

Pension
Protection
Fund

**Management Plan 2010/11 – 2012/13
Incorporating Business Plan 2010/11**

April 2010

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Chairman's Foreword

As anticipated, the economic climate, with its associated greater demands on the Pension Protection Fund was the dominant theme of 2009/10. While questions were raised about our sustainability and whether we would weather the storm, I am confident that we have proved resilient in difficult times. This resilience should be of reassurance to the thousands we pay compensation to and the millions more defined benefit pension scheme members that we protect.

Over the last five years the PPF has become an established part of the pensions landscape. This means the Board has now taken the opportunity to revise our strategic objectives to reflect how we have moved from formation to consolidation. Of course many of the challenges remain the same, but we now face them with the benefit of significant collective experience from the last five years. Our developing thinking on the assessment period, our funding strategy and the future of the Pension Protection Levy all build on work undertaken to date. Our assumption of management of the Financial Assistance Scheme in July 2009 is a reflection of the expertise and skills that has also developed over that time. This Business Plan outlines how we will approach each of these tasks over the next year.

As I have often emphasised, pension protection is a collective responsibility. With scheme funding and quality of scheme data important issues for us, we will continue to work closely with the Department for Work and Pensions and the Pensions Regulator.

This is likely to be the final Business Plan of my time as Chairman, but I believe that the Chief Executive, the other Members of the Board and the staff of the PPF, together with my successor, are well placed and equipped to take the organisation forward.

In closing I would echo a simple phrase that I have heard many times over the last year, as employees have sadly faced unemployment on the collapse of their employer but seen the PPF step in with regard to their pension:

'Thank goodness we have a Pension Protection Fund'

A handwritten signature in cursive script that reads "Lawrence Churchill". The signature is written in black ink and is positioned above a horizontal line that serves as a separator.

Lawrence Churchill
Chairman

Chief Executive's Foreword


Five years on from when the PPF first opened its doors, we have become a firmly established part of the pension protection framework, recognised for the vital work that we do in protecting people's futures. By the close of the 2009/10 financial year, 47,000 people were either receiving compensation from us, or will do so at some point in the future.

Our credible and efficient approach to the task at hand was recognised during the past year when, in July 2009, the PPF formally took over the management of the Financial Assistance Scheme (FAS). While all the costs of the FAS, including work undertaken by the PPF on its behalf, continue to be met by the Government rather than the levy-payer, the running of the FAS now sits within the Board of the Pension Protection Fund's remit. As we move forward, we will continue to integrate the two organisations so that both levy-payers and taxpayers benefit from the economies of scale from bringing PPF and FAS activities together, while also ensuring that our collective knowledge and expertise is shared to bring financial security to members from both FAS and PPF schemes.

The recent recession has seen our role at the PPF come into sharp focus, and although the current economic conditions continue to provide a challenging environment in which to operate, we are confident that our business model remains resilient. Over the coming years, we will continue to move schemes through the assessment and wind-up processes as quickly as possible so as to provide certainty for scheme members. We will also work with the Pensions Regulator and the Department for Work and Pensions (DWP) to push through reforms on pension scheme data and record keeping which, once in place, will allow us to significantly improve the efficiency of the assessment and wind-up processes.

During the past year, the PPF passed the £100m mark in compensation paid out, and as an increasing number of schemes continue to transfer over to our protection, managing our growing asset base becomes an ever more significant part of our operations. Pension scheme members transferring to us today will depend on drawing compensation from the Fund for many years or even decades into the future. It is our ability to continue to meet these long-term obligations that is of most significance to our members. During the coming year we will consult on a revised levy distribution formula which is demonstrably fairer, simpler and more predictable than the current version. We will also publish a revised Statement of Investment Principles and a funding strategy, clearly setting out our funding objective and framework. In this way we will lay strong foundations for a fairer levy for schemes and employers, and a financially secure future for millions of pension scheme members.

One of the greatest assets of the PPF is our staff, who always demonstrate commitment and enthusiasm in the job they do. We will continue to foster a work culture where every member of the team is recognised and valued for the contribution they make in ensuring that people's futures are protected.



Alan Rubenstein
Chief Executive

1. Introduction

The Board of the Pension Protection Fund (PPF) was set up under the provisions of the Pensions Act 2004 and began operating on 6 April 2005.

The PPF is a Public Corporation, governed by an independent board, and its functions in respect of the Fund are set out in the Pensions Act 2004 and responsibility for the Financial Assistance Scheme (FAS) was conferred to the Board through regulations in the summer of 2009. The functions of the PPF are:

- to pay compensation to members of defined benefit schemes where the sponsoring employer has become insolvent and there are insufficient assets in the scheme to buy out the PPF levels of benefit
- to pay fraud compensation to occupational pension schemes via the trustees
- to manage the assets of the two funds the Board controls: the Pension Protection Fund and the Fraud Compensation Fund¹
- to raise pension protection levies from eligible defined benefit and hybrid schemes, and raise levies on all occupational pension schemes for the Fraud Compensation Fund (FCF) when appropriate, and
- to manage and administer the Financial Assistance Scheme which includes making assistance payments to members of defined benefit schemes not eligible for PPF compensation where the employer cannot pay the shortfall because it is insolvent, no longer exists or no longer has to meet its commitment to pay its debt to the pension scheme.

The Board is accountable to the Secretary of State for Work and Pensions and, through the Secretary of State, to Parliament. The PPF's Annual Report and Accounts are laid by the Secretary of State in both Houses of Parliament.

In 2008 the Government laid regulations giving the PPF certain responsibilities in relation to the Financial Assistance Scheme (FAS). These were followed by a further set of regulations in July 2009 conferring total responsibility for the management and administration of FAS on the Board of the PPF. This means that responsibility for FAS has transferred from the DWP to PPF. The FAS continues to be funded by Government, and is accounted for separately from PPF activities, which are funded by levy payers.

A tripartite Memorandum of Understanding has been agreed between the PPF, DWP and the Pensions Regulator, which sets out the responsibilities of each organisation and how they work with each other. A Partnering Agreement and Memorandum of Understanding are also in place between the PPF and the Regulator, and a Framework Document between the PPF and DWP which sets out a management statement and its associated financial memorandum.

