Volume 32
Number 3
March 2022

Insider

2020 asset allocations in Fortune 1000 pension plans

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Overview of the 2020 Asset Allocation Study of Fortune 1000 Pension Plans

During 2020, plan sponsors witnessed extraordinary levels of volatility and uncertainty affecting financial markets, which were mostly driven by the spread of the COVID-19 pandemic in the first quarter. Auspiciously, both equity and debt markets recovered throughout the year, with the former achieving double-digit gains — more than surpassing the year-to-date deep loss — by the end of 2020. Despite robust equity returns, portfolio gains from the assets' boost were partially offset by lower interest rates. Interest rates used to gauge pension obligations decreased to record low levels over the year, dropping by more than 50 basis points and prompting an increase in pension obligations. This coupled with the equity performance resulted in tepid funding improvements. It is in this challenging context of outstanding uncertainty that the asset allocation strategy adopted by sponsors plays a crucial role in the plans' investment returns, funding status and cash requirements to cover such things as employer contributions.

The Financial Accounting Standards Board began requiring more detailed pension disclosures in 2009, and WTW has been analyzing asset allocations ever since.[1] These analyses track asset allocation trends and patterns over time in Fortune 1000 plans. This 12th edition looks at fiscal year-end 2020 pension allocations by asset class, such as cash, equity, debt and alternatives, as well as by a variety of other attributes of both the assets and the plans.

The analysis is performed on both an aggregate-sponsor (weighted by plan assets) and average-sponsor basis as well as by plan size, plan status (open, frozen or closed) and funded status (defined as the ratio between total fair value of assets over total liabilities, considering both U.S. and non-U.S. plans). We examine the prevalence and amount of pension assets invested in company securities. Finally, we compare asset holdings from 2009 through 2020 for a consistent sample of plan sponsors and examine the relationship between risk-reduction strategies and asset allocations.

Analysis highlights

- There is a strong correlation between a pension plan's status and its portfolio's risk profile, with frozen plans holding more liability-hedging investments compared with closed and open plans. On average, frozen pension plans held above 56% of their assets in debt and cash investments versus less than 50% for sponsors of open plans.
- Over the past decade, there has been a steady shift from equities to low-volatility investments. Looking at a consistent sample, average allocations to public equities declined by roughly 14 percentage points since 2009, while allocations to debt increased by almost 16%. Sponsors show a gradual search for returns via alternative investments (including hedge funds, private equity and real estate), which increased from 6.7% in 2009 to 7.8% in 2020.
- The use of alternative investments has a well-established correlation with the plan's size. While larger plans allocated 9.5% to alternative investments, smaller plans only hold around 3.4% of their portfolios in these investment vehicles.
- In 2020, more than 8% of Fortune 1000 defined benefit (DB) plan sponsors held pension assets in the form of company securities, and among that group, such securities averaged 5.5% of plan assets.

[1] See "**2019 asset allocations in Fortune 1000 pension plans**," *Insider*, January 2021.

Figure 1a. **Aggregate asset class distribution, 2020**

Debt **50.9%** Cash **2.9%** Equity **32.1%** Private equity **4.1%**
Other **3.2%** Real estate **3.2%** Hedge funds **3.6%**

Figure 1b. **Average asset class distribution, 2020**

Debt **49.7%** Cash **3.6%** Equity **37.0%** Private equity **1.9%**
Other **3.2%** Real estate **2.2%** Hedge funds **2.4%**

Notes: Cash includes cash equivalents and money market instruments; debt includes insurance contracts, and hedge fund assets include derivatives and interest rate swaps.
Source: WTW

- There is a clear trend of sponsors increasingly following a de-risking path, either via liability management activities or via their asset allocation strategy. As for the latter, over the past decade sponsors have been focusing more on liability hedging investment vehicles, as the number of plans holding more than 50% of their asset mix in fixed-income securities tripled from 2009 to 2020.

2020 aggregate and average asset allocations

WTW's analysis of 2020 fiscal year-end DB plan asset allocations first takes a detailed look at 451 Fortune 1000 plan sponsors' pension disclosures.[2]

Figure 1a summarizes aggregate asset allocations weighted by the value of the sponsor's plan assets and shows total-dollar allocations. As of year-end 2020, the 451 companies in this analysis held more than $2.0 trillion in pension assets, comprised by cash, public equity, debt and alternative investments (real estate, private equity, hedge funds and other).

