holdings of cash, real estate and or securities) fell slightly.
- Schemes in the Purple 2014 dataset had by 10 April 2014 certified approximately £25.6 billion of Deficit Reduction Contributions (DRCs)[1] to reduce deficits for the 2014/15 levy year.
- Data from the Office for National Statistics (ONS) covering 350 large pension schemes (including 100 local authorities and some DC schemes) show that employers made £17.4 billion in special contributions in 2013 (i.e. those in excess of regular annual contributions), lower than £18.2 billion in 2012.
- Analysis of the Pension Regulator's latest technical provisions and recovery plan data show that in Tranche 7[2], the average recovery plan length increased to 8.4 years, the average funding ratio as measured by assets divided by technical provisions decreased to 80.8 per cent, while technical provisions as a percentage of s179 liabilities dropped to 99.2 per cent[3] for the first time.
- Quarterly F&C Asset Management surveys of volumes traded by investment banks suggest that:
    - £80 billion of liabilities were hedged using inflation derivatives in the year to the first quarter of 2014. Q3 2013 recorded £30 billion of liability hedging activity, the biggest amount since Q1 2009.
    - £79.5 billion of liabilities were hedged using interest rate derivatives in the year to the first quarter of 2014, up more than 60 per cent from 2013.
- Total risk transfer business covering buy-outs, buy-ins and longevity hedges amounted to £71.8 billion between the end of 2007 and the first quarter of 2014. Just under half of these deals were longevity hedges.

[1] The certificates cover deficit reduction contributions made since the last scheme valuation. Typically, scheme valuations are carried out every three years.
[2] Tranche 7 covers schemes with valuation dates between 22 September 2011 and 21 September 2012.
[3] Note that the average funding ratio and the ratio of TPs to s179 liabilities only covers schemes which were in deficit on their TP basis.

The total number of contingent assets recognised by the PPF fell to 780 for the 2014/15 levy year. This reflected a fall in the number of Type A CAs, as a result of firmer standards at validation introduced by the PPF.

12.2 Contingent assets

Chart 12.1 | Contingent assets by type *



Source: PPF / The Pensions Regulator

*The numbers of recognised contingent assets for each year presented in Chart 12.1 may change as a result of, for example, successful appeals.

Type A contingent assets are guarantees provided by the parent/group companies to fund the scheme, most commonly, to a pre-arranged percentage of liabilities. Type B contingent assets comprise security over holdings of cash, real estate and/or securities. Type C[4] contingent assets consist of letters of credit and bank guarantees.

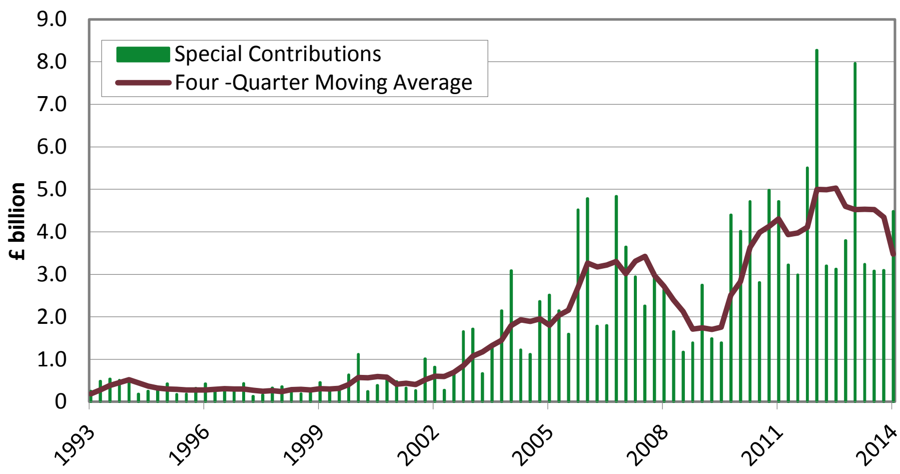
[4] The values for type C are 15 in 2006/2007, 19 in 2007/2008, 29 in 2008/2009, 20 in 2009/2010, 19 in 2010/2011, 17 in 2011/2012, 8 in 2012/2013, 10 in 2013/2014 and 13 in 2014/2015

ONS data covering 350 large pension schemes (including 100 local authorities and some DC schemes), show that employers made £17.4 billion in special contribution in 2014, lower than £18.2 billion in 2013. Special contributions increased significantly in the first quarter of 2014 but were still considerably lower than in the first quarter of 2013.

