

1. Executive summary

This is the 15th edition of the Pensions Universe Risk Profile (*The Purple Book*). *The Purple Book* provides the most comprehensive data on the UK universe of Defined Benefit (DB) pension schemes in the private sector.

Data

There are estimated¹ to be 5,327 schemes in the Pension Protection Fund (PPF) eligible universe as at 31 March 2020, a reduction from 5,436 as at 31 March 2019. The declining universe reflects schemes winding up, scheme mergers and schemes entering PPF assessment. This year, *The Purple Book* dataset covers 5,318 schemes – 99.8 per cent of the estimated 5,327 schemes eligible for PPF compensation.

Schemes with more than 5,000 members make up almost 75 per cent of each of total assets, liabilities and members, while only forming seven per cent of the total number of schemes in *The Purple Book 2020* dataset. Conversely, schemes with fewer than 1,000 members make up 80 per cent of the total number of schemes but only around 10 per cent of total assets, liabilities and members.

¹ The number of schemes in the PPF-eligible universe as at 31 March 2020 could be different from 5,327 if any of these schemes are discovered to be ineligible for PPF protection or if any other schemes are discovered to be eligible for PPF protection as at 31 March 2020.

Scheme demographics

The proportion of schemes open to new members remained at 11 per cent, the same as in *The Purple Book 2019*. While the open share fell sharply from 2006 to 2010, the decline has slowed since then. Schemes that are closed to new members continue to close also to new benefit accrual, with a rise to 46 per cent from 44 per cent in 2019. The proportion of schemes closed to new benefit accrual is now higher than the proportion closed to new members.

There are around 1 million active members in *The Purple Book 2020* dataset who are members of a scheme still open to new benefit accrual and who continue to accrue benefits. This is a reduction of seven per cent over the year. The number has fallen each year since the first edition of *The Purple Book* in 2006, when there were 3.6 million active members.

Schemes that remain open tend to be larger in terms of membership. 24 per cent of members were in open schemes with a further 45 per cent in schemes that are closed to new members but open to new benefit accrual.

The Purple Book 2020 dataset includes 9.9 million DB scheme members, down from 10.1 million last year.

Of these:

- 43 per cent are pensioner members;
- 46 per cent are deferred members; and
- 11 per cent are active members.

Scheme funding

Universe scheme funding worsened in the year to 31 March 2020. The net funding position on a section 179 (s179) basis as shown in the PPF 7800 Index worsened to a deficit of £90.7 billion compared to a deficit of £12.7 billion the year before, while the aggregate funding ratio decreased to 94.9 per cent from 99.2 per cent. The decrease in the aggregate funding ratio is the result of market movements, primarily the result of lower gilt yields driving up liability values by more than the corresponding increase in asset values, together with decreases in equity values. This was offset to some extent by the impact of reflecting up-to-date valuations and the latest eligible universe available by updating to the new *Purple Book 2020* dataset.

On an estimated full buy-out basis, the net funding position worsened to a deficit of £668.5 billion from a deficit of £644.9² billion the year before, although the funding ratio improved slightly from 71.5² per cent to 71.8 per cent.

² Figure updated from last year to reflect improvements in the methodology used to estimate full buy-out liabilities.

Asset allocation

The aggregate proportion of schemes' assets invested in equities fell from 24.0 per cent to 20.4 per cent while the proportion in bonds rose from 62.8 per cent to 69.2 per cent. The decrease in the value of equities between 31 March 2019 and 31 March 2020 contributed towards the decrease in the proportion of assets invested in equities over this period.

Within bonds, the proportions held were broadly unchanged from last year with index-linked bonds making up the biggest proportion at 46.1 per cent. Corporate bonds accounted for 28.0 per cent of the bonds held and government fixed interest bonds contributed 25.9 per cent of the total.

Within equities, the UK-quoted proportion fell from 16.6 per cent to 13.3 per cent. The overseas-quoted proportion fell slightly from 69.7 per cent to 69.0 per cent, while the proportion of unquoted/private equities increased from 13.7 per cent to 17.7 per cent. The decrease in the value of UK and overseas equities between 31 March 2019 and 31 March 2020 contributed towards the decreases in the proportions of equities that are invested in UK and overseas equities over this period.

Risk reduction

DB pension schemes have continued to close to new benefit accrual. They have also continued to move their investment allocation away from equities and towards bonds, continuing the trend for de-risking assets.

