

Pension
Protection
Fund

Management Plan 2008/09 - 2010/11 Incorporating Business Plan 2008/09

April 2008

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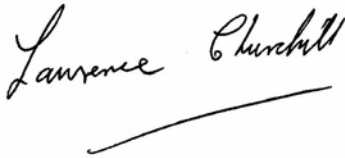
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Chairman's Foreword

For our fourth year of operations we have again integrated our medium term planning document with a more detailed business plan for 2008/09 to allow clearer cross-referencing between years. Later this year, we will be reviewing our strategy to 2012: this is likely to change the focus of some of our activities in 2009/10 onwards.

The Pension Protection Fund (PPF) has a wide range of stakeholders and is required to balance their different interests. A key purpose of publishing our plan is to inform our stakeholders of our direction, and of the way we are striking the balance.

We hope you find our plan for the period ahead convincing, and that you share the Board's view that it is fit for the purpose of discharging our statutory obligations in a simple, fair and proportionate manner.

A handwritten signature in black ink that reads "Lawrence Churchill". The signature is written in a cursive style and is positioned above a horizontal line that extends to the right.

Lawrence Churchill
Chairman

Chief Executive's Foreword

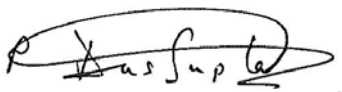
Three years on, the PPF is now firmly part of the pensions' landscape, undertaking all the functions in the Pensions Act 2004. There is still more to do and the years ahead are likely to be just as challenging. This plan outlines how we are going to build on our work so far and looks forward, highlighting the key areas of delivery for us during 2008/09. We will publish an updated strategy document later in the year. This will set out our strategic plans to 2012. By then, PPF membership could be rivalling the largest final salary schemes in the UK and assets under management could exceed £15bn.

Strengthening our financial resilience remains a priority after a year that has seen marked volatility in financial markets, with the resulting knock-on effect on the funding positions of eligible schemes which has been reflected in our 7800 Index¹. Last summer we fixed the pension protection levy at £675m, indexed to earnings, for three years, subject to extreme events. Our Long-Term Risk Model (LTRM) together with the Index and the analysis published in the Purple book provides us with an important set of tools. These highlight the importance of long-term risk and require us to think about how we should measure and price such risk. During the year we will consult on how the levy could be distributed for 2010/11 onwards in a way that reflects these issues.

The PPF remains committed to operational excellence. Completing the assessment period swiftly, preferably inside two years, remains an important objective. We have accumulated invaluable knowledge and experience by working together with trustees over the last three years. This has enabled us to streamline the assessment and transition process. This year will offer new ways to support trustees through the assessment period – updated guidance, e-learning and training events. We will also develop a technology platform that provides us with flexibility as the scale of our activities increases. Last year, we implemented a new approach to managing our data and during the year, we will be building new bespoke applications to improve automation and deliver changes that streamline our work and make it simpler for our levy payers and members.

Strengthening our relationships with stakeholders is another of our priorities for 2008/09. These provide a vital means of discussing and explaining our activities as well as ensuring that we listen to what our stakeholders have to say. Although much of this work will entail renewed efforts to build on relationships with scheme members and trustees, we will also review our electronic media which we know stakeholders value as one of the best ways we communicate with them. This also means focussing on our internal relationships. We have invested in our staff to ensure that we are adequately resourced for the tasks we face. As well as looking at how we can continue to develop our team, we will give greater consideration to talent-spotting and succession planning as we become a more stable and mature organisation.

I look forward to working with my PPF colleagues and our many stakeholders to deliver on these ambitious plans and ensure that we continue to play our part in restoring confidence in defined benefit pensions in the UK.



Partha Dasgupta
Chief Executive

¹ A monthly publication providing updates of the latest estimated funding position, on a s179 basis, of approaching 7800 predominantly private sector defined benefit (DB) pension schemes in the UK.

1. Introduction

The Board of the Pension Protection Fund was set up under the provisions of the Pensions Act 2004 and began operating on 6 April 2005. It is a Public Corporation, governed by an independent board, and its functions are set out in the Pensions Act 2004. They are:

- to pay compensation to members of defined benefit schemes where the sponsoring employer has become insolvent and there are insufficient assets in the scheme to buy out the PPF levels of benefit
- to pay fraud compensation to occupational pension schemes via the trustees
- to manage the assets of the two funds the Board controls: the Pension Protection Fund and the Fraud Compensation Fund², and
- to raise pension protection levies from eligible defined benefit and hybrid schemes, and raise levies on all occupational pension schemes for the Fraud Compensation Fund when appropriate.

The PPF is accountable to the Secretary of State for Work and Pensions and, through the Secretary of State, to Parliament. The PPF's Annual Report and Accounts are laid by the Secretary of State in both Houses of Parliament.

On 22 April 2008 Ministers said that they were hopeful that the PPF will be able to take a formal operational role in the extended Financial Assistance Scheme (FAS). This is subject to a consultation exercise launched on 27 March 2008 and to parliamentary procedures. The package of draft regulations being consulted on gives the potential for the Department for Work and Pensions to seek advice from the PPF on FAS operational issues but it is possible that a broader role will emerge. The draft regulations make clear that the Government is very conscious of the importance that the costs of any PPF involvement with the FAS would be met by the Government and not by levy payers.

A tripartite Memorandum of Understanding has been agreed between the PPF, the Department for Work and Pensions and the Pensions Regulator which sets out the responsibilities of each organisation and how they work with each other.

We continue to take forward the core recommendations of the Thornton Review of Pensions Institutions, in particular through greater data sharing and maximising the benefits of our closer working relationship with the Pensions Regulator. This is reflected in the development of our recently signed Partnering Agreement and Memorandum of Understanding.

This document focuses on the strategic objectives and actions required to achieve the PPF's long-term critical success factors. It identifies shorter term actions and performance measures in the business plan to enable us to deliver our strategic objectives and ultimately accomplish our mission.

² The Fraud Compensation Fund pays compensation to pension schemes where they suffer a loss caused by dishonesty, including fraud and misappropriation of assets.

