Pension Protection Fund

PPF 7800 Index

28 February 2022

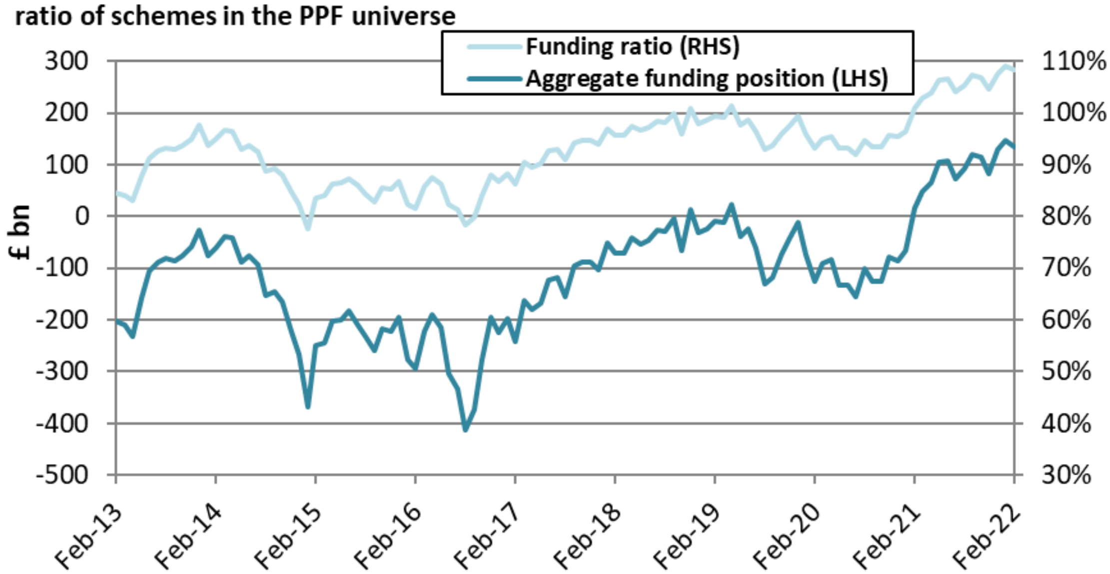
This update provides the latest estimated funding position, on a section 179 (s179) basis, for the defined benefit pension schemes potentially eligible for entry to the Pension Protection Fund (PPF). A scheme's s179 liabilities represent, broadly speaking, the premium that would have to be paid to an insurance company to take on the payment of PPF levels of compensation. This compensation may be lower than full scheme benefits.

Highlights

- The aggregate surplus of the 5,215 schemes in the PPF 7800 Index is estimated to have decreased to £133.6 billion at the end of February 2022, from a surplus of £146.4 billion at the end of January 2022.
- The funding ratio decreased from 109.1 per cent at the end of January 2022 to 108.4 per cent.
- Total assets were £1,732.2 billion and total liabilities were £1,598.6 billion.
- There were 2,172 schemes in deficit and 3,043 schemes in surplus.
- The aggregate deficit of the schemes in deficit at the end of February 2022 was £83.1 billion, up from £80.9 billion at the end of January 2022.

