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Do Corporate Managers Skimp on Shareholders' Dividends to Protect their Own Retirement Funds?

Assaf Eisdorfer Carmelo Giaccotto Reilly White*

ABSTRACT

What is the impact of long-term executive compensation, particularly large pension payouts, on the firm's current dividend policy? We argue that managers with high pension holdings are less likely to adopt a high dividend policy that can risk their future pension payouts. Using a hand-collected actuarial pension dataset we show that (i) dividend payments are significantly lower when manager compensation relies more heavily on pension payouts; (ii) higher compensation leverage and inside debt have a significant negative effect on dividend payments net of stock repurchases; and (iii) the negative effect of pension on dividend is significantly weaker when pensions are protected in a pre-funding rabbi trust. We show further that this agency behavior reduces firm performance.

Keywords: Executive compensation; Dividend policy; Agency theory

JEL Classification: G35, J33

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