

PPF 7800 Index 31 January 2012

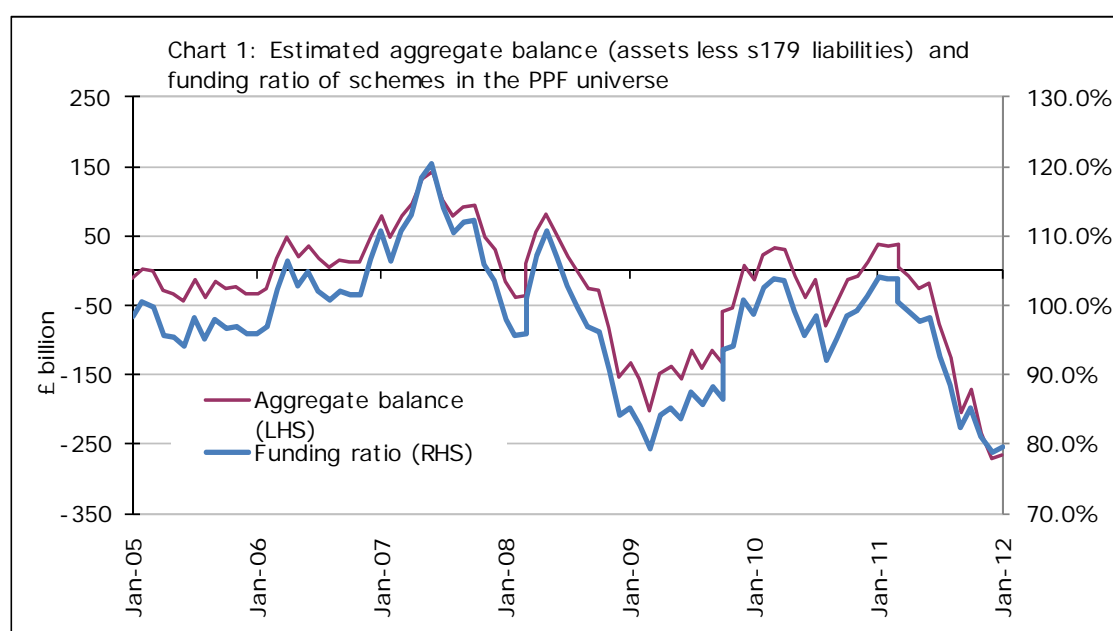
This update provides the latest estimated funding position, on a section 179 (s179) basis, for the defined benefit schemes potentially eligible for entry to the Pension Protection Fund (PPF). A scheme's s179 liabilities represent, broadly speaking, the premium that would have to be paid to an insurance company to take on the payment of PPF levels of compensation. This compensation may be lower than full scheme benefits. Movements in the PPF 7800 index illustrate how the PPF's exposure to the scheme deficits in its universe of eligible schemes is changing in response to financial market movements. It should be noted that the PPF 7800 index does not take into account schemes' use of derivative instruments to hedge changes in interest rates or equity markets.

Each year, we change the dataset that the 7800 Index is based on so that we take account of the most up-to-date information we receive from schemes about their funding. This update reflects a new dataset which is based on information in the latest Pensions Universe Risk Profile (The Purple Book), published in January 2011 (see note 6).

Highlights

- The aggregate deficit of the 6,432 schemes in the PPF 7800 index is estimated to have decreased slightly over the month to £265.5 billion at the end of January 2012, from a deficit of £270.8 billion at the end of December.
- The funding ratio increased from 78.9 per cent to 79.5 per cent.
- Total assets were £1031.2 billion and total liabilities were £1296.8 billion.
- There were 5,388 schemes in deficit and 1,044 schemes in surplus.