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

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

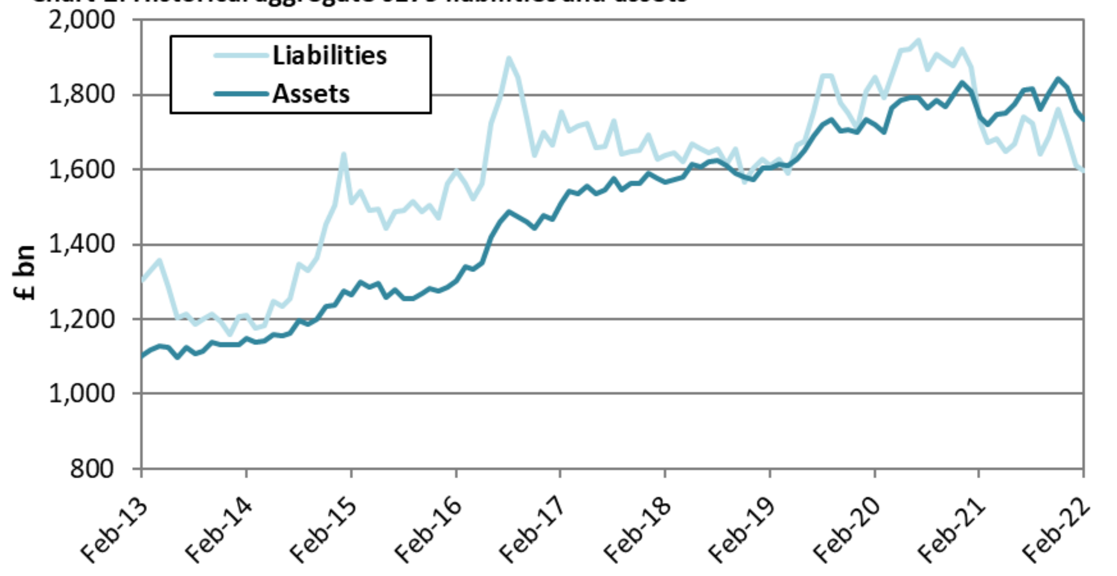


The schemes in the universe

The aggregate surplus (total assets less s179 liabilities) of the schemes in the PPF 7800 Index is estimated to have decreased to £133.6 billion at the end of February 2022, from £146.4 billion at the end of January 2022. The position has improved from a year ago, when a surplus of £14.6 billion was recorded at the end of February 2021.

The funding ratio (assets as a percentage of s179 liabilities) of schemes decreased over the month from 109.1 per cent to 108.4 per cent at the end of February 2022. The funding ratio is higher than the 100.8 per cent recorded in February 2021.

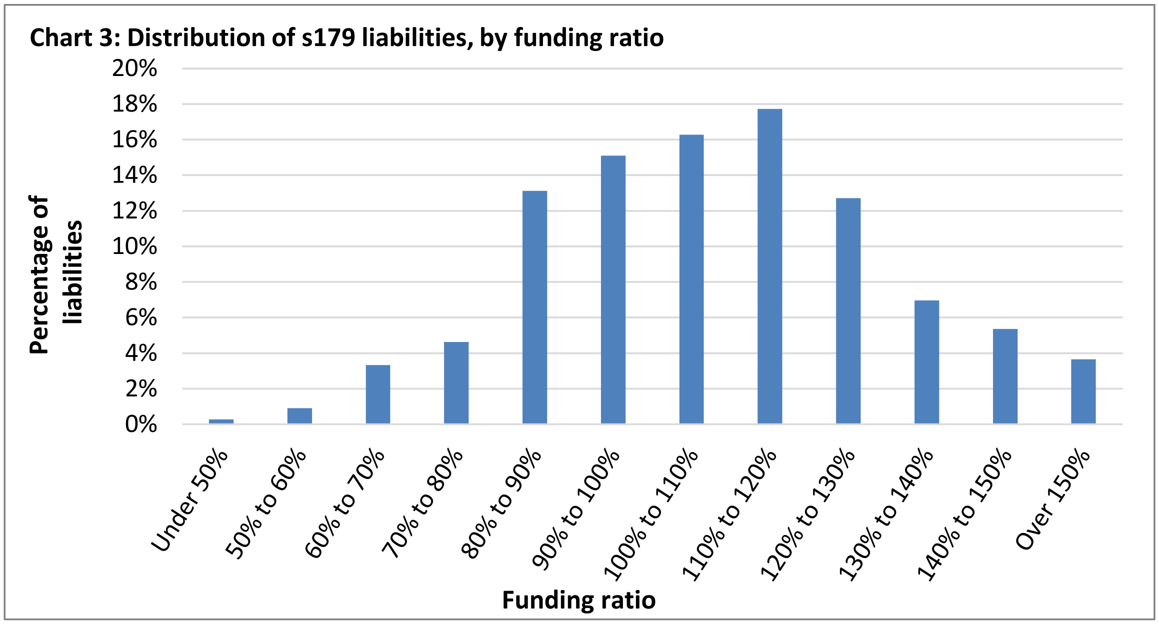
Chart 2: Historical aggregate s179 liabilities and assets



