PPF 7800 Index

30 November 2018

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 are two updates in the way the PPF 7800 Index is calculated:

- We are moving to the new Purple Book 2018 dataset, re-stating the funding position from March 2018 to October 2018 to reflect the new data. The impact as at 31 October 2018 is an increase in the funding level of 2.3 percentage points (see note 8 on page 8).
- The PPF 7800 Index for end-November takes account of the new version (A9) of the actuarial assumptions for s179 valuations, introduced with effect from 1 November 2018. The impact of the change was a further increase of the funding level by 5.1 percentage points (see note 4 on page 7).

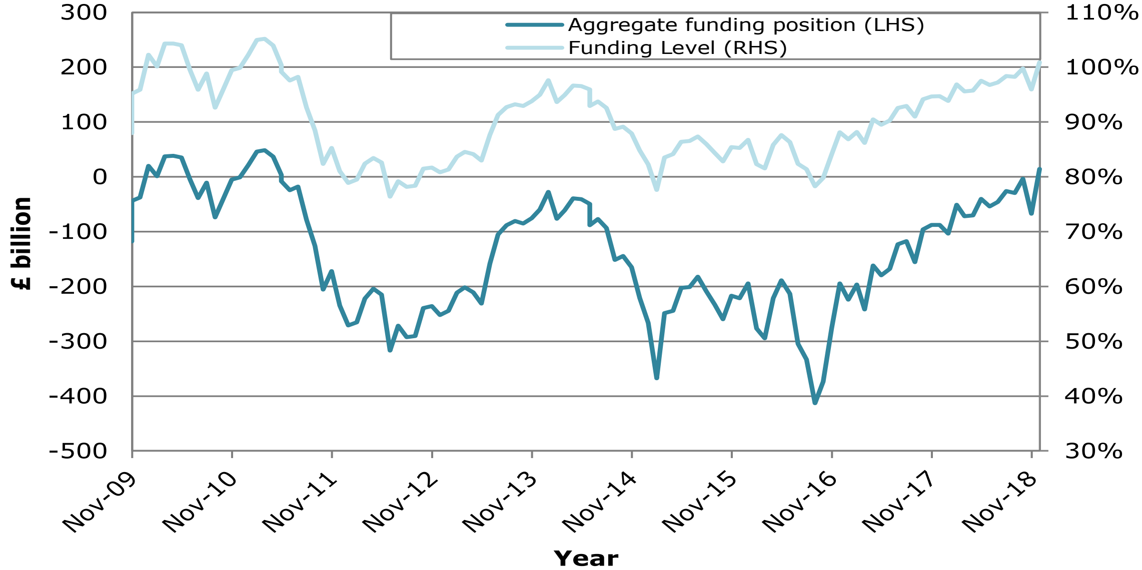
For more information on the impact of the changes on the PPF 7800 Index, please see note 1 on page 7. All the charts and tables presented in this publication have been revised to reflect the changes described above.

Highlights

- The aggregate funding position of the 5,450 schemes in the PPF 7800 Index is estimated to have improved over the month to a surplus of £14.3 billion at the end of November 2018, from a deficit of £67.2 billion at the end of October 2018.
- The funding level increased from 95.9 per cent at the end of October 2018 to 100.9 per cent.
- Total assets were £1,580.3 billion and total liabilities were £1,566.0 billion.
- There were 3,008 schemes in deficit and 2,442 schemes in surplus.

