

# 4

## Scheme Funding

### 4.1 Summary

- Dataset assets total £968.5 billion 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.
- Schemes with estimated full buy-out funding between 50 per cent and 75 per cent form the largest group across all size categories.
- On average, schemes with a greater proportion of pensioner liability have higher s179 funding levels.
- Both assets and liabilities are concentrated in the 25% to 50% maturity band.
- Assets and liabilities are concentrated in the closed to new members status.
- 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.

### 4.2 Introduction

This chapter primarily deals with scheme funding on a s179 basis as at 31 March 2011. Funding information supplied via scheme returns is processed so that scheme funding can be estimated at a common date, allowing comparison between schemes valued at different dates. Funding is primarily presented on the s179 basis. This is, broadly speaking, what would have to be paid to an insurance company for it to take on the payment of PPF levels of compensation. In addition, full buy-out funding information is estimated from scheme return data. This uses a similar gilts-based discount rate as the s179 basis but covers full scheme benefits.

In presenting analysis as at 31 March 2011, the figures in this Chapter use data that, as far as possible, reflect the position at that date although it should be noted that the s179 actuarial assumptions<sup>21</sup> used are those which came into effect on 1 April 2011. The processing of s179 results allows for the different assumptions used for s179 valuations at earlier effective dates. s179 figures form the basis for PPF levy calculations, subject to subsequent adjustments in defined circumstances. Estimates of liabilities on the full buy-out basis have used the same valuation assumptions but allow for the difference between the PPF level of compensation and full scheme benefits. In the case of full buy-out, the calculation is hypothetical, as only small numbers of buy outs actually occur and the terms achieved are confidential and not necessarily obtainable for other schemes.

### 4.3 Overall Funding

**Table 4.1 | Key funding statistics, 31 March 2011**

	s179	Full buy out
Total number of schemes	6,432	6,432
Total assets (£ billion)	968.5	968.5
Total liabilities (£ billion)	969.7	1,435.5
Aggregate funding position (£ billion)	-1.2	-467.0
Total balance for schemes in deficit (£ billion)	-78.3	-470.7
Total balance for schemes in surplus (£ billions)	77.1	3.7
Funding Level	99.9%	67.5%

Source: PPF / The Pensions Regulator

The total deficit for schemes in deficit was £78.3 billion on a s179 basis and £470.7 billion on a full buy out basis.

<sup>21</sup> For more information see: [http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Section\\_179\\_Assumptions\\_Guidance\\_vA5\\_Oct09.pdf](http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/Section_179_Assumptions_Guidance_vA5_Oct09.pdf)

**Table 4.2** | Historical funding figures\*

	No. of schemes **	Total assets (£ billion)	s179 liabilities				Funding ratio
			Liabilities (£ billion)	Aggregate funding (s179) (£ billion)	Deficit of schemes in deficit (£ billion)	Surplus of schemes in surplus (£ billion)	
2006	7,751	769.5	792.2	-22.7	-76.3	53.5	97%
2007	7,542	837.7	769.9	67.8	-46.8	96.5	109%
2008	6,897	837.2	842.3	-5.1	-67.7	62.6	99%
2009	6,885	780.4	981.0	-200.6	-216.7	16.0	80%
2010	6,596	926.2	887.9	38.3	-49.1	87.4	104%
2011	6,432	968.5	969.7	-1.2	-78.3	77.1	100%

	Full buy-out				
	Liabilities (£ billion)	Aggregate funding (£ billion)	Deficit of schemes in deficit (£ billion)	Surplus of schemes in surplus (£ billion)	Funding ratio
2006	1,273.5	-504.0	n/a	n/a	60%
2007	1,289.3	-451.6	n/a	n/a	65%
2008	1,356.0	-518.6	-520.4	1.6	62%
2009	1,351.6	-571.2	-572.3	1.1	58%
2010	1,359.2	-433.0	-436.5	3.5	68%
2011	1,435.5	-467.0	-470.7	3.7	67%

Source: PPF / Pensions Regulator

\*The figures shown above are the headline figures presented in the Purple Books 2008, 2009 and 2010. For 2006 and 2007 the figures are based on the extended Purple datasets published in the Annexes to Purple 2007 and 2008.

