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2021 asset allocations in Fortune 1000 pension plans

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Overview of the 2021 Asset Allocation Study of Fortune 1000 Pension Plans

The funded position of defined benefit (DB) plans sponsored by Fortune 1000 companies started 2022 in their strongest funded position since the global financial crisis of 2007 to 2009, obtaining an aggregate funded position of 95.7% at the end of 2021. This was bolstered by strong historical investment returns in both equity markets and fixed-income assets, despite historically low interest rates. As of October 2022, with equity markets in correction territory and interest rates increasing by 240 basis points,[1] the position of asset allocations for these pension plans at the start of the year can provide insight into how these plans may be faring.

Analysis highlights

- Over the past 12 years, there has been a steady shift from equities to debt investments, which are predominantly used by pension funds to reduce volatility in pension funded status. Looking at a consistent sample, aggregate pension assets allocated to public equities declined by roughly 16 percentage points since 2009, while allocations to debt increased by almost 17 percentage points.
- There is a strong correlation between a pension plan's status and its asset allocation, with frozen plans holding more liability-hedging investments compared with closed and open plans. On average, frozen pension plans held roughly 61% of their assets in debt and cash investments versus only 50% for sponsors of open plans. Sponsors with open or closed plans still have ongoing benefits being earned by employees, thus utilizing more growth-oriented investments to help fund those benefit costs.
- The use of alternative investments has a well-established correlation with the plan's size. While larger plans allocated more than 13% to alternative investments in aggregate terms, smaller plans only held around 3% of their portfolios in these investment vehicles by the end of 2021. In addition, only 11% of smaller plans held more than 10% of their portfolios in alternative assets.
- 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 2021.

About the study

The Financial Accounting Standards Board began requiring more detailed pension disclosures in 2009, and WTW has been analyzing asset allocations ever since.[2]

[1] CE BofA US Corporate AAA-AA 10+ and ICE BofA US Corporate AAA-AA 15+

[2] See "**2020 asset allocations in Fortune 1000 pension plans**," *Insider*, March 2022.

These analyses track asset allocation trends and patterns over time in Fortune 1000 plans. This 13th edition looks at fiscal year-end 2021 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 on a global basis). We examine the prevalence and amount of pension assets invested in company securities. Finally, we compare asset holdings from 2009 through 2021 for a consistent sample of plan sponsors to examine how plan sponsors have modified their risk management strategies over time.

2021 aggregate and average asset allocations

WTW's analysis of 2021 fiscal year-end DB plan asset allocations first takes a detailed look at 434 Fortune 1000 plan sponsors' pension disclosures.[3]

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 2021, the companies in this analysis held more than $2.1 trillion in pension assets, comprising cash, public equity, debt and alternative investments (real estate, private equity, hedge funds and other).

[3] 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 pensions.

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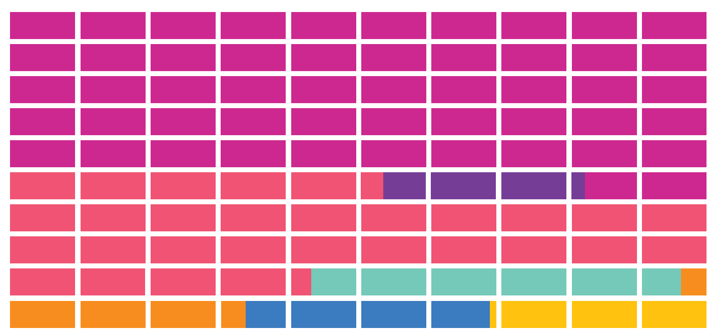
This 13th edition looks at fiscal year-end 2021 pension allocations by asset class...as well as by a variety of other attributes of both the assets and the plans.

At year-end 2021, 29.6% of pension assets, in aggregate, were allocated to public equity and 51.8% 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 on average above $4.9 billion in assets at year-end 2021.