¹ The Fraud Compensation Fund pays compensation to pension schemes where they suffer a loss caused by dishonesty, including fraud and misappropriation of assets.

2. PPF Strategic framework: Vision, mission and strategic objectives

The original PPF vision, mission, values, operating principles, critical success factors and strategic objectives were developed by the Board in the spring of 2005. They have formed the framework under which the PPF has successfully operated during its first five years.

Now is an appropriate time to revise the strategic framework. With the benefit of five years' experience, we are moving from the formative years of the PPF to a period of consolidation. We have new statutory responsibilities in relation to the Financial Assistance Scheme, and a number of new Board members, including a new Chief Executive.

The Board has therefore developed a revised strategic framework for 2010/11 onwards. The new model is a streamlined three-tier framework consisting of a vision, mission and strategic objectives, underpinned by a set of values that will drive everything the PPF does.

Vision: Protecting people's futures.

Mission: Pay the right people the right amount at the right time.

Strategic Objectives:

- Manage schemes through the assessment and wind-up processes in a timely and efficient manner.
- Invest assets prudently and effectively to meet our commitments.
- Set and collect an appropriate levy and allocate it fairly.
- Maintain our reputation by communicating clearly what we do and why.
- Be an efficient organisation where staff are recognised and valued.
- Maintain effective risk management in all areas of PPF business.

Values:

- Integrity – 'Do the right thing'
- Collaboration – 'Work as one'
- Accountability – 'Own your actions'
- Respect – 'Value every voice'
- Excellence – 'Be your best'

2.1 Vision: Protecting people's futures

The Board has chosen a short, memorable vision statement that captures much of what the PPF is about. The PPF's assistance provides a secure future for people of all ages.

2.2 Mission: Pay the right people the right amount at the right time

This mission statement goes to the heart of what the PPF has been established to do: to pay compensation under the PPF and assistance under FAS to those people whose employer has gone bust and who are part of an eligible pension scheme.

This mission has been an objective of the PPF since we opened our doors in 2005, and is the most memorable part of our original strategic framework. If we are to achieve it, we must also be successful in delivering our strategic objectives, and act in accordance with our values. We can only pay the right people, the right amount, at the right time if we move schemes through assessment and wind-up efficiently, set and collect an appropriate levy, invest assets effectively, communicate clearly, and manage the risks within our control.

2.3 Strategic Objectives

These strategic objectives reflect many of the same key areas as the former mission and objectives, and reflect the benefit of five years' experience:

- the assessment and wind-up processes form the heart of our operations, and managing these processes efficiently will provide certainty to members as soon as possible
- investment will continue to increase in significance as the size of the fund grows
- levy is our only interaction with the majority of eligible pension schemes, and we will continue to improve the fairness of the levy distribution
- communication is central to our work, particularly in this economic climate
- as a well-established organisation, we must demonstrate our efficiency, and embed a culture where people strive for excellence, and feel their contribution is valued, and,
- effective risk management will mean we are best placed to deliver our objectives, and meet any challenges we encounter.

Through successfully achieving these objectives we will continue to build confidence in the PPF and its resilience.

2.4 Values

The new values re-emphasise the core principles that were set out in our former value statements, and continue to serve to support and drive all that the PPF does. The new statements define what the PPF stands for in a more succinct way, but will continue to support the culture of our organisation.

Making sure that everyone at the PPF understands and demonstrates these core values will be key to our success, and the quality of performance in every job, every activity and every action will be assessed in terms of these value statements:

- Integrity – 'Do the right thing'
- Collaboration – 'Work as one'
- Accountability – 'Own your actions'
- Respect – 'Value every voice'
- Excellence – 'Be your best'

3. Summary of key strategic actions between 2010 and 2013

3.1 Introduction

This section summarises our key priorities over the next three years in relation to each of our strategic objectives.

3.2 Manage schemes through the assessment and wind-up processes in a timely and efficient manner.

Over the next three years we will transform the way we manage schemes through the assessment process. This three year programme of work builds on the knowledge and experience gained over the last five years. Working with trustees, scheme administrators and other pensions professionals, we will look to continue to speed up the process of winding-up schemes that need to transfer into the PPF.

Underpinning this programme of work are a series of strategic priorities that will transform the way we manage schemes from the point of entry into the assessment process to the point of payment of compensation to eligible scheme members.

These priorities include:

- refining our operating model to focus internally on our core activities and deliver non-core activities through partnerships that provide value for money
- empowering the teams that facilitate schemes through the assessment process to take decisions within an acceptable risk profile, that expedite schemes' transfer to compensation
- taking greater control over delivery through enforceable arrangements with our partners that reward good and penalise poor performance, and
- clearly articulating efficient processes to external audiences and developing integrated systems that enable us to ensure that individuals and partners are doing what we ask of them.

Fundamental to the success of this programme of work, and ultimately the speeding up of the assessment process, is improving the quality of data held and managed by pension schemes and their administrators. We will seek to work with the industry and the Regulator, who has a statutory objective to protect the PPF, to bring about the sea-change in data quality standards that is required.

Since taking over responsibility for the FAS we have been embedding new processes, and getting to grips with various issues unique to FAS qualifying schemes. Now that we have established FAS as an integral part of our business we will spend the next three years focusing on:

- ensuring correct FAS payments are paid to all eligible people as they fall due and in accordance with the latest set of regulations, and to specified service standards
- winding up pension schemes and transferring assets to government speedily and efficiently, within a four year timeframe for the majority, and
- ensuring that we maximise efficiencies where appropriate thus providing value for money for tax payers and levy payers alike.

Our overriding priority is to ensure that FAS beneficiaries receive excellent customer service, and we have worked with our outsourced provider, Capita, to ensure that accurate and timely payments are provided as standard. We are pleased to report that to date all of the service level agreements with Capita have been met. We will continue to work with Capita to ensure these very high standards are maintained, identifying as necessary key areas for improvement.