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/ppf_7800_underlying_data.xlsx

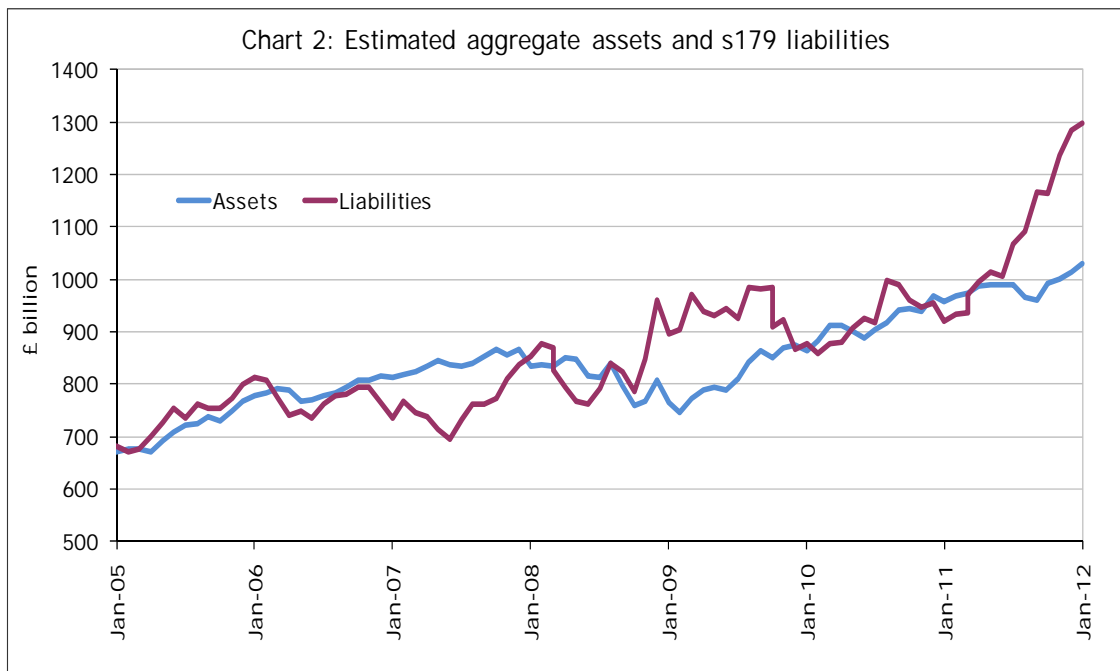


All schemes in the universe

The aggregate deficit (total s179 liabilities minus total assets) of the schemes in the PPF 7800 index is estimated to have decreased to £265.5 billion at the end of January 2012, from £270.8 billion at the end of December 2011. The position has worsened on the previous year, when a surplus of £38.5 billion was recorded at the end of January 2011.

The funding ratio (assets as a percentage of s179 liabilities) of schemes rose this month from 78.9 per cent to 79.5 per cent at the end of January 2012. The funding ratio is lower than the 104.2 per cent recorded in January 2011.

It should be noted that the comparison with a year earlier is affected by the changes in assumptions for s179 valuations which took effect from 1 April 2011 and raised liabilities by 3.6 per cent and reduced the aggregate balance by £34.9 billion (see Note 3).



Within the index, total scheme assets amounted to £1031.2 billion at the end of January 2012. Over the month, scheme assets rose by 1.8 per cent and over the year there was an increase of 7.6 per cent. Total scheme liabilities were £1296.8 billion at the end of January 2012, an increase of 1.0 per cent over the month and an increase of 41.1 per cent over the year.

