Pension Protection Fund

STRATEGIC PLAN 2015

Contents

Foreword

The PPF has now been providing protection to pension scheme members for ten years, a significant milestone. In what is still, in the life of a pension scheme, a very short period of time, we have moved from start-up to our current position as an established part of the pensions landscape.

The PPF itself has gone from strength to strength over that period. We now have over 200,000 transferred members, have reduced the time spent winding up schemes to an average of 18 months and have in excess of £20bn of assets under management.

However we know we still have a long way to go, and a lot can happen between now and achieving the target we have set ourselves of being self-sufficient by 2030.

And importantly, we know also that whilst we are in the midst of a new pensions revolution which will see new freedoms and new opportunities for pension savers, a great many of the challenges that existed in 2005 remain – scheme funding levels today are little changed from the levels disclosed in our first Purple Book, despite ten years of contributions.

Our plans for the period covered by this plan are about making sure we are equipped to meet those remaining challenges and to ensure we can use our growing size, capability and skill to provide confidence, certainty and excellent customer service to our members and stakeholders in the future.

During the year major developments in our approach to the levy and customer experience will be implemented, both of which will deliver significant improvements in their PPF experience to different groups of our key stakeholders.

We will also continue to seek improvements in our operating model: to press for shorter assessment periods, to obtain better data and information, and to refine our investment model as we seek to maintain strong investment returns within a robust risk framework.

In doing so we will deliver our vision for the PPF, to protect people's futures.

Alan Rubenstein
Chief Executive

Lady Judge CBE
Chairman

1 About us

1.1 This is what we do

Pension Protection Fund

We protect millions of people who belong to defined benefit, e.g. final salary, pension schemes in the United Kingdom.

If their employers fail, and their pension schemes cannot afford to pay what they promised, we will pay compensation for their lost pensions. Currently, 200,000 pension scheme members have transferred to the PPF and will benefit from the compensation we provide.

Compensation, and the cost of running the PPF, are paid for through levies on eligible pension schemes. We also generate income from our own investments, taking on the assets of schemes that transfer to the PPF – and recovering money, and other assets, from insolvent employers of the schemes we take on.

We are a public corporation, set up by the Pensions Act 2004, run by an independent Board which is responsible to Parliament through the Secretary of State for Work and Pensions.

Fraud Compensation Fund

We also pay compensation to members of pension schemes of all types whose employers fail and whose schemes have lost out financially due to dishonesty.

This compensation is paid for through a separate levy on all pension schemes.

Financial Assistance Scheme

We manage the Financial Assistance Scheme (FAS) on behalf of the Government, which funds it.

The FAS pays financial assistance to people who belonged to certain defined benefit pension schemes which are ineligible for compensation from the PPF – in particular, those which started winding-up between January 1997 and April 2005.

1.2 Our strategic framework

Our staff are united in pursuit of our vision, mission, values and strategic objectives. Our vision will be realised as we fulfil our mission; to do this we must also be successful in delivering our strategic objectives. These are underpinned by the values that all PPF employees share and which drive everything we do.

Vision:

- Protecting people's futures

Mission:

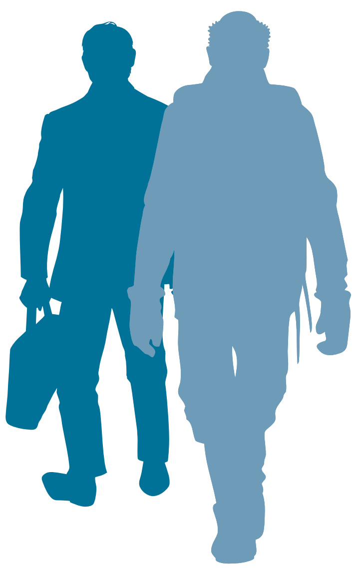
- Pay the right people the right amount at the right time.

Strategic Objectives:

1. **Meet our funding target through prudent and effective management of our balance sheet**
2. **Deliver excellent customer service to our members, levy payers and other stakeholders**
3. **Pursue our mission within a high calibre framework of risk management**

Values:

Integrity	Collaboration	Accountability	Respect	Excellence
'Do the right thing'	'Work as one'	'Own your actions'	'Value every voice'	'Be your best'



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The next three years: 2015-2018

2.1 Our vision of the PPF in 2018

By the end of March 2018, we are widely recognised by our customers and our staff as a high performing Customer Focused Financial Institution.

Change programmes undertaken in previous years have been successfully implemented and we are generating consistently high levels of service and performance. We have developed sophisticated programme management capability and a flexible operating model that has allowed us to adapt effectively to uncertainty and challenges in our external operating environment.

Close to 300,000 members have transferred to the PPF and putting the customer first is at the heart of everything we do. We treat all our customers and stakeholders as though they have a choice in using us. We strive to be at the forefront of best practice, recognising our role in building trust in the UK pensions system as a whole.

Our members are benefitting from member services having been brought in-house, which has ensured we have the control and flexibility to provide members with a service tailored to their needs. Members are consistently reporting that they are receiving excellent customer service. We are nonetheless continuously striving to improve the service that we provide.

PPF staff are commercially astute in a consistent way across all areas of the organisation, making best use of money, time and resource. Our systems and processes give us a clear view of the true cost of our activities and those of the schemes that transfer to us. We understand and demonstrate what 'value' means and use this mind-set to deliver excellent customer service while balancing our costs.

We have a mature investment operation with over £25 billion assets under management yet we are also continuing to grow. Our aspiration of being financially self-sufficient by 2030 remains firmly on track. While there remains ongoing economic uncertainty, our focus continues to be on maintaining stability. We have a good understanding of internal and external risk and are starting to consider strategies to minimise volatility on our balance sheet, while continuing to take advantage of opportunities – such as investment in illiquid assets – made possible by our long-term mission.

