Birthday wishes

In 10 years the Pension Protection Fund has become a vital part of the pensions industry, making great strides to protect members of defined benefit schemes. As it celebrates its 10th birthday, Natalie Tuck speaks to PPF general counsel David Taylor on its achievements to date and what will be wished for as the birthday candles are blown out

Congratulations on celebrating your 10th year since the creation of the Pension Protection Fund in 2005. Tell us about some of the PPF's greatest achievements?

We have come a long way since we opened our doors in 2005, when we were a start-up with £20 million from government and only 50 people.

Now the PPF employs over 250 staff, has £23 billion of assets under management, and is responsible for more than 220,000 members (over 500,000 if the Financial Assistance Scheme and schemes in assessment are taken into account). We give reassurance to the 11 million people who belong to defined benefit schemes that there is protection if their employer goes bust and can't afford to pay their promised pension. That's a huge achievement to celebrate.

Over the past decade, we have developed, enhanced and improved all areas of our business. Notably, we have improved the way we assess insolvency risk and the levy paid by schemes and in 2014 developed the new PPF specific model with Experian, allowing us to offer levy-payers greater transparency and predictability. Our investment strategy has also evolved over the past 10 years as we continue to grow in size and capability. We have expanded our portfolio to include more alternative investments, such as secondary private equity and farmland, and we are starting to invest in assets with hybrid characteristics.

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We have changed behaviours in the industry, for example vastly reducing the time it takes to bring schemes through the PPF assessment period. Assessing and managing our risks has also been vital and over the years, we have restructured our risk functions to reflect the models used in the banking and insurance industries. This year we hired our first chief risk officer to maintain and enhance our management of both the financial and operational risks we face.

In March, the PPF said it intends to move all asset managers and member services in-house by 2018, as part of a three year strategic plan. Why did the PPF make this decision? How much of this have you achieved so far?

The main focus for us at the PPF is our levy-payers and members and over the past year we have taken steps to alter our investment approach and member services operations to their advantage. We decided to insource part of our investment management capability – for assets where the additional control and flexibility afforded by in-house management will be beneficial. We expect to in-source elements of our LDI assets first, targeting around 25 per cent in the first year, but will keep this under review year on year. However, this is a long-term plan as it is about getting the capability right, so we are taking the time we need to make this work.

Furthermore, we want to make sure we always provide the best service possible for our members, and to achieve this, we have decided to bring the PPF's member services operations in-house. This is a very complex project and we are taking our time to make sure we are fully prepared before we begin to transfer members to our in-house services so that that the transition will be seamless, and we deliver the highest possible standard of service. In the meantime, our partner Capita will continue to provide our member services as normal.

The PPF 7800 index is a vital piece of data updated each month. How important are the index updates for the schemes in the PPF and the wider pensions industry?

We have a good understanding of the risks posed by the schemes we protect. The PPF tracks external risk on an ongoing basis, using the comprehensive data that schemes must provide annually to The Pensions Regulator through the scheme return process. This provides us with a comprehensive view of UK pension scheme funding, which we then update on a monthly basis. The data is used to help determine the levy paid by schemes, and more importantly, allows analysis of our wider environment which ultimately, by helping us understand our risks, informs our funding strategy.

Given the value of this information, we make this data available to the industry in both the PPF 7800 Index, which looks at the monthly estimated aggregate financial position of the pension schemes we protect, and, with The Pensions Regulator, the 'Purple Book'. This provides unique insight on the universe of PPF eligible schemes. Together these form an invaluable gauge of our risks, which gives us important insight, as we move towards our goal of being financially self-sufficient.

Of course, while the monthly point estimate of funding is a useful indicator, the key question both for schemes and for the PPF is long-term sustainability. This is why we publish and update our probability of success in achieving our long-term funding target.

Has the PPF deficit been affected by the long-term low interest rates?

Our comprehensive approach to hedging means that we have been very largely shielded from the effects of long-term low interest rates – by contrast to many of the schemes we protect. Accordingly we have not had to change our long-term investment strategy.

Our access to the underlying comprehensive data set of all our eligible pension schemes not only allows us to make much of the information available to the industry, but more importantly, provides a robust base to our risk work. We can use this data to underpin our modelling and at an individual scheme level, look at idiosyncratic risks in a well-informed way.

The PPF levy rules were last updated in December, with minimal changes. At the time you said the rules will be maintained for three years but will be kept under review because of the switch to the PPF-specific model for assessing insolvency risk. Are there any plans to update the rules so far because of this? How important is it to give time and help to schemes to enable them to understand the rules?

As we mentioned in December, we will keep the impact of the switch to the PPF-specific model under review and announce our plans for 2016/17 in September, for consultation in the usual way. We will look at how the model has performed and whether there are any necessary changes. However, we know the industry values stability wherever possible and, given the short period since the model came into operation, we will not rush to make changes based on limited evidence.

We place high importance on taking the time to help schemes understand the levy rules and consequently endeavour to group more material changes together for a triennium break point. Following the new model we have put a lot of effort into working closely with Experian to develop a web-based portal, enabling both employers and scheme members to access information on how the new model will operate. We have continued to communicate with our levy-payers throughout the process and are always available to answer any queries directly.

As you look forward to the next 10 years, what goals does the PPF hope to achieve? Are you on target to achieve self-sufficiency by 2030?

A key part of our strategic ambition is to be financially self-sufficient, which means we will have confidence about being sufficiently funded to meet our long-term liabilities. The target of 2030 is a guideline to achieve this, rather than a deadline. As of March 2014, we had a 90 per cent likelihood of being financially self-sufficient by 2030. We were managing £16.25 billion of assets, with a funding position of 112.5 per cent and reported a surplus of £2.4 billion. We will publish a further update later this year. And as we move towards our self-sufficiency target, over the next 10 years we will consolidate the organisational changes described above to ensure we are ready to handle the many risks we still face.

Written by Natalie Tuck