Pension Protection Fund

Strategic Plan 2012

May 2012

Contents

Foreword

We enter a new financial year with one simple theme driving the way we think about managing the Pension Protection Fund: size. At the end of 2011/12 financial year, over 128,000 people had transferred to the PPF, close to double the number a year before. This number will more than double again over the next three years; by the end of March 2015 almost 500,000 PPF and FAS members will be directly protected by the PPF. Putting our customers first will be key to our success over the next three years.

We will also see a significant increase in assets under management in the years ahead, with our investment portfolio set to nearly double to over £17 billion by 2015. Such exponential growth is unparalleled in the pensions industry and presents numerous challenges in making sure we get the money to work as quickly as possible and protecting our position in turbulent markets. Our members' futures depend on that.

We would like to say that the backdrop to the PPF's growth is a recovering economy, but again we find ourselves entering a new financial year with an uncertain economic future. Protection of our members does not end with their transfer to the PPF; we will have to maintain their confidence in the PPF during difficult times. This will be demanding, but we are confident that the PPF will continue to be resilient.

Fortunately, meeting challenges like those ahead is precisely what makes our staff enjoy where they work and, most importantly, care about the job they do for members. We have endured a difficult time for recruitment and retention, so in the year ahead we will continue to make the PPF a place where our staff feel valued and where they can achieve their potential.

We will be improving our service in a number of areas this year. We will continue to increase the quality of member data to ensure we can pay the right people, the right amount at the right time. In the autumn, we will begin levy invoicing using the new levy framework, to provide more stable and predictable bills, while improving our processes to make invoicing and collection faster.

There are also interesting developments on the horizon with possible new European rules on pension scheme solvency and the Pensions Infrastructure Platform for UK pension schemes, which we have been involved in designing.

As always, it will be an exciting and challenging year ahead for the PPF. We look forward to working with the pensions industry, Government and of course our staff in achieving our goals in 2012/13.

Barbara Judge

Lady Judge
Chairman

Alan Rubenstein
Chief Executive

1. About us

1.1 This is what we do

Pension Protection Fund

We protect millions of people who belong to defined benefit, e.g. final salary, pension schemes in the United Kingdom.

If their employers fail, and their pension schemes cannot afford to pay what they promised, we will pay compensation for their lost pensions.

Tens of thousands of people are now receiving compensation and hundreds of thousands more will do so in the future.

Compensation, and the cost of running the PPF, are paid for through levies on eligible pension schemes. We also generate income from our own investments, taking on the assets of schemes that transfer to the PPF – and recovering money, and other assets, from insolvent employers of the schemes we take on.

We are a public corporation, set up by the Pensions Act 2004, run by an independent Board which is responsible to Parliament through the Secretary of State for Work and Pensions.

Fraud Compensation Fund

We also pay compensation to members of pension schemes of all types whose employers fail and whose schemes have lost out financially due to dishonesty.

This compensation is paid for through a separate levy on all pension schemes.

Financial Assistance Scheme

We manage the Financial Assistance Scheme (FAS) on behalf of the Government which funds it.

The FAS pays financial assistance to people who belonged to certain defined benefit pension schemes which are ineligible for compensation from the PPF – in particular, those which started winding-up between January 1997 and April 2005.

1.2 Our strategic framework

Our staff are united in pursuit of our vision, mission, values and strategic objectives. Our vision will be realised as we fulfil our mission; to do this we must also be successful in delivering our strategic objectives. These are underpinned by the values that all PPF employees share and which drive everything we do.

Vision:

- **Protecting people's futures.**

Mission:

- **Pay the right people the right amount at the right time.**

Strategic Objectives:

1. **Manage schemes through the assessment and wind-up processes in a timely and efficient manner**
2. **Meet our funding target through prudent and effective management of our balance sheet**
3. **Set and collect an appropriate levy and allocate it fairly**
4. **Maintain our reputation by communicating clearly what we do and why**
5. **Be an efficient and effective organisation where staff are recognised and valued**
6. **Maintain effective risk management in all areas of PPF business**

Values:

Integrity
'Do the right thing'

Collaboration
'Work as one'

Accountability
'Own your actions'

Respect
'Value every voice'

Excellence
'Be your best'

2. The next three years: 2012—2015

2.1 Our vision of the PPF in 2015

In 2015, we celebrate our first decade delivering our vision of protecting people's futures. Almost 500,000 PPF and FAS members are secure in retirement. The PPF has assets of over £17 billion and is on course for self-sufficiency in 2030, five years into our funding strategy.

We are a customer-focussed financial institution. Our members' customer experience — their needs and their confidence in us — is at the heart of everything we do. PPF's Retirement Income Services is a market leader in member tracing and dealing with member queries. That's how we maintain their confidence, and that of levy payers and Government, in our ability to pay the right people the right amount at the right time.

Levy payers are confident that they are paying the right amount to us and that the invoicing service, from data collection to payment, is fast and reliable, aided by improvements in technology. The new levy framework is delivering the stability and predictability we promised: the levy rules are fixed for three years, and invoice amounts only change with risk, and even then less dramatically than in the past.

Our successful investment strategy and cutting edge management of our financial risks is another source of confidence in the PPF. We are equivalent in size to one of the five largest pension funds in the country. The growth in the fund has been rapid since 2011, but we have built systems and process that are scaleable, resilient, competitive and transferable — they can handle our increased volumes of work. Our 2015 SIP is similar to that of 2010, but we are thinking about the level of responsiveness in our investment capability, and revising our strategy to lock out market risk. The levy and the investment strategy are both part of our overall funding strategy, which guides our policy, positions and decision-making in all financial areas of our business.