One area where we propose to make some changes from the existing arrangements is in the provision of information to deferred members about future assistance payments. We hope to provide this as part of our standard service once schemes transfer. This should help members in planning for their retirement.

For the early part of 2010/11 a key focus will be on transferring the remaining FAS beneficiaries from the DWP system (Compendia) to our outsourced provider, Capita. This should generate efficiency savings on two bases: first because we are no longer incurring Compendia costs, and second through economies of scale derived from aggregation of both FAS and PPF volumes, which will drive down member charge costs. This will benefit both tax payers and levy payers.

We also propose to focus on driving through the wind-up of as many FAS schemes as we can, given this is critical to providing members with certainty over how much assistance they can expect to receive over their lifetime. Schemes which have annuitised or committed to annuitise² are being managed by one of our outsourced providers, Punter Southall, and we have set them a target to wind up the vast majority of these schemes by August 2011.

Legislation which will allow residual assets of schemes which have not annuitised to transfer to government, and one single payment made to individuals, came into force on 2 April 2010. This will allow final assistance payments to be made to individuals in this type of FAS qualifying scheme once the scheme winds up. We are expecting that we will transfer the majority of FAS schemes within four years.

The implementation of benefit equalisation for Guaranteed Minimum Pension (GMP) will be a priority for both PPF and FAS over the period of the plan. For PPF, schemes in assessment on 31 March 2010 which are expected to transfer prior to 31 March 2011 will not be required to equalise benefits for GMP, but will need to provide additional data to PPF to enable benefit equalisation after transfer. All other schemes in assessment will be expected to equalise for GMP prior to transfer to PPF. The Board's requirement to complete equalisation for GMP will be completed by end March 2012.

DWP has clearly indicated that it expects all FAS schemes to equalise for GMPs, and DWP guidance on this is due to be published in April 2010. Given the problems that we have already experienced in receiving data of sufficient quality in relation to FAS schemes, and with the need to now collect additional data in order to equalise GMPs, we expect to encounter some difficulties. However, we will seek to support both FAS and PPF schemes through this process.

3.3 Invest assets prudently and effectively to meet our commitments.

We will continue to apply our levies and the funds that we transition from schemes that transfer into PPF in accordance with our Statement of Investment Principles (SIP), ensuring that we have access to a pool of investment managers appropriate to the scale and complexity of the Fund. The managers selected from within our pool will be monitored against appropriately designed investment objectives. Our investment risks, which are set out in our SIP, will be continuously monitored against our objectives and controlled within our low risk tolerances.

As far as overall PPF funding is concerned, while our immediate expectation is that the PPF balance sheet will grow with the influx of new schemes, in the longer term the effect of, among other things, the scheme funding regime is most likely to reduce their impact. Over this period PPF liabilities will increasingly be made up of older members and the significance of the PPF's investment returns become relatively more significant.

To lay strong foundations for the future, we will publish:

² i.e. FAS1 schemes; FAS2 schemes are those which have not annuitised and which will transfer assets to the government. The volumetric assumptions for wind-ups of both types are given on page 16.

- A funding strategy in the current financial year, setting out our funding objective and framework, including how we will monitor progress against the objective.
- A revised SIP in 2010, showing how we intend to balance risk and return to give us the best chance of meeting our commitments in full over time, while minimising the risk of high levels of short term volatility that might adversely affect confidence in the Fund.

3.4 Set and collect an appropriate levy and allocate it fairly.

The PPF's medium term aim for the levy is to put in place arrangements that improve the fairness of the levy and make the amount charged to individual schemes more predictable – while ensuring that the overall sums collected meet the Board's funding objective.

Once in place, this should mean that the levy requires a minimum of future changes, providing stability of overall approach and individual levy amounts (subject to significant changes in scheme risk).

Over the next three years we will:

- **Develop a fairer levy formula**
Working with our partners, we will design a levy that more accurately reflects risks to the PPF through the economic cycle, and charges for risk in a manner that is predictable.
- **Ensure we have all the correct data we need, when we need it**
Complete and accurate scheme information available when we want it, that can be produced efficiently and with a minimum of manual interventions, will enable us to make informed, accurate assumptions to support levy calculation and collection. It will also help us establish a consistent annual invoicing cycle.
- **Invoice and collect the levy faster**
With accurate data in place, each year we will invoice at least 90% of the levy quantum by 30 September and collect at least 90% of uncontested value by 31 December. Providing that anticipated regulations come into force, there will be provisions to charge interest on late payments of the Pension Protection Levy. We will also explore the possibility of introducing on-line billing so that schemes can access their bills without delay.
- **Resolve statutory appeals faster**
We will continue to improve our processes for dealing with statutory levy appeals, and communication of PPF policies and Ombudsman decisions, to bring clarity for levy payers and reduce outstanding levy debt.

3.5 Maintain our reputation by communicating clearly what we do and why.

Effective two-way communications with our stakeholders remains a central objective for the Pension Protection Fund, putting reputational management at the heart of everything we do and say.

Our communications strategy will continue to:

- support the 'core values' and delivery of our functions
- maintain our reputation
- develop and maintain stakeholder relationships, and
- increase confidence in the long-term resilience of the PPF.

We will continue to use integrated communication channels to deliver our messages and information including:

- face-to-face meetings, where appropriate
- in-house stakeholder support team

- targeted, tailored written communications for pension scheme members in assessment and those that transfer to the PPF, and
- electronic communications.

Through a co-ordinated programme of communications activities we will:

- provide information that is trusted and respected
- have a leadership team that is accessible to stakeholders
- identify opportunities to work with industry to achieve best results, and
- demonstrate openness and transparency in all our actions and decisions.

Continuous improvement will remain an important element of our communications strategy, enabling us to evolve our approach to meet the changing information needs of our diverse stakeholder audience.

3.6 Be an efficient organisation where staff are recognised and valued.

As a public organisation, funded by levy payers, we recognise the importance of demonstrating efficiency in everything we do, particularly at a time when our levy payers are adversely affected by the economic climate. Over the period of this plan, we will seek to:

- significantly increase the throughput of schemes in assessment
- increase our targeted investment return, without significantly increasing our investment risk, and
- reduce the length of time taken to deal with levy reviews, and hence reduce outstanding levy debt.

