

The Reporting of Employee Retirement Benefits in Malaysia Prior to FRS119

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Abstract

As a developing economy, Malaysian companies provide pension-like retirement benefits scheme to its employees along with a much simpler defined contribution scheme. However, disclosures of such plans are lacking and vary between companies. Moreover, some companies reported huge pension liabilities that would be difficult to sustain in longer terms with possibilities of curtailment of such plans in the future.

Keywords: Employee, retirement benefit, FRS119, Malaysia

1.0 Introduction

Recent Enron scandal involving dubious employee benefits schemes has made a new wake-up call on auditors and related to how companies disclose their retirement benefits on their accounts (Henry, Arndt & Brady, 2002). Some companies craftily hide pension liability and thus successfully made an off-balance sheet financing. Therefore, pension accounting has been under attacked for the last few years especially in the US and the UK. Academics and practitioners accused pension accounting standards as too subjective and in certain aspects, a bit vague. However, companies still offers retirement benefits or pension benefits for strategic reasons to its employees though it involves cash outflows, hit their bottom line since it is an operating item and in many cases increase its liabilities. Reason commonly cited as to having a retirement plan is to attract and retain good quality employees especially in competitive and high skills industries with various schemes (Terry & White, 1996; Taylor, 2000). Some offer instant perks such as attractive allowances, and high start-up salary or other employee benefits. Companies which want to retain long term bond with such employees may opt to retirement benefits which is payable when the employee retire from the company. Thus retirement benefits are a form of deferred compensation for employees.

Our study provides insight to the practise of accounting and reporting of retirement benefits among the Kuala Lumpur Stock Exchange (KLSE) Composite Index companies prior to the implementation of the recent MASB 29 (Employee Benefits), which will be effective from January 2003 and FRS119 starting from 2010. This standard requires more extensive disclosure following IAS 19 (revised 1998) which is similar to FASB 87, 106 and 132 of the US. In addition, this study looks into the readiness of Malaysian companies of IAS 19 (the former Malaysian approved accounting standard) which would provide early signal of Malaysian companies' awareness on MASB 29 retirement benefits disclosure, since there is no material difference between these two standards as stated in appendix 1, MASB 29. As such, whether it is of old regime or the new regime of accounting standards, companies in Malaysia should have complied with provisions of MASB 29 which is not supported from findings of our study.

At local scene, Malaysia inherits retirement benefit system from British since pre-independence. Before the introduction of mandatory employee/employer contribution in 1951, traditional pension scheme was well-known for government servants which provide life-time annuity of usually a half of last basic salary and free medical treatment upon retirement. As for private sectors, there is option to offer the same benefit enjoyed by counterparts from public sectors albeit usually in lesser form. It is an important point that the cost of maintaining such schemes is escalating from year to year coupled with an increasing number of older employees and increasing initial pay of both sectors.

In the case of public sector, year 2001 seems to be a pension-debated year when the government announced to propose a new retirement scheme for government servants (NST, June 4, 2001). This retirement scheme is quite a hybrid scheme which includes some contribution from government servants. However, it is still under study and yet to be announced. In the past 10 years, Government expenditure on these three payments (pensions, gratuities and medical treatment) alone increased by almost four-fold. In 1990, the amount paid out was RM1.1 billion. This has increased to RM4 billion last year which was a huge amount of money. Similarly, private sectors received calls from foreign and local private pension organisers to set up private pension plan other than the Employee Provident Fund (EPF). In Malaysia, provision for mandatory retirement benefits, the Employee Provident Funds (EPF), is the most common scheme of retirement benefits in private and public organisations. Other popular schemes involve gratuities and post-employment medical benefits and stock options. Criticism heightened recently following downward trends in the EPF's return to depositors though it is managing huge billions of Malaysian Ringgit of savings or depositors retirement funds.

With more and more calls to upgrade our retirement funds system, academic work in this area is still limited and we believe that the need for such studies is warranted in the light of current MASB 29 pronouncement. To our knowledge, Tan Liong Tong *et al.* (1994) work is the sole academic study in retirement benefit from accounting point of view. Our study would extend TL T *et al.* in providing more details and current information on the practise and disclosure of retirement benefits.¹ In the case of non-academic works on retirement benefits, there are several annual surveys by Watson Wyatt (2003) and Malaysian Employee Federation (2003). However their data, scope and coverage are different from our study. Watson Wyatt and MEF sample were largely their own clients or members and only a few of them were public listed companies (PLCs). Thus, there is a knowledge gap in Malaysia as to how PLCs in Malaysia are reporting in pension or other retirement benefits.