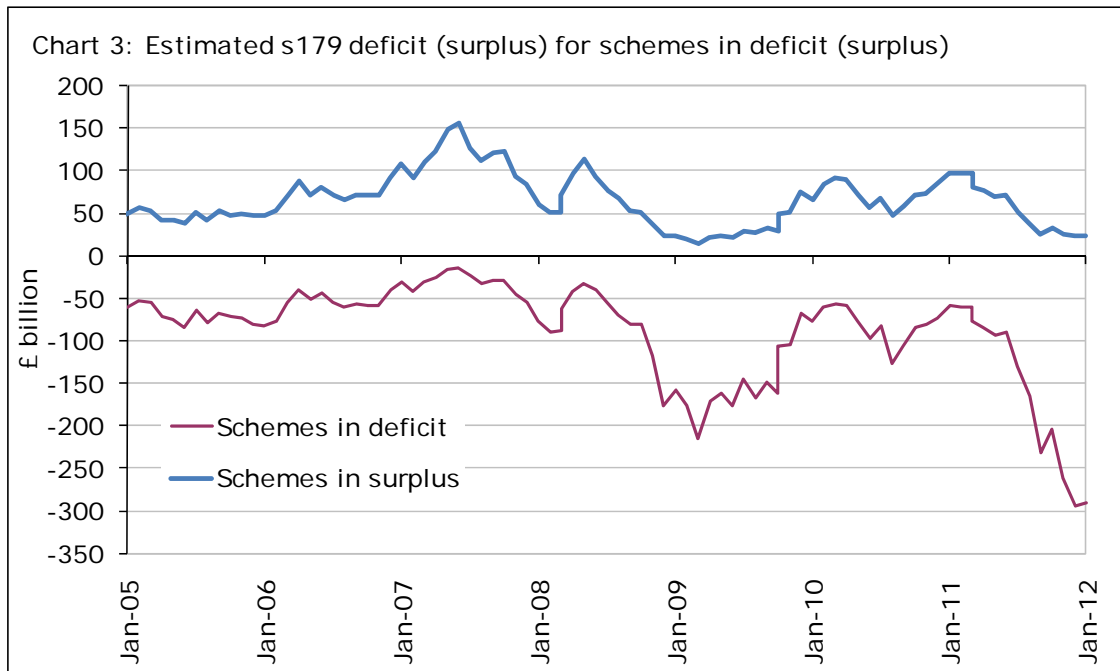
Funding Comparisons

| | January 2011 | December 2011 | January 2012 |
|------------------------------|--------------|---------------|--------------|
| Aggregate balance | £38.5bn | -£270.8bn | -£265.5bn |
| Funding ratio | 104.2% | 78.9% | 79.5% |
| Aggregate assets | £958.0bn | £1013.1bn | £1031.2bn |
| Aggregate liabilities | £919.5bn | £1283.9bn | £1296.8bn |

Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of January 2012 is estimated to have decreased to £289.9 billion from £293.9 billion at the end of December 2011. At the end of January 2011, the equivalent figure was £58.9 billion.

At the end of January 2012, the total surpluses of schemes in surplus increased to £24.3 billion from £23.1 billion at the end of December 2011. At the end of January 2011, the total surplus of all schemes in surplus stood at £97.4 billion.

