

1

Executive Summary

This is the sixth edition of the Pensions Universe Risk Profile (The Purple Book), a joint annual publication by the Pension Protection Fund (the PPF) and the Pensions Regulator (the regulator) which focuses on the risks faced by defined benefit (DB) pension schemes, predominantly in the private sector.

1.1 Introduction

The main focus in each year's Purple Book is the position at the end of March for the year in question, and a comparison of how risks have changed over the previous year. The economic and financial market environment improved a little over the 12 months to March 2011, although since then there has been a marked deterioration:

- UK GDP growth picked up to 1.6 per cent year-on-year by the first quarter of 2011.
- The FTSE all-share index rose by 5 per cent after a 47 per cent increase between March 2009 and March 2010.
- Insolvency Service statistics showed that the number of company liquidations rose a little in the year to Q1 2011 but other company insolvencies (receiverships, administrations, and company voluntary arrangements) fell a little.
- Meanwhile, 10-year gilt yields declined to 3.7 per cent from 3.9 per cent while 10-year AA corporate bond yields were unchanged at 4.9 per cent.
- The Bank of England kept its policy rate and Quantitative Easing unchanged at 0.5 per cent and £200 billion respectively.

Table 1.1 | Economic and financial environment

	End of March 2006	End of March 2007	End of March 2008	End of March 2009	End of March 2010	End of March 2011	End of December 2011
GDP growth year-on-year	3.2%	2.4%	2.2%	-5.4%	-0.2%	1.6%	0.5%*
Company liquidation rate – 12 months to	0.7%	0.6%	0.6%	0.8%	0.8%	0.7%	0.7%*
Company liquidations	3,505	3,190	3,217	4,915	4,036	4,121	4,242*
Other corporate insolvencies		868	1,158	1,783	1,343	1,314	1,253*
Company insolvency rate – 12 months to		0.7%	0.7%	1.1%	0.9%	0.9%	0.9%*
FTSE all-share	3,047	3,283	2,927	1,984	2,910	3,068	2,858
10-year gilt yield	4.4%	5.0%	4.4%	3.2%	3.9%	3.7%	2.0%
10-year AA corporate bond yield	4.9%	5.5%	5.6%	4.8%	4.9%	4.9%	3.5%
Bank of England policy rate	4.50%	5.25%	5.25%	0.50%	0.50%	0.50%	0.50%
Quantitative Easing	-	-	-	£15bn	£200bn	£200bn	£275bn

Source: Office for National Statistics, the Insolvency Service, Bank of England, Bloomberg

*These relate to Q3

However, year-on-year growth slowed in a number of industrialised countries, including the US and the UK, in the second and third quarters of 2011. Furthermore, sovereign debt and bank concerns in some euro-area countries led to fears of credit crunch. As a result of these developments, equity markets fell, with the FTSE all-share index at end-December down by almost 7 per cent from its end-March level. Yields on “core” government bonds, such as US Treasuries, bunds and gilts, dropped sharply, 10-year gilt yields falling to 2.0 per cent by end-December. As a result, scheme funding for the PPF-eligible universe of DB pension schemes deteriorated markedly between end-March and end-December.

Much of the analysis of the 2011 Purple Book (‘Purple 2011’) is based on new information from scheme returns issued in December 2010 and January 2011 and returned to the regulator by the end of March 2011. As in 2010, schemes in the PPF assessment period (369 in total representing around one per cent of total liabilities)¹ have been removed so as to capture accurately the risk presented by DB schemes whose employers had not experienced an insolvency event by 31 March 2011.

The dataset covers 6,432 PPF-eligible DB schemes. This represents some 98 per cent of the estimated total number of schemes and 99.6 per cent of estimated total liabilities. The 2011 dataset is similar in size (after adjusting for schemes in assessment) to that used for the last three Purple Books and is significantly larger than the datasets used in the first two Purple Books.

¹ This recognises all segregated parts of schemes as separate schemes. For analytical purposes, in Chapter 10, Schemes in Assessment, scheme sections and segregated parts have both been amalgamated into one scheme.

The government has introduced new rules to move to the use of the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the purpose of the indexation and revaluation of PPF compensation. These changes affect pension revaluation from April 2011 and indexation from January 2012. This move to CPI will improve the chances of the PPF achieving its aim of self sufficiency in 20 years given that CPI inflation is expected to be below RPI inflation in the long term. The switch to CPI inflation for indexation and revaluation does not, however, affect the funding estimates for 31 March 2011 in the Purple Book. This is because the assumptions underlying the estimates have to be in line with estimated pricing in the bulk annuity market and discussions with active participants in the market in early 2011 indicated that insurers would then have quoted the same prices for CPI and RPI-linked annuities.