\*\*Figures before 2010 include schemes in assessment

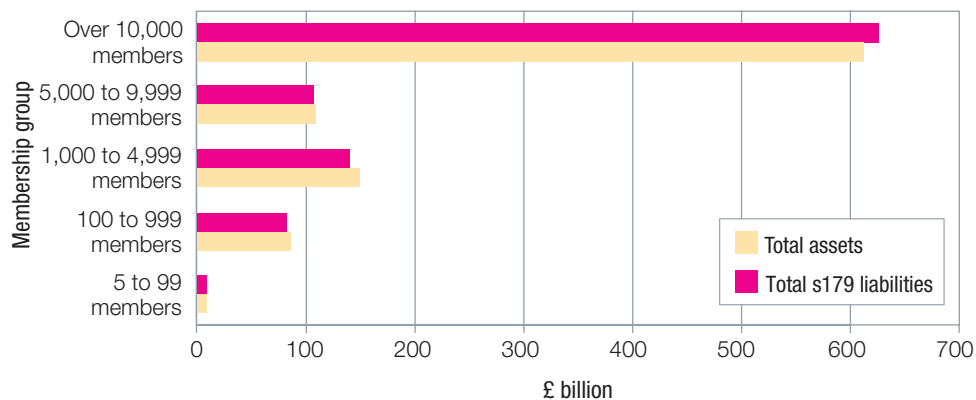
**Table 4.3** | s179 funding levels by scheme size, 31 March 2011

Scheme size measured by number of members	Number of schemes in sample	Market value of Assets (£ billion)	Liabilities (£ billion)	Balance (£ billion)	Weighted average funding level	Simple average funding level
5 to 99 members	2,276	11.1	10.4	0.6	106%	104%
100 to 999 members	2,911	84.9	88.9	-4.0	95%	93%
1,000 to 4,999 members	834	139.5	149.3	-9.8	93%	91%
5,000 to 9,999 members	191	110.9	112.1	-1.1	99%	96%
Over 10,000 members	220	622.1	609.0	13.1	102%	100%
<b>Total</b>	<b>6,432</b>	<b>968.5</b>	<b>969.7</b>	<b>-1.2</b>	<b>100%</b>	<b>97%</b>

Source: PPF / The Pensions Regulator

\*note that schemes with unusual funding arrangements were excluded from simple averages in this table so as to avoid distortions. 25 schemes were removed on the basis that their buy-out funding level was equal to or greater than 200 per cent.

**Chart 4.1** | Distribution of s179 funding levels by size of scheme membership, 31 March 2011



Source: PPF / The Pensions Regulator

**Chart 4.2** | Distribution of s179 funding levels by size of scheme membership, 31 March 2011



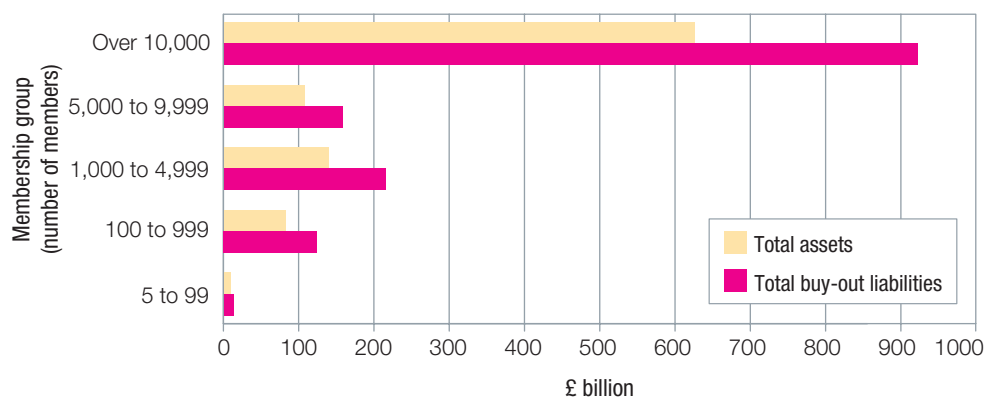
Source: PPF / The Pensions Regulator

**Table 4.4** | Estimated full buy-out levels by size of scheme members, 31 March 2011

Members	Number of schemes in sample	Market value of Assets (£ billion)	Liabilities (£billion)	Balance (£billion)	Weighted average funding level	Simple average funding level
5 to 99 members	2,276	11.1	15.2	-4.1	73%	74%
100 to 999 members	2,911	84.9	128.3	-43.4	66%	65%
1,000 to 4,999 members	834	139.5	214.2	-74.7	65%	64%
5,000 to 9,999 members	191	110.9	160.9	-50.0	69%	68%
Over 10,000 members	220	622.1	916.9	-294.8	68%	69%
<b>Total</b>	<b>6,432</b>	<b>968.5</b>	<b>1,435.5</b>	<b>-467.0</b>	<b>67%</b>	<b>68%</b>

