

Pension schemes hold record surplus

First Actuarial reveals a record surplus in its First Actuarial Best estimate (FAB) Index.

The FAB Index – which provides the aggregate position of the UK's 6,000 defined benefit (DB) pension schemes calculated using the best estimate expected return on the assets held by those schemes – showed a record month-end surplus for April of £361bn, and a healthy 130% funding ratio.

Earlier this month, the Pension Protection Fund (PPF) also announced a 29% improvement in the PPF 7800 Index deficit, from £116bn (93% funded) to £82bn (95% funded) at the end of April. This is close to its near 4-year record high of 97% funded from earlier this year.

First Actuarial Partner Rob Hammond said:

“We are starting to see more stories of pension scheme surpluses hitting the news. Whilst it is important that these published surpluses are properly understood, the stable FAB Index and gradually improving PPF 7800 Index are good news pensions stories which should help to restore public confidence in pensions.”

Hammond added:

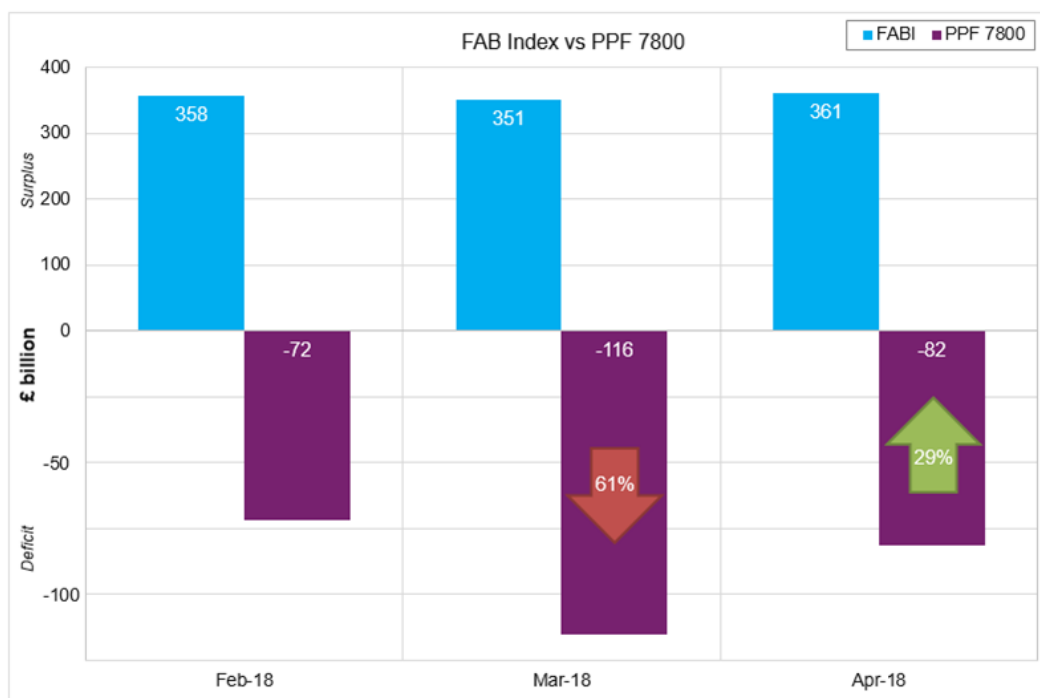
“The PPF 7800 Index has continued to ‘yo-yo’ with the improvement seen in April following a deterioration in March, but we are getting closer to the funding ratio of the PPF 7800 Index hitting 100%, which would reflect a very healthy state for the UK’s pension schemes.

“The FAB Index indicates that the UK’s 6,000 defined benefit schemes currently have a best-estimate surplus of £361bn and a funding ratio of 130%. This is before the addition of future deficit recovery amounts which many schemes have already agreed, and indicates that schemes are generally funded on prudent bases. The latest pensions White Paper proposes asking schemes to demonstrate how prudent their funding bases are. The FAB Index suggests that there is plenty of prudence already in the system, with schemes collectively holding a 30% buffer to cover things moving against them.”

The technical bit...

Over the month to 30 April 2018, First Actuarial's Best estimate (FAB) Index improved, with the surplus in the UK's 6,000 defined benefit (DB) pension schemes increasing from £351bn to £361bn.

The deficit on the PPF 7800 Index improved by 29% over April from £115.6bn to £81.7bn.



These are the underlying numbers used to calculate the FAB Index.

