PPF 7800 Index

31 May 2021

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.

This month, there is an update in the way the PPF 7800 Index is calculated. The end of May position takes account of the new version (A10) of the actuarial assumptions for s179 valuations, introduced with effect from 1 May 2021. The impact of the change was an increase of the funding ratio by 2.8 percentage points (see note 3 on page 7).

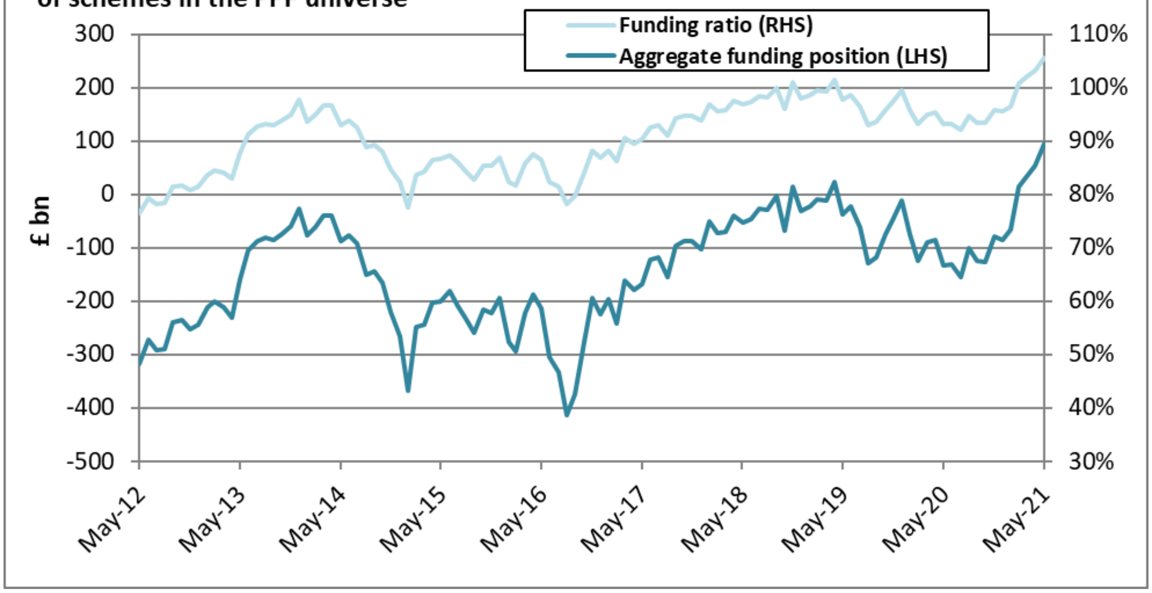
All the charts and tables presented in this publication have been revised to reflect the new actuarial assumptions described above.

Highlights

- The aggregate surplus of the 5,318 schemes in the PPF 7800 Index is estimated to have increased over the month to £94.6 billion at the end of May 2021, from a surplus of £53.7 billion at the end of April 2021.
- The funding ratio increased from 103.1 per cent at the end of April 2021 to 105.6 per cent.
- Total assets were £1,788.3 billion and total liabilities were £1,693.7 billion.
- There were 2,449 schemes in deficit and 2,869 schemes in surplus.
- The deficit of the schemes in deficit at the end of May 2021 was £117.8 billion, down from £135.8 billion at the end of April 2021.