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 level of schemes in the PPF universe

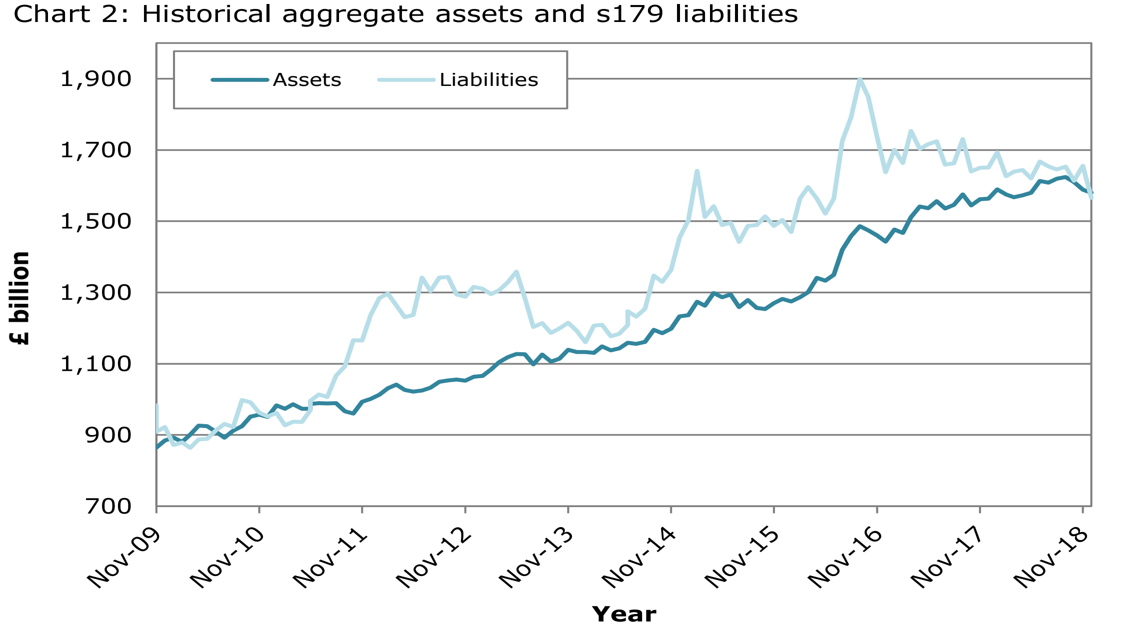


The schemes in the universe

The aggregate funding position (total s179 liabilities less total assets) of the schemes in the PPF 7800 Index is estimated to have improved to a surplus of £14.3 billion at the end of November 2018, from a deficit of £67.2 billion at the end of October 2018.

The position has improved from a year ago, when a deficit of £87.6 billion was recorded at the end of November 2017. The funding level (assets as a percentage of s179 liabilities) of schemes increased over this month from 95.9 per cent to 100.9 per cent at the end of November 2018. The funding level is higher than the 94.7 per cent recorded in November 2017.

Chart 2: Historical aggregate assets and s179 liabilities



Within the Index, total scheme assets amounted to £1,580.3 billion at the end of November 2018. Total scheme assets decreased by 0.5 per cent over the month and increased by 1.1 per cent over the year (including the impact of updated data from the Purple Book 2017 to the Purple Book 2018). Total scheme liabilities were £1,566.0 billion at the end of November 2018, a decrease of 5.4 per cent over the month (including the impact of updated s179 assumptions from A8 to A9) and a decrease of 5.2 per cent over the year (including the impacts of the updated datasets and assumptions).

Funding comparisons

	November 2017	**October 2018**	**November 2018**
Aggregate funding position	-£87.6bn	-£67.2bn	£14.3bn
Funding level	94.7%	95.9%	100.9%
Aggregate assets	£1,563.5bn	£1,588.4bn	£1,580.3bn
Aggregate liabilities	£1,651.1bn	£1,655.6bn	£1,566.0bn
Dataset / Assumptions	Purple 17 / A8	Purple 18 / A8	Purple 18 / A9

Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of November 2018 is estimated to have decreased to £137.6 billion from £184.8 billion at the end of October 2018. At the end of November 2017, the equivalent figure was £197.0 billion.

At the end of November 2018, the total surplus of schemes in surplus increased to £151.9 billion from £117.6 billion at the end of October 2018. At the end of November 2017, the total surplus of all schemes in surplus stood at £109.4 billion.

