PPF 7800 Index

31 August 2016

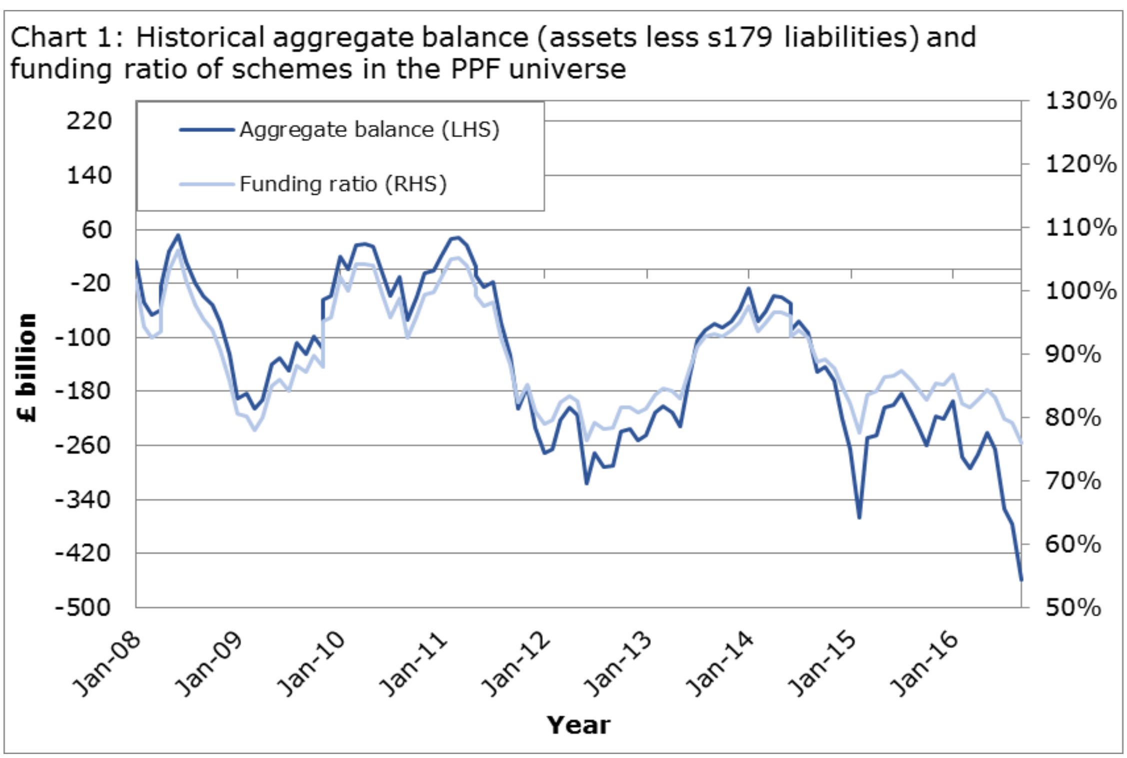
This update provides the latest estimated funding position, on a section 179 (s179) basis, for the defined benefit schemes potentially eligible for entry to the Pension Protection Fund (PPF). A scheme's s179 liabilities represent, broadly speaking, the premium that would have to be paid to an insurance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

This month we have revised our estimates of the historic asset figures between April 2015 and July 2016, raising their values by approximately 2 per cent. For further details, please see Note 1.

Highlights

- The aggregate deficit of the 5,945 schemes in the PPF 7800 Index is estimated to have increased over the month to £459.4 billion at the end of August 2016, from a deficit of £376.8 billion at the end of July 2016 (previously shown as £408.0bn).
- The funding ratio worsened from 79.2 per cent (previously shown as 77.4 per cent) to 76.1 per cent.
- Total assets were £1,459.7 billion and total liabilities were £1,919.1 billion.
- There were 5,042 schemes in deficit and 903 schemes in surplus.

