



Employer Contributions for Private Pension and Profit-Sharing Plans

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Introduction

- Deriving estimates of employer contributions to private pension plans is challenging
 - Inconsistent data sources
 - Primary data sources only available with a considerable time lag
- Private pension contributions have been the cause of large revisions to compensation and corporate profits
- Growing concern about pensions in general as part of concerns about the aging population and retirement saving
- Undertaking studies to more clearly identify data inconsistencies with the goal of developing improved methodologies



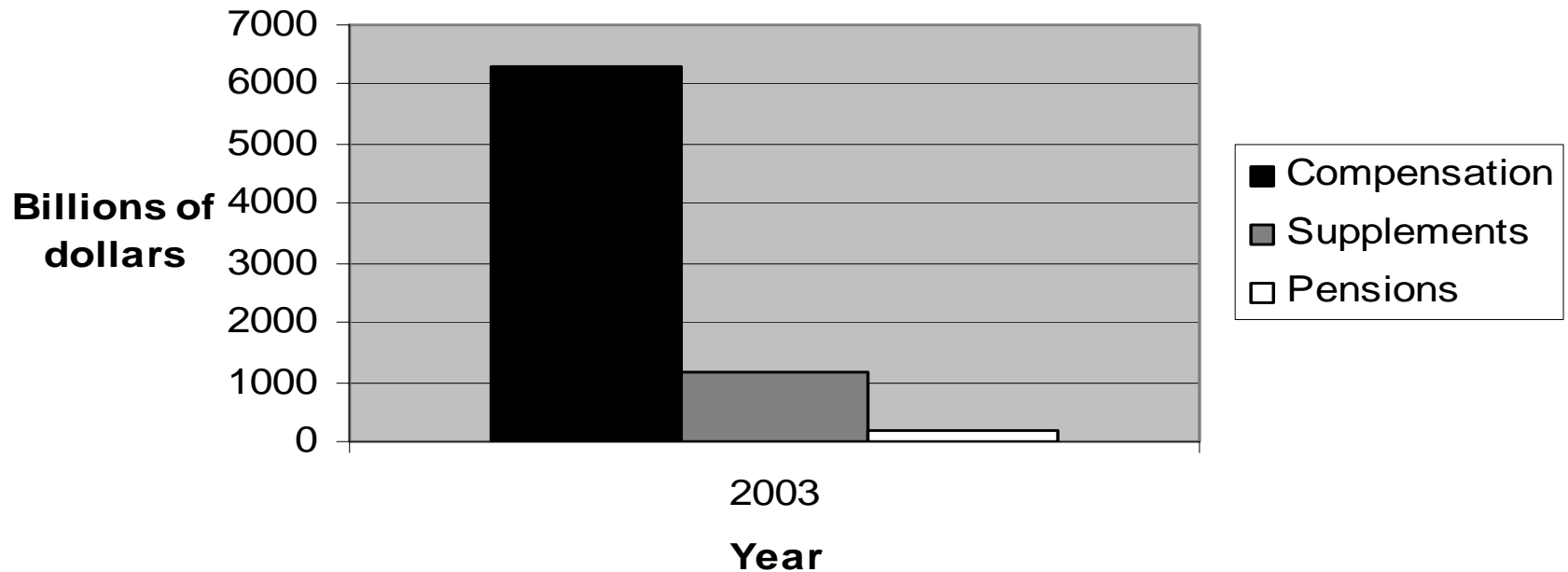
Employer Contributions to Private Pension Plans

- A component of compensation
 - Primary source data: Employee Benefits Security Administration (EBSA) Form 5500 tabulations
- A deduction for business measured as an expense item in corporate profits
 - Primary source data: IRS Statistics of Income (SOI) tabulations