We are now running part of our asset management in-house for assets where it is deemed to be more cost efficient, and where having increased control results in more effective decision making. We continue to run a multi-manager approach for assets which are deemed either too expensive to run in-house or where increased control is not necessarily beneficial to the PPF.

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We are transferring schemes where employers have become insolvent in to the PPF more efficiently than ever before. Where necessary we take difficult, risk-based decisions to get scheme assets under PPF control and provide member certainty without compromising data quality.

By operating efficiently, we have driven down the costs borne by our levy payers. They are confident that the PPF is applying its resources effectively and delivering value. As we approach the end of the second triennium of the New Levy Framework, the levy is well understood and our levy payers feel that the amount we collect is predictable and stable. The move to Experian as our insolvency risk provider for the second triennium and a new model for assessing insolvency risk, tailored to the PPF's universe of employers, has made the levy more accurately reflective of the risk posed by individual schemes and provided levy payers with much greater levels of transparency.

The PPF retains its enthusiasm for innovation and creativity, both in its day-to-day operations and in the wider pensions landscape. We work closely with our partners at home and in Europe to identify, develop and be a part of solutions to the complex challenges associated with retirement saving.

The next three years: 2015-2018 continued ...

2.2 How we're going to achieve it

Our operations are built on the strong foundation of our people working efficiently and effectively and communicating what we do, both within the organisation and outside it, thus giving confidence in our ability to deliver our mission.

Our foundations

People

We are proud of our people; they bring a unique range of experiences and professional skills to their work. We have established a working environment that encourages innovation, the sharing of skills and knowledge, and contributes to effective risk management across the organisation.

We are committed to valuing diversity in the workplace to attract and develop talented individuals regardless of their background. We strive to create an inclusive workplace where everyone can achieve their ambitions.

As the scale of our operations continues to grow we need to ensure our people can rise to new challenges and opportunities that present themselves. The increasing size and complexity of the fund, for example, requires a high level of expertise. Additionally, as we bring member services in-house we need to ensure the teams we are building will deliver exceptional customer service. To achieve this our people strategy is focused on ensuring that our people know what is expected of them and are supported to achieve their potential. It will also ensure that we bring the right mix of industry experience into the business whilst developing our existing employees.

To support us in this we measure the views of our employees to understand better how we are doing in helping our people to deliver. During a period of significant change within the organisation, including an internal restructure, our employee engagement rating from the Best Companies survey dropped slightly and we were unable to retain our 'One Star' status. But overall, our results remain strong and we are delighted to have retained our place on the Sunday Times 100 Best Not for Profit Organisations to Work for 2015. We will use the feedback that the survey provides to help us continuously improve and develop our reputation as an employer of choice.

Communications

As an organisation focused on our customers it is hugely important that we communicate effectively with our members and stakeholders and that we actively seek and listen to their views. We will share information openly and transparently including through existing publications such as the Purple Book, the PPF 7800 index and our annual funding strategy. We will also continue to consult widely on key changes, for example, building on the consultations throughout 2014 on our new approach to assessing insolvency risk in the levy.

To ensure we are as accessible and open as possible and that our mission and approach is widely understood, we will continue to use and develop a range of communication channels appropriate to our diverse audiences. This will include face to face meetings, letters, telephone support, customer surveys, our website and other related channels such as social media.

We will also continue to participate in wider debates across the pensions industry using our expertise, experience, data and analysis to engage with Government and industry on issues such as the impact of 'Freedom and Choice' and Defined Ambition.

Efficiency and effectiveness

We must demonstrate to all our stakeholders, including levy payers and members, the efficiency of our processes and that we continually strive to deliver excellent value for money. To achieve this we will create more agile business support functions to better support the growing organisation and ensure that we have robust, efficient change management processes to enable us to achieve our vision for the PPF.

We will enhance our commercial services capability to ensure that our approach to procurement and contract management keeps pace with our increasing size and sophistication and allows us to drive improved value from the PPF supply chain. We will also continue to develop the ways we assess unit costs and efficiencies for all our business services, and deepen our understanding of our own resource and financial expenditure. We want to embed optimising value for money across all of our processes.

To deliver our mission we must meet our critical business objectives, keeping our funding strategy on a steady course, and delivering excellent customer service to our members and levy payers. As a key part of the pension protection regime in the UK, we must ensure we remain at the forefront of effective risk management.

2 The next three years: 2015-2018 continued ...

1. Meet our funding target through prudent and effective management of our balance sheet

Our funding objective is to be self-sufficient, in broad terms, by 2030. 2030 is the point at which our research suggests future claims will be low relative to the size of PPF liabilities. We also anticipate the significance of the pension protection levy will have substantially diminished by that time.

In our 2014 Funding Strategy Update and 2013/14 Annual Report and Accounts we reported a surplus of £2.4 billion and an increase in the probability of success from 87 per cent at 31 March 2013 to 90 per cent at 31 March 2014. Whilst this is a strong position we are extremely mindful of the continued risks to our long-term strategy.

Although there are indications that the UK economic climate is improving, there remains a backdrop of instability in the global economy, which could threaten the UK's recovery. Scheme funding (as measured by our 7800 index) improved markedly during the 2013/14 year and the total value of claims on the PPF was lower than the previous year. However, scheme funding worsened quite substantially between end-March and end-January 2015, mainly reflecting the impact of lower gilt yields on liabilities.

