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Foreseen Changes with Political Administration Changes: Pensions

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ABSTRACT
This paper investigates the effect that the Financial Accounting Standards Board has on firms with pension plans with changes implemented through changes to Accounting Standards when there is a change in the political administration of the White House. Accounting standards have focused on improving the transparency of pension reporting since 1956. More needs to be changed(Bachan, Briscoe, Conrecode, Fleming, & Volkan, 2008).We explore the previous changes to be able to project the future changes, based on the administration leading the United States. The results show a more significant change to pension funding with a Democratic administration, versus Republican.
KEYWORDS: *public policy, transparency,defined benefit pension plan, accounting standards, SFAS*

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I. INTRODUCTION

In 1956, under the President Dwight Eisenhower administration, the Committee for Accounting Practices acknowledged that, at a minimum, the financial statements should reflect the accruals equal to the present value, actuarially calculated to the extent vested for pensions (AICPA, 1956).Nine more pension standards associated with defined benefit pension plans strive to create more transparency over the next fifty years, with the most recent occurring in 2006 (FASB, 2006).Yet, there is a call for more changes (Bachan, Briscoe, Conrecode, Fleming, & Volkan, 2008).

This paper explores the effect that Statement of Financial Accounting Standards has on firms with pension plans (DBPPs). Itexamines the pension standard changes from 1956 to 2021,in relation to the presidential administration at the time.We hope to predictfuture pension accounting standard changesbased on the presidential administration and the impact those changes have on firms.

II. BACKGROUND

2.1 Pension funding

A pension is a retirement arrangement in which the employer promises a regular payment from the day of retirement, until death (PBGC 2007).Pension plans provide a good place to store internal funds when firms have strong operating cash flows and consequently can lead to a highly funded plan (Francis & Reiter, 1987). Furthermore, more successful companies will likely have a higher tax rate and will be encouraged to contribute to the company sponsored pension plansto earn tax deductions (Francis and Reiter, 1987). On the other hand, some firms intentionally underfund their pension plans to avoid takeovers (Asthana, 1999) or use the funding as a negotiation tool with employees (Ippolito, 1985).

Economic improvements and actuarial assumptions can also impact the funding status. Jones (2013) noted an underfunded level of $324 million just prior to the issuance of Statement of Financial Accounting Standard (SFAS) 158 to $117 million post-SFAS 158 after analysis of her sample of pension plans.Basuand Naughton (2020) find firms received higher corporate credit ratings, based on the level of adjusted leverage, which includes the funded status, by the rating agency. However, there has been little research on the foreseeable changes to pension reporting based on the country’s presidential administration.

2.2 SEC and the FASB

Established by Congress in 1934, the U.S. Securities and Exchange Commission (SEC) has a mission to protect investors and regularly gives recommendations to the Financial Accounting Standards Board(FASB) (SEC, 2016). The FASB replaced the Accounting Principles Board of the American Institute of Certified Public Accountants (AICPA) in 1973 after the Wheat Committee recommended in 1972 that the standard setting process remain in the private sector (Financial Accounting Foundation, 2008).The Wheat Reportfocuses on facilitating more accurate and timely accounting standards, establishes the Financial Accounting Foundation (FAF)andultimately leads to the formation of the FASB. Funded by investment income, subscription, and publication revenue as well as by accounting support fees, members of the FASB are appointed by the FAF to “quietly, intently, and busily strengthen confidence in the capital markets by establishing accounting standards that increase transparency and accountability (Financial Accounting Foundation, 2008). The standards, established for accountants to follow, are referred to as generally accepted accounting principles (GAAP).

The FASB is an independent, private sector organization based in Norwalk, Connecticut, and is responsible for setting accounting standards for public companies. Published research, rather than political influence, guides decisions andthe issuance offinancial accounting standards (FASB, 2020). However, in 2005, the SEC issues a report that sets a goal to focus financial reporting on communication with investors rather than simply compliance with rules(SEC, 2005). This focus acknowledges the improvements to financial reporting since the passage of the Sarbanes-Oxley Act of 2002 but recommends increased transparency and usefulness of the balance sheet with a specific recommendation to revise the guidance for DBPPs (SEC, 2005).