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

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

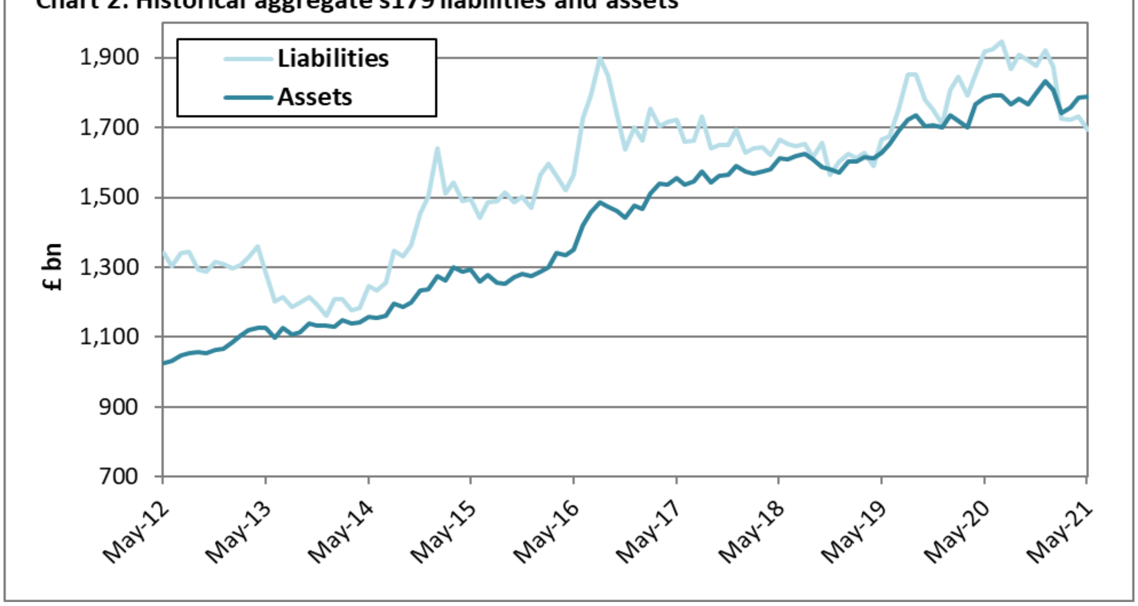


The schemes in the universe

The aggregate surplus (total assets less total s179 liabilities) of the schemes in the PPF 7800 Index is estimated to have increased to £94.6 billion at the end of May 2021, from £53.7 billion at the end of April 2021. The position has improved from a year ago, when a deficit of £132.3 billion was recorded at the end of May 2020.

The funding ratio (assets as a percentage of s179 liabilities) of schemes increased over the month from 103.1 per cent to 105.6 per cent at the end of May 2021. The funding ratio is higher than the 93.1 per cent recorded in May 2020.

Chart 2: Historical aggregate s179 liabilities and assets



Within the Index, total scheme assets amounted to £1,788.3 billion at the end of May 2021. Total scheme assets experienced an increase of 0.2 per cent over the month and 0.1 per cent over the year. Total scheme liabilities were £1,693.7 billion at the end of May 2021, a decrease of 2.1 per cent over the month and 11.7 per cent over the year, both including the impact of the updated s179 assumptions from A9 to A10.

Funding comparisons

	May 2020	April 2021	May 2021
Aggregate funding position	-£132.3bn	£53.7bn	£94.6bn
Funding ratio	93.1%	103.1%	105.6%
Aggregate assets	£1,786.7bn	£1,784.3bn	£1,788.3bn
Aggregate liabilities	£1,919.0bn	£1,730.6bn	£1,693.7bn
Dataset / Assumptions	Purple 20 / A9	Purple 20 / A9	Purple 20 / A10

Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of May 2021 is estimated to have decreased to £117.8 billion from £135.8 billion at the end of April 2021. At the end of May 2020, the equivalent figure was £263.2 billion.

At the end of May 2021, the total surplus of schemes in surplus increased to £212.4 billion from £189.5 billion at the end of April 2021. At the end of May 2020, the total surplus of all schemes in surplus stood at £130.9 billion.

Chart 3: Historical s179 deficit (surplus) for schemes in deficit (surplus)