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

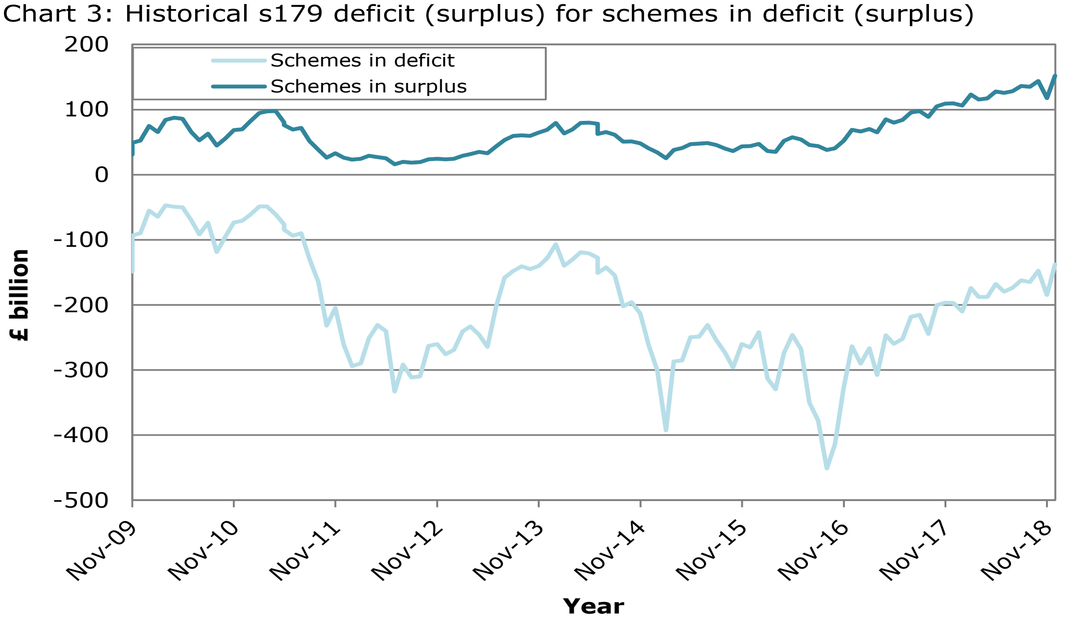
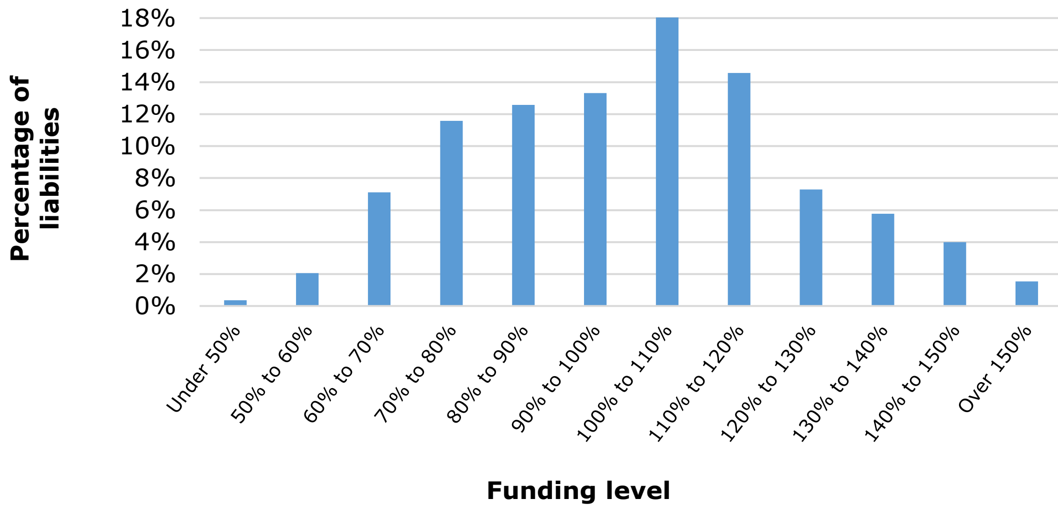