The Purple Books have been based on the most comprehensive datasets extracted from the DB pensions' universe to date, representing a step change in available information, particularly for small and medium-sized schemes. The publications have focused on the risk of scheme members not receiving promised benefits and of claims on the PPF. These in turn depend on two key elements, namely the risk of the sponsoring employer becoming insolvent and the extent of scheme underfunding. The main focus of this publication is risk at 31 March 2011.

1.2 The data

- The main body of the analysis in Purple 2011 is based on new scheme returns for a dataset of 6,432 DB schemes, covering around 12 million memberships.² This represents around 98 per cent of PPF-eligible schemes and 99.6 per cent of universe liabilities. Complete information is not available for the remaining schemes and, hence, these have been excluded from the sample.
- As at end-March 2011, there were 369³ schemes in assessment with total assets of £9.5 billion and total liabilities of £10.9 billion. These represent around one per cent of total assets, similar to 2010, and up from around 0.5 per cent in 2007. Given their relatively small size, the implications of their removal for year-on-year comparisons are limited.
- It is estimated that the eligible universe of schemes, excluding those in assessment at end-March 2011, was around 6,550, a reduction from 6,620 in March 2010.
- The dataset represents a similar proportion of total PPF-eligible schemes to those used in the Purple Books for 2008, 2009 and 2010 (and much higher than that used in the earlier Purple Books).
- The fact that the dataset accounts for such a large proportion of the universe means that results for the universe would be only slightly different from the results presented in Purple 2011.⁴

1.3 Scheme Demographics

- The proportion of open schemes continues to fall, moving from 18 per cent in 2010 to 16 per cent in 2011. There was a rise in the proportion of schemes closed to future accrual to 24 per cent from 21 per cent in 2010.
- The proportion of schemes closed to new members was unchanged at 58 per cent. Closed to new members were in the majority in all size bands.
- Whilst 24 per cent of schemes are closed to future accrual, six per cent of memberships fall into this category.
- The proportion of memberships in open schemes fell from 34 per cent to 31 per cent in 2011 while the proportions closed to new members and new accruals rose from 60 to 62 per cent and from five per cent to six per cent respectively.
- In 2011, there were around 11.96 million memberships. Of these, 5.29 million (44 per cent) were deferred, 4.36 million (36 per cent) were pensioners, and 2.31 million (20 per cent) were active memberships.
- The proportion of schemes whose principal sponsor is in the manufacturing sector continues to fall whilst the proportion of schemes whose principal sponsor is in the services sector continues to increase.

² A 'membership' is one individual's participation in one scheme. One individual can have multiple memberships. Hence the number of memberships exceeds the number of individuals.

³ Treating all segregated parts of schemes as separate schemes

⁴ This point is illustrated by an examination of Annex A of Purple 2009. The summary statistics differed little between the sample and extended 2008 datasets. The very wide coverage suggests a similar outcome in relation to the 2011 sample.

1.4 Scheme Funding

- Dataset assets total £968.5 billion as at 31 March 2011.
- The aggregate s179 funding position of the schemes in the Purple 2011 dataset as at 31 March 2011 was a deficit of £1.2 billion.
- The s179 funding ratio fell from 104.3 per cent to 99.9 per cent between 2010 and 2011. However, this represents a small shift compared to the historical volatility of the funding ratio as shown by the PPF 7800 index during a year.
- The full buy-out funding ratio is 67.5 per cent.
- 2011 s179 liabilities total £969.7 billion while estimated full buy-out liabilities total £1435.5 billion.
- The total deficit on a s179 basis, for all those schemes in deficit, is £78.3 billion.
- The total deficit on an estimated full buy-out basis, for all of those schemes in deficit is £470.7 billion.
- On average, schemes with a greater proportion of pensioner liability have higher s179 funding levels.
- 27.9 per cent of s179 liabilities relate to active members.
- Two sectors - finance, insurance and real estate, and manufacturing - hold the most assets and liabilities.

