

PPF 7800 Index

31 July 2010

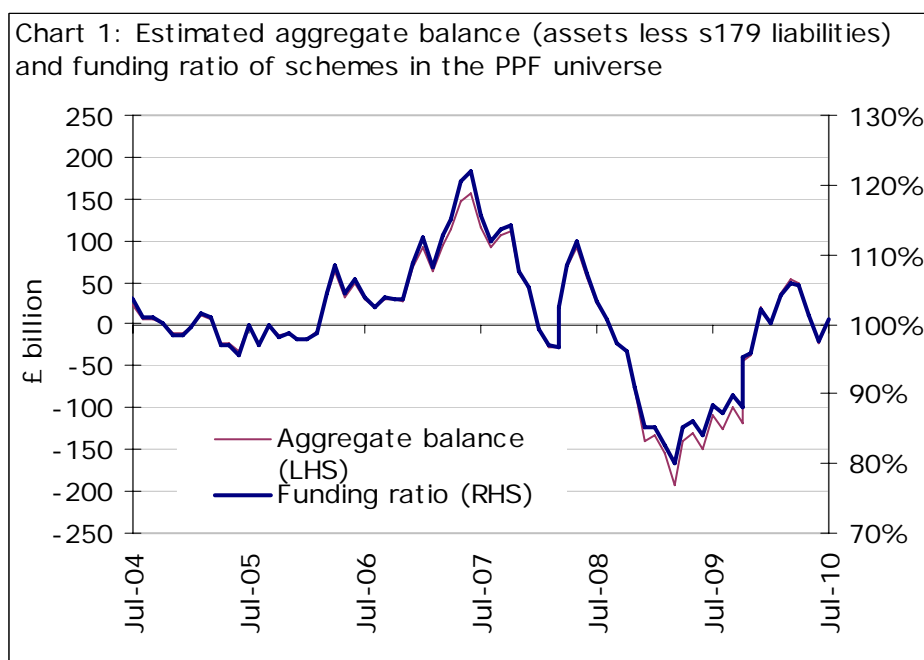
This update provides the latest estimated funding position, on a section 179 (s179) basis, for the defined benefit schemes potentially eligible for entry to the Pension Protection Fund (PPF). A scheme's s179 liabilities represent, broadly speaking, the premium that would have to be paid to an insurance 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.

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

Highlights

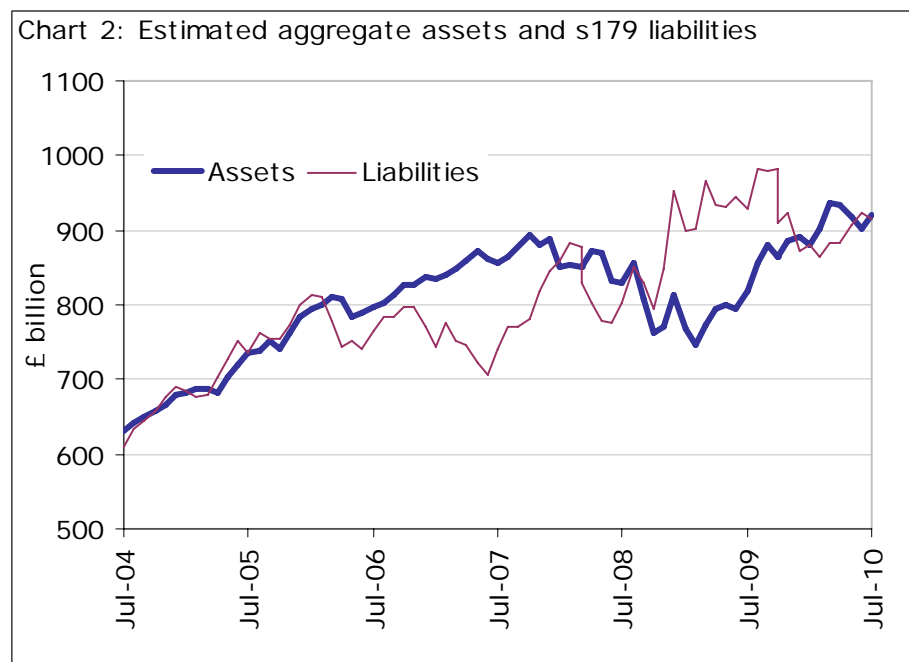
- The aggregate balance of the 6,653 schemes in the PPF 7800 index is estimated to have improved over the month to a surplus of £6.6 billion at the end of July 2010, from a deficit of £21.8 billion at the end of June.
- The funding ratio improved from 97.6 per cent to 100.7 per cent.
- Total assets were £921.2 billion and total liabilities were £914.5 billion.
- There were 4,167 schemes in deficit and 2,486 schemes in surplus.