2. Vision, mission, values and operating principles

The Board developed a vision, mission statement, values and operating principles for the PPF in the Spring of 2005. These remain valid, and continue to underpin what the PPF does and why and how it behaves.

2.1 Vision

A society where all can enjoy the security of a fair pension in retirement.

2.2 Mission

To promote increased confidence in UK defined benefit pension schemes and set reasonable expectations for members by:

- paying the right people the right compensation at the right time
- prudent and effective management of our investments to meet future obligations
- setting and collecting a levy which is appropriate and proportionate, balancing employer and member interests, and
- communicating clearly what we do and why.

2.3 Values

Value	Demonstrated by
Integrity and trust	Acting with principle Respecting confidential information Giving reliable written and oral statements
Competence and professionalism	Possessing the appropriate resources, capabilities and skills to achieve our goals
Teamwork and partnership	Working with others to achieve the best results Co-ordinating activities with the Pensions Regulator Working effectively with colleagues Consulting the PPF's stakeholders
Transparency	Demonstrating openness in all our actions
Proportionality	Making balanced decisions

2.4 Operating principles

Fairness - ensure the Pension Protection Levy charged to schemes reflects the level of long-term risk they pose and provide incentives to reduce risk.

Proportionality - strike the right balance between affordability for pension schemes and security and service for scheme members; value for money for PPF functions.

Simplicity - apply market solutions to collect the information needed to calculate the levy and pay compensation.

3. Critical success factors and strategic objectives

3.1 Long-term critical success factors

Confidence and consensus building

The PPF aims to be a competent and credible organisation which key stakeholders can trust to deliver our core functions now and in the future.

There are many complex issues to be tackled, and while there are no 'right' answers, we will use dialogue and consultation to establish, where possible, a consensus on the most appropriate ways forward.

Risk management and early warning systems

The PPF and levy payers operate in a global economic environment and so are subject to broader economic risks as well as company-specific risks.

Our risk modelling needs to accommodate both of these risk factors. Using data from the Pensions Regulator and other early warning systems, we can characterise the type of scheme potentially at risk.

We can anticipate events and take action to reduce their likelihood, reducing calls on our resources and, therefore, protecting levy payers.

Encouraging strong levels of scheme funding

Our fundamental belief is that employers must fund their pension promises to a higher level than has been seen over the last two decades. The introduction of recovery plans will help facilitate this, and we fully support the Pensions Regulator and trustees in communicating this message.

3.2 Five year strategic objectives

We set the following five year strategic objectives in the spring of 2005:

- manage the funding of the PPF within agreed limits
- contribute to building confidence in pensions
- pay the right people the right compensation at the right time
- invest in staff expertise to deliver our functions
- ensure two-way communications with stakeholders is effective, and
- achieve high levels of stakeholder satisfaction in respect of professionalism, policies, processes and helpfulness.

Throughout the coming year, there will be a full strategic review to ensure that these objectives remain appropriate for the PPF. We have already started to engage with stakeholders to understand their perspective, and we plan to publish the updated strategy document covering 2009/10 to 2011/12 towards the end of 2008.

3.2.1 Manage the funding of the PPF within agreed limits

We need to maintain a level of funding that balances demands on levy payers against the risk of being unable to pay current levels of compensation.

Pension Protection Levy

We set the pension protection levy in light of prevailing economic conditions to steer us within our funding range over the medium-term. We have set the overall levy estimate for the three year period beginning 2008/09 at £675m indexed to earnings, so long as there is no significant change to the risks we face.

The levy is distributed among eligible schemes according to the risk they pose to the PPF with the aim of being both affordable and fair. We are now reviewing the distribution of the levy, in consultation with stakeholders, so that it is more in line with our long-term funding policy and more accurately reflects the contribution of individual schemes to our risk. In particular, this review will reconsider the merits for incorporating a measure of investment risk into the levy formula.

The levy will continue to evolve as data quality improves from pension schemes and as a result we will be more able to analyse the risks in the system to the PPF. We published a consultation document in August 2007 that set out our initial ideas on moving towards distributing the levy across schemes based on long-term risk. We will publish a further consultation document in summer 2008 that provides more detail.

We plan to enhance our Long-Term Risk Model (LTRM) during the next twelve months. This includes:

- improving our approach to modelling pension scheme recovery plans, including a more sophisticated approach to valuing technical provisions
- developing our assumptions on s.75 debt recoveries
- expanding our modelling of individual scheme investment strategies
- calibrating our modelling to market pricing
- modelling schemes in assessment more fully to take into account their impact on our balance sheet
- considering approaches to modelling future longevity improvements and mortality, including stochastic approaches, and
- making further investment into the modelling infrastructure.

The PPF encourages schemes to reduce their risk to minimise the likelihood of claims and to potentially reduce the levy through the following incentives:

- deficit reduction contributions
- use of contingent assets, and
- encouraging fuller scheme funding.

Reaction to these incentives has been positive and we will continue to seek ways of developing them as well as reviewing the scope of contingent asset rules to ensure they can be enforced and renewed. We have reflected the more competitive buy-out market when determining s.179 and s.143 valuations, and published new assumptions effective from 31 March 2008.

Transferring compensation administration costs from the PPF administration account to the Pension Protection Fund itself will ensure that our management costs are properly attributed. This provides greater transparency and allows for external benchmarking. We will benchmark ourselves to the running costs of like-for-like pension schemes, given that it contracts for fund management services, custody and administration. We will use the annual Watson Wyatt Survey of Pension Scheme Costs as the baseline.

The contract to provide insolvency risk data is currently being re-tendered in accordance with EU procurement law, taking into account stakeholder feedback in the August 2007 levy consultation. We will, however, continue to work with our chosen insolvency risk provider to ensure that insolvency risk measures remain appropriate.

Assets and Investment

Our Statement of Investment Principles (SIP) outlines our liability driven approach to managing levy assets and assets transferred from schemes.