Within the Index, total scheme assets amounted to £1,732.2 billion at the end of February 2022. Total scheme assets experienced a decrease of 1.4 per cent over the month and a decrease of 0.5 per cent over the year. Total scheme liabilities were £1,598.6 billion at the end of February 2022, a decrease of 0.7 per cent over the month and a decrease of 7.4 per cent over the year.

Funding comparisons

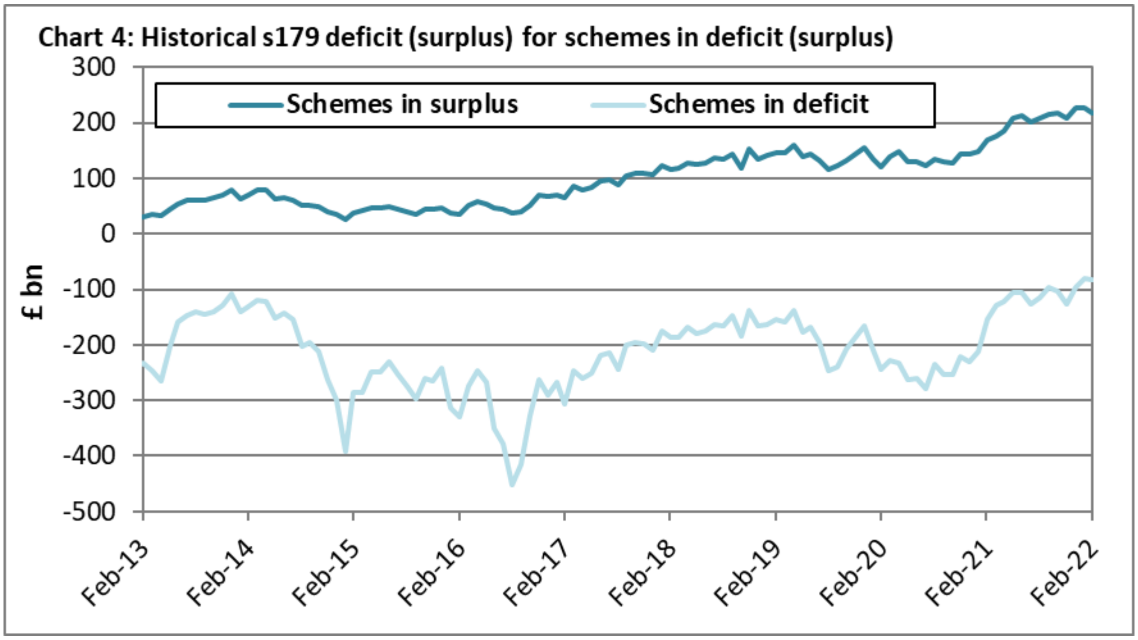
	February 2021	January 2022	February 2022
Aggregate funding position	£14.6bn	£146.4bn	£133.6bn
Funding ratio	100.8%	109.1%	108.4%
Aggregate assets	£1,740.2bn	£1,757.0bn	£1,732.2bn
Aggregate liabilities	£1,725.6bn	£1,610.6bn	£1,598.6bn
Dataset / assumptions	Purple 20 / A9	Purple 21 / A10	Purple 21 / A10



Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of February 2022 is estimated to have increased to £83.1 billion from £80.9 billion at the end of January 2022. At the end of February 2021, the equivalent figure was £154.4 billion.

At the end of February 2022, the total surplus of schemes in surplus decreased to £216.7 billion from £227.3 billion at the end of January 2022. At the end of February 2021, the total surplus of all schemes in surplus stood at £169.0 billion.