There is a clear trend of sponsors increasingly following a de-risking path.

At year-end 2020, 32.1% of pension assets were allocated to public equity and 50.9% were allocated to debt, with the remaining assets spread among the other various categories.

Figure 1b depicts average asset allocations (not weighted by plan assets) for the same sample of companies. The average Fortune 1000 pension plan sponsors in the analysis held above $4.8 billion in assets at year-end 2020.

The average allocation to public equity was 37.0%, while the average debt allocation was 49.7%. As for alternative assets — real estate, private equity, hedge funds and other investments — allocations averaged 9.7%, while aggregate allocations were 14.1%. The difference between the aggregate and the average reflects differences in plan size: Larger plans were more likely than smaller plans to invest in alternatives and less likely to invest in public equity.

When we considered allocations in real estate, hedge funds and private equity combined as alternative investments, we found that 69.2% of sponsors held alternative assets in their asset allocation mix. The portion allocated to the different type of alternatives varied by asset class, with private equity's share at 37.5%, hedge funds accounting for 32.8% and real

[2] The analysis consists of those Fortune 1000 DB plan sponsors that provided comprehensive asset allocation disclosures in their annual reports and that managed assets for domestic pensions.

***Insider* is a monthly newsletter developed and produced by Willis Towers Watson Research and Innovation Center.**

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estate 29.7% (Figure 2a). In 2020, roughly 40% of those sponsors that held alternatives allocated up to 5% of their assets in these types of investments, while only 4.2% of sponsors held more than 30% of their assets in alternative assets (Figure 2b).

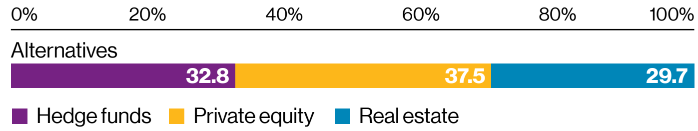
Looking into a consistent sample of 411 plan sponsors, between the end of 2019 and the end of 2020, average allocation to public equity remained unchanged from the previous year, while average debt holdings experienced a minor increase of 30 basis points. Within this sample, more than half of sponsors (51%) realized increases in their share of equity or debt investments (Figure 3).

Slightly more than 3% of sponsors experienced a drop of more than 10% in their debt allocations, averaging roughly a 38% decline. For a number of these companies, this shift is a product of unloading part of their liabilities (bulk lump sums, annuity contracts and partial terminations) and rebalancing their asset allocations to better match the profile of their remaining obligations.

Asset allocations by plan size

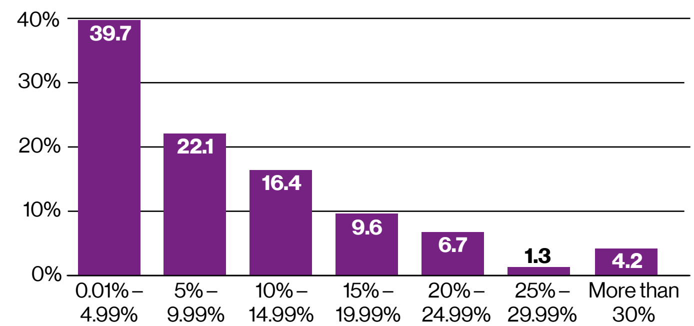
Aggregate and average asset allocations for smaller, medium and larger plan sponsors are shown in Figures 4a and 4b (next page). The analysis divides these sponsors into three equal groups by total pension assets: Smaller plan sponsors held less than $708 million; midsize plan sponsors held between $708 million and $2.6 billion, and large plan sponsors held more than $2.6 billion. The largest sponsor held pension assets worth more than $92 billion. Weighting smaller, medium and larger sponsors by plan assets emphasizes the large share of pension assets held by very

Figure 2a. **Aggregate asset distribution within alternative investments, 2020**



Source: WTW

Figure 2b. **Distribution of companies by allocation to alternative assets, 2020**



Source: WTW

In 2020, roughly 40% of those sponsors that held alternatives allocated up to 5% of their assets in these types of investments.