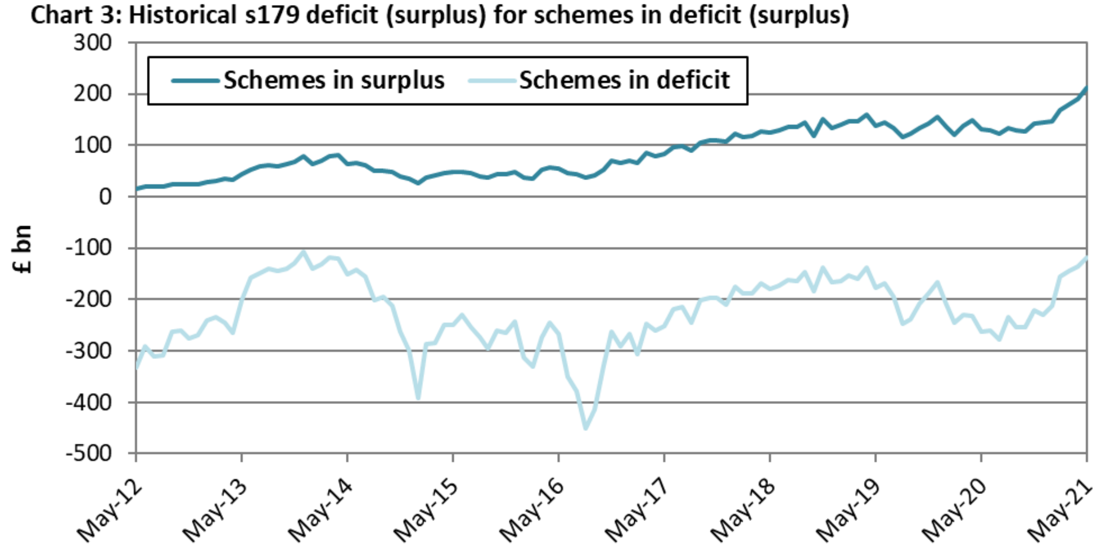
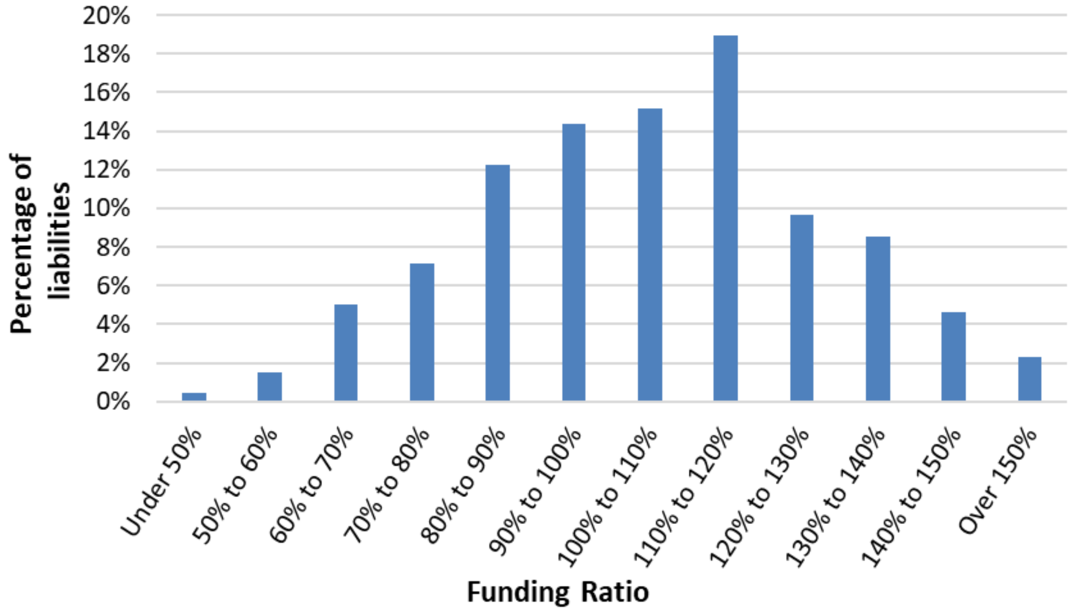


Chart 4: Distribution of s179 liabilities, by funding ratio



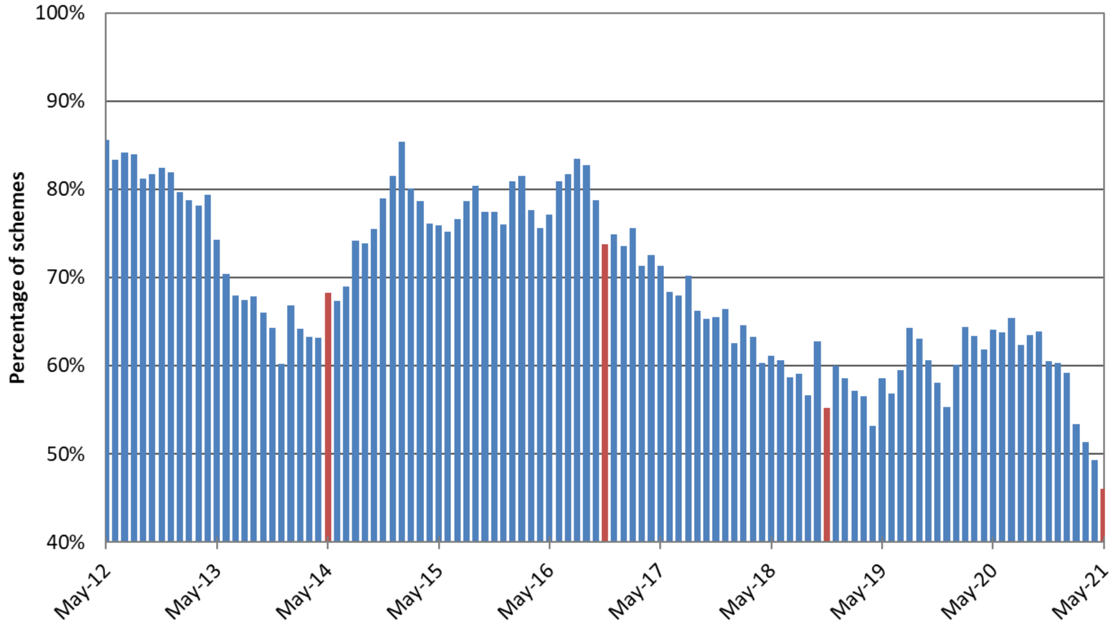
The number of schemes in deficit at the end of May 2021 decreased to 2,449, representing 46.1 per cent of the total 5,318 defined benefit schemes. There were 2,622 schemes in deficit at the end of April 2021 (49.3 per cent) and 3,410 schemes in deficit at the end of May 2020 (64.1 per cent).