Outside the organisation, we have made a major impact on the way the pensions industry works and made the pension protection framework more efficient. We have helped reduce the fees that schemes have to pay to trustees and advisors, who understand what we expect of them. So too do our third-party suppliers: we don't just buy services from them, we make them part of the PPF team. Close relationships with The Pensions Regulator (TPR) and other government bodies in the UK and Europe create a better understanding of our business.

We are a high-performing organisation that focuses both on our objectives, and how we set about achieving them. We meet our balanced scorecard objectives and work towards the annual Big 3 in the way we're asked to by the PPF competencies. Demonstrating to all of these stakeholders that the PPF offers the best value for money is integral to maintaining our success and customer confidence in us.

Our maxim is *inspire and be inspired by each other*. Senior managers lead in developing the environment of inspiration in an organisation with the right mix of skills. What matters at the PPF is getting the right people in first, people who grow with the organisation as we broaden our influence. Staff have clarity about how their time here benefits their career. We seek to give talented staff responsibility and support in their wider development. The experience they gain at the PPF gives them a competitive edge as they move on in their career and chosen industry. This in turn benefits the PPF, as those industries then have better understanding of our aims and the way we work.

Many of us moved to the PPF to be part of something young and innovative, with freedom to create. After 10 years of operation, our appetite has not diminished. We have used our energy and enthusiasm to maximise the value PPF creates for the public and we are continually looking to do more.

2.2 How we're going to achieve it

Manage schemes through the assessment and wind-up processes in a timely and efficient manner

Providing compensation to scheme members is what we are here for. Many members of failed schemes are uncertain about their financial futures when their schemes enter the PPF assessment period. Moving schemes through the assessment period or FAS wind-up quickly is vital to providing them with peace of mind. When members transfer, we have to keep their confidence as customers. This is made all the more important by the fact that they cannot choose to come to or leave the PPF.

Over the next three years, we will develop our small, highly skilled expert team, making sure we have the necessary knowledge and influence to provide security for members in half the time. We will work with trustees, administrators and insurers to make the process run smoothly, keep costs down and make sure the basics, such as data provision, are done properly. New case management and knowledge systems will support schemes on their journey to the PPF.

We depend on effective working relationships with our scheme assessment partners, Punter Southall, which manages segments of PPF and FAS schemes for us. The system we have in place with Punter Southall, a tenet of *Assess & Pay*, affords us flexibility if claims are higher than expected.

At the end of 2011/12 we had 128,000 PPF members in compensation and 73,000 FAS members transferred. The rapid increase in membership since the first 46 members transferred to the PPF in December 2006 is to continue, dramatically, as the total PPF and FAS transferred membership increases to almost 500,000 by the end of March 2015.

The experience of those members as PPF customers is a major theme of the development of the PPF over the next three to five years. We will make sure that systems and processes can be scaled sufficiently and are robust enough to maintain their integrity as the demand on them increases. We will assure the quality of the service provided and review complex member queries to ensure faster resolution in future.

To maintain an effective member payroll service, we will ensure we have complete and accurate member data. Members' lives continue to change on transfer and therefore so will the information we hold on them. We will make the PPF a market-leader in this area, with effective existence checking and member tracing.

The member-customer will be at the forefront of our thinking between now and 2015 and we are looking at ways to improve our service to them via our member website, document suite and call centre. This will maintain their confidence at the highest level.

Meet our funding target through prudent and effective management of our balance sheet

We cannot meet our commitments to members unless we manage our balance sheet properly. Maintaining a smooth flight path towards our target of self-sufficiency by 2030 is integral to the success of the PPF in the long term. Success depends on more than managing our own investment portfolio. We also have to transition the investment strategies of transferring schemes to match our own, put levy collections to work with our fund managers quickly and ensure we get the best deal for members when sponsoring employers fail.

The PPF's funding strategy set out how we intend to have the financial resources needed to pay existing levels of compensation to current and future PPF members, and become financially self-sufficient by 2030. The strategy is not static; over the next three years we will continue to monitor progress and assess the need for changes. For example, it may be appropriate to shorten the time horizon if we observe an increase in pension scheme de-risking. We will publish annual updates to the funding strategy, alongside our Annual Report and accounts, to reflect how our position has changed at the end of each financial year.

With our assets under management set to increase to over £17 billion by March 2015, our investment focus for the next three years will be to ensure those funds are working and earning returns of 1.8 per cent above LIBOR, in line with our Statement of Investment Principles, while remaining within our risk limits. As we pursue that aim, greater use of tactical positions and tail risk hedging will reduce portfolio risk.

As the fund grows, we will also ensure we remain operationally robust. We will review our liability driven investment (LDI) arrangements to guarantee that the hedging process remains fit for purpose. We will also investigate whether we can make more use of fund manager monitoring systems. Investigation of these two areas will begin in 2012/13, but any action taken will extend into the following two years. Beyond that, we'll consider whether the current outsourced model remains appropriate for a fund of circa £17 billion.

When schemes fail, we will ensure we maximise the assets recovered from employers. It is key that we continue close working with TPR and DWP to overcome the plans of some schemes who wish to circumvent regulatory principles. These devices cannot be in the interests of member security. General workloads in relation to insolvencies are obviously difficult to predict, so a perennial aim is to remain responsive to changes in the operating environment, which depends as much on effective internal and external relationships as it does on monitoring. We have recovered well over £1 billion in our first seven years and we aim to maintain this level of success.

