

Taking Account...

BEA's approach to defined benefit pension plans

As part of the comprehensive revision of the national income and product accounts published in July 2013, the Bureau of Economic Analysis (BEA) changed the way it accounts for defined benefit pension income, moving from a cash basis to an accrual basis.

In addition, BEA introduced a new set of tables that provides a complete picture of transactions conducted in the defined benefit pension subsector. Separate tables were introduced for private plans, state and local government plans, and federal government plans.

In a recent paper, BEA economist Dylan Rassier summarizes the methodology for each of the estimated series included in the tables for private defined benefit plans. The paper also provides background information on defined benefit pension concepts and summarizes income flows recommended by the *System of National Accounts 2008*.

A defined benefit plan is an employer-sponsored plan that promises a recipient a certain amount to be paid in retirement based on a formula, usually a function of factors such as length of service and average compensation.

The *System of National Accounts 1993*, which BEA previously followed, recommended household income attributable to defined benefit plans be limited to actual employer contri-

butions and property income earned on actual assets held by plans. Under this approach, the "cash-based" measures are used to account for income related to defined benefit plans.

The *System of National Accounts 2008* suggested a new treatment, which BEA generally follows.

Under these updated guidelines, household income from defined benefit plans are based on actuarial estimates of the change in net present value of future benefit entitlements. In addition, household income includes the actuarial interest cost on accumulated benefit entitlements. Thus, household income and saving attributable to defined benefit plans under this method reflect "accrual-based" measures.

Accrual-based measures of defined benefit pension income are designed to match income earned with the related production, which offers at least two important advantages over cash-based measures.

- Accrual-based measures display less volatility than cash-based measures because employers anticipate funding future benefit entitlements in part from holding gains on equity assets. Since market values of equity assets tend to vary widely over time, actual employer contributions to defined benefit pension plans tend to vary widely over time.
- Accrual-based measures yield more accurate measures of

household income and saving than cash-based measures because of (1) differences between actual employer contributions and the change in benefit entitlements and (2) differences between property income earned on actual plan assets and the actuarial interest cost on accumulated benefit entitlements. Household income and saving should reflect the differences.

To construct the private defined benefit plan estimates for the comprehensive revision, BEA relied on source data from five U.S. government agencies and one trade association: BEA, the Employee Benefits Security Administration, the Pension Benefit Guaranty Corporation, the Federal Reserve Board, the Social Security Administration, and the American Council of Life Insurance.

Check out BEA's blog for the latest information

Since it was launched in April 2012, the BEA blog has become a key source of information about the Bureau's statistical series and other products. The blog notes all major data releases from the Bureau, delivering the takeaways in nontechnical language. Blog items also note critical background information about statistics, executive appearances, important SURVEY OF CURRENT BUSINESS articles, and more. The blog is available on the BEA Web site at www.bea.gov.