Final Extra Credit Assignment for Corporate Finance 3130 Spring 2013

[Maximum of 10 Extra Credit Points]

Read the article that appeared in the April 19th 2013 issue of **The New York Times, Business Section, B2** entitled, “Companies Substitute Tangibles, Like Cheese, for Investments,” by Mary Walsh and Julia Werdigier. Complete a summary of this particular business article identifying the three key issues related to how tangible physical assets are being used to invest funds for a pension plans. What are the differences between a tangible physical asset and a financial asset? If a pension plan were to need to fund a $200 million pension liability with equal annual payments for the next 20 years, what would be the annual funding cost if a 4.5% rate of return were assumed on the investment assets? What would be the annual funding cost if a 20% rate of return were assumed on the investment assets? How likely would a pension fund manager be able to make a 20% return on a tangible investment asset of say a diamond mine, forest preserve, water rights in the Mojave desert, or a nuclear fuel reconditioning partnership? From the perspective of the federal government’s PBGC fund or the pensioners why would it not be a good idea to have tangible assets used as an investment? From a financial accounting perspective why might there be accounting difficulties when using tangibles to fund a pension? What do you think should be the role of government regulation when considering the impact tangible assets have on PGBC obligations and/or potential loss of retirement income to pensioners? Is there an ethical issue related to a corporate manager’s use of tangibles assets on behalf of employees who hold funds in the form of deferred compensation in the company pension plan?

The article may be accessed at: <http://www.nytimes.com/2013/04/20/business/global/company-plugs-pension-hole-with-cheese.html?emc=eta1&pagewanted=print>

and this 8 to 10 double spaced paper will be due on April 30, 2013.