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)? _____

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.