The Malaysian Accounting Standard Board (MASB) announced two standards on Employee Benefits, the MASB 29, "Employee Benefits", which supersedes MASB Approved Accounting Standard IAS 19, Accounting for Retirement Benefits in the Financial Statement of Employers, and MASB 30, "Accounting and Reporting by Retirement Benefit Plans", which supersedes MASB Approved Accounting Standard IAS 26. MASB 29 caters for disclosure by employer while MASB 30 is for the fund provider. Both former and latter standards are very much similar and . Hence to reiterate, Malaysian companies should have complied in all material aspects of the former IAS 19 or the latter MASB 29. From legal perspective, The Malaysian Companies Act 1965, under the Ninth Schedule [paragraph 2(1)(q)] requires that the balance sheet should disclose provision for pension or retirement benefit but the act is silence on the basis of recognition and the method of measurement for pension related accounts. If there is evidence on non-compliance especially for the PLCs, it would raise several other controversial issues including the effectiveness of capital market monitoring or the level of audit quality among others.

At international scene, several accounting standards on retirement benefit plan have been negatively viewed by participating companies such as the UK and the US. The introduction of FRS 17, "Retirement Benefits" by the Accounting Standard Board (ASB) in the UK was said to be the cause of some companies to discontinue their defined benefit pensions (Payne, 2002). These companies argue that it add undue volatility in their balance sheets and as such affects the ratings by market analysts. In the US, one of the largest aerospace firms in the world terminated health care benefits for its employees, blaming the issuance of Financial Accounting Standards No. 106, "Employers accounting for post-retirement benefits other than pension" (Baker and Hayes, 1995). Even though the impact of MASB 29 may still remain unknown to be viewed negatively as FRS 17 and FASB 87, 106 and 132 the bottom line are companies must be prepared to disclose provision for retirement benefits on balance sheets, its periodic costs, and thus it will directly affect the level of employees and shareholders returns.

In this study, we found that companies disclose only some provisions of MASB 29 or IAS 19. Even those which disclose actuarial assumption, there is tendency to use aggressive rate which would lower pension obligation and thus pension liability on balance sheet. Half of the companies with defined benefits used disallowed methods or did not disclose at all. We present our research as follows. In the next section we review relevant literature. Then we discuss on the research design. Next, we discuss on research findings. Finally, conclusions and suggestions for future study follow.

2.0 Literature Review

Retirement benefit plans are sometimes referred to by some other names, such as "retirement benefit schemes", "superannuation schemes", or "pension schemes". This inconsistency used of terminology contributes major challenge for pension reporting (Kieso and Weygandt, 2001). MASB 30, Para 9, defines retirement benefit plans as an arrangements whereby an enterprise provide benefits for its employees on or after termination of service (either in the form of an annual income or as a lump sum) when such benefits, or the employer's contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the enterprise's practices.

In 2002, Malaysia Employers Federation has conducted a survey on salary and fringe benefits for 284 companies throughout Malaysia. It was found out that 57.1% of the employers contribute to EPF above 12%, while 45.5% provide gratuity to the employees and 14.3% have their own retirement fund. In addition, a survey done by Watson Wyatt (2003) on 206 companies in Malaysia found out that among surveyed companies, 47% Defined Contribution funded through EPF top-up, 10% through non- EPF Defined Contribution. While 33% of the surveyed companies provide Defined Benefit and others provide 10% Hybrid Plans. Both surveys suggest that Malaysian companies tend to slightly prefer a DC plan than a DB plan which could be influenced by better tax provision and lower cost associated with these plans².

With an increasing percentage of older employees (age 35-54) in Malaysia which accounts for 40% of total workforce as in figure 1, a study on retirement benefits is very timely and relevant. With life expectancy of an average Malaysian is up to 78, a person may live up to 20 years after retirement and thus add extra costs to private companies which provide a DB plan.

Age Group	1990	1992	1993	1995	1996	1997	1998	1999	2000
15-24	27.1	26.1	24.9	23.8	24.6	23.9	20.8	22.2	21.9
25-34	31.5	31.8	31.9	31.5	31.2	31.3	31.6	31.7	32.1
35-54	35.4	36.0	37.4	38.7	38.3	38.9	41.2	40.2	40.1