Chart 4: Distribution of s179 liabilities, by funding level

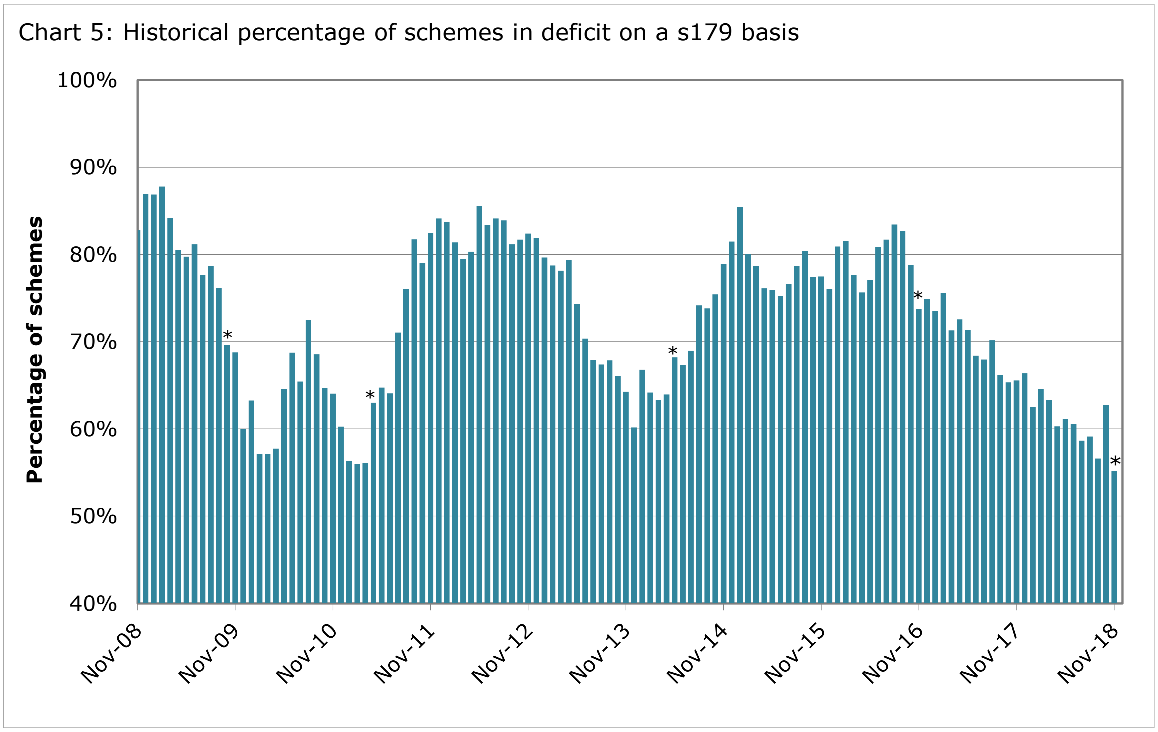


The number of schemes in deficit at the end of November 2018 decreased to 3,008, representing 55.2 per cent of the total 5,450 defined benefit schemes. There were 3,420 schemes in deficit at the end of October 2018 (62.8 per cent) and 3,663 schemes in deficit at the end of November 2017 (65.6 per cent).

The number of schemes in surplus increased to 2,442 at the end of November 2018 (44.8 per cent of schemes) from 2,030 at the end of October 2018 (37.2 per cent). There were 1,925 schemes in surplus at the end of November 2017 (34.4 per cent).

