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Highlights

Highlights of GAO-04-395, a report to the Ranking Minority Member, Committee on Education and the Workforce, House of Representatives

March 2004

PRIVATE PENSIONS

Publicly Available Reports Provide Useful but Limited Information on Plans' Financial Condition

Why GAO Did This Study

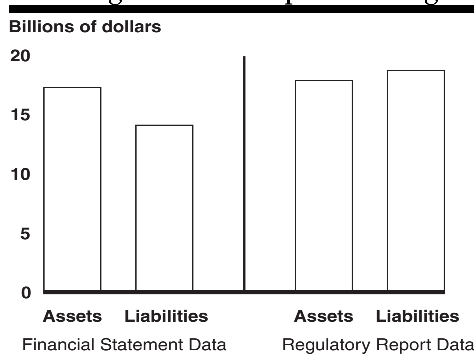
Information about the financial condition of defined benefit pension plans is provided in two sources: regulatory reports to the government and corporate financial statements. The two sources can often appear to provide contradictory information. For example, when pension asset values declined for most large companies between 2000 and 2002, these companies all continued to report positive returns on pension assets in their financial statement calculations of pension expense. This apparent inconsistency, coupled with disclosures about corporate accounting scandals and news of failing pension plans, has raised questions about the accuracy and transparency of available information about pension plans. GAO was asked to explain and describe (1) key differences between the two publicly available sources of information; (2) the limitations of information about the financial condition of defined benefit plans from these two sources; and (3) recent or proposed changes to pension reporting, including selected approaches to pension reporting used in other countries.

What GAO Found

Information about defined benefit pension plans in regulatory reports and pension information in corporate financial statements serve different purposes and provide different information. The regulatory report focuses, in part, on the funding needs of each pension plan. In contrast, corporate financial statements show the aggregate effect of all of a company's pension plans on its overall financial position and performance. The two sources may also differ in the rates assumed for investment returns on pension assets and in how these rates are used. As a result of these differences, the information available from the two sources can appear to be inconsistent or contradictory, as evidenced by the graph below.

Both sources of information have limitations in the extent to which they meet certain needs of their users. Under current reporting requirements, regulatory reports are not timely and do not provide information about whether benefits would all be paid were the plan to be terminated. Financial statements can supplement regulatory report data because they are timelier and provide insights into the probability of a company meeting its future pension obligations. However, through December 2003, financial statements have lacked two disclosures important to investors—allocation of pension assets and estimates of future contributions to plans. There is also debate about whether current methods for calculating pension expense accurately represent the effect of pension plans on a company's operations.

Several changes have been made or proposed to provide further information. In July 2003, the administration called for public disclosure of more information about the sufficiency of a plan's assets. However, no further steps have yet been taken. For financial statements, the Financial Accounting Standards Board issued a revised standard in December 2003 requiring enhanced pension disclosures, such as pension asset allocation and expected contributions to plans. Internationally, accounting standards boards have considered proposals to change the methodology for calculating pension expense. We have previously recommended changes to improve the transparency of plan financial information, but other challenges remain. Plan participants and regulators continue to need more timely information, including measures of plan funding in the event of plan termination.



Source: GAO analysis.

www.gao.gov/cgi-bin/getrpt?GAO-04-395.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.