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# 2008: more misery for pension schemes

Richard Eagling talks to Mark Frost, Partner at Barnett Waddingham, about what 2008 has meant for pension schemes

**RE: Has 2008 been a positive or miserable year for the pension industry?**

MF: 2008 has seen the outlook for UK pensions crumble around our feet and clearly the recent financial crisis has had a major impact. Deficits have increased rapidly in the space of a few weeks, with returns on UK equities at - 40% over the year to 21 November. The unprecedented financial crisis has also seen the safety of the banking and insurance sector called into question. While we can all hope that the current crisis is relatively short lived, uncertainty is rife and even if there is a recovery, the ripples will be felt for some time. The short term pressures on pension funds, that have been gradually introduced over the past few years by additional layers of regulation (TPR's focus on gilt yields, company accounting issues, PPF levies, annual valuations and annual disclosures to members), mean that the recent turmoil is felt directly by trustees and sponsors, even though pensions are supposedly a long term savings vehicle.

**RE: Have there been any welcome developments in the pension industry during 2008?**

MF: It is hard to find any welcome developments. Although the recent turmoil in credit markets has helped with company accounting of pensions (as credit spreads have risen to unprecedented levels) this will merely reveal itself as a significant hit on balance sheets in some future year. For the first nine months of the year, the buyout market also became very interesting as the cost came within reach of schemes who wished to reduce their risks. Following the collapse of Lehman Brothers and the impact on credit markets, the buyout market became more difficult. However, there are still a number of interesting ideas and products being developed to help schemes reduce their risks. In addition, the publishing of new mortality tables based on occupational schemes rather than insured lives has been helpful to ensure that actuaries are not systematically overstating the costs of schemes.

**RE: What are likely to be the main challenges for the pensions sector in 2009?**

MF: Survival will be the main challenge. A year ago, we would have said that the key challenge was to get a better grip on how long people were going to live. This has now changed to how long companies can survive. For many schemes, the key asset is the sponsoring employer, which will be finding the current climate difficult enough without having to worry about increased costs from pensions. The PPF will also come under greater scrutiny and pressure as its pool of levy payers reduces and its deficit increases. Confidence needs to be brought back into the credit market to improve liquidity and ease pressure on all markets. Deflation could cause problems for schemes unless the feeling in the market is that any deflation is short lived. The Government will probably focus on ensuring smooth delivery of Personal Accounts in 2012 but in our view there are more urgent matters to attend to.