The number of schemes in surplus increased to 2,869 at the end of May 2021 (53.9 per cent of schemes) from 2,696 at the end of April 2021 (50.7 per cent). There were 1,908 schemes in surplus at the end of May 2020 (35.9 per cent).

Schemes in deficit (surplus)

	May 2020	April 2021	May 2021
Number of schemes in deficit	3,410	2,622	2,449
Deficit for schemes in deficit	£263.2bn	£135.8bn	£117.8bn
Number of schemes in surplus	1,908	2,696	2,869
Surplus for schemes in surplus	£130.9bn	£189.5bn	£212.4bn
Number of schemes in universe	5,318	5,318	5,318
Dataset / Assumptions	Purple 20 / A9	Purple 20 / A9	Purple 20 / A10

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



Note: The red bars indicate months in which we made changes to the actuarial assumptions used to value schemes on an s179 measure. The most recent change was made in May 2021 and implemented in the end of May 2021 PPF 7800 Index. This served to reduce the number of schemes in deficit by 196 (3.7 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 31 May 2021. The change in s179 liabilities in the month and year to 31 May 2021 is the result of market movements and the updated s179 valuation assumptions implemented this month. The change in assets is the result of market movements only.

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

	Change over the...	
	Month	**Year**
s179 liabilities*	-2.1%	-11.7%
Assets	0.2%	0.1%
Market indicator		
10-year fixed interest gilt yield	-3bps	68bps
15-year fixed interest gilt yield	-3bps	70bps
20-year fixed interest gilt yield	-3bps	70bps
5-15 year index-linked gilt yield	-1bps	27bps
FTSE All-Share Total Return Index	1.1%	23.1%
FTSE All-World Ex-UK Total Return Index	-1.1%	24.1%

* In each case, liabilities decreased by 2.7 per cent due to updating the assumptions from A9 to A10.

