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Corporate reporting implication in migrating from defined benefit to defined contribution pension schemes: A focus on the UK

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ABSTRACT

Pensions are intricately linked to employees' well-being in the latter part of their life and during their working life in that they provide a sense of financial security in retirement. Since the 1980s, pension schemes have changed both in concept and detail with significant consequences for beneficiaries. This paper explores one of the major changes: the migration from defined benefit (DB) to defined contribution (DC) pension schemes focusing on this change's interface with accounting. In exploring this shift from DB to DC schemes, the paper uses a critical perspective to reflect on this interface including how the change is accounted for in corporate reporting narrative. The key focus is on issues of political economy: it is found in this respect that while wealth is effectively distributed from pension holders efforts are made to legitimise or displace attention from pension changes. An analysis of narratives of corporate annual reports is undertaken to critically explore corporate communication to stakeholders vis-à-vis pension scheme changes. Findings suggest limited and problematic engagement with employees as per the corporate annual report narrative. We also point to a lack of appetite on the part of existing employees to engage employers on these changes. The change is framed to give workers an impression that they are taking responsibility for their future whilst an alternative view is that in actuality the organisation is decoupling from pension responsibility and devolving associated risks to employees for greater profitability. Counter accounting may be a way forward.

1. Introduction

A statement of the basic argument

Mitchell and Sikka (2006, p. 2) point out that: "A decent pension is literally a matter of life and death. Low pensions condemn people to poverty."

Over the past three decades, particularly from the mid-1980s, there have been many significant changes in the concept and detail of pension provision in both public and private sectors. These changes are occasioned by government policy and influenced by capital interests (see Clark, 2000, 2005, 2006; Clark & Hebb, 2004; Ghilarducci, 1992; Gustman & Steinmeier, 1989). Amongst the most significant changes has been the migration from the traditional DB pension scheme to the DC

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pension scheme (Benartzi & Thaler, 2001; Clark, 2004; Gustman & Steinmeier, 1989; Munnell, 2006). The latter scheme places more of the pension risk and related costs on the employee without guaranteeing returns or safety of investment (see Lachance, Mitchell, & Smetters, 2003). The DC scheme introduces greater uncertainty in the future cash flows of employees vis-à-vis their pensions (Benartzi & Thaler, 2001; Bodie, 1990; Clark & Pitts, 1999; Friedberg & Owyang, 2002; Lachance et al., 2003). Writers like Choi, Laibson, Madrian, and Metrick (2002, p. 68) affirm that:

> "Defined contribution pension plans place the burden of ensuring adequate retirement savings square on the backs of individual employees. However, employers make many decisions about the design...of...plans that can either facilitate or hinder the employees' retirement savings prospects."

It follows that, if an employee aspires for a 'decent' pension under the DC scheme, they would then have to raise their financial contribution towards that.[1] In attempting to build up such savings, an employee faces some paradoxes (Davis, 2006; Mitchell & Sikka, 2006; Stabile, 2002; Zelinsky, 2004). For example, many of the workers, particularly those on the lower strata of organisational remuneration, may find their present circumstances in terms of level of wages or disposable income do not permit a worthwhile investment and further, that even if an investment is made the certainty of return and safety of that investment cannot be guaranteed (Stabile, 2002). It is this elimination of pension security (associated with DB schemes) that is of concern. Choi et al. (2002) argue vis-à-vis raising savings levels that some employees are passive and would remain locked into the default contribution unless the organisation or a State agency were to take an active interest in reviewing their contribution. PPI (2012, p. 2) point out that without sufficient disposable income employees may even opt out of pension schemes altogether.

This paper explores from a critical perspective the migration from DB to DC pension schemes focusing on how the change is represented in selected corporate annual reports in the UK setting. An analysis of the narrative in relation to pension change in the annual reports of 24 UK FTSE 100 companies where some discussion of pension scheme change is apparent is presented. We consider debates in the literature to date on developments away from DB towards DC pension plans encompassing how DC has been promoted and studies that have implicated accounting in the migration. The paper builds upon the argumentation of Mitchell and Sikka (2005, 2006) with a view to further promoting critical accounting scholarship on pensions as a significant social issue. The basic aim is to draw more attention and add voice to the potential crisis emerging in relation to poverty on retirement due to inadequate pensions and to the lack of justice and integrity involved. The distinctive contribution of this paper concerns the interface of accounting and pensions whereby an attempt to justify what is in effect a distribution of wealth away from labour is made. Accounting practice is shown to uphold this bias whilst proclaiming its position as independent and neutral. The findings here are synthesised in a discussion section for insights and suggestions for future research. The next section outlines the critical perspective informing the debate here.

2. A critical perspective on our focus

A critical theoretical perspective (see Antonio, 1981; Calhoun & Karaganis, 2006; Calhoun, 1995; Cruickshank, 2004; Fairclough, 1989, 1995; Bronner, 1994; Held, 1980) is applied here in reflecting upon the changes in pension schemes and their consequences for beneficiaries and how corporate reporting is mobilised vis-à-vis the issues involved. The character of our perspective points to its key interest in issues of distribution and justice and how crises interface with these issues. It is a perspective challenging conventional paradigms and mainstream order (Antonio, 1981; Held, 1980; Jay, 1973). Here, we emphasise issues of political economy. A key concern is to articulate what is at stake in the phenomenon explored for the distribution of wealth and the fairness of this (see Arnold & Oakes, 1998; Arnold, 1991; Froud, Shaoul, & Williams, 1998; Mitchell & Sikka, 2006; Neimark & Tinker, 1986; Shaoul, 1997a, 1997b, 2007; Sikka, 2001, 2008). The challenge is intended to point to possibilities of an alternative path of social development envisaging greater justice and betterment (see Bronner, 1994; Geuss, 1981; Held, 1980). We here consider the interface of pension changes with accounting as a powerful social phenomenon and explore the struggle over resources entailed. A critical theoretical perspective in this respect sees accounting not as a neutral phenomenon but as Thomas and Williams (2009, p. 214), echoing Arnold and Oakes (1998), put it, one that is political and 'plays a major role in constructing reality rather than portraying reality' (see also Chua, 1986; Hines, 1988; Morgan, 1988; Tinker, 1988; Gallhofer & Haslam, 2003). In this regard, accounting and its dialectical nature can be located within the discourse of and manifestations concerning the social phenomenon of pensions' change. Its usage in this context carries the potential to engender poverty and social inequality for a section of society such as the retired (see Mitchell & Sikka, 2006).

The critical perspective adopted here further helps to ask questions relating to the representation of pension beneficiaries and the extent their voice is heard amongst the different constituents involved in pension management (see Aaronson & Coronado, 2005). The question of power relations amongst the key actors on pensions becomes an important one, especially how this power manifests itself in the discourse (Hastings, 1999). In this respect, Hastings (1999) argues that power can be

[1] The TUC (the Trades Union Congress) provides tables showing required contributions for a decent pension pot under DC plans. The TUC, the UK body representing the Unions as a whole, was very close to UK policy-making especially under Labour governments prior to Thatcher. http://www.tuc.org.uk/the_tuc/tuc-5485-f0.cfm Accessed April 6, 2012.