Schemes in deficit (surplus)

	November 2017	October 2018	November 2018
Number of schemes in deficit	3,663	3,420	3,008
Deficit for schemes in deficit	£197.0bn	£184.8bn	£137.6bn
Number of schemes in surplus	1,925	2,030	2,442
Surplus for schemes in surplus	£109.4bn	£117.6bn	£151.9bn
Number of schemes in Universe	5,588	5,450	5,450
Dataset / Assumptions	Purple 17 / A8	Purple 18 / A8	Purple 18 / A9



**Note: The stars 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 November 2018 and implemented in the end of November 2018 PPF 7800 Index. This served to reduce the number of schemes in deficit by 437 (8.0 per cent).*

Understanding the impact of market movements

Equity markets and gilt yields are the main drivers of funding levels. 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 30 November 2018.

[1] This effect amounts to around 0.1-0.2 per cent a month in the current environment.

	Change over the...	
	Month	**Year**
s179 liabilities	-5.4%*	-5.2%
Assets	-0.5%	+1.1%
Market indicator		
10-year fixed interest gilt yield	-5 bps	0 bps
15-year fixed interest gilt yield	+6 bps	+5 bps
20-year fixed interest gilt yield	+14 bps	+11 bps
5-15 year index-linked gilt yield	-10 bps	-20 bps
FTSE All-Share Total Return Index	-1.6%	-1.5%
FTSE All-World Ex-UK Total Return Index	+1.9%	+5.9%

*-0.3 per cent due to market movements and -5.1 per cent due to updating from A8 to A9 assumptions.

Chart 6: Movements in gilt yields over the decade

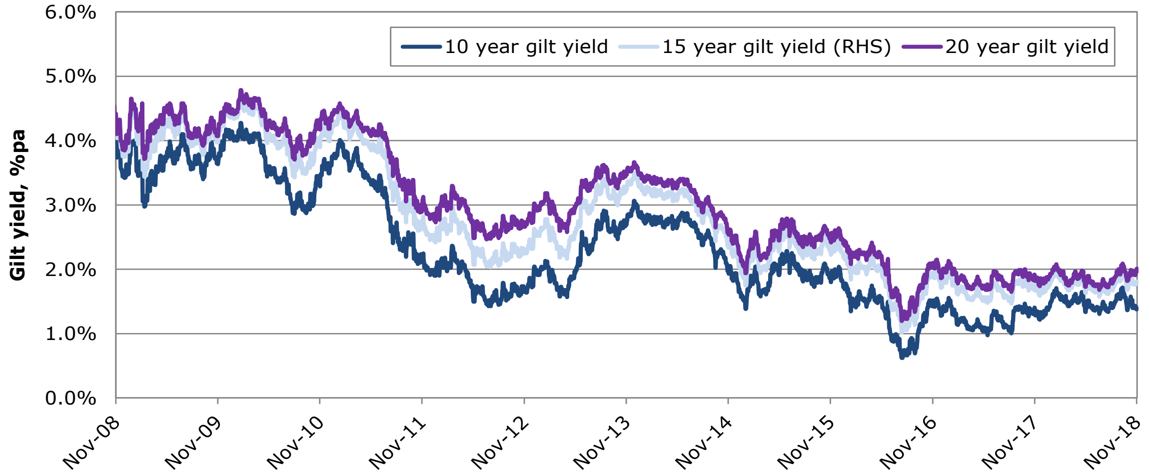
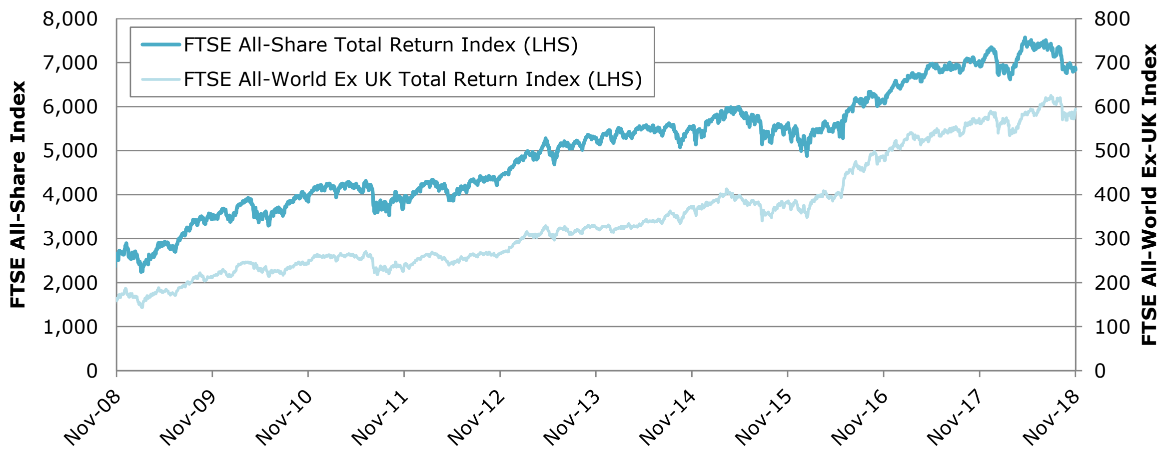