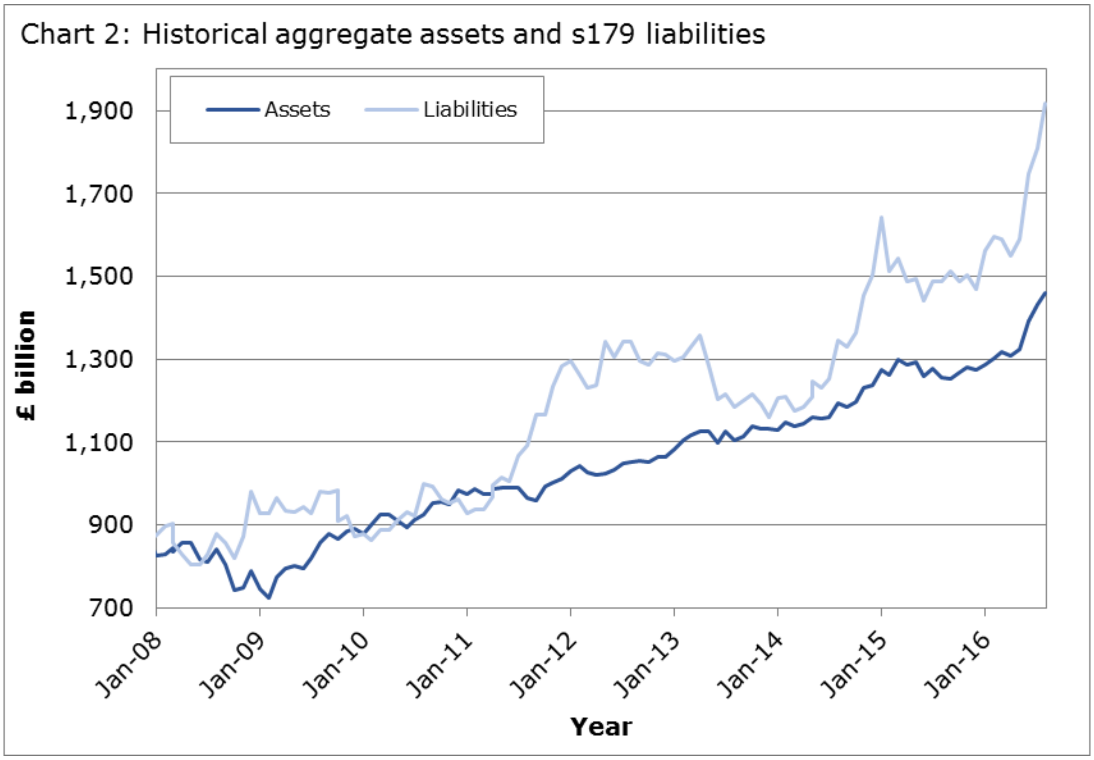
http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_underlying_data.pdf



The schemes in the universe

The aggregate deficit (total s179 liabilities minus total assets) of the schemes in the PPF 7800 Index is estimated to have increased to £459.4 billion at the end of August 2016, from £376.8 billion at the end of July 2016. The position has worsened from the previous year, when a deficit of £233.3 billion was recorded at the end of August 2015.

The funding ratio (assets as a percentage of s179 liabilities) of schemes decreased over this month from 79.2 per cent to 76.1 per cent at the end of August 2016. The funding ratio is lower than the 84.3 per cent recorded in August 2015.



Within the index, total scheme assets amounted to £1,459.7 billion at the end of August 2016. Total scheme assets increased by 1.9 per cent over the month and increased by 16.2 per cent over the year. Total scheme liabilities were £1,919.1 billion at the end of August 2016, an increase of 6.1 per cent over the month and an increase of 28.8 per cent over the year.