All schemes in the universe



The aggregate balance (total assets minus total s179 liabilities) of the schemes in the PPF 7800 index is estimated to have improved over the month to a surplus of £6.6 billion at the end of July 2010, from a deficit of £21.8 billion at the end of June 2010. The position has improved on the previous year, when a deficit of £108.7 billion was recorded at 30 July 2009. Around 60 per cent of the improvement reflected the fact that during the year the assumptions used for calculating the s179 liabilities were changed in order to mirror developments in the bulk annuity purchase market.¹

The funding ratio (assets as a percentage of s179 liabilities) of schemes improved this month from 97.6 per cent to 100.7 per cent at the end of July 2010. Furthermore, the funding ratio is much higher than the 88.3 per cent recorded in July 2009.



Within the index, total scheme assets amounted to £921.2 billion at the end of July 2010, representing an increase of 2.2 per cent over the month and an increase of 12.4 per cent over the year. Total scheme liabilities were £914.5 billion at the end of July 2010, a decrease of 0.9 per cent over the month and a decrease of 1.5 per cent over the year.

Funding Comparisons

	July 2009	June 2010	July 2010
Aggregate balance	-£108.7	-£21.8bn	£6.6bn
Funding ratio	88.3%	97.6%	100.7%

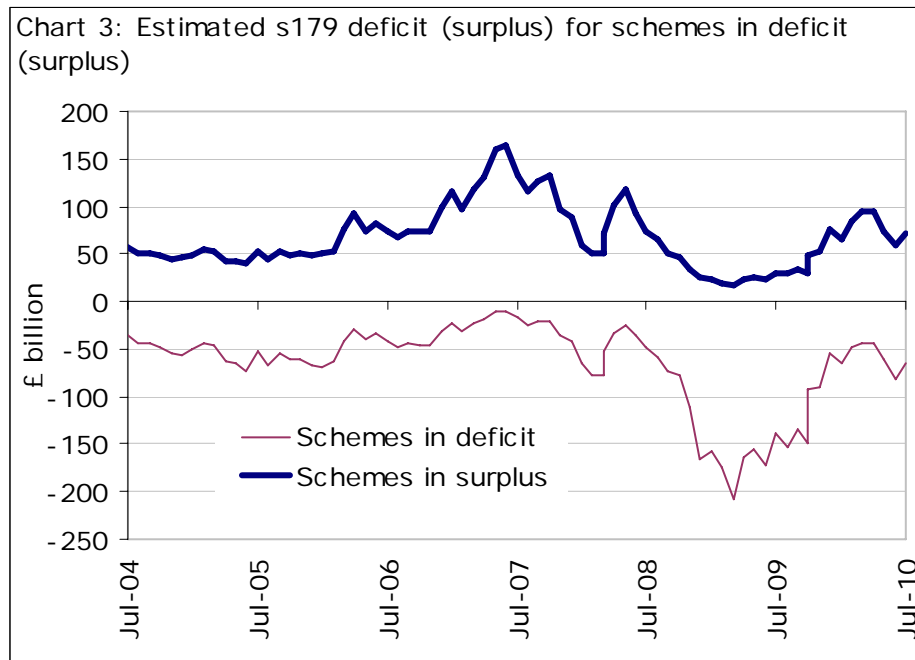
¹ The end of October 2009 update, as well as taking into account the effects of financial market movements, included new assumptions on discount rates and longevity for valuations under section 143 and section 179 of the Pension Act 2004. The change in assumptions reduced estimated scheme liabilities by around 7.5 per cent (£74.1 billion) at 31 October 2009.

Aggregate assets	£819.8bn	£901.5bn	£921.2bn
Aggregate liabilities	£928.5bn	£923.3bn	£914.5bn

Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of July 2010 is estimated to have improved to £64.3 billion from £81.0 billion at the end of June 2010. At the end of July 2009, the equivalent figure was £138.0 billion.

At the end of July 2010, the total surpluses of schemes in surplus increased to £70.9 billion from £59.2 billion at the end of June 2010. At the end of July 2009, the total surplus of all schemes in surplus stood at £29.3 billion.