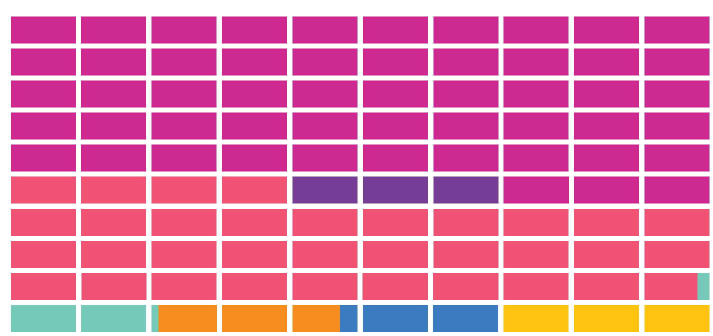
The average allocation to public equity was 33.8%, while the average debt allocation was 53.0%. As for alternative assets — real estate, private equity, hedge funds and other investments — allocations averaged 7.2%, compared with aggregate allocations of 12.6%. The difference between the aggregate and the average reflects differences in plan

Figure 1a. **Aggregate asset class distribution, 2021**



Debt **51.8%** Cash **2.9%** Equity **29.6%** Private equity **5.3%**
Other **3.1%** Real estate **3.5%** Hedge funds **3.8%**

Figure 1b. **Average asset class distribution, 2021**



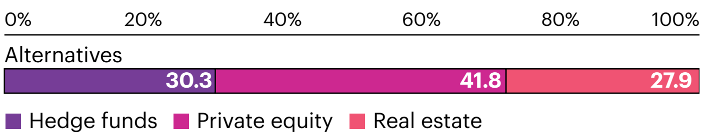
Debt **53.0%** Cash **3.0%** Equity **33.8%** Private equity **2.3%**
Other **3.0%** Real estate **2.3%** Hedge funds **2.6%**

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

size: Larger plans were more inclined than smaller plans to invest in private equity and other alternatives.

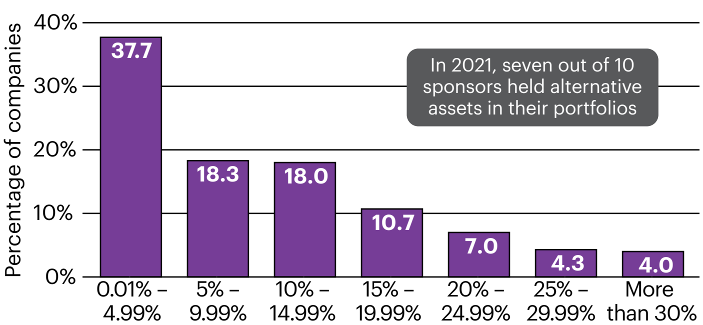
When we considered allocations in real estate, hedge funds and private equity combined as alternative investments, we found that 69.1% of sponsors held alternative assets in their DB plan asset allocation mix. The portion allocated within the different types of alternatives varied by asset class, with private equity's share at 41.8%, hedge funds accounting for 30.3% and real estate 27.9% (Figure 2a). In 2021, nearly four out of 10 sponsors that held alternative assets held allocations of up to 5% of their assets in these types of investments (Figure 2b).

Figure 2a. **Aggregate asset distribution within alternative investments, 2021**



Source: WTW

Figure 2b. **Distribution of companies by allocation to alternative assets, 2021**



Source: WTW

These recent allocations to debt holdings most likely reflect higher funding levels triggering or accelerating de-risking strategies.

Changes to asset holdings over 2021

Looking into a consistent sample of 418 plan sponsors, between the end of 2020 and the end of 2021, average allocation to public equity declined by 3.5%, while average debt holdings experienced an increase of 3.0% over the period. These recent allocations to debt holdings 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.

More than 60% of sponsors showed an increase in their average allocations to debt, with 14.4% showing increases of more than 10% of their holdings. On the other hand, only 34% of sponsors realized an increase in their equity holdings, where only 3.1% experienced increases of more than 10% in their equity allocations (Figure 3).

Asset allocations by plan size

Aggregate and average asset allocations for smaller, midsize and larger plan sponsors are shown in figures 4a and 4b. The analysis divides these sponsors into three groups by total pension assets: Smaller plan sponsors (144 companies) held less than $682.4 million; midsize plan sponsors (145 companies) held between $690 million and $2.7 billion, and larger plan sponsors (145 companies) held more than $2.7 billion. The largest sponsor held pension assets worth nearly $92 billion. Weighting smaller, midsize and larger sponsors by plan assets emphasizes the large share of pension assets held by very large plans[4] as well as the pronounced differences in investing behavior between smaller and larger plans (Figure 4a, next page).

[4] The 10 largest plans held 30.5% of all plan assets.

Figure 3. **Average annual changes in equity and debt allocations, 2021**

	Equity allocations		Debt allocations	
Change magnitude	% 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%	**3.2%**	**19.6%**	**14.7%**	**20.5%**
5% – 9.9% increase	**6.9%**	**7.4%**	**14.7%**	**7.2%**
0.1% – 4.9% increase	**24.3%**	**1.9%**	**31.9%**	**2.2%**
0% – 4.9% decrease	**34.2%**	**–2.5%**	**28.0%**	**–1.9%**
5% – 9.9% decrease	**16.2%**	**–7.1%**	**7.4%**	**–7.3%**
Decrease of over 10%	**15.2%**	**–21.3%**	**3.2%**	**–20.4%**

Source: WTW
Notes: For those with allocations to debt and equity.