Our choice of fund managers reflects the need to diversify both by asset class and by management style to mitigate the risks we may face by concentrating our efforts in any one area. We will work closely with our chosen managers to ensure they adhere to our strategy and so we can continually review our investment options. As the Fund grows through the transfer of more pension schemes - and as investment markets evolve - we will continue to review our strategy to ensure it evolves in line with our objectives and our liability profile.

Once we complete our panel of specialist transition managers, we will continue to build our capacity to transfer assets to the PPF as more schemes complete the assessment period.

We continue to develop our approach to asset recoveries from insolvent employers which is based on realising the best outcome for members and levy payers, given individual circumstances.

Our negotiating position is influenced by the proportion of debt and assets available to unsecured creditors after the banks and other senior creditors have been paid out. We prioritise cash and debt securities over other assets and look for security and prompt payment whenever possible. We will always seek to realise the maximum value of these investments. Our insolvency team have increased scheme assets by over £400m to date.

The Pensions Regulator

The Pensions Act 2004 requires the Pensions Regulator to protect the PPF against potential claims. The Regulator works to ensure a net reduction in risk over time by:

- regulating the scheme funding requirements for private sector defined benefit schemes
- making the PPF benefit funding level (s.179 liabilities) as a trigger for technical provisions
- setting a ten year trigger point for scheme funding recovery plans, ensuring reduction in net risk over time, and
- using its powers to reduce the risk where changes in corporate control, changes in capital structure and distribution of cash negatively impact on the pension scheme as a creditor.

We strongly support these actions and we will continue to work closely with the Regulator to ensure the strategies for the pension protection levy and scheme specific funding work well together.

3.2.2 Contribute to building confidence in pensions

We will continue to play an active role in building confidence in occupational pension schemes in the UK.

We aim to achieve this by ensuring the protection we provide is based on a stable and resilient framework so safeguarding the pensions of the 12 million people who are members of eligible defined benefit pension schemes. During 2007, we launched our 'Protecting People's Pension' initiative to better explain to scheme members the protection that the PPF provides.

By strengthening our financial resilience through the continued development of our Long-Term Risk Model, the pension protection levy and our investment strategy, we can also reassure those who receive PPF compensation, and those who will receive it in the future, that their income every month comes from a known, trusted and stable source.

In developing the levy, we will continue to seek to encourage strong levels of scheme funding, complementing the Regulator's scheme funding regime.

We will continue to engage in the wider debate about pension provision in the UK. Our contribution to the debate will be backed up by a better understanding of the risks in the system, with continually improving data on the state of occupational pensions through the regular publication of the Purple book and the PPF 7800 index.

3.2.3 Pay the right people the right compensation at the right time

We work with trustees and their advisors, the Pensions Regulator and National Insurance Services to the Pensions Industry (NISPI) to move schemes through the assessment period as quickly and efficiently as possible. The activities undertaken by the trustees and the Board during this period are similar to those involved in winding up a pension scheme, and we set ourselves a target of completing assessment for 75 per cent of schemes and 75 per cent of scheme members within two years, wherever possible. Scheme members receive PPF levels of benefits from trustees during the assessment period. Once assessment is complete, the PPF acts in the best interests of the scheme members by agreeing:

- i) completion of assessment by scheme rescue

In this event, we receive confirmation that the scheme has an effective new employer covenant in place to support payment of scheme benefits.

- ii) completion of an assessment period which leads to scheme buyout

If the scheme demonstrates that it can buy benefits for all its members which are more than PPF levels of compensation, based on its funding position at the date of insolvency, then we allow it to do so.

- iii) completion of assessment leading to entering the PPF

Where a scheme cannot pay more than PPF levels of benefit at the insolvency date, we take over the scheme's assets and liabilities to its members and pay compensation at PPF levels.

Once in compensation, our duty to members is to pay them compensation in line with PPF rules, and to keep them informed of any changes.

Benefit equalisation for inequalities in the GMP formula

Since 17 May 1990, benefits under occupational pension schemes should be equalised. This means that benefits are paid on equal terms for men and women. The PPF has to, by law, ensure that schemes whose employers have gone bust and are in our assessment period pay equal benefits to their male and female members.

We have come up with a workable solution which should not place too much of an extra burden on trustees as they take their schemes through assessment. We are consulting on this complex issue and are looking forward to hearing stakeholder views.

Data collection

One of the greatest challenges we have faced has been to get good quality data to support our activities. Scheme and employer data we have received from the annual scheme return has required significant investment in data cleansing activities.

We have tried to contact schemes or their advisers directly to validate data for levy purposes but this has been an expensive process. Our decision to not allow schemes to correct their data after the annual levy deadline should create the right incentive to improve data quality before they submit their scheme returns to the Regulator. Also, the development of the Exchange website and the system's validation rules should result in schemes submitting higher quality data and means we will spend less on data cleansing.

Data on individual members has also been of mixed quality. We have developed a mechanism which scheme trustees use to submit data as part of the assessment and transition process. The use of automated tools has helped build efficiency in this area – but a number of complex technical matters has meant that there are inevitably issues to resolve prior to transferring schemes.

We have been working together with NISPI, and also engaging directly with scheme trustees and administrators, to ensure that our trustee guidance is understood. We plan to issue an updated version of our guidance in Spring 2008 and to hold a number of roadshows explaining its content and also setting out our approach to equalisation.

3.2.4 Invest in staff expertise to deliver our functions

To fulfil our purpose, we must attract and retain employees with the right knowledge, skills and professional experience to handle our stakeholder needs and to carry out our complex financial and operational functions.

We encourage close working relationships between PPF teams and external organisations so we can be more responsive, effective, efficient and flexible - as well as provide value for money for levy payers. We pride our self on developing our staff, and the results of our annual staff survey confirm that staff feel they are valued and listened to, with 93% of staff believing that on the whole the PPF is a good employer.

The performance review process continues to be improved. We are placing greater emphasis in 2008/09 on staff competencies and behaviours. This enables us to establish a strong link between performance and reward, appropriate to a public corporation.

Our performance review process aims to:

- support PPF's development as an employer of choice
- build capacity
- grow as a high-performing organisation through development of appropriate individual and team skills
- deliver excellent team working between Directorates
- ensure that skills and resources are deployed effectively
- increase motivation through giving staff a clear sense of direction, and
- support career development and succession planning.

3.2.5 Ensure two-way communication with stakeholders is effective

We continue to recognise that a strong partnership with our stakeholders is vital.

During the past year, we have continued to seek to strengthen our external relationships through regular meetings, attendance at industry and other events, making ourselves available for comment, questioning and feedback. While the Chairman and Chief Executive are most visible in communicating with stakeholders, a range of external activities is undertaken across the organisation - not least through our dedicated Stakeholder Support Team which deals with most day-to-day issues.

The pension protection levy continues to be of intense interest and some concern for stakeholders. To both explain and develop our approach to the levy, we continue to engage stakeholders in a number of ways. We:

- publish consultations on future levies, identifying emerging issues about how to assess and price long-term risk and laying out further proposed steps for discussion
- hold roadshows around the UK to enable stakeholders to understand and discuss issues around the levies, and
- carry out regular stakeholder perception audits such as that carried out during 2007. These provide an important means of ensuring that our communications strategy is appropriate and that our means of communication are those felt most helpful by stakeholders. The audits also provide a further means for stakeholders to express their opinions on our activities.

3.2.6 Achieve high levels of stakeholder satisfaction in respect of professionalism, policies, processes and helpfulness

To fulfil the PPF's mission, we believe it is vital that we are highly regarded by all our stakeholders. To help achieve this, we will:

- work with industry professionals such as insolvency practitioners, actuaries, financial institutions, companies and representative groups, as well as parliamentary bodies and their representatives
- make it easy for stakeholders to question the functions and processes of the PPF through our Stakeholder Support Team and our website
- continue to work with the Pensions Regulator to develop Exchange as the single online platform for submitting levy information to PPF
- survey those involved in pre-insolvency negotiations after every reconstruction/rescue to ask if they consider we acted professionally
- build relationships with the legal and accounting professions by speaking at conferences and other events to ensure they understand our policies and processes
- work closely with scheme administrators during the assessment period to ensure a timely, smooth and effective transition of each scheme over to the PPF, and
- develop capacity to deal with a volatile workload and seek to achieve economies of scale to remain efficient. We will continue to develop the quality of the scheme and employer data we collect and, as we do, automate our processes wherever possible to improve our performance.

3.3 Programme and project management

We base our programme and project management on the "Managing Successful Programmes" and "Prince2" frameworks developed by the Office of Government Commerce. In 2008/09 we have two major change initiatives planned:

- to develop the level of effectiveness of the assessment processes through greater automation and development of the case management system, and
- to enhance and make more robust the existing levy calculation and invoicing systems and processes accommodating any changes required to calculate the 2008/09, 2009/10 and 2010/11 levy, and developing the platform for the introduction of the long-term approach to setting levies.

4. Key assumptions underlying the management plan

4.1 Legislative regime

This plan assumes that there will be no legislative change which would significantly affect our business.

The Pensions Bill, which (subject to Royal Assent) is to form the Pensions Act 2008, contains a number of provisions amending the legislation relating to the PPF which relate primarily to minor changes to the compensation structure and/or drafting identified over the period since April 2005. Further secondary legislation is also expected, both following on from the provisions of the new Bill and under the Pensions Act 2004.

These are likely to require relatively minor changes to our processes but which will not have a major impact on our planning processes. We continue to engage with the Department for Work and Pensions (DWP) to ensure that the legislative framework is consistent with delivering the objectives of the organisation.

4.2 Pension scheme environment

Scheme Funding

In the Purple book 2007, it was estimated that:

- there was a significant improvement in scheme funding between 31 March 2006 and 30 March 2007, mainly reflecting market movements
- 64% of eligible defined benefit schemes in deficit had an aggregate s.179 basis deficit of £34 billion (31 March 2006: 74% and £55bn), and
- schemes in surplus had a total s.179 surplus of £87 billion (31 March 2006: £55bn).

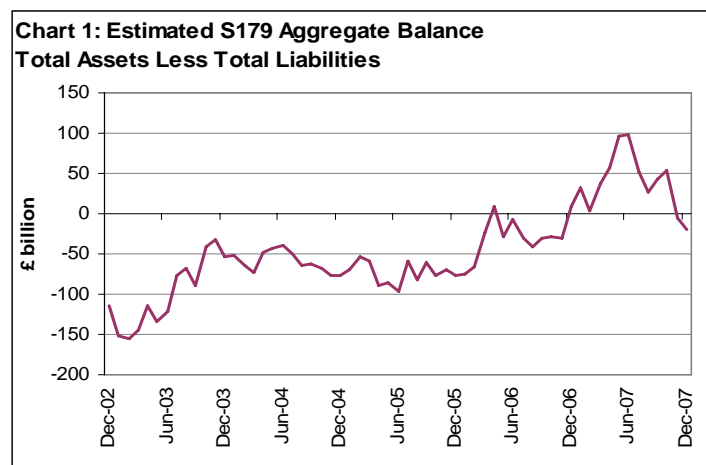
The key factors driving the value of assets of defined benefit schemes at a given time are:

- market fluctuations in asset values
- the returns on investment markets, and
- the choice of asset allocation.

The key factors driving the change in the value of pension scheme liabilities are:

- bond yields
- inflation, and
- longevity assumptions.

With all these factors changing, and deficits being the net of two relatively large numbers, total deficits are very volatile. Indeed, the PPF 7800 index showed a marked deterioration in funding during 2007, a year that was characterised by significant volatility in aggregate scheme funding.



Closure to new members and accruals

Defined benefit schemes continue to close completely. The Purple book 2007 showed a pick-up in the number of schemes closing completely in 2006, with 15% of schemes being closed to future accruals. Significant numbers of schemes have closed to new members (46% of schemes in the Purple book 2007 sample).

We do not believe these developments should affect our assumptions for the period of this plan. We expect that full buy-out funding level is likely to remain beyond the reach of most schemes in the foreseeable future. On a full buy-out basis, there was an aggregate deficit of £401bn for the Purple book 2007 sample as at 30 March 2007, with virtually all schemes in deficit.