In Tranche 7, the average recovery plan was 8.4 years compared with 9.7 years for Tranche 4. (The comparison is appropriate given the three year valuation cycle).

12.3 Special contributions

Chart 12.2 | Special contributions



Source: MQ5, 'Investment by Insurance Companies. Pension Funds and Trusts', ONS

12.4 The scheme funding regime

Table 12.1 | Technical Provision (TP) and Recovery Plan (RP) lengths (unweighted)*

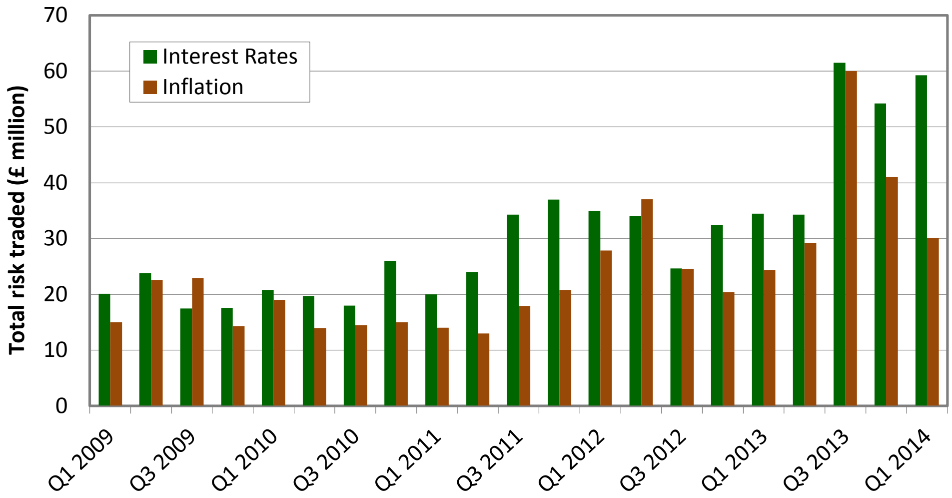
Tranche	Valuation dates	Number of plans	Average recovery plan length years	Assets as a percentage of Technical Provisions	Technical provisions as a percentage of s179 liabilities
1	2005-06	2,127	8.1	84.2%	103.4%
2	2006-07	1,888	7.7	87.3%	111.5%
3	2007-08	1,840	8.6	86.3%	109.0%
4	2008-09	2,048	9.7	74.0%	100.8%
5	2009-10	1,937	8.5	82.5%	111.6%
6	2010-11	1,652	7.8	88.2%	108.4%
7	2011-12	1,665	8.4	80.8%	99.2%

Source: PPF / The Pensions Regulator

*Notes: (1) valuation dates run from 22 September to 21 September (2) 85% of schemes with Tranche 7 valuations reported in respect of Tranche 4 and Tranche 1. (3) the ratio of TP to buyout liabilities was little changed between tranches 6 and 7; liabilities on a s179 basis went up more than on a buyout basis between the two years. The ratio of technical provisions to s179 liabilities is affected by changes in nominal and real gilt yields among other things.