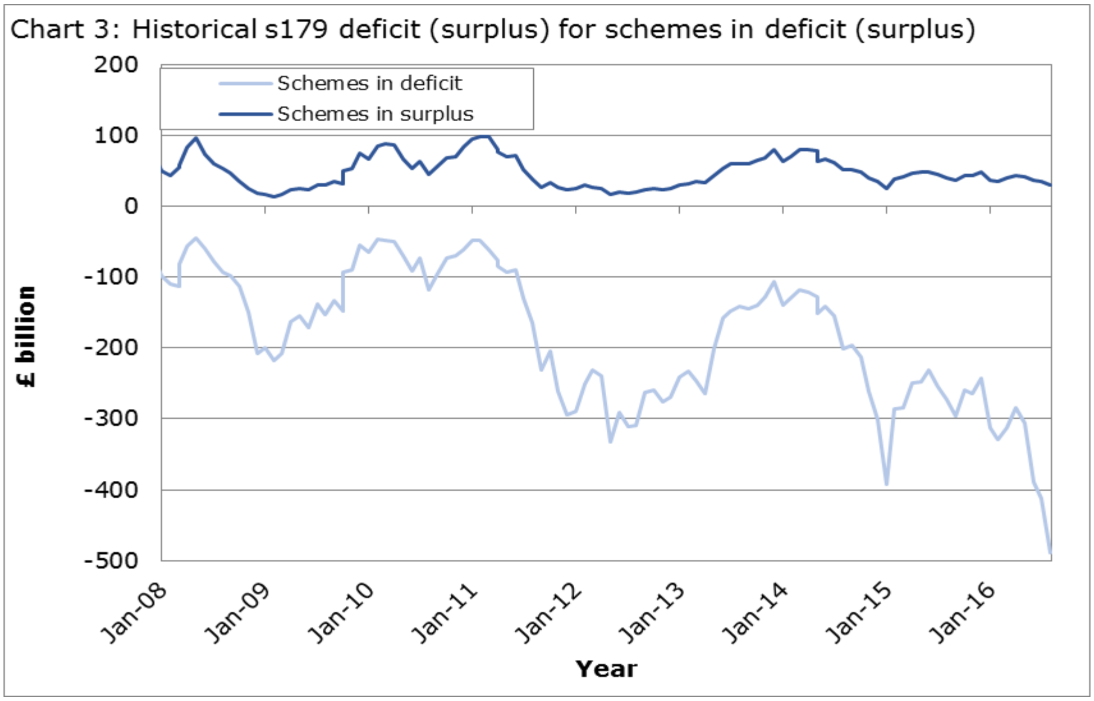
Funding Comparisons

	August 2015	July 2016	August 2016
Aggregate balance	-£233.3bn	-£376.8bn	-£459.4bn
Funding ratio	84.3%	79.2%	76.1%
Aggregate assets	£1,256.4bn	£1,432.2bn	£1,459.7bn
Aggregate liabilities	£1,489.6bn	£1,808.9bn	£1,919.1bn

Schemes in deficit and surplus

The aggregate deficit of all schemes in deficit at the end of August 2016 is estimated to have increased to £489.3 billion from £412.2 billion at the end of July 2016. At the end of August 2015, the equivalent figure was £273.4 billion.

At the end of August 2016, the total surplus of schemes in surplus decreased to £29.9 billion from £35.4 billion at the end of July 2016. At the end of August 2015, the total surplus of all schemes in surplus stood at £40.2 billion.