Figure 3. **Average annual changes in equity and debt allocations, 2020**

Change magnitude	Equity allocations		Debt allocations	
	% of sponsors realizing a change in their equity allocations	Average change realized in equity allocations	% of sponsors realizing a change in their debt allocations	Average change realized in debt allocations
Increase of over 10%	**4.6%**	**25.5%**	**6.6%**	**19.9%**
5% – 9.9% increase	**5.1%**	**6.9%**	**9.2%**	**7.2%**
0% – 4.9% increase	**41.6%**	**1.7%**	**34.8%**	**1.8%**
No change	**2.9%**	**0.0%**	**0.5%**	**0.0%**
0% – 4.9% decrease	**31.4%**	**–1.9%**	**38.2%**	**–1.7%**
5% – 9.9% decrease	**9.0%**	**–7.2%**	**6.8%**	**–7.1%**
Decrease of over 10%	**5.4%**	**–18.9%**	**3.2%**	**–38.0%**

Source: WTW

Figure 4a. **Aggregate asset allocations by plan size, 2020**

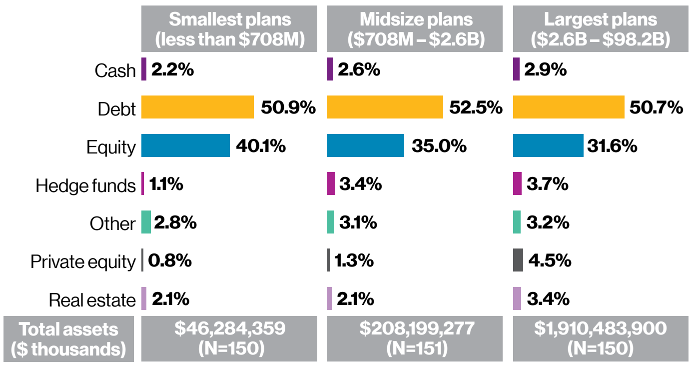
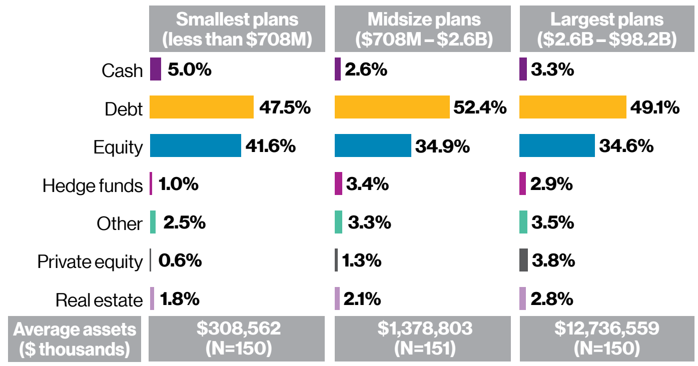


Figure 4b. **Average asset allocations by plan size, 2020**



Notes: Cash includes cash equivalents and money market instruments; debt includes insurance contracts, and hedge fund assets include derivatives and interest rate swaps.
Source: WTW

large plans[3] as well as the pronounced differences in investing behavior between smaller and larger plans (Figure 4a).

Typically, the larger the plan, the lower the allocation to public equity, which averaged 34.6% for large plans versus 41.6% for small plans (Figure 4b), the opposite in terms of their fixed-income allocation (debt and cash). This particular year, a set of small plans moving their entire portfolio to cash drove the average debt allocation lower compared with the other two groups. Overall, larger plans allocated less to public equities and more to alternative investments (real estate, private equity and hedge funds). On average, these plans allocated more than twice as much as smaller plans to other return-seeking investments (13.0% versus 5.9%), which might reflect larger plans' access to economies of scale and in-house investment structures that enable them to effectively manage alternative assets. Despite differences in plan size, the three groups of sponsors held more than 50% of their assets in fixed-income investments, evidencing a common path toward de-risking among all DB plan sponsors.

[3] The 10 largest plans held 30.4% of all plan assets.

Asset allocations by plan status

For this part of the analysis, we divided plan sponsors into three mutually exclusive categories by the current status of their primary pension plan: open, closed to new hires or frozen. Open DB plans are those still offered to newly hired employees, while closed plans stopped being offered to new hires after a fixed date. In frozen plans, accruals by service, pay or both have ceased for plan participants. Roughly three-quarters of the companies in our analysis sponsored either a closed or a frozen pension plan, while the remaining still offered an open plan.

Figures 5a and 5b show asset allocations by plan status and demonstrate a relationship between the plan's current status and the portfolio's risk profile, with the correlation strongest on an aggregate basis (Figure 5a). Frozen pensions held more risk-averse investments compared with plans – either open or closed – in which workers were still actively accruing pensions. In aggregate, sponsors of frozen plans held almost 57.5% of their assets in debt and cash versus only 47.8% for sponsors of open plans.