Chart 7: Movements in equity indices over the decade



Notes

1. Impacts of the data and assumptions changes
The end-November 2018 funding level was equal to 100.9 per cent, representing an aggregate funding position of +£14.3 billion. The change in scheme funding of 7.3 percentage points between what was reported for October (93.6 per cent) in last month's release and the end of November reflects three factors:

- The impact of the Purple Book 2018 dataset change was an increase in the funding level by 2.3 percentage points to 95.9 per cent for the month of October. The respective aggregate funding position was -£67.2 billion at the end of the month. For more information on this, please see note 8 on page 8.
- Without using the new actuarial assumptions, the funding level for end-November would have been 95.8 per cent, a decrease of 0.1 percentage points over the month – an overall increase in gilt yields led to decreases in liability values of 0.3 per cent and assets of 0.5 per cent, the latter including a slight offset for an increase in overseas equity prices. The aggregate funding position would have been reduced by £2.3 billion to -£69.5 billion.
- The impact of the change in the actuarial assumptions (see note 4 on page 7) was a further increase in the funding level by 5.1 percentage points.

2. 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

3. 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 £35,105.56 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

4. s179 assumptions
On 1 November 2018, the PPF updated its valuation assumption guidance for both s179 and s143 valuations.

The impact of the change in the actuarial assumptions as at 30 November 2018 was an increase of the funding level by 5.1 percentage points and an improvement of £84 billion in the aggregate funding position.

For more information about the new actuarial assumptions see the PPF's website at:
https://www.ppf.co.uk/sites/default/files/file-2018-11/s179-assumptions-guidance-a9-nov-2018.pdf

5. 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/sites/default/files/file-2018-11/s179-assumptions-guidance-a9-nov-2018.pdf

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), IAS 19 or FRS 17 (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.

6. 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. 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, contributions paid or actual scheme experience.

7. 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 2.1 per cent while a 0.3 percentage point rise in gilt yields reduces scheme assets by 2.1 per cent. Meanwhile, a 0.3 percentage point rise in gilt yields reduces scheme liabilities by 5.9 per cent. The rules of thumb strictly speaking only apply to small changes from the 31 March 2018 level. For more information see Chapter 5 of the Purple Book 2018, available on the PPF's website at: https://www.ppf.co.uk/purple-book

8. Moving to the Purple Book 2018 dataset

In November 2018 we moved to a dataset consistent with the Purple Book 2018 covering 5,450 schemes. The Purple Book 2018 dataset is estimated to include over 98 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 was to increase the funding level at 31 October 2018 by 2.3 percentage points (this figure can differ slightly depending on the date at which it is calculated) and improve the aggregate funding position by £40.5 billion. The aggregate funding position as at 31 October 2018 was -£67.2 billion (95.9 per cent funded) compared with -£107.7 billion (93.6 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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