PPF7800 Index

End-February 2010

This update provides the latest estimated funding position, on a s179 basis, for the defined benefit (DB) schemes in the PPF eligible universe. The s179 basis is, broadly speaking, what would have to be paid to an insurance company to take on the payment of Pension Protection Fund levels of compensation.

The end-October 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 assumptions reduce scheme liabilities by around 7.6 per cent (£71.2 billion) at 31 October 2009.

The estimates are, as before, based on scheme valuation data, which has been adjusted to consistent dates on an approximate basis, using changes in market indices for principal asset classes, and the fixed interest and index-linked gilt yields used to value liabilities.

Highlights

- The aggregate funding position (total assets minus total liabilities) of almost 7,400 DB funds is estimated to have improved over the month to a deficit of £15.1 billion at end-February 2010, from a deficit of £51.9 billion at end-January 2010 (Chart 1 and Table 1). Scheme funding is better than it was a year previously (there was a deficit of £204.7 billion in February 2009).

- The total deficit of schemes in deficit in February 2010 is estimated to have improved to £79.5 billion from £102.8 billion at the end of January 2010 (Chart 3 and Chart 4). In February 2009, the aggregate deficit of all schemes in deficit stood at £218.0 billion.

- In February 2010, the total surpluses of schemes in surplus increased to £64.4 billion from £50.9 billion at the end of January 2010 (Chart 6). In February 2009, the total surplus of all schemes in surplus stood at £13.3 billion.

The Detail

- The number of schemes in deficit in February 2010 stood at 5,191, compared with 5,528 in January 2010, representing 70.5 per cent of total DB schemes in the sample (Chart 5).

- The number of schemes in surplus increased in February 2010 to 2,171 (29.5 per cent of schemes), from 1,841 in January 2010. There were 904 schemes in surplus in February 2009.

- Across the sample of schemes, total scheme assets amounted to £880.8 billion in February 2010 (Chart 2), representing an increase of 2.5 per cent over the month and an increase of 21.8 per cent over the year to February 2010.

- Meanwhile, scheme liabilities decreased by 3.4 per cent over the year to February 2010, to £895.9 billion (Chart 2). Liabilities have decreased 1.7 per cent over the month from £911.5 billion in January 2010.

Context

- During the month of February there was a 2.5 per cent increase in assets due to rising UK and global equities.[1] Meanwhile, the change in gilt yields led to a 2.0 per cent decrease in liabilities.[2] The FTSE All Share Index rose by 3.9 per cent over February 2010.

- Over the year to February 2010, the FTSE All Share Index rose by 41.8 per cent and 15-year gilt yields were up by 29 basis points (Chart 7).

- Over the past year, rising equity markets have led to an increase in scheme assets of 20.4 per cent. Over the same period, changes in bond yields would have resulted in a 2.2 per cent rise in liabilities. However, the change in actuarial assumptions in October reduced estimated liabilities by approximately around 8 per cent or £70 billion. The combined effect of the increase in assets and reduction in estimated liabilities is an improvement in the aggregate funding position.

[1] This change in assets reflects the change due only to shifts in UK and global equities. Assets will also change with movements in the price of bonds and other assets.
[2] This change in liabilities reflects the change due only to shifts in gilt yields. Liabilities will also change over time due to interest accruing on all future payments.