Figure 5a. **Aggregate asset allocations by plan status, 2020**

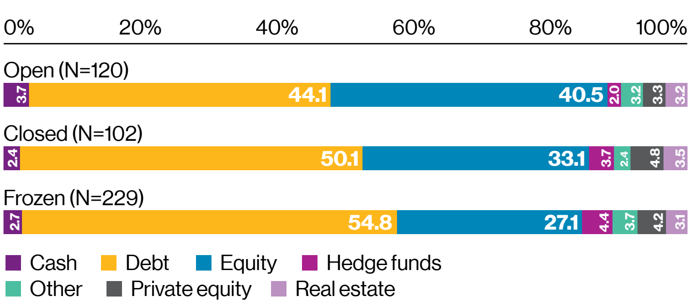
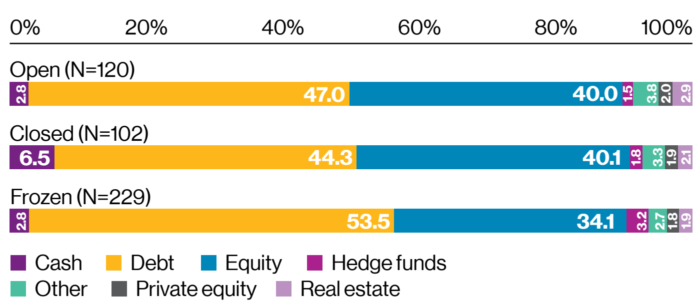


Figure 5b. **Average asset allocations by plan status, 2020**



Notes: Cash includes cash equivalents and money market instruments; debt includes insurance contracts, and hedge fund assets include derivatives and interest rate swaps.
Source: WTW

Figure 6a. **Average asset allocations by plan funded status, 2020**

Asset class	Funded status: Less than 70%	70% – 79%	80% – 89%	90% – 99%	100% or more
Cash	2.4%	2.9%	2.6%	2.8%	5.9%
Debt	43.5%	43.1%	52.0%	53.9%	54.4%
Equity	43.6%	42.1%	35.3%	34.5%	32.7%
Hedge funds	3.5%	3.5%	2.2%	1.9%	1.5%
Other	3.1%	3.7%	3.7%	2.2%	2.7%
Private equity	1.5%	2.0%	1.9%	2.3%	1.6%
Real estate	2.4%	2.7%	2.3%	2.4%	1.2%
Total %	100%	100%	100%	100%	100%
N	60	90	130	96	73

Notes: Cash includes cash equivalents and money market instruments; debt includes insurance contracts, and hedge fund assets include derivatives and interest rate swaps.
Source: WTW

As sponsors get closer to full funding levels, their portfolios tend to become more conservative in nature.

Asset allocations by funded status

Much like the prior year, stock markets and interest rate movements presented two very different scenarios. During the first quarter of 2020, equity markets plummeted, showing double-digit losses coupled with a drop in interest rates to measure plan assets. Equity markets shifted gears by the second quarter with a V-like recovery, and by the beginning of August, the market had regained all its year-to-date losses, ending 2020 with gains of more than 10%. Additionally, interest rate changes added to funding volatility during 2020, experiencing marked swings throughout the year, finally closing more than 50 basis points below rates realized at the beginning of the year. All this translated into particularly high levels of uncertainty, both in the asset and the liability side, as well as the need to rebalance the plans' portfolios swiftly in order to keep on track with their target allocations. Although the year closed with robust equity returns, asset gains were mostly offset by the decrease in interest rates that hit record low levels, increasing the value of pension obligations. The net effect of these opposing forces affecting funding levels was tepid but positive.

Our 2020 analysis shows a correlation between funded status and asset allocations (Figure 6a). As sponsors get closer to full funding levels, their portfolios tend to become more conservative in nature, typically as a result of investment de-risking strategies such as liability-driven investment (LDI) and asset glide paths.[4] Same as last year, average fixed-income holdings surpassed equity investments across all funding levels, evidencing the sponsors' continuous efforts toward de-risking.

