Annual Review

Looking back on 2010/11

Pension Protection Fund

A message from our Chief Executive, Alan Rubenstein

We have a vision to protect people's futures

More specifically, we have a vision to protect your futures, as members of the Pension Protection Fund (PPF).

That is why I am pleased to tell you that during 2010/11 we continued to deliver - and develop - as an organisation to make sure we are more equipped than ever before to fulfill this vision.

I believe the excellent progress we have made during the year will give you further confidence that we will pay your compensation when you need it, for as long as you need it.

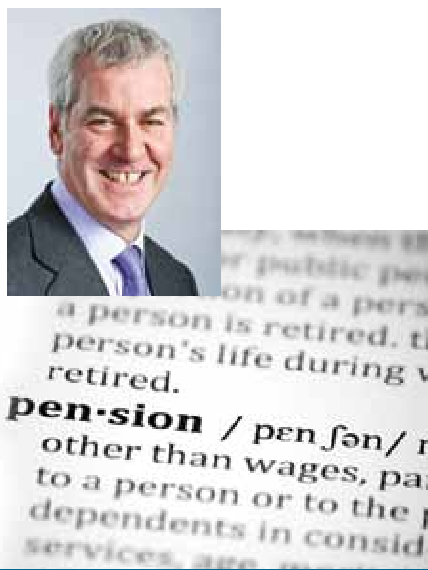
And, remember, this progress was made during a difficult time economically.

So, let me tell you about some of the year's highlights.

- We are now protecting more than 260,000 people
- We have almost £6.3 billion worth of assets, and
- This year, we reported a surplus of £678 million, up £284 million on the previous year.

While these figures provide a valuable snapshot of where we are now, they should also be seen in the context of our objective to be financially self-sufficient by 2030, something we remain firmly on course to achieve.

Please take time to read this publication as it highlights what we achieved during 2010/11 and includes some of our plans for the future. I hope you find it interesting and informative.



Making sure you get your compensation

Because of economic uncertainty – and the steady flow of schemes transferring to the PPF – our mission to pay the right people the right amount at the right time was never more important.

By the end of March 2011, almost 75,000 people had transferred to the PPF, an increase of about 29,000 on the previous year.

> “We are protecting a further 188,000 people who belong to schemes being assessed for entry into the PPF, as well as a similar number of people who are eligible for the Financial Assistance Scheme which we manage on behalf of the Government.”

We are protecting a further 188,000 people who belong to schemes being assessed for entry into the PPF, as well as a similar number of people who are eligible for the Financial Assistance Scheme which we manage on behalf of the Government.

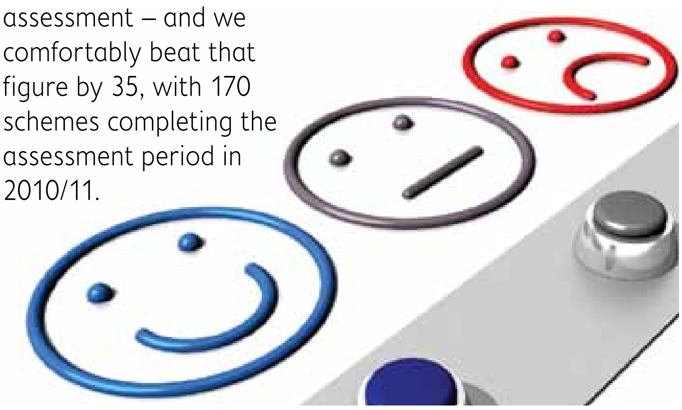
We are always conscious that people whose schemes are being assessed for entry into the PPF can become more worried and uncertain the longer it goes on.

Therefore, one of the best ways we can reassure our members that they are getting the protection they need is to make sure that schemes complete our assessment process as quickly as possible.

This year saw the completion of a pilot project aimed at improving the performance of everyone involved in getting a scheme into the PPF, scheme trustees and PPF staff alike.

There were 50 schemes in the pilot and they all transferred more quickly than they would have done under the old processes. This success means that we will now extend the pilot to include all schemes in our assessment period, with the aim of reducing the time it takes to complete assessment from an average of 35 months to an average of less than 24 months.

Also during the year, we set ourselves an overall target of getting 135 schemes through assessment – and we comfortably beat that figure by 35, with 170 schemes completing the assessment period in 2010/11.



Move from RPI to CPI

During the year, we wrote to you about an important change to the way the compensation you receive will be calculated in the future.