12.5 Liability driven investment

Chart 12.3 | Inflation and interest risk traded for liability hedging purposes*



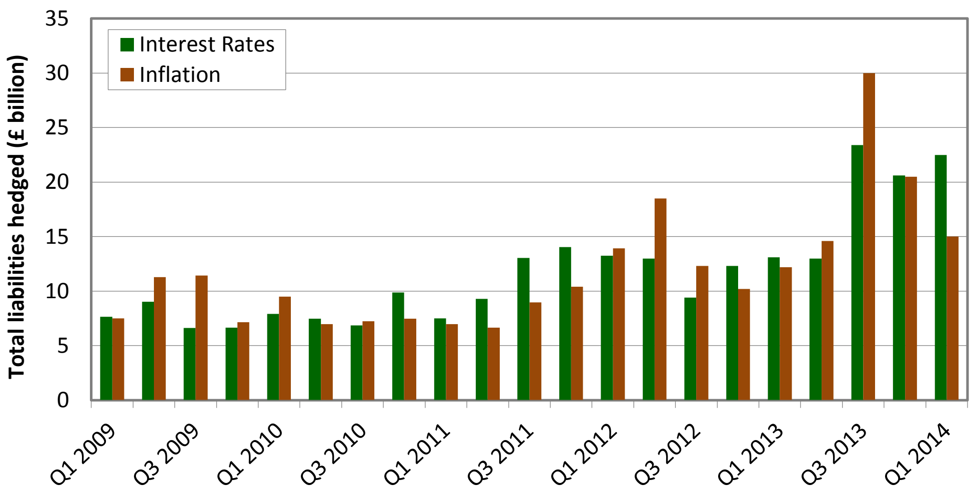
Source: F&C Asset Management

* Expressed as £ per 0.01% change in interest rates or RPI inflation expectations.

The average quarterly interest rate and inflation risk traded by investment banks over the latest year was £52.3 million and £40 million respectively.

The rise in LDI activity was the result of de-risking taking place among pension funds amid rising rates and improving funding.

Chart 12.4 | Average quarterly flow of liabilities being hedged*



Source: F&C Asset Management

*Total liabilities hedged are based on economic risk hedged by pension funds.

The average quarterly flow of liabilities being hedged against interest and inflation movements was £19.1 billion and £20 billion respectively over the year to Q1 2014. The flow of inflation and interest rate hedging business has increased markedly since Q1 2013.

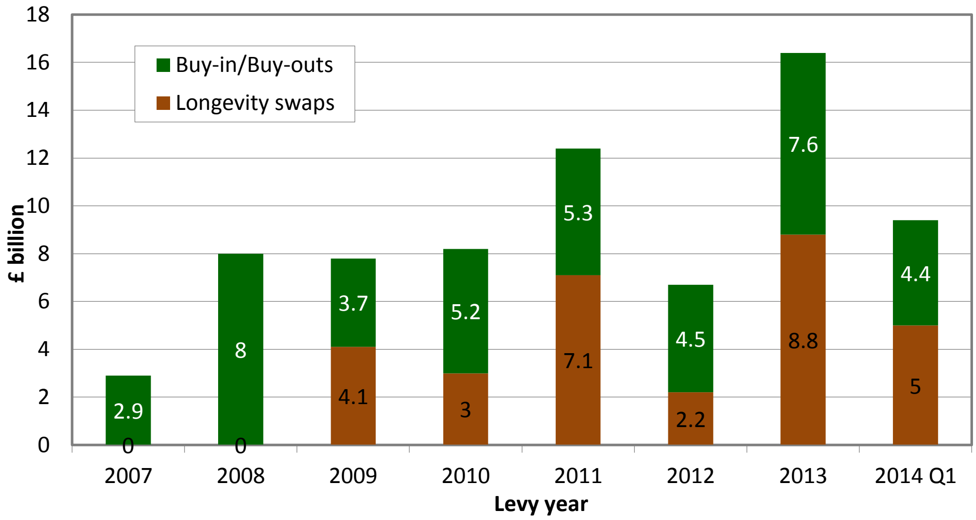
The value of risk transfer deals since 2007 sums to £71.8 billion. Just under half of these deals were longevity swaps.

12.6 Buy-out, buy-in and longevity hedging

Buy-out and buy-in transactions provide schemes with the opportunity to remove risk relating to all or part of their liability. Under a buy-out deal, a scheme transfers its entire liability and scheme assets to an insurer in exchange for a premium. Insurers tend to require assets significantly in excess of technical provisions to compensate for the risk transferred. Buy-in deals result in an insurance policy as a scheme asset.