FAB Index over the last 3 months	Assets	Liabilities	Surplus	Funding Ratio	'Breakeven' (real) investment return
30 April 2018	£1,577bn	£1,216bn	£361bn	130%	-0.8% pa
31 March 2018	£1,566bn	£1,215bn	£351bn	129%	-0.8% pa
28 February 2018	£1,568bn	£1,210bn	£358bn	130%	-0.8% pa

The overall investment return required for the UK's 6,000 DB pension schemes to be 100% funded on a best estimate basis – the so called 'breakeven' (real) investment return – has remained at minus 0.8% pa. That means the schemes need an overall actual (nominal) return of 2.7% pa for the assets to meet the liabilities.

The assumptions underlying the FAB Index are shown below:

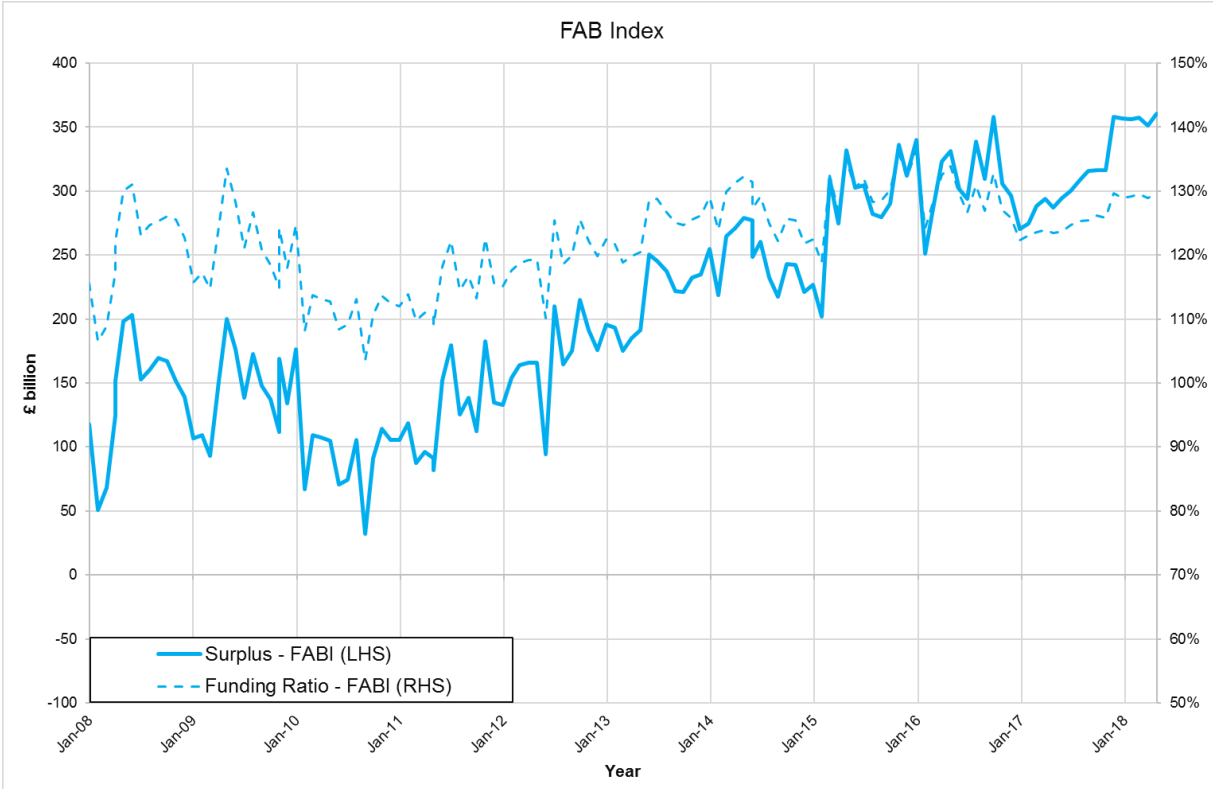
Assumptions	Expected future inflation (RPI)	Expected future inflation (CPI)	Weighted-average investment return
30 April 2018	3.5% pa	2.5% pa	4.1% pa
31 March 2018	3.5% pa	2.5% pa	4.1% pa
28 February 2018	3.6% pa	2.6% pa	4.2% pa

Ends

Notes to editors

The FAB Index is calculated using publicly available data underlying the PPF 7800 Index which aggregates the funding position of 5,588 UK DB pension schemes on a section 179 basis, together with data taken from The Purple Book, jointly published by the PPF and the Pensions Regulator.

The FAB Index will be updated on a monthly basis, providing a comparator measure of the financial position of UK DB pension schemes.



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About First Actuarial

First Actuarial is a consultancy providing pension scheme administration, actuarial, investment and consultancy services to a wide range of clients across the UK.

We advise a mixture of open and closed defined benefit schemes with our clients concentrated in the small to medium end of the pension scheme market. Our clients range across a number of sectors including manufacturing, financial services, not for profit organisations and those providing services previously in the public sector.