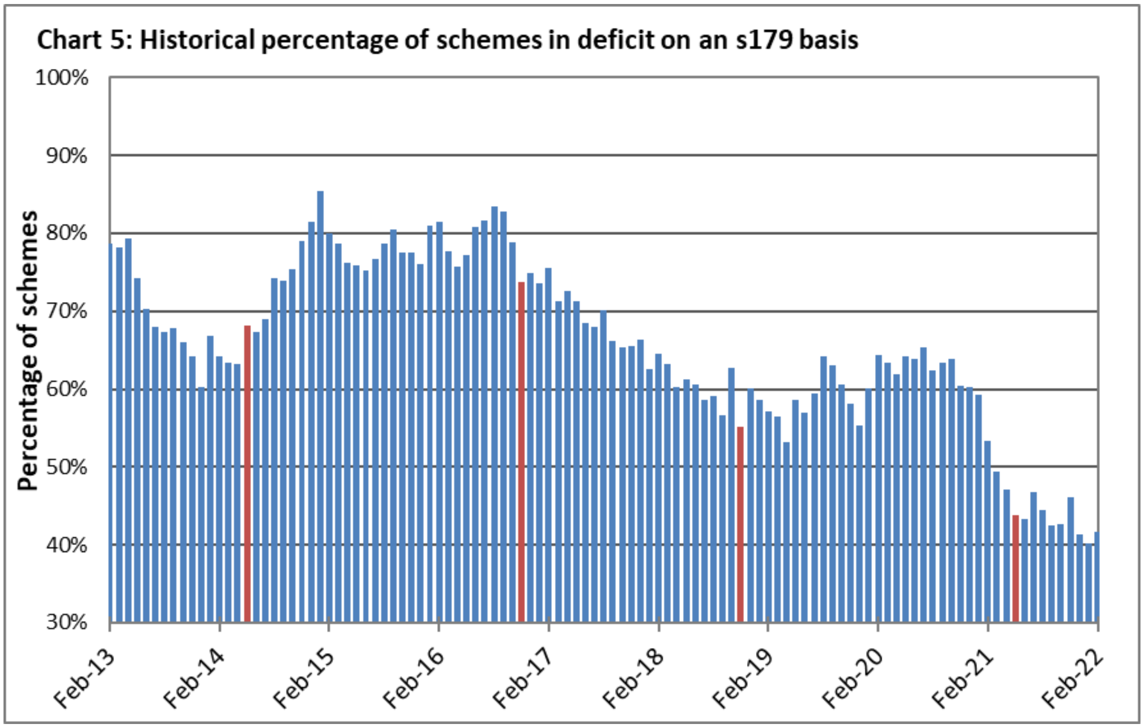


The number of schemes in deficit at the end of February 2022 increased to 2,172, representing 41.6 per cent of the total 5,215 defined benefit schemes. There were 2,094 schemes in deficit at the end of January 2022 (40.2 per cent) and 2,839 schemes in deficit at the end of February 2021 (53.4 per cent).

The number of schemes in surplus decreased to 3,043 at the end of February 2022 (58.4 per cent of schemes) from 3,121 at the end of January 2022 (59.8 per cent). There were 2,479 schemes in surplus at the end of February 2021 (46.6 per cent).

Schemes in deficit (surplus)

	February 2021	January 2022	February 2022
Number of schemes in deficit	2,839	2,094	2,172
Deficit for schemes in deficit	£154.4bn	£80.9bn	£83.1bn
Number of schemes in surplus	2,479	3,121	3,043
Surplus for schemes in surplus	£169.0bn	£227.3bn	£216.7bn
Number of schemes in universe	5,318	5,215	5,215
Dataset / assumptions	Purple 20 / A9	Purple 21 / A10	Purple 21 / A10



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

Understanding the impact of market movements

Equity markets and gilt yields are the main drivers of funding ratios. S179 liabilities are sensitive to the yields available on a range of conventional and index-linked gilts. Liabilities are also time-sensitive in that, even if gilt yields were unchanged, scheme liabilities would increase as the point of payment approaches.[1]

The value of scheme assets is affected by the change in prices of all asset classes, but owing to the volume invested and the volatility, equities and bonds are the biggest drivers behind changes – bonds have a higher weight in asset allocation, but equities tend to be more volatile.