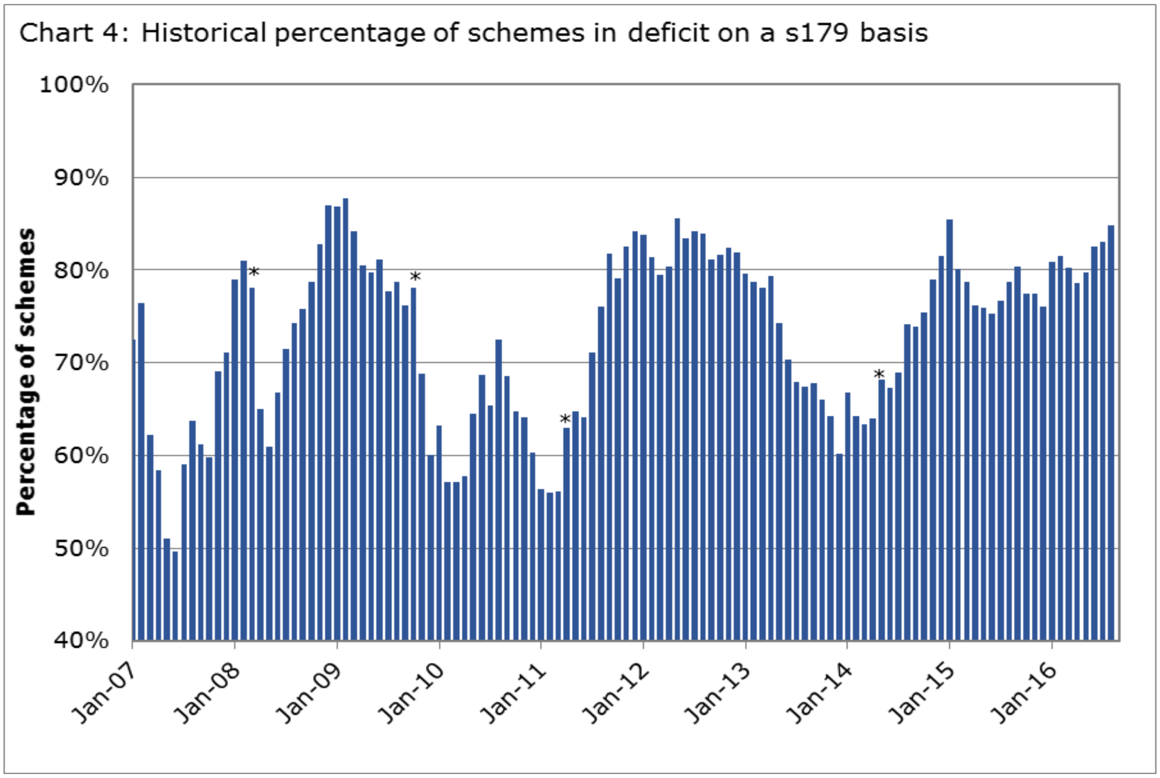


The number of schemes in deficit at the end of August 2016 increased to 5,042, representing 84.8 per cent of the total 5,945 defined benefit schemes. There were 4,936 schemes in deficit at the end of July 2016 (83.0 per cent) and 4,678 schemes in deficit at the end of August 2015 (78.7 per cent).

The number of schemes in surplus dropped to 903 at the end of August 2016 (15.2 per cent of schemes) from 1,009 at the end of July 2016 (17.0 per cent). There were 1,267 schemes in surplus at the end of August 2015 (21.3 per cent).

Schemes in deficit (surplus)

	August 2015	July 2016	August 2016
Number of schemes in deficit	4,678	4,936	5,042
Deficit of schemes in deficit	£273.4bn	£412.2bn	£489.3bn
Number of schemes in surplus	1,267	1,009	903
Surplus of schemes in surplus	£40.2bn	£35.4bn	£29.9bn
Number of schemes in universe	5,945	5,945	5,945



**Note:* the changes to assumptions in March 2008 and October 2009 reduced the number of schemes in deficit by 412 (5.6 per cent) and 566 (8.5 per cent) respectively, while the changes to assumptions in April 2011 and May 2014 raised the number of schemes in deficit by 107 (1.7 per cent) and 259 (0.8 per cent) respectively.*

Understanding the impact of market movements

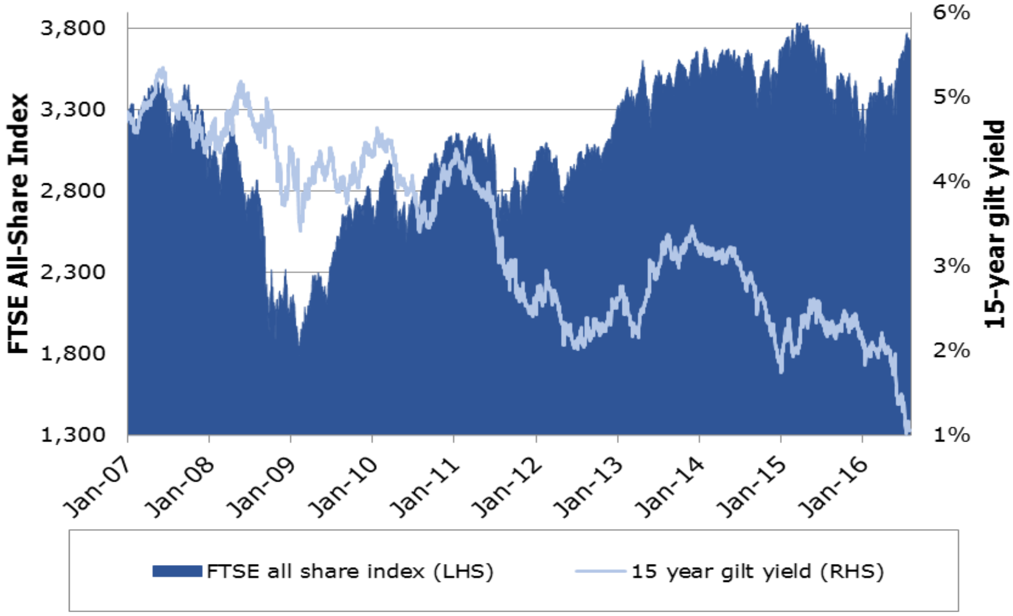
Equity markets and gilt yields are the main drivers of funding levels. Scheme liabilities are sensitive to the yields available on a range of conventional and index-linked gilts. Liabilities are also time-sensitive in that, even if gilt yields were unchanged, scheme liabilities would increase as the point of payment approaches.[1] The value of scheme assets is affected by the change in prices of all the major asset classes, not just equity markets. However, due to their weight in asset allocation and volatility, equities and bonds are the biggest drivers behind changes in scheme assets; bonds have a higher weight in asset allocation, but equities tend to be more volatile.

