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WTW Pension 100: Year-end 2021 disclosures of funding, discount rates, asset allocations and contributions

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The financial health of the nation's largest corporate defined benefit pension plans improved significantly in 2021 as strong investment returns and rising interest rates helped to drive aggregate funded status to its best level since before the 2008 financial crisis. The aggregate funded status of defined benefit plans in the WTW Pension 100[1,2] managed to rise, from 87.9% in 2020 to 95.8% in 2021.

This annual analysis[3] is based on just-reported pension disclosures from the Securities and Exchange Commission (SEC) 10-K filings of 100 publicly traded U.S. sponsors of large pension plans whose fiscal years end in December. We examine reported funding results, the discount rates used to measure pension obligations, target asset allocation policies over time, investment returns and plan contributions. Where applicable, historical values are shown for companies in the current WTW Pension 100.

Among these WTW Pension 100 plans, the gap between projected benefit obligations (PBO) and assets had widened substantially. Between 2007 and 2012, funding dropped from a $61 billion surplus to a $292 billion deficit – the largest deficit in our analysis (Figure 1, next page). The deficit had been slow to improve since 2012, even with favorable investment performances and years of strong employer contributions, mostly due to the continuous decline in interest rates used to measure pension obligations.

Over 2021, sponsors finally recognized significant funded status gains as interest rates moved back up reducing plan obligations coupled with positive investment returns helping increase plan assets. The combined effects helped reduce the deficit from $175 billion at the end of 2020 to $58 billion at the end of 2021.

Funded status increases for the fifth year in a row

Among WTW Pension 100 companies, plan obligations decreased by 7% in 2021, while plan assets increased by roughly 1%. The overall deficit decreased significantly by $117 billion – from $175 billion to $58 billion – a 67% decrease over the year. The overall deficit declined by $234 billion between its peak in 2012 and 2021, as investment returns and employer contributions outpaced the growth in obligations associated with declining interest rates. Among these same companies, aggregate funded status climbed to 95.8% by the end of 2021, up from 87.9% in 2020, 86.8% in 2019 and 85.7% in 2018 (Figure 2, next page). Over the past year, average funded status[4] also witnessed an increase, moving from 89.3% at the end of 2020 to 97.2% at the end of 2021.

Figure 2 also shows the distribution of funded status since 2007, reflecting some significant shifts over the analysis period. The number of companies whose funded status was

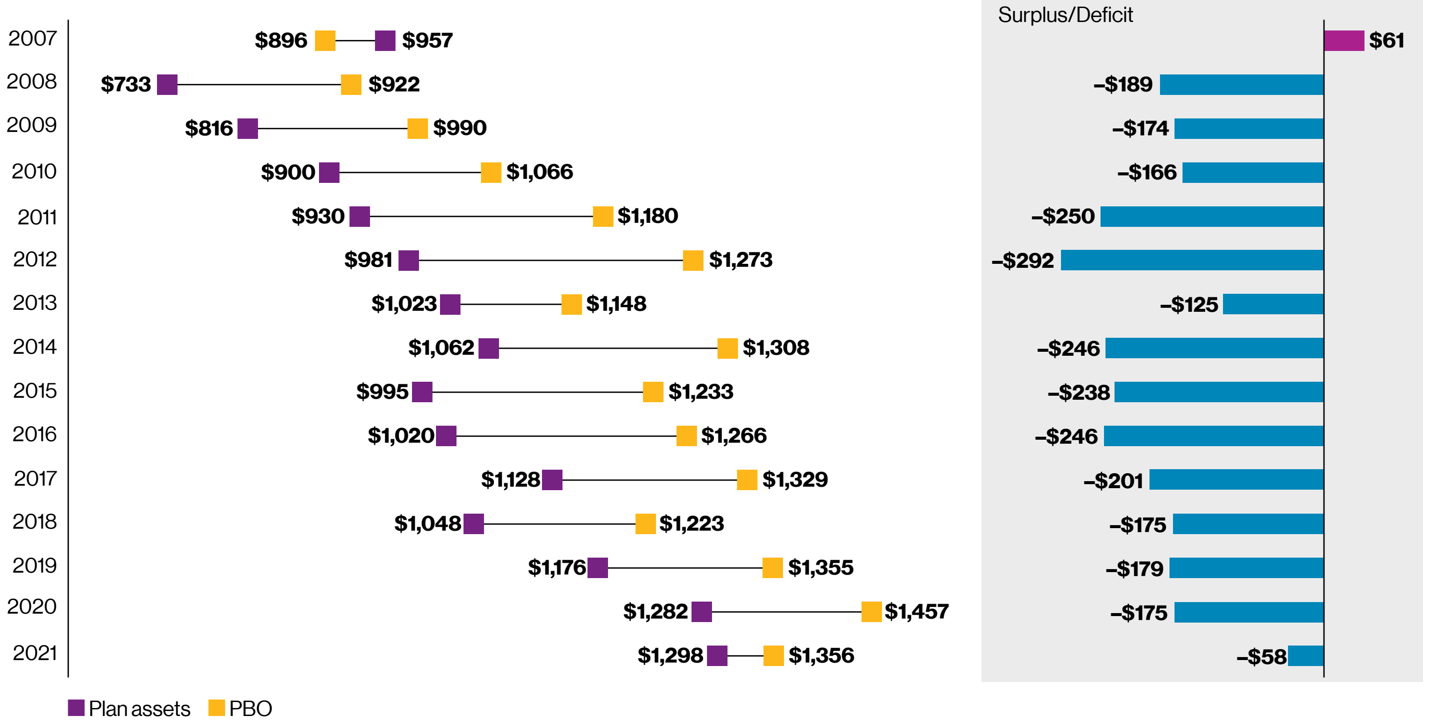
[1] The 2021 WTW Pension 100 consists of sponsors of the largest U.S. pension programs among U.S. publicly traded organizations, ranked by PBO at year-end 2020. For some companies, the allocation between U.S. and non-U.S. plans is estimated.