Against this background, it is vital that we remain vigilant and focused on the effective management of our balance sheet. We recognise the importance of regular, close monitoring of our position and the need to consider both the 'probability of our success' and the 'downside risk'.

We are focused on making our assets work as effectively as possible, increasing the Fund's size and scale within our prudent risk appetite. Recoveries from insolvent employers continue to be an important income stream. We will continue to work closely with the Pensions Regulator in this area to achieve the best possible outcome for our members and levy payers.

We have delivered strong returns on our assets in the last year, despite the uncertain environment, and our aim is to continue to follow our award-winning investment strategy whilst targeting returns of 1.8 per cent per annum relative to our liabilities. We will identify opportunities for adding additional illiquid assets to our investment portfolio in line with our strategic allocation target for hybrid assets. We will also continue to enhance the framework that supports our strategy. During the coming year we will develop our model for our asset management function, including insourcing those parts where it is deemed to be cost efficient to do so, and implement an investment operations function to support the target investment business model.

We continue to closely monitor the potential effects of legislative developments to ensure we are ready to flex our investment strategy if required. This includes new domestic legislation (such as the proposed changes to the PPF compensation cap) and European initiatives such as the European Market Infrastructure Regulation (EMIR) – introducing potentially more expensive mandatory centralised clearing for some derivative transactions – and the longer-term possibility of new solvency requirements for occupational pension schemes.

2. Deliver excellent customer service to our members, levy payers and other stakeholders

We are very excited to be moving PPF member services in-house, demonstrating our desire to put our customers at the heart of everything we do. This is a hugely significant change that will give us greater flexibility and control over the services we provide to our members. There has been a degree of slippage on this programme during 2014. We are making sure we take the appropriate amount of time to do things properly, and following a detailed re-planning exercise, we now intend to have fully implemented the programme by the end of 2015. Once implemented we will have the platform we need to deliver exceptional customer service and that, over time, will enable us to bring down administration costs.

By 2018 we expect to provide close to 300,000 members with a PPF customer experience tailored to suit their needs. This will include multi-channel access so members can interact with us in the way they prefer – by telephone, internet, email or letter. We are also dedicated to ensuring that all our communications are clear and readily understood. As an organisation that is customer focused, we will respond to all member communication and endeavour to meet any reasonable requirements. We will actively listen to our customers and be ready to adapt and improve our service in response to their feedback in a cost effective way.

The levy triennium that spans the period of this strategic plan will involve the move to a new insolvency risk provider – Experian – and a new model for assessing insolvency risk, which is tailored to the PPF's universe of employers. We believe these changes will significantly improve the levy, more accurately reflecting the risk posed by individual schemes and providing levy payers with much greater levels of transparency. We will be working closely with Experian and with our stakeholders to help ensure that the transition to the PPF-specific model for assessing insolvency risk is smooth and that the increased predictiveness of our new model is robust.

Over recent years we have transformed the way we manage schemes through the assessment process. We will continue to seek opportunities to improve our operating model and systems to achieve certainty for schemes and members, and to maximise value for money. We also want to ensure that we have the flexibility to respond to changes in our operating environment and varying volumes of employer insolvencies. We will look to continually improve our partnership working and our model for managing the assessment process to enhance our control over time, quality and costs. We remain committed to completing at least 75 per cent of scheme assessment periods in less than two years. By 2018 we also expect to close the portfolio of FAS schemes, allowing us to focus on paying and administering assistance for our 165,000 FAS members.

At the same time we will strengthen our systems that support successful delivery. We will seek to remain a market leader in pension scheme data quality assurance and work with the industry and the Pensions Regulator to improve the quality of data held and managed by pension schemes and their administrators.

The next three years: 2015-2018 continued ...

3. Pursue our mission within a high calibre framework of risk management

We have evolved significantly since our inception on 6 April 2005. Likewise the risks that the PPF faces have evolved as the fund has grown from a standing start of zero assets to an investment portfolio in excess of £20bn. To keep pace with this change we continually look to improve our management of risks and ensure we build on industry best practice. We consider the management of risk as an ongoing and iterative process given the nature of our activities, striving to ensure that we provide our members with the best service whilst operating in dynamic financial markets and a changing economic and legislative environment.

The PPF risk universe includes all the financial and non-financial risks which are assessed as being key risks to the achievement of our strategic objectives. We categorise these risks as either funding, operational or environmental risks and ensure they are monitored and, where appropriate, measured against approved tolerance thresholds. Where risks are within our control we will ensure effective mitigation. That includes, for example, ensuring excellent business continuity and disaster recovery plans are in place and that we have an independent risk management function providing oversight of our investments.

Responsibility for identifying, understanding, monitoring and mitigating risks is embedded throughout our business. In line with best practice (as defined by the Basel Committee on Banking Supervision) we have three lines of defence.

- The first line of defence is our individual business units which undertake risk within assigned limits of risk exposure and are responsible and accountable for identifying, assessing and controlling the risks of their business.
- As a second line of defence, support functions across the PPF, such as our Risk Practice, work in tandem with the business units to ensure that risks have been identified and are being managed appropriately. Our support functions also work closely to develop our risk management strategy, implement policies and procedures, and collect information to create an organisation-wide view of risks.
- The third line of defence is the internal audit function that independently assesses the effectiveness of our processes including by measurement against industry standards.

Our Board undertakes an annual review to identify the most significant risks to the achievement of our objectives. Each year the Board also reviews the Risk Appetite of the PPF having taken account of any changes in the PPF's strategic objectives and risk profile. In its latest review the Board considered that the overarching "cautious" risk appetite remained appropriate. In general, we have a cautious risk appetite in respect of all our risk categories apart from investment operations where it is even more risk averse. This reflects our preference for safe delivery options that have a low degree of residual risk, with a strong control framework in place for investment operations.