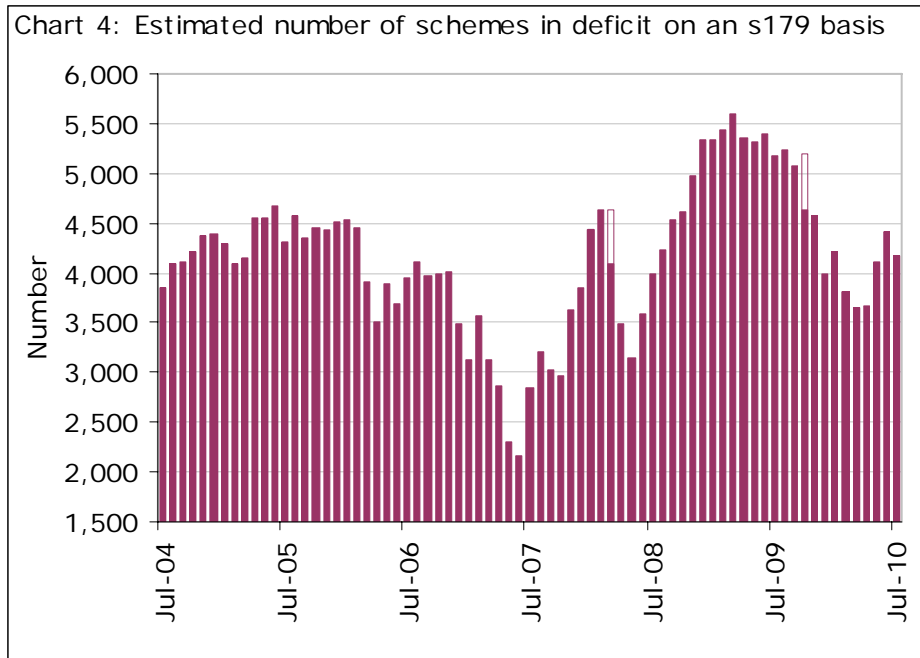
The number of schemes in deficit at the end of July 2010 decreased to 4,167, representing 62.6 per cent of the total 6,653 defined benefit schemes. There were 4,420 schemes in deficit at the end of June 2010 and 5,167 schemes in deficit at the end of July 2009.

The number of schemes in surplus increased at the end of July 2010 to 2,486 (37.4 per cent of schemes) from 2,233 at the end of June 2010. There were 1,486 schemes in surplus at the end of July 2009.

Schemes in deficit (surplus)

	July 2009	June 2010	July 2010
Number of schemes in deficit	5,167	4,420	4,167
Deficit of schemes in deficit	£138.0bn	£81.0bn	£64.3bn
Number of schemes in surplus	1,486	2,233	2,486
Surplus of schemes in	£29.3bn	£59.2bn	£70.9bn

surplus			
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Note: the clear parts of the bars in March 2008 and October 2009 reflect the impact of the change in actuarial assumptions.

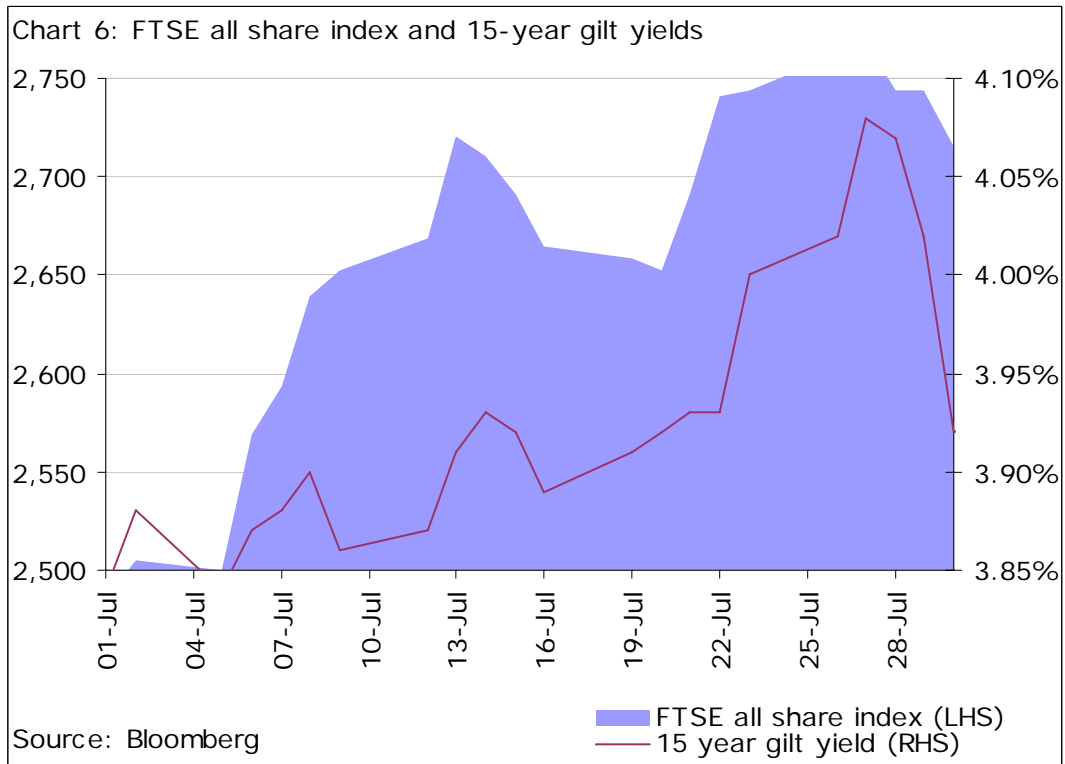
Understanding the impact of market movements