[2] Pension obligation values in 10-Ks also reflect nonqualified plans (which are usually not shown separately). An analysis of companies that disclose their qualified and nonqualified plans separately found that funded status is typically seven percentage points higher without the nonqualified plan obligations because these plans are typically not funded.

[3] See "**WTW Pension 100: Year-end 2020 disclosures of funding, discount rates, asset allocations and contributions**," *Insider*, May 2021.

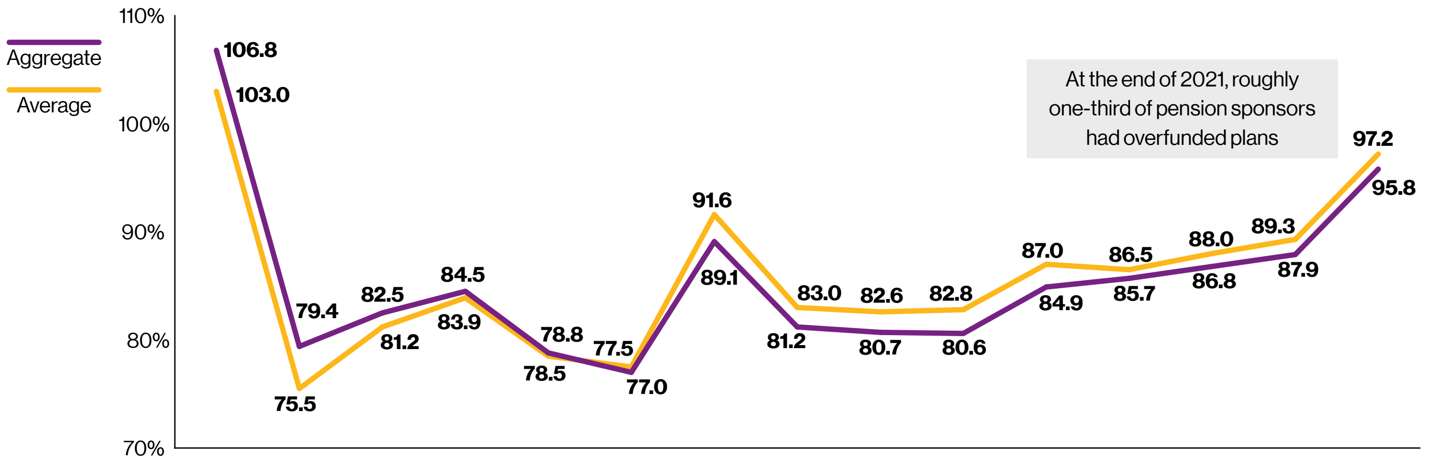
[4] The aggregate funded status is the ratio of (a) the sum of all assets to (b) the sum of all projected benefit obligations for the 100 companies. Average funded status is calculated by averaging the ratio of (a) to (b) on an individual company basis.

