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In Good Times and in Bad: Defined-Benefit Pensions and Corporate Financial Policy

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Abstract

U.S. sponsors of defined-benefit pension plans integrate their pension plans into their overall financial management. Plan contributions are smaller and funding levels lower for plan sponsors that have less cash, are less profitable and are financially distressed. Moreover, plan sponsors make more aggressive pension plan assumptions if they have lower cash holdings and profit margins. While there is no evidence that plan sponsors generally take more risk with their pension plan assets if they have high business or financial risk, there is some evidence of risk shifting during major economic downturns such as the global financial crisis. As a result, funding rules, pension plan assumptions and investment policies are areas to consider for pension policy to protect plan beneficiaries.

Keywords: Pension plans, corporate finance, employer contributions, financial crisis, funding deficit, pension assumptions
JEL Classification: G3, G1, G2
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