Pension
Protection
Fund

PPF Funding Strategy

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ACA 18th November 2010

“The report of my death is an exaggeration” Mark Twain 1897

Pension Protection Fund

- Annual report for 2009/10 shows improved funding over 2008/09 (£1.2bn deficit).
- Strong investment performance and few claims than in 2008/09
- While short-term balance sheet positions are important measures of our strength, PPF’s role is not a short-term undertaking: we have set our sights on the years and decades ahead.

"I'm afraid to tell you there's no money left"
Liam Byrne 2010

Pension Protection Fund

- We expect risk to decline significantly over the next 20 years:
  - Size of the insured population
  - Scheme de-risking
  - Liability duration

- PPF must reinforce balance sheet as scope for levy recedes

- Our funding objective is '**self sufficiency**' by 2030:
  - Zero market risk
  - Zero interest rate and inflation exposure
  - Reserve (10% of liabilities) to hedge future claims and longevity risk

“In this world nothing can be said to be certain, except death and taxes” Benjamin Franklin 1789

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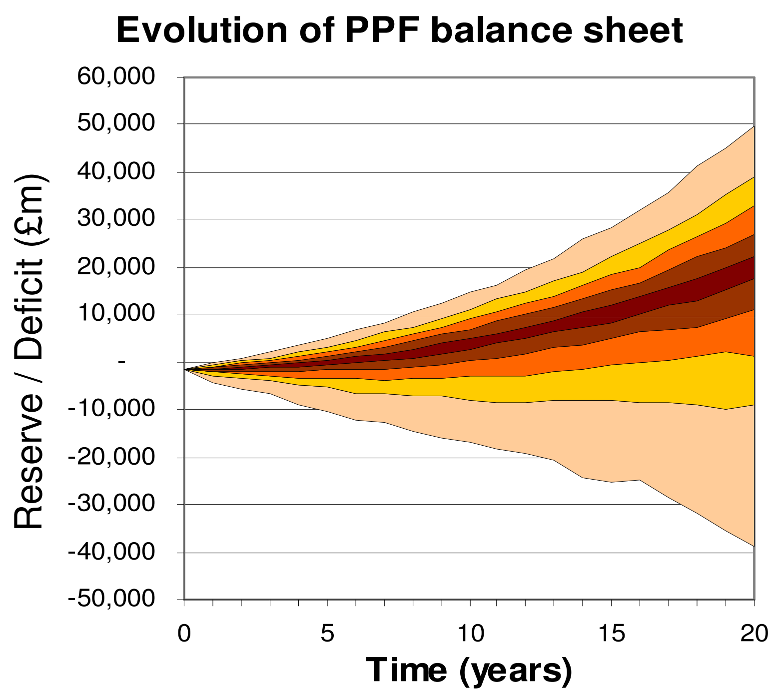
- Using our Long-Term Risk Model (LTRM), we can estimate our probability of meeting this funding objective
- Projections at 31 March suggest a probability of **83 per cent**
- The Board has expressed a desire to maintain a probability of at least 80 per cent
- But: projections also suggest a one-in-ten chance of PPF developing a deficit of more than £14 billion



"If a man does not know what port he is steering for, no wind is favourable to him" Seneca c50 AD

Pension Protection Fund

Levy

- Increased risk (e.g. worsening funding, increased likelihood of claims) will be reflected in lower 'probability of success'
- May result in Board opting to increase levy (and vice versa)
- Long-term view enables **smoother levy path**

Other levers

- Better able to judge if, when and how to deploy

Investment

- New investment strategy adopted in March 2010
- Approach selected to **maximise 'probability of success'** while minimising risk of a large loss