Contributions

Figures compiled by the Office for National Statistics demonstrate substantial increases in scheme contributions:

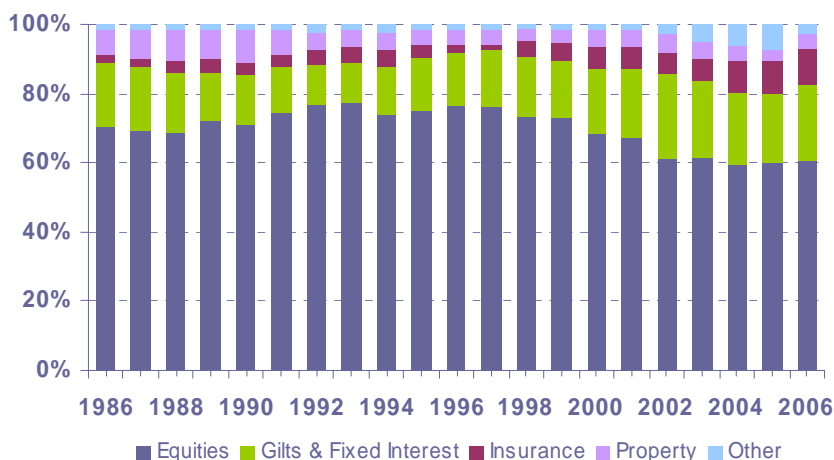
- contributions more than doubled between 2002 and 2007 from £19 billion to £39 billion, mainly reflecting large increases in employers' contributions
- employers' contributions rose from £14 billion in 2002 to £34 billion in 2007 reflecting substantial increases in both normal and special contributions of £10 billion and £9 billion
- employers' special contributions almost quadrupled over the period to £13 billion, while normal contributions almost doubled to £21 billion
- employees' contributions rose from £5 billion to £6 billion between 2002 and 2007.

Schemes in the Purple book sample had made £9 billion in deficit reduction contributions by 4 April 2007 (in addition to those built into the assets of the latest scheme valuation).

Asset allocation

Data from the UK statistics authority shows that schemes continued to disinvest from equities in 2006, although the share of equities in scheme portfolios saw little change because of strong market performance during 2006. The Purple book 2007 showed a small fall in the share of equities in total assets from 61% to 60%, with the share of gilts and fixed interest rising from 28% to 29%.

Asset Allocation By % Share and Asset Class



Source: Office of National Statistics

Although equities continue to dominate portfolios overall, Purple 2007 shows a tendency for the proportion of assets held in gilts and fixed interest to rise as scheme maturity increases, while there is a greater preference for fixed income assets among larger and well-funded schemes.

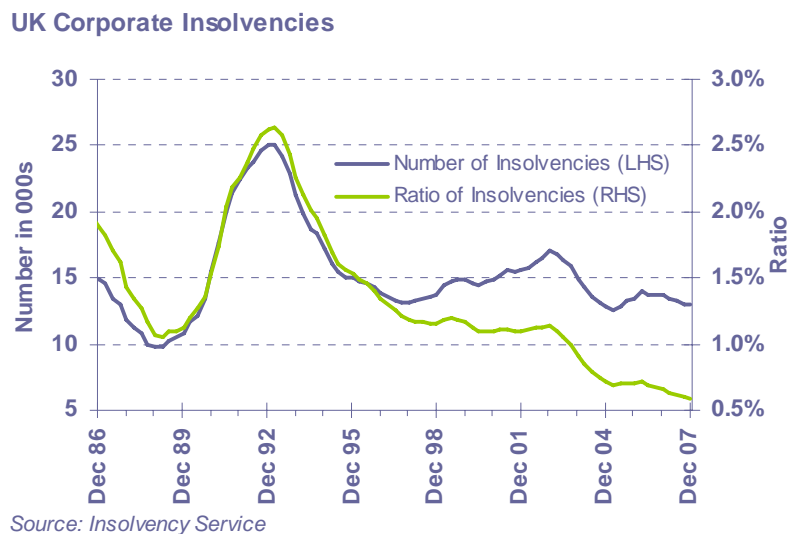
There has also been a greater interest in both liability driven investing (LDI) and liability matching from pension schemes and, in late 2007, we undertook a survey of LDI usage among large DB schemes. The results are now available on our web site and have enhanced our understanding of the level and timing of risk mitigation being undertaken by the pensions industry. We have provided a link to the results in the further reading section at the end of this plan.

Together, the increasing use of less volatile asset classes such as gilts and fixed interest and the increased use of derivatives to better manage interest rate risk suggest the risks posed to the PPF may become less volatile; particularly as schemes mature.

4.3 Corporate insolvency

Our own claims experience will, in time, allow us to estimate insolvency rates for companies with defined benefit schemes. In the meantime, the latest Purple book identified that 61% of schemes had sponsors in the four lowest insolvency risk groups (with a one-year ahead probability of insolvency of 0.4% or less), while only 2.3% of schemes had sponsors in the worst insolvency group (with a one-year ahead insolvency probability of more than 3.5%).

Based on insolvency service data, only 0.6% of active companies went into liquidation in the twelve months ended Q4 2007, the same as the previous quarter and the corresponding quarter of 2006. The graph below illustrates the steady downward trend in UK corporate insolvency rates in recent years.



While insolvencies have been on a downward trend, recent turbulence in financial markets, together with an expected slowdown in UK economic growth, is likely to result in higher corporate insolvencies in the next twelve months. Some indicators of credit risk (such as credit default swap (CDS) spreads and Moody's estimated default frequencies (EDFs)) are currently showing a higher likelihood of corporate distress.

The population of eligible defined benefit schemes is sponsored by public companies, private companies and small and medium sized enterprises (SMEs), which all pose very different risks to the PPF. There is likely to be a steady stream of SMEs becoming insolvent in any year, representing the majority of claims on the PPF by scheme numbers but contributing less in terms of claim size. This may be exacerbated should the economic environment deteriorate significantly, but may only feed through during 2009.