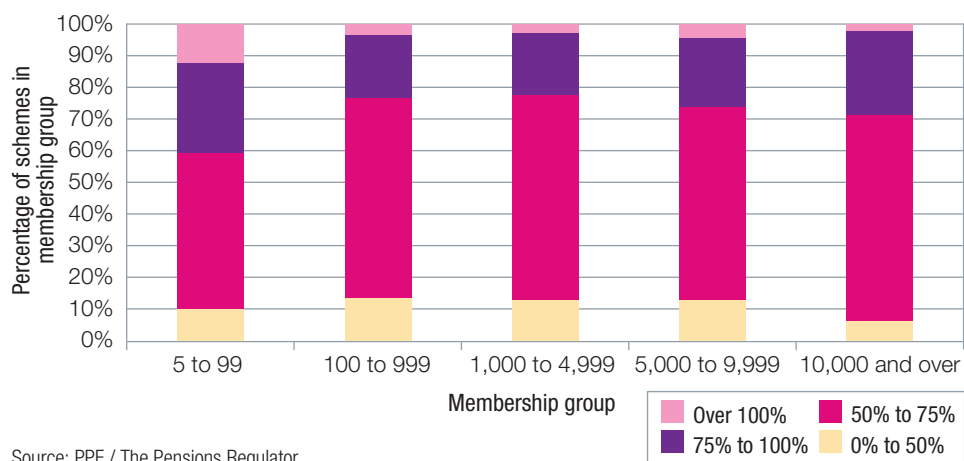
Source: PPF / The Pensions Regulator

**Chart 4.3** | Total assets and liabilities by size of scheme membership on an estimated full buy-out basis, 31 March 2011



Source: PPF / The Pensions Regulator

**Chart 4.4** | Distribution of buy-out funding levels by size of scheme membership, 31 March 2011



Source: PPF / The Pensions Regulator

#### 4.5 Analysis of funding by scheme maturity

**Table 4.5** | Analysis of s179 funding levels by scheme maturity, 31 March 2011

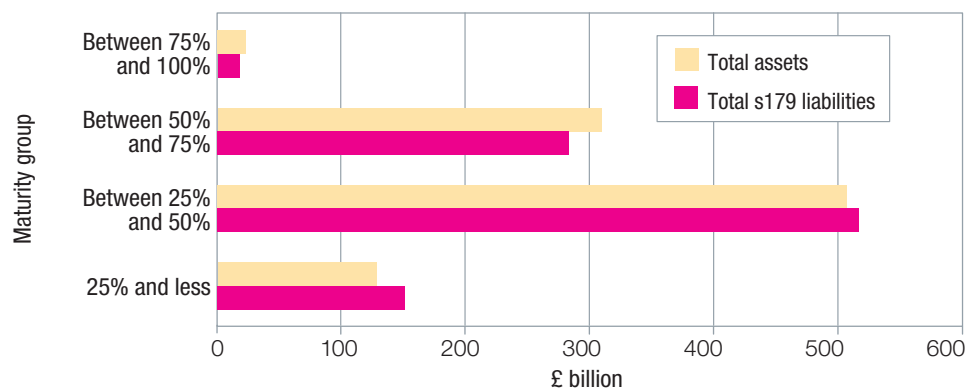
Proportion of s179 liabilities relating to pensioners	Number of schemes in sample	Market value of assets (£ billion)	Liabilities (£ billion)	Balance (£ billion)	Weighted average funding level	Simple average funding level
25% and less	2,511	128.5	151.3	-22.8	85%	89%
Between 25% and 50%	2,813	507	516.6	-9.6	98%	96%
Between 50% and 75%	945	309.6	283.5	26.2	109%	111%
Between 75% and 100%	163	23.4	18.4	5	127%	132%
<b>Total</b>	<b>6,432</b>	<b>968.5</b>	<b>969.7</b>	<b>-1.2</b>	<b>100%</b>	<b>97%</b>

Source: PPF / The Pensions Regulator

\*note that schemes with unusual funding arrangements were excluded from simple averages in this table so as to avoid distortions. 25 schemes were removed on the basis that their buy-out funding level was equal to or greater than 200 per cent.

