

Written evidence from the Pension Protection Fund LDI0088

27 April 2023 Dear

Sir Stephen,

Re: Information on the funding position of schemes post-LDI market disruption

Following your correspondence with the Minister for Pensions and the Economic Secretary to the Treasury on 3 April 2023, I thought it might be helpful to share additional information with you regarding the PPF 7800 index and estimated funding levels.

The PPF 7800 index

The PPF 7800 index (published on the second Tuesday of every month) provides the latest estimated funding position, on a section 179 (s179) basis, for the defined benefit pension schemes potentially eligible for entry to the PPF. The estimates in the index are based on adjusting the scheme valuation data supplied to The Pensions Regulator as part of the schemes' annual scheme returns. Currently these are scheme returns issued in December 2021 and January 2022 and returned by 31 March 2022.

As the estimated funding position of each scheme is based on these scheme returns, the 7800 index estimate won't capture the impact of any changes to fund investments since then – including the material changes that some schemes made to their asset allocation following the LDI market disruption.

In addition, as we noted in our previous evidence, we receive only limited data from schemes on the amount of leverage used in their LDI portfolios as part of those annual returns. In the context of the 7800 index estimate, this limited data creates an additional element of uncertainty around scheme asset values during periods where there is elevated volatility in interest-rate markets.

Funding levels

The [April 2023 publication](#) of the 7800 index estimates that the funding ratio improved by over 20 percentage points between 31 March 2022 and 31 March 2023 – with the aggregate surplus of schemes increasing from £193.0bn to £359.3bn in the same period.

However, a minority of schemes may have seen their funding position deteriorate following the events of September 2022 and there several reasons as to why this *may* have happened which wouldn't be captured in our estimate – these include:

Pension Protection Fund
12 Dingwall Rd, Croydon CR0 2NA
T 0330 123 2222 E information@ppf.co.uk
www.ppf.co.uk

Protecting People's Futures The Pension Protection Fund is a statutory fund run by the Board of the Pension Protection Fund, a body corporate, under the Pensions Act 2004

- losing their hedge when yields rose through forced deleveraging, and missing out on the gains when yields reversed course
- having inadvertently been over-hedged to interest-rate moves
- having been forced to sell assets at a large discount when re-capitalising their LDI strategy; and
- idiosyncratic poor performance in return-seeking asset classes.

I hope the Committee finds this information useful in its ongoing inquiry. Yours sincerely,

Evan Guppy

Head of LDI and Credit

April 2023