The following table sets out the changes in s179 liabilities and assets, and some key market indicators, in the month and year to 28 February 2022. The changes in s179 liabilities and assets:

- in the month to 28 February 2022 are the result of market movements.
- in the year to 28 February 2022 are the result of market movements, new s179 assumptions, and the impact of the updated dataset.

See note 6 on page 8 for further information on the impact of the updated dataset.

[1] This effect amounts to around 0.1 per cent a month in the current environment.

	Change over the…	
	Month	**Year**
s179 liabilities	-0.7%	-7.4%
Assets	-1.4%	-0.5%
Market indicator		
10-year fixed interest gilt yield	10bps	53bps
15-year fixed interest gilt yield	14bps	42bps
20-year fixed interest gilt yield	15bps	33bps
5-15 year index-linked gilt yield	-17bps	-32bps
FTSE All-Share Total Return Index	-0.5%	16.0%
FTSE All-World Ex-UK Total Return Index	-2.6%	12.6%

Chart 6: Movements in gilt yields

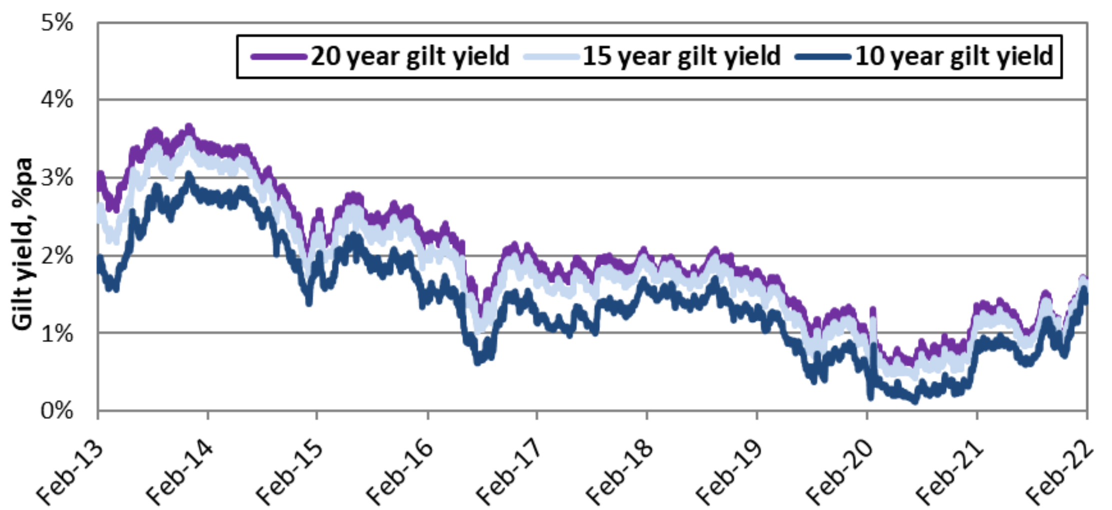
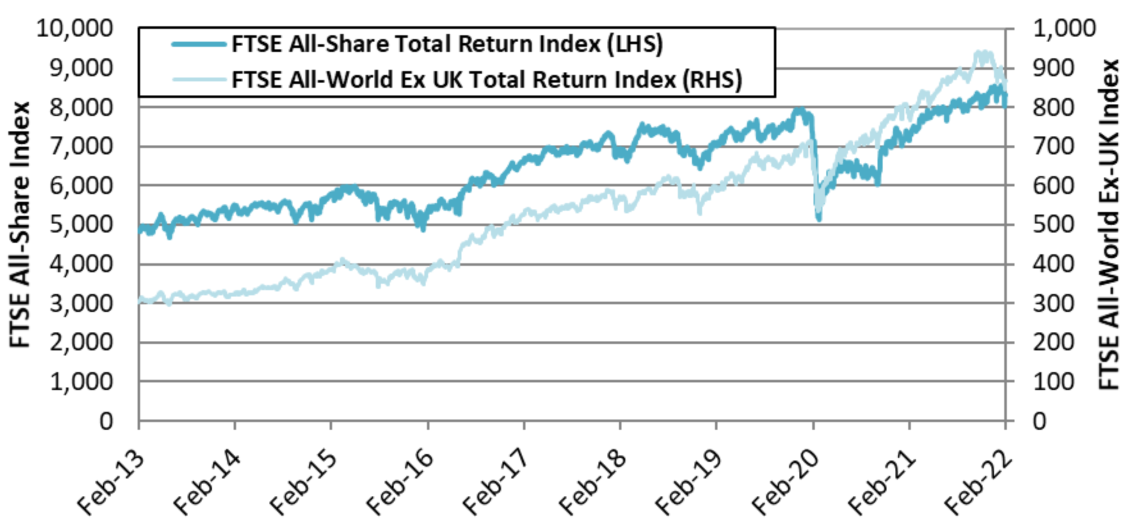