Figure 1: Percentage Distribution of Employed Persons By Age Group 1990-2000

Source: Manpower Department

Pension plans are usually either defined benefit or defined contribution funded, which may significantly affect incentives for voluntary financial reporting. Both contracting and political game incentives provide potential motivations for politicians to impose political costs on defined contribution pension plans during the time period at issue. In private sector research, firm size has typically been used as the proxy for political visibility (Watts and Zimmerman, 1990). The political visibility hypothesis states that the probability of FRS use is greater for large defined contribution pension plans which are more politically visible than small defined contribution pension plans (Watts and Zimmerman, 1990). Needles, Powers and Revsine (1991), hypothesize and found a strong positive relationship between institutional pension stringency and the extent of pension disclosures. With the actuarial complexity and government regulation attached to defined benefit funded pension liabilities, it is not surprising that defined contribution are gaining increasing popularity (Klumpes, 2001). Currently there are significantly international differences in pension accounting standards in term of disclosure.. The good news is, there is movement to harmonise pension accounting standards albeit a more of US model. IAS 19 (revised 1998) follows FASB 87 and 132 and many aspects including recognition, measurement and disclosure. The 10% corridor in recognizing and disclosing the excess of pension expense and pension liabilities which is not required under former IAS 19 is now being adopted from FASB.

In the early 1980s, pension accounting standards in US specified only the income statement effects on employer sponsors of incurring expenses in relation to defined benefit pension plans. Accounting Principle Board Opinion No. 8, formally recognized pension funding but left to the discretion of the actuary to value and discloses the pension values. Subsequently in 1980, Statement of Financial Accounting Standard (SFAS) No.35 and 36 required that pension plans disclose to participants such information as net assets available to pay benefits. Whereas, SFAS 87 which was introduced in 1985 require the employer to recognize a liability in its statement of financial position that is at least equal to the unfunded accumulated benefit obligation. The employer is also required to disclose the Accrued Benefit Obligation in their statement of financial position as well as permits footnote disclosure of the Pension Benefit Obligation. As an effort to standardize benefit disclosures into an easier format, FASB issued SFAS No. 132 Employers' Disclosures about Pension and Other Postretirement Benefits in 1998. Although the new standard retains many of the disclosures of previous standard, it does make several changes which requires a schedule reconciling the beginning and ending balances of both benefit obligations and plan assets. This standard also requires the separateness of certain information and eliminates unnecessary information. Pension and postretirement benefit information is required to be presented in a parallel format.

Basically most all of the empirical research on accounting standard for retirement benefit has studied the effects of U.S based SFAS 87 prior to SFAS 106 and SFAS 132. However, only a few research has studied on retirement benefit choices outside USA. Scott (1994) examines voluntary disclosure by firms of pension plan information in Canada, where institutional pension disclosure rules are weaker than SFAS 87. Disclosure incentives are found to be consistent with Verrecchia's (1983) proprietary cost theory, which states that disclosure incentives are negatively related to proprietary costs of disclosure, and positively associated with the favourableness of the disclosure news. The impacts of accounting and reporting standard for retirement benefit plan are vital since it can negatively affect the employee welfare. A study by Baker and Hayes (1995) investigates the negative effects on employee welfare as a result of actions taken by the management of company which it attributes to the adoption of an accounting standard. The company, McDonnell Douglas Corporation terminated health-care benefits for its non-union employees, blaming the issuance of SFAS 106 "Employers accounting for post-retirement benefit" as the cause the action was taken. Furthermore pension plan information can be considered as valuation-relevant where there is an association between pension information and share prices (Feldstein and Morck 1982, Daley 1984, Landsman 1986, and Barth 1991).

The adoption of SFAS 106 changed the prevalent practice of accounting for post-retirement benefit from cash basis or "pay-as-you-go" basis by requiring the accrual of the expected cost of providing post-retirement benefits during the years that an employee renders the service (Baker and Hayes, 1995). Grady (1992) reported that the adoption of SFAS 106 caused an estimated US\$148 billion in charges to earnings to be recorded by the companies in the Standard & Poor's 500 Index. In the UK, the former pension accounting standard SSAP 24 does not require the employer to recognize the prior periodic cost component of pension cost and only requires footnote disclosure of pension funding. Moreover the economic liability also differ where under US law, employer sponsors are legally obliged to fund only Accrued Benefit Obligation but UK law requires pension liabilities to be indexed on a Pension Benefit Obligation basis. However with recently updated UK GAAP under FRS 17 require annual actuarial valuation and the recognition of both the market value pension assets and the Accrued Benefit Obligation on the employer's balance sheet (Klumpes, 2001). A numbers of companies are closing their benefit plans to new employees and also some existing members (Payne, 2002). They accused the new accounting standard, FRS 17 as the reason, which, according to them has made it too expensive and risky for them to continue to provide defined benefit pensions.