Figure 1. **Aggregate funding levels for WTW Pension 100 as of 12/31 ($ billions), 2007 – 2021**



Source: WTW

Figure 2. **Aggregate and average funded status for WTW Pension 100, 2007 – 2021**



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
100% or more	**50**	**5**	**7**	**8**	**6**	**5**	**21**	**6**	**6**	**7**	**14**	**12**	**12**	**15**	**35**
90% – 99%	**25**	**11**	**11**	**17**	**8**	**11**	**25**	**18**	**14**	**15**	**26**	**23**	**30**	**34**	**38**
80% – 89%	**17**	**18**	**32**	**37**	**26**	**22**	**33**	**33**	**36**	**33**	**28**	**35**	**30**	**27**	**17**
70% – 79%	**5**	**28**	**30**	**27**	**31**	**33**	**16**	**33**	**32**	**29**	**22**	**21**	**23**	**17**	**8**
Under 70%	**3**	**38**	**20**	**11**	**29**	**29**	**4**	**10**	**12**	**16**	**10**	**9**	**5**	**7**	**2**

Source: WTW

100% and greater increased from 15 in 2020 to 35 in 2021. On the other end of the spectrum, funding levels were below 80% for 24 companies in 2020, compared with 10 companies in 2021. While funding levels improved for most over the year, companies are gearing closer to 2007 levels, when 50 companies in this analysis had funding levels that were 100% or greater. While more than one-third of plan sponsors now have overfunded plans, pension size (based on PBO) is smaller in nature relative to others in the WTW Pension 100. For example, by year-end 2021, PBO for overfunded plans only represented 26% of total PBO for all companies in this analysis.

Figure 3 shows the changes in funded status from 2020 to 2021. On a company basis, funded status improved for all but two sponsors. The funding increases were between 0.0 and 4.9 percentage points for 24 companies, between 5.0 and 9.9 percentage points for 46 companies, and 10 percentage points or more for another 28 companies.

Overall, the increase in discount rates played a primary role in driving down plan obligations between 2020 and 2021.

Figure 3. **Changes in funded status for WTW Pension 100, 2020 – 2021**

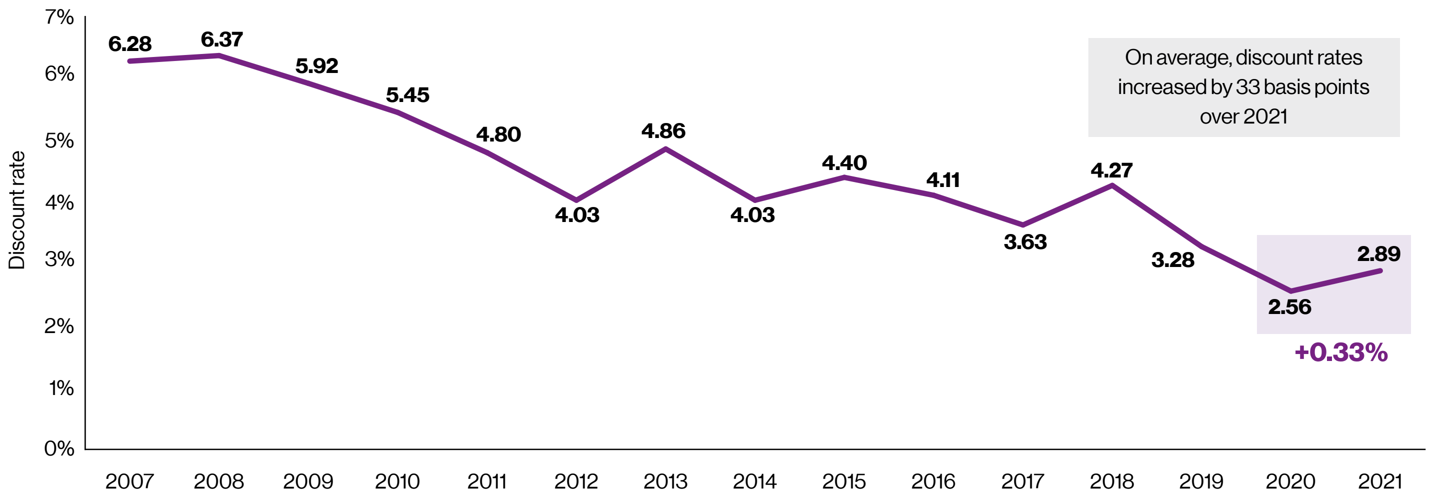
Change in funded status over the year	Number of companies	Average change in funded status
10.0% or more	**28**	**13.2%**
5.0% to 9.9%	**46**	**7.5%**
0.0% to 4.9%	**24**	**3.0%**
–0.1% or less	**2**	**–1.8%**
Total	**100**	**7.9%**

Source: WTW

Discount rates increase in 2021

Plan obligations decreased by roughly 7% in 2021, mostly due to an increase in discount rates used to measure pension obligations. From 2008 through 2012, discount rates fell every year — an accumulated decline of 234 basis points — before finally rising in 2013 (Figure 4). Interest rates fluctuated between 2013 and 2018. Over 2019 and 2020, rates again plummeted as sponsors witnessed the largest one-year drop over the period of this analysis, leaving sponsors at a new historically low average rate of 2.56% at the end of 2020. Over 2021, rates ticked back up by 33 basis points to 2.89% on average. Overall, the increase in discount rates played a primary role in driving down plan obligations between 2020 and 2021.

Figure 4. **Average year-end discount rate assumptions for WTW Pension 100, 2007 – 2021**



Source: WTW

Gradual shift to more fixed-income investments continues

Over the past decade, a gradual shift from public equities to fixed-income and alternative assets reflects growing interest in hedging funded status and reducing market risk exposure (Figure 5). Since 2009, the average target allocation to public equities declined by close to 21 percentage points, while target allocations to fixed-income investments rose by around 18 percentage points.

The steady shifts to fixed-income holdings between 2008 and 2013 (as reflected in the 2014 target allocation column) slowed during the next few years but then picked back up again over 2017 and 2018 (reflected in the 2018 and 2019 columns). On average, fixed-income holdings increased by 2% going into 2018 and 3% at the beginning of 2019. Over the next two years, movement slowed relative to previous years as fixed income increased by roughly 1% per year. During 2021, sponsors once again looked to make substantial shifts away from equity and into fixed income by increasing the latter by roughly 3% (reflected in the 2022 column). On average, more than half of plan assets for companies were invested in fixed-income instruments.

Out of the 89 companies that reported target asset allocation information for both 2021 and 2022, 31 reduced their target equity allocation by five percentage points or more, with an average reduction of roughly eight percentage points. Most of these companies plan on increasing debt by 5% or more. For these companies reducing equities, funded status on average increased from 92% at the end of 2020 to 99% by the end of 2021.

Regarding the equity markets, 2021 was another strong year for plan sponsors.

These recent allocations to fixed income most likely reflect higher funding levels triggering or accelerating de-risking strategies, such as glide paths, which reduce equity exposure as the plan moves closer to full funding.

Similar to past studies, aggregate results (weighted by plan assets) differ from average results going into 2022, which suggests that allocations vary by size. On an aggregate level, sponsors of the largest plans hold less in public equities and more in real estate/other alternative investments, indicating the larger plans in this analysis have more alternative investments than the smallest.

