The impact of UK accounting rule changes on pension terminations

Paul Klumpes
Tanaka Business School, Imperial College
South Kensington Campus
London SW72AZ, UK
Ph: 02075895111
Fax: 0207 8237685
Email: P.Klumpes@imperial.ac.uk

And

Yong Li
Department of Accounting Finance and Law
Stirling University
University of Stirling
Stirling, FK9 4LA
Scotland, UK
Bridge FK9 1AL

Mark Whittington
Warwick Business School
Coventry CV4 7AL, UK

This Version
October 31, 2003

Abstract

An important issue in UK pension accounting is whether employer sponsored pension schemes are to be effectively treated as financial subsidiaries of the sponsoring firm or as distinct separate entities. This paper tests alternative integration and separation explanations of the impact of switching towards market-based actuarial assumptions on the propensity to terminate under-funded defined benefit pension plans. Evidence is based on accounting, actuarial and share market data for an industry-matched pair sample of 90 UK firms during a period of regulatory uncertainty over the development of pension accounting and funding rules. Consistent with the integration hypothesis, financial characteristics of both the corporate sponsor and the prior switching decision appear to explain the termination decision, even after controlling for other factors posited by alternative explanations for the termination of pension plans.

Keywords: Actuarial funding method, pension accounting
JEL Classifications: M41, J53