Over the month of August 2016, liabilities increased by 6.1 per cent. Conventional 15-year gilt yields fell by 21 basis points, while index-linked 15-year gilt yields fell by 39 basis points. Assets rose by 1.9 per cent in August 2016 mainly reflecting the impact of much higher gilt prices. The FTSE All-Share Index rose by 1.2 per cent over the month.

Over the year to August 2016, 15-year gilt yields were down by 126 basis points, while index-linked 15-year gilt yields were down 93 basis points. The FTSE All-Share Index increased by 7.6 percentage points over the year.

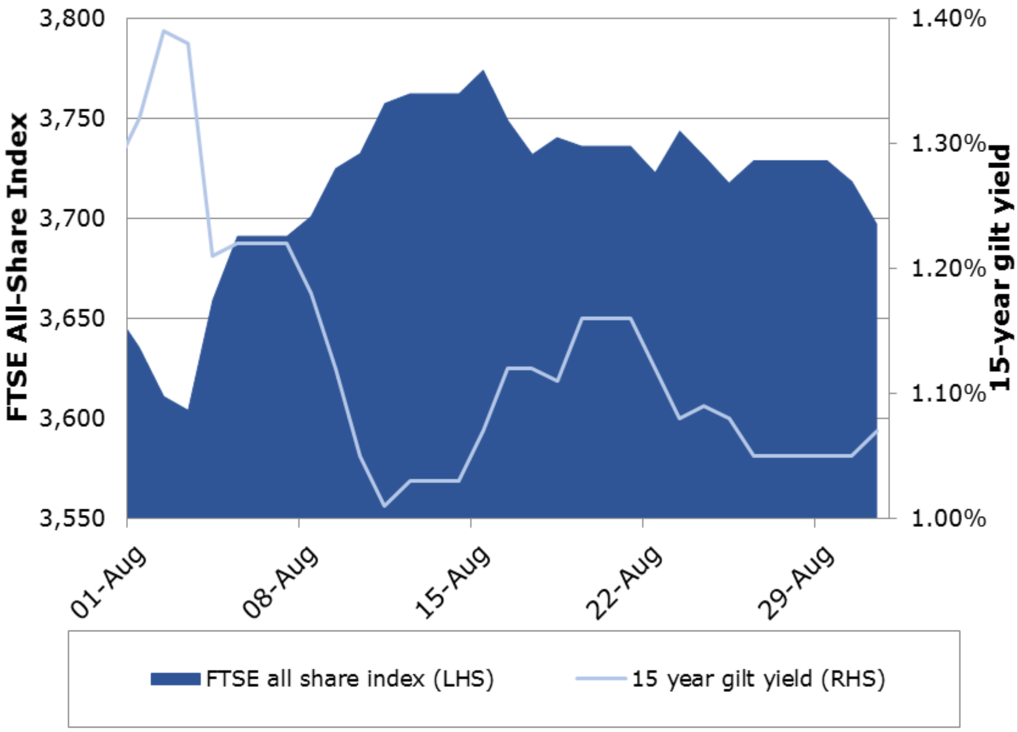
[1] This effect amounts to around 0.1 per cent a month in the current environment of low yields.

Chart 5: FTSE all share index and 15-year gilt yields



Source: Bloomberg

Chart 6: FTSE all share index and 15-year gilt yields



Source: Bloomberg

Notes

1. Revision of Asset Values from April 2015 to July 2016

We have revised our estimates of the historic scheme asset values between April 2015 and July 2016. This follows a review of the PPF7800 dataset. For the period between April 2015 and July 2016, we believe the estimate of scheme assets has been understated by approximately 2%, equivalent to £31.2 billion at July 2016. All charts and tables from April 2015 to date have been revised accordingly.