Chart 6: Movements in gilt yields

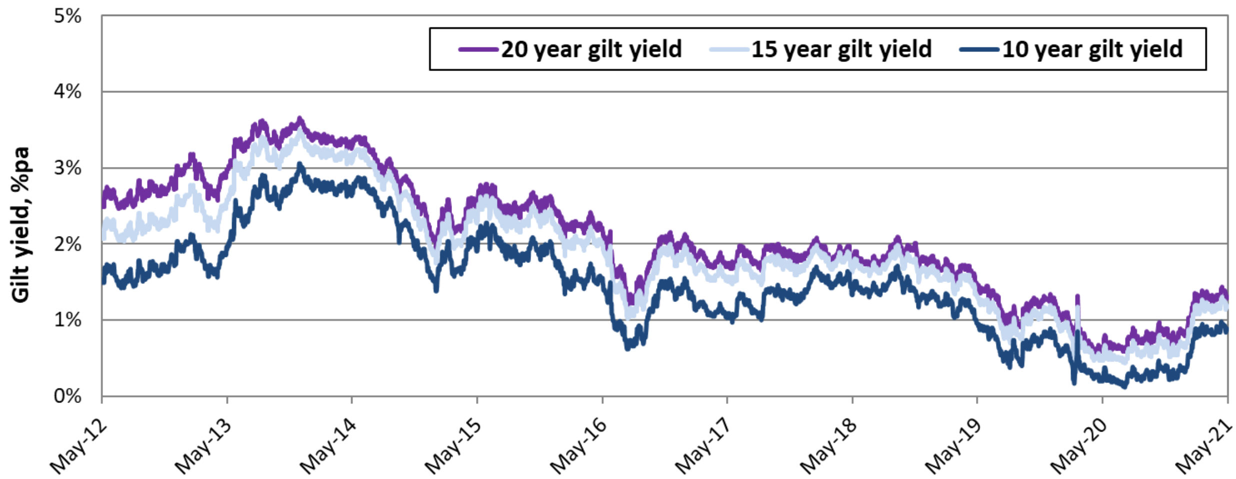
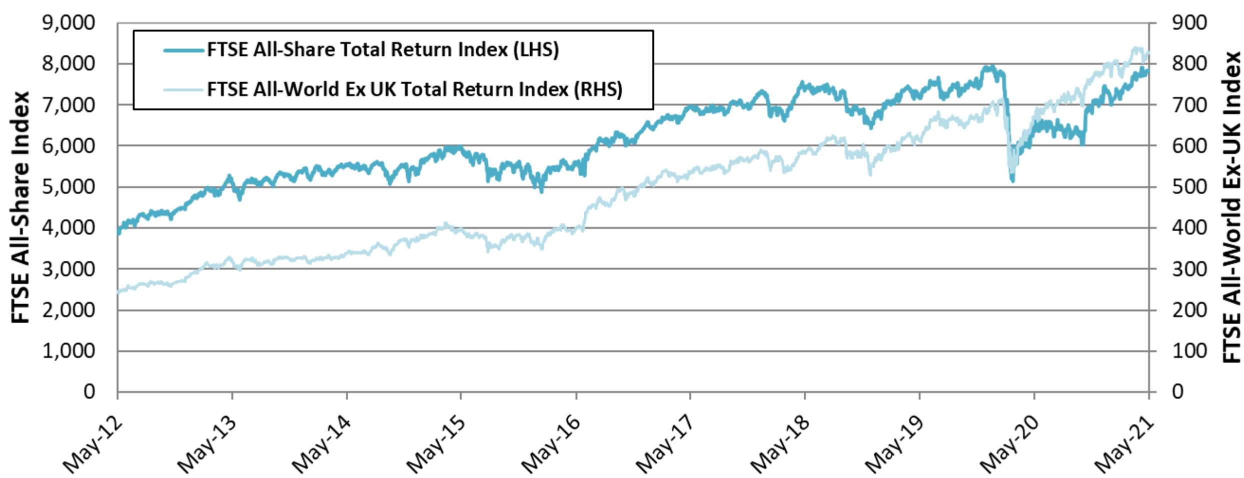


Chart 7: Movements in equity indices



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 goes 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. This is subject to a cap which is currently equal to £37,314.96 per annum at age 65, after the 90 per cent has been applied. 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 assumptions
On 1 May 2021, the PPF updated its valuation assumptions guidance for both s179 and s143 valuations. The new s179 guidance (version A10) was used this month when calculating the PPF 7800 liabilities. The impact of the change in the actuarial assumptions as at 31 May 2021 was an improvement of the funding ratio by 2.8 percentage points and an increase of £46.5 billion in the aggregate funding position.

For more information please see our official s179 assumptions guidance at:
https://www.ppf.co.uk/sites/default/files/2021-04/S179-Assumptions-Guidance-A10.pdf

4. 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.

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.

5. 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.

6. 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 assets by 1.4 per cent while a 0.3 percentage point rise in gilt yields reduces scheme assets by 3.0 per cent. Meanwhile, a 0.3 percentage point rise in gilt yields reduces scheme liabilities by 5.8 per cent. The rules of thumb strictly speaking only apply to small changes from the 31 March 2020 level. For more information see Chapter 5 of the Purple Book 2020, available on the PPF's website at:
https://www.ppf.co.uk/purple-book

7. Moving to the Purple Book 2020 dataset
In November 2020 we moved to a dataset consistent with the Purple Book 2020 covering 5,318 schemes. The Purple Book 2020 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 2020 by 2.1 percentage points (this figure can differ slightly depending on the date at which it is calculated) and improved the aggregate funding position by £42.2 billion. The aggregate funding position recorded as at 31 October 2020 was -£126.0 billion (93.3 per cent funded) compared with -£168.2 billion (91.2 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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