

PPF7800 Index

End-November 2007

This is the sixth in a series of monthly updates providing the latest estimated funding position, on a s179 basis, of almost 7,800 predominantly private sector defined benefit (DB) pension schemes in the UK.

The estimates are based on scheme valuation data, which has been adjusted to consistent dates on an approximate basis, using changes in market indices for principal asset classes, and the fixed interest and index-linked gilt yields used to value liabilities.

The s179 basis is, broadly speaking, what would have to be paid to an insurance company to take on the payment of Pension Protection Fund levels of compensation.

Highlights

- The aggregate funding position (total assets minus total liabilities) of almost 7,800 DB funds is estimated to have worsened in November 2007, falling to a deficit of £5 billion (Chart 1), from a surplus of £53 billion in October 2007. This is the first time schemes have fallen into deficit since November 2006, when the aggregate shortfall was £30 billion.
- The decline in scheme funding reflects market movements in November 2007 with both gilt yields and equity markets falling during the month. This had the effect of increasing scheme liabilities and reducing assets.
- The total deficit of schemes in deficit in November 2007 is estimated to have worsened to £73 billion from £48 billion at the end of October 2007 (Chart 3). However the deficit has reduced from one year ago (£83 billion).
- In November 2007, the total surpluses of schemes in surplus fell to £68 billion from £101 billion at the end of October 2007 (Chart 6). In November 2006, the aggregate surplus of all schemes in surplus stood at £53 billion.

The Detail

- The number of schemes in deficit in November 2007 stood at 6,014, up from 5,431 schemes in October 2007, and representing 78 per cent of total DB schemes in the sample (Chart 5).
- The number of schemes in surplus was lower in November 2007, compared to the previous month at 1,736 which accounts for 22 per cent of the schemes. 1,527 schemes were in surplus in November 2006.
- Across the sample of schemes, total scheme assets amounted to £835 billion in November 2007 (Chart 2), representing a fall of 2.9 per cent over the month

but an increase of 1.4 per cent over the three months to November 2007. Assets are up by 6.2 per cent over the year.

- Meanwhile, scheme liabilities are up by 2.9 per cent over the year to November 2007, to £840 billion (Chart 2). They are also up 4.2 per cent over the last month.

Context

- During the month of November 2007 alone, lower gilt yields led to an increase in liabilities of approximately 3.8 per cent, while there was a 3.2 per cent fall in assets due to weaker equity markets. The FTSE All Share Index fell by 3.2 per cent over November 2007, while 10-year gilt yields fell by 26 basis points (Chart 8) to a yield of 4.7 per cent on the last trading day of November 2007.
- While funding has deteriorated in November 2007, it still improved upon a year ago, primarily reflecting both rising bond yields and equity markets. Over the year to November 2007, the FTSE All Share Index rose by 5.5 per cent and 10-year gilt yields by 17 basis points (Chart 7).
- Improved equity market conditions have been a considerable factor contributing to the stronger funding position over the past 12 months, with our estimate of aggregate scheme assets rising by around 5.9 per cent in the past year due to equity markets (offsetting the slightly negative effect that higher gilt yields had on assets). Meanwhile, increasing bond yields lowered aggregate liabilities by around 1.6 per cent over the past year (see note 5).