Set and collect an appropriate levy and allocate it fairly

The pension protection levy has always been the highest profile area of our work and teams from right across our business are involved in it. The amount we raise is becoming increasingly small when compared to our asset base, but remains an important lever in our funding strategy. The levy is also the main reason for contact between the PPF and the schemes we protect, so making sure it is fair, stable and understandable is crucial to our reputation and relationships.

From our stakeholders' perspective, stability will be the predominant theme of the next three years. In 2012/13 we will implement the new levy framework, the culmination of a project that began with a chapter in an August 2007 levy consultation document. Over the two years that follow, we expect no major changes to the rules or to the levy amount, confirmed at a lowest-ever £550 million for 2012/13 — though we will revise this if necessitated by changes in our operating environment.[1]

Within the PPF, developments will continue apace. In the first half of 2012/13, we will be preparing for the first invoicing of the new levy framework. The Business Plan 2012/13 states our aim to invoice 90 per cent of schemes by the end of October this year; by 2014/15 we want to fulfil that in September, bringing the total invoicing period down to one month, so the service is consistent every year. The shorter invoicing period will be matched by a shorter collection period, so levy money is put to work by our investment managers more quickly, to the benefit of members.

To make that happen, we will enhance the validation rules in the Pensions Regulator's *Exchange* system to maximise the quality of data available to us. We will also develop our verification capabilities in-house, particularly in relation to insolvency risk scores, contingent assets and investment risk stress tests. The invoicing platform for the new levy framework will be our best design yet and will make it easier to translate changes in parameters into levy invoices.

Our new focus on customer service will also apply to the levy. We will proactively engage levy payers who have had data issues, queries and reviews in the past, and we will continue to provide the best communications support we can to all levy payers.

[1] See *The 2012/13 Pension Protection Levy Consultation Document*, p.11

Maintain our reputation by communicating clearly what we do and why

We have always placed a great emphasis on communicating the PPF's actions and the reasons for them to anyone who is interested in or affected by what we do. This is fundamental to maintaining confidence in the protection the PPF provides. Two-way communication and an open, accessible approach underpins good relationships with our stakeholders, allowing us to work together to achieve results.

Over the next three years, we will continue to maintain open channels of communication with everyone interested in the PPF to ensure strong relationships. This doesn't only mean levy payers or industry professionals, but also the Government, European bodies and, crucially, members.

This is our seventh year of operation and the organisation is now mature. As we evolve, so does the PPF story. We will help stakeholders to understand the narrative of the PPF, keeping the reasons for our creation in mind and ensuring the direction of our future development is clear and understandable, so customers know what to expect from us in the future.

Part of this evolution involves the PPF becoming a customer-focused financial institution. We need to help the half a million members we will have by 2015 to understand how their compensation works and feel assured about their future with the PPF.

We are committed to improving our use of communications. To support clear communication of our strategic aims for the next three years, a number of channels will be used, including face-to-face meetings, our stakeholder support team, our website, webcasts and written communications.

Be an efficient and effective organisation where staff are recognised and valued

As a well-established organisation, we must demonstrate our efficiency. We must also continue to embed a culture where people strive for excellence, and feel their contribution is valued.

In the short term, this objective is all about people. To support achievement in the other strategic objectives, we need to make sure our people continue to be the best they can. Just as importantly, we need to make sure we can retain them following public service pay freezes. Many joined us from the private sector and we have seen some move back in recent years.

Over the next three years we will develop the PPF's employer brand, making it clear why it is great to work here and how the organisation supports its employees. We want the right people to join us and to be rewarded as they develop. We will make our recruitment and selection processes more efficient and effective and provide our staff with a clearly articulated and understood reward strategy. We will also put in place an improved talent management and development strategy, making sure our people managers will be developed as leaders.

The greatest measure of success is what our staff say about us. We are again pleased to be placed on the Sunday Times *Best Companies to Work For* list as 'one to watch' in 2012.

Maintain effective risk management in all areas of PPF business

Effective risk management is essential to fulfilling our delivery-focused strategic objectives. We have seven categories for our risks: Strategy/Environmental; Legal; Operational; Reputational; Organisational Design/Culture; Funding and Investment Strategy; and Investment Operations. Our risk appetite for all categories is cautious apart from investment operations where we are very careful. Our preference is for safe delivery options that have a low degree of residual risk, with a strong control framework in place for investment operations.[2]

Managing risks to our funding and investment strategies is the most obvious of our activities in this area. We have indicated above that we will reduce the investment risk to the PPF of schemes in assessment, but we will go much further than this. Over the next three years we will be implementing an enhanced framework for managing financial risks to the PPF, which will require new systems and staff to be brought in.

Our aim for 2014 is to be in a position where we can reduce the impact that economic downturns have on the fund by implementing pre-defined risk mitigation strategies. We will also reduce off-balance-sheet risks to the PPF, halving our exposure to counterparty and collateral risks, while continuing to hedge within tolerance against interest rate, inflation and swap spread exposure.

Our total balance sheet includes the assets and liabilities of schemes in assessment, which typically have investment strategies with greater risk tolerances than the PPF's own. In 2012/13 we will communicate a de-risking plan to schemes in assessment; our aim is to halve our exposure to equity risk in schemes in assessment assets by the end of 2014.

We will also manage risk effectively in other areas of the PPF. An important element of this is maintaining our ISO 27001 data security accreditation. Protecting the data of our members is vital to our aims as a customer service provider and their confidence in us.