2.3Impactof changes

Following the 2005 recommendation for increased transparency and balance sheet usefulness by the SEC, the FASB issuesSFAS No. 158 Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans in 2006. This turnaround between the recommendation and the release of SFAS No. 158 is not uncommon. The FASB averages between one to twelve months to enact a new accounting standard codification (Daminco 2021).After the implementation of SFAS 158 at the end of 2006, the Pension Benefits Guarantee Corporation reports a deficit of $0.955 billion for fiscal year ended 2007. 2006 ended with a deficit of $0.739billion. The multiemployer pension net financial position continues to decline to a deficit of $63.7 billion at the end of 2020, as can be seen in figure one(PBGC, 2000-2021).

SFAS 158 creates more transparency for investors and improves reporting quality by requiring the fully funded status be recognized on the balance sheet rather than a note disclosureas previously required with SFAS 87 Employers’ Accounting for Pensions. SFAS 158 encompasses the most recent changes to the accounting standards for pensions. Prior revisions are examined to determine whether a pattern between changes to pension accounting standards andgoverning bodies of the United States exist. This paper contributes to the literature with an analysis of the impact of previous pension reporting changes and a look forward at potential changes based on the national administration.We anticipate more corporate contributions for DBPP firms to follow President JosephBiden’s directive to “shore up public and private pensions and help to ensure workers keep their earned benefits” (DeLong, 2020).Our contribution to the accounting discipline is to emphasize the magnitude of the impact of the change in national administrationon accounting standards while focusing on pensions.

This paper is organized as follows:in the next section, a background on pensions,and previous pension accounting standards are given in the literature review. A discussion of the differing administrations is presented in section 4. The predicted conclusion is addressed in section5. Ideas to expand this research in the futureis given in section 6.

III. LITERATURE REVIEW

Many research articles and accounting standards are explored as guidance for this study. Following the preliminary discussion of the history of the pension plan, a literature review follows to support this study’s analysis of the relationship of pension accounting standards to presidential administration.

Prior to government-created pension plans, some companies utilized informal pensions that consisted of payments made at the discretion of the company owners. The payments are viewed as a gift but mustnow be considered deferred wages earned during active employment. Prior to formal pension plans, many companies would continue to compensate workers until the employee became disabled or deceased. The payments to retirees would be expensed on the income statement, thereby reducing profits. When pension plan contributions become tax deductible, most companies only pay the deductible amount for the year to their workers (Kreiser, 1976, pp. 56-62). Federal pension plans are a way to incentivize civilians into service and to support soldiers after serving in battle. Private sector firms have other motivating factors for establishing pension plans for their employees: (a) a desire to provide for the old age dependent, superannuated employees; (b) a desire to reward employees who have rendered unusually long service; (c) a desire to increase efficiency, first by the elimination of superannuated or incapacitated workers on a humane basis and, second, by stimulating the good will and effort of the active force; (d) a desire to hold the worker to the job, thereby reducing labor turnover; and (e) a desire to exercise a disciplinary control over workers in response to strikes and in other ways (Conant, 1922).

Created by the Committee on Accounting Procedures, in 1956,Accounting Research Bulletin No. 47: Accounting for the Costs of Pension Plansrequires disclosure of unfunded vested benefits on the balance sheet. This pronouncement is the first of its kind as it relates to pension accounting. During this time, the country is under the leadership of President Dwight D. Eisenhower. With a Republican affiliation, and a firm stance on pensions, President Eisenhower went on to pass the Former Presidents Act of 1958 entitling former presidents to a pension. At the time of its passing, the pension amounted to $25,000 (Mazur, 2015).

Less than a decade later,in 1966, under the Democratic administration of President Lyndon Baines Johnson, the Accounting Principles Board issuesAPB 8: Accounting for the Cost of Pension Plans. Prior to its passing, companies with defined benefit pension plans report pension expenses as the amount paid to retirees in the current year. APB 8 directs companies to recognize a liability or asset for future pension costs when they differ from expenses (Duangploy& Pence, 2007). A liability results when the pension is underfunded, while an asset indicates an overfunded plan (Duangploy& Pence, 2007).