The following areas have been and will continue to be of particular focus for the organisation:

- Enhancing our scenario and stress testing analysis to ensure we capture the potential impacts of changes within our operating environment.
- Operational risk framework enhancements to support our strategic plans for activities such as bringing member services in-house.
- On-going analysis to ensure awareness of industry best practices and building on these where appropriate.

In addition to managing the risks we face we play a major role in the wider pension protection regime. We will continue to work with The Pensions Regulator, DWP and the pensions industry to understand and act to mitigate the risks in the system to ensure the best possible outcomes and future for scheme members and the UK's defined benefit system.

3

Our operating environment

3.1 Legislative regime

Our powers and responsibilities were originally set out in the Pensions Act 2004 and are amended and augmented in subsequent primary and secondary legislation.

The Pensions Act 2014 contained provisions to increase the PPF compensation cap for members with long service in their schemes. We stand ready to implement these changes if they are brought into force (alongside new secondary legislation that would provide the detail as to how the increase would operate).

More broadly, legislation brought forward over the course of 2014/15 will lead to significant changes for pension schemes. In particular: from April 2015 the requirement which currently exists to buy an annuity at retirement will be removed; and new primary legislation makes provision to enable new forms of shared risk scheme (also known as Defined Ambition schemes) to be created. We will continue to evaluate the impact of all of these proposals on the PPF and the schemes that the PPF protects, and assess whether they will require any adjustment to our plans.

3.2 The Economic Environment

Future claims on the PPF depend on:

- the level of pension scheme funding
- corporate insolvency rates, and
- the risk reduction measures put in place by sponsors and trustees.

We monitor trends in all three factors in order to make assumptions about the number and size of future claims on the fund. The rest of this section gives a flavour of the current state of the pension scheme environment. For more detailed information please see the PPF 7800 index[1] and The Purple Book[2].

Scheme funding

The world economy is experiencing multi-speed growth with the US and UK seeing the fastest growth among major industrialised economies, although momentum slowed somewhat at the end of 2014 and the beginning of 2015. Softer economic data from the US, especially on the retail sales front, have been partially offset by better than expected releases out of the Euro area, with Germany in particular performing better than expected. The ECB's announcement of an open-ended quantitative easing programme coupled with a 55 per cent drop in oil prices and an already weak currency, which is expected to depreciate further, should provide strong support to Euro area growth in 2015. However, downside risks remain with deflation threats, geopolitical tensions in Eastern Europe, and continuing questions about the Greek economy's future in the Eurozone.

The UK economy grew by 2.6 per cent in 2014 and similar growth is expected in 2015 supported by the drop in fuel prices and a modest recovery in the Euro area, UK's major trading partner.

Focusing more narrowly on the PPF, since the end of 2013 there has been a marked worsening in scheme funding on a section 179 (s179) PPF basis for our universe of schemes, shown in Chart 2. Scheme funding has fallen back to the lows seen in 2012.

[1] www.pensionprotectionfund.org.uk/Pages/PPF7800Index.aspx
[2] www.pensionprotectionfund.org.uk/Pages/ThePurpleBook.aspx

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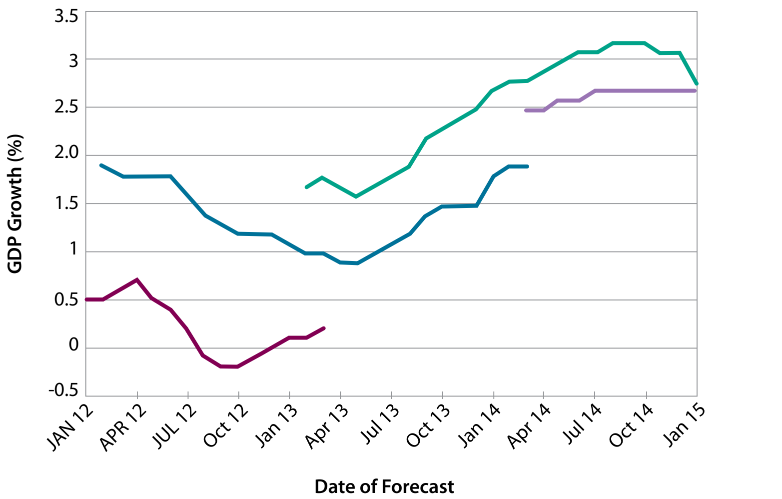
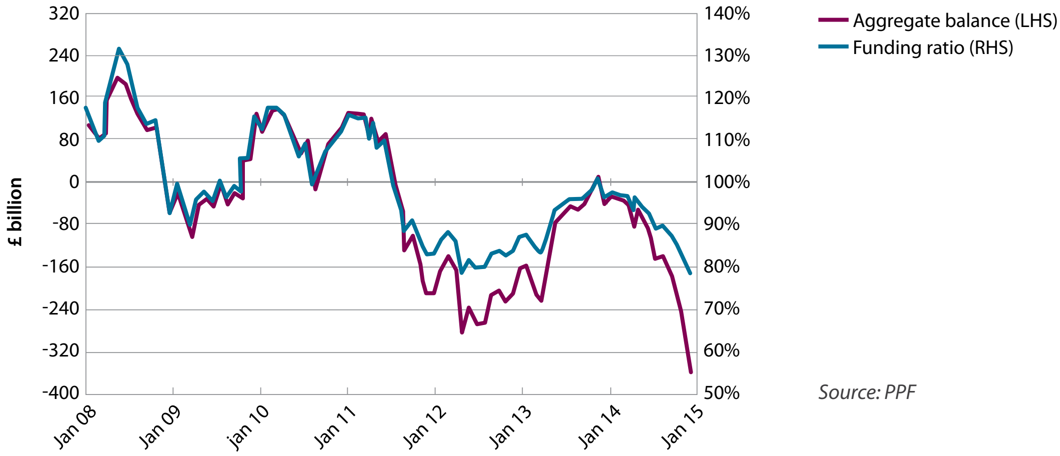
Chart 1: UK growth forecasts