Sponsors realize another positive year for returns on their pension plan investments

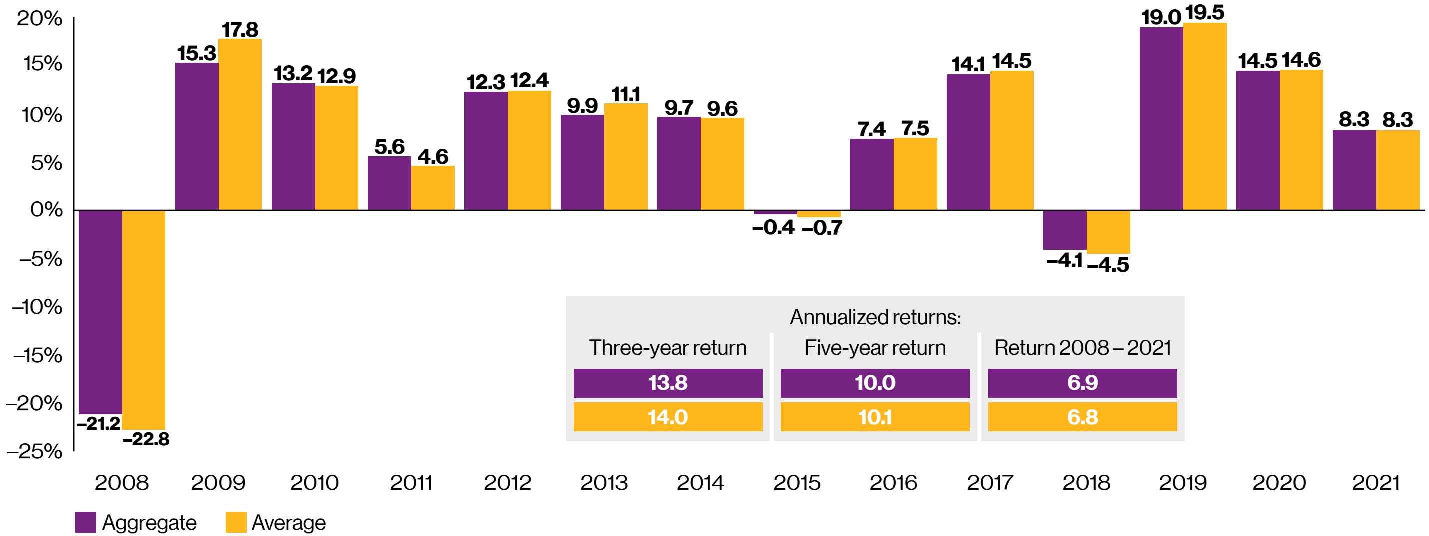
Regarding the equity markets, 2021 was another strong year for plan sponsors. Domestic large capitalization equities grew 29%, while domestic small/mid-capitalization equities realized gains of 18%. Fixed-income markets over the year weren't as fortuitous. Aggregate bonds recognized losses of –2%, while long corporate and long government bonds, typically used in liability-driven investing strategies, realized losses of –1% and –5%, respectively, aligning with the effects of the rising discount rates on plan obligations. The strong equity market

Figure 5. **Average target asset allocation percentages for WTW Pension 100, 2009 – 2022***

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022 (aggregate)	Percentage point change (2009 – 2022)
Public equity	54.7%	52.4%	50.6%	47.1%	45.8%	43.4%	42.8%	42.6%	42.3%	40.9%	38.8%	37.6%	36.8%	34.0%	29.1%	–20.7
Debt	34.4%	34.8%	36.1%	39.1%	40.1%	42.3%	42.8%	43.2%	43.3%	45.2%	47.4%	48.1%	49.3%	52.0%	53.3%	+17.6
Cash	0.3%	0.7%	0.9%	0.8%	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	1.1%	1.4%	1.3%	1.3%	1.3%	+1.0
Real estate	3.1%	3.2%	2.9%	2.9%	2.9%	3.0%	3.1%	3.2%	3.3%	3.1%	3.0%	3.4%	3.3%	3.5%	4.4%	+0.4
Other	7.6%	8.8%	9.6%	10.2%	10.3%	10.5%	10.3%	10.1%	10.1%	9.7%	9.7%	9.5%	9.3%	9.1%	11.8%	+1.5

Source: WTW
*Represents investment targets for the oncoming year. Some firms reported their targets in terms of a single value, while others reported a range. If the target allocation was given as a range, we normalized the results. "Other" includes target percentages for private equity, hedge funds, alternative and miscellaneous asset classes when reported.

Figure 6. **Investment returns for WTW Pension 100, 2008 – 2021**



Source: WTW

performance left sponsors witnessing another positive year of returns.

In 2021, investment returns for plans in the WTW Pension 100 averaged 8.3% (aggregate returns were 8.3%), well above expectations of almost 6%, which helped drive up plan assets and funding levels over the year (Figure 6).