The new FRS 17 requires companies to value their pension plans annually in the profit and loss statement. All UK companies will have to include the real value of the pension assets and liabilities in the financial statement by June 2003. Director of Pensions Development, Stewart Ritchie said that the additional burden could motivate thousands of employers to close their defined benefit pension schemes for fear that inclusion on the balance may make them appear insolvent (Duncan, 2002). Peter Thompson, chairman of the National Association of Pension Fund, London commented that, bringing snapshot accounting into the accounts of the sponsoring company will not only invite confusion among investors, but will inevitably lead firms to question whether it is worth their while to offer a good quality final salary pension scheme (Payne, 2002).

Arguments on the negative effect of FRS 17 have led the Accounting Standard Board (ASB) to publish an Exposure Draft (ED) of an amendment to the controversial standard (ABGweb, 15 July, 2002). The purpose of this ED is to allow the ASB to consider the amendments to the equivalent international standard, IAS 19 (revised 2000), "Employee Benefits", and to consult on the adoption of the revised standard in the UK. FRS 17 requires actuarial gains and losses to be recognized immediately in the statement of total recognised gains and losses. Meanwhile, IAS 19 (revised) requires actuarial gains and losses to be included in the profit and loss statement. However, the amount are not required to be disclosed if it is less than 10 percent of the greater of the gross assets or gross liabilities of the schemes. IAS 19 also allows actuarial gains and losses to be spread forward over a period up to the expected average remaining working lives of the employees participating in the scheme. According to Scott (1994), Canadian standard uses similar measurement rules to the US standard to determine pension cost and the projected benefit obligation. The Canadian policy mandates note disclosure of only the actuarial present value of projected pension benefits, and the market-related value of pension fund assets. The disclosure of pension cost, actuarial assumptions, and other disclosures left to the discretion of management.

Tan Liong Tong *et al.* (1994) found that diverse accounting practices for retirement benefit plans among the companies in Malaysia prior to MASB 29. The highest reported type is defined contribution, followed by unfunded plans and plans based on contractual agreement. Disclosure practices are also found to be diverse where the most common type of disclosure is as expense in profit and loss account followed by disclosure as liability in balance sheet and as notes to the accounts. Most companies did not disclose the methods used and some of them used other valuation methods which are not in compliance with IAS 19. However, their study was based on listed companies on KLSE in 1990. In Malaysia, MASB 29 prescribes the accounting and disclosure by employers for employee benefits. Paragraph 26 specifically discuss about post employment benefit. Post employment benefit plans are classified into Defined Contribution Plans (DC) and Defined Benefit Plans (DB). Under DC, employers will pay fixed contributions into separate fund and will have no legal obligation to pay further contributions if the fund due not sufficient assets to pay. According to Goh (2002), retirement benefit is a fringe benefit and there is no legislation which makes it compulsory for the employer to pay the retirement benefit to any of his employees. The employer's contribution to EPF is in fact retirement benefits. While DB plans is defined as any post-employment benefit other than a defined contribution plan which amounts to be paid as retirement benefits are determinable, usually by reference to employees' earning and/or years of service. This plan may be unfunded, or they may be wholly or partly funded. The fund or employer is obligated either legally or constructively to pay the full amount of promised benefits whether or not sufficient assets are held in the fund. So what are the issues of MASB 29? One thing is there is a greater amount of disclosure in a DB plan than a DC plan. According to MASB 29 (now FRS 119), the employer should disclose separately the amount recognized as an expense under a DC plan.

In Malaysia, contribution to the EPF is regarded as a DC plan and thus should be disclose separately. However, common practice is to lump it all under employees wages and salary. While for DB plans, more disclosure is mandated including a general description of each plan identifying the employee groups covered and the accounting policy regarding recognition of actuarial gains or losses. In addition, the enterprise are also required to reconcile the plan-related assets and liabilities in the balance sheet by showing the present value of wholly unfunded defined benefit obligations, the fair value of plan assets and the net actuarial gain or loss. Of more significant changes, this standard requires the enterprise to use the Projected Unit Credit Method to measure its obligations and costs and to determine the discount rate by reference to market yields at the balance sheet date on high quality corporate bonds of a currency and term consistent with the currency and term of the post-employment benefit obligations. The more disclosure demanding standard would create some agency problem when such disclosures distort the real picture of the companies and thus considered as having higher proprietary costs. Verecchia (1983) suggest that higher proprietary costs inhibit disclosures and by providing disclosure of the above matters, subsequent repercussions would be difficult to handle such as future labour union claims or unwanted criticism on fund performance.