For information related to the number of schemes in deficit or surplus in each month and their respective total assets, total liabilities, aggregate balance and funding ratio figures, please see the underlying data summary, published every month, along with the PPF7800 Index publication:

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_underlying_data.pdf

2. The PPF universe

The PPF covers certain defined benefit occupational schemes and DB elements of hybrid schemes. For more information about eligible schemes see 'eligible schemes' on the PPF's website at

http://www.pensionprotectionfund.org.uk/About-Us/eligibility/Pages/Eligibility.aspx

3. PPF compensation

For individuals who have reached their scheme's normal pension age or are already in receipt of a survivor's pension or pension on the grounds of ill health, the Pension Protection Fund will generally pay compensation at the 100 per cent level, i.e. these members will not suffer any reduction in retirement income when their scheme sponsor goes insolvent. For the majority of people below their scheme's normal pension age the Pension Protection Fund will generally pay compensation at the 90 per cent level. This is subject to a cap which is currently equal to £32,761.07 at age 65, after the 90 per cent has been applied. Increases in future payments for members may not be as much as they would have been under their pension schemes. For more information about PPF compensation see the PPF's website at:

http://www.pensionprotectionfund.org.uk/Pages/Compensation.aspx

4. s179 assumptions

On 1 May 2014, the Pension Protection Fund updated its valuation assumption guidance for both s179 and s143 valuations. The impact of the change was to raise liabilities by 3.2 per cent and reduce the aggregate balance by £39.2bn. The assumptions had previously been revised in March 2008, October 2009 and May 2011. The impact was to improve the aggregate balance by £35.6 billion, £74.1 billion and reduce it by £16.3 billion respectively.

5. s179: one of many different funding measures

s179 is one particular measure of funding. The change in the deficit of schemes in deficit on a s179 basis is an illustration of the impact of changes in financial markets on the Pension Protection Fund's total exposure. Schemes in surplus on a s179 basis at the time of insolvency usually do not enter the Pension Protection Fund.

In addition to s179, there are many different measures of a scheme's funding position. Among the other common measures are full buy-out (what would have to be paid to an insurance company for it to take on the payment of full scheme benefits), IAS19 or FRS17 (the measures used in UK company accounts), and technical provisions (that used in the regulator's scheme funding regime). The different measures can give very different levels of scheme funding at any point in time and move very differently over time. For more details see the Purple Book 2015.

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/purple_book_2015.pdf

6. Methodology

The figures shown in the charts are based on adjusting the scheme valuation data supplied to the PPF as part of their annual scheme return. This data is transformed on a s179 valuation basis at various dates using changes in market indices for principal asset classes. Conventional and index-linked gilt yields are used to value liabilities. The approximation does not allow for benefit accrual or outgo, contributions paid or actual scheme experience. No account is taken of schemes hedging using derivatives.

7. Estimating the impact of changes in market conditions on the Funding Index

We have developed a number of 'rules of thumb' to estimate the impact of changes in asset prices on scheme assets and s179 liabilities. A 7.5 per cent rise in equity markets boosts s179 assets by 2.5 per cent while a 0.3 per cent rise in gilt yields reduces scheme assets by 1.6 per cent. Meanwhile, a 0.3 per cent rise in gilt yields reduces scheme liabilities by 5.9 per cent. The rules of thumb strictly speaking only apply to small changes from the 31 March 2015 level. For more information see Chapter 5 of the Purple Book 2015.

8. Moving to the Purple 2015 dataset

In November 2015 we moved to a dataset consistent with the Purple Book 2015 covering 5,945 schemes. The Purple 2015 dataset is estimated to include over 99 per cent of liabilities of PPF eligible schemes. The impact of the change was to improve the funding ratio at October 2015 by 0.9 percentage points and the aggregate balance by £18.1bn. The aggregate balance as at October 2015 was -£244.4bn (83.6 per cent funded) compared with -£262.5bn (82.7 per cent funded) using the old dataset. Taking out schemes in assessment reduced the aggregate deficit by just over £2.0bn as at 31 March 2015. The remaining improvement in funding was a result of more up-to-date information.

9. Changes to the charts

The charts in the PPF7800 release had shown the impact of market movements and changes in actuarial assumptions on the latest Purple dataset with its current funding level. We have now moved to using the funding positions recorded in March of each year in the Purple Book. The charts also, therefore, reflect changes in deficit reduction contributions and the schemes in the universe as well as the impact of changes in financial markets and actuarial assumptions. The picture from the two is very similar for recent years but the previous approach are a misleadingly favourable picture of the funding position for earlier years. The monthly profiles between March of one year and February of the next are obtained by rolling forward the assets and liabilities using movements in nominal and real gilt yields and equity markets.

The PPF 7800 is produced in accordance with the UK Statistics Authority Code for official statistics which came into force in February 2009.

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