To set minimum standards for private industry retirement and health plans and provide protection for participants in the plan, the Employee Retirement Income Security Act (ERISA) of 1974 is passed by Republican President Gerald Ford (PBGC, nd).To further protect participants,Congress creates the Pension Benefit Guaranty Corporation (PBGC). PBGC protects future and current retirees from losing their pension benefits if firms with DBPPs default or declare bankruptcy. PBGC's operations are financed by insurance premiums paid by firms that sponsor pension plans as well as PBGC's investment returns (PBGC,nd). These legislative changes impacted accounting practices six years later with the issuance of SFAS 35: Accounting and Reporting by Defined Benefit Pension Plansin 1980.

During the administration of Democratic President Jimmy Carter,SFAS 35requires that firms disclose financial information related to the actuarial present value of the accumulated plan benefits in the financial statements. These benefits are primarily based on an employees' history of pay and service as of the date of the financial statements and do not consider future years of service (FASB, 1980). Later that year SFAS 36:Disclosure of Pension Information – an amendment of APB Opinion No. 8 isissued. Giving more transparency to pension financial reporting, SFAS 36 revises disclosures required for the accumulated benefit obligation, plan assets and vested and non-vested benefits (FASB,1980a).

Five years later with a shift in administration to Republican President Ronald Reagan

SFAS 87: Employers' Accounting for Pensions is issued in 1987. Requiring immediate recognition of a liability on the balance sheet, this accounting standard utilizes the amount of accumulated benefit obligation that exceeds the fair value of the plan assets (FASB, 1985). In addition, expanding footnote disclosures requiring increased transparency and giving a more complete and current view of the information than can be practically included into the financial statements.

In its oversight role, ERISA directly influences financial statement disclosures required by employee benefit plans (Harper et al., 1991). During the same month that SFAS 87 is introduced, SFAS 88: Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefitsisalso issued. It requires immediate recognition of the gain in earnings when a pension obligation is settled or a plan is terminated (FASB, 1985a).

SFAS 110: Reporting by Defined Benefit Pension Plans of Investment Contracts – An Amendment of FASB Statement No. 35is issuedin 1992 under the leadership of Republican President George H.W. Bush. This standard addresses the investment contracts associated with pension plans and requires defined benefit pension plans to report an investment contract issued by either an insurance enterprise or other entity at fair value. The previous statement, SFAS 35, only required the contract value for contracts that incorporate mortality or morbidity risk (FASB, 1992).

As the first baby-boomer generation president, Democratic President Bill Clinton led the administration in 1998 when SFAS 132: Employers' Disclosures About Pensions and Other Postretirement Benefits – An Amendment of FASB Statements No. 87, 88 and 106is issued. To make disclosures more effective, SFAS 132 revises disclosures associated with pensions and other postretirement benefit plansto standardize the disclosure requirements and eliminate certain disclosures that are no longer useful (FASB, 1998).

With the elimination of disclosures that are no longer needed, additional disclosures are added with SFAS 132(R). As only the second son to occupy the oval office, Republican President George W. Bush is the leader of the United States administration when SFAS 132(R): Employers' Disclosures About Pensions and Other Postretirement Benefits – An Amendment of FASB Statements No. 87, 88, and 106 is issued in 2003.The additional disclosures increase transparency and include assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans (FASB, 2003).

While still under the leadership of President George W. Bush, accounting standard SFAS 158 is issued in 2006. A salient objective of SFAS 158 is the increased transparency in reporting for pension accounting. SFAS 158: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106 and 132(R) requires the recognition of a net pension asset or liability in the financial statements using the projected benefit obligation (PBO). This contrasts a footnote disclosure using the accumulated benefit obligation (ABO) and the actuarial present value of the current salary levels to date required by SFAS No. 87 (FASB, 1985). The PBO is the estimated present value of future employee benefits (FASB, 2006). Considering projected salary increases, a larger liability must be recognized on the balance sheet (Burr, 2006). An important objective of SFAS 158 is improving reporting quality and transparency on the balance sheet by requiring the funded status be recognized. Prior to the issuance of SFAS 158, companies canchoose to delay or understate the recognition of the liability associated with the DBPP obligation. The PBO is more in line with accounting conservatism practices in that it recognizes future liabilities using projected salary increases, compared to current employee salary rates.