While both longevity swaps and buy-in/buy-out can mitigate the risk of greater than expected life expectancy, under the former there is no transfer of the underlying scheme assets to a counterparty. Longevity swaps entail the pension scheme exchanging fixed payments for cashflows that vary in accordance with the longevity experience of a reference population (either the named scheme members or a wider sample).

Chart 12.5 | Value of risk transfer deals since 2007



Source: Hymans Robertson, "Buy-outs, buy-ins and longevity hedging"

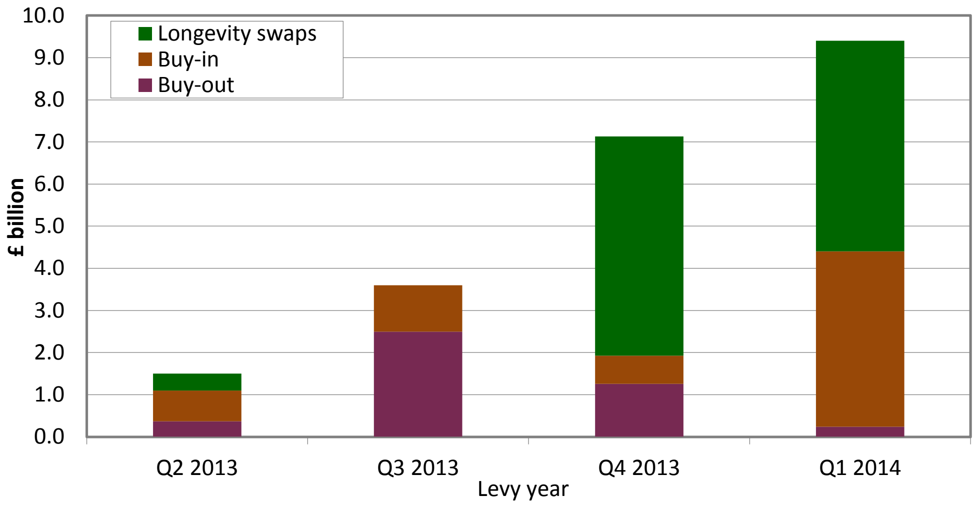
Table 12.2 | Risk transfer deals since 2007

	2007	2008	2009	2010	2011	2012	2013	2014 Q1
Buy-in/Buy-outs	-	-	-	174	171	167	219	40
Longevity swaps	0	0	6	1	5	2	10	1

Source: Hymans Robertson, "Buy-outs, buy-ins and longevity hedging"

Over the year to Q1 2014, the total value of transfer deals was £21.6 billion of which 49 per cent were longevity swaps, 31 per cent were buy-ins and 20 per cent buy-outs. The total value has increased steadily over the past year.

Chart 12.6 | Value of risk transfer deals in the year to Q1 2014



Source: Hymans Robertson, “Buy-outs, buy-ins and longevity hedging”

Chapter 3 appendix

Schemes by size band

Schemes	Status				All
	Open	Closed	Paid Up	Winding-up	
Member Group					
5 to 99 members	362	1,020	720	81	2,183
100 to 999 members	245	1,452	960	23	2,680
1,000 to 4,999 members	108	483	204	7	802
5,000 to 9,999 members	.	115	37	.	.
Over 10,000 members	40	137	.	.	.
Total	789	3,207	1,948	.	5,665

Note that results have been suppressed to preserve confidentiality.