Chart 7: Movements in equity indices



Notes

1. The PPF universe

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

2. PPF compensation

For individuals who have reached their scheme's normal pension age or are already in receipt of a survivor's pension or pension on the grounds of ill health, the PPF will generally pay compensation at the 100 per cent level, i.e. these members will not see any reduction in retirement income when their scheme sponsor becomes insolvent. For the majority of people below their scheme's normal pension age the PPF will generally pay compensation at the 90 per cent level. Increases in future payments for members may not be as much as they would have been under their pension schemes. For more information about PPF compensation see the PPF's website at:
https://www.ppf.co.uk/what-it-means-ppf

3. s179: one of many different funding measures

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

In addition to s179, there are many different measures of a scheme's funding position. Among the other common measures are full buy-out (what would have to be paid to an insurance company for it to take on the payment of full scheme benefits), IAS19 or FRS17 (the measures used in UK company accounts), and Technical Provisions (that are used in the UK's scheme funding regime). The different measures can give very different levels of scheme funding at any point in time and move very differently over time.

4. Methodology

The figures shown throughout this document are based on adjusting the scheme valuation data supplied to The Pensions Regulator as part of the schemes' annual scheme returns, including Deficit Reduction Contribution certificates. This data is transformed on an s179 valuation basis at various dates using changes in market indices for principal asset classes. Conventional and index-linked gilt yields are used to value liabilities. The approximation does not allow for benefit accrual or outgo or actual scheme experience.

5. Estimating the impact of changes in market conditions on the PPF 7800 Index

We have developed a number of 'rules of thumb' to estimate the impact of changes in asset prices on scheme assets and s179 liabilities. A 7.5 per cent rise in equity markets boosts aggregate scheme assets by 1.7 per cent while a 0.3 percentage point rise in gilt yields reduces scheme assets by 2.7 per cent. Meanwhile, a 0.3 percentage point rise in gilt yields reduces aggregate scheme liabilities by 5.6 per cent. Strictly speaking, the rules of thumb

only apply to small changes from the 31 March 2021 level. For more information see Chapter 5 of the Purple Book 2021, available on the PPF's website at:
https://www.ppf.co.uk/purple-book

6. Moving to the Purple Book 2021 dataset
In November 2021 we moved to a dataset consistent with the Purple Book 2021 covering 5,215 schemes. The Purple Book 2021 dataset is estimated to include over 99 per cent of liabilities of PPF eligible schemes. The new dataset is based on a more up-to-date universe of schemes, excluding, for example, schemes that have entered PPF assessment, and it also uses more up-to-date funding information from the schemes in our universe. This is a standard procedure performed annually after the publication of the Purple Book. The impact of the change increased the funding ratio at 31 October 2021 by 0.9 percentage points (this figure can differ slightly depending on the date at which it is calculated) and improved the aggregate funding position by £11.3 billion. The aggregate funding position recorded as at 31 October 2021 was £114.5 billion (106.8 per cent funded) compared with £103.2 billion (105.9 per cent funded) using the old dataset.

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

Press enquiries

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