We will also increase efficiency by embedding a high performance culture throughout the organisation, encouraging individuals, leaders and teams to strive for excellence in delivery, and recognising and valuing their contribution. Specifically, we will:

- increase strong leadership at all levels
- introduce a talent management programme throughout the organisation, and
- promote a culture of coaching and mentoring, providing training where needed.

3.7 Maintain effective risk management in all areas of PPF business.

We have successfully developed the PPF's risk management processes for both financial and non-financial (strategic, reputational, operational and legal) risks over the last five years, and recognise that we are dealing with a combination of risks that we can control, and risks that we cannot. While we have made good progress, we need to focus on continually updating our processes to ensure that they remain fit for purpose and manage all of the risks that may impact on us achieving our strategic goals.

Over the next three years, we will focus our attention on:

- refining our risk management processes to ensure that we manage not only the risks we treat, but also understand those that we tolerate
- refining the way we capture the Board's risk appetite for non-financial risks
- ensuring that our governance arrangements and risk management processes are appropriate for the level and breadth of risks facing the PPF
- ensuring that ownership of risks and key controls are clear, with performance of owners regularly appraised
- developing our control assurance framework, and
- developing performance indicators that enable us to understand when the risk is moving outside of the Board's appetite.

4. Key assumptions underlying the management plan

4.1 Legislative regime

This plan assumes that there will be no legislative change which would significantly affect our current levy funded business operations.

On 10 July 2009 the Government laid regulations conferring responsibility for the management and administration of the Financial Assistance Scheme on the Board of the Pension Protection Fund.

The Pensions Act 2008 contained a number of provisions amending the legislation relating to the PPF which related primarily to minor changes to the compensation structure and/or legislative drafting identified over the period since 2005.

Further secondary legislation is in force which follows on from the Pensions Act 2004 and 2008, which contained amendments to the application period for the early payment of compensation and the earliest age at which the majority of members are entitled to take compensation. Modifications to the calculation of compensation for active members of career average revalued earnings schemes and provisions to charge interest on late payments of the Pension Protection Levy, came into force in the spring of 2010. Further regulations enacting provisions set out in the Pensions Act 2008 are also anticipated within the period of the plan.

4.2 Pension scheme environment

Scheme funding

In the Purple Book 2009³, it was observed that:

- There was a significant deterioration in scheme funding between 31 March 2008 and 31 March 2009, which reflected the dramatic economic and financial market decline over the period.
- 85 per cent of eligible defined benefit (DB) schemes were in deficit and had an aggregate S179 basis deficit of £217 billion (at 31 March 2008 the corresponding figures were 65 per cent and £58 billion).
- Schemes in surplus had a total S179 surplus of £16 billion, compared to £70 billion at 31 March 2008.

The factors driving the value of assets of DB schemes at a given time are:

- market fluctuations in asset values
- the return on investment markets, and
- the choice of asset allocation.

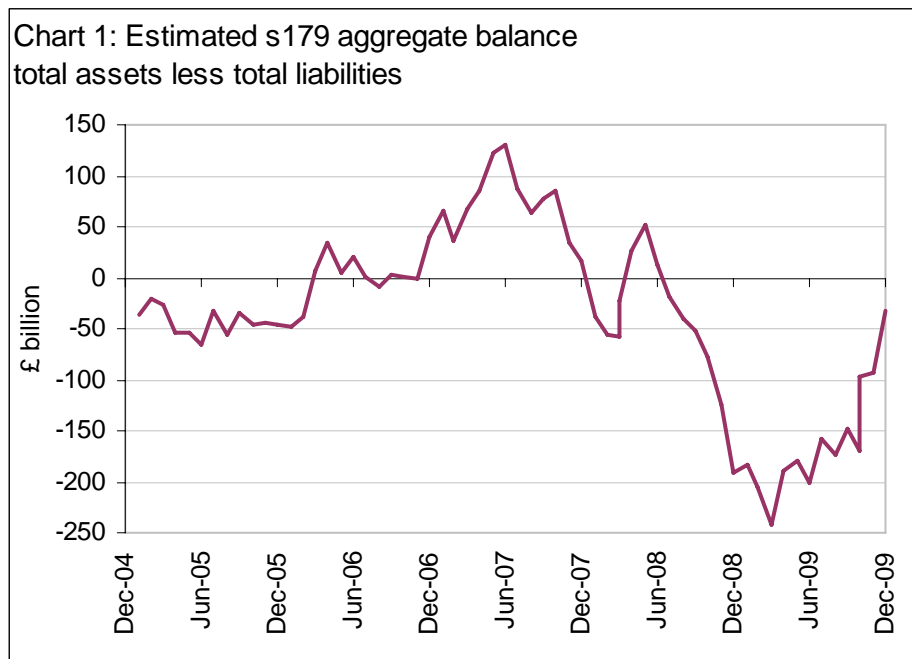
The factors driving the change in the value of pension scheme liabilities are:

- bond yields
- inflation, and
- longevity assumptions.

With all these factors changing, and deficits being the net of two relatively large numbers, total deficits are very volatile. The PPF 7800 index shows a marked deterioration in funding from May

³ The Purple Book is published annually by the Pension Protection Fund and the Pensions Regulator. It provides comprehensive data and analysis on the defined benefit pensions' landscape. The Purple Book 2009 was published on 19 January 2010.

2008 to a low in March 2009. However, the funding in March was affected by particularly adverse financial market conditions. Since March 2009, a recovery in equity markets and rising bond yields have resulted in an improvement in aggregate scheme funding to the end of December 2009.⁴



Closure to new members and accruals

The proportion of schemes open to new members and new accrual continues to decline. Purple 2009 showed that the proportion of open schemes in 2009 was 27 per cent, down from 36 per cent in 2007. 52 per cent of schemes are now closed to new members (up from 49 per cent in Purple 2008), while 19 per cent are closed to future accruals (up from 18 per cent in Purple 2008).