Members by size band

Members	Status				All
	Open	Closed	Paid Up	Winding-up	
Member Group					
5 to 99 members	11,980	46,161	35,195	2,581	95,917
100 to 999 members	83,436	537,916	313,364	8,270	942,986
1,000 to 4,999 members	271,235	1,064,681	441,986	12,834	1,790,736
5,000 to 9,999 members	256,129	807,966	245,419	6,448	1,315,962
Over 10,000 members	1,852,555	4,478,676	598,740	22098	6,952,069
Total	2,475,335	6,935,400	1,634,704	52,231	11,097,670

Membership by member type

	Active members	Deferred members	Pensioner members
5 to 99 members	10,391	48,977	36,549
100 to 999 members	120,184	494,605	328,197
1,000 to 4,999 members	260,654	892,760	637,322
5,000 to 9,999 members	189,471	623,442	503,049
Over 10,000 members	1,268,559	2,958,291	2,725,219
Total	1,849,259	5,018,075	4,230,336

Schemes, membership, and s179 liability by industry

Industry	Total number of schemes	Total % of schemes	Total DB members	Total % of memberships	s179 liability (£ bns)	Total % s179 liability
Agricultural production	58	0.3	37,455	1.0	2.4	0.2
Communications	45	5.1	569,001	0.7	72.8	6.2
Construction	179	3	338,430	3.0	36.5	3.1
Finance, insurance and real estate	983	22.7	2,524,024	16.2	282.0	24.0
Manufacturing	1,775	25.9	2,873,512	29.3	301.5	25.6
Mining	45	0.4	48,518	0.7	6.3	0.5
Nonclassifiable establishments	237	6.2	687,156	3.9	91.6	7.8
Public administration	37	0.5	53,938	0.6	5.9	0.5
Retail trade	281	11.8	1,304,275	4.6	85.7	7.3
Services	1,468	11.5	1,276,681	24.2	139.6	11.9
Transportation	293	5.8	648,117	4.8	66.2	5.6
Utilities	88	2.5	282,504	1.5	43.9	3.7
Wholesale trade	568	4.1	454,044	9.4	42.4	3.6

Chapter 4 appendix

Scheme size

		5 to 99	100 to 999	1,000 to 4,999	5,000 to 9,999	10,000 and over
£ bn	Assets	13.3	102.2	174.8	139.0	708.2
	s179 Liabilities	12.8	108.7	189.9	143.9	721.4
	Buy-out Liabilities	18.3	153.5	266.0	203.5	1048.9
Schemes by s179 funding group	0% to 50%	34	28	.	.	.
	50% to 75%	331	634	186	37	27
	75% to 100%	780	1196	404	88	86
	Over 100%	1038	822	209	62	92
Schemes by buy-out funding groups	0% to 50%	225	357	113	22	16
	50% to 75%	1059	1680	518	112	133
	75% to 100%	679	572	153	44	50
	Over 100%	220	71	18	9	6

Scheme maturity

		25% and less	Between 25% and 50 %	Between 50% and 75%	Between 75% and 100%
£ bn	Assets	143.7	616.4	351.8	25.6
	s179 Liabilities	175.6	652.4	328.3	20.5
Schemes by s179 funding group	0% to 50%	41	19	-	-
	50% to 75%	592	558	62	-
	75% to 100%	793	1,361	377	23
	Over 100%	531	862	656	174

Scheme status

		Open	Closed to new entrants	Closed to future accrual	Winding-up
£ bn	Assets	212.0	783.6	137.5	4.3
	S179 Liability	238.2	788.4	146.1	4.1
	Buy-out Liability	337.0	1140.1	207.9	5.3
Schemes by s179 funding groups	0% to 50%	.	21	29	.
	50% to 75%	173	610	419	13
	75% to 100%	302	1,377	849	26
	Over 100%	302	1199	651	71
Schemes by estimated buy-out liability group	0% to 50%	123	351	250	9
	50% to 75%	381	1,885	1196	40
	75% to 100%	219	821	420	38
	Over 100%	66	150	82	26

Industry

	Schemes by status				£ bn	
	Open	Closed	Paid Up	Winding-up	Assets	s179 Liability
Agricultural production	6	24	27	.	2.4	2.4
Communications	7	29	9	.	67.7	72.8
Construction	34	87	54	.	37.8	36.5
Finance, insurance and real estate	101	546	312	24	294.9	282.0
Manufacturing	148	931	675	21	284.8	301.5
Mining	8	26	9	.	6.7	6.3
Public administration	13	21	.	.	4.8	5.9
Retail trade	25	134	106	16	85.8	85.7
Services	283	745	412	28	131.8	139.6
Transportation	61	162	68	.	61.2	66.2
Utilities	18	59	10	.	44.3	43.9
Wholesale trade	44	321	194	9	38.7	42.4

Glossary

Active member

In relation to an occupational pension scheme, a person who is in pensionable service under the scheme.