Key Charts

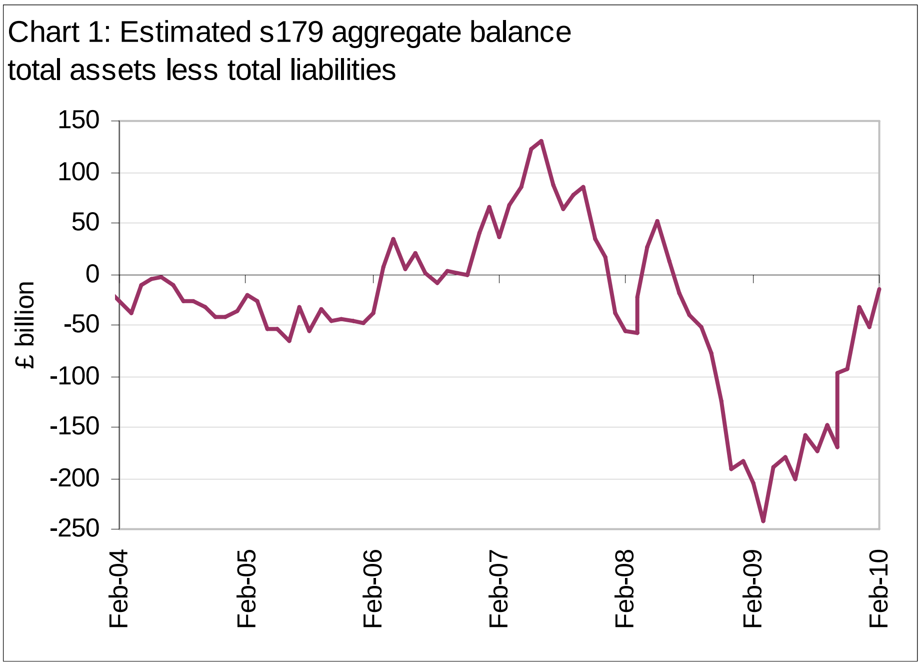


Chart 1: Estimated s179 aggregate balance
total assets less total liabilities
£ billion
150
100
50
0
-50
-100
-150
-200
-250
Feb-04
Feb-05
Feb-06
Feb-07
Feb-08
Feb-09
Feb-10

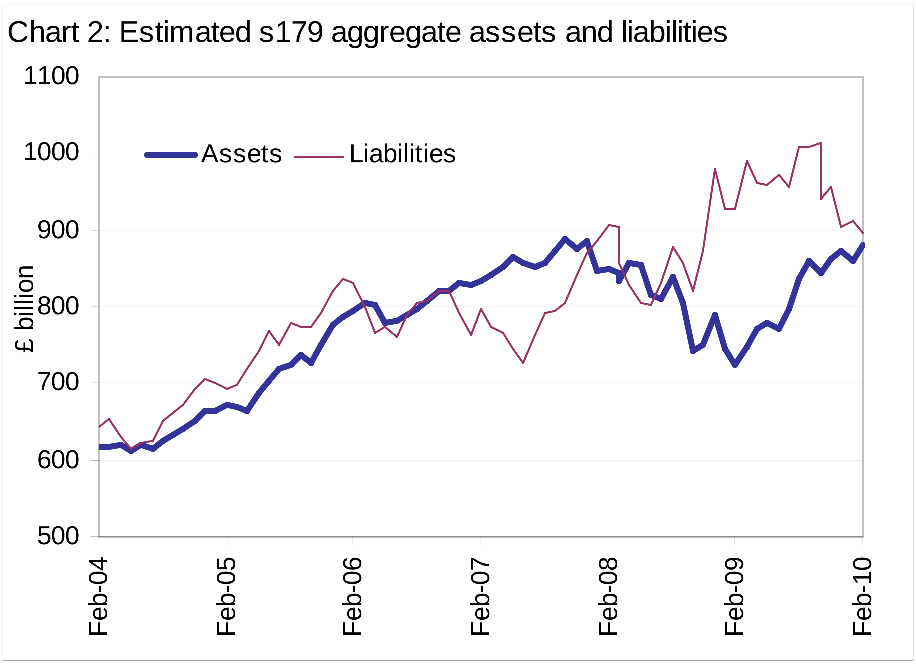


Chart 2: Estimated s179 aggregate assets and liabilities
£ billion
1100
1000
900
800
700
600
500
Assets
Liabilities
Feb-04
Feb-05
Feb-06
Feb-07
Feb-08
Feb-09
Feb-10

Chart 3: Estimated s179 deficits for deficit schemes only

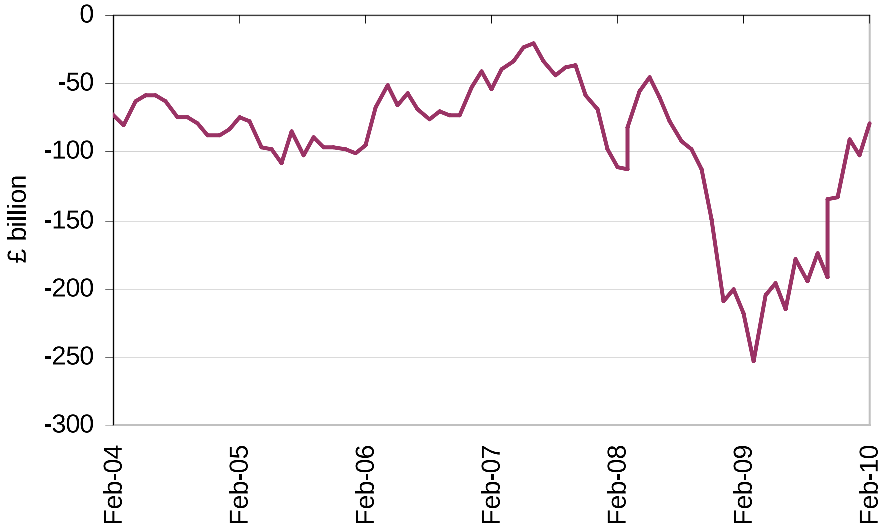


Chart 4: Estimated s179 aggregate assets and liabilities for deficit schemes only