4.4 Updated Volumetric assumptions

The table below sets out the baseline volumetric assumptions used by the management in developing our headcount and resource plans.

For years ending:	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11
Receipt of notices of qualifying insolvency events from insolvency practitioners or trustees	1,813	1,800	1,800	1,800
New cases entering assessment in the year	95	90	90	90
Cases transferring to the Pension Protection Fund	32	94	80	80
Cases rescued or buying out in the year	14	10	10	10
Number of cases in assessment at year end	225	211	211	211
Indicative members in assessment at year end	118,692	80,000	75,000	75,000
Indicative cumulative members in compensation	12,131	70,000	100,000	130,000
Total members in assessment or in compensation	130,823	150,000	175,000	205,000

A case is our basic unit of work. It can represent a single employer scheme, a multi-employer scheme, a section of a scheme, a segment of a section of a scheme depending on the underlying scheme structure.

The very low ratio of cases accepted into assessment compared to the estimated insolvency notices received is because most insolvency notifications we received involved defined contribution schemes, stakeholder plans and other pension arrangements which are not eligible for compensation.

The assumption on the number of cases entering assessment is based on our experience to date.

These estimated volumes have been used to calculate staff resources. For example, the assumption is that each Assessment Team member will handle between 15 and 25 cases at any one time, based on their developing knowledge and experience. The estimates of transfers have also been used to forecast the costs of compensation administration.

In light of the low volume of cases processed by the former Pensions Compensation Board between 1997 and 2005, and our experience to date, we have assumed that we will not receive many, if any, fraud compensation claims in the three years ending 31 March 2011.

5. Summary of key strategic actions between 2008 and 2011

The table below describes the activities we believe to be key in the planning period to achieve the PPF's vision, mapped onto our critical success factors.

Success factor	2008/09	2009/10	2010/11
Confidence and consensus building	<p>Make direct payments to scheme members</p> <p>Enhance the effectiveness of the assessment processes and transfer schemes to the PPF</p> <p>Develop the PPF website</p>	<p>Make direct payments to scheme members</p> <p>Effectively transfer relevant schemes to the PPF</p> <p>Implement changes following outcome of benefit equalisation</p> <p>Timely and relevant communication to all stakeholders</p>	<p>Make direct payments to scheme members</p> <p>Effectively transfer relevant schemes to the PPF</p> <p>Review administrator appointment</p> <p>Timely and relevant communication to all stakeholders</p>
Risk management and early warning systems	<p>Appoint insolvency risk information provider</p> <p>Estimate 2009/10 levy</p> <p>Review the PPF's long-term investment strategy and effectively manage the PPF's investment portfolio</p> <p>Maintain a robust financial risk management framework to measure, monitor and manage the risks to the PPF</p>	<p>Appoint specialist fund manager and custodian appointments</p> <p>Effective management of the PPF's investment portfolio in accordance with the Statement of Investment Principles</p> <p>Maintain a robust financial risk management framework to measure, monitor and manage the risks to the PPF</p>	<p>Appoint specialist fund manager</p> <p>Effective management of the PPF's investment portfolio in accordance with the Statement of Investment Principles</p> <p>Maintain a robust financial risk management framework to measure, monitor and manage the risks to the PPF</p>
Encouraging strong levels of scheme funding	<p>Develop the capability of the levy invoicing process and accurately levy schemes</p> <p>Build industry consensus on the long-term development of the risk based levy by consulting on the 2010/11 levy, considering additional incentives</p> <p>Consult on benefit equalisation</p>	<p>Implement and collect the 2009/10 risk based levy</p> <p>Ongoing levy consultation</p>	<p>Implement and collect the 2010/11 risk based levy</p> <p>Ongoing levy consultation</p>

6. Business Plan 2008/09

6.1 Introduction

This business plan covers the financial year 2008/09 and sets out how we intend to achieve the strategic objectives set by the Board. Our focus in 2008/09 will be:

- Sharing the levy more fairly
- strengthening our financial resilience by developing firm proposals on the long-term risk approach to levies, building on our investment strategy
- working smarter by building on the knowledge we have gained from levy invoicing, and passing schemes through assessment and making paying compensation to members
- delivering a more robust technology platform to support IT applications and infrastructure, and
- deepening our relationships with our members and stakeholders.

The following section details the activities planned for 2008/09.

6.2 Manage the funding of the PPF within agreed limits

Activity/Action	KPI/Milestone
Consult on the long-term development of the risk based levy	Complete consultation by 30/09/08
Calculate, invoice and collect the 2008/09 levy	100% by value of 2008/09 levy billed by 31/03/09 where we have scheme return information 90% by value of uncontested levy collected and invested in line with the SIP by 31/03/09 95% by value of uncontested levy collected by 30/06/09
Review the PPF's long-term investment strategy	Revised strategy agreed and a new Statement of Investment Principles published by 31/12/08
Effective management of the PPF's investment portfolio in accordance with the Statement of Investment Principles	Achieve investment performance targets set out in the Statement of Investment Principles
Maintain a robust risk management framework to measure, monitor and manage the risks to the PPF	Investment Committee to formalise the financial risk management framework by 30/06/08
Monitor closely the risk profile of those schemes that represent the greatest risk to the PPF	<ul style="list-style-type: none"> • Make appropriate policy recommendations to the Board as to possible actions that might be taken to mitigate the risks identified • Liaise with the Pensions Regulator to exchange data, intelligence and agree actions • Report regularly to the Board
Maximise pension scheme recoveries	Achieve a recovery rate expressed as a percentage of debt for schemes transferring to the PPF that exceed the relevant industry norms

6.3 Contribute to building confidence in pensions

Activity/Action	KPI/Milestone
Ensure members of schemes entering the PPF receive clear communication on compensation and understand both the role and processes of the PPF	85% of members transferring to the PPF received clear communications from the PPF about their compensation *
Communicate proactively with levy payers, opinion formers (including media) and Parliament to explain the issues facing the PPF and to develop consensus on action to be taken	80% of stakeholders feel that the PPF is fulfilling its main role and objectives *

