

Determinants of Actuarial Choices for Defined-Benefit Pension Plans: Canadian Evidence

Ines Ben Salah* and Houcem Smaoui**

This study examines the factors driving the choice of the actuarial assumptions, such as the discount rate, the salary growth rate, and the expected rate of return on asset, under pension accounting disclosures required for defined-benefit pension plans (DBPP, hereafter) for a sample of 190 Canadian firms over the period 2000-2006. We use a system of panel data simultaneous equations of the actuarial assumptions. We tackle the endogeneity problem of the actuarial choices using a system GMM approach. The evidence shows that the choice of the actuarial rates is mainly driven by the magnitude of leverage and the size of the sponsoring firms. Unlike previous studies, we find no significant relationship between the level of pension funding and the choice of actuarial assumptions.

Filed of Research: Actuarial Assumptions; Managerial Discretion; Defined-Benefit Pension Plans