We monitor, mitigate and resolve financial risks including investment and funding risks at our monthly Asset and Liability Committee. The totality of risks facing the PPF are monitored at a monthly Risk Management Committee. We will continue to ensure that key risk indicators are in place to provide early warning of threats to success in our strategic objectives.

[2] See the Board's *Risk Appetite Statement* (http://www.pensionprotectionfund.org.uk/About-Us/Documents/Risk_Appetite_Statement.pdf)

3. Our operating environment

3.1 Legislative regime

Our powers and responsibilities were originally set out in the Pensions Act 2004 and are amended and augmented in subsequent primary (Acts) and secondary (Regulations) legislation. Changes introduced with the Pensions Act 2011 will affect aspects of the Pension Protection Fund, Fraud Compensation Fund and Financial Assistance Scheme from 2012/13 by:

- Amending the definition of money purchase benefits following the *Bridge* judgement;
- Enabling us to use information we already have to determine whether a scheme should enter the PPF (eg a section 179 valuation) instead of requiring a section 143 valuation to be carried out;
- Allowing members over normal pension age at the beginning of an assessment period to defer the date from which their compensation starts to be paid;
- Removing the requirement for an application for reconsideration under section 151 of the Pensions Act 2004 to include a protected benefits quotation;
- Removing the original requirement of section 172 of the Pensions Act 2004 that a PPF assessment period must last a minimum of 12 months;
- Allowing pension compensation paid to pension credit members to be revalued if their scheme provided for revaluation;
- Removing a loophole in relation to augmentations of scheme benefits in the 3 years before transfer.

3.2 Pension scheme environment

Future claims on the PPF depend on:

- the level of pension scheme funding
- corporate insolvency rates, and
- the risk reduction measures put in place by sponsors and trustees.

We monitor trends in all three factors in order to make assumptions about the number and size of future claims on the fund. The rest of this section gives a flavour of the current state of the pension scheme environment. For more detailed information please see the PPF 7800 index[3] and the Purple Book.[4]

Scheme funding

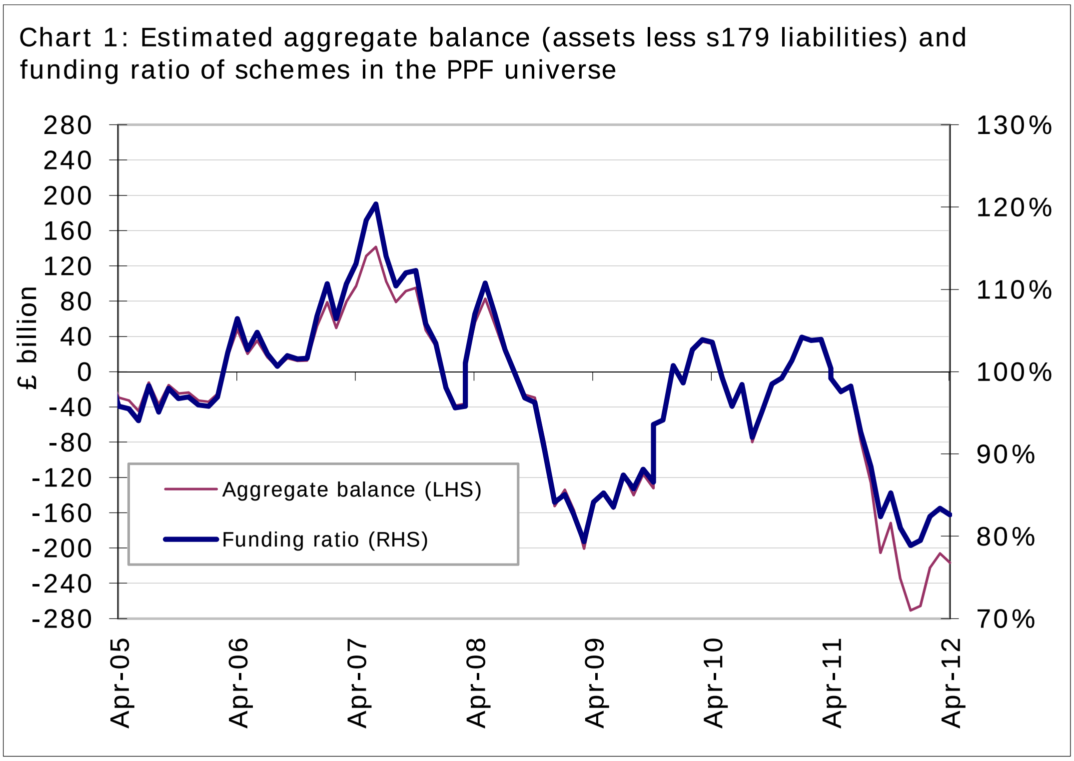
The value of defined benefit schemes' assets are driven by trustees' choice of assets and their market value. The value of pension scheme liabilities depends on more factors:

[3] http://www.pensionprotectionfund.org.uk/Pages/PPF7800Index.aspx
[4] http://www.pensionprotectionfund.org.uk/Pages/ThePurpleBook.aspx

- bond yields
- changes in estimated pricing in the bulk annuity market[5]
- inflation, and
- longevity assumptions.

These factors change continuously and rapidly, making deficits very volatile. The PPF 7800 index shows that since 2004 market movements and changes in assumptions have resulted in a variation in the s179 aggregate balance of around £370 billion with the largest surplus of £149 billion in June 2007 and the largest deficit of £271 billion in December 2011.