Key Charts

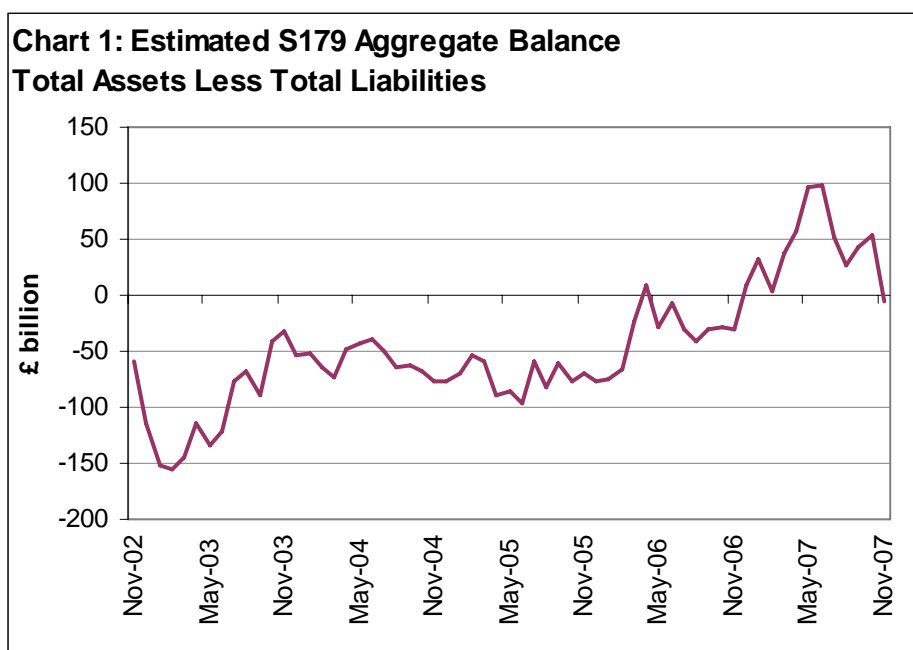


Chart 2: Estimated S179 Aggregate Assets and Liabilities

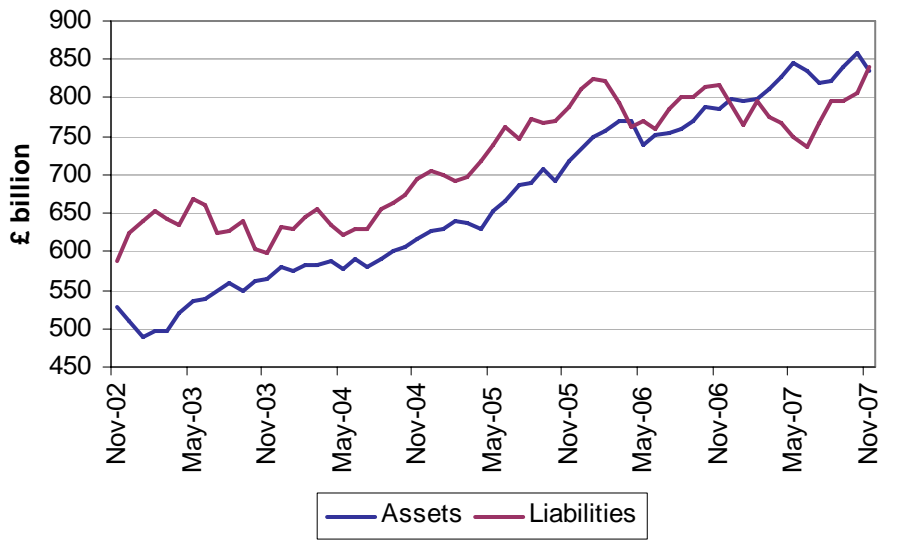
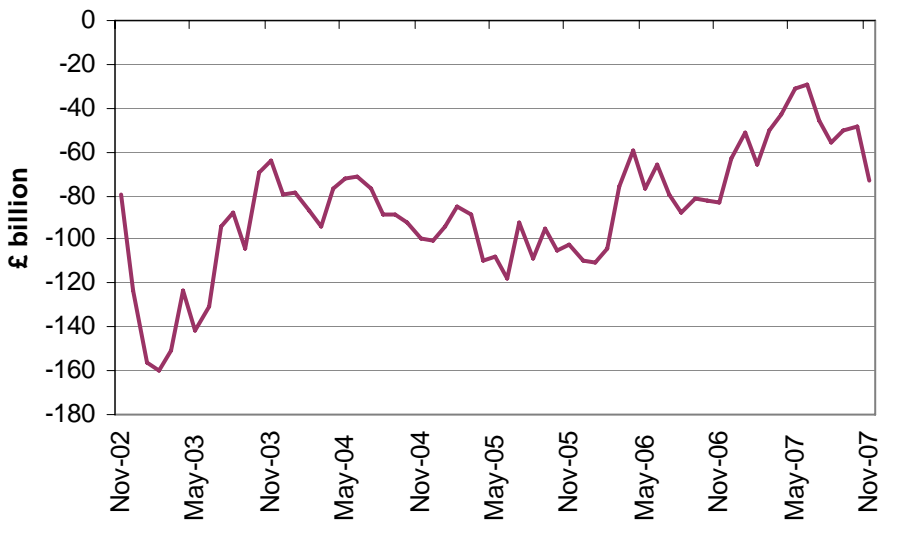