3.0 Research Design and Methodology

Of 800 over KLSE listed companies, there is no complete or formal list maintained by government agencies as it is of voluntary basis though participating companies are encourage to do so. Considering our main focus is to provide information on the background of retirement benefits and since foreign markets in prior literature frequently quote on their index related companies for the purpose of saying how big is their pension liabilities or the nature of its retirement benefits, we decided it would be deemed appropriate at this juncture. In addition, political visibility of KLCI companies is higher than the rest of the KLSE companies and thus subject to more scrutinises from financial analysts, foreign institutional investors such as CALPERS whenever there is any accounting items that affect future cash flows. Thus, rather than going for the total KLSE companies to find out which company has retirement benefits, and where simple or stratified random sampling would be inappropriate, our sample selection is based on Kuala Lumpur Composite Index (KLCI) companies in 2001³. We dropped one of the KLCI companies since it was taken private before year end and thus left 99 companies. We then extracted and coded relevant data from annual reports. When there are conflicts in interpreting certain terminology e.g. types of retirement benefits, measurement methods or funding status, we refer to relevant accounting standards and articles and form unanimous decision.

4.0 Results and Discussion

4.1 Descriptive analysis of retirement benefit

Table 1 shows that companies with retirement benefits (i.e. a DB or a DC) are better in term of turnover and EPS than companies without DB/DC. Such results may be interpreted as companies with better sales and larger are the companies which provide retirement benefits or companies with retirement benefits have better profitability. At this juncture however, we do not propose that retirement benefit has significant effect on profitability of the company or the motivation and productivity of the employees. Future study which incorporate regression model and with more representative sample i.e. the population of listed companies with retirement benefits plans would shed some light on this issue.

Family-owned companies are less likely to offer any retirement benefit as compared to non-family owned companies. There is significant difference of size of employee workforce between companies with retirement benefits and companies without retirement benefits. On average, RB companies have more than 2000 employees than non-RB companies. As such, labour intensive or non-labour intensive industries is an important factor when it comes to introducing retirement benefits to its employees and the same goes with age of the company from the year of incorporation. On average, both groups are nearly 30 years in operation. There is no difference in term of institutional and foreign shareholding when it comes to retirement benefits though a portion of their returns is used as additional payment to employees.

In the US, 75% of S&P 500 has retirement benefits and in the UK's FTSE 100, 80 % of them have retirement benefits. In Malaysia, we found slightly more than 50% have retirement benefits in their books (see Table 2). It is interesting that Malaysian companies opt to a DB plan more than a DC plan in providing retirement supports to their employees. Such finding is also evident in the UK and the US. The remaining companies were compensating employees in line with the statutory requirements of Employees Provident Fund Act 1991 in providing retirement benefits. Thus, in comparison with developed nations, Malaysian public listed companies need to catch up with providing additional or private income schemes to retirees especially for private sectors. Findings from the EPF itself commented that most of the contributors finish their entire savings in three years.

Some pointed out on the cap of the Malaysian Income Tax Act 1967 on employer's contribution that inhibits the growth of private retirement schemes (The Star, 2003). Thus, anything more would be non-tax deductible. None of these companies disclose or provide post-retirement health care benefits which are a norm with public sectors.

Table 1: T-test for RB and no RB sub-samples

Attributes	RB (n= 52) Mean S.D.	No RB (n=47) Mean S.D.	t-value	sig.
ASSET (RM '000)	6,772,146 12,280,213	9,064,724 24,285,536	-.60	.54
TURNOVER (RM '000)	2,311,131 3,025,887	1,347,636 1,839,292	1.89	.06*
EPS (cents)	27.48 40.367	10.13 30.318	2.39	.01*
EMPLOYEE SIZE	6,769 10,121	4,351 6,128	1.40	.16* *
INSTITUTIONAL SHARE (%)	73 44	6.6 .47	.76	.44
FOREIGN SHARE (%)	48 50	51 50	-.29	.76
FOREIGN OPERATION (%)	67 74	74 44	-.77	.42
FAMILY OWNERSHIP (%)	15 36	36.4 48.6	-2.42	.00*
COMPANY AGE (years)	27.5 15.04	29 15.75	-.48	0.62

* sig. at 2-tailed, ** sig. At 1-tailed, RB = retirement benefits

Though KLCI companies are the benchmark of Malaysian stock market, it seems that retirement benefits are not that prevalent to attract potential employees or to retain current employees. In this case, there are possibilities that companies in Malaysia may attract new employees and obtain loyalties from existing employees using attractive entry salary schemes and other non-retirement schemes such as medical benefits, employee stock options and paid leaves or contractual annual bonus.