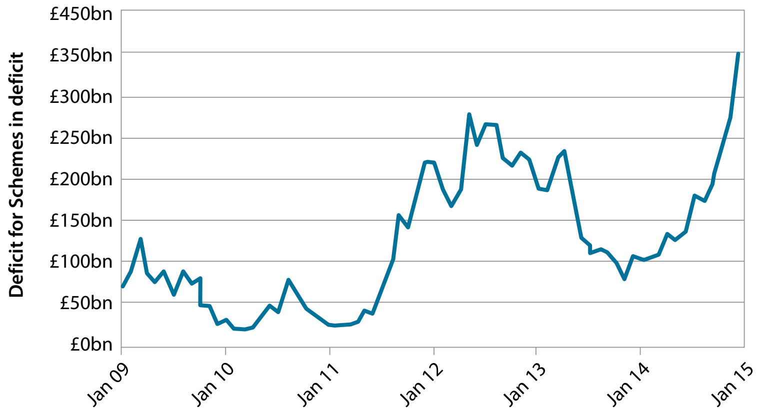
Source: HM Treasury

Chart 2: Scheme funding has deteriorated



Source: PPF

Chart 3: Total deficit for schemes in deficit has been increasing



Source: PPF

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Our operating environment continued …

The funding ratio (assets divided by liabilities), after improving from the financial crisis low of 77.8 per cent, reached a peak in December 2013 of 100.8 per cent. Since then it has fallen back to 77.6 per cent by January 2015 mainly driven by lower gilt yields while equity markets were broadly flat. The aggregate deficit of schemes in deficit has increased from £88 billion to £393 billion over the same period.

The fall in gilt yields has mainly reflected international developments such as: weak recovery in the Euro area; recession in Japan, the fall in oil prices which has reduced inflation expectations, concerns about a Greek exit from the euro area, and rising geopolitical tensions. These together with the belief that the US Federal Reserve would not raise interest rates for some time, and would do so only gradually, and with slower growth in emerging economies resulted in falling core bond yields such as those for US Treasuries, UK gilts and German bunds.

The value of defined benefit schemes' assets are driven by trustees' choice of asset class and their market value. The value of pension scheme liabilities depends on more factors, including:

- bond yields
- changes in estimated pricing in the bulk annuity market
- inflation, and
- longevity assumptions.

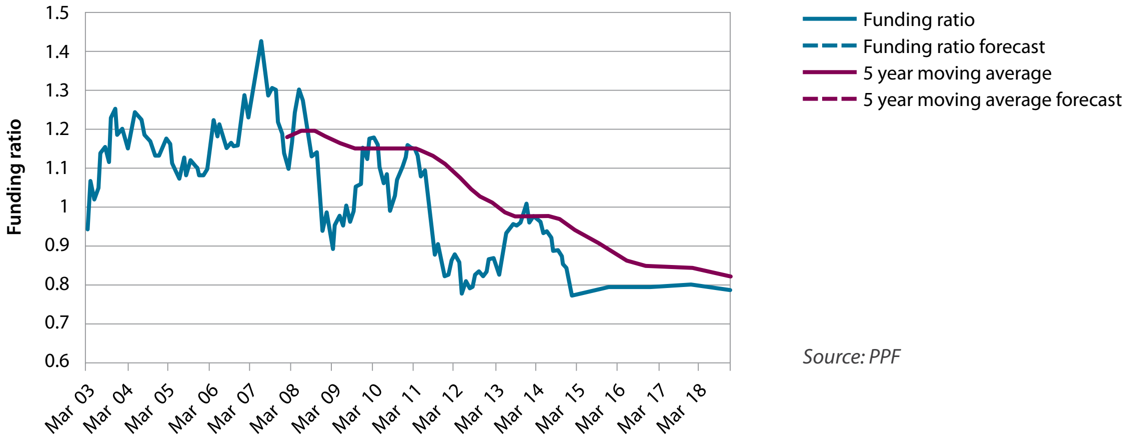
Bond yields and market inflation expectations change continuously and rapidly and can cause large swings in scheme deficits. In comparison, the assumptions on longevity and estimated pricing in the bulk annuity market used in the estimates of scheme funding on a s179 basis are changed less frequently and tend to be less significant. The last change to both of these was made in May 2014 and worsened scheme funding by £39 billion (3.2% of liabilities).

The deterioration in funding and a rise in liabilities between the end of 2013 and January 2015 mainly reflects a fall in gilt yields of 1.6 percentage points (from 3.4 per cent at the end of 2013 to 1.8 per cent at end-January 2015). This has an impact because gilt yields are used to discount future compensation payments to get a present value of liabilities. So if gilt yields fall the discount rate falls and the present value of liabilities rises. Over the same period, equity markets rose by 1.3 per cent which meant asset growth was significantly lower than liabilities growth.

The outlook for gilt yields is particularly uncertain given doubts surrounding the growth and inflation outlook. The Euro area's recovery has just started to show some positive signs, but it is too early to say that a stable outlook is certain, while there are still question-marks over Chinese and Japanese growth. Monetary policy is likely to be eased further in these areas. Also the fall in oil prices is likely to result in very low inflation rates in the first half of 2015 making the job of the central banks in the US and UK more difficult.

