

# From an industry lifeboat to an industry leader



David Shaw

➤ **The past year was challenging for many given the backdrop of uncertain inflation and interest rates, but the PPF maintained its strong funding position, with reserves growing to £13.2 billion. Can you tell us a bit about how the PPF was able to achieve this result?**

As you say, we've maintained our strong funding position in the past year. Our latest *Annual Report and Accounts* for 2023-24 showed another year of strong investment performance helping further build our reserves. This is really positive for our current PPF members and the circa nine million DB scheme members that depend on us.

We've sustained this strong investment performance over many years – reflecting the solid foundations we've built, namely having the right people, approach and framework to deliver.

We operate a split portfolio – a matching portfolio, which helps to manage the risk of changing interest and inflation rates, and a growth portfolio, which is focused on protecting and building our reserves to protect against longevity and future claims.

Our growth portfolio performed positively over the year, delivering an annual return of 7.2 per cent – public equity, absolute return strategies and emerging market debt were the highest returning asset classes. The higher interest rate environment meant we experienced a fall in the value of our liabilities, which contributed to the increase in our reserves.

We keep our approach under constant review and remain focused on continuing to deliver against our mandate in 2025.

➤ **Whilst this year has been very encouraging for the PPF, there are still some outstanding areas to be addressed. In particular, the Work and Pensions Committee (WPC) report previously recommended that the policy of not providing indexation of pre-1997 benefits for members of the PPF and Financial Assistance Scheme (FAS) be revisited “as a matter of urgency”. What conversations have you had on this issue with the new committee members or government, if any, and what are the next steps in navigating this issue?**

The concerns of FAS and PPF members about the absence of pre-97 indexation are uppermost in our minds. I recently attended one of our regular member forums and heard firsthand the impact this is having on members.

➤ **Pension Protection Fund (PPF) director of strategy and policy, David Shaw, sits down with Sophie Smith to talk about how the lifeboat dealt with the challenges faced in 2024, and the work still to do as we head into 2025**

We've shared these with government on a regular basis and through submissions to the previous WPC. We expect to discuss this further when we meet with new committee members in the coming months.

This is ultimately a matter for government – legislative change would be required – but we'd welcome any steps by the government to look afresh at our indexation rules. We've made publicly available our analysis of the impact of any prospective changes to PPF indexation levels to help inform the wider discussion and will continue to do so.

We're expecting the government's response to the committee's report in the New Year.

➤ **Whilst the strong funding level enabled the PPF to confirm its lowest ever levy estimate of £100 million for 2024/25, legislative constraints have continued to limit its ability for further cuts. We're aware that the PPF is in discussion with the government on this issue though, so can you tell us a bit about how these conversations are progressing?**

As you'd expect, we speak to colleagues in government on this, and

other topics, regularly. On levy, we've highlighted for some time the need for greater flexibility in the legislation. This was a key conclusion from our funding strategy review back in 2022.

It's important to stress that changing the law is ultimately a matter for government and parliament. It's rightly for ministers to decide on this, not us. We also recognise that policy makers may see this in a broader context, for instance alongside growing calls from our members for improved inflation protection, particularly on pre-97 increases.

That said, we believe there would be broad consensus among stakeholders for changing the law to support our future levy plans. Respondents to our recent levy consultation made a clear call for the legislation to be changed as soon as possible – we have made sure DWP are aware of these.

Many respondents noted that the coming Pension Schemes Bill gives a potential legislative opportunity, although changes for the levy aren't currently among the proposed measures for this bill.

**➤ Some industry experts have argued that the lifeboat should look to cut its levy even without, or in advance, of any legislative changes to the levy rules. Given this industry feedback, can you tell us what is preventing the PPF from doing this, and the main concerns around lowering the levy further?**

We've made very significant reductions to the levy over the past few years. However, as you say, there have been calls for us to go further and commit to reducing the levy, if not stopping it entirely, even in the absence of legislative change.

Our concern is that doing so would effectively mean giving up our ability to raise a material levy in the future should we need to do so, because legislation limits annual

increases in the levy to 25 per cent.

As you would expect our board take their responsibility of ensuring financial security for our current and future members extremely seriously. And whilst it currently looks unlikely we'll need to reintroduce a material levy that cannot be ruled out – after all we are effectively underwriting an industry with liabilities of around £1 trillion.

At the same time we do understand levy payers' desire to see the levy fall as rapidly as possible. We don't want to charge the levy for any longer than is needed. We are currently in the process of considering responses to our consultation and intend to publish our conclusions for 2025/26 in the coming weeks.

**➤ Levy aside, the start of this year saw a lot of focus on the PPF, particularly in terms of what role the lifeboat could play as a public sector consolidator. Whilst discussion around the potential PSC has slowed since the general election, it has not been ruled out, with the Pensions Minister recently suggesting that further updates on this idea could be seen "in the coming months". Can you tell us a bit about whether you've had any discussions with the new government about this idea?**

Greater consolidation seems to be a common thread that runs through the reforms set out so far. So, perhaps we might expect to see some measures to deal with the fragmentation of the DB market and the derisking that has seen schemes increasingly move away from investment in UK private markets. And we know from our discussions that the government is continuing to consider

the potential role of a public sector consolidator. However, obviously the government will be looking at a range of priorities across the pensions landscape and we need to wait and see where and when DB will ultimately fit into this. For our part, we remain ready to use the skills and capabilities we have at the PPF to help government improve outcomes – whether that's through a public sector consolidator or other means.

**➤ Finally, given the government's expected updates on the DB market, and the broader pensions review, what are the key pension policies, ideas and developments that you would like to see taken forward by the government in 2025?**

We will be closely following the passage of the Pension Schemes Bill and next steps on the consolidation agenda beyond LGPS and DC.

It would make sense for DB to part of that conversation. Given the £1 trillion scale and highly fragmented nature of the DB market – almost 1,000 schemes have less than £5 million in assets – consolidation could drive better outcomes for members and employers and unlock significant benefits for the wider economy.

We also look forward to the second phase of the Pensions Review. Addressing the adequacy challenge remains vital and it'll be interesting to see whether interest in CDC solutions grows. For our part, we have been thinking about how the pensions landscape might evolve in the future which could help inform the debate.

And of course, next year is a significant year for the PPF as we mark 20 years in operation. So, next year, when we set out our new strategy for the next three years we will be reflecting on how far we have come, where we stand and looking ahead to the future.

**➤ Written by Sophie Smith**

