Home ▶ All Journals ▶ Financial Analysts Journal ▶ List of Issues ▶ Volume 65, Issue 4 Does Freezing a Defined-Benefit Pension ....

Financial Analysts Journal > Volume 65, 2009 - Issue 4

Views CrossRef citations to date Altmetric

**Equity Investments** 

# Does Freezing a Defined-Benefit Pension Plan Increase Company Value? Empirical Evidence

Brendan McFarland, Gaobo Pang & Mark Warshawsky

Pages 47-59 | Published online: 31 Dec 2018

66 Cite this article https://doi.org/10.2469/faj.v65.n4.2

> Sample our Business & Industry Journals

References

Supplemental

**66** Citations

**Metrics** 

Reprints & Permissions

Read this article

## **Abstract**

This study empirically tests whether freezing or closing a defined-benefit (DB) pension plan increases the sponsoring company's market value. The database used for this study consists of 82 publicly traded U.S. companies that announced freezes/closes in 2003–2007. On the basis of this extensive sample and through a set of parametric and

About Cookies On This Site negative

the free a DB pla

benefit

their DB

or all ex

nonpara

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect

from you, please see our Privacy Policy

ated with Accept All g or closing **Essential Onl** m defined-Settings e closed ual for some for such

enerally

changes include cost and volatility reduction, consistency with industry-competitive

practice, and employee desires and satisfaction. Many have wondered whether and to what extent a DB freeze/close alters the market value of the corporate plan sponsor. Research on this topic, however, is scanty.

This empirical analysis tests the hypothesis that freezing or closing DB pension plans increases the sponsoring companies' market values. The premise for this hypothesis is that DB plan freezes/closes depress the growth of pension liabilities and thus allow more funds to be directed to profit-generating corporate businesses or to other forms of compensation that are less risky or less costly to the company. Our tests, however, found generally insignificant, often negative, abnormal returns in stock prices associated with the freeze/close events and, therefore, yield little evidence to support the hypothesis.

Our study contributes to the literature in several ways. First, we constructed a large database comprising 82 publicly traded U.S. companies for the 2003–07 time period in various sectors. Identified simply by the availability of specific freeze/close announcement dates, these companies can be considered random draws and are thus fairly representative of the population of corporations that have frozen or closed their DB plans.

Second, on the basis of this extensive sample and through a set of parametric and nonparametric tests under the event study methodology, our analysis provides general and robust evidence on the tested hypothesis. In the benchmark test, stocks of 46 companies exhibited negative market-adjusted returns in the wake of the announced DB plan changes. The median value of price change is -0.41 percent, which can be attributed to the announcement. The majority of the DB events generate a statistically insignificant impact on stock price. Similar results are obtained by using alternative assumptions that consider sector-specific portfolios, time variations in events, and

#### About Cookies On This Site

possible

Third, w

the DB f

investor

pension

cost or v

on co

That

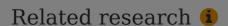
We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our <a href="Privacy Policy">Privacy Policy</a>

Accept All ns following coefficients pretation.

Settings Jaced yond the in pension

Our empirical tests generally reject the expectation that freezing a pension plan would deliver an immediate boost to the company's market value. Several factors may play a role. First, whether the DB plan freeze/close would substantially cut corporate costs is unclear because employers often need to enhance the existing 401(k) plans in the benefits package in order to facilitate the transition and workforce management. Second, any positive financial impact of the plan freeze/close may be outweighed by negative effects on employee morale, productivity, attraction, retention, and optimal retirement patterns. Third, the freeze/close events are often partial and gradual. Many companies sponsor multiple pension plans, have frozen/closed some plans while keeping others open, and have left the retirement benefits intact for many workers covered by the frozen/closed plans (e.g., union members or those fulfilling requirements of age and/or service years). Finally, company management may have viewed DB freezes/closes as useful responses to short-term financial challenges, but the market appears to have been more cautious about the effects and implications of such DB plan events.

Note: The views expressed in this article are the authors' alone and do not necessarily reflect the views of Watson Wyatt Worldwide.



People also read

Recommended articles

Cited by

#### About Cookies On This Site



We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our <a href="Privacy Policy">Privacy Policy</a>

Essential Only
Settings

Accept All

Information for

**Authors** 

**R&D** professionals

**Editors** 

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

**Open Select** 

**Dove Medical Press** 

F1000Research

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 © 2024 Informa UK Limited Privacy policy Cookies Terms & conditions

Taylor & Francis Group an informa business

Accessibility

Registered in England & Wales No. 3099067 5 Howick Place | London | SW1P 1WG

#### About Cookies On This Site



We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our <a href="Privacy Policy">Privacy Policy</a>



Essential Onl

Settings