1.5 Funding Sensitivities

- Changes in estimated market conditions and financial and demographic assumptions since January 2003 have caused the monthly aggregate funding ratio of pension schemes to vary by around 41 percentage points (with the highest funding ratio in June 2007 at 120 per cent and the lowest ratio of 79 per cent in December 2011)⁵.
- The aggregate balance has varied by around £410 billion (with the greatest surplus in June 2007 at £142 billion and the greatest deficit in December 2011 at £271 billion).
- The assumptions were changed on 31 March 2008, 31 October 2009 and 1 April 2011. These first two changes improved scheme funding by around £45 billion and £75 billion respectively, while the third worsened scheme funding by around £35 billion⁶.
- The estimated number of schemes in deficit on a s179 basis was at its lowest point in June 2007 at around 2,060 schemes (32 per cent of the dataset) and peaked in March 2009 at around 5,450 (85 per cent).
- Since end-March 2011, the date for the funding estimates in Chapter 4, falls in equity markets and bond yields have resulted in a worsening in aggregate scheme funding of around £275 billion by the end of December.

⁵ The estimates presented here are a little different from those shown in the PPF 7800 release for end-December:

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_January_12.pdf

For example, for December 2011 the deficit in Purple 2011 is estimated to be £271 billion compared with a £255 billion in the PPF7800. This difference comes about because Purple 2011 is based on a more up-to-date data set.

⁶ For more information see PPF7800 January 2009, November 2009 and May 2011

<http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF%207800%20January%2009.pdf>

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_November_09.pdf

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_May_11.pdf

- A 0.1 percentage point (10 basis point) reduction in gilt yields raises scheme liabilities by 1.8 per cent and raises scheme assets by 0.4 per cent. A 2.5 per cent rise in equity markets raises scheme assets by 1.1 per cent.
- A 0.1 percentage point (10 basis point) rise in gilt yields increases the end-March 2011 s179 aggregated funding position by £13.3 billion from -£1.2 billion to £12.1 billion while a 2.5 per cent rise in equity prices increases the aggregated funding position by £10.4 billion.
- If the assumed rate of inflation increases by 0.1 per cent, with nominal interest rates unchanged, then the s179 liabilities for schemes increases by approximately 0.9 per cent or £8 billion.
- An increase in longevity such that the experienced mortality is now equivalent to that of an individual two years younger would increase schemes' liabilities by 4.5 per cent, or £44 billion.

1.6 Insolvency risk

- During the 2008/09 recession, the estimated number of schemes (or sections of schemes) entering a PPF assessment period peaked in the first quarter of 2009 at 50 and had fallen to 28 by the second quarter of 2011, a drop of 44 per cent. The level of schemes entering PPF assessment in the year to the first half of 2011 was, however, still higher than in the two years leading up to the recession.
- The number of schemes entering assessment and thought to be in s179 deficit at the time of the insolvency event fell 46 per cent between the second quarters of 2010 and 2011.
- Over the first six months of 2011, the average insolvency probability of the 500 schemes to which the PPF has the largest exposure (in terms of scheme underfunding adjusted for the volatility of its assets) increased from 0.70 per cent to 0.75 per cent. When weighted by liabilities, the insolvency probability increased only slightly, from 0.53 to 0.55 per cent.
- Schemes with sponsoring employers in the communications industry have the highest average insolvency probability (3.9 per cent), followed by transportation and retail trade (both 1.9 per cent).
- The UK economy came out of recession in the third quarter of 2009. GDP rose strongly until the third quarter 2010, since when growth has been modest.
- The 2008/09 recession resulted in a large rise in the total level of corporate liquidations in England and Wales – from 3,241 in the first quarter of 2008 to a peak of 5,041 in the second quarter of 2009, an increase of 56 per cent. In the third quarter of 2011, a total of 4,242 liquidations were recorded. (There are around 2.3 million companies in the UK, compared to around 19,000 in the PPF universe.)
- Company liquidations have been rising gently since the fourth quarter of 2010. In Q3 2011 they were 6.5 per cent higher than a year earlier and other⁷ insolvency events were up 10 per cent over the same period. Nonetheless, since the second quarter of 2009, company liquidations have dropped by 16 per cent.
- In the 12 months ending Q3 2011, approximately 0.7 per cent of companies went into liquidation, compared with a recession peak of 0.9 per cent and a pre-recession trough of 0.6 per cent. In the latest recession, the liquidation rate rose by 50 per cent while in the early-1990s recession it more than doubled.

⁷ Receiverships, administrations and company voluntary arrangements.