Table 2: Descriptive Analysis of Sample with Retirement Benefits (n=52)

Industry	Number of Companies	Total assets mean(RM'000)	Turnover mean (RM'000)	Employee size mean	PLC with DB	PLC with DB & DC	PLC with DC
service	16	8,807,589	3,861,938	8,368	8	3	5
industrial	9	2,729,363	1,766,544	2,721	6	3	0
finance	7	19,616,576	1,759,604	4,259	2	2	3
property	4	1,456,775	335,512	1,229	3	0	1
consumer	7	2,149,242	2,663,779	4,357	7	0	0
plantation	4	5,109,655	1,674,109	28,111	2	1	1
construction	2	2,364,072	844,337	1,251	2	0	0
technology	2	1,002,349	790,472	5,514	0	1	1
hotel	1	1,306,630	217,130	2,466	1	0	0
Total	52	6,772,146	2,311,131	6,770	31	10	11

No companies under Unit Trust and Closed End Funds were classified under KLCI as at Dec 2001
DB = defined benefit plan; DC = Defined contribution plans

Table 2 shows that 31 of the KLCI companies have a DB plan and 10 of them have an additional DC plan or "top-up" contribution other than the statutory contribution of EPF in the annual report⁴. Interestingly, some companies offer both to their employees. However, every employee can only have one. A new scheme which combines both traditional schemes or a so-called hybrid schemes such as cash balance plan has taken place in foreign setting such as the US albeit in a smaller fraction against other type of plans, however, it have not yet gaining popularity in Malaysia⁵. Industries like mining and IPC however, did not offer any additional retirement benefits plan to its employees. Construction, consumer and hotel (albeit only one company) industries in this sample offers only a DB plan.

Service, plantation and finance offers a diverse option to its employees and interestingly these three industries have a larger number of employees than other industries⁶. However, this could be due to active movement of trade unions in these industries which then may initiate collective agreements⁷. In similar vein, active trade unions such as National Union of Bank Employees (NUBE) and National Union of Plantation Workers (NUPW) may provide justification of such finding. None of any industries offers only a DC plan. Table 3 shows that they differ in term of size, turnover, employee workforce and company age. DC companies are larger, have more employees, are more profitable and are older than DB companies. Higher cost of a DB plan may influence such event. Yet, it is unknown on what factors actually differentiate between a DB and a DC participating companies. It is however worth noted that, it is possible that most of the DB plans are an old plan and offered only to senior employees whereby new employees are offered a DC plan (companies which offer both plans)⁸.

A few of these companies however, ended their plan in current year or are planning to end their plan (e.g. Telekom Malaysia). Several reasons for such event as suggested by prior literature may include the ever increasing complexity of managing a DB plan when there is a merger and acquisition or when there is curtailments, increasing costs of maintaining plans or quite possibly pressures to disclose information in financial statements which may lead to negative impacts especially on the gearing and credit facility.

Table 3: T-test of DB and DC sub-samples

Attributes	DC (n= 11) Mean S.D.	DB (n=31) Mean S.D.	t-value	sig.
ASSET (RM '000)	9,008,478 12,915,081	3,483,152 5,739,743	1.932	0.060**
TURNOVER (RM '000)	2,959,485 4,001,453	1,554,891 1,833,060	1.567	0.125*
EPS (cents)	34.23 29.70	25.33 47.07	0.584	0.562
EMPLOYEE SIZE	9,793 11,462	4,134 5,279	2.200	0.034**
INSTITUTIONAL SHARE (%)	8.2 0.40	71 46	0.690	0.494
FOREIGN SHARE (%)	45 52	55 51	-0.524	0.603
FOREIGN OPERATION (%)	73 47	61 50	0.667	0.508
FAMILY OWNERSHIP (%)	27 47	13 34	1.088	0.283
COMPANY AGE (years)	33.45 22.22	25.55 13.10	1.419	0.164*

* sig. At 1-tailed, ** sig. at 2-tailed

4.2 Analysis on Defined Benefit scheme

Table 4 shows that not all companies with a DB plan use projected unit credit method to measure their retirement benefits. Some companies still use methods which are not allowed by MASB 29 or the previous IAS19. MASB 29 has eliminated PBV as an alternative cost valuation method allowed under IAS 19 (prior to 1998). Most PBV supporters use "Attained Age" method. The only allowable method is accrued benefit method. However, different terminology is being used by Malaysian companies including "Projected Unit Credit" or "Projected Service Liability". This would create confusion to ordinary financial statement users. As such, there is a need to standardize actuarial terms whenever these companies report their pension plan.