Chart 1: Estimated s179 aggregate balance (assets less liabilities) of PPF eligible pension schemes

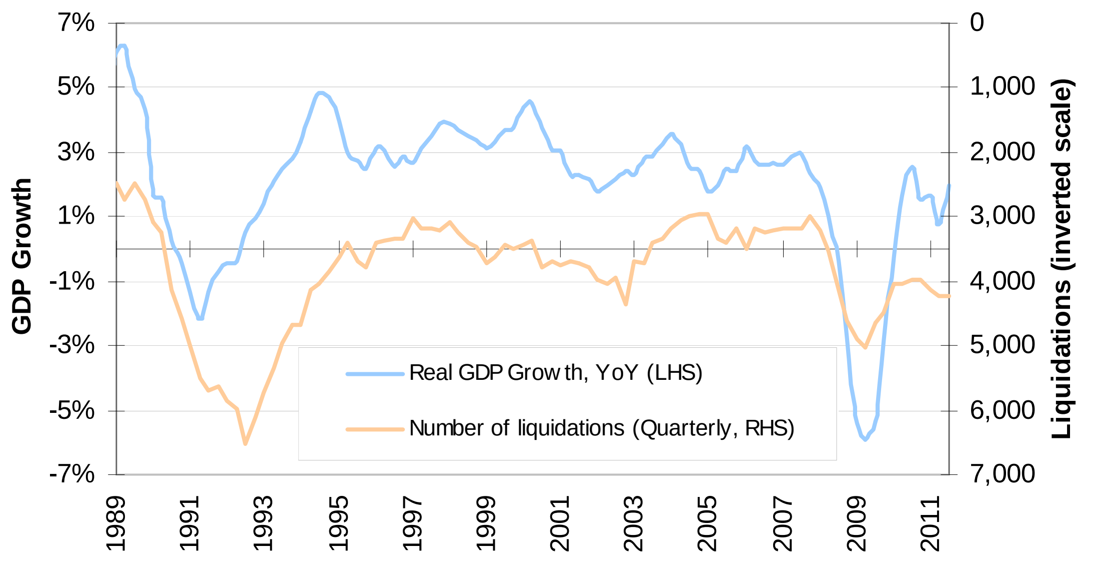


Corporate insolvency

During the 2008/09 recession the number of company liquidations peaked at 5,041 in the second quarter of 2009, before falling in the fourth quarter of 2010. Since then company liquidations have been rising gently. In the third quarter of 2011 the total number of liquidations was 4,242.

[5] The Board of the PPF is responsible for keeping the assumptions for s179 valuations in line with such estimated pricing.

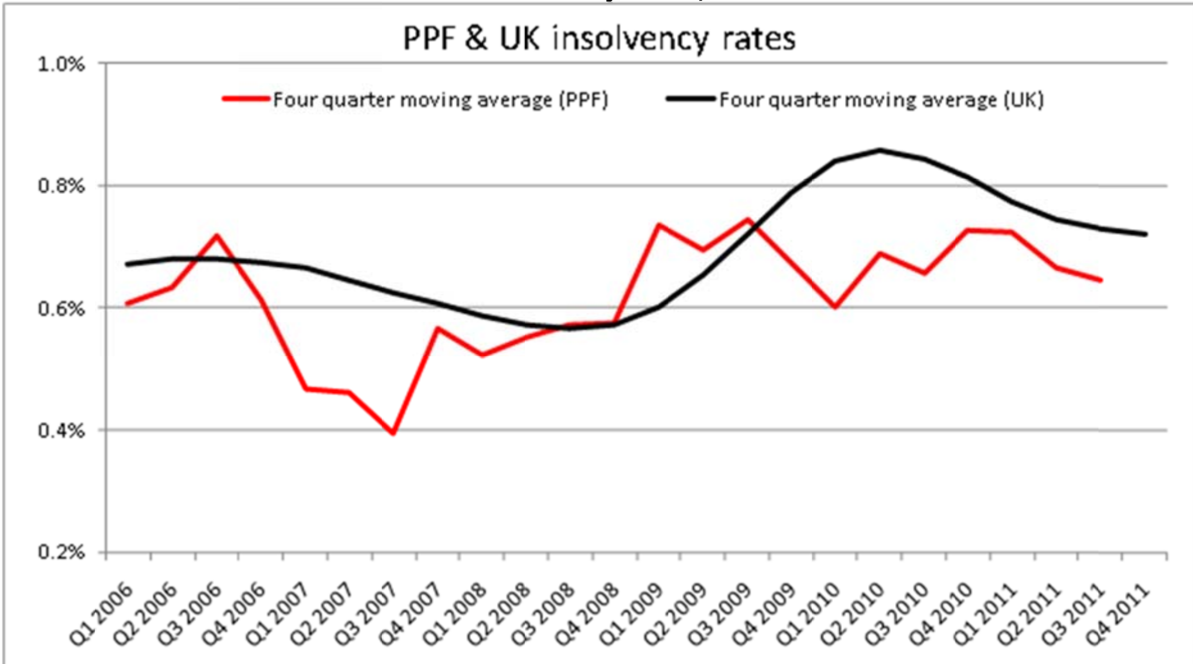
Chart 2: GDP Growth and liquidations 1989-2011



Source: Insolvency Service, ONS

The PPF-eligible DB universe is generally associated with larger older companies, and has a heavier weighting towards manufacturing and finance, insurance & real estate. These companies have a lower insolvency rate then the general UK insolvency rate. In the period leading up to and in the last recession the number of schemes (or parts of schemes) entering PPF assessment showed a broadly similar pattern to the whole economy. However, since the end of the 2008/09 recession the percentage of schemes entering assessment has decreased slightly more than the UK insolvency rate.