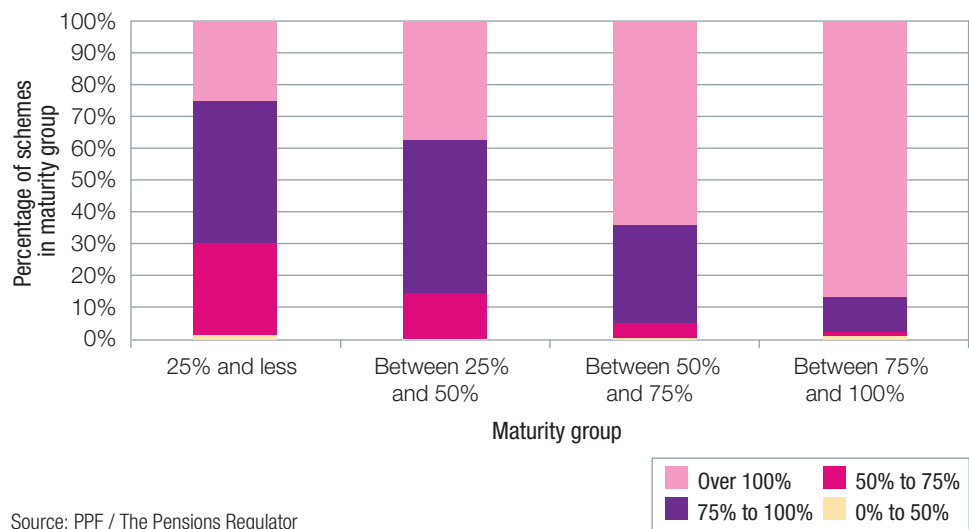
On average, schemes with a greater proportion of pensioner liability have higher s179 funding levels.

**Chart 4.5** | Distribution of s179 assets and liabilities by scheme maturity, 31 March 2011



Source: PPF / The Pensions Regulator

**Chart 4.6** | Distribution of funding levels on a s179 basis by scheme maturity, 31 March 2011



Source: PPF / The Pensions Regulator

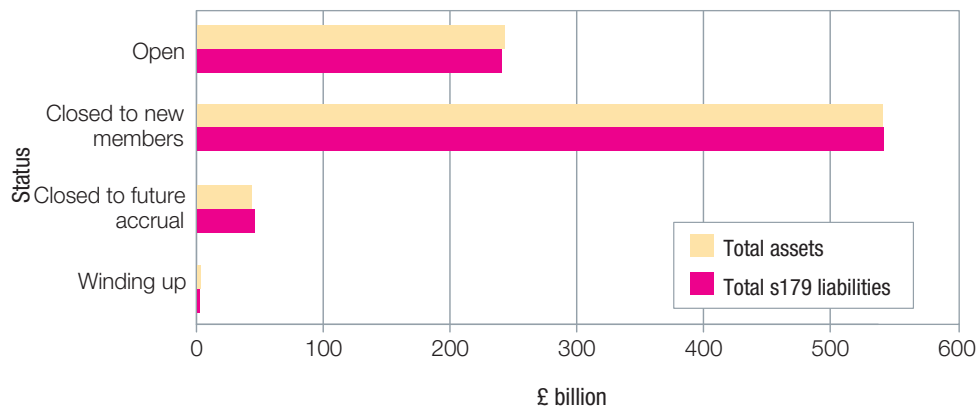
## 4.5 Analysis of funding by scheme status

**Table 4.6** | Analysis of s179 funding levels by scheme status, 31 March 2011

Status	Number of schemes in sample	Market value of assets (£ billion)	Liabilities (£ billion)	Balance (£ billion)	Weighted average funding level	Simple average funding level
Open	1,013	283.2	281.1	2.1	101%	95%
Closed to new members	3,739	630.6	631.4	-0.9	100%	97%
Closed to future accruals	1,552	50.6	53.9	-3.3	94%	94%
Winding Up	128	4.1	3.3	0.8	124%	117%
<b>Total</b>	<b>6,432</b>	<b>968.5</b>	<b>969.7</b>	<b>-1.2</b>	<b>100%</b>	<b>97%</b>

