# Pension return assumptions

Letters: 2007, 2016 · Difficulty: Advanced

> *"Other accounting choices remain – important among these the investment-return assumption a company uses in calculating pension expense." (2007)*

1. Pension plan assets are $1,000 million. If the company assumes an 8% expected return instead of 5%, by how much does reported pension expense fall ($ millions)? **30**

2. A higher assumed return on pension assets…

   A. increases the cash paid to retirees

   **B. lowers pension expense and raises reported earnings**

   C. raises pension expense

   D. has no effect on earnings

Source: Warren E. Buffett, Letters to Berkshire Hathaway Shareholders: 2007, 2016 (berkshirehathaway.com/letters). Quotation © Berkshire Hathaway Inc., all rights reserved; quoted for non-commercial teaching. Numbers in the questions are made up unless stated.