Chart 3: PPF and UK universe insolvency rates, 2006-2011



Source: PPF & Insolvency Service ONS

Risk reduction measures

Investment strategy

In the past year, we have seen a continuation of recent trends as schemes continue to diversify their assets, for example:

- a falling equity share and a movement towards hedge funds and other alternative investments;
- a trend away from UK equities towards overseas equities;
- a preference for corporate rather than government bonds.

One surprising change is that Purple 2011 data shows the share of bonds in total scheme assets falling for the first time since the first Purple Book was published in 2006, although the decline was modest.

Contingent assets and deficit reduction contributions

Contingent assets can reduce the risk that an insolvency event results in a claim on the PPF, or reduce the size of a claim if one occurs. The total number of recognised contingent assets put in place by scheme sponsors rose by 20 per cent between 2010/11 and 2011/12, from approximately 750 for the 2010/11 levy year to 900 for 2011/12.[6]

Meanwhile, the schemes included in Purple had by 7 April 2010 certified approximately £28 billion of deficit reduction contributions for the 2011/12 levy year, only slightly less than the £29.1 billion certified for the previous year.

The funding regime

The Pension Regulator's scheme funding regime is also important in reducing PPF risk. In the fourth tranche of recovery plans, covering schemes with valuation dates between 22 September 2008 and 21 September 2009, the average recovery plan length was 9.5 years, with technical provisions 102.0 per cent of s179 liabilities. This is lower than the 8.4 years and 110.9 per cent respectively in tranche three, because the tranche four valuations were carried out at a time of financial distress, when equity markets were very weak and bond yields low.[7]

Buy-outs and buy-ins

Buy-out and buy-in transactions provide schemes with the opportunity to remove risk relating to all or part of their liabilities. Under a buy-out deal, an insurer will take on a scheme's liabilities in exchange for all the scheme's assets. Buy-in deals are effectively partial buy-outs where the insurance policy is an investment held by the scheme.

The value of liabilities insured in buy-out and buy-in deals was higher in 2010 (£5.2 billion) than in 2009 (£3.7 billion).[8] In both years around 80 per cent related to buy-

[6] We have made a number of changes to the contingent asset regime to increase the security of Type A contingent assets, see *The 2012/13 Pension Protection Levy Policy Statement*, p.2
[7] http://www.thepensionsregulator.gov.uk/docs/recovery-plans-scheme-funding-2011.pdf

[8] 'Buy-outs, Buy-ins and Longevity Hedging: Q3 2011 Update', Hymans Robertson, November 2011.

in deals. In the first three quarters of 2011, the value of the deals amounted to £2.1 billion.

Longevity risk

Buy-in and buy-out can reduce the risk of greater than expected life expectancy for schemes. Longevity swaps are another way of doing this, but without transferring scheme assets to an insurer. Longevity swaps involve the pension scheme paying fixed cash sums in return for payments that vary with the actual life expectancy of a particular group of people, either the members of the scheme or a wider sample of the population. The number of longevity swap providers, including both banks and insurers, is growing.

While the total value of risk transfer deals covering buy-ins, buy-outs and longevity swaps was fairly constant between 2008 and 2010 at around £8 billion, longevity swaps made up a large proportion of the total in 2009 and 2010 as interest in the longevity market grew significantly. Total liabilities of £4.1 billion and £3 billion were hedged in 2009 and 2010 respectively, with the majority of deals relating to larger schemes and pensioner liabilities. In the first three quarters of 2011, the value of longevity swaps amounted to £1.8 billion.

3.3 Our assumptions for 2012-2015

As explained above, our economic environment, and hence our workload, changes continuously. Insolvencies determine cases entering assessment, which determine the scheme assets to transfer to the PPF. Using our modelling outputs and analysis of current economic trends, we have produced the assumptions below to help us estimate the resources we need for the years ahead. These are themselves variable, however; we expect between 135 and 185 cases to enter assessment in 2012/13.

Estimates for March years ending:	**2011/2012**	**2012/2013**	**2013/2014**	**2014/2015**
		Schemes		
PPF				
New cases entering assessment in the year	**130**	**160**	**150**	**150**
Cases transferred to the PPF	**148**	**145**	**145**	**145**
Cases leaving assessment by other means	**32**	**15**	**15**	**15**
Total cases completing assessment[9]	**180**	**160**	**160**	**160**
Cases in assessment at year end	**293**	**293**	**283**	**273**
FAS				
FAS2 qualifying schemes winding-up	**84**	**140**	**140**	**74**
FAS1 qualifying schemes winding-up[10]	**227**	**46**	**-**	**-**
		Members		
PPF				
Members in assessment at year end	164,000	164,000	160,000	156,000
Cumulative members in compensation	**128,000**	**186,000**	**244,000**	**302,000**
FAS				
Cumulative members transferred	**73,000**	**110,000**	**145,000**	**163,000**
		Assets		
PPF				
Assets under management (£)	**9.3bn**	**11.7bn**	**14.2bn**	**17.2bn**

[9] A scheme may leave the assessment period by a number of means, eg transfer to the PPF, buy-out, or rescue; the resource requirement is similar in all such routes.

[10] The wind-up of FAS1 schemes is expected to finish in 2012/13 because they have already annuitised or committed to annuitise.