1.7 Asset Allocation

- Purple 2011 data showed much smaller changes in asset allocation than seen in recent years. Furthermore, the share of bonds fell slightly, the first decline since the start of the Purple Books in 2006. Otherwise there has been a continuation, albeit less marked, of most of the trends seen in recent years: a falling equity share and a rising share in hedge funds and "other investment"; within equities a rising overseas share and falling UK share; and within bonds a rising corporate bond share and falling government share.
- The equity share fell to 41.1 per cent from 42.0 per cent in 2010 while the share of gilts and fixed interest fell to 40.1 per cent from 40.4 per cent in 2010. The share of 'other investments' rose from 5.4 per cent to 6.3 per cent.
- The overseas share of total equities rose from 55.3 per cent in 2010 to 57.2 per cent in 2011, the UK share falling from 40.1 per cent to 38.0 per cent. The share of unquoted equities increased from 4.4 per cent in 2010 to 4.8 per cent in 2011.⁸
- Within total gilts and fixed interest, the corporate fixed interest securities share rose from 42.2 per cent in 2010 to 44.3 per cent in 2011. Meanwhile, the share of government fixed interest fell from 24.6 per cent to 19.6 per cent. The index-linked share rose to 36.1 per cent from 33.1 per cent in 2010.
- Looking at simple averages⁹, the allocation to UK equities is still bigger (52.7 per cent) than that for overseas equities (46.1 per cent), although this gap has continued to narrow.
- Within gilts and fixed interest on a simple average basis, the allocation to government fixed interest fell sharply from 37.3 per cent to 31.2 per cent while the allocation to corporate fixed interest securities rose from 43.0 per cent to 47.1 per cent. The average allocation to index-linked securities rose from 19.8 per cent to 21.7 per cent.
- Smaller schemes tend to have a higher allocation of equities to UK equities and a smaller allocation to overseas equities. Within fixed interest, smaller schemes tend to have a higher allocation to government fixed interest and a smaller allocation to index-linked securities.
- As in the earlier Purple Books, more mature schemes tend to invest more heavily in gilts and fixed interest and less in equities.

⁸ These do not sum to 100 per cent in 2010 and 2011 due to rounding.

⁹ Simple averages are defined as the mean without weighting for scheme size.

1.8 Overall Risk Developments

- The Long-Term Risk Model (LTRM) is the key tool that the Board of the Pension Protection Fund (PPF) uses to understand and quantify the risks it faces over the long term. It helps the Board of the PPF assess the level of resources required to meet potential future claims.
- There was a clear decrease in long-term risk to the PPF between end-March 2010 and end-March 2011. The decrease in long-term risk was largely attributable to the decrease in the long-term credit risk of sponsoring employers over the period, and a reassessment of the risk posed to the PPF by a handful of the largest schemes also had a positive impact. However, since then there has been a slowdown in the global and UK economies and this could have a negative impact on the PPF.
- The PPF published its long-term funding strategy in August 2010. As part of this strategy, the PPF aims to be self-sufficient (i.e. fully funded, with zero exposure to market, inflation and interest-rate risk and protection against claims and longevity risk) by 2030. The funding strategy was reviewed in November 2011 and in the review it was concluded that the PPF's ultimate target was unchanged.
- LTRM projections with a reference date of March 2011, suggest that the PPF has an 87 per cent probability of meeting this funding objective compared with 83 per cent one year earlier.
- Looking at shorter-term risk measures, total weighted deficit (scheme sponsor one-year-ahead insolvency probability multiplied by scheme deficit) for deficit schemes stood at £332 million at end-March 2011.
- The proportion of weighted deficit attributable to schemes with the worst insolvency probabilities is 48.1 per cent, down from 55.3 per cent in 2010.
- Schemes with sponsors in the manufacturing sector have the largest weighted deficit at around 43 per cent of the total.
- The PPF's risk-based levy for individual schemes has so far been based on 12-month-ahead insolvency probabilities for scheme sponsors provided by D&B and a measure of scheme funding at a single point in time (though not necessarily the same point).
- PPF will introduce a new levy framework from 2012/13. In this framework funding will be calculated so that market movements will be averaged over five years. Allowance for investment risk is built into this new funding measure. New insolvency probabilities will be used and there will be a narrower range of insolvency probabilities and fewer insolvency bands, with measurement averaged over one year.