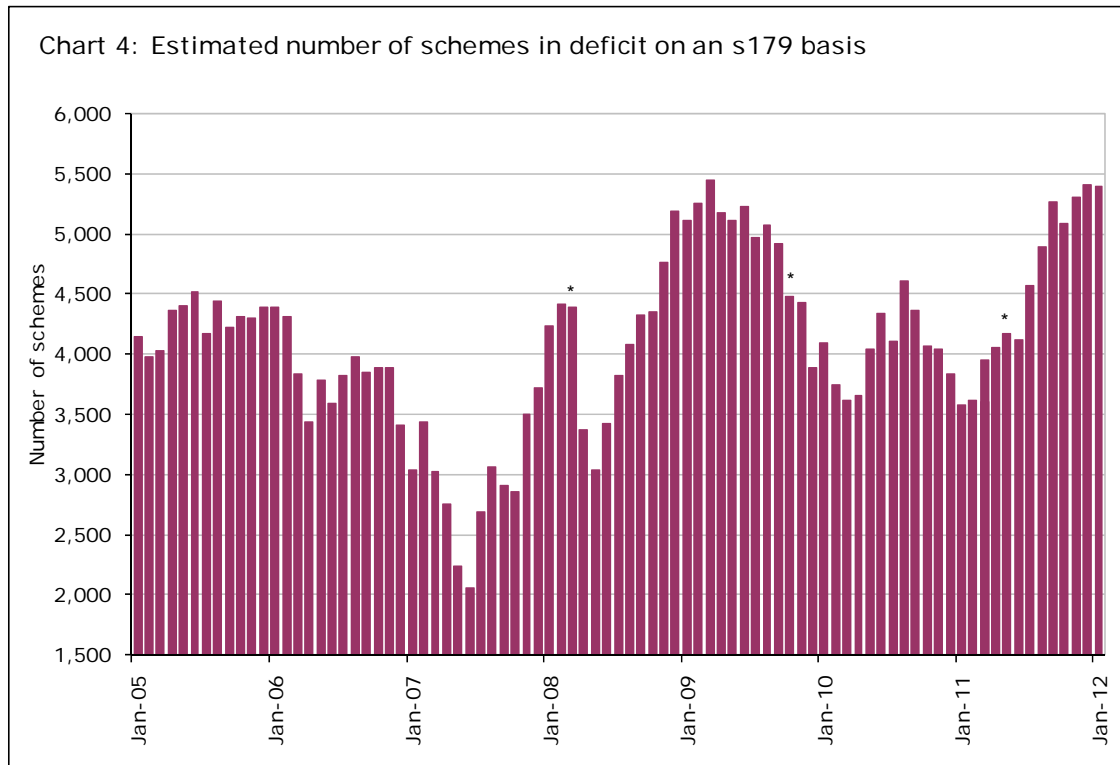


The number of schemes in deficit at the end of January 2012 decreased to 5,388, representing 83.8 per cent of the total 6,432 defined benefit schemes. There were 5,412 schemes in deficit at the end of December 2011 and 3,582 schemes in deficit at the end of January 2011.

The number of schemes in surplus increased at the end of January 2012 to 1,044 (16.2 per cent of schemes) from 1,020 at the end of December 2011. There were 2,850 schemes in surplus at the end of January 2011.

Schemes in deficit (surplus)

| | January 2011 | December 2011 | January 2012 |
|--------------------------------------|--------------|---------------|--------------|
| Number of schemes in deficit | 3,582 | 5,412 | 5,388 |
| Deficit of schemes in deficit | £58.9bn | £293.9bn | £289.9bn |
| Number of schemes in surplus | 2,850 | 1,020 | 1,044 |
| Surplus of schemes in surplus | £97.4bn | £23.1bn | £24.3bn |



**Note: the changes to assumptions in March 2008 and October 2009 reduced the number of schemes in deficit by 479 and 539 respectively, while the change in assumptions in April 2011 raised the number of schemes in deficit by 348.*