4. Our Business Plan for 2012/13

This business plan covers the financial year 2012/13 and sets out how we intend to achieve the strategic objectives set by the Board.

4.1 Manage schemes through the assessment and wind-up processes in a timely and efficient manner.

Activity / Action	KPI / Milestone
Continue working with trustees and advisors to move schemes through the assessment and wind-up processes as quickly as possible to provide certainty for members.	1. 160 PPF schemes to complete assessment by end of March 2013. 2. Transfer 140 FAS2 schemes to Government by end of March 2013. 3. Transfer the remaining FAS1 schemes by end of March 2013.
Pay the right person the right amount at the right time.	4. Maintain 95 per cent of data at Pensions Regulator's quality standard. 5. Mortality screening/Existence checking results maintained at 95 per cent. 6. Errors and undue delays to payments should be less than 0.5 per cent of total payments.

4.2 Meet our funding target through prudent and effective management of our balance sheet.

Activity / Action	KPI / Milestone
Monitor the progress of the PPF funding strategy, particularly against the threshold likelihood of achieving self-sufficiency by the year 2030, this threshold being in accordance with the comfort level expressed by the Board.	1. A funding strategy update report published in 2012. 2. In 2013, the likelihood of self-sufficiency by the year 2030 is at least 83 per cent. 3. Framework in place for enabling implementation of longevity risk transfer. 4. Maximise recovery of assets from insolvent scheme sponsors.
Increase investment performance and reduce portfolio risk through greater use of tactical positions and tail risk hedging.	5. Achieve a performance target of LIBOR+1.8 per cent per cent per annum over the three years to 31 March 2013, while maintaining portfolio risk within tolerances.

4.3 Set and collect an appropriate levy and allocate it fairly.

Activity / Action	KPI / Milestone
Support stakeholders in transition to the new levy framework, and as appropriate, consult on rules for 2013/14 levy.	1. To support invoicing of the 2012/13 levy and deadline requirements for 2013/14,[11] deliver a communications package for schemes and advisers and explanatory material to handle individual queries.
Issue schemes with timely levy bills.	2. Invoice 90 per cent of schemes by 31/10/12.
Actively manage outstanding debt.	3. Collect 90 per cent of uncontested 2012/13 levy by 31 December 2012.

4.4 Maintain our reputation by communicating clearly what we do and why.

Activity / Action	KPI / Milestone
Maintain a pro-active and integrated communications and stakeholder engagement programme aimed at supporting the delivery of the PPF's strategic objectives.	1. At least 90 per cent of pensions professionals and members agree that the PPF communicates effectively.[12] 2. At least 80 per cent of stakeholders are confident in the PPF's ability to deliver on its statutory objectives and see the PPF as a beacon of best practice.
Operate effective points of customer contact to ensure that high standards of service are delivered and sustained.	3. 85 per cent of respondents that contact the Stakeholder Support Team, Capita and D&B feel that they are handled in a professional way. 4. 80 per cent of queries completed 'once and done'.

[11] The provisional deadline for *Exchange* submissions is 31 March 2013. The final data deadlines will be published in the Determination for 2013/14.
[12] Measured by a stakeholder perception audit due to be undertaken in 2012.

4.5 Be an efficient and effective organisation where staff are recognised and valued.

Activity / Action	KPI / Milestone
Build on management skills developed through Leading the PPF Way, helping to increase efficiency and consistency on how people are managed.	1. All people managers attend all modules and skills sessions and are able to put the skills into practice by 31 March 2013.
Effective management of talent throughout the employee lifecycle: attracting and recruiting the right candidates, retaining engaged and motivated employees, moving employees up, laterally and onwards.	2. Review of critical roles and succession plans in place by 31 March 2013.
Building our internal and external brand.	3. Review and refresh of all employee communications material by 31 March 2013.

4.6 Maintain effective risk management in all areas of PPF business.

Activity / Action	KPI / Milestone
Improve the framework for managing financial risks.	1. Enhanced financial risk framework in place by 31 March 2013.
Communicate investment de-risking plan clearly with schemes in assessment in order to manage balance sheet risk.	2. Guidance for trustees of schemes in assessment updated in accordance with advice from Chief Risk Officer by 31 March 2013.
Maintain effective risk Management.	3. Monitor, mitigate and resolve financial risks including investment and funding risks at monthly Asset and Liability Committee, all risks facing the PPF at monthly Risk Management Committee. 4. Hedge within tolerance against interest rate, inflation and swap spread exposure. 5. Maintain ISO 27001 accreditation to ensure effective management of information security risks. 6. Evaluate approach to internal audit focussing on changes made in 2011/12 and agree improvements by 31 December 2012.

5. Updated financial plan and budget estimate

5.1 Funding

Our Administration Fund covers the majority of our operating and capital expenditures. It is financed by the PPF administration levy, which is raised by DWP on eligible pension schemes. We draw down Grant-in-Aid funds from DWP to cover these costs.

The Pension Protection Fund is financed by the protection levy, the transfer of assets from schemes completing the PPF assessment process, recoveries from insolvent employers and investment returns. Regulations require certain costs to be charged to the Protection Fund. These include investment and investment risk management fees, insolvency fees, some member payroll services fees and their associated staff costs.

All costs related to running the Financial Assistance Scheme are covered by Grant-in Aid drawn down from DWP; FAS is not funded by PPF levy payers.

5.2 Three-year financial plan

Our financial plan is based on the key volume assumptions in section 4.3. Our costs are driven in a number of areas by events that are difficult to forecast and control, such as insolvencies, legal claims and the financial markets. The planning process therefore delivers a "most-likely" case forecast and is subject to significant risks.

