

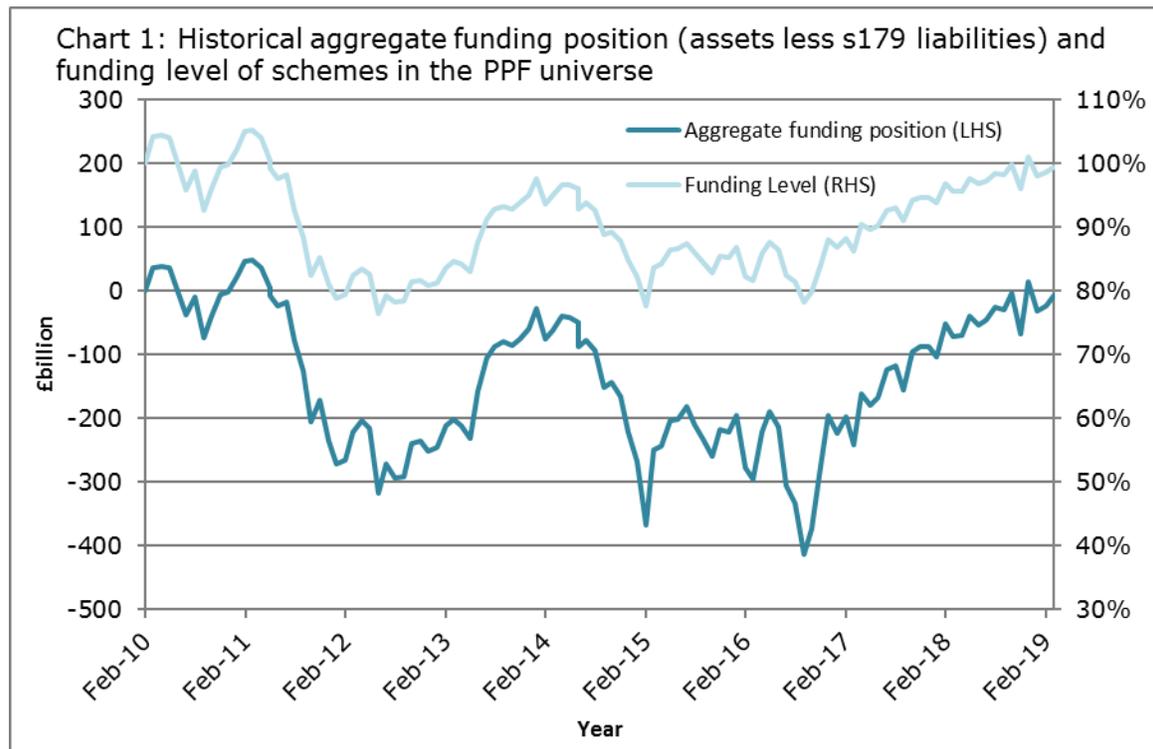
PPF 7800 Index 28 February 2019

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.

Highlights

- The aggregate deficit of the 5,450 schemes in the PPF 7800 Index is estimated to have decreased over the month to £8.6 billion at the end of February 2019, from a deficit of £23.1 billion at the end of January 2019.
- The funding level increased from 98.6 per cent at the end of January 2019 to 99.5 per cent.
- Total assets were £1,602.9 billion and total liabilities were £1,611.5 billion.
- There were 3,117 schemes in deficit and 2,333 schemes in surplus.