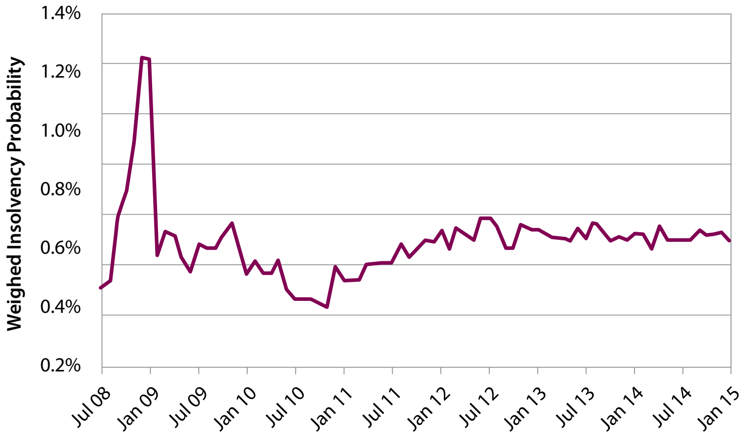
Taking into account the futures market for gilt yields, market forecasts for equity markets, and adding to assets estimates of schemes' special contributions, our analysis suggests that scheme funding may improve only slightly over the next three years.

Chart 4: Scheme funding may improve only slightly over the next few years given low yields expectations and modest upside in equity markets



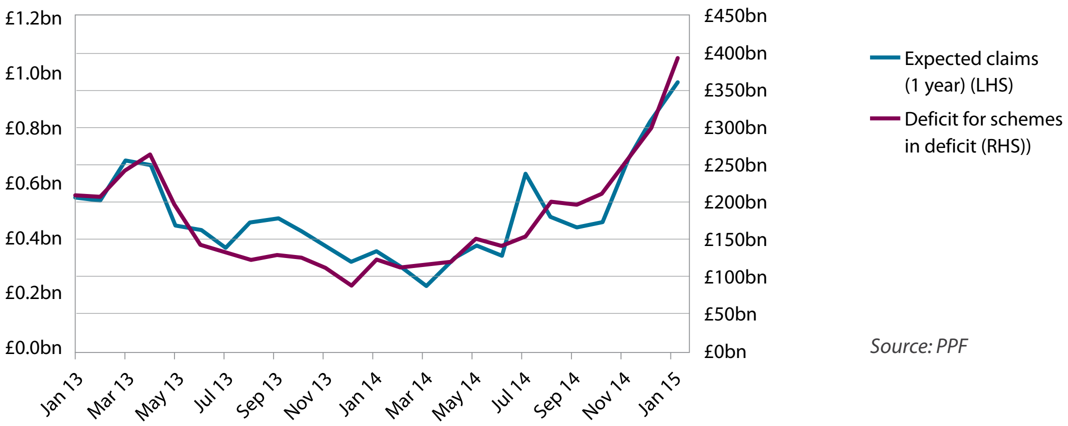
Source: PPF

Chart 5: Broadly flat insolvency rate for the PPF's biggest risks



Source: PPF

Chart 6: Expected 1-year claims on the PPF have risen again



Source: PPF

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Our operating environment continued ...

Corporate insolvency

Insolvency risk has been broadly flat over the last year, as shown in Chart 5. The one-year ahead insolvency probability for the company sponsors of our 500 biggest risks has been broadly flat at around 0.6 per cent over the last year. The outlook for the economy and the correlation between its performance and claims on the PPF remains uncertain. Particularly uncertain is how insolvencies will respond to the first increases in UK interest rates which the markets are expecting in the first half of 2016. The very low level of interest rates almost certainly contributed to the relatively modest rise in insolvencies during the 2008/09 financial crisis. If interest rates rise very gradually at a time of reasonable economic growth then insolvencies may remain fairly subdued.

Combining the broadly flat insolvency risk for the universe of PPF eligible schemes and the rise in deficits of schemes in deficit means that our one-year ahead expected claims, before recoveries, has risen to around £1 billion. This is the accounting basis[3] used in the PPF Annual Report and Accounts and compares with claims of £0.6 billion in the 2013/14 financial year. The driver of the rise in expected claims has been the deterioration in scheme funding over the year.

3.3 Our assumptions for 2015-2018

As explained above, our economic environment, and hence our workload, changes continuously. The volume of insolvencies among employers of PPF-eligible schemes determines the number of cases entering assessment. The number of cases entering assessment, combined with scheme funding levels, determines the number of members and quantum of scheme assets that transfer to the PPF. We have produced the assumptions below to help us estimate the resources we need for the years ahead. These assumptions will of course not be borne out exactly in practice and we refine them each year in light of available evidence.

We have seen a substantial reduction in the number of insolvencies among employers of PPF-eligible schemes during 2014/15; larger than the decline in insolvencies in the economy as a whole. Based on our modelling outputs, which use consensus forecasts for growth in the economy and market interest rate expectations, and assuming a more correlated relationship between the number of PPF claims and whole economy insolvencies, our expectation is that PPF insolvencies will not remain at these historically low levels.

[3]The s179 basis is what would have to be paid to an insurance company for it to pay PPF levels of compensation and will include a profit margin.

We are forecasting a gradual increase in the number of insolvencies in the coming years as interest rates start to rise, although our assumption is that the number of cases entering assessment by the end of the three year period will still be lower than we were forecasting in our previous strategic plan (reduced from 110 in our previous strategic plan to 85 in this one), largely because of lower interest rate expectations.