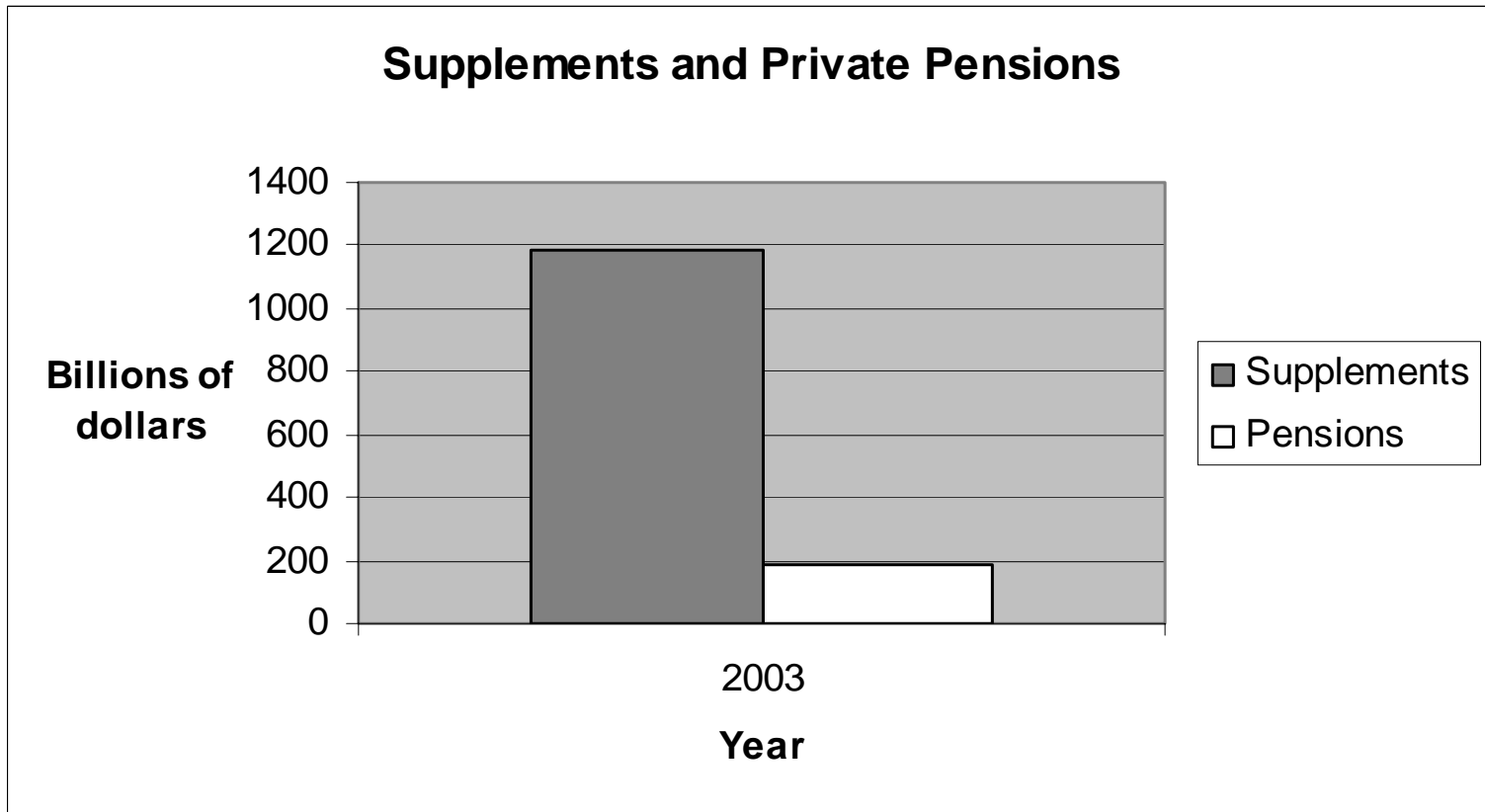
Share of Compensation

Compensation, Supplements, and Private Pensions





Share of Supplements





Private Pension Contributions -- Area of Recent Interest

- Reports of large contributions to defined benefit plans in 2002 and 2003
- Growing concern about pensions as part of the concern about the aging population and retirement saving.
- Substantial revisions to NIPA private pension contributions during 2003 benchmark revision and 2004 annual revision