As the number of closed schemes increases, the number of members in open schemes inevitably declines. From Purple 2009, 37 per cent of members were in open schemes down from 44 per cent in Purple 2008 and almost half the number in 2006 (65 per cent). The increase in scheme closures is greater for schemes closing to new members, rather than schemes closing to future accrual. Between March 2006 and March 2009 the proportion of schemes closed to new members has increased from 33 per cent to 59 per cent. However, over the same period the proportion of schemes closed to future accrual only increased from two per cent to four per cent. Generally, the schemes which closed to future accrual were smaller than those which closed to new members.

We do not believe these developments will affect our assumptions for the period of this plan. We expect full buy-out funding levels to remain beyond the reach of most schemes for the foreseeable future. The fall in yields on government and corporate bonds witnessed over the year to March 2009 increased the cost of buy-out on the previous year. On a full buy-out basis, there was an aggregate deficit of £571 billion at 31 March 2009 with nearly all schemes in deficit.

Asset allocation

Equities, gilts and fixed interest continue to dominate scheme asset allocation, and the long-term trend of pension schemes shifting from equities into bonds and fixed interest continues. The proportion of total assets held in gilts and fixed interest is increasing, and rose to 37 per cent in 2009 from 33 per cent in 2008, while the equity share fell to 46 per cent from 54 per cent over

⁴ Note that the PPF changed the assumptions used to calculate the PPF 7800 index on 31 October 2009, which is reflected as a step change in the chart.

the same period. The larger shift witnessed between March 2008 and March 2009 compared to previous years may have been the result of the financial turbulence observed during that period. However, the joint share of these asset classes is in decline, from 89 per cent in 2006 to 83 per cent in 2009, as schemes diversify into other asset classes and look to de-risk their portfolios.⁵

As noted above, schemes have also moved to reduce risk through portfolio diversification. The popularity of alternative asset classes (hedge funds, property, and private equity) has risen, helping to diversify scheme portfolios. The 2009 National Association of Pension Funds survey showed that 28 per cent of DB schemes invested in alternative assets, a large increase since 2007 (18 per cent).⁶

Further diversification can be seen as schemes are reducing reliance on UK equity markets. Between 2008 and 2009 the proportion of equities held as UK equities fell from 48 per cent to 44 per cent, and the share of overseas equities rose from 52 per cent to 54 per cent. Similarly, within fixed interest investments schemes are shifting from UK gilts to corporate and index-linked bonds. The average share of corporate bonds rose from 33 per cent to 38 per cent between 2008 and 2009.

Pension schemes are increasingly favouring Liability Driven Investment (LDI) strategies. The nature of an LDI strategy will vary, but in general it consists of schemes giving some consideration to their liability profile when constructing their investment strategy. Such strategies usually rely on fixed income and derivative products as a means of hedging inflation and interest rate risk. The NAPF reported that 26 per cent of schemes it surveyed were implementing an LDI strategy in 2009, up from 23 per cent in 2008. Furthermore, 45 per cent of schemes had considered adopting an LDI strategy.

The increasing use of less volatile asset classes, such as gilts and fixed interest, increased portfolio diversification, and adoption of LDI strategies, suggests that risks posed to the PPF may become less volatile. This will particularly be true for maturing schemes.

4.3 Corporate insolvency

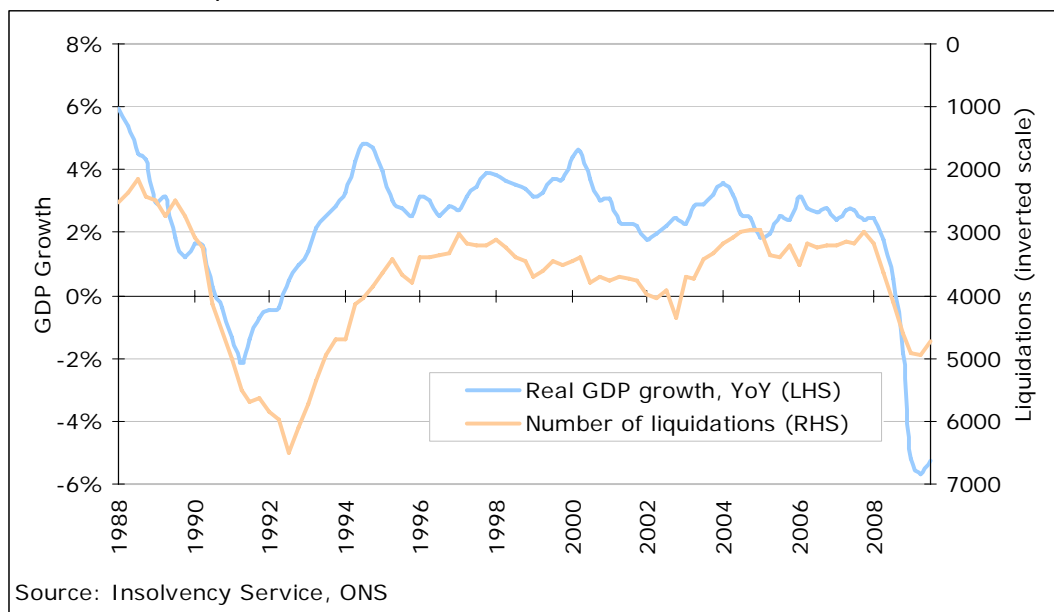
In the 12 months ending September 2009 0.9 per cent of companies went into liquidation, compared with a low point of 0.6 per cent in 2007. However, when comparing the economic recession to the one experienced in the early 1990s the liquidation rate is much lower, even though the fall in GDP has been much greater – nearly six per cent compared to two per cent. Furthermore, the pace of increase in company liquidations slowed over the first two quarters of 2009 and was followed by a 4.7 per cent fall, quarter-on-quarter, in the third quarter.⁷

⁵ Asset allocation figures are quoted on a weighted average basis. For more information see the Purple Book 2009.