Compensation which relates to pensionable service after 5 April 1997 may increase in line with inflation each year, subject to a maximum of 2.5 per cent a year.

The Government introduced new rules in 2010/11 which mean that, instead of using the Retail Prices Index (RPI) to calculate those increases, we now have to use the Consumer Prices Index (CPI).

RPI and CPI both measure inflation by tracking changes in the costs of certain goods and services. But, as they don't track the same goods and services, they produce different rates of inflation.

Because the CPI figure is generally lower than the RPI figure, your compensation may not increase by as much as it might have if the Government continued to use RPI.

If you need any clarification on this, then call our operations team on 0845 603 7224, email us at **members@ppfonline.co.uk**, or look on our website.

BALANCING THE BOOKS

We want you to share our own confidence in the future of the PPF.

That is why we published a long-term funding plan which sets out how we intend to have the financial resources needed to pay your compensation – and for us to become financially self-sufficient by 2030.

Being financially self-sufficient by 2030 means that:

- our investments are not then at risk from sudden changes in the financial markets
- we can take on further pension schemes without damaging our balance sheet, and, most importantly,
- we can continue to pay your compensation, even if people, generally, live longer that we might currently expect.

Everything that we do, therefore, should be seen with this overall aim in mind.

By 31 March 2011, we were £678 million in surplus, an increase of £284 million from the previous year.

Further good news is that based on our current assumptions about the future, our probability to becoming self-sufficient by 2030 has increased from 83 per cent in March 2010 to

87 per cent in March 2011.

There are four main income streams that will help us manage this probability. They are:

- the levy we impose on all eligible pension schemes
- returns on our own investments
- assets from schemes that transfer to the PPF, and
- recoveries from insolvent employers where the PPF acts as a creditor.

While this is encouraging, we are fully aware that nothing is certain so we constantly keep an eye on the risks that we face so we can minimise and deal with them as effectively as possible.

Investing for your future

The amount of money we make from our own investments continued to grow substantially during 2010/11.

This means that our investment returns will play an increasingly significant role in helping us meet our plans to become financially self-sufficient by 2030, as well as paying your compensation.

During the year, our assets grew from £4.4 billion to almost £6.3 billion.

We also updated our investment plans so that we could bring greater returns by investing in a broader range of assets – but without increasing our level of risk.

We invested £1.6 billion during the year and received a return of 4.7 per cent (equivalent to £214 million).

While we have outperformed our benchmarks during the year, we always keep an eye on the long-term investment horizon over which we aim to achieve consistent performance that is not affected too much by volatile financial markets.

In recognition of our performance, we were named Risk Magazine's Pension Fund Risk Manager of the Year in its annual awards scheme which was a great achievement for our investment team.

As part of our commitment to responsible investment, we were among the first signatories to the new UK Stewardship Code adopted by the Financial Reporting Council in July 2010.

This code aims to improve the quality of engagement between investors and companies to help maximise long-term returns as well as improve and strengthen the way companies are run.

Pension protection levy – present and future

We charge a levy on all schemes whose members are eligible for our protection.

The money we raise remains crucial to our ability to pay your compensation – although income from our own investments is becoming increasingly important to our future.

Each year, we estimate what we will collect during the next 12 months.

In September 2010, we announced that we would set a levy estimate of £600 million for 2011/12, a reduction of £120 million on the previous year.

We made this reduction because of Government plans to increase PPF compensation in line with the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI).

This meant we could protect our own financial position while helping levy payers during difficult economic times.

During the year, we also confirmed a new framework for the levy to come into effect from 2012/13.

This new framework will provide levy payers with the predictability and stability in their levy bills that they have been asking for.

Invoicing and collecting the 2010/11 levy started in September 2010. By the end of March 2011, we had collected 95.6 per cent of uncontested levies, beating the target we set ourselves of 90 per cent.

> “This new framework will provide levy payers with the predictability and stability in their levy bills that they have been asking for.”

Making a recovery

When a company with an eligible pension scheme goes bust, we become a creditor, acting on behalf of the scheme trustees.

We then try to recover as much as we can from the former employer to help reduce the pension deficit.

Recoveries are an important income stream. We have now made – or expect to realise in the future – more than £1 billion since we were set up.

TRANSFER OF SCHEME ASSETS

When a scheme enters the PPF assessment period, we will take on its assets.