However, if interest rates were to rise more sharply than the market is currently expecting, there could be a more dramatic impact on insolvency volumes. At a time of continued economic uncertainty, we recognise the importance of ensuring that our operating model is flexible so that we are capable of adapting effectively and efficiently to changes in our operating environment.

Estimates for end of financial year:	**2014/2015**	**2015/2016**	**2016/2017**	**2017/2018**
PPF				
New cases entering assessment	**50**	**75**	**85**	**85**
Cases transferred to the PPF	100	40	65	75
Cases leaving assessment by other means	15	5	10	10
Total cases completing assessment	**115**	**45**	**75**	**85**
Cases in assessment at year end	**135**	**165**	**175**	**175**
FAS				
FAS 2 qualifying schemes transferring	**89**	**23**	**8**	**0**
FAS 1 qualifying schemes transferring	**3**	**3**	**0**	**0**
PPF				
Members in assessment at year end	**110,000**	**120,000**	**130,000**	**130,000**
Cumulative members transferred	**230,000**	**240,000**	**255,000**	**280,000**
FAS				
Cumulative members transferred	**140,000**	**150,000**	**155,000**	**155,000**
PPF				
Assets Under Management (£)	£20.6 bn	£21.9 bn	£23.4 bn	£25.1 bn

4 Our Business Plan for 2015/16

This business plan covers the financial year 2015/16 and sets out how we intend to achieve the strategic objectives set by the Board.

4.1 Meet our funding target through prudent and effective management of our balance sheet

Success Factor
1. We remain on track to complete our funding mission and are utilising our scale appropriately.
2. By 31 March 2016, we will have implemented our revised model for investment operations, including custodial services, risk reporting and investment analytics.

4.2 Deliver excellent customer service to our members, levy payers and other stakeholders

Success Factor
3. Our in-house team will deliver excellent customer service to PPF members.
4. We will complete the assessment of at least 75 per cent of schemes within two years.
5. Embed a high quality customer experience for the levy payer under the new Experian model.

4.3 Pursue our mission within a high calibre framework of risk management

Success Factor
6. By 31 March 2016 we will have embedded enhancements to our risk management process to optimise the effectiveness of our risk functions.
7. By 31 March 2016 we will have commenced implementation of our plan to improve our organisational information management.

Foundations

People

Success Factor
8. Surveys show at least sustained levels of employee engagement and organisational understanding and commitment, confirming that our culture and behaviours are appropriate for a Customer Focused Financial Institution.

Communications

Success Factor
9. Our Vision and goals are clearly articulated and understood by our customers and other stakeholders. We have a reputation for being credible, professional and trusted.

Efficiency and Effectiveness

Success Factor
10. We will deliver enhancements across business support services, focussed on improvements in efficiency and operational effectiveness.

5

Updated financial plan and budget estimate

5.1 Funding

Our Administration Fund covers the part of our operating expenditure related to delivering schemes through the PPF assessment process and administering the protection levy. It is financed by the PPF administration levy, which is collected by the Pensions Regulator from eligible pension schemes. We draw down these funds via DWP as Grant-in-Aid.

The Pension Protection Fund is financed by the protection levy, the transfer of assets from schemes completing the PPF assessment process, recoveries from insolvent employers and investment returns. Regulations require certain costs to be charged to the Protection Fund. The costs charged to the Protection Fund include investment fees and associated costs, insolvency fees, some member payroll services fees and the associated staff and infrastructure costs.

All costs related to running the Financial Assistance Scheme (FAS) are covered by Grant-in Aid drawn down from DWP. FAS is not funded by PPF levy payers.

5.2 Three-year financial plan

Our financial plan is based on the key volume assumptions in section 3.3. In a number of areas our costs are driven by events that are difficult to forecast and control such as insolvencies, legal claims and the financial markets. The planning process therefore delivers a "most-likely" case forecast and is subject to significant risks.

The cumulative number of PPF and FAS members is forecast to grow by 18 per cent to 435,000 by 2017/18. The project to insource PPF member payroll services is set to go live in 2015 /16 and remains on track to deliver financial benefits over the coming years.

Planned expenditure is summarised by funding source in **Table 1** below.

Our activities funded by the administration levy continue to reflect our efficiency, in particular as we reduce our reliance on external providers. This is demonstrated by the average administration cost per member which is planned to fall from the £79 reported in our last Annual Report and Accounts to £60 by the end of 2017/18.

Expenditure in the Protection Fund is driven primarily by investment activity. Fund Manager Fees will increase in 2015/16 from current levels in line with the higher allocations to alternative assets set out in the new Statement of Investment Principles (SIP). Thereafter, fees are planned to grow more slowly, by 11 per cent compared to the assumed 15 per cent growth in assets under management.

The decrease in FAS expenditure reflects the wind up of FAS operations. This is in line with the volumetrics in section 3.3.

Table 1: Expenditure by funding source

All figures in £m	2014/2015 Fcst	2015/2016 Plan	2016/2017 Plan	2017/2018 Plan
Protection Fund	113.1	157.0	161.8	167.9
PPF Admin Levy	20.6	19.4	18.8	18.2
FAS Admin Levy (Tax Payer)	8.0	6.4	6.2	6.1
Total	**141.7**	**182.8**	**186.8**	**192.2**

Table 2 gives our view of total estimated expenditure by type for the three years to 2017/18.

Table 2: Expenditure by type

All figures in £m	2014/2015 Fcst	2015/2016 Plan	2016/2017 Plan	2017/2018 Plan
Fund Manager Fees	81.5	120.1	127.6	132.9
Custodian Fees	2.1	2.3	2.4	2.6
Scheme Wind Up Services	2.8	0.5	0.0	0.0
Member Payroll Services	8.5	5.5	3.4	3.4
Insolvency Professional Services	0.5	1.0	1.0	1.0
Levy Risk Scoring Services	0.8	0.4	0.4	0.3
Other Services	0.5	0.8	0.8	0.8
Outsourced Delivery Services	**96.7**	**130.6**	**135.6**	**141.0**
Staff Costs	23.9	27.1	27.2	27.4
Training & Recruitment	1.9	1.4	1.4	1.4
Travel and Meetings	0.1	0.2	0.2	0.2
Staff Related	**25.9**	**28.7**	**28.8**	**29.0**
Accommodation & General Office	2.7	2.9	2.9	2.9
Communication & Publications	0.2	0.1	0.1	0.1
IT & Telecommunications	6.8	7.4	7.4	7.5
Infrastructure	**9.7**	**10.4**	**10.4**	**10.5**
Investment Advisory Fees	1.3	2.0	2.0	2.0
General Legal Services	2.1	2.4	1.9	1.6
Audit & Assurance	0.5	0.6	0.6	0.6
Other Professional Services	3.4	3.9	3.6	3.6
Assurance and Advisory	**7.3**	**8.9**	**8.1**	**7.8**
Controlled Overheads	**42.9**	**48.0**	**47.3**	**47.3**
Depreciation	**2.1**	**4.2**	**3.9**	**3.9**
Total Expenditure	**141.7**	**182.8**	**186.8**	**192.2**
Capital Expenditure	**6.0**	**2.2**	**0.5**	**0.5**

Updated financial plan and budget estimate continued ...

Outsourced Delivery Services are expected to increase by 46 per cent from £97 million to £141 million. The key driver being the increase in fund manager fees. Assets under management will vary with the level of assets transferred in and fluctuations in market value. We will continue to exploit our scale in negotiating with fund managers and whilst there will be an increase as we achieve the target weightings set out in our new SIP, over the three years to 2017/18 the overall cost as a percentage of assets under management will decrease to an average of 0.55 per cent.

Controlled overheads increase from £43 million in 2014/15 to £48 million in 2015/16 to reflect the insourcing of member payroll services and the cost of our new risk system.

Over the remainder of the planning period, controlled overheads, scheme wind up services and member payroll services will all decrease as we achieve the efficiencies of insourcing, complete the transfer of the remaining FAS schemes and respond to an assumed level of insolvencies lower than we have seen in recent years.

We continue to use external advisers where this represents value for money and where we are obliged to do so and we plan to contain these costs at current levels which represents a real terms saving in spite of continued significant growth in the business. Other professional services include amounts payable to Government Actuary's Department (GAD), assurance of levy payers' contingent assets and other specialist advice.

Table 3 summarises estimated full time equivalent staff (FTE) over the strategic plan years. The increase in 2015/16 is driven by the insourcing of member payroll services. Member payroll services FTE continues to increase in the later years but this increase is offset by the wind up of FAS transfer operations which will be largely complete by the end of 2015/16.

FTE in 2014/15 has been lower than planned due to the phasing of recruitment for the new member payroll service operation.

Table 4 summarises estimated capital expenditure over the strategic plan years. Capital expenditure in 2014/15 mainly reflects the IT infrastructure costs for our member services platform and the final costs to renew our IT infrastructure which completed in 2014/15. Expenditure in 2015/16 mainly reflects the costs to complete our new member services platform.

Table 3: Total FTE

FTE	2014/2015 Fcst	2015/2016 Plan	2016/2017 Plan	2017/2018 Plan
Total	**325**	**360**	**357**	**357**

Table 4: Capital Expenditure by funding source

All figures in £m	2014/2015 Fcst	2015/2016 Plan	2016/2017 Plan	2017/2018 Plan
Protection Fund	6.0	1.9	0.3	0.3
PPF Admin Levy	0.0	0.2	0.2	0.2
FAS Admin Levy (Tax Payer)	0.0	0.0	0.0	0.0
Total	**6.0**	**2.1**	**0.5**	**0.5**

5.3 2015/16 budget estimate

The £182.8 million budget reflects the estimated cost to deliver 45 schemes through our assessment process, £635 million levy collection and 26 FAS scheme wind ups plus the continued successful implementation of our SIP and running the member payroll and administration function.

The budget is 29 per cent higher than the £141.7 million forecast for 2014/15. This is due to the increased fund manager fees in line with the anticipated £1.3 billion growth in assets under management and migration to the new SIP.

The £0.6 million increase in IT and telecommunications versus 2014/15 mainly reflects the cost of our new risk system.

Other professional services increase in 2015/16, which reflects the higher level of change that will be sustained in the medium term.

We will greatly reduce our outsourced scheme wind-up services in line with reduced volumes (PPF assessment and FAS wind-up). Staff-related FAS costs are also expected to decrease as we complete the bulk of transfer work and new schemes fall to a very low level.

6

Further reading

For further detail on the PPF and our work, please visit the following pages:

The Pension Protection Fund

http://www.pensionprotectionfund.org.uk

PPF Long-Term Funding Strategy (and updates)

Pension Protection Fund Annual Report & Accounts

Risk Appetite Statement

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

The Purple Book

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

PPF 7800 Index

http://www.pensionprotectionfund.org.uk/Pages/PPF7800Index.aspx

For more information on the Pensions Regulator, see:

The Pensions Regulator

http://www.thepensionsregulator.gov.uk/

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