Acronyms

• LDI
Liability-driven investment

• ONS
Office for National Statistics

Administration

See Company: trading status.

Aggregate funding position

Sum of assets less sum of liabilities, or sum of scheme funding positions. In a pool of schemes where schemes in deficit outweigh schemes in surplus there is an aggregate deficit.

Assessment period

The time when a scheme is being assessed to see if the Pension Protection Fund can assume responsibility for it.

Buy-out basis

The level of coverage the current assets will provide if all benefits were to be bought out in the name of the individual member with an insurance company. See also full buy-out.

Closed (to new members)

The scheme does not admit new members. Existing members can continue to accrue pensionable service/benefits.

Company: business types

• Limited liability partnerships
These are a type of alternative corporate business vehicle that gives the benefits of limited liability but allows its members the flexibility of organising their internal structure as a traditional partnership.

• Partnership
The relationship that exists between individuals who run a business together with a view to making a profit. The rights of each partner are governed by a partnership agreement or the Partnership Act 1980.

• Private company
A company registered under the Companies Act 1985 that is not a public limited company. A private company may be registered as a limited or unlimited liability

company. It must have at least one member and at least one director. There is no minimum share capital requirement.

• Public limited company
A company registered under the Companies Act 1985. It must have at least two members and two directors and a share capital that complies with the authorised minimum amounts. It can offer its shares to the public and may be among the public companies that trade on the Stock Exchange.

• Registered charity
An institution (corporate or not) which is established for exclusively charitable purposes and which is registered with the Charity Commission.

• Sole trader
An individual who carries on a business on his or her own account. The individual is fully liable for any losses of the business and pays income tax on any taxable profits of the business.

Company: trading status

• Active/currently trading
The company is continuing to trade.

• Administration
One of the main corporate insolvency rescue procedures. It can be a precursor to a company voluntary arrangement under which the company is restructured and passed back to its directors. In an administration, the insolvency practitioner, as officer of the court, takes over powers of management of the business (but is able to delegate these back to management) with the objective of rescuing the company or (if that is not possible, or if the result would be better for creditors) rescuing the business as a going concern and providing protection from actions by creditors while doing so. A partnership can also be subject to administration as a prelude to a partnership voluntary arrangement.

• Dissolved
The company has ceased trading. All assets of the company have been disposed of and/or it has been taken off the register at Companies House.

• Dormant
The company is not currently trading but remains a corporate entity and/or remains on the register at Companies House.

• In liquidation
Either a creditor or the company can apply to the courts to put the company into liquidation. It is the process which eventually brings a company's existence to an end after distributing its assets to creditors/shareholders.

• Liquidated
Following the liquidation process, the company has ceased trading. All assets of the company have been disposed of and/or it has been taken off the register at Companies House.

• Receivership
(Also known as administrative receivership or Law of Property Act (LPA) 1925 receivership.) Non-court procedure whereby an insolvency practitioner takes control of the whole of a company's assets under the terms of a charge or mortgage.

Default risk

The risk that the borrower will be unable to satisfy the terms of its borrowing obligations with respect to the timely payment of interest and repayment of the amount borrowed.

Deferred member

In relation to an occupational pension scheme, a person (other than an active or pensioner member) who has accrued rights under the scheme.

Deficit reduction contribution

A one-off (or irregular) contribution made by a scheme sponsor to a pension scheme to reduce the level of deficit.

Defined benefit

Benefits are worked out using a formula that is usually related to the members pensionable earnings and/or length of service. These schemes are also referred to as final salary or salary related pension schemes.

Defined contribution

Benefits are based on the amount of contributions paid, the investment returns earned and the amount of pension this money will buy when a member retires. These schemes are also referred to as money purchase pension schemes.