Averaged over the past three years, annualized returns for the WTW pension 100 were 14.0%. Since the start of 2008, annualized investment returns have averaged 6.8% largely attributed to significant losses in the 2008 financial crisis. Returns averaged 9.5% over the post-financial crisis 13-year period between 2009 and 2021.

Contributions in 2021 were lowest in period of analysis

WTW Pension 100 companies contributed $16.0 billion in 2021 – down 42% from 2020 (Figure 7, next page). Aggregate contributions in 2017 and 2018 were the highest realized in this analysis, during a time when sponsors were responding to rising Pension Benefit Guaranty Corporation premiums, the attractiveness of borrowing to fund pensions, growing interest in de-risking strategies and a desire to prefund future contributions. Most important, the Tax Cuts and Jobs Act of 2017 reduced federal corporate tax rates

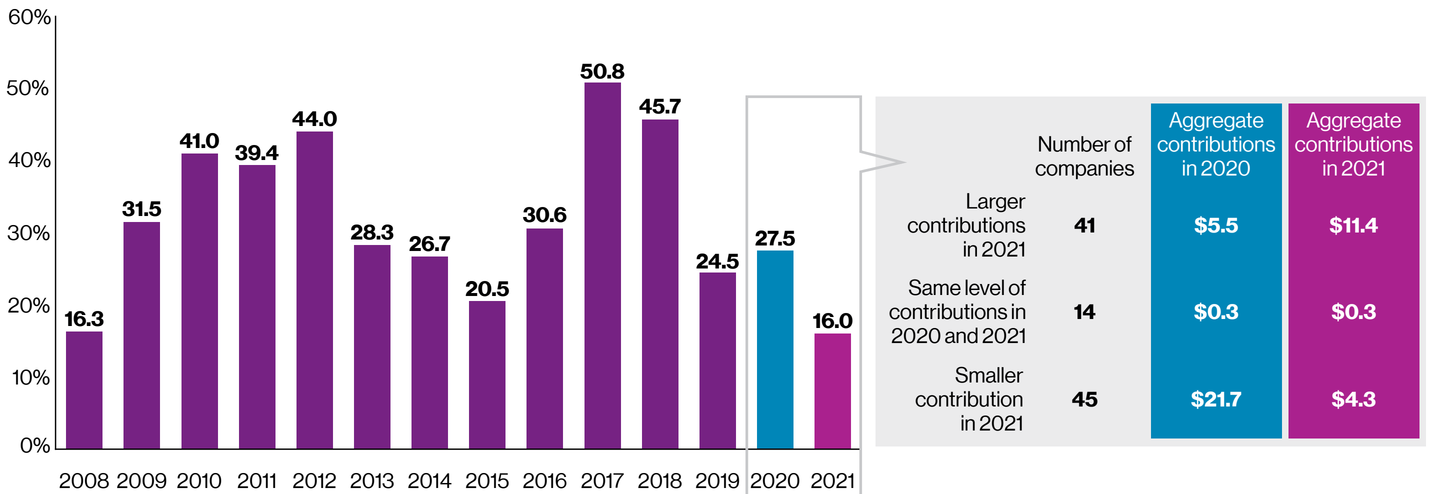
In 2021, investment returns for plans in the WTW Pension 100 averaged 8.3%,...well above expectations.

starting in 2018 and, as a result, increased the relative value of the pension tax deduction for earlier tax years. Plan contributions normalized in 2019 and 2020 as sponsors benefitted from the flexibility provided by prefunding contributions.

Aggregate contributions were down significantly in 2021. This decrease is possibly a product of the American Rescue Plan Act (ARPA) passed in March 2021 containing provisions applicable to pension funding, including further extension of interest rate stabilization, and an extension of the amortization period for funding shortfalls to 15 years (instead of the previous seven). For plans that are underfunded, these provisions served to reduce near-term contribution requirements and provide a longer time horizon for funding the remaining pension deficit. Further, the Infrastructure Investment and Jobs Act was enacted in November 2021, extending the interest rate stabilization provisions enacted by ARPA.[5]

[5] See "**New Infrastructure law enacts pension provisions**," *Insider*, November 2021.