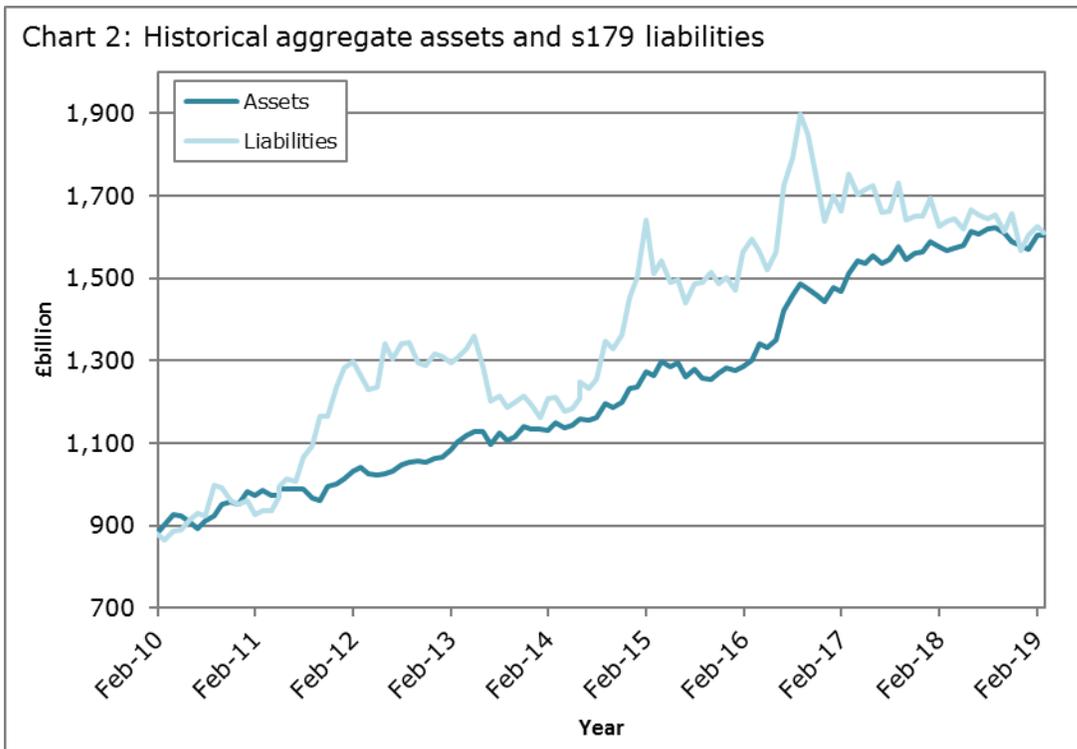
For a more in-depth look at the monthly changes to our data please see the link to the supporting data on the 7800 Index home page: <https://ppf.co.uk/ppf-7800-index>



The schemes in the universe

The aggregate deficit (total s179 liabilities less total assets) of the schemes in the PPF 7800 Index is estimated to have decreased to £8.6 billion at the end of February 2019, from £23.1 billion at the end of January 2019. The position has improved from a year ago, when a deficit of £72.1 billion was recorded at the end of February 2018.

The funding level (assets as a percentage of s179 liabilities) of schemes increased over the month from 98.6 per cent to 99.5 per cent at the end of February 2019. The funding level is higher than the 95.6 per cent recorded in February 2018.



Within the Index, total scheme assets amounted to £1,602.9 billion at the end of February 2019. Total scheme assets were unchanged over the month and increased by 2.3 per cent over the year. Total scheme liabilities were £1,611.5 billion at the end of February 2019, a decrease of 0.9 per cent over the month and a decrease of 1.7 per cent over the year.