⁶ *The NAPF Annual Survey*, November 2009. [NAPF Publications - Research Reports](#)

⁷ The Insolvency Service. <http://www.insolvency.gov.uk/otherinformation/statistics/200911/index.htm>

Chart 2: UK Corporate insolvencies and GDP



The universe of sponsoring employers for PPF-eligible DB schemes is only a small part of the total universe of UK companies (around 16,000 compared with approximately 2.3 million). The composition of the two universes differs as DB schemes are generally associated with larger, older companies, and there is a heavier weighting towards the manufacturing sector. Given these differences it may be anticipated that the level of insolvencies experienced in the wider economy will not necessarily reflect experience of the PPF universe of companies. However, estimated figures on the number of cases entering the PPF assessment period show that the PPF experienced a similar trend to the wider economy, with the estimated number of cases rising over the second half of 2008 and first quarter of 2009, but then declining in the second and third quarters.

The Bank of England (BoE) November Inflation Report provides some rationale for the lower than anticipated level of company liquidations.⁸ This includes attitudes towards lending (and losses) and the tax deferral initiatives of HMRC. The BoE surveys suggest that lenders, including banks, have been more lenient on borrowers who breach loan agreements. As long as interest payments were being met, lenders had not foreclosed on the loans. This may have been a deliberate strategy by lenders to postpone potential losses. Additionally, the tax deferral schemes by HMRC has allowed for some degree of cash flow flexibility to cope with the economic down turn. To November 2009, HMRC had deferred taxes on more than 150,000 cases to the value of around £4 billion.

The implication is that these actions may only serve to delay company insolvencies for a short time, and that there may be a rise in the number of company liquidations in 2010 even though the economy will have moved out of recession. This is more likely to impact small and medium enterprises that are heavily reliant on bank lending for continued finance, and who represent the majority of claims against the PPF. The economic recovery in the UK up to the third quarter of 2009 has been weaker than expected, and there remains a possibility that the predicted growth over 2010 is lower than forecast. As such, the number of insolvencies may turn out to be higher than anticipated.

⁸ *Inflation Report: November 2009*, Bank of England.
<http://www.bankofengland.co.uk/publications/inflationreport/index.htm>

4.4 Updated universe assumptions

Based on the above, the following baseline assumptions about the progression of the DB universe enable forecasts to be made for future headcount and resource needs, e.g. the number of assessment team members and the costs of compensation administration. These assumptions themselves are not set as a target within in the business plan.

A scheme may leave the assessment period by a number of means, whether by transfer to the PPF, buy-out, or rescue; the resource requirement is similar in all such routes.

Estimates for March years ending:	2009/2010	2010/2011	2011/2012	2012/2013
Receipt of notices of qualifying insolvency events from insolvency practitioners or trustees ⁹	3,500	3,000	2,000	1,700
New cases entering assessment in the year ¹⁰	145	140	110	90
Cases transferred to the PPF	65	125	140	145
Cases leaving assessment by other means	25	10	10	15
Total cases completing assessment	90	135	150	160
Number of cases in assessment at year end	350	355	315	245
Number of members in assessment at year end	200,000	193,000	148,000	101,000
Cumulative members in compensation ¹¹	47,000	130,000	224,000	307,000
Number of FAS2 qualifying schemes winding-up	N/A ¹²	20	105	160 ¹³
Number of FAS1 qualifying schemes winding-up	50	170	85	N/A ¹⁴

A total of 280 FAS qualifying schemes have already wound up and 15,000 people are now receiving assistance payments. As FAS schemes continue to wind-up over the next three years, a further 180,000 people could potentially qualify for assistance payments.

⁹ Most insolvency notifications we receive are ineligible for compensation, (eg defined contribution schemes or stakeholder plans). Thus, the ratio of cases accepted into assessment to estimated insolvency notices is very low.

¹⁰ A case is our basic unit of work. It can represent a single employer scheme, a multi-employer scheme, a section of a scheme, or a segment of a section of a scheme depending on the underlying scheme structure.

¹¹ 'In Compensation' refers to members both in payment and deferred.

¹² The appropriate legislation was not in place to allow FAS2 qualifying schemes to wind up in 2009/10.

¹³ It is anticipated that the winding-up of FAS2 schemes will continue in to 2013/14.

¹⁴ These volumes are based on the assumption that FAS1 schemes will have all completed wind-up by 31 March 2012.

5. Business Plan 2010/11

5.1 Introduction

This business plan covers the financial year 2010/11 and sets out how we intend to achieve the strategic objectives set by the Board. Our focus in 2010/11 will be:

5.2 Manage schemes through the assessment and wind-up processes in a timely and efficient manner.

Activity/Action	KPI/Milestone
Continue working with trustees and advisors to move schemes through the assessment and wind-up processes as quickly as possible to provide certainty for members.	<ol style="list-style-type: none"> 135 schemes to complete assessment by end March 2011. Have robust project plans in place by end March 2011 for a further 150 schemes to transfer by end March 2012. Complete the wind-up of 50 per cent of FAS1 annuitised schemes by end September 2010. Complete planning for the FAS2 schemes by end September 2010 and transfer 20 schemes by end March 2011. Reduce average unit cost of schemes completing assessment in 2010/11 by 10 per cent.
Work with the Regulator and DWP to introduce improvements in scheme data and record keeping.	<ol style="list-style-type: none"> Work with the Regulator to ensure their rolling programme of data audits is smartly targeted; ensure PPF eligible schemes are appropriately represented in the first batch to be completed by year end.
Pay the right people the right amount at the right time.	<ol style="list-style-type: none"> A minimum of 85 per cent of members are satisfied with the service provided by Capita. Errors and undue delays to payments should be less than 0.5 per cent of total payments. Develop and publish a process setting out how the Board will achieve equalisation of compensation for GMP by end June 2010.