Chart 3: Estimated S179 Deficits for Deficit Schemes Only



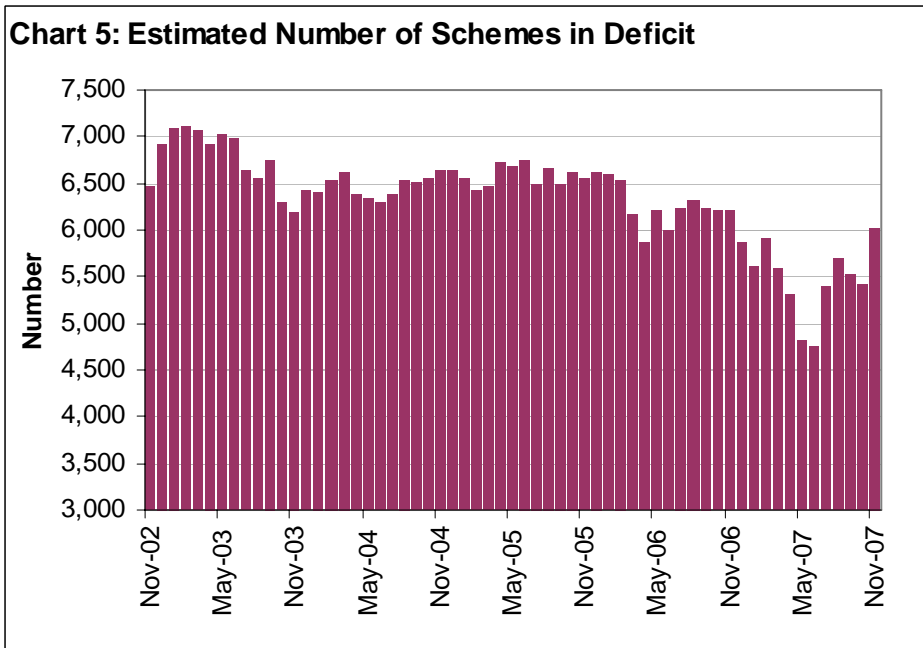
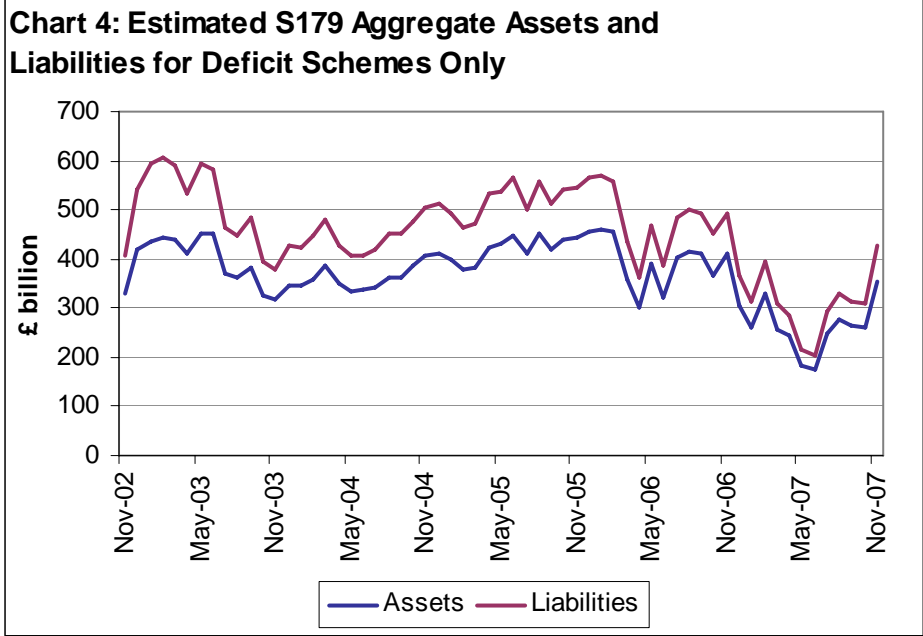