Typically, the larger the plan, the lower the allocation to public equity, which averaged 32.4% for larger plans versus 37.4% for smaller plans (Figure 4b). Larger plans are more likely to take on risk in the form of alternative assets. On average, these plans allocated more than three times as much as smaller plans to other return-seeking investments (10.9% versus 3.3%), which might reflect larger plans' access to economies of scale and in-house investment structures that enable them to manage alternative assets effectively.

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 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 and there is a need for growth to support the cost of those benefits. In aggregate, sponsors of frozen plans held almost 60.1% of their assets in debt and cash versus only 46.7% for sponsors of open plans.

Asset allocations by funded status

Throughout 2021, plan sponsors benefited from fortuitous market conditions on both the assets and liabilities side. From an asset perspective, sponsors earned higher returns from strong performance of the equity market, which recorded double-digit gains as 2021 came to an end. In addition, increasing discount rates helped push pension deficits down by reducing obligations. These two forces working in tandem resulted in a favorable scenario for plan sponsors, adding to funding improvements.[5]

[5] 2021 WTW Pension 100

Figure 4a. **Aggregate asset allocations by plan size, 2021**

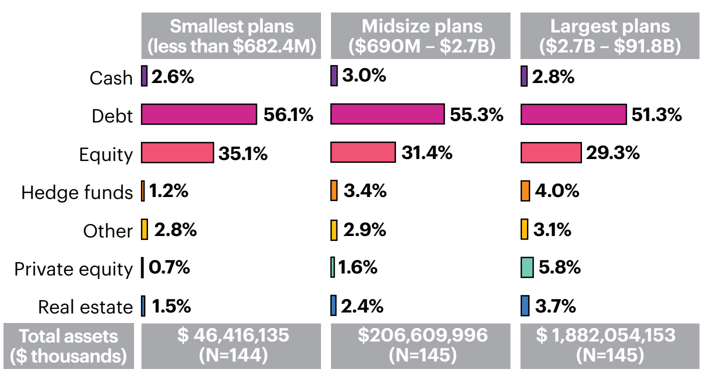
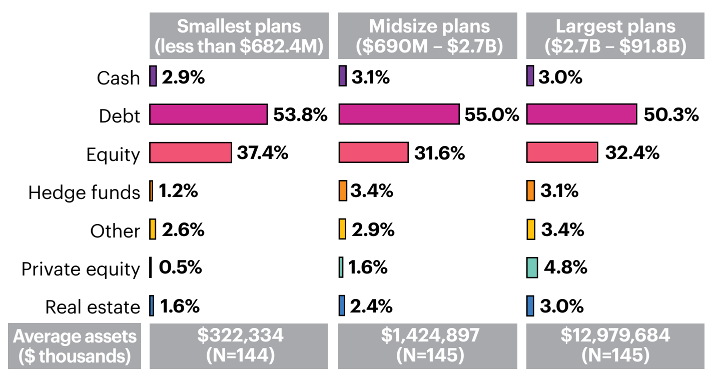


Figure 4b. **Average asset allocations by plan size, 2021**



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 5a. **Aggregate asset allocations by plan status, 2021**

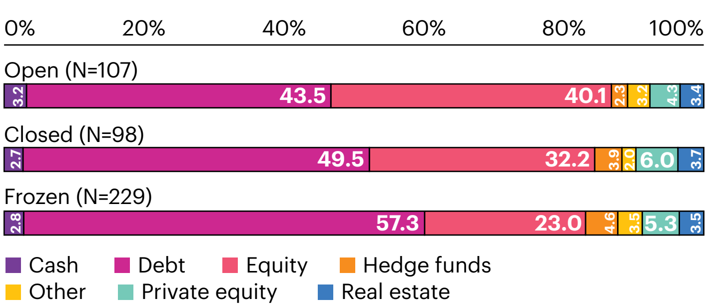
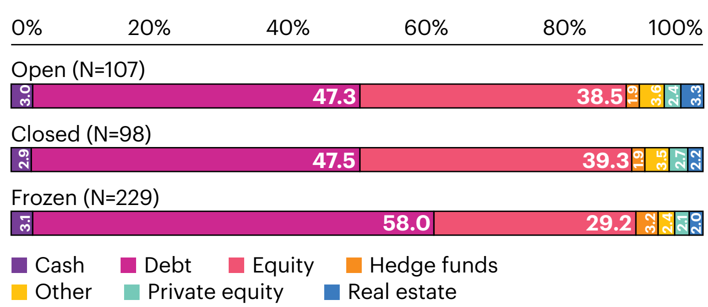