While plans tend to become more risk averse as their funded status nears full funding, a closer look also uncovers a further link between debt allocations and benefit accruals.[5] Figure 6b depicts the relationship between higher allocations to debt

[4] LDI strategies typically use fixed-income assets as a hedge against interest-rate-driven movements in plan liabilities. In years when long-term, high-quality corporate bond interest rates decline, with corresponding increases in plan obligations, corporate bonds will produce positive returns and vice versa. In a glide path strategy, future target allocations are based on the plan's funded status, with the sponsor shifting assets from equities to debt as funding levels climb to mitigate risk and volatility.

[5] The accrual rate is the ratio between the pension's service cost and the year-end projected benefit obligation.

Figure 6b. **Average allocations to debt by funded status and benefit accrual rates, 2020**

	Funded status									
	Less than 70%		70% – 79%		80% – 89%		90% – 99%		100% or more	
Accrual rate	N	Debt %	N	Debt %	N	Debt %	N	Debt %	N	Debt %
Less than 0.5%	15	34.6%	22	42.8%	47	57.3%	33	63.8%	37	60.2%
0.5% – 0.99%	11	45.1%	19	46.5%	20	51.0%	13	57.6%	7	63.5%
1.0% – 1.9%	13	57.5%	21	40.5%	38	50.4%	28	49.6%	12	54.4%
2.0% – 2.9%	10	39.2%	12	40.2%	11	52.4%	14	40.4%	7	35.0%
3.0% or more	8	42.9%	15	45.0%	10	38.7%	4	48.9%	9	42.3%
N	57		89		126		92		72	

Notes: Cash includes cash equivalents and money market instruments; debt includes insurance contracts, and hedge fund assets include derivatives and interest rate swaps.
Source: WTW

as the plan's funded status and benefit accrual rate improves. Well-funded plans with lower benefit accrual rates are typically associated with higher allocations to fixed-income assets, while higher accrual rates (reflecting active pensions) correspond with higher allocations to return-seeking assets.

Pension assets held in company securities

Around 8% of Fortune 1000 DB plan sponsors held company securities as pension assets in 2020. These allocations averaged 5.5% of pension assets in 2020 (3.8% when weighted by end-of-year plan assets). The weighted average is lower than the simple average because larger plans allocated lower percentages to company securities than did smaller plans.

Almost 8% of these sponsors explicitly noted plan contributions in the form of company securities in 2020.

In 2020, company securities constituted less than 6% of pension assets in 68% of these plans and made up more than 9% of pension assets in 19% of them (Figure 7).[6]

Trends in allocations since 2009

We next track asset allocation trends from the past decade, based on a consistent sample of 188 pension sponsors that have been in the Fortune 1000 over the past 11 years. Figure 8 shows asset allocations for these companies on an aggregate basis for 2009, 2012, 2015, 2018 and 2020.

The shift from equities to fixed-income investments has been consistent throughout the period. Since 2009, aggregate allocations to public equities declined by 13.3 percentage points, while allocations to debt increased by 16.3%.

Asset de-risking

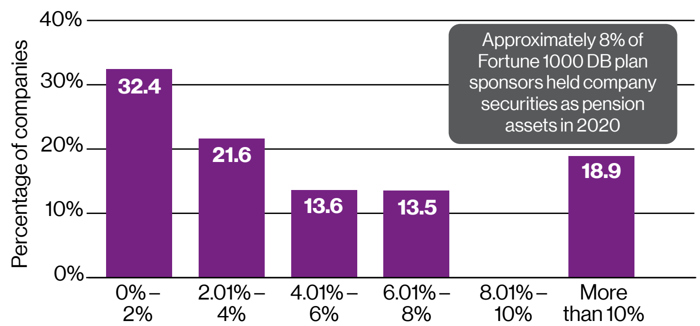
Between 2009 and 2020, among a consistent sample of 188 sponsors, the number of plans whose pensions held 50% or more in cash and fixed-income assets almost tripled, rising from 18% to 52% (Figure 9). On average, this group has shown a significant increase of their liability-hedging investments holdings, going from 39.0% of cash and debt in 2009 up to 53.2% in 2020.

The analysis shows a clear de-risking trend, with plan sponsors focusing more on hedging liabilities and less on higher returns. Many sponsors have complemented de-risking via asset allocation strategies with other liability-reduction strategies, such as offering lump sum buyouts, purchasing annuities and terminating their plans.

[6] To promote asset diversification, pension law does not allow U.S. DB plans to invest more than 10% of pension assets in company securities.

