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It's Time to Move Pension Reporting Out of the Dark

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During the wonderful bull market, companies took to prettying up earnings with gains generated in pension plans. Investors played along with the fantasy, even though the gains did not belong to the companies but to their pensioners.

With stocks in decline for the last two and a half years, however, pension plans can no longer rescue corporate profits. Losses in these accounts have led to what look like severely underfunded pensions at companies like [Delta Air Lines](#), [General Motors](#) and [Goodyear Tire and Rubber](#).

Should investors worry? Not according to many companies, whose accentuate-the-positive executives argue that because the effects of pensions do not show up as cash, investors need not fret about them. Funny, isn't it, how investors should not concern themselves with pensions now that those pensions are not helping earnings?

On Wednesday, [Northwest Airlines](#) said it expected to reduce shareholder equity by at least \$700 million at the end of 2002 to cover rising pension costs. "The charge will not affect the company's current earnings nor the financial covenants in its credit agreements," Northwest said.

Yet investors are rightfully wary of liabilities and cost increases facing companies with money-losing pension funds. Given how little data about pensions is public, it is almost impossible to identify problems.

Pension information is published only once a year, in a company's annual report. The impact of a pension's performance at a company is relegated to a footnote.

Investors who want to know how much a company may have to kick into a depleted plan are out of luck. Plan obligations, and the contributions they may require, vary by participant and are not reflected in financial statements, even though they must be calculated in accordance with the Employee Retirement Income Security Act, or Erisa. That is why those scrutinizing pensions often see companies with

overfunded plans still making contributions. In those cases, obligations to certain individual plan holders require the contributions.

"Companies have to evaluate each participant in the plan when they are underfunded on an Erisa basis and then make a contribution," said Jack T. Ciesielski, president of R. G. Associates in Baltimore and editor of The Analyst's Accounting Observer. "You can't figure it out from reported numbers."

If a company like Northwest expects a significant shortfall in its pension, then details about the ensuing contribution should appear in the "management discussion and analysis" section of the annual report, Mr. Ciesielski said. Unfortunately, investors have to trust management to be forthcoming about a subject it would probably rather not address.

Trusting corporate management to disclose bad news has not rewarded investors in recent years. A better idea would be to require companies to provide more information about pensions more often.

"It would be good to know the Erisa numbers," Mr. Ciesielski said. "But investors need more data on the plans as a whole and their effects on earnings quarterly. There should be a line item on the income statement for the pension's effect for all financial statements, quarterly and annually. And there should be more description in the footnote of what's in that number."

Investors already know that pensions contributed a good deal to companies' earnings in recent years. According to David Zion, a tax and accounting analyst at Credit Suisse First Boston, 12 percent of the earnings growth registered by Standard & Poor's 500 companies in 2000 came from pension income.

Now that those gains are vanishing, companies should not be allowed to keep investors in the dark. In investing, ignorance is not bliss. It's oblivion.