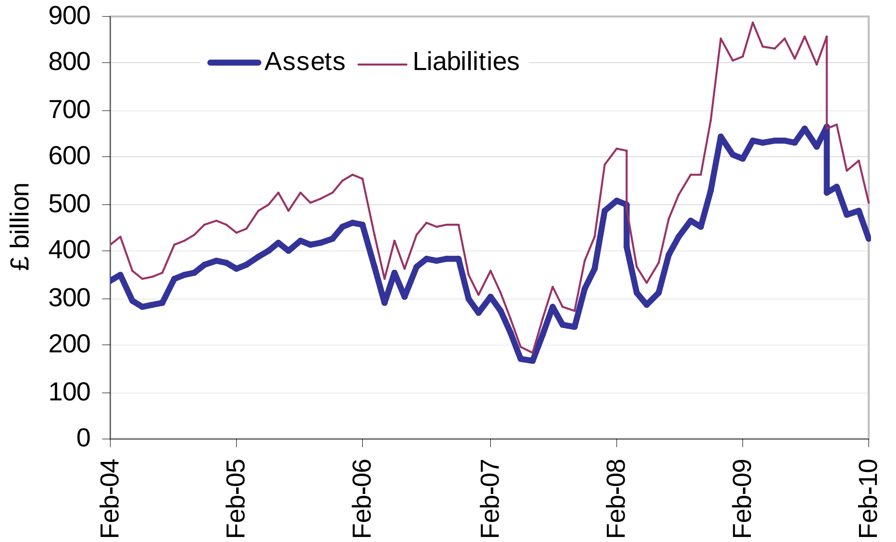


Chart 5: Estimated number of schemes in s179 deficit

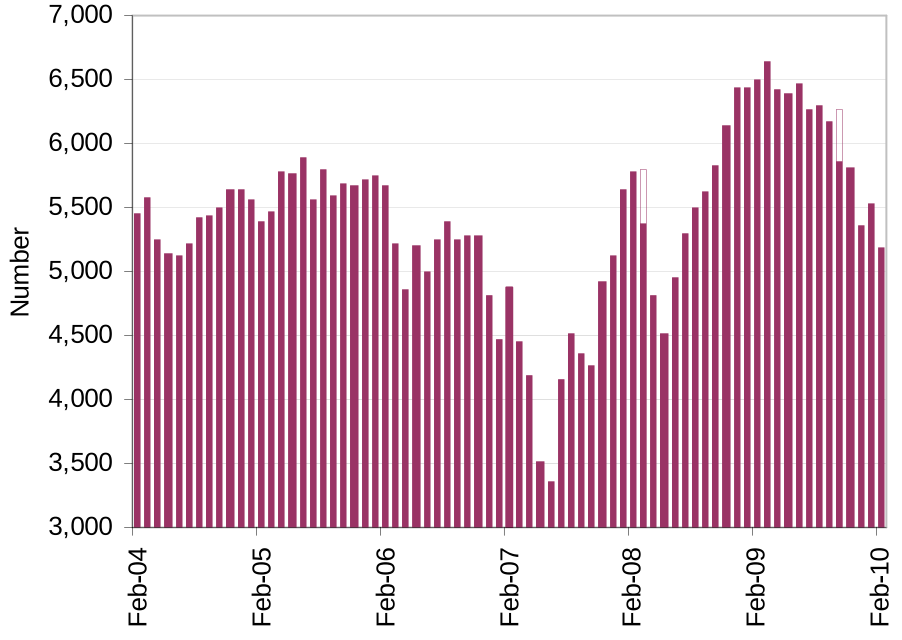
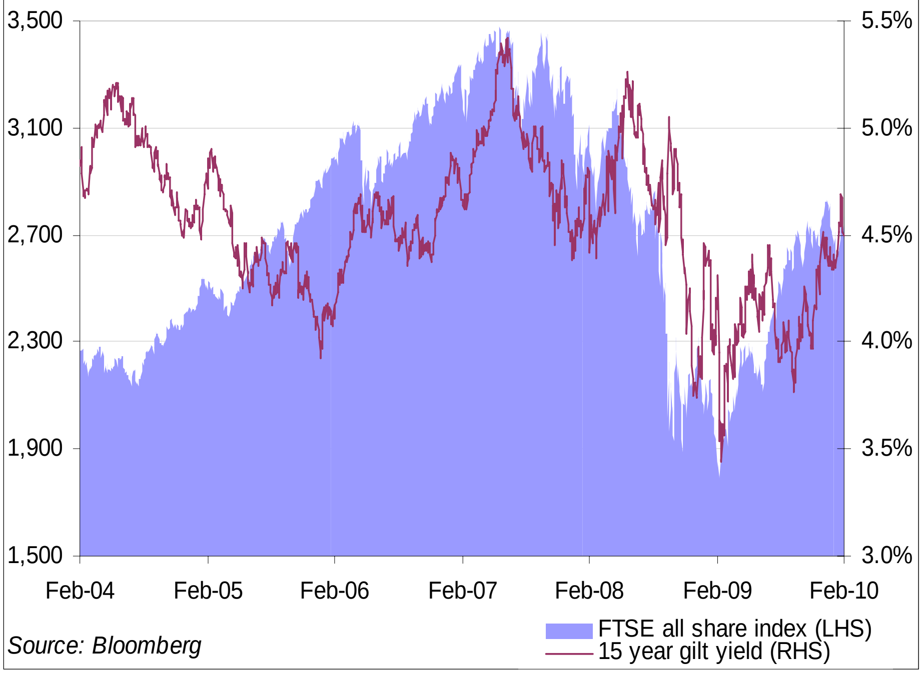