Based only on current recovery plans in place, total annual recovery plan payments are indicated to decrease by around 87 per cent over the next 10 years, from around £14.5 billion in 2020 to around £1.8 billion in 2030, as schemes increasingly become fully funded on a Technical Provisions basis. However, this only shows the current position, so changes may be made to existing recovery plans and new recovery plans may be put in place in the future if experience is different from what has currently been assumed by schemes.

Analysis of The Pensions Regulator's (TPR) latest Technical Provisions and recovery plan data shows that in Tranche 13³, the average recovery plan length was 6.1 years, over a year less than that of Tranche 10 (comparable given the three-year valuation cycle) and a year less than that of Tranche 12. Assets as a percentage of Technical Provisions increased from 88.6 per cent in Tranche 10 to 93.4 per cent in Tranche 13.

The total number of contingent assets submitted to the PPF for the 2020/21 levy year was 395, compared with 419 in 2019/20. This is largely because fewer Type A contingent assets (employer parent or group guarantees) were certified for PPF levy purposes.

There were £59 billion worth of risk transfer deals (buy-ins, buy-outs and longevity swaps) in the year to 30 June 2020, up from £37 billion the previous year and more than 50 per cent higher than the previous record of £39 billion in the year to 30 June 2014. However, this is still a relatively small amount in the context of the whole universe of schemes.

PPF levy, claims and compensation

- In 2019/20, the levy totalled £564 million, the same as the previous year.
- The top 100 levy payers accounted for 51 per cent of the total levy, similar to last year.
- 28 per cent of schemes had no risk-based levy while 3.0 per cent of schemes saw the cap of 0.75 per cent of smoothed liabilities apply to their risk-based levy.
- 82 per cent of the total levy came from schemes sponsored by employers categorised as 'Non-Subsidiaries £30 million+' and 'Large Subsidiaries', 'Credit Rated' or 'Group £50m+' for Experian scorecard purposes.

In the year to 31 March 2020, 41 new schemes entered PPF assessment. This is higher than last year when there were 26 new schemes and is similar to the levels observed in each of the four years up to 31 March 2018 but much lower than the levels seen before this. The total value of the year's claims was £0.5 billion (as measured on an s179 basis), which is much lower than last year's record claims of £1.9 billion when there was a very large claim from the Kodak Pension Plan No. 2. While our funding ratio (as measured on our own accounting basis, and including schemes in PPF assessment) fell from 118.6 per cent as at 31 March 2019 to 113.4 per cent as at 31 March 2020, claims were not the main reason for this, in contrast to last year.

In the year to 31 March 2020, the PPF made compensation payments of £860 million compared with £775 million in the previous year. As at 31 March 2020, there were 169,861 records in respect of members receiving compensation⁴, up from 148,005 a year earlier. The average annual payment per record to members receiving PPF compensation was £4,588, up from £4,382 at 31 March 2019.

3 Tranche 13 covers schemes with valuation dates between 22 September 2017 and 21 September 2018. <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/scheme-funding-analysis-2020/scheme-funding-analysis-2020-annex>

4 Some members have more than one record in the data.

1. Executive summary continued

PPF risk developments

The table below highlights some of the key results from the PPF's financial modelling:

| | |
|---|---|
| Probability of success | 83%, down from 89% last year as a result of the COVID-19 pandemic hitting financial markets in March 2020 |
| Funding horizon and target funding margin | 2030 and 10%, unchanged since last year |

We have also carried out sensitivity and stress testing to understand the key financial risks to which we are exposed. This also supports validation of the financial model used.

We continue to monitor, and seek to understand, the impacts of the key risks we face including:

- The impact of economic trends, including the COVID-19 pandemic and Brexit, on both our financial position and that of the scheme universe. This includes consideration of the level of claims that may occur in the future.
- The impact of changes in the regulatory environment including potential changes to the scheme funding regime, changes to Retail Price Index (RPI) calculation and increased disclosure requirements for climate change risk. We have also been seeking to understand the impact of new guidance for commercial pension scheme consolidators.

Economy and market background

The following table sets out how some key market indicators in the assessment of universe scheme assets and s179 liabilities have changed over the year:

| Market indicator | Change over the year to 31 March 2020 |
|-----------------------------------|---------------------------------------|
| 10-year fixed interest gilt yield | -0.67pp |
| 15-year fixed interest gilt yield | -0.70pp |
| 20-year fixed interest gilt yield | -0.71pp |
| 5-15-year index-linked gilt yield | -0.28pp |
| FTSE All-Share Index (TR) | -18.45% |
| FTSE All-World Ex-UK Index (TR) | -5.54% |

pp = percentage point(s)
TR = total return