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 gilt indices. Liabilities are also time sensitive in that, even if gilt yields were unchanged, scheme liabilities would increase as the point of payment approaches.² The value of scheme assets is affected by the change in prices of all the major asset classes, not just equity markets. Due to their weight in asset allocation and volatility equities are usually the biggest driver behind changes in scheme assets.

The FTSE All-Share Index rose by 9.2 per cent over July 2010 and 15-year gilt yields were up 3 basis points. During the month of July there was a 2.2 per cent increase in assets mainly due to rising UK and global equities and a 0.9 per cent decrease in liabilities.

Over the year to July 2010, the FTSE All-Share Index rose by 15.4 per cent and 15-year gilt yields were down by 34 basis points. Over the past year, the impact of rising equity markets has outweighed the effect of falling bond yields and led to an overall improvement in the funding position.

² 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.



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>

PPF compensation

For individuals that have reached their scheme's normal pension age or are already in receipt of survivors' pension or a 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 2010 equated to £29,749 at age 65, after the 90% 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>

S179 assumptions

The liability figures shown are calculated in accordance with s179 of the Pensions Act 2004. 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. The Board of the PPF is responsible for keeping the assumptions used for valuations under s179 in line with estimated pricing in the bulk annuity market.

For more information please see:

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/assumptions_consultation_response_Oct09.pdf

And,

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

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 2009, pages 36 to 39.

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Purple_Book_2009_chapter4.pdf

Compensation to be increased in line with CPI

The Government has announced that it intends to change the legislation which governs the PPF so that compensation to members of schemes which enter the PPF and assistance under the Financial Assistance Scheme will in future be increased in line with CPI rather than RPI. We will be looking at the details of the announcement and considering the implications.

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.

Data

Each year the PPF 7800 dataset is updated based on the new levy data to keep the index current. The estimated eligible universe will reduce over time owing to scheme mergers, schemes buying out benefits with an insurance company and schemes transferring into the PPF.

The latest change in dataset, containing data collected up to 31 March 2009 for the 2010/11 levy, took place at the end of June 2010. The new dataset resulted in upward revisions to assets and downward revisions to liabilities, improving estimated scheme funding. For example, the aggregate surplus in May 2010 was estimated to be £11.7 billion using the new dataset rather than a deficit of £41.5 billion under the old dataset. All funding estimates have been recalculated on the new dataset back to March 2003.

The PPF's Annual Report and Accounts contain a provision for schemes in the assessment period when their eventual entry to the PPF is probable. In order to improve the usefulness of the PPF7800 as a measure of the PPF's off-balance-sheet exposure we now remove schemes included in our provisions on a regular basis. This is a change in approach from previous years when schemes were included until they transferred.

The reduction in the number of schemes in the dataset from 7,342 to 6,533 from the end-June 2010 release reflects both the exclusion of schemes in assessment and the move to a more up to date dataset. The fall in the eligible universe over time reflects such factors as scheme mergers, schemes buying out benefits with an insurance company, schemes transferring into the PPF and schemes winding up.

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 3 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 6.0 per cent. The rules of thumb strictly speaking only apply to small changes from the 31 March 2009 level. For more information see Chapter 5 of the Purple Book 2009.

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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