Source: PPF / The Pensions Regulator

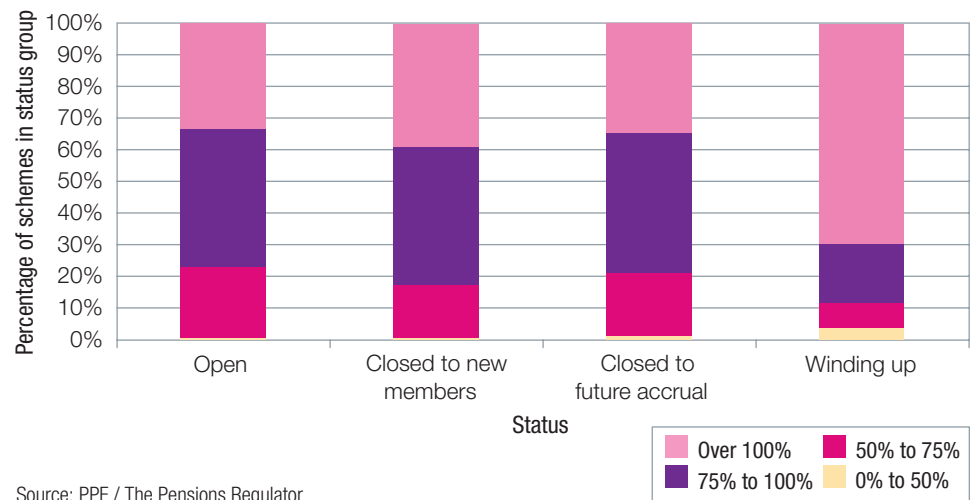
**Chart 4.7** | Distribution of s179 assets and liabilities by scheme status, 31 March 2011



Source: PPF / The Pensions Regulator

Assets and liabilities are concentrated in the closed to new members status.

**Chart 4.8** | Distribution of schemes by s179 funding levels within scheme status groups, 31 March 2011



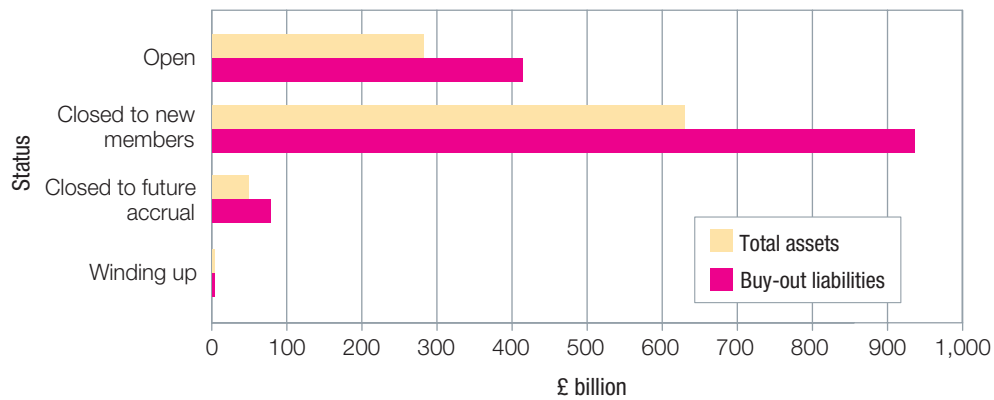
Source: PPF / The Pensions Regulator

**Table 4.7** | Analysis of estimated full buy-out funding levels by scheme status, 31 March 2011

Status	Market value of assets (£ billion)	Liabilities (£ billion)	Balance (£ billion)	Weighted average funding level	Simple average funding level	Number of schemes in sample
Open	1,013	283.2	415.1	-129.3	69%	70%
Closed to new members	3,739	630.6	936.9	-295.7	68%	70%
Closed to future accruals	1,552	50.6	78.6	-26.9	66%	68%
WindingUp	128	4.1	4.9	-0.8	84%	84%
<b>Total</b>	<b>6,432</b>	<b>968.5</b>	<b>1,435.50</b>	<b>-452.6</b>	<b>68%</b>	<b>69%</b>