1.9 Levy Payments

- The PPF has been collecting a levy determined mainly by the risk schemes pose to the Fund for five years. Over this period it has collected a total of £2.8 billion. It is expected to collect £663 million for the 2010/11 levy year from 6,610 schemes. This compares with £592 million in 2009/10, £651 million in 2008/09, £585 million in 2007/08, and £271 million in 2006/07.
- The cap for the insolvency probability of schemes changed to 3 per cent in 2010/11 from 15 per cent in 2009/10. This makes the levies paid by insolvency group 10, the worst insolvency group, proportionally lower than in previous years.
- The expected collection for 2010/11 is £57 million less than the £720 million estimate, owing to such factors as: schemes appealing the insolvency probability upon which their levy is based; and schemes entering the PPF assessment period and, therefore, not paying a levy.
- For 2010/11 total levies amounted to 0.09¹⁰ per cent of total s179 assets, a slight increase on the 0.07 per cent in the previous year.¹¹
- In 2010/11, 679 schemes had their risk-based levy capped at 1 per cent of liabilities. This is 10.6 per cent of the total number of schemes. The liabilities of capped schemes equalled £8.8 billion or one per cent of total liabilities.¹²
- The top 100 levy payers accounted for £249 million, 38.6 per cent of the total levy, but 46.0 per cent of liabilities.¹³
- The number of schemes paying no risk-based levy in 2010/11 was 195, down from 363 in the previous year. The economic climate resulted in lower scheme funding levels and, therefore, fewer schemes achieved the 140 per cent funding level on a s179 basis required to avoid paying a risk-based levy.
- In 2010/11 the number of schemes paying no risk-based levy represented three per cent of total schemes and one per cent of total liabilities, compared to six and five per cent respectively for 2009/10.
- The distribution of levy by industry was broadly similar in 2010/11 to that in 2009/10 levy year. Manufacturing, services, and finance, insurance and real estate services account for approximately 71 per cent of the eligible DB universe, and also pay the same proportion of the total PPF levy.

¹⁰ These numbers are based on a 6,397 schemes who have paid £645 million in total. This is somewhat smaller than the £663 million expected to be collected because full information is not yet available on the remainder.

¹¹ These figures are based on the 2010/11 dataset of 6,397 schemes.

¹² These figures are based on the 2010/11 dataset of 6,397 schemes.

¹³ These figures are based on the 2010/11 dataset of 6,397 schemes.

1.10 Schemes in assessment

- The PPF's Annual Report and Accounts 2010/11 shows that there were 369 schemes in assessment at 31 March 2011 compared with 376 at 31 March 2010. Of these 314 were recognised in provisions, down from 317 at 31 March 2010. In these figures, all segregated parts of schemes have been counted as separate schemes.
- In this chapter, for analytical purposes scheme sections and segregated parts are amalgamated at a scheme level and schemes in surplus excluded; after this amalgamation there were 268 schemes (225,000 members) in a PPF assessment period as at 31 March 2011, compared with 271 (209,000 members) a year earlier. As a result, the number of schemes in assessment in this chapter is less than reported in the 2010/11 Annual Report and Accounts.
- The small fall over the year reflects 110 new schemes entering and remaining in assessment, 100 schemes transferring into the PPF and 13 being rescued, rejected or withdrawn.
- On a s179 basis, as at 31 March 2011, the aggregate assets of schemes in assessment totalled £9.5 billion and their liabilities £10.9 billion. Liabilities averaged £40.7 million per scheme and assets averaged £35.4 million.
- Schemes with liabilities below £5 million account for 38.4 per cent of schemes in assessment but only 26.5 per cent of the Purple 2011 dataset, while schemes with liabilities of over £100 million account for 8.2 per cent of schemes in assessment but 17.0 per cent of the Purple 2011 dataset.
- The aggregate funding level (total assets divided by total liabilities) of the schemes in assessment as at 31 March 2011 was 86.8 per cent, below the aggregate funding levels of the schemes in the Purple 2011 dataset (99.9 per cent) and also slightly below the aggregate funding level of the schemes in assessment a year earlier (88.4 per cent).
- According to the latest scheme return data prior to their entering assessment, schemes invested most heavily in gilts and fixed interest (38.5 per cent of total assets) and equities (34.9 per cent). In the Purple 2011 dataset equities account for 43.7 per cent and gilts and fixed interest account for 32.6 per cent.
- Where the industry is known, 46.2 per cent of the companies sponsoring schemes in assessment operated within the manufacturing sector. The service sector accounts for 17.3 per cent of sponsors of schemes in assessment and the finance, insurance and real estate sector, 11.5 per cent.
- The representation of manufacturing in schemes in assessment is much greater than the sector's share of scheme sponsors in the PPF universe (30.7 per cent), which in turn is greater than the share of manufacturing in the UK economy (12 per cent).