Dun & Bradstreet (D&B)

A provider of insolvency scores.

FRS17

In November 2000, the UK Accounting Standards Board released a new financial reporting standard, numbered 17 (‘FRS17’). This sets out the accounting treatment for retirement benefits such as pensions and medical care during retirement. It replaces SSAP 24 (‘Accounting for pension costs’) and UITF Abstract 6 (‘Accounting for post-retirement benefits other than pensions’).

Full buy-out

The cost of insuring a pension scheme in the private market. The discount rate applied to liabilities would be more prudent in general than the discount rate applied to section 179 and MFR valuations. The benefit assumed in private insurance is usually non-capped and thus could be greater than Pension Protection Fund coverage.

Gilt yield

The yield, if held to maturity, of a government (non-indexed) bond.

Hybrid scheme or partial defined benefit scheme

A scheme that can provide defined benefits and defined contribution benefits. A scheme providing benefits on a defined contribution basis but that is or was contracted out of the state scheme on either a GMP or Reference Scheme test basis is a common example of a hybrid scheme.

IAS19

An international accounting standard equivalent of FRS17.

Insolvency events

These are the insolvency triggers set out in the Pension Protection Fund legislation.

Insolvency risk

The risk that a borrower will have to close business due to its inability to service either the principal or interest of its debt. This is a more extreme event than a default. See also Insolvency events.

Insurance company

Insurance companies provide a range of services to pension schemes, including:

- asset investment;
- asset management;
- investment advice and expertise;
- custodian facilities; and
- scheme administration services.

Insurance managed funds

A unitised fund invested in multiple investment categories managed by an insurance company.

Insurance policy

Investment class: an annuity or a deposit administration contract purchased from an insurance company.

LTRM

The Pension Protection Fund's Long-Term Risk Model, which is based on stochastic simulations of economic scenarios and their respective impacts on assets and liabilities of pension schemes under coverage and the credit quality of the sponsoring employers.

MQ5 data

The data from the ONS MQ5 enquiry is based on a sample of 350 pension schemes. This is comprised of around 100 local authorities and 250 public and private corporations (the PPF database excludes local authorities and public corporations). The sample has total assets of £1,100 billion, which is much higher than the PPF database. All schemes with more than 20,000 members are automatically included and schemes with less than 20,000 members are randomly selected. The sample is made up of what are known as 'superannuation and self-administered pension funds'. A self-administered pension fund id defined as an occupational pension schemes with units invested in one or more managed schemes or unit trusts; a superannuation pension fund is defined as a an organisational pension programme created by a company for the benefit of its' employees. The sample may also contain defined contribution schemes.

Open

The scheme continues to accept new members, and benefits continue to accrue.

Paid up (or frozen)

All contributions to the scheme have stopped and no further pensionable service accrues. Members' benefits for earlier service continue to be held and invested in the scheme.

Participating employer

An employer that has some (or all) employees who can join an occupational pension scheme. This term is usually used where there is more than one employer participating in a single scheme.

Pensioner member

A person who is currently receiving a pension from the scheme or from an annuity bought in the trustee's name.

Pension Protection Fund (PPF)

A statutory corporation run by the Board of the Pension Protection Fund, established under the Pensions Act 2004.

Pension protection levy

This is the annual amount that a pension scheme is charged by the Pension Protection Fund. It is composed of a scheme-based levy and a risk-based levy. It is similar to an insurance premium.

The Pensions Regulator

The UK regulator of work-based pension schemes, an executive non-departmental public body established under the Pensions Act 2004.

Principal employer

The employer named in the trust deed and rules of the scheme which usually has powers such as those to appoint trustees, amend the scheme rules or wind the scheme up. This is often the employer who set up the scheme, or its successor in business.

Risk-based levy

See pension protection levy. Calculated on the basis of a pension scheme's deficit and insolvency risk of the sponsoring employer.

Scheme actuary

The named actuary appointed by the trustees of a defined benefit occupational pension scheme to carry out specific duties set out in the Pensions Act 1995.