Chart 6: Estimated S179 Surplus for Surplus Schemes Only

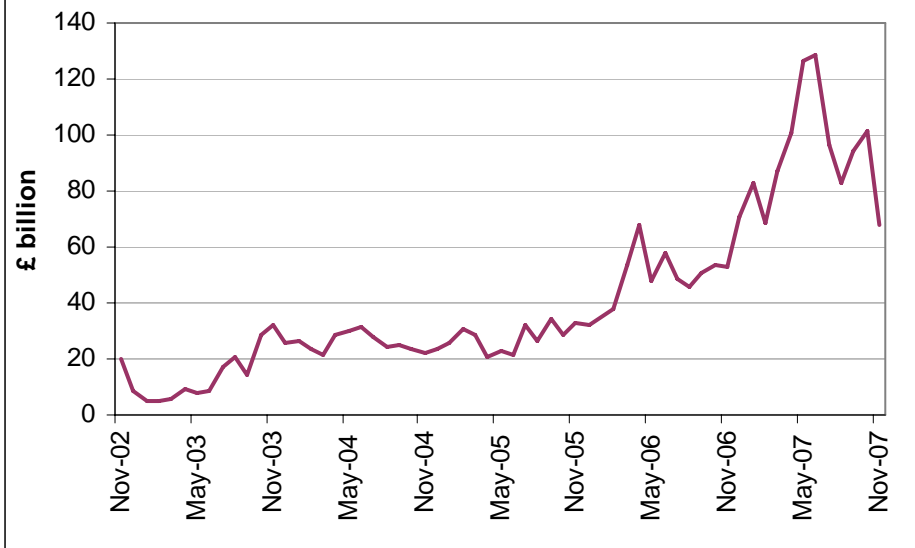
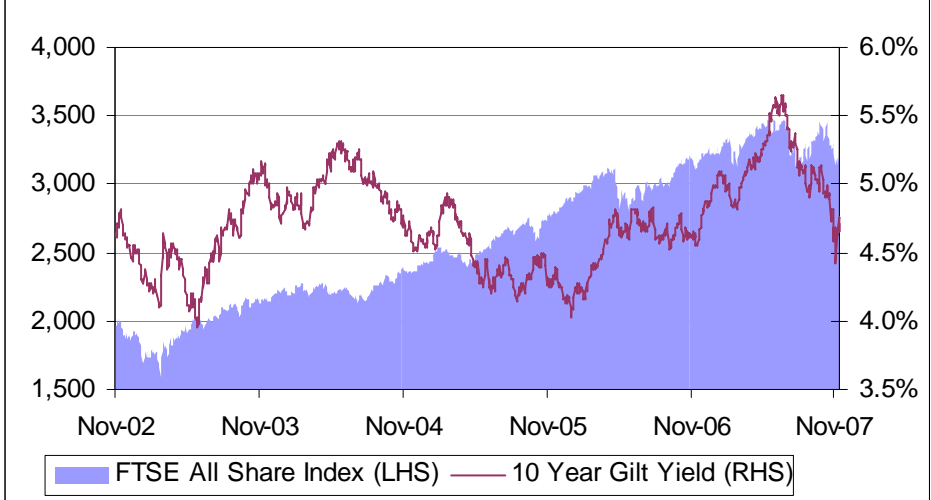