1.11 PPF Compensation

- The PPF made its first compensation payments in the 2006/07 financial year following the first scheme transfer in November 2006. A total of £1.4 million was paid out in 2006/07, rising to £17.3 million in 2007/08, £37.6 million in 2008/09, £81.6 million in 2009/10 and £119.5 million in 2010/11.
- At 31 March 2011, 33,069 members were in receipt of PPF compensation, up from 20,775 the previous year. Average compensation in payment stood at £3,889¹⁴ a year. The number of members with compensation not yet in payment (deferred members) as at 31 March 2011 totalled 42,063. For these members, the average accrued periodic compensation (before any prospective application of the compensation cap at NRA) was £3,295 a year.¹⁵
- As of 31 March 2011, males constituted 72 per cent of pensioner and deferred members, down from 76 per cent the previous year.
- Spouses and dependants account for 15 per cent of those currently in receipt of compensation, receiving 10 per cent of compensation in payment.
- Around 68 per cent of pensioner compensation is attributable to former employees of the manufacturing sector, down from 77 per cent a year before.
- The West-Midlands is the region in largest receipt of compensation, currently receiving 23 per cent of total pensioner compensation.
- As of 31 March 2011, only 100 pensioners were affected by the compensation cap (£29,748.68 a year for those aged 65 in 2010/11 after the 90 per cent scaling).
- The vast majority of members are in receipt of (or have accrued) compensation of less than 25 per cent of the cap.

¹⁴ The annualised average rate of compensation is calculated by scaling up compensation over one month to reflect one year. This measure, which excludes lump sum payments, is used in order to accurately represent periodic compensation in payment at 31 March 2011.

¹⁵ Unless otherwise stated, totals and averages relating to pensioners include dependants.

1.12 Risk Reduction

- The total number of recognised contingent assets (CAs) in place has risen by 20 per cent, from approximately 750 for the 2010/11 levy year to 900 for 2011/12.
- Schemes in the Purple 2011 dataset (excluding those schemes which were in a PPF assessment period as at 31 March 2011) had by 7 April 2011 certified approximately £28.0 billion of deficit reduction contributions (DRCs) to reduce deficits for the 2011/12 levy year. This was similar to the £29.1 billion certified for the previous levy year.
- The DRCs were not only paid by companies sponsoring the largest schemes; around 44.1 per cent of the £28.0 billion was paid by employers sponsoring schemes with fewer than 10,000 members.
- MQ5 data from the Office for National Statistics (ONS), covering 350 large pension schemes, including 100 local authorities, show that employers' special contributions (i.e. those in excess of regular annual contributions) increased markedly in 2010 to £16.1 billion, a record level, up 60 per cent on that in 2009. In the first quarter of 2011 they were running at an annual rate of £14.8 billion.
- Analysis of the Pension Regulator's latest technical provisions and recovery plan data shows that in Tranche 4, the average recovery plan length widened to 9.5 years, the average funding ratio as measured by assets divided by technical provisions fell to 71 per cent, and technical provisions as a percentage of s179 liabilities fell to 102 per cent. Tranche 4 covers schemes with valuation dates between 22 September 2008 and 21 September 2009 when equity markets were very weak and bond yields low.
- Changes in asset allocation were much less marked between Purple 2010 and Purple 2011 after a period of large falls in the equities share and large increases in the bond share (see chapter 7 Asset Allocation for more detail).
- Quarterly F&C surveys of volumes traded by investment banks suggest that £16.8 billion of liabilities were hedged using interest rate derivatives in the first half of 2011, the same as in the second half of 2010 and significantly above that in the first half of 2010 and second half of 2009.
- £13.7 billion of liabilities were hedged using inflation derivatives in the first half of 2011. Inflation hedging activity peaked in the second and third quarters of 2009.
- Industry sources suggest that the total amount of hedging done using derivatives is around £200-250 billion, around 15-18 per cent of total liabilities (on a full buy-out basis).
- Total risk transfer business covering buy-outs, buy-ins and longevity hedges amounted to £31 billion between the end of 2006 and the third quarter of 2011. Just under half of the total reflected buy-in activity, just over 30 per cent reflected buy-outs and just over 20 per cent longevity hedges (which started in 2009).