5.3 Invest assets prudently and effectively to meet our commitments.

Activity/Action	KPI/Milestone
Implement our investment strategy.	<ol style="list-style-type: none"> Recruit and maintain a pool of 20 approved investment managers by end March 2011. Monitor the performance of PPF-appointed managers against agreed criteria. Target long-term investment return of 1.8 per cent pa in excess of the liabilities.
Publish a funding strategy.	<ol style="list-style-type: none"> Publish a funding strategy in the current financial year, setting out our funding objective and framework, including how we will monitor progress against the objective.
Develop our investment strategy in line with the Board's appetite for risk and funding target.	<ol style="list-style-type: none"> SIP to be reviewed and approved by end 2010.

5.4 Set and collect an appropriate levy and allocate it fairly.

Activity/Action	KPI/Milestone
Work with stakeholders to ensure the levy provides the resources the PPF needs, while delivering certainty for levy payers on their bills.	<ol style="list-style-type: none"> 1. Publish the rules on which the levy will be charged in 2011/12 (including the levy scaling factor) by end December 2010. 2. In 2010, consult on proposals for later years that enhance the fairness and predictability of the levy, while still meeting PPF funding requirements.
Issue schemes with accurate levy bills in a timely and efficient manner.	<ol style="list-style-type: none"> 1. 100% of eligible schemes billed by 31 March 2011, with 90% of uncontested value collected by 31 March 2011.
Effectively manage the levy review and appeal processes.	<ol style="list-style-type: none"> 1. Total prior year levy debt, excluding ongoing PPFO, court cases and decisions less than 28 days old, reduced below £20 million by 31 March 2011.
Set and collect a Fraud Compensation Levy.	<ol style="list-style-type: none"> 1. To meet expenditure from the Fraud Compensation Fund, the Board will set an appropriate levy which the Regulator will invoice and collect.

5.5 Maintain our reputation by communicating clearly what we do and why.

Activity/Action	KPI/Milestone
Implement a proactive and integrated communications programme aimed at supporting the delivery of the PPF's strategic objectives.	<ol style="list-style-type: none"> 1. At least 80 per cent of stakeholders agree that the PPF communicates effectively through all communication channels. 2. At least 80 per cent of stakeholders are aware of, and understand, the PPF's main role and objectives.
Perform an annual perception audit to: <ul style="list-style-type: none"> • assess the views and opinions of stakeholders • determine their preferred channels of communication, and • gauge the extent to which the information provided is trusted. 	<ol style="list-style-type: none"> 1. Findings reviewed and incorporated into the annual communications strategy and plan by 30 June 2010.
Operate an effective Stakeholder Support Team (SST) to ensure that high standards of customer service are delivered and sustained.	<ol style="list-style-type: none"> 1. 80 per cent of respondents that use the SST service felt that they were handled in a professional way.

5.6 Be an efficient organisation where staff are recognised and valued.

Activity/Action	KPI/Milestone
Drive through the organisation's programme of cultural change and ensure that every member of the PPF team is valued and adds value.	<ol style="list-style-type: none"> 1. Ensure that all members of the PPF team understand and live the organisation's new values by end December 2010. 2. Roll-out the coaching and personal development programme of cultural change by end December 2010. 3. Implement appropriate actions in response to staff survey feedback.
Implement an integrated and proactive internal communication strategy and plan by end June 2010.	<ol style="list-style-type: none"> 1. 80% of staff feel that internal communications achieves the objectives set out in the plan by end March 2011.
Operate an efficient and cost-effective compensation payment mechanism.	<ol style="list-style-type: none"> 1. Compensation administration costs per member are to be lower than the average for comparable sized pension schemes as measured by the annual Pension Administration Survey commissioned by Capita Hartshead.
Continue to demonstrate high levels of efficiency in our core functions.	<ol style="list-style-type: none"> 1. Efficiency improvement plans agreed with all budget holders responsible for core functions by 30 June 2010.
Support the Government's 'Putting the Frontline First' initiative.	<ol style="list-style-type: none"> 1. Reduce our 2010/11 back office to front office expenditure ratio by 10 per cent.

5.7 Maintain effective risk management in all areas of PPF business.

Activity/Action	KPI/Milestone
Review PPF funding (including investment) risks.	<ol style="list-style-type: none"> 1. Monitor the PPF balance sheet throughout the year. 2. Risk indicators reviewed and changes agreed by end September 2010. 3. Control the investment risks within agreed tolerances consistent with the Board's appetite for risk. 4. Reduce the volatility of the PPF balance sheet through hedging interest rate and inflation risk.
Implement recommendations from the National Audit Office Value for Money study.	<ol style="list-style-type: none"> 1. Recommendations to be implemented within six months of the report's sign-off.
Monitor the Fraud Compensation Fund funding risks.	<ol style="list-style-type: none"> 1. Ensure the Fund remains able to meet probable claims during the accounting period in which they arise.
Develop a revised Risk Universe to capture all of the risks facing the PPF.	<ol style="list-style-type: none"> 1. The Board's risk appetite to be reviewed by end September 2010.

6. Updated financial plan and budget

6.1 DWP and Grant in aid

Together with the DWP, the PPF regularly reviews current financial performance, and the impact of current developments on future years' expenditure.

Our operating and capital expenditure are funded by grant in aid drawn down from the DWP. Grant in aid is in turn financed by the PPF administration levy raised by the DWP on eligible pension schemes.

Where the PPF performs functions in relation to the FAS, costs are recovered on a fully absorbed cost basis from the DWP via grant in aid. This cost is not borne by the administration levy payers.

6.2 Resource requirement

The table below sets out the total expenditure estimates for the three year period covered by this strategic plan, together with the latest forecast numbers for 2009/10.

In July 2009 the Government laid regulations conferring the responsibility for the management of FAS from the DWP to the Board of the PPF. For comparative purposes, the total annual cost of running the FAS operational unit from 1 April 2009 has been included in the 2009/10 forecast.

In 2010/11 we will invest further in both our assessment processes and skilled team in order to deliver our objective of significantly increasing the number of schemes who complete our assessment period during the year.

While our investment portfolio will continue to grow in both value and complexity as more scheme assets are transferred to the Protection Fund, our overall staffing levels are expected to peak in 2010/11 and begin falling in 2011/12 when we expect to have completed the wind up of FAS schemes and transferred member records to Capita, our payroll provider.