Signed by Democratic President Joe Biden on March 11, 2021, the COVID-19 relief package contains $86 billion of funds for multiemployer plans. For single employer plans the American Rescue Plan extends the amortization period for calculating unfunded liabilities from seven years to fifteen as well as extends smoothing rules for interest rates used to calculate pension liabilities scheduled to begin phasing out this year. Before this change, pension plan funding obligations were projected to double this year (Bradford, 2021). This law changes the accounting standards followed to calculate the funding of the pension plan.

IV. DISCUSSION

In 2019, only 14% of the Fortune 500 companies traded on the New York Stock Exchange offered DBPPs to new employees. This is significantly lower than 59% of Fortune 500 firms who offered open enrollment into DBPPs for new employees in 1998 (McFarland, 2020). The breakdown of those covered by a DBPP within the Fortune 500 companies by industry is presented in figure two.

The Democratic platform for pensions includes actions for widespread adoption of workplace savings plans and offerings for tax credits to small businesses to help offset the costs and a proposal to pass the Butch Lewis Act that would provide federally backed loans to underfunded multiemployer defined benefit pension plans (Ghilarducci, 2020). The Republican platform for pensions states that employees need flexibility and family-friendly options that includes portability in pension plans (Groom, 2020). In a 2012 article Democrats supported the notion that employers and the government should play a role in funding retirement more so than their Republican counterparts(Brandon, 2012).The $1.9 trillion stimulus package signed by President Biden in March included funds for pensions. $86 billion of taxpayer dollars is designated for approximately 185 union pension plans that are on the verge of collapse. These funds will benefit 10.7 million active and retired workers (Williams-Walsh &Rappeport, 2021).

V. CONCLUSIONS

Of the twelve accounting standards and accounting standards updates issued by the Financial Accounting Standards Boardthat relate to pension plans of for-profit entities, sevenstandards areissued under the administration of a Republican President and five under the administration of a Democratic President. When looking at the effect of each,seven of the standards directly impacted the financial statements with pension asset/liability recognition, while the others were footnote disclosures. Historically, Republican administrations make changes that are conservative and do not affect spending while Democratic administrations focus on spending or cuts. Of the sevenpension standards requiring financial statement recognition, four standards are issued while the executive branch of government is led by Republicans and threestandards under Democratic leadership. Including additional footnote disclosures, four accounting standards or updates are issued under Republican leadership and two issued while the executive branch of government is led by Democrats. This supports a conclusion of transparency by the Republican administration, versus Democratic.

With a change in administration from Republican to Democratic, it is important for analysts to be able to predict the future of pension plans. While a Democratic presidential candidate, Biden stated, he will “shore up public and private pensions and help to ensure workers keep their earned benefits” (DeLong, 2020).The change in the CARES Act with section 3608 (a)(2) delayed the 2020 fund contributions to January 2021, but accrues interest, making the impact of the contribution even more significant to business owners (Morgan, 2020). With the fiscal policies associated with the Democratic affiliation, it is reasonable to predict that future pension plan financial accounting standards, executive orders, and congressional legislation will be issued during the coming administration that may finally eliminate new enrollment to and eventual elimination of DBPPs.As has already been seen with the March 11 laws, changes to accounting practices will be forthcoming to comply with the President’s legislation.

The contribution to the body of knowledge is to emphasize the magnitude of the impact of the change in national administration on economic as well as accounting standards and the impact on the use of tax dollars, focusing on pensions.

FUTURE RESEARCH

With a reduction of the corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017, we should see a reduction in funding, as the need to reduce taxable income decreases (McHoney, 2021). With lower interest rates, this reduction in tax rates may be negated forcing higher contributions to maintain the required funding level.

Further research can be done to investigate stock price change by industry and the level of a DBPP firm’s under/over funding, as well as changes in firm credit rating and stock price with the implementation of other new GAAP standards.