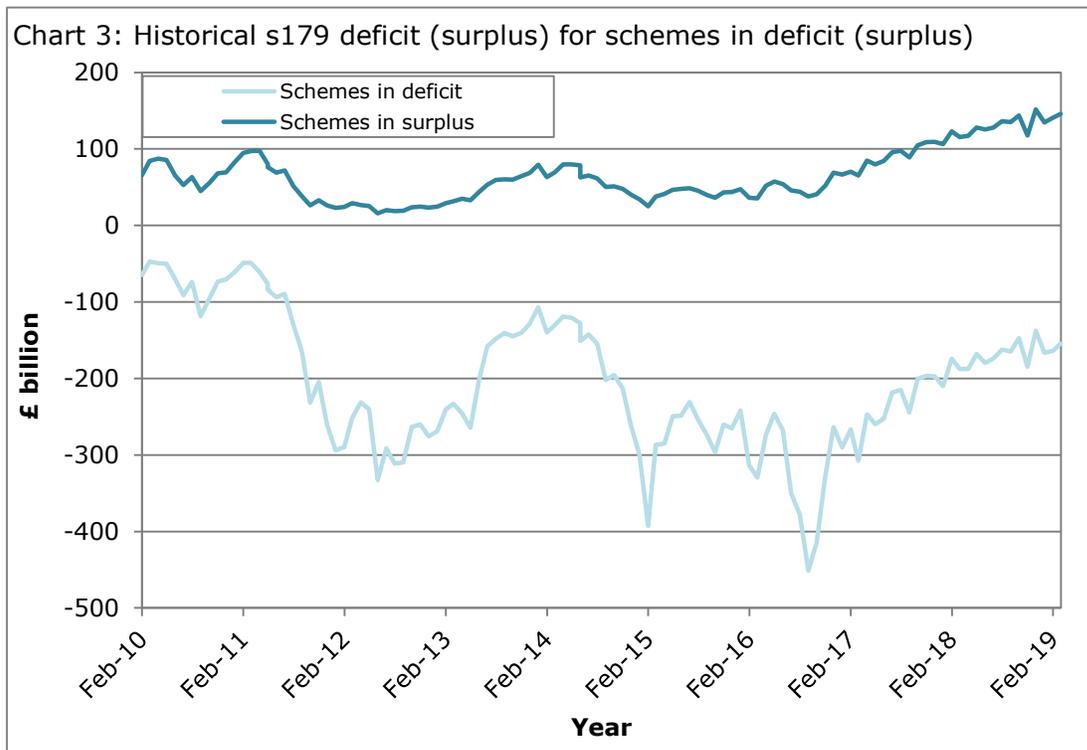
Funding comparisons

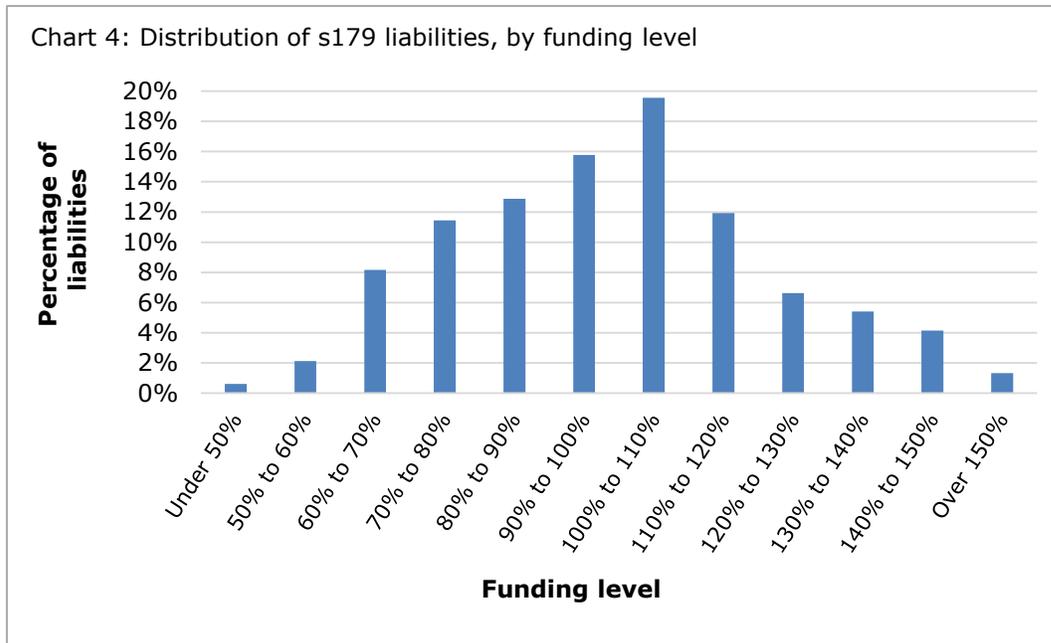
	February 2018	January 2019	February 2019
Aggregate funding position	-£72.1bn	-£23.1bn	-£8.6bn
Funding level	95.6%	98.6%	99.5%
Aggregate assets	£1,567.5bn	£1,603.0bn	£1,602.9bn
Aggregate liabilities	£1,639.6bn	£1,626.1bn	£1,611.5bn
Dataset / Assumptions	Purple 17 / A8	Purple 18 / A9	Purple 18 / A9

Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of February 2019 is estimated to have decreased to £154.3 billion from £163.8 billion at the end of January 2019. At the end of February 2018, the equivalent figure was £187.6 billion.

At the end of February 2019, the total surplus of schemes in surplus increased to £145.6 billion from £140.7 billion at the end of January 2019. At the end of February 2018, the total surplus of all schemes in surplus stood at £115.5 billion.





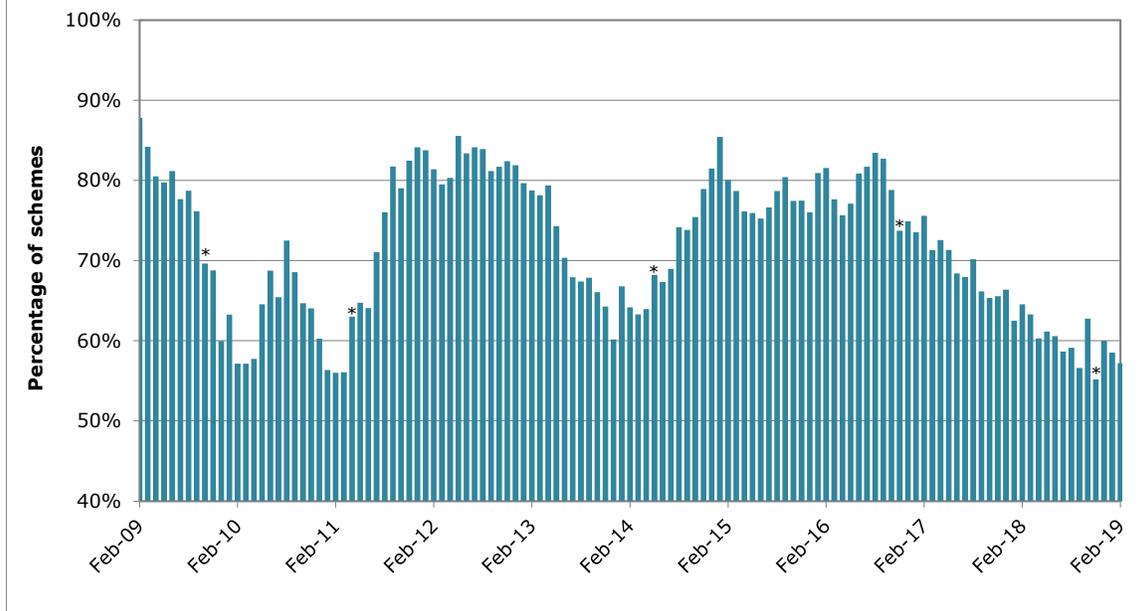
The number of schemes in deficit at the end of February 2019 decreased to 3,117, representing 57.2 per cent of the total 5,450 defined benefit schemes. There were 3,190 schemes in deficit at the end of January 2019 (58.5 per cent) and 3,608 schemes in deficit at the end of February 2018 (64.6 per cent).

The number of schemes in surplus increased to 2,333 at the end of February 2019 (42.8 per cent of schemes) from 2,260 at the end of January 2019 (41.5 per cent). There were 1,980 schemes in surplus at the end of February 2018 (35.4 per cent).

Schemes in deficit (surplus)

	February 2018	January 2019	February 2019
Number of schemes in deficit	3,608	3,190	3,117
Deficit for schemes in deficit	£187.6bn	£163.8bn	£154.3bn
Number of schemes in surplus	1,980	2,260	2,333
Surplus for schemes in surplus	£115.5bn	£140.7bn	£145.6bn
Number of schemes in Universe	5,588	5,450	5,450
Dataset / Assumptions	Purple 17 / A8	Purple 18 / A9	Purple 18 / A9

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



**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 28 February 2019. The changes in s179 liabilities and assets in the month to 28 February 2019 are the result of market movements only. The changes in s179 liabilities and assets in the year to 28 February 2019 are the result of market movements, updated scheme data and new s179 valuation assumptions.

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	-0.9%	-1.7%
Assets	0.0%	2.3%
Market indicator		
10-year fixed interest gilt yield	+9 bps	-21 bps
15-year fixed interest gilt yield	+10 bps	-18 bps
20-year fixed interest gilt yield	+9 bps	-14 bps
5-15 year index-linked gilt yield	-3 bps	-29 bps
FTSE All-Share Total Return Index	2.3%	1.7%
FTSE All-World Ex-UK Total Return Index	1.5%	3.0%