* benchmarked using the results of the independent 2008 PPF Stakeholder Perception Audit

6.4 Pay the right people the right compensation at the right time

Activity/Action	KPI/Milestone
Collect the information necessary to ensure prompt and cost-effective validation of s.120 statutory notices confirming an assessment period	A minimum of 90% of s.120 notices validated within 28 days of receipt of complete information
Develop the s.120 processes (including greater automation and online input to improve effectiveness)	<ul style="list-style-type: none"> At least 90% of s.120s for defined contribution schemes rejected automatically by 31/12/08
Implement the detailed assessment process developed in 2007/8	<ul style="list-style-type: none"> Trustee guidance updated and delivered by 30/06/08 Technical guidance on the website fully updated by 31/03/09 Workshops completed by 30/09/08 Production version of case tracker (IT application to track cases through assessment) completed by 31/03/09
Provide an effective scheme and member assessment process with capacity to absorb a degree of volatility in demand	<ul style="list-style-type: none"> 100% of schemes to have a project plan for the assessment period agreed with the scheme trustees within three months of a qualifying insolvency event being validated A minimum of 75% of pension schemes to complete the assessment period in accordance with the prescribed timescale set out in the project plan Assessment to be completed for both 75% of schemes and 75% of scheme members within two years [except where delays are due to the implementation of benefit equalisation or legal issues not controllable by the PPF]
Consult on the PPF's proposed approach to benefit equalisation	Consultation concluded and policy finalised by 31/12/08

Activity/Action	KPI/Milestone
Develop the processes around the s.143 valuation for schemes in assessment with the aim of significantly shortening the process without unduly compromising quality	<ul style="list-style-type: none"> Evaluate all options including automation for s.143 valuation by 30/06/08
Implement an enhanced member data cleaning approach to significantly improve the completion by trustees of assessment to plan	Full implementation by 31/03/09
Operate an efficient and cost-effective compensation payment mechanism, dealing promptly, fairly and openly with corrections and adjustments to compensation as needed	<ul style="list-style-type: none"> Minimum of 75% of members are satisfied with service supplied by Capita as measured in the annual PPF stakeholder perception audit Compensation administration costs per member lower than the average for pension schemes as measured by annual Watson Wyatt survey Errors and undue delays to payments should be less than 1% of total payments and properly compensated when discovered
Ensure timely investigation, resolution and settlement of Fraud Compensation Scheme cases	100% of fraud compensation cases to be cleared within six months of completion of any external investigation

6.5 Invest in staff expertise to deliver the Board's functions

Activity/Action	KPI/Milestone
Further develop the PPF's reward strategy to enable recognition of excellent performance	<p>Minimum 70% of staff say that "all things considered the rewards I receive reflect my performance" [from staff survey]</p> <p>Revised performance and reward processes implemented by 31/12/08</p>
Maintain the PPF's high performance culture through human resource strategies and policies that promote fairness and equality	<p>Minimum 75% of staff who say that "all things considered I am happy with my job" [from staff survey]</p> <p>Unplanned leavers no greater than 15% on a 12 month rolling average</p> <p>Absence due to short term sickness no greater than 2%</p>
Implement and maintain a leadership development programme that stretches the most talented performers within the PPF and wherever possible provides succession for key roles	Programme implemented by 30/09/08

6.6 Ensure two-way communications with stakeholders is effective

Activity/Action	KPI/Milestone
Deliver an effective communications programme, maximising use of technology where appropriate	At least 75% of stakeholders agree that the PPF communicates effectively through all communication channels*
Perform an annual perception audit to: <ul style="list-style-type: none"> • assess the views and opinions of our stakeholders • determine their preferred channels of communication • gauge the extent to which the information provided is trusted, and • determine what could be done to increase credibility 	Findings reviewed and incorporated into the annual communications strategy and plan by 30/06/08
Operate an effective stakeholder support team (SST) to ensure that high standards of customer service are delivered and sustained	70% of respondents that use the SST service felt that they were handled in a professional and helpful way*
Maintain and develop the PPF website ensuring that it meets the information needs of our diverse stakeholder audiences	70% of respondents perceived the website as an effective communications channel*
Review and update the PPF strategic plan	Publish plan by 31/12/08

*benchmarked using the results of the independent 2008 PPF Stakeholder Perception Audit

6.7 Achieve high levels of stakeholder satisfaction in respect of professionalism, policies, processes and helpfulness

Activity/Action	KPI/Milestone
Enhance the provision of financial management information	Implement revised reporting pack by 30/09/08
Deliver a more robust IT environment that has the capacity to meet current business needs and the flexibility to develop future changes	Enhanced levy system delivered by 31/08/08 Enhanced IT infrastructure in place by 31/12/08 s.120 automation delivered by 31/12/08 Automation of assessment processes by 31/03/09 LTRM migrated to a more robust platform by 31/03/09
Ensure levy invoices are issued accurately	Enhanced data collection and levy invoicing processes in place by 31/08/08 No more than 5% by volume of credit notes issued against 08/09 levy invoices excluding D&B appeals
Clearly communicate the PPF's requirements in respect of the assessment process to trustees and scheme administrators	75% positive feedback from trustees and scheme administrators about how clear we make our requirements know and how much support we provide
Work closely and effectively with stakeholders to maximise pension scheme recoveries	Positive feedback from stakeholders on engagement and negotiations
Effectively manage the levy reviews and appeal process	100% of PPF decisions upheld by the Ombudsman

7. Updated financial plan and budget

7.1 DWP and Grant in aid

We submitted an initial budget for the financial year 2008/09 to the Department for Work and Pensions in September 2007 to enable Regulations to be laid before Parliament in respect of the administration levy raised by the Secretary of State for Work and Pensions.

Together with the DWP, the PPF regularly reviews current financial performance, and the impact of current developments on future years' expenditure. The financial plan reproduced below reflects the most up-to-date forecast of expenditure for 2008/09, reviewed with DWP in February 2008.

Our operating and capital expenditure are funded by grant in aid drawn down from the DWP. Grant in aid is in turn financed by the PPF administration levy raised by the DWP on eligible pension schemes.