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APPENDIX

Table 1.Standards and Administration

Accounting Standard	Title	Issued	Presidential Administration	Affiliation
ARB 47	Accounting for Costs of Pension Plans	1956	Eisenhower	Republican
APB 8	Accounting for the Cost of Pension Plans	1966	Johnson	Democrat
SFAS 35	Accounting and Reporting by Defined Benefit Pension Plans	1980	Carter	Democrat
SFAS 36	Disclosure of Pension Information	1980	Carter	Democrat
SFAS 87	Employers' Accounting for Pensions	1985	Reagan	Republican
SFAS 88	Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits	1985	Reagan	Republican
SFAS 110	Reporting by Defined Benefit Pension Plans of Investment Contracts—an amendment of FASB No. 35	1992	G.H.W. Bush	Republican
SFAS 132	Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB No. 87, 88, and 106	1998	Clinton	Democrat
SFAS 132(R)	Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB No. 87, 88, and 106	2003	G.W. Bush	Republican
SFAS 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB No. 87, 88, 106, and 132(R)	2006	G.W. Bush	Republican
ASC 715	Compensation – Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets	2015	Obama	Democrat
ASU 2017	Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	2017	Trump	Republican

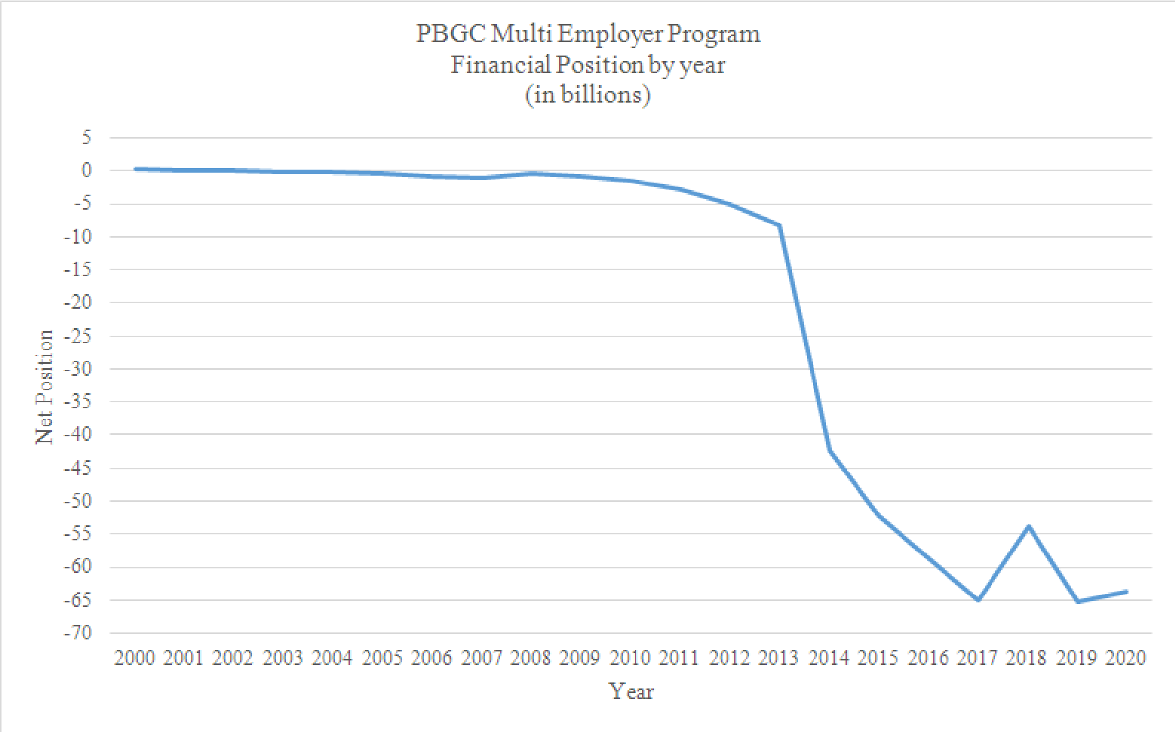
**SFAS 59 & 75 related to state and local governmental units and was not included in this table.*
***SFAS 106 related to postretirement benefits other than pensions and was not included in this table.*

