# 01
# Executive summary

Highlights and key trends from this year's *Purple Book.*

## Data

There are estimated[1] to be 5,220 schemes in the PPF-eligible universe as at 31 March 2021, a reduction from 5,327 as at 31 March 2020. The declining universe reflects schemes winding up, scheme mergers, and schemes entering PPF assessment. This year, *The Purple Book* dataset covers 5,215 schemes – 99.9 per cent of the estimated 5,220 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 2021* 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.

## Scheme demographics

The proportion of schemes open to new members remained at 11 per cent, the same as in *The Purple Book 2020.* While the number of open schemes 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 48 per cent from 46 per cent in 2020. The proportion of schemes closed to new benefit accrual is nine percentage points higher than the proportion closed to new members.

There are just under one million active members in *The Purple Book 2021* dataset who are members of a scheme still open to new benefit accrual and who continue to accrue benefits. This is a reduction of four per cent over the year. The number of active members 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 have a larger membership. 23 per cent of members were in open schemes, with a further 43 per cent in schemes that are closed to new members but open to new benefit accrual.

*The Purple Book 2021* dataset includes 9.7 million Defined Benefit (DB) scheme members, down from 9.9 million last year. Of these:
- 43 per cent are pensioner members;
- 47 per cent are deferred members; and
- 10 per cent are active members.

## Scheme funding

Universe scheme funding improved in the year to 31 March 2021. The net funding position on a section 179 (s179) basis as shown in the PPF 7800 Index improved to a surplus of £46.9 billion compared to a deficit of £90.7 billion the year before, while the aggregate funding ratio increased to 102.8 per cent from 94.9 per cent. The increase in the aggregate funding ratio is mainly the result of market movements, primarily the result of higher gilt yields driving down liability values by more than the corresponding decrease in asset values, together with large increases in equity values. There was a further increase in the aggregate funding ratio from reflecting up-to-date valuations and the latest eligible universe available by updating to the new *Purple Book 2021* dataset.

On an estimated full buy-out basis, the net funding position improved to a deficit of £615.3 billion from a deficit of £668.5 billion the year before and the funding ratio improved from 71.8 per cent to 73.7 per cent.

## Asset allocation

The aggregate proportion of schemes' assets invested in equities fell from 20.4 per cent to 19.0 per cent while the proportion in bonds rose from 69.2 per cent to 72.0 per cent.

Within bonds, the index-linked bonds proportion increased from 46.1 per cent to 47.2 per cent. The corporate bonds proportion increased slightly from 28.0 per cent to 28.2 per cent, while the government fixed interest bonds proportion fell from 25.9 per cent to 24.6 per cent.

Within equities, the UK-quoted proportion fell from 13.3 per cent to 11.6 per cent. The overseas-quoted proportion decreased from 69.0 per cent to 68.3 per cent, while the proportion of unquoted/private equities increased from 17.7 per cent to 20.1 per cent.

1 The number of schemes in the PPF-eligible universe as at 31 March 2021 could be different from 5,220 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 2021.

## 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 94 per cent over the next 10 years, from around £12.2 billion in 2021 to around £0.8 billion in 2031, 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's) latest Technical Provisions and recovery plan data shows that in Tranche 14[2], the average recovery plan length was 5.9 years, over a year and a half less than that of Tranche 11 (comparable given the three-year valuation cycle). Assets as a percentage of Technical Provisions increased from 87.0 per cent in Tranche 11 to 91.4 per cent in Tranche 14.

The total number of contingent assets submitted to the PPF for the 2021/22 levy year was 317, compared with 395 in 2020/21. This is largely because fewer Type A contingent assets (employer parent or group guarantees) were certified for PPF levy purposes.

There were £56 billion worth of risk transfer deals (buy-ins, buy-outs and longevity swaps) in 2020, up from £54 billion the previous year. However, this is still a relatively small amount in the context of the whole universe of schemes.

## PPF levy, claims, and compensation

- In 2020/21, the levy totalled £630 million, up from £564 million the previous year.
- The top 100 levy payers accounted for 55 per cent of the total levy, up from 51 per cent last year.
- 28 per cent of schemes had no risk-based levy while 3.0 per cent of schemes saw the cap of 0.5 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 2021, 30 new schemes entered PPF assessment. This is lower than last year when there were 41 new schemes but is similar to the year to 31 March 2019 when there were 26 new schemes. The total value of the year's claims was £0.2 billion (as measured on an s179 basis), which is lower than last year's claims of £0.5 billion.

In the year to 31 March 2021, the PPF made compensation payments of £1,006 million – the highest to date – compared with £860 million in the previous year. As at 31 March 2021, there were 184,844 records in respect of members receiving compensation[3], up from 169,861 a year earlier. The average annual payment per record to members receiving compensation was £4,829, up from £4,588 as at 31 March 2020.

## PPF risk developments

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

| | |
|---|---|
| Probability of success | 95 per cent, up from 83 per cent last year as the funding levels of the PPF and the schemes we protect have improved significantly since March 2020. |
| Funding horizon and target funding margin | 2030 and 10 per cent, unchanged since last year. |

We have also carried out sensitivity testing to understand the key financial risks to which we are exposed.

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 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 2021 |
|---|---|
| 10-year fixed interest gilt yield | 0.53pp |
| 15-year fixed interest gilt yield | 0.53pp |
| 20-year fixed interest gilt yield | 0.54pp |
| 5–15-year index-linked gilt yield | -0.09pp |
| FTSE All-Share Index (TR) | 26.71% |
| FTSE All-World Ex-UK Index (TR) | 40.40% |

pp = percentage point(s)
TR = Total Return

2 Tranche 14 covers schemes with valuation dates between 22 September 2018 and 21 September 2019. https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/scheme-funding-analysis-2021/scheme-funding-analysis-2021-annexure
3 Some members have more than one record in the data.