**** FAB INDEX – PRESS RELEASE ****

FABI surplus flourishes, as a PPF 7800 surplus could soon be a reality

First Actuarial's Best estimate (FAB) Index improved yet again to the end of July 2018, while the Pension Protection Fund (PPF) has proposed to change its own calculation methodology, which could soon lead to the PPF 7800 Index seeing an aggregate surplus across the UK's 6,000 defined benefit (DB) pension schemes.

The PPF has proposed to update the methodology it uses to value pension liabilities, bringing it more in line with how the latest data suggests insurance companies price annuities. Their proposal indicates that insurance companies are pricing annuities cheaper than before due to 'extreme' competition - for example assuming pension scheme members are living less long, and assuming higher future investment returns.

The PPF is consulting on its proposed changes - with the changes due to take effect on or after 1 November 2018.

Were it to update its methodology, the PPF has estimated that the PPF 7800 Index calculated at 30 June 2018 would improve from a funding ratio of 94.9% to 100.2%, moving 445 schemes from deficit to surplus, and producing a surplus overall. This is before the further improvements seen in their index over July are taken into account.

The FAB Index – which provides the aggregate position of the UK's DB pension schemes calculated using the best estimate expected return on the assets held by those schemes – already shows a surplus, with a record month-end surplus for July of £392bn, and a healthy 132% funding ratio.

First Actuarial Partner Rob Hammond said:

"The PPF 7800 may soon be joining First Actuarial in recognising a surplus across the UK's 6,000 defined benefit pension schemes."

"Even without a change in calculation methodology, the PPF 7800 Index is fast approaching a surplus position, which demonstrates the healthy state of the UK's pension schemes."

The technical bit…

Over the month to 31 July 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 £382bn to £392bn.

The deficit on the PPF 7800 Index also improved over July 2018 from £85.6bn to £62.8bn, and the funding ratio improved from 95% to 96%.

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
31 July 2018	£1,621bn	£1,229bn	£392bn	132%	-0.9% pa
30 June 2018	£1,607bn	£1,225bn	£382bn	131%	-0.9% pa
31 May 2018	£1,611bn	£1,232bn	£379bn	131%	-0.9% 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 0.9% pa. That means the schemes need an overall actual (nominal) return of 2.6% pa for the assets to meet the liabilities.

The assumptions underlying the FAB Index are shown below:

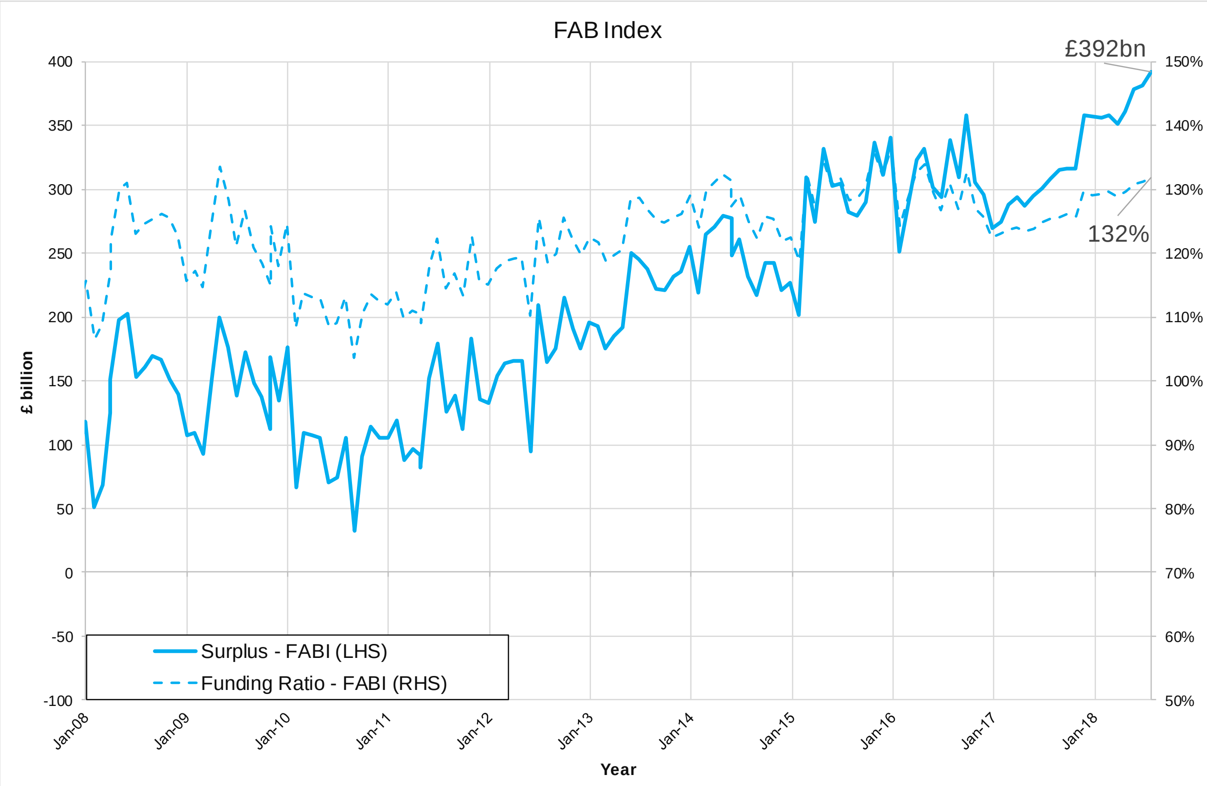
Assumptions	Expected future inflation (RPI)	Expected future inflation (CPI)	Weighted-average investment return
31 July 2018	3.5% pa	2.5% pa	4.1% pa
30 June 2018	3.5% pa	2.5% pa	4.0% pa
31 May 2018	3.5% pa	2.5% pa	4.0% pa

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 is updated on a monthly basis, providing a comparator measure of the financial position of UK DB pension schemes.



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#FABI

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.