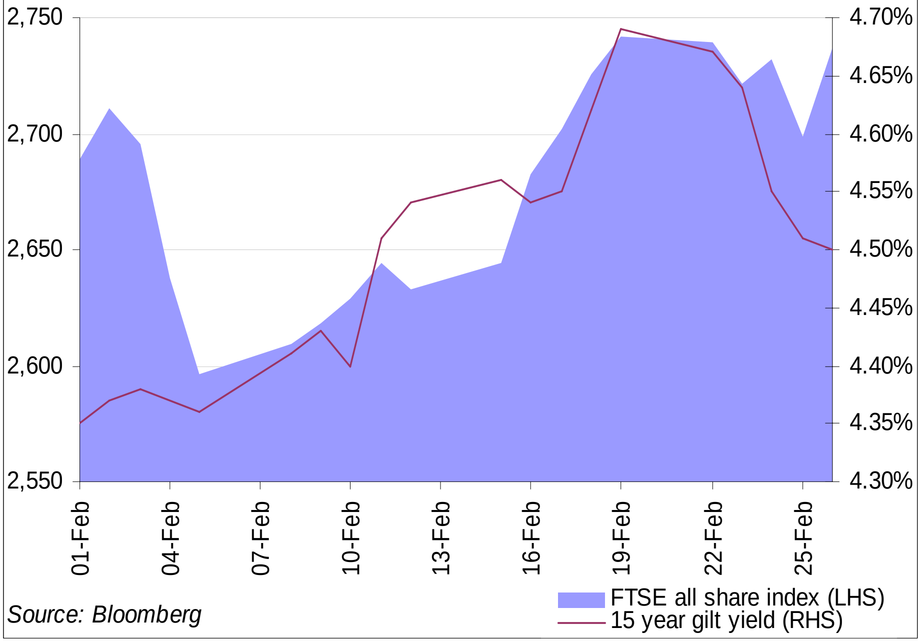
Chart 6: Estimated s179 surplus for surplus schemes only

Chart 7: FTSE all share index and 15-year gilt yields



Source: Bloomberg

Chart 8: FTSE all share index and 15-year gilt yields - February 2009



Source: Bloomberg

Table 1: Funding Comparisons

	This month – end Feb 10	Last month - end Jan 09	One year ago – end Feb 09
Deficit of schemes in deficit	£79.5bn	£102.8bn	£218.0bn
Number of schemes in deficit	5,191	5,528	6,507
Surplus of schemes in surplus	£64.4bn	£50.9bn	£13.3bn
Number of schemes in surplus	2,171	1,841	904
Aggregate balance	-£15.1bn	-£51.9bn	-£204.7bn

Notes

1. The PPF covers certain defined benefit (DB) occupational schemes and DB elements of hybrid schemes. Some DB schemes will be exempt from the PPF, including:

    - Unfunded public service schemes.
    - Public sector schemes providing pensions to local government employees.
    - Schemes to which a Minister of the Crown has given a guarantee.
    - Schemes which began to wind up, or were completely wound up, prior to 6 April 2005.