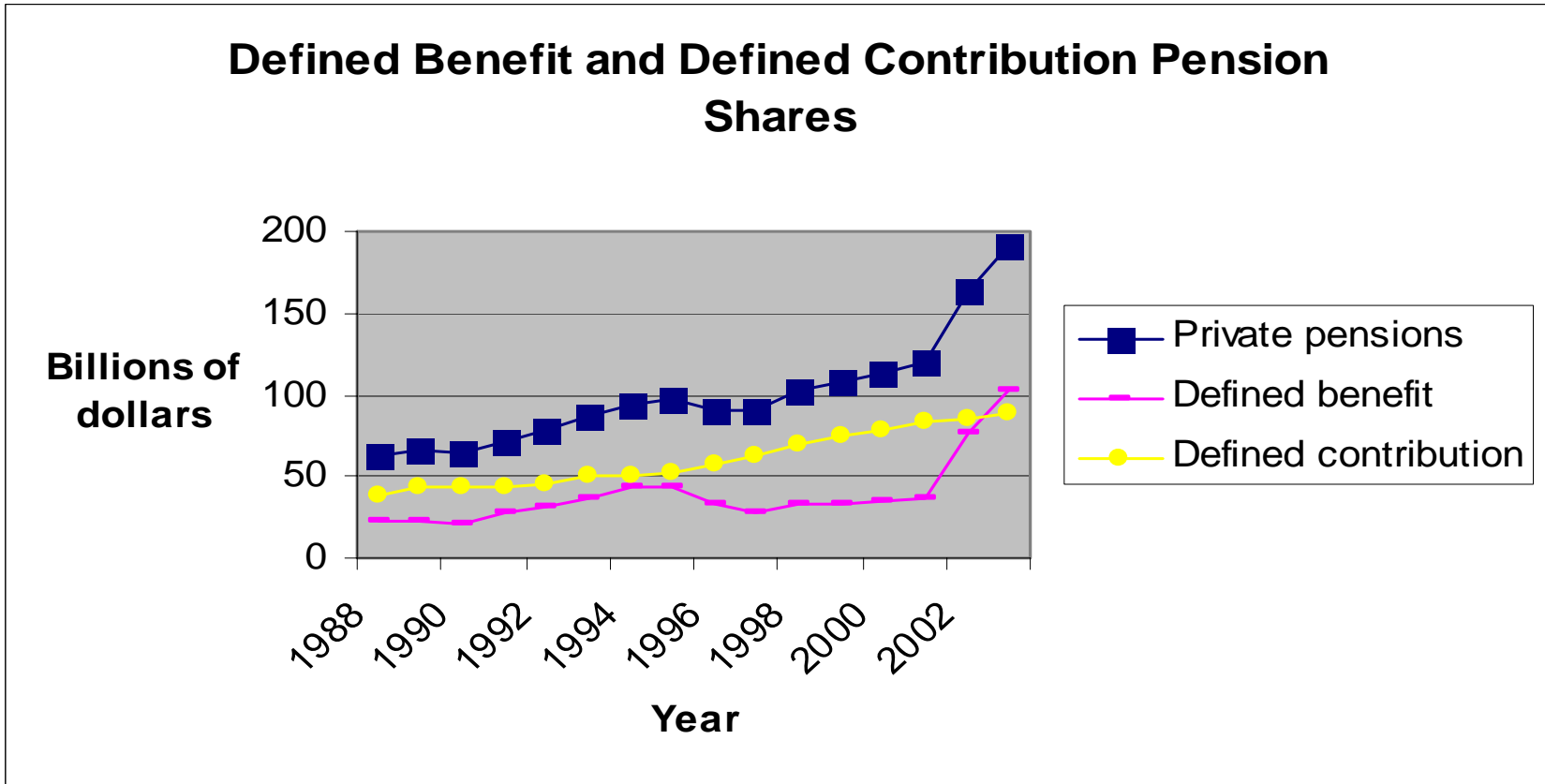


Composition of Private Pension Contributions

- Defined benefit (traditional) plans
- Defined contribution plans
 - 401k-type plans
 - Employee Keogh-type plans
 - Employee Simplified Employee Pension (SEP) plans
 - Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) plans
- Does not include:
 - Contributions to standard individual retirement accounts (IRAs)
 - Contributions to Roth-type IRAs



Shares of Defined Benefit and Defined Contribution Plans





Measurement of Employer Pension Contributions to Compensation

- Primary data source: Form 5500
- Large sample tabulated by the EBSA
 - All large pension plans (100 or more participants)
 - Weighted sample of small pension plans (fewer than 100 participants)



Two Adjustments to Form 5500 Data

- Remove the inclusion of employee contributions as employer contributions
- Remove Keogh-type contributions to proprietors own plan (part of proprietors' income)



Additions for Plans Not Required to File Form 5500

- Employer contributions to employee SEP plans
- Employer contributions to employee SIMPLE plans



Other Source Data (When Form 5500 Data Not Available)

- Financial reports of corporations (Compustat)
- Pension Benefit Guaranty Corporation (PBGC) tabulations for defined benefit plans
- SOI tabulations of pension expenses
- Employment cost index (ECI)
- Employer costs for employee compensation (ECEC)



Drawbacks of 5500 Data

- Published with substantial time lag
 - EBSA plan year includes all plans whose fiscal year begins in a calendar year
 - Form 5500 must be filed within 7 months of end of fiscal year
 - Three-month extension automatically given upon request
 - EBSA completes quality checks, aggregates data, and releases
- BEA received tabulations for 1998 plan year in early 2002
- BEA received tabulations for 1999 plan year in late 2003



Impact of Pension Contributions on Corporate Profits

- Employer pension contributions are an expense item for business
- Primary source of data for corporate profits are SOI tabulations
- Company financial reports are primarily used to derive corporate profits for the recent periods (SOI tabulations are not available)