Chart 6: Movements in gilt yields over the decade

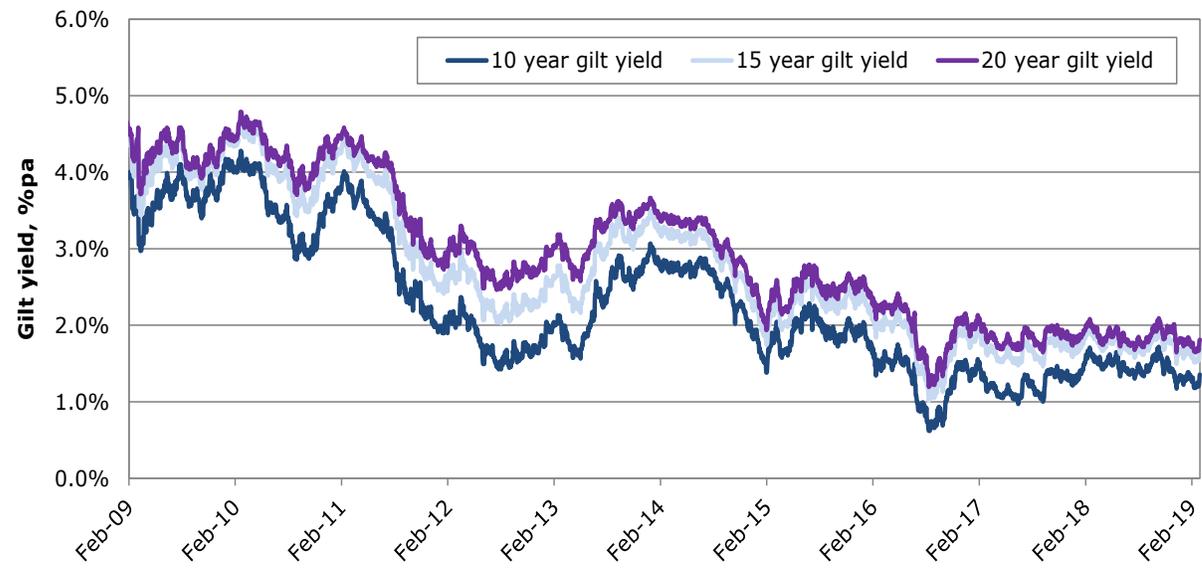
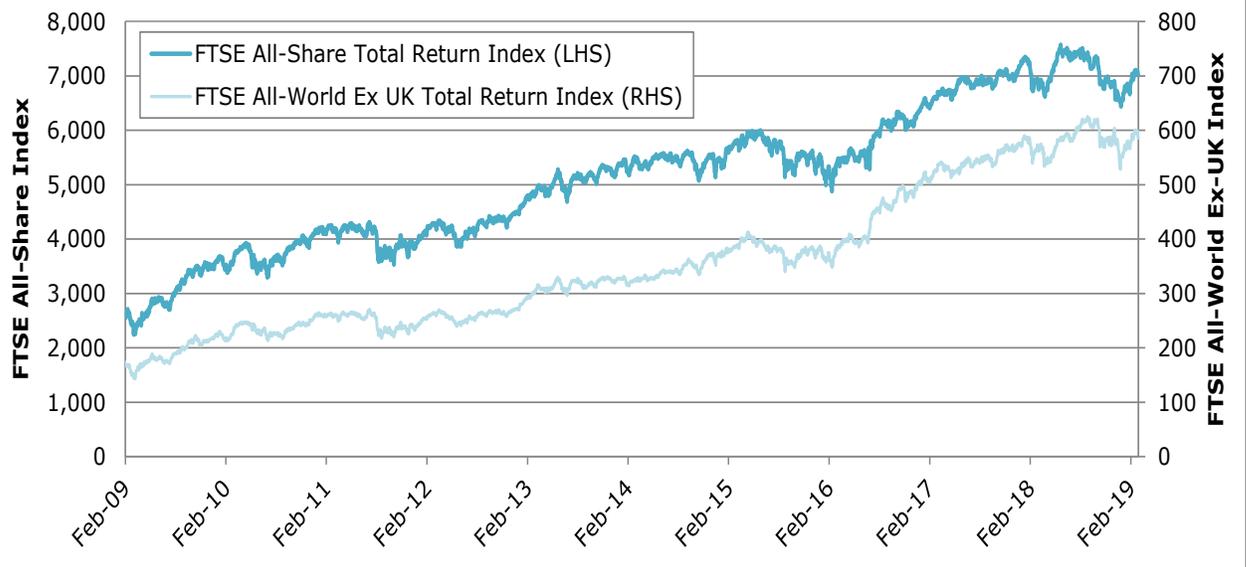


Chart 7: Movements in equity indices over the decade



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 £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>

3. 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), 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.

4. 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.

5. 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>

6. 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

PPF Press Office +44 (0)20 7566 9775