Purple Book 2024: The PPF's present to the pensions industry

> **Shalin Bhagwan unwraps the goodies inside this year's** *PPF Purple Book*

You know December is rolling around when the radio waves take on a rather eclectic mix, from Cliff Richard to The Pogues, and these days it seems the early signals come even earlier as shops seem to bring out the Christmas fare almost as early as the shelves are stocked with all the Halloween goodies. But as you tap your toes to the sounds of *Last Christmas* spare a thought for the elves at the Pension Protection Fund (PPF) who are hard at work across Croydon and London creating the latest edition of the *Purple Book* – the perfect early Christmas present!

Now in its 19th year, the *Purple Book*, also known as *The Pensions Universe Risk Profile,* is an important resource for DB pension professionals. It tells the story of the evolution of the DB landscape and how trustees are managing the risks they currently face.

This year, we have introduced two important changes to the *Purple Book.* First, we've updated our roll-forward methodology for calculating assets and liabilities by incorporating a broader range of market indices using more granular asset allocation data, which has recently become available to us, as well as allowing for benefit cashflow estimates. Second, we've updated the scheme status data based on analysis by The Pensions Regulator (TPR). Our new approach is similar, in principle, to the new methodology used by TPR and our new asset estimates will also be more comparable with those published by the Office for National Statistics (ONS), but the differences in how each organisation's figures are constructed and calculated will remain.

Ultimately, we believe these changes will enhance the value of the *Purple Book* and 7800 index and help inform schemes and broader industry on DB trends. We've made these updates in this year's figures and we've also restated the 2023 figures for easier comparison. They will also apply to the PPF 7800 index from the December 2024 update onwards.

Overall, the story the *Purple Book* tells this year is one of broad stability, with slight improvements in universe scheme funding in the year to 31 March 2024. The funding position on a section 179 basis showed a net surplus of £219 billion and a funding ratio of 123 per cent, largely consistent with last year's (restated) figures of £207 billion and 120 per cent, respectively. The net deficit of schemes that are in deficit, on the same basis, fell to £21 billion. Meanwhile the funding ratio, estimated on a full buyout basis, rose to 94 per cent.

In the context of the debate on how schemes' investments could help boost economic growth in the UK, this year's *Purple Book* provides some interesting insights into the asset allocation of DB schemes. What we have seen is another reduction in the overall proportion of assets held in equity – down to almost 15 per cent – and in UK equities within that – now less than 7 per cent. Meanwhile, the overall bond allocation has remained steady at around 70 per cent.

This continuing trend of risk reduction is also seen in other areas. DB pension schemes have continued to close to new benefit accrual, with only 4 per cent open to new members and future accrual, 19 per cent open to future accrual but not new members, leaving 77 per cent of the universe closed to both new members and future accrual. 2023 was also a record year for risk transfer (buy-ins, buyouts and longevity swaps), with £60 billion worth of deals being struck – this is around 5 per cent of the universe liabilities on an estimated full buyout basis.

So, while we've seen overall stability in scheme funding in the past year, the DB universe continues to mature, meaning the focus on endgames is only likely to sharpen in the years ahead.

> **Written by PPF chief actuary and interim chief financial officer, Shalin Bhagwan**

Pension Protection Fund