MASB 29 recommends that actuarial valuation is needed for valuing pension assets but it is not mandatory. In practice, it is quite a norm for companies to engage actuaries to make a comprehensive evaluation in retirement benefits once in three years. We found two of the companies did not engage an actuary for valuation of their plan. MASB 29 states that major assumptions for DB plan must be disclosed including discount rate, expected rate of return & salary progression rate. Our findings show that only a handful of these companies disclosed major assumptions of their pension plan. DR ranges from 7-8%, ERR from 6-9%, SPR from 5-7%. Vesting year is between 5-10 years which is entirely at company discretion or collective agreement with trade union. In the US, vesting year is regulated at 10 years and in the UK, the requirement is much more relaxed. In Malaysia, however, there is no regulation on this matter. Only one company disclose inflation rate in their major assumption as or voluntary information.

Table 4: Disclosure of Defined Benefit Scheme

Industry	Method				Actuarial valuation frequency				Actuarial assumption		
	PUC	PBV*	OTHERS*	ND	2yr	3yr	5yr	ND	DR	ERR	SPR
Service	4	0	3	4	0	6	0	5	1(8%)	1(9%)	1(6%)
Industrial	2	2	1	4	0	5	0	4	1(6.8%)	2 (68%)	2 (55.5%)
Finance	0	0	1	3	0	1	0	3	0	0	0
Property	2	0	1	0	0	1	0	2	1(8%)	0	1(6%)
consumer	4	1	1	1	0	3	0	4	2(7%)	1(6%)	1(5.5%)
plantation	1	1	0	1	0	1	1	1	0	0	0
construction	1	0	1	0	0	1	0	1	0	0	0
technology	0	1	0	0	1	0	0	0	0	0	0
hotel	0	1	0	0	0	0	0	1	0	1(7%)	1(7%)
Total	14	6	8	13	1	18	1	21	4	4	5

*not allowed under MASB 29

PUC = Projected Credit Unit ; PBV = projected benefit valuation; ND Non-disclosed

DR = Discounted rate; ERR= expected rate of return; SPR= Salary progression rate

TLT *et al.* (1994) did not discuss on the disclosure of actuarial assumption of retirement benefit plan. The IAS 19 (prior to 1993) did not ask for such disclosure then. Technically, high DR and ERR would reduce pension liability to be disclosed on balance sheet and according to MASB 29, these rate should follow high quality bond rate (e.g. A rating bond) or in the absence of such bond market, it should follow the rate of government bond⁹. Our finding shows that companies in Malaysia especially in the case of ERR, tend to be quite optimistic by using higher rate than government bond's rate. Although total pension liabilities in Malaysia is not significant as compared to these companies' total assets and in similar vein, changes in ERR rates may not give significant impact to overall financial condition, there is a need to clarify such assumption in the footnotes of retirement benefit in the event of using rates higher than government bond (e.g. Tenaga Nasional Berhad).

Overall disclosure of defined benefit plan is lacking and some even disclose in the footnotes without corroboratory figures on the balance sheet which lead to a possibility of an off-balance sheet financing. In similar note, a more important aspect of disclosure is a separate statement of movement in pension account. This statement would provide information whether the company is underfunding or overfunding its plan. Only 20 of 41 companies disclosed a separate statement on their retirement plan either under the heading of "Retirement Benefit" or under "Other provision" in the footnotes to accounts. These statements however, are simple and none discloses the full requirement under MASB 29 such as service cost, interest cost or contributions made. Other information such as market value of plan assets would provide the fair value of these plans at balance sheet date. Table 5 shows that Service industry has the highest pension liability which means many of the companies have much lower pension assets than actuarial calculated pension obligation. Such discrepancies would affect cash position of the affected companies since companies do really to top up the differences by cash. Out of 41 DB companies, 31 companies are under funding their pension schemes. Tenaga Nasional for example has to fork out RM 400 million in cash to ensure that it has enough mean to pay its retiring employees when it comes due. Next highest pension liability include industrial and plantation sectors.

Though pension liability is considered a long term liability, however, there is no separation of current and non-current amounts of pension liability in these companies book¹⁰. We argue that such information would better guide expert investors or analysts in projecting future cash requirement of the companies. FAS 132 and FRS 17 however, have not yet work on this issue. This could be to a gradual or consultative-based approach by accounting standard setters with the industry to avoid unnecessary uproars in the market. 11 companies reported no pension liability in their balance sheets. However, one company reported a shortfall of RM 4 million without disclosing such liability on balance sheet. Their main argument is that there is sufficient fund to meet pension obligation. Specifically, MASB 29 asked for such argument to be accompanied with actual figures rather than a single line statement. Some of these companies disclose (only companies which disclose such information) a DR and ERR above average and SPR below average. A tendency to manage pension liability might be a possible answer to non-liability event in these companies or it could be of valid reason. Though MASB 29 permits reporting pension surplus on the balance sheets in line with the very similar "10% corridor" provision by US and UK accounting standards, none reported such event in this sample¹¹. This could be explained by gloomy global and local capital markets which affect investment returns and thus result in low value of pension assets.