- Substitution of SOI data (when it becomes available) for data derived from financial reports can result in sizeable revisions to corporate profits



Data Inconsistencies

- Form 5500 tabulations sometimes do not correspond well with SOI tabulations of pension expenses
- SOI tabulations of corporate pension expenses sometimes deviate substantially from pension expenses reported in company financial reports



Possible Explanations for Data Inconsistencies

- Fiscal year for pension plan (5500) does not always match the fiscal year for the corporate tax return
- Pension expenses reported in company financial reports are on an accrual basis. The accounting for accrued expenses requires assumptions regarding future interest and inflation rates, rates of return on equity investments, and changes in life expectancy, marriage, and divorce rates.
- Pension expenses reported on corporate tax returns are actual contributions to pension plans



Difficult to Reconcile Financial and Tax Accounting Treatments

- Both methods account for pension costs, but in different ways.
- To date, no direct evidence that the use of financial accounts for extrapolations has led us seriously astray. However, this is an area of concern for BEA.



What Next?

- BEA is undertaking a detailed company study of employer pension contributions as reported on the Form 5500, in company financial reports, and in company tax returns
- BEA is reevaluating the predictive capability of ECI and ECEC estimates by testing detailed data over a longer period of time
- Depending on the results of these studies, BEA may modify the methodology used to derive estimates of private pension contributions and the methodology used to extrapolate corporate profits



Possible Revision to System of National Accounts Pensions Treatment

- Considering the possibility of using accrual-type measures



Questions for Discussion

- Other data sources?
- Other extrapolation approaches?
- Does the Committee support moving to an accrual-type measure (as is being considered in the SNA revision)?
- Does the NIPA measure meet the needs of policy analysts in the area?