Chart 7: FTSE All Share Index and 10-Year Gilt Yields



Source: Bloomberg

Chart 8: FTSE All Share Index and 10-Year Gilt Yields - November 2007

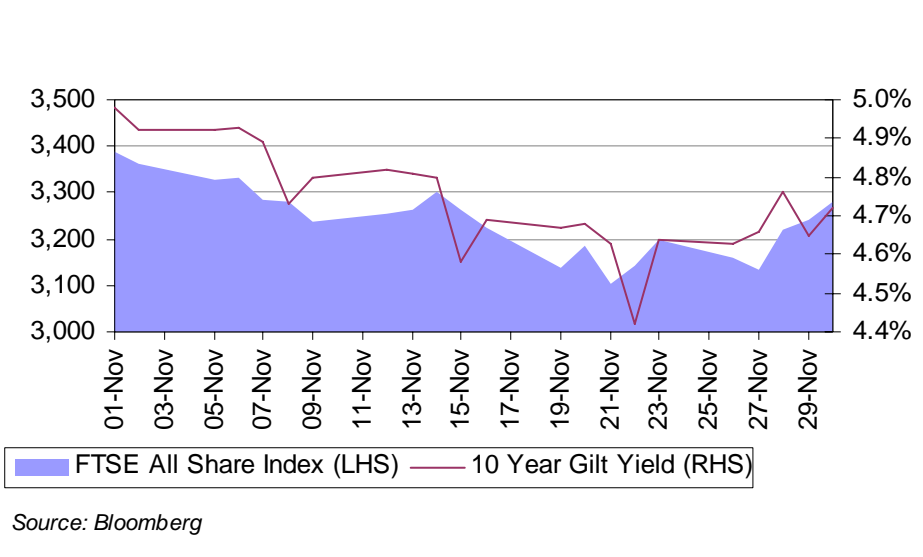


Table 1: Funding comparisons

	End Nov-07	End Oct-07	End Nov-06	End Mar-06 ¹
Deficit of schemes in deficit	£73.1bn	£48.1bn	£82.8bn	£76.3bn
Number of schemes in deficit	6,014	5,431	6,224	6,178
Surplus of schemes in surplus	£67.8bn	£101.3bn	£52.7bn	£53.6bn
Number of schemes in surplus	1,736	2,319	1,527	1,573
Aggregate balance	-£5.2bn	£53.3bn	-£30.1bn	-£22.7bn

¹ Valuation date used for 2006/07 levy and the Purple book 2006.

Notes

1. The Charts demonstrate the volatility of pension fund deficits over the last five years resulting from movements in financial markets. To determine the aggregate levy schemes pay, the Pension Protection Fund uses a long term risk model (LTRM). This ensures that the Pension Protection Fund adjusts for short term volatility and uncertainty by taking a longer term time horizon. The LTRM generates a probability distribution of claims on the Pension Protection Fund on different longer term horizons from five to twenty years, taking into account a very large number of possible economic and financial market outcomes.
2. The figures shown in the charts are based on adjusting the scheme valuation data supplied to the Pension Protection Fund for the purpose of the 2006-07 levy. This data is transformed to a s179 valuation basis at various dates on an approximate basis using changes in market indices for principal asset classes and the fixed interest and index-linked gilt yields used to value liabilities. The approximation does not allow for benefit accrual or outgo, contributions paid or actual scheme experience.
3. For the calculation of the risk-based levy (RBL) for 2006-07, the Pension Protection Fund used estimates of scheme funding on a s179 basis as at 31 March 2006. This is, broadly speaking, what would have to be paid to an insurance company to take on paying Pension Protection Fund compensation. For the calculation of the RBL for 2007-08, the Pension Protection Fund is using estimates of funding on a s179 basis as at 31 October 2006 using data up to March 2007.
4. A number of 'rules of thumb' pertaining to the impact of changes in asset prices on s179 assets and liabilities apply. A 7.5 per cent rise in equity markets boosts s179 assets by around 5.4 per cent while a 0.3 per cent rise in gilt yields reduces scheme assets by 0.6 per cent. Meanwhile, a 0.3 per cent rise in gilt yields reduces scheme liabilities by 5.7 per cent. The rules of thumb strictly speaking only apply to small changes from the 30 June 2007 level.
5. Although the change in gilt yields over the year to November 2007 led to an approximate fall in liabilities of 1.6 per cent, the estimated overall change in liabilities since November 2006 was an increase of 2.9 per cent. This is because liabilities are increased to reflect that they are closer to coming into payment in the roll forward methodology which is used.
6. This note updates the figures given for March 2006 in the Purple Book, which was based on a sample of 5,800 PPF-eligible schemes. The sample of 7,751 schemes used in this note is close to the current best estimate of the universe of eligible DB schemes.
7. The aggregate estimates may be revised over time as a result, for example, of new information on the size of the PPF-eligible DB universe and on the funding position of individual schemes.