During the year, we transferred £1 billion in cash and other assets from schemes which had entered the PPF.

Acting responsibly

We have long recognised that, as a responsible employer, we should contribute to the local community and beyond.

During the year, we took part in three community days. We cleared overgrown land at a community centre so they could hold their annual fete, dug out a wildlife pond for a primary school and, for the third year running, served Christmas dinner to members of a pensioners' drop-in centre.

We also ran a successful reading partnership project with a nearby primary school where more than 20 members of staff read and mentored pupils once a week throughout the year. This will continue next year.

A number of charities benefited from our efforts during the year after we raised hundreds of pounds for causes such as the Pakistan flood appeal, Jeans for Genes day and Macmillan Cancer Relief.

KEEP US UP-TO-DATE

It's important that the information we hold about you is accurate and up-to-date.

It ensures that you receive the right amount of compensation at the right time.

Therefore, please let us know straight away if any of your personal circumstances change, eg you have moved address.

Call our operations team on 0845 603 7224 or email them on **members@ppfonline.co.uk** to let us know if any of the personal details you originally provided us have changed.

A maturing organisation

Our staff remain our greatest asset and we work to create an environment which gets the best from them.

But also, we recognise that – as a public organisation funded by levy payers – we need to demonstrate that we are being as efficient as we can in everything that we do.

During the year, therefore, we implemented plans designed to further improve efficiency across the organisation.

These included reducing the amount we spend on back office by 10 per cent, in favour of front office functions. These efforts resulted in us underspending our overall budget of £34.6 million by £3.3 million.

One other important measure of efficiency is the average administration cost per PPF member. This fell from £100 in 2009/10 to £85 in 2010/11.

By 31 March 2011, we had 291 employees, down on last year's figure of 302, mainly because of a public sector-wide recruitment freeze.

But, in our latest staff survey, almost 70 per cent of staff recommended the PPF as a good place to work.

And we received outside endorsement in February 2011 when we were named in the One to Watch category of the Best Companies to Work for in the Public Sector, a national award scheme which allows us to compare our performance with other similar bodies.

Managing the Financial Assistance Scheme

The Financial Assistance Scheme (FAS) was set up to help people whose employers went bust before April 2005 while the PPF helps people whose employers went bust after that date.

We took over the management of FAS in July 2009, although it remains funded by the Department for Work and Pensions (DWP).

During the year, the number of people receiving FAS assistance increased from 15,218 to 16,917 and we paid out £45 million in assistance.

We also transferred 287 schemes to our administrators, Capita, beating the target we set ourselves at the beginning of 2010/11 of 250.

Meeting our members

In November 2010, we held the second of our member days where we invite those of you receiving our compensation to visit our Croydon offices and meet PPF staff.

More than a dozen members and their guests, aged between 60 and 82, attended the day and were able to share their experiences and learn more about how we work.

All commented on the professionalism of staff and, most importantly, the positive effect the PPF has had on their lives.

As one member said: "As an individual recipient of a PPF pension, I can tell you that it has improved my quality of life immeasurably. You should all feel very proud."

If you are interested in attending a future member day, please call our customer support team on 0845 600 2541 or email us at
information@ppf.gsi.gov.uk

Contacting us

A full copy of our Annual Report 2010/11 is available on our website at **www.pensionprotectionfund.org.uk**

If you want us to send you a copy, please contact us on:
Tel: 0845 600 2541 | Fax: 020 8633 4910 | Textphone: 0845 600 2542
information@ppf.gsi.gov.uk

Facts and figures

1. By 31 March 2011, we were £678 million in surplus, an increase of £248 million from the previous year
2. By 31 March 2011, a total of 283 schemes had transferred to the PPF, representing 74,651 people
3. 335 schemes were in the assessment period, representing 187,223 members who were protected to PPF levels of compensation
4. During the year, 170 schemes completed PPF assessment, beating the 2010/11 target of 135
5. Our investment assets grew from £4.4 billion in 2009/10 to almost £6.3 billion in 2010/11
6. During the year, we spent £31.3 million running the organisation against a budget of £34.6 million
7. We saw investment returns of 4.7 per cent, beating our target by 3.9 per cent, equal to a gain of £214 million
8. We were named in the One to Watch category of the Best Companies to Work for in the public sector list
9. During the year, our customer service teams handled more than 46,000 enquiries from members and other stakeholders
10. During 2010/11, we transferred 287 FAS schemes, beating our target of 250