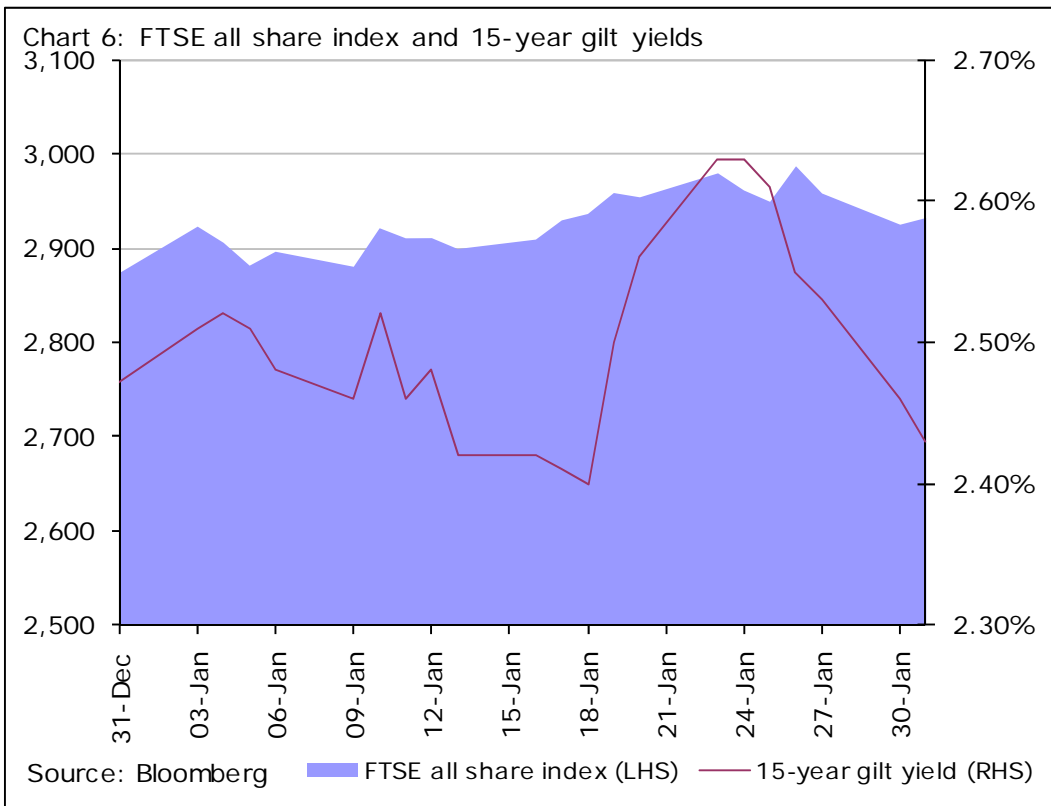
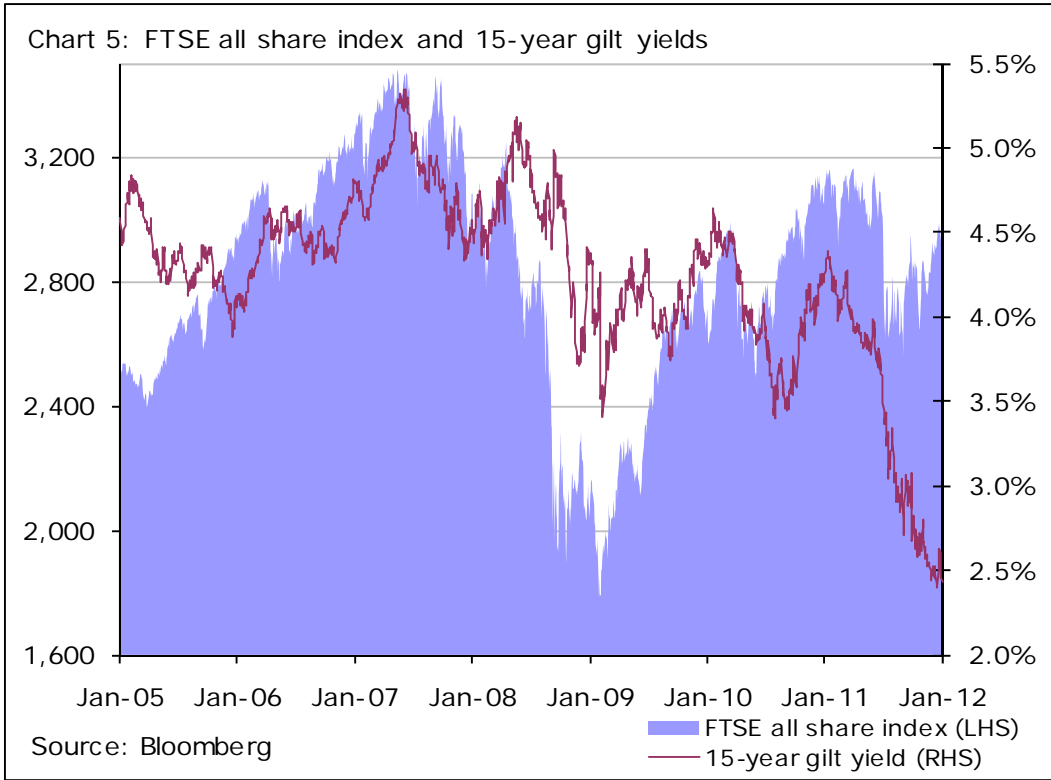
Understanding the impact of market movements

Equity markets and gilt yields are the main drivers of funding levels. Scheme 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 the major asset classes, not just equity markets. However, due to their weight in asset allocation and volatility, equities are usually the biggest driver behind changes in scheme assets.