Table 5: Pension Liabilities, Expense and Cash Outflow (in RM'000)

Industry	No of companies (n=41)	DB/Pension liability		DB/Pension expense		DB/Pension cash outflow	
		Mean	Max	Mean	Max	Mean	Max
Service	11	64,860		10,412		4,129	
		452,800		75,400		35,095	
Industrial	9	9,682		1,780		659	
		31,493		9,595		2,835	
Finance	4	3,827		1,151		252	
		14,875		2,509		993	
Property	3	4,858		1,281		528	
		7,795		2,310		1,224	
Consumer	7	1,880		637		342	
		8,745		1,737		1,504	
Plantation	3	5,866		637		664	
		10,475		1,912		1,473	
Construction	2	3,290		144		0	
		5,065		288		0	
Technology	1	882		0		0	
		882		0		0	
Hotel	1	11,935		2,588		2,465	
		11,935		2,588		2,465	

Pension expense however does not materially affect the bottom line of these DB companies except for the highest is 10% (MIDF) followed by 2% (NCB) and 1% (Shangri La Hotel) of the turnover and the rest is less than 0.5%. A technology company had its pension expense been write backed and thus reported no expense and no cash outflow.

5.0 Conclusion and Way Forward

In Malaysia, retirement benefits are normally a Defined Benefit or a Defined Contribution plans. Hybrid plans are virtually non-existent. In most cases, disclosures of retirement benefits are simple and straight-forward and thus may not add any significant meaning to stakeholders. Disclosures of retirement benefits in Malaysia are still inadequate with current requirements of MASB 29 or IAS 19 with some companies use disallowed actuarial method. Most of the companies with a DB plan were under funded and thus require investors to be sceptical on how these companies would finance its plans in near future since it involve future cash flows. Under funding of pension accounts also signal the performance of pension plan. Investors would then should look into how well do these plans work and inquire the medium they are invested in whether in shares, insurance premiums or debt securities. It is still unclear whether MASB 29 would receive the same fate as FRS 17 or FASB 87, 106 and 132 where business community replies with "Don't fix what isn't broken". However, this research has not answered several fundamental issues of retirement benefits in Malaysia. Firstly, it did not answer on the objectives of having a retirement benefits in the first place. Such study would be a possible avenue to step forward in this area. Secondly, it did not answer whether different schemes are design for specific reason or a specific target group of employees. A study to understand why companies opt for a DB, a DC or even a hybrid schemes would be another interesting avenue as it could give due understanding to practitioners, researchers and academicians of the behavioural aspects of retirement benefits accounting.

Endnote

¹ Even though TLT *et. al* (1994) study was published in 1994, they used 1990 data.

² The Malaysian Income Tax Act 1967 limits the employer's contribution up to 19%.

³ It is possible to check the population of the KLSE subject to lesser resource constraints.

⁴ Contributions to EPF is a mandatory under the EPF Act 1951, thus every company has at least a defined contribution plan.

⁵ A survey by Watson Wyatt (2003) found that only 10 % of companies with RB offer a hybrid plan.

⁶ Service industry has 38 collective agreements (CA) in 1996 or about 10% of total CA in Malaysia (Source: Labour and Human Resource Statistics 1992 – 2001, Ministry of Human Resources, Department of Trade Union Affairs). In contrast, construction industry has none.

⁷ In Malaysia, employees in electronic industry however are not allowed to form unions. As of mid-1994, the Malaysian Trade Unions Congress (MTUC), formed in 1950 under the name Malayan Trades Union Council, had 138 affiliated unions with about 500,000 members

⁸ Public sector employees are also experiencing the same situation, however they could still choose a DB or a DC plan after completing three years of service and it is irreversible.

⁹ CAGAMAS bond, or government treasury bill as for Malaysia i.e. Malaysian Government Securities (MGS)

¹⁰ MASB 29 has not yet to propose such disclosure for sponsoring companies

¹¹ The 10% corridor means that companies may report pension surplus only if the fair value of pension assets exceeds pension obligation by 10% and with probable chance to realise these assets.

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