Section 179 (s179) valuation

To calculate the risk-based pension protection levy the Pension Protection Fund Board must take account of scheme underfunding. To obtain a consistent basis for determining underfunding, schemes can complete a Pension Protection Fund valuation (section 179). This valuation will be based on the level of assets and liabilities for the scheme. The liabilities will be based on the scheme benefits taking into account key features of the levels of compensation paid by the Board of the Pension Protection Fund as set out in Schedule 7 of the Pensions Act.

Scheme-based levy

See pension protection levy. Calculated on the basis of section 179 liabilities and the number of members participating in the pension scheme.

Scheme funding position

The difference between the assets and liabilities of a pension scheme (scheme deficit if negative, scheme surplus if positive).

Scheme funding valuation

New legislation on scheme funding came into force on 30 December 2005. The new requirements, introduced by the Pensions Act 2004, replace the minimum funding requirement and apply to occupational pension schemes providing defined benefits.

Scheme member

In relation to an occupational pension scheme, a scheme member is any person who:

- is an active member;
- is a deferred member;
- is a pensioner member;
- has rights due to transfer credits under the scheme; or
- has pension credit rights under the scheme.

This includes scheme members whose only entitlements are equivalent pension benefits (EPBs) as those rights were earned through pensionable employment. Members (for occupational and personal schemes) do not include dependants of members. Those whose only entitlements are lump sum benefits payable on death are also not included.

Scheme return notice

The Pensions Act 2004 set out the requirement to send occupational pension schemes a scheme return to complete. The information collected in the scheme return will further enable the regulator to perform its new role and responsibilities. The scheme return notice is issued to schemes to inform them that it is time to complete a scheme return.

Sectionalised scheme

A multi-employer scheme which is divided into two or more sections where:

- any contributions payable to the scheme by an employer in relation to the scheme, or by an employee of that employer, are allocated to that employer's section; and
- a specified proportion of the assets of the scheme is attributable to each section of the scheme and cannot be used for the purposes of any other section.

Some sections open/some sections closed

A scheme that has sections with different status types. For example the scheme may have a defined benefit section closed to new entrants, and a defined contribution section open to new entrants.

Swap

A contract calling for the exchange of payments over time. Often one payment is fixed in advance and the other is floating based upon the realisation of a price or interest rate.

Total deficit

Sum of scheme deficits, or sum of scheme funding positions for schemes in deficit only.

Trustees

• Corporate trustee (non-professional)
A company usually related to the employer (or the employer itself) set up to act as trustee for a scheme or a series of related or associated schemes.

• Member-nominated trustee (MNT)
A person nominated by the members (and sometimes elected) to be a trustee of the scheme. A MNT may be a member of the scheme. A MNT is appointed in accordance with sections 16-21 of the Pensions Act 1995.

• Pensioneer trustee
A pensioneer trustee is an individual or a company recognised by HMRC (Inland Revenue) as having pensions expertise.

• Professional trustee (including corporate)
A professional trustee not connected with the employer and not a scheme member. The trustee could be a corporate trustee company or an individual. A professional trustee provides trusteeship and trustee services to a number of unrelated and nonassociated pension schemes.

• Statutory independent trustee
A trustee appointed to a scheme where an insolvency practitioner has been appointed over an employer in accordance with sections 22-26 of the Pensions Act 1995.

Voluntary form reporting

Electronic forms are available on the Pension Protection Fund's website for pension schemes to provide data regarding sectionalised schemes, contingent assets, participating employers, scheme structure, estimates of pension fund deficits on a section 179 basis, deficit reduction contributions and block transfers.

Winding up/wound up

After the wind-up is complete (the scheme is wound up), there will be no assets or liabilities left in the scheme, and the scheme will cease to exist as a legal entity. Winding up describes the process of reaching wind-up from normal ongoing status. To make sure that members will still receive benefits, there are several options:

- transferring pension values to another pension arrangement;
- buying immediate or deferred annuities; or
- transferring the assets and liabilities of the scheme to another pension scheme.

The scheme must be wound up in accordance with the scheme rules and any relevant legislation.

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