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ABSTRACT

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Abstract

Pensions are one of the most significant balance sheet items. Management of pensions is always strategic and they have long-term effects for the sponsoring company. Governments and authorities regulate pensions and pension funds. They set strict rules for corporate pension funds, which are dependent on the prevailing laws. Companies that operate globally, have to manage their pensions so that all the requirements are met and pension arrangements are according to the regulations. This requires great attention from the management of the company and thus a lot of effort is put into pensions. Pension assets need to be adequate in order to ensure that the sponsor can meet its liabilities. Also wealth protection is very important aspect for pension management. When companies expand their operations, they are faced with new pension liabilities. The employer is then obliged to fund the liabilities by funding pension premiums or outsourcing the liabilities to pension insurance companies.

The studies on pension management are very limited. Previous studies have focused on the optimization of asset management or setting of optimum funding levels. Thus the theoretical background on pensions is relatively fragmented and it has focused on detailed issues of wealth maximization. The purpose of this study is to examine the process of pension liability funding and identify the stages of the process.

This study examines the theoretical framework of capital investment process and tries to create a model for pension liability funding processes. This model is tested with an empirical case study of Stora Enso Oyj. In the case, Stora Enso Oyj finds solutions to fund its pension obligations in Germany. Each phase of the project is observed and compared to the theoretical framework. The data is obtained from the documents, e-mails, interviews, memos and materials provided by the external advisories.

On the basis of the study, it is possible to claim that the funding of pension liabilities follows the theories of investment processes of capital allocations. The process consists of initial, planning, decision-making and implementation phase. The process continues from phase to phase, but it may be suspended at any stage of the project. The purpose of the investment processes is to improve the quality of decision-making in organizations. Therefore, it may be beneficial for the companies to create similar processes for pension management.

Key words	Pensions, pension liabilities, asset management
Further information	