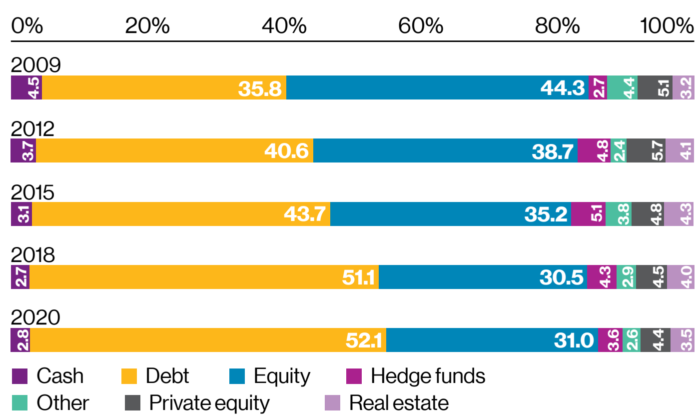
Many sponsors have complemented de-risking via asset allocation strategies with other liability-reduction strategies.

Figure 7. **Allocations to company stock, 2020**



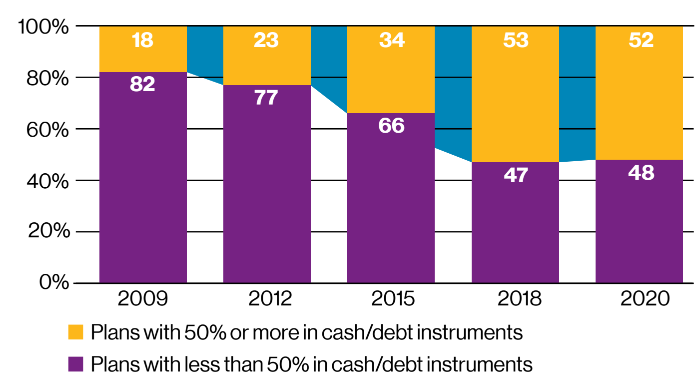
Source: WTW

Figure 8. **Aggregate asset allocations by investment class for consistent sample of Fortune 1000 companies (%), 2009, 2012, 2015, 2018 and 2020**



Source: WTW

Figure 9. **Prevalence of companies with more than 50% of pension assets in cash/debt instruments for consistent sample of Fortune 1000 companies, 2009, 2012, 2015, 2018 and 2020**



Source: WTW

Conclusion

The year 2020 had many things in common with the previous year, with sponsors facing funding volatility and an outstanding performance of the equity market that was partially offset by declining interest rates used to measure pension obligations. These movements translated yet again into slight improvement in pension funding levels.

In terms of allocation strategy, the de-risking trend continued during 2020, as sponsors kept shifting to more conservative portfolios by increasing the allocation to low-volatility instruments. Roughly 53% of sponsors held more than 50% of their assets invested in fixed-income securities (debt and cash) resulting in better hedging from variability in their liabilities. In addition, we found that irrespective of the plan status, sponsors had, on average, more than 45% of assets held in liability hedging investments. As to funding levels, average allocation to fixed-income holdings outnumbered allocation to public equities across all buckets. Yet, the evidence down the de-risking path is stronger when looking at sponsors with over-funded or near fully funded levels (60.3% and 56.7%, respectively). Notwithstanding, the same can be said from a plan size perspective, with all groupings having more than half of their portfolios tilted toward this asset class. The analysis exhibited marked shifts in debt allocations within a group of small or midsize plans; some seemed to have increased their cash holdings, possibly with the aim of taking de-risking action, while others closed the year more tilted to equity holdings, possibly reflecting a delay in their portfolio rebalancing.

During 2021, similar to 2020, plan sponsors have been exposed to high market instability, in both the equity and fixed-income markets.

During 2021, similar to 2020, plan sponsors have been exposed to high market instability, in both the equity and fixed-income markets. Although forces moving both the asset and liability sides worked in tandem helping drive funding levels higher, they did so with a considerable amount of volatility. On the liability side, interest rates moved within a range of more than 50 basis points throughout the year, albeit staying always above beginning-of-year levels. In a context of continued COVID-19 waves and uncertainties regarding the appearances of new variants, worries regarding the pace of the economic growth and persistent inflationary pressures pose an array of possible scenarios that are hard to predict, raising even more the need to focus on pension risk management. In addition to this, implications of the American Rescue Plan Act adopted in earlier 2021 are yet to be seen in terms of a plan's funding policy and its effects on asset allocation strategy.

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