Taylor & Francis
Online

North American Actuarial Journal ›
Volume 9, 2005 - Issue 3

262 Views | 41 CrossRef citations to date | 6 Altmetric

Original Articles

Accounting/Actuarial Bias Enables Equity Investment By Defined Benefit Pension Plans

Jeremy Gold FSA, PhD

Pages 1-21 | Published online: 03 Jan 2013

Cite this article https://doi.org/10.1080/10920277.2005.10596209

Sample our Mathematics & Statistics Journals
>> Sign in here to start your access to the latest two volumes for 14 days

References Citations Metrics Reprints & Permissions

Read this article Share

Abstract

Although pension finance theory says most defined benefit pension plans sponsored by publicly traded corporations should invest entirely in fixed income, 60% of assets are invested in equities. The existing theory makes a strong—but often unstated—assumption of transparency, implying that investors view the pension plan as a financial subsidiary of the operating parent and value it as a market portfolio. I explain the equity choice made by managers as a reaction to how investors perceive the opaque standard pension accounting model. Investors view the plan in operating terms and value it based on reported earnings.

Defined benefit pension plans- earnings (expenses) are computed using actuarial methods and economic assumptions that anticipate expected equity returns and strongly dampen the volatility of actual equity returns. Thus, corporations whose plans

invest in equities overstate the financial value of their earnings and understate the volatility of such earnings.

Under the transparent model, managers who invest in equities may be confronted by arbitrage arguments that show equity investment injures shareholders. Under the opaque model, these arbitrage arguments are not available and managers who invest in equities enjoy premium returns to risk while those who invest in fixed income instruments are punished by higher costs without visible risk reduction.

Related research

People also read | Recommended articles | Cited by 41

Discretionary accounting choices: the case of IAS 19 pension accounting

Martin Glaum et al.
Accounting and Business Research
Published online: 22 Sep 2017

Discretion in accounting for pensions under IAS 19: using the ‘magic telescope’?

Mark Billings et al.
Accounting and Business Research
Published online: 11 Jul 2016

Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

Sign me up

Copyright © 2026 Informa UK Limited Privacy policy

Cookies Terms & conditions Accessibility

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG