This year will have been especially turbulent for financial directors dealing with pension schemes. **Steven Lowe & Amarendra Swarup** give a sneak peek into the diary of an anonymous financial director to see what 2008 might have brought for them

REACHING THE CRUNCH DECISIONS

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January 2008: there was lots of media discussion about the buyout market, including a news story suggesting the top 200 pension schemes lost over £40bn in surplus in just one week – wiping out all the gains made in 2007. Pensions are a long-term game, but if trustees make an investment that doesn't work in the short term, an increase in the level of annual contributions will have to be considered.

February
Spoke with our consultant about pension risk transfer options. During Q4 2007, there were 75 pension insurance deals totalling some £1.9bn of pension liabilities, including many well-known companies. I need to understand my options.

March
I have looked into a possible buyout for the pension fund. My goals include reducing the impact on my balance sheet, controlling the demands put on my P&L by ongoing pension contributions and deciding how to take advantage of what seems to be a suddenly very competitive market place for pension risk transfer.

April
The trustee chairman seems keen on a pensioner buy-in to increase the member security and use the scheme's strong funding position to reduce the total risk. I am in favour of reducing the scheme's risk, but I need to understand the implications for the corporate sponsor and the potential impact on future corporate activity. The consultants' report will give me some idea of the costs involved.

May
I have arranged a meeting with a bulk purchase annuity insurer to discuss pension risk transfer options. Pension issues are starting to rise up my agenda as the pension liabilities seem to be increasing and assets are weakening.

June
Met with the insurer to discuss the options available – some even look affordable. A buy-in or buyout of existing pensioner benefits has been a popular trade so far this year. A buy-in means the scheme keeps its liabilities and buys an annuity contract, which is held as a 'matching asset' to the insured liability. The trustees will like this option because it doesn't favour one class of beneficiary over another. However, buyout – where the liabilities and assets are removed from my balance sheet – seems to make more sense to me.

July
Consultant reported back this month. Buyout looks like something the scheme can afford, without further contributions from the sponsor. I need to get together with the trustees and start a competitive tender process. We will assess the respondents on their pricing, financial security and ability to tailor a solution to our exact needs. Implementation will be key, as any solution where pension payments are transferred away from the sponsor is sensitive to employee relationship issues.

August
Have set up a pension risk transfer subcommittee with the trustees to ensure process gets the attention it requires to execute a transaction while market conditions allow. It is important to have a dedicated committee with agreed objectives to allow for a potentially quick execution.

September
A terrible month for the pension scheme. Asset prices have collapsed and I fear this will greatly limit options for risk transfer. If the economy is entering a recession and my turnover about to fall, the last thing I need is potentially higher contribution requirements for the pension fund.

October
Surprisingly, the funding position hasn't deteriorated as much as I feared. The rise in AA spreads due to the credit crisis and potential bank collapses meant the liabilities also fell. However, some of those AA-rated names might default or be downgraded. I have opted for a partial buyout while I can afford to hedge some of my liabilities. While it will require a contribution to maintain the funding position of the scheme, I am reassured by at least one recent buyout, where the sponsor contributed £50m into its scheme and the share price actually rose.

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