Our administration fund unit costs will continue to fall when measured on a per member basis due to higher compensation activity and increased operational efficiency.

All figures £'000	Forecast 2009/10	Budget 2010/11	Management Plan 2011/12	Management Plan 2012/13
Salary and related costs	18,490	19,548	18,920	18,220
Training and recruitment	880	670	550	580
Travel and meetings	320	505	420	400
Accommodation and general office	2,470	2,667	2,428	2,390
Communications and publications	300	315	330	350
Consultancy and advisory services	3,200	3,875	4,070	4,270
IT and telecommunications	2,185	2,050	1,880	1,820
Other outsourced services	2,570	3,507	3,965	3,768
Depreciation	1,400	1,515	1,590	1,670
Total resource requirement	31,815	34,652	34,153	33,468
Capital expenditure	1,900	1,500	1,200	900

The split of the total estimated resource requirement between PPF and FAS activity is set out below:

All figures £'000¹⁵	Forecast 2009/10	Budget 2010/11	Management Plan 2011/12	Management Plan 2012/13
Salary and related costs	13,180	14,167	14,580	14,360
Non-staff overheads	8,195	8,712	9,020	9,505
Other outsourced services	665	1,120	1,180	1,235
PPF resource requirement	22,040	23,999	24,780	25,100
Capital expenditure	1,295	1,250	1,000	750
Resource requirement unit cost per member transferred or in assessment	89	74	67	62
Salary and related costs	5,310	5,381	4,340	3,860
Non-staff overheads	2,560	2,885	2,248	1,975
Other outsourced services	1,905	2,387	2,785	2,533
FAS resource requirement	9,775	10,653	9,373	8,368
Capital expenditure	605	250	200	150

6.3 Cost drivers

We have developed budgetary controls and management supervision to manage costs within funding limits. Our costs are driven in a number of areas by events that are difficult to forecast and control, such as insolvencies, mergers and acquisitions. That is why we have designed the planning process to deliver a “most-likely” case financial forecast, the drivers of which are outlined below.

Salary and related costs

Salary and related costs are budgeted at 56 per cent of our total resource requirement in 2010/11, a lower percentage than 2009/10. This downward trend will continue into the plan period and demonstrates improved operational efficiency and the benefits of automation as more members enter compensation and our investment fund grows.

Absolute salary and related costs will grow, in part due to annualising the salaries of staff joining in 2009/10, but also due to increased staff resources in our Transition team to manage the targeted 80 per cent increase in the number of cases we wish to transfer to the Protection Fund during the year. We will also recruit specialist staff to ensure the Board can meet its benefit equalisation commitment to pay compensation on a basis that is no more or less favourable to a woman (or man) than would be comparable to a man (or woman), in respect of pensionable service on or after 17 May 1990.

Total Croydon based staff numbers are expected to rise in 2010/11 from a forecast of 252 at the beginning of the year to 273 by year-end and to then stabilise as process and systems enhancements mature. The uncertainty around volumes of schemes that will enter assessment –

¹⁵ Please note this excludes ‘Resource requirement unit cost per member transferred or in assessment’

our key driver of staff numbers – leads us to require a flexible resourcing model that relies on a number of temporary roles filled by contractors and secondees.

As the management and a number of support and technical teams split their time across PPF and FAS, the table below indicates our staffing plan to deliver both our PPF and FAS functions:

	March 2010 forecast	March 2011	March 2012	March 2013
Payroll	217	231	231	231
Non-payroll	35	42	42	36
Total Croydon	252	273	273	267
Non Execs	8	8	8	8
York (FAS OU)	54	54	54	0
Total	314	335	335	275

External expenditure

Significant parts of our external expenditure are on fixed or inflation-linked contract terms, e.g. accommodation costs, IT-managed service and external audit costs. These have been forecast and budgeted for in accordance with the relevant agreements.

Although difficult to forecast and control, we are beginning to see increased restructuring activity by financial lenders as we emerge from recession and anticipate an increase in the volume and complexity of restructuring activity as we continue to focus on actively managing significant debt recovery in the Fund.

We also anticipate an increase in legal activity driven by the participation in high profile investigations and court cases and improving both our assessment and levy appeals throughout.

Outsourced services

We recognise the value of using third party providers of goods and services, when they deliver better economy, greater efficiency and/or more effective control than in-house provision. In these situations, the providers of outsourced and advisory services play a key part in our strategic objectives. Our strategy with key suppliers is to actively manage these as partnerships.

We outsource the measurement of our insolvency risk to Dun and Bradstreet (D&B). The information is used to understand our long term risks as well as a key input into the calculation of our risk-based Pension Protection Levy. We also outsource our internal audit function.

Our biggest outsourced service for the FAS in the plan will be to member compensation. Our existing contract with Capita was re-negotiated in 2009/10 to include FAS members so we could leverage significant cost advantages due primarily to economies of scale.

We have also secured the services of Punter Southall to help deliver part of the work assisting and guiding trustees through the wind-up process. We believe this service provides a cost effective and practical solution to a time limited piece of work.

Capital expenditure

Forecast capital expenditure for 2010/11 is £1.5 million compared with a provisional outturn of £1.9 million for 2009/10. Expenditure in 2010/11 will focus on creating a secure PPF network for the FAS Operational Unit in York, re-developing our intranet, implementation of an automated corporate business information facility and casework system to help improve how we manage schemes through our assessment process.

Further Reading

The following documents provide further detail on aspects of the PPF and provide further detail on aspects of our strategy

- The Purple Book 2009
<http://www.pensionprotectionfund.org.uk/Pages/ThePurpleBook.aspx>
- Pension Protection Fund Annual Report & Accounts 2008/09
http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/ARA_0809.pdf
- PPF 7800 Index
<http://www.pensionprotectionfund.org.uk/Pages/PPF7800Index.aspx>
- The Pension Protection Fund website
<http://www.pensionprotectionfund.org.uk>
- The Pensions Regulator website
<http://www.thepensionsregulator.gov.uk/>

