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Introducing the PPF 7800 Index

Introduction

The PPF 7800 Index is an established official statistic which has been published by the Pension Protection Fund (PPF) since 2007. It indicates the latest estimated funding position for the defined benefit (DB) pension schemes in the PPF's eligible universe.

The Index, published at 9.30am on the second Tuesday of each month, tracks the assets and liabilities of the pension schemes, measured using the section 179 ('s179') basis, as well as the difference between them (an aggregate deficit or surplus).

The Index was originally named after the c7,800 pension schemes in the universe. This figure has now fallen to around 5,600, as schemes have passed to the PPF, been bought out with insurers or merged.

The Index, in recent years, has shown that many DB pension schemes are in deficit. This information is important to the PPF as it highlights the value of the potential claims it faces. The Index is however a monthly snapshot and, as long as a sponsoring employer remains in business, it will continue to stand behind its DB scheme and members will continue to receive their promised benefits.

FAQs

1. Is the PPF 7800 Index the PPF's funding position?

No. The 7800 Index is the estimated aggregate funding position of the pension schemes the PPF protects.

Information on the PPF's funding position can be found in the PPF Annual Report and Accounts.

2. What is the purpose of the Index?

The 7800 Index, along with The Purple Book, helps the PPF understand the risks it faces from the DB pension scheme universe it protects. Both publications document the deficits of these schemes and provide insight on potential claims that may be made on the PPF. The individual scheme information in the Index is also used as part of the PPF's modelling and approach to risk management. This supports the PPF Funding Strategy.

The Index is also a useful measure for the wider pensions industry.

3. What is s179?

Pension scheme liabilities can be calculated in a number of different ways. The s179 valuation is one such way.

The s179 valuation is set out in The Pensions Act 2004. It is designed to approximate the value an insurance company would need to be paid to take on a pension scheme and pay its members equivalent benefits to those provided by the PPF.

See Q11 for examples of other types of valuation.

4. How is the s179 calculated?

The methodologies used to derive the s179 assumptions are determined by the PPF. They are published on the PPF website, and updated when necessary. These assumptions include the discount and inflation rates, as well as life expectancy and other demographic assumptions.

5. How far does the data go back to?

The Index goes back as far as July 2007 when we first started publishing it.

6. Does the Index cover all schemes?

A number of smaller schemes aren't included - the Index currently includes around 99 per cent of liabilities of PPF eligible schemes.

7. Which pension schemes aren't in the PPF eligible universe?

Defined Contribution (DC) schemes aren't covered. In addition, some DB schemes aren't eligible for the PPF, including:

- unfunded public-sector schemes
- some funded public-sector schemes, for example, those providing pensions to local government employees
- schemes to which a Minister of the Crown has given a guarantee
- schemes with only one member, and
- schemes which began to wind-up, or were completely wound-up, prior to 6 April 2005.

8. Where does the data come from?

The monthly PPF 7800 Index is calculated using data provided by schemes to The Pensions Regulator. Schemes are required to provide this information on an annual basis using the s179 valuation.

9. How is the Index calculated?

The s179 valuation data gives the assets and liabilities of a pension scheme at a single point in time. It also provides details of how those liabilities are calculated and what classes of assets the scheme is invested in.

Each year, the PPF publishes updated information about the DB universe in The Purple Book. This information is based on an updated universe of schemes and their updated s179 valuations.

This data is then 'rolled forward' each month to provide a new estimated s179 valuation for each scheme. This monthly estimated data is the basis for the PPF 7800 Index.

Between annual updates, the Index assumes that the number of schemes remains the same from month to month with only changes in market indices and yields being updated.

10. How regularly is the Index released?

The Index is released at 9.30am on the second Tuesday of each month and gives the position on the last day of the preceding month.

11. What other measures of valuing liabilities are there?

Examples of other common measures include the following:

Statutory funding objective

- This measure, also known as the Technical Provisions basis, is used by scheme trustees as part of the mandatory three-yearly scheme valuation. The assumptions used to calculate this valuation are not prescribed, but the trustees are required to incorporate an appropriate level of prudence (or caution) in the assumptions they choose (more prudence/caution means a higher value is placed on liabilities, and vice versa).
- The measure is done on the basis of being able to pay out full scheme benefits and provides the basis for any Deficit Recovery Contributions to be made by the sponsoring employer(s) of the scheme.

Accounting basis (corporate)

- Companies are required to disclose the value of their DB pension scheme liabilities in their annual report and accounts.
- The assumptions used are partly prescribed in the various accounting standards. They should generally be set according to the reporting of the company's best estimate (i.e. broadly that there is a 50/50 chance of true liabilities being higher or lower than the value given).

Buy-out basis

- This measure is used to approximate the premium insurance companies would charge to take on the full liabilities of a pension scheme.
- If a scheme is to be "bought-out" by an insurance company, this is the amount that will need to be paid to the insurance company in order for it to take on the scheme and pay the members their promised benefits.
- Insurance companies have a different regulatory regime to pension schemes which requires them to hold capital. Also, given that an insurance company would be unable to secure further funding for the scheme after it had been 'bought out' to meet any increases in the scheme's liabilities and at the same time make a profit, this measure often places the highest value on the scheme's liabilities.
- When a scheme's sponsoring employer becomes insolvent, any creditor claims by the pension scheme, including those made by the PPF on its behalf, would be on this basis.

Other valuations

This above section is not an exhaustive list of the different measures used to value liabilities of DB pension schemes. Other measures include the 'best estimate basis' and the 'self-sufficiency basis.

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