7.2 Resource forecast

The table below sets out the expenditure estimates for the three year period covered by this strategic plan, together with the latest forecast numbers for 2007/08.

Our staffing is unlikely to level out until March 2009 because we anticipate that our operations will grow – and our processes and systems will mature. We will focus investment in our resources and capabilities on recruiting extra skilled staff and automating processes, particularly for the assessment period and levy invoicing operations.

Our administration fund unit costs will continue to fall when measured on a per member basis due to higher compensation activity and increased operational efficiency. Regulations came into force on 1 April 2008 permitting the outsourced compensation costs to be charged to the assets of the Fund.

All figures £'000	Forecast expenditure 2007/8	Admin Levy Budget 2008/9	Management Plan 2009/10	Management Plan 2010/11
Salary and related costs	9,780	10,561	11,000	11,300
Training, development and recruitment	584	661	600	600
Travel and meetings	134	439	450	465
Accommodation / general office costs	1,256	1,559	1,650	1,700
Communications and publications	180	232	300	300
Consultancy and advisory services	2,379	3,158	3,500	3,500
IT and telecommunications services	1,348	1,591	1,600	1,650
Other outsourced services	732	445	500	500
Depreciation	790	1,301	1,500	1,250
Total resource requirement ex outsourced compensation	17,183	19,947	21,100	21,265
Outsourced compensation ³	350			
Total resource requirement	17,533	19,947	21,100	21,265
Outsourced compensation ⁴		2,028	3,000	4,000
Adjusted resource requirement	17,533	21,975	24,100	25,265

Capital Expenditure	1,200	720	1,000	1,000
Resource requirement unit cost per member transferred or in assessment	£134 ⁵	£133	£121	£104

7.3 Cost drivers

We have developed budgetary controls and management supervision to manage costs within funding limits, including the enhanced financial reporting system that will be live in 2008/09. But, our costs are driven in a number of areas by events that are difficult to forecast and control, such as insolvencies. That is why we have designed the planning process to deliver a “most-likely” case financial forecast, the drivers of which are outlined below.

Salary and related costs

Salary and related costs are budgeted at 48% of our overall administration costs in 2008/09, a lower percentage than 2007/08. This downward trend will continue into the plan period and demonstrates improved operational efficiency and the benefits of automation as more members enter assessment and compensation.

³ Up to and including 2007/08 these costs were borne by and are shown within the administration budget

⁴ From 2008/09 these costs will be borne by the Pension Protection Fund

⁵ Adjusted for changes in outsourced compensation treatment

The growth in salary and related costs from 2007/08 to 2008/09 is substantially due to annualising the salaries of staff joining in late 2007. Total numbers (including permanent, full time, part time, non-executive and contractors) are expected to rise only marginally in 2008/09 from a forecast of 160 at the beginning of the year to 165 by year-end and to then stabilise as process and systems enhancements mature.

External expenditure

Significant parts of our external expenditure are on fixed or inflation-linked contract terms, e.g. accommodation costs, IT-managed service costs. These have been forecast and budgeted for in accordance with the relevant agreements.

Outsourcing

We recognise the value of using third party providers of goods and services, when they deliver better economy, greater efficiency and/or more effective control than in-house provision. In these situations, the providers of outsourced and advisory services play a key part in our strategic objectives. Our strategy with key suppliers is to actively manage these partnerships.

Our procurement and contract management strategy supports our business objectives and efficiency challenges, enabling it to achieve the best value for money for goods and services and add value to our activities.

Cost advantages, economies of scale and technology required to deliver an efficient and effective service favoured outsourcing compensation administration for the first few years at least. Substantial work has now been completed to integrate our supplier Capita's processes with our own and this will continue. However, the decision to outsource across all our operations will be reconsidered from time to time.

Capital expenditure

Forecast capital expenditure for 2008/09 is £0.7m compared with a provisional outturn of £1.2m for 2007/08. Expenditure in 2008/09 will focus on the development and enhancement of IT systems supporting levy and assessment functions.

Risk assessment and risk management

We will continue to invest in the modelling work that supports our proposals for the risk-based levy, and we are committed to consulting annually on these proposals. Modelling work will be enhanced by the availability of more comprehensive data on individual schemes, backed by market reports, economic analysis and early warning information about sizeable pension schemes at risk. Progression from the existing basis of risk-based levy calculation to a new long-term method is scheduled for 2010/11 but we will need to conduct much of the preparatory work during 2008/09.

7.4 Interaction between the pension protection levy and administration levy

We believe there is a strong correlation between our intellectual capital and our stability. Investing in the development of this capacity (funded through the administration levy) will result in a more stable, transparent and acceptable protection levy.

Specifically, we are investing in risk management and modelling to generate better informed decision making. The Purple book was an early prize for this effort, and helps to achieve greater transparency about the nature and types of risks across the pensions industry. This should encourage innovation and the further development of markets products and solutions.

We believe that the resources and capabilities allocated to these tasks should provide greater confidence to stakeholders about the quality, competence and professionalism of PPF publications, calculations and levies. We are working with the Pensions Regulator to pool resources, where practical, to minimise the overall administrative burden on pension schemes to support their activities.

The net impact of these activities should mean better quality data and greater transparency. The ability to apply sophisticated modelling techniques will mean that the most important things making an impact on the pensions' landscape can be better modelled, leading to a levy that represents the most appropriate level of risk.

Further Reading

The following documents provide further detail on aspects of the PPF and provide further detail on aspects of our strategy

[Factsheet - The Pension Protection Levy Policy for 2008-09 to 2010-11](#)

[Consultation on the Future Development of the Pension Protection Levy](#)

[Modelling Uncertainty - An Introduction to the PPF Long-Term Risk Model](#)

[Strategic Plan 2006/07 - 2008/09](#)

[The Purple Book 2007](#)

http://www.pensionprotectionfund.org.uk/ppf_investment_strategy_and_ldi_survey.pdf

[Statement of Investment Principles](#)

[Report & Accounts 2006/07](#)

[PPF 7800](#)

Pension Protection Fund

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