Figure 7. **Plan contributions from WTW Pension 100 ($ billions), 2008 – 2021***



	Number of companies	Aggregate contributions in 2020	Aggregate contributions in 2021
Larger contributions in 2021	**41**	**$5.5**	**$11.4**
Same level of contributions in 2020 and 2021	**14**	**$0.3**	**$0.3**
Smaller contribution in 2021	**45**	**$21.7**	**$4.3**

*Note: Contribution deferrals from 2020 made in January 2021 are classified as 2021 contributions.
Source: WTW

While aggregate contributions were down substantially in 2021 compared with 2020, 40 sponsors in the WTW Pension 100 made larger contributions than what was contributed in 2020 (Figure 7). Among this group, several large sponsors made sizeable contributions over the past year. Five companies were responsible for $4 billion of the increase (from $1.3 billion in 2020 to $5.3 billion in 2021). For some of these five sponsors, the increase was attributable to deferring the timing of their pension payments owed for 2020 as a product of the Coronavirus Aid, Relief, and Economic Security Act, providing them with flexibility to make their contributions at the beginning of 2021 that would have ordinarily been required during 2020.

Aggregate contributions were less than aggregate service cost,[6] which was $17.7 billion in 2021.

Funding levels continue to increase over the first quarter of 2022

Over the first quarter of 2022, the aggregate of WTW Pension 100 companies experienced an increase in funded status. Aggregate funded status for this selection of companies was estimated to jump up by 2.2 percentage points to 98.0% by the end of March, the highest levels witnessed since 2007 (Figure 8).

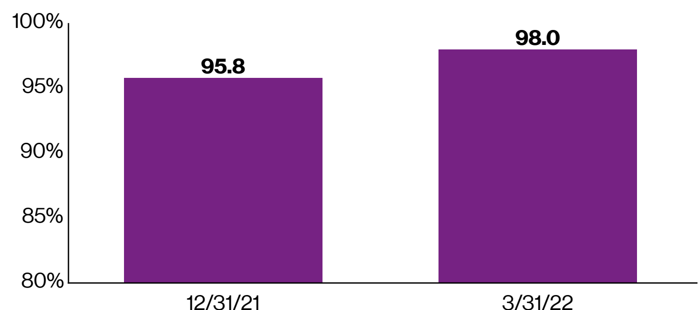
During the first quarter of 2022, interest rates used to measure pension obligations continued to rebound from previously historically low levels (an increase of 85 basis points from end of December 2021 to end of March 2022), driving down plan obligations once again.

Over [Q1 2022], the aggregate of WTW Pension 100 companies experienced an increase in funded status.

As more plan sponsors have adopted liability-hedging strategies, rising interest rates have corresponded to negative fixed-income returns. So far over the first quarter of 2022, equity markets have also been negative, leaving sponsors with overall negative investment returns in aggregate (–6.5% for companies in this analysis).

This additional rise in estimated funding levels is projected to cut the deficit realized at the end of 2021 by close to 60% (from $57 billion down to $25 billion) by the end of the first quarter of 2022.

Figure 8. **Estimated aggregate funded status for Q1 2022, WTW Pension 100**



Source: WTW

[6] Service cost refers to the present value of the projected retirement benefits earned by plan participants in the current period.

Conclusion

Over 2021, sponsors watched interest rates used to measure their pension obligations rebound from historically low levels — reducing plan obligations — while being fortunate to ride another wave of strong equity markets, leaving their pension plans' funded positions at levels not realized since the 2008 financial crisis after several years of limited improvement.

Over the first three months of 2022, funding outcomes have been even more prosperous for plan sponsors as interest rates have continued to rise, leading to sizeable declines in pension obligations. Even though both equity and bond market returns have been negative during the same time frame, the decline in obligations has mitigated negative investment returns, which is expected to drive up funding levels again during the first quarter of 2022, moving sponsors even closer to being fully funded.

We anticipate that sponsors will revisit their funding, investment and settlement strategies again in 2022 to reflect improved funding levels.

In light of the vast improvement in funded status and the changes in funding requirements provided under ARPA, plan sponsors have an opportunity to reconsider their financial management strategy. We anticipate that sponsors will revisit their funding, investment and settlement strategies again in 2022 to reflect improved funding levels.

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