2. The Charts demonstrate the volatility of pension fund deficits over the last five years resulting from movements in financial markets. To determine the aggregate levy schemes pay, the Pension Protection Fund uses a long term risk model (LTRM). This ensures that the Pension Protection Fund adjusts for short term volatility and uncertainty by taking a longer term time horizon. The LTRM generates a probability distribution of claims on the Pension Protection Fund on different longer term horizons from five to twenty years, taking into account a very large number of possible economic and financial market outcomes.

3. The figures shown in the charts are based on adjusting the scheme valuation data supplied to the Pension Protection Fund for the purpose of the 2008-09 levy (rather than for the 2006-07 and 2007-08 levy as used in previous estimates). This data is transformed to a s179 valuation basis at various dates on an approximate basis using changes in market indices for principal asset classes and the fixed interest and index-linked gilt yields used to value liabilities. The approximation does not allow for benefit accrual or outgo, contributions paid or actual scheme experience.

4. From 31 March 2009 estimates are based on more up to date scheme data than previous estimates. The new data set is preferable largely because more schemes will have submitted s179 valuations which have replaced approximate s179 funding estimates based on older MFR valuations. The latest dataset of 7,362 schemes is an enlarged version of that used for the Purple 2008 publication. The fall in the estimated eligible universe from 7,744 a year ago reflects such factors as scheme mergers, schemes

buying out benefits with an insurance company, and schemes transferring into the PPF compensation scheme, together with more accurate data. The fall in the number of schemes does not have a material impact on the aggregate figures given the small size of these schemes. For more information on the data used see Chapter 2 of the Purple 2008 publication.

5. The move to the new dataset, which took place at the end of March 2009, resulted in an improvement in scheme funding. For example, the aggregate deficit in February 2009 is estimated to be £204.7 billion using the new dataset and £218.7 billion under the old dataset. The new dataset uses more accurate valuation figures from schemes and this has resulted in upward revisions to assets and downward revisions to liabilities. All funding estimates have been recalculated on the new dataset back to March 2002.

6. The Board of the Pension Protection Fund is responsible for keeping the assumptions used for valuations under section 143 and section 179 of the Pensions Act 2004 in line with estimated pricing in the bulk annuity market. In the light of recent developments and the expansion of the buy-out market, the Board, following consultation, made changes to these assumptions, so as to bring valuations in line with the market. In summary, the assumption changes for valuations with an effective date on or after 31 October 2009 were:

    - increase the yields used to discount future payments by 0.1 percentage points pa in deferment,
    - increase the yields used to discount future payments by 0.3 percentage points pa in payment,
    - change one of the yields used as a reference point to one with a longer duration,
    - increase the assumption about future longevity improvements for males, and
    - reduce the proportion of members who are married or who have relevant partners by 5%.

    For the PPF7800 index the change in assumptions has been treated as a step change in the series as at 31 October 2009.

    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

7. In the April 2008 release, changes were made to the actuarial assumptions on discount rates and mortality. In particular all discount rates were raised by 0.3 percentage points to reflect developments in the bulk annuities market. The assumptions reduced scheme liabilities by around £50 billion and was treated as a step change as at 31 March 2008. For more information see notes in the April 2008 PPF7800 release.

8. For the purpose of levy calculation in 2009-10, the Pension Protection Fund uses estimates of scheme funding on a s179 basis as at 31 March 2008. For the calculation of the risk-based levy (RBL) for 2008-09, the Pension Protection Fund used estimates of scheme funding on a s179 basis as at 31 October 2007. For the calculation of the RBL for 2007-08, the Pension Protection Fund used estimates of scheme funding on a s179 basis as at 31 October 2006. The funding estimates quoted in Purple 2008 were based on 31 March 2008 data, while estimates in Purple 2007 were based on information as at 30 March 2007. The calculation of the 2006-07 levy and Purple 2006 were based on funding as at 31 March 2006.

9. A number of ‘rules of thumb’ pertaining to the impact of changes in asset prices on s179 assets and liabilities apply. 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 6.0 per cent. The rules of thumb strictly speaking only apply to small changes from the 31 March 2008 level.