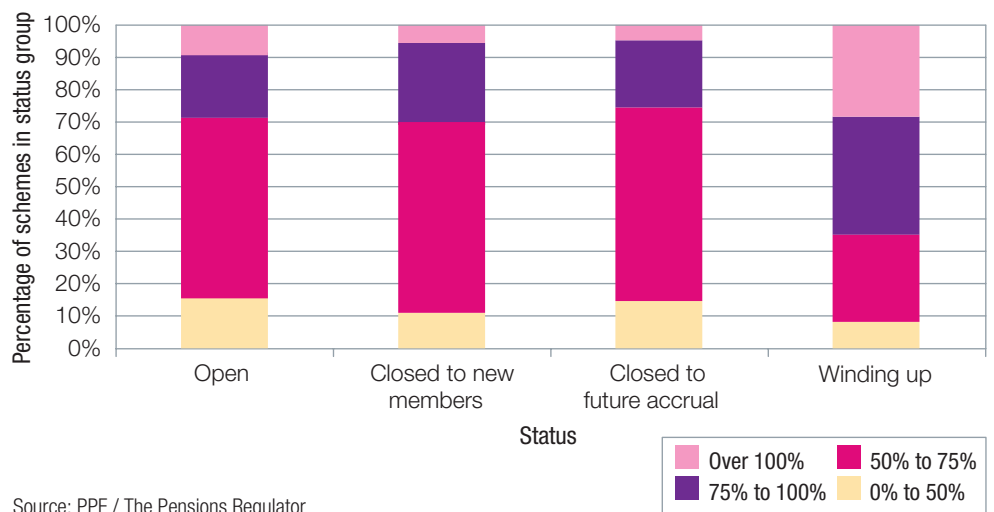
Source: PPF / The Pensions Regulator

**Chart 4.9** | Distribution of estimated full buy-out assets and liabilities by status, 31 March 2011



Source: PPF / The Pensions Regulator

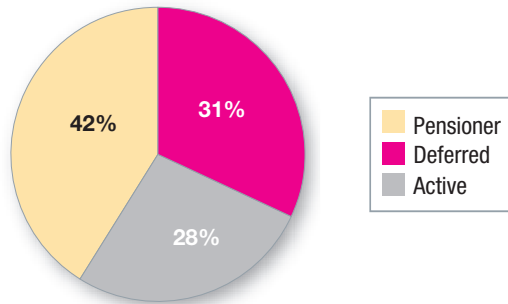
**Chart 4.10** | Distribution of estimated full buy-out funding level by status, 31 March 2011



Source: PPF / The Pensions Regulator

28 per cent of s179 liabilities relate to active members.

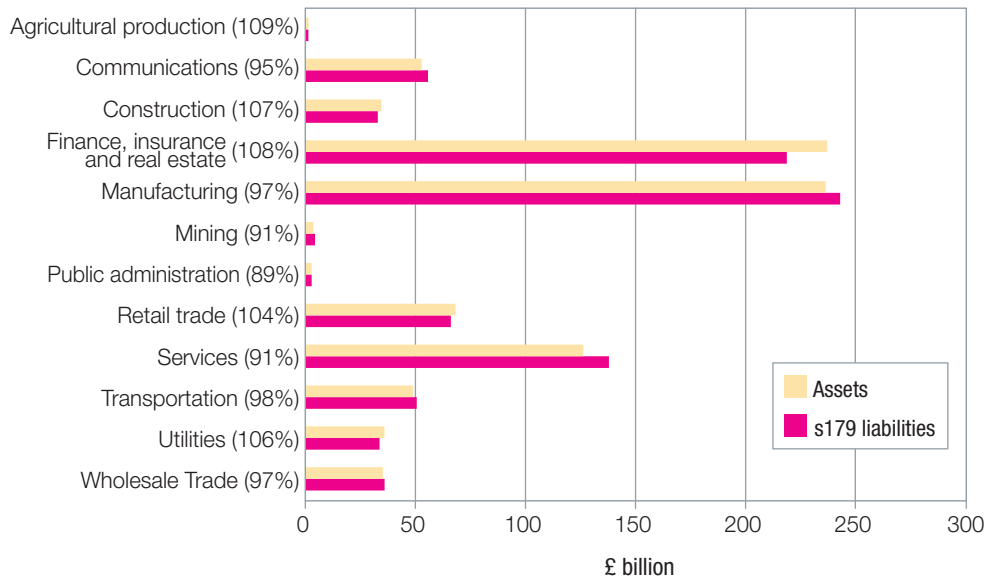
**Chart 4.11** | s179 liabilities by active, deferred and pensioner members



Source: PPF / The Pensions Regulator

Two sectors - finance, insurance and real estate, and manufacturing - hold the most assets and liabilities

**Chart 4.12** | s179 assets and liabilities by industry with overall funding level, 31 March 2011



Source: PPF / The Pensions Regulator