

FAB INDEX

The technical bit...

Over the month to 30 September 2020, First Actuarial's Best estimate (FAB) Index improved slightly, with the surplus in the UK's 5,422 Defined Benefit (DB) pension schemes increasing from £313bn to £317bn.

The deficit on the PPF 7800 Index worsened during September 2020, increasing from £140.5bn to £166.1bn, with the funding level falling from 93% to 91%.

The underlying numbers used to calculate the FAB Index are as follows:

FAB Index over the last 3 months	Assets	Liabilities	Surplus	Funding Ratio	'Breakeven' (real) investment return
30 September 2020	£1,771bn	£1,454bn	£317bn	122%	-1.5%
31 August 2020	£1,755bn	£1,442bn	£313bn	122%	-1.4%
31 July 2020	£1,775bn	£1,447bn	£328bn	123%	-1.5%

The overall investment return required for the UK's 5,422 DB pension schemes to be 100% funded on a best-estimate basis – the so called 'breakeven' (real) investment return – has decreased to minus 1.5% pa. This means the schemes need an overall actual (nominal) return of 1.6% pa for their assets to meet liabilities.

The assumptions underlying the FAB Index are shown below:

Assumptions	Expected future inflation (RPI)	Expected future inflation (CPI)	Weighted-average investment return
30 September 2020	3.1% pa	2.5% pa	2.6% pa
31 August 2020	3.1% pa	2.6% pa	2.7% pa
31 July 2020	3.1% pa	2.5% pa	2.6% pa

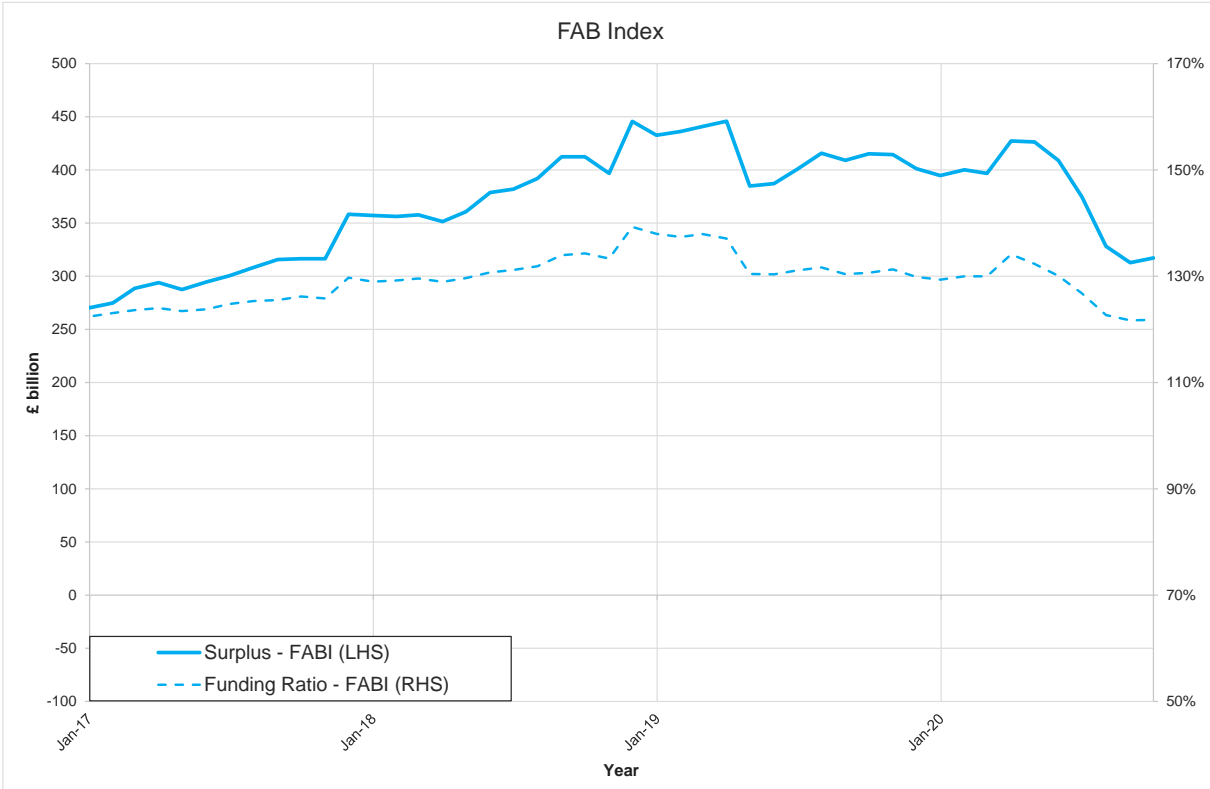
The weighted-average investment return is calculated assuming that schemes continue to invest in line with their current strategies indefinitely. In particular, we have not made any allowance for any changes that will be made to investment strategies to comply with The Pensions Regulator's future revised funding code.

Whilst liabilities calculated on a best-estimate basis aren't suitable for scheme funding, we believe that trustees need this information, along with the buy-out solvency position, before they can arrive at a sensible value for funding.

Notes

The FAB Index is calculated using publicly-available data underpinning the PPF 7800 Index – which aggregates the funding position of 5,422 UK DB pension schemes on a section 179 basis – together with data taken from The Purple Book, published jointly by the Pension Protection Fund (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 DB schemes, with our clients concentrated in the small to medium end of the pension scheme market. Our client base covers diverse sectors, including manufacturing, financial services, not-for-profit organisations and those running services previously provided by the public sector.