Liabilities increased over the month by 1.0 per cent, which mainly reflected 15-year gilt yields falling by 3 basis points together with pension payments coming closer to payment. Assets rose by 1.8 per cent over the month because of a small improvement in equity markets (the FTSE All-Share Index rose by 2.6 per cent during January 2012).

Over the year to January 2012, 15-year gilt yields were down by 178 basis points and the FTSE All-Share Index fell by 3.7 per cent.

¹ This effect amounts to around 0.3 per cent to 0.4 per cent a month or 4 per cent to 5 per cent a year.



Notes

1. The PPF universe

The PPF covers certain defined benefit occupational schemes and DB elements of hybrid schemes. For more information about eligible schemes see 'eligible schemes' on the PPF's website at

<http://www.pensionprotectionfund.org.uk/About-Us/eligibility/Pages/Eligibility.aspx>

2. PPF compensation

For individuals who have reached their scheme's normal pension age or are already in receipt of survivor's pension or pension on the grounds of ill health, the Pension Protection Fund will generally pay compensation at the 100 per cent level, i.e. these members will not suffer any reduction in retirement income when their scheme sponsor goes insolvent. For the majority of people below their scheme's normal pension age the Pension Protection Fund will generally pay compensation at the 90 per cent level. This is subject to a cap which at April 2011 equated to £29,897.42 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:

<http://www.pensionprotectionfund.org.uk/Pages/Compensation.aspx>

3. s179 assumptions

On 14 April 2011, the Pension Protection Fund updated its valuation assumption guidance for both s179 and s143 valuations.

By law, the PPF has to set its valuation assumptions to reflect pricing in the bulk annuity market. The new assumptions, which took effect from 1 April 2011, have been set following talks with insurers earlier in the year and confirmed with respondents following a consultation.

In summary the assumption changes are to:

- reduce the effective yields used to discount future payments by 0.2 per cent year for compensation in payment; and
- increase the assumption about future longevity improvements for males.

The impact of the change is to raise liabilities by 3.6 per cent and reduce the aggregate balance by £34.9bn. The assumptions had previously been revised in March 2008 and October 2009 when the impact was to improve aggregate funding by £48.0 billion and £74.5 billion respectively.

4. s179: one of many different funding measures

s179 is one particular measure of funding. The change in the deficit of schemes in deficit on a s179 basis is an illustration of the impact of changes in financial markets on the Pension Protection Fund's total exposure. Schemes in surplus on a s179 basis at the time of insolvency usually do not enter the Pension Protection Fund.

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 used in the regulator'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. For more details see the Purple Book 2011, pages 38 to 39.

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Purple%20Book_2011_Chapter4.pdf

5. Methodology

The figures shown in the charts are based on adjusting the scheme valuation data supplied to the PPF as part of their annual scheme return. This data is transformed on a 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. No account is taken of schemes hedging using derivatives.

6. Data

This month we have moved to a dataset consistent with the Purple Book 2011 covering 6,432 schemes. The Purple 2011 dataset is estimated to include 99.6 per cent of liabilities of PPF eligible schemes. The impact of the change is to reduce the funding ratio by 1.1 percentage points and the aggregate balance by £15.6bn. For end December, for example, the aggregate balance is now -£270.8 (78.9 per cent funded) compared with -£255.2bn (80.0 per cent funded) using the old dataset. The move to the new data set results in a downward shift in the estimates of scheme funding throughout the calculation period back to March 2003.

7. Estimating the impact of changes in market conditions on the PPF 7800

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 s179 assets by around 4.0 per cent while a 0.3 per cent rise in gilt yields reduces scheme assets by 1.0 per cent. Meanwhile, a 0.3 per cent rise in gilt yields reduces scheme liabilities by 5.0 per cent. The rules of thumb strictly speaking only apply to small changes from the 31 March 2010 level. For more information see Chapter 5 of the Purple Book 2010.

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| The PPF 7800 is produced in accordance with the UK Statistics Authority Code for official statistics which came into force in January 2009. |
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