Table 2. Effect of the Accounting Standards

Accounting Standard	Title	Effect	Affiliation
ARB 47	Accounting for Costs of Pension Plans	FN disclosure & Fin Stmt Recognition	Republican
APB 8	Accounting for the Cost of Pension Plans	Fin Stmt Recognition	Democrat
SFAS 35	Accounting and Reporting by Defined Benefit Pension Plans	Fin Stmt Recognition	Democrat
SFAS 36	Disclosure of Pension Information	FN disclosure	Democrat
SFAS 87	Employers' Accounting for Pensions	FN disclosure	Republican
SFAS 88	Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits	Fin Stmt Recognition	Republican
SFAS 110	Reporting by Defined Benefit Pension Plans of Investment Contracts—an amendment of FASB No. 35	FN disclosure	Republican
SFAS 132	Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB No. 87, 88, and 106	FN disclosure	Democrat
SFAS 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB No. 87, 88, 106, and 132(R)	Fin Stmt Recognition	Republican
SFAS 132(R)	Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB No. 87, 88, and 106	FN disclosure	Republican
ASC 715	Compensation – Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets	Fin Stmt Recognition	Democrat
ASU 2017	Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	Fin Stmt Recognition	Republican

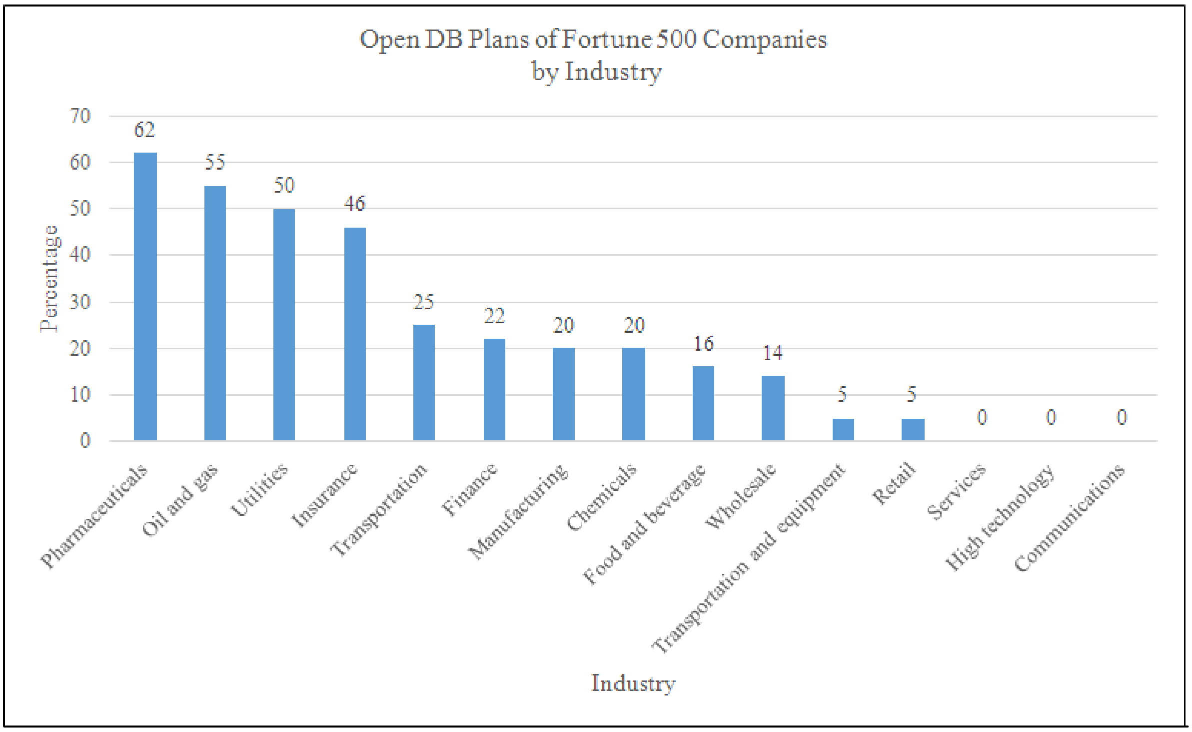
**FN: Footnote*
**Fin Stmt: Financial Statement*

Figure 1. Pension Benefit Guaranty Corporation: 20 years of Financial Position



(PBGC, nd)

Figure 2. Open Defined Benefit Pension Plans of Fortune 500 Companies



(McFarland, 2020)

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