Table 1: Expenditure by year

All figures in £m	2011/12 Forecast	2012/13 Plan	2013/14 Plan	2014/15 Plan
Fund Manager Fees	53.0	65.7	79.1	91.4
Custodian Fees	0.7	1.0	1.3	1.5
Scheme Wind Up Services	2.2	1.5	1.8	2.2
Member Payroll Services	4.6	7.8	8.0	9.2
Insolvency Professional Services	0.6	8.5	12.0	1.0
Levy Risk Scoring Services	0.5	0.4	0.4	0.4
Outsourced Delivery Services	**61.6**	**85.0**	**102.6**	**105.8**
Staff Costs	16.9	17.6	16.3	14.8
Training & Recruitment	0.9	0.9	0.9	0.8
Travel and Meetings	0.2	0.3	0.2	0.2
Staff Related	**18.0**	**18.8**	**17.4**	**15.8**
Accommodation & General Office	2.3	2.1	2.1	1.8
Communication & Publications	0.1	0.1	0.1	0.1
IT & Telecommunications	2.2	2.6	2.6	2.6
Infrastructure	**4.6**	**4.8**	**4.8**	**4.5**
Investment Advisory Fees	0.8	1.2	1.3	1.5
General Legal Services	1.4	2.2	1.9	1.7
Audit & Assurance	0.3	0.3	0.2	0.2
Other Professional Services	1.4	0.6	0.5	0.5
Assurance and Advisory	**3.9**	**4.2**	**3.9**	**3.9**
Controlled Overheads	**26.5**	**27.8**	**26.1**	**24.2**
Depreciation	1.2	1.2	1.0	1.0
Total Expenditure	**89.3**	**114.0**	**129.8**	**131.0**
Capital Expenditure	**1.2**	**0.9**	**0.9**	**0.9**

Table 2: Expenditure by funding source

All figures in £m	2011/12 Forecast	2012/13 Plan	2013/14 Plan	2014/15 Plan
Protection Fund	63.8	86.8	105.9	109.1
PPF Administration Levy	17.1	18.6	17.4	16.8
FAS Admin (Government)	8.4	8.6	6.5	5.1
Total	**89.3**	**114.0**	**129.8**	**131.0**

Table 1 above gives our view of total estimated expenditure for the three years to 2014/15. Table 2 above shows the planned expenditure by funding source. The decreases in PPF Administration and FAS Administration expenditure are caused by reduced controlled overheads. Outsourced delivery services are the main reason for the increase in Protection Fund expenditure.

Controlled overheads are forecast to decrease by 9 per cent from £26.5 million in 2011/12 to £24.2 million in 2014/15, mainly as FAS operations cease and related staff and other costs diminish. The plan also assumes that the five-year year lease for one of our office floors, currently part of our FAS administration funding, will not be renewed in 2014.

Outsourced delivery services are expected to increase by 71 per cent from £61.6m to £105.8 million. The key driver is the 72 per cent increase in fund manager fees in line with anticipated growth in assets under management (see section 3.3). Fund manager fees are forecast to remain stable at 0.6 per cent of assets under management for the three years to 2014/15.

The cumulative number of PPF and FAS members transferred to our outsourced member payroll provider is forecast to grow by 103 per cent to 468,000 by 2014/15. The significant growth in member numbers directly drives the cost of the outsourced function, which is estimated to increase to £9.2 million by 2014/15.

The increased level of insolvency professional services fees in 2012/13 and 2013/14 relates to the PPF's legal responsibility to prosecute a major claim following the issue of a contribution notice by the Pension Regulator. Both timelines and costs are broad estimates at this stage.

5.3 2012/13 budget estimate

The £114 million budget reflects the estimated cost to deliver 160 schemes through our assessment process; £550 million levy collection and 150 FAS scheme wind ups plus the continued successful implementation of our Statement of Investment Principles and running an outsourced member payroll and administration function.

The budget is 28 per cent higher than £89.3 million forecast for 2011/12. The main reason for the increase is a £12.7m increase in fund manager fees in line with the anticipated £2 billion growth in assets under management.

Insolvency professional services are higher versus 2011/12 which is mainly the deferral of major litigation costs now expected in 2012/13.The £3.2 million increase in member payroll services costs versus 2011/12 reflects more members transferring to the PPF, FAS regulation changes from 2012 and system changes.

We use an outsourced provider to deliver scheme wind-up services (PPF assessment and FAS wind-up). These costs will decrease by £0.7 million versus 2011/12 as the majority of FAS 1 scheme wind-up and transfers have now been completed.

Staff costs are expected to increase by £0.7 million as vacancies rolled over from 2011/12 are filled during the year.

Further Reading

For further detail on the PPF and our work, please visit the following pages:

The Pension Protection Fund
http://www.pensionprotectionfund.org.uk

PPF Long-Term Funding Strategy (and updates)
Pension Protection Fund Annual Report & Accounts 2010/11
Risk Appetite Statement
http://www.pensionprotectionfund.org.uk/About-Us/Pages/About-Us.aspx

The Purple Book
http://www.pensionprotectionfund.org.uk/Pages/ThePurpleBook.aspx

PPF 7800 Index
http://www.pensionprotectionfund.org.uk/Pages/PPF7800Index.aspx

For more information on the Pensions Regulator, see:

The Pensions Regulator
http://www.thepensionsregulator.gov.uk/