I n January this year the Pension Protection Fund (PPF) welcomed its 1,000th member, almost 15 years on from its launch in 2005 – the Carillion Rail Pension Scheme. Since its inception, it has rode out the financial crisis, the impact of the Brexit vote and several high street insolvencies.

The Covid-19 pandemic, however, has been a crisis like no other. Although the lifeboat fund has been resilient, now 12 months on from welcoming its 1,000th scheme, it is warning that multiple large insolvencies in 2021 could wipe out its reserves, which have fallen by £1 billion already.

Not only that, its latest annual report saw a downgraded probability of it being at least 110 per cent funded by 2030 – down from 89 per cent to 83 per cent (31 March 2020). Its probability of success remains high, but the latest figure is the lowest since March 2010, when it was also recorded at 83 per cent.

Its funding ratio also declined by 5.2 percentage points to 113.4 per cent, which it said was due to market turmoil in the weeks prior to 31 March 2020. As mentioned, its reserves fell by £1 billion to £5.1 billion, whilst the benefits paid out rose by £5.6 billion to £28.7 billion. Its return, however, remained steady at 5.2 per cent, while the amount of levy it collected increased by £6 million to £567 million.

A PPF spokesperson says that since 31 March, it has seen a good recovery. Its hedging programme, for example, and long-term, low-risk approach to investment has helped to minimise the impact of market turbulence. "Our investment strategy is built to withstand market shocks and our decision to reduce the risk on our portfolio at the start of the final quarter protected us well," its spokesperson says.

The PPF has been somewhat indirectly protected from the mass insolvencies it is concerned about as a result of government support for companies, such as the furlough scheme. However, it has previously listed the end of the scheme, currently scheduled for March 2021, as a "trigger date", which it is keeping its eye on.

A PPF spokesperson says: "It's difficult to accurately forecast what claims we might receive at any given time, made all the more uncertain in the current environment. The government's ongoing business support measures are likely to be delaying insolvencies and so far, the number of claims has been lower than in recent years.

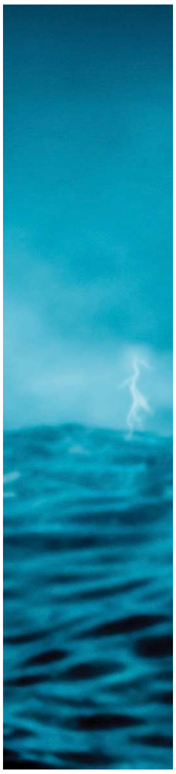
"We anticipate seeing higher claims in the future than we might have expected pre-Covid-19, and are ready and prepared to support those schemes and members as needed. We take a long-term view, and our assessment of potential future claims is informed by scheme funding (as tracked by the 7800 index) and our own Long-Term Risk Model (LTRM)."

Nonetheless, its reserves are currently

Summary
- Despite seeing its reserves fall by £1 billion, the PPF says it remains resilient and in a strong financial position.
- It has been able to offer support to schemes through initiatives such as extending levy payment deadlines.
- In spite of the pandemic, it has still progressed with its efforts on responsible investing and its goal to be a more diverse workplace.

Anchor down

The coronavirus pandemic has been a crisis like no other, but how has it impacted the Pension Protection Fund? Natalie Tuck reports



in a good position and it feels "confident" in its ability to withstand those claims. Its LTRM looks at over one million different scenarios, including factors such as claims and interest rates. "In 83 per cent of those scenarios we will achieve our funding objective which is to be self-sufficient by our funding horizon, currently set at 2030," its spokesperson says.

When the pandemic hit, like most workplaces, the PPF had to adapt to remote working, but it has largely been "business as usual" for the fund. Throughout the crisis, the PPF has continued to pay members (and employees) on time, and has maintained its "consistently high levels of customer service".

Lifeguard duties

The fund is often referred to as the pensions lifeboat, as it rescues sinking schemes, but the pandemic has seen it provide lifeguard duties, throwing a ring out to help schemes stay afloat.

For example, earlier this year the PPF gave levypayers struggling with the effects of the pandemic a 90-day interest-free extension to pay their 2020/21 bill, offering them the opportunity to fill in a 'Covid-19 notification form' after receiving their invoice. It has since said that it is looking at simplifying this process.

"So far, the levy extension has been well received, with nearly 50 accepted applications. We are pleased that this new measure, along with our existing levy payment plan option, is able to help our levypayers where they have been affected by the pandemic," its spokesperson says.

In addition, it also recently announced that due to its strong funding position it would not be raising the levy for the next year. Based on current estimations, it expects to collect £520 million for the 2021/22 levy year. The PPF has also consulted on two targeted measures to help schemes – halving the levy for the smallest schemes, and a reduced cap from 0.5 per cent of a scheme's liabilities to 0.25 per cent.

Furthermore, it has decided that the normal process of having a three-year levy plan would be put on hold until 2023/24, due to the unpredictability of the Covid-19 pandemic. This is because of the uncertainty surrounding how claims and risks will develop in the future.

"The current environment makes setting an appropriate level for the levy particularly challenging," PPF executive director and general counsel, David Taylor, previously stated. "There is significant uncertainty about how claims and risks will develop so we've moved away from a multi-year approach to setting the rules. This means we can respond dynamically when setting the amount of levy we collect each year."

The bigger picture

The pandemic may have taken up a lot of time this year, but the PPF has not forgotten about other aspects of its work. In August this year, its first responsible investment report revealed it has progressed 51 per cent of its engagement objectives to the next milestone as part of its stewardship activities in 2019/20.

The report showed that PPF had been most adept at progressing social objectives, with 57 per cent having reached their next target, compared to 54, 47, and 42 per cent for governance, environment and strategy, risk, and communication objectives, respectively. Completed objectives covered a wide range of areas, from forced labour and modern slavery to action on board composition and diversity and inclusion.

Actions taken included the PPF's external provider's support of the '30 per cent Club' through the development of a board level diversity recommendation to have 30 per cent women on FTSE 100 boards and 25 per cent on FTSE 250 boards. The fund also supported the creation of a central registry to enable stakeholders to access companies' modern slavery statements and to include a list of companies required to comply with the Modern Slavery Act.

"We have always been responsible stewards since the PPF began in 2005, and a signatory to the UN-supported Principles for Responsible Investment (PRI) since 2007. Responsible investing is a priority in our strategic plan and environmental, social and governance (ESG) factors have always been embedded in our investment process," its spokesperson says.

In addition to this, the PPF is also striving to be a more diverse and inclusive workplace. In May, it published its five-year diversity and inclusion strategy, detailing plans to achieve year-on-year increases across all areas of diversity.

The PPF says it will also seek to ensure that at least 85 per cent of staff hold a strong belief that PPF is a diverse employer that supports inclusion, while it also aims to be externally recognised as innovating in this area by doing more than just supporting established initiatives.

"As an organisation we want to emulate best practice, and we've embedded the Senior Managers and Certification Regime, ensuring accountability and responsibilities across the board," its spokesperson says. "We also measure our progress against external standards such as the Race at Work Charter and the Women in Finance Charter, where we achieved our goal of 40 per cent of women in senior positions in October 2019, ahead of the December 2021 goal.

"More recently, in October, we became a Disability Confident Leader and now act as a champion encouraging other businesses to follow our lead…. We want the PPF to be seen as a great place to work and are supportive of a good work-life balance, always important but particularly in these challenging and demanding times."

Written by Natalie Tuck