Figure 5b. **Average asset allocations by plan status, 2021**



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

Our 2021 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.[6] Similar to prior years, average fixed-income holdings surpassed equity investments across all funding levels, demonstrating 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. Figure 6b depicts the relationship between higher allocations to debt as the plan's funded status and benefit accrual rate[7] 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

Roughly 9% of Fortune 1000 DB plan sponsors held company securities as pension assets in 2021. These allocations averaged 5.7% of pension assets in 2021 (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.

Two sponsors holding company stock explicitly noted making plan contributions in the form of company securities in 2021.

[6] 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 or other market factors (like interest rates), with the sponsor shifting assets from equities to debt as funding levels improve to mitigate risk and volatility.

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

Figure 6a. **Average asset allocations by plan funded status, 2021**

	Funded status			
Asset class	Less than 80%	80% – 89%	90% – 99%	100% or more
Cash	2.4%	2.5%	3.6%	3.1%
Debt	47.1%	49.8%	56.5%	54.8%
Equity	41.2%	36.7%	29.0%	32.8%
Hedge funds	2.3%	3.3%	2.9%	1.8%
Other	2.9%	3.3%	3.1%	2.7%
Private equity	1.8%	1.7%	2.7%	2.6%
Real estate	2.3%	2.7%	2.2%	2.2%
Total %	100%	100%	100%	100%
N	28	103	131	137

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

Similar to prior years, average fixed-income holdings surpassed equity investments across all funding levels.

Figure 6b. **Average allocations to debt by funded status and benefit accrual rates, 2021**

	Funded status							
	Less than 80%		80% – 89%		90% – 99%		100% or more	
Accrual rate	N	Debt %	N	Debt %	N	Debt %	N	Debt %
Less than 0.5%	25	50.5%	42	51.5%	59	60.6%	67	61.1%
0.5% – 1.9%	9	50.0%	20	51.0%	24	51.5%	23	55.6%
2.0% – 2.9%	3	34.6%	10	46.6%	13	49.3%	15	41.3%
3.0% or more	8	40.7%	8	39.2%	6	48.6%	11	42.1%
N	45		80		102		116	

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

In 2021, company securities constituted less than 6% of pension assets in 65% of these plans and made up more than 10% of pension assets in 20% of them (Figure 7).[8]

Trends in allocations since 2009

We next track asset allocation trends from the past decade, based on a consistent sample of 183 pension sponsors that have been in the Fortune 1000 over the past 12 years. Figure 8 shows asset allocations for these companies on an aggregate basis for 2009, 2012, 2015, 2018 and 2021.

The shift from equities to fixed-income investments has been consistent throughout the period. Since 2009, aggregate allocations to public equities declined by 15.8 percentage points, while allocations to debt increased by 16.9%.

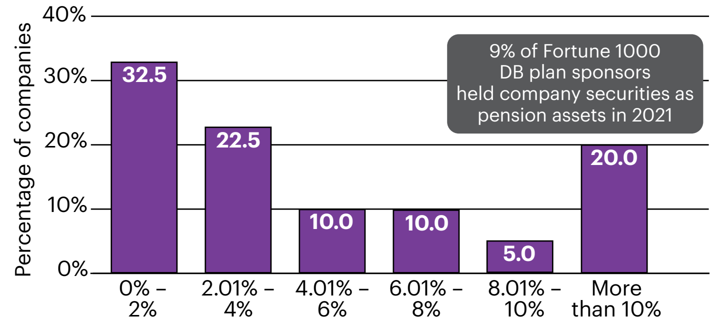
Asset de-risking

Between 2009 and 2021, among a consistent sample of 183 sponsors, the proportion of plans whose pensions held 50% or more in cash and fixed-income assets tripled, rising from 18% to 59% (Figure 9). For those that had less than 50% in fixed-income holdings by 2009 but shifted to a fixed-income-intensive portfolio by 2021 (having 50% or more in debt and cash), average allocations to fixed income were 34.9% and 70.9% for 2009 and 2021, respectively, demonstrating a marked shift in their strategy. At the end of 2021, a little more than one in four plan sponsors held more than 70% of their assets in fixed income, up from only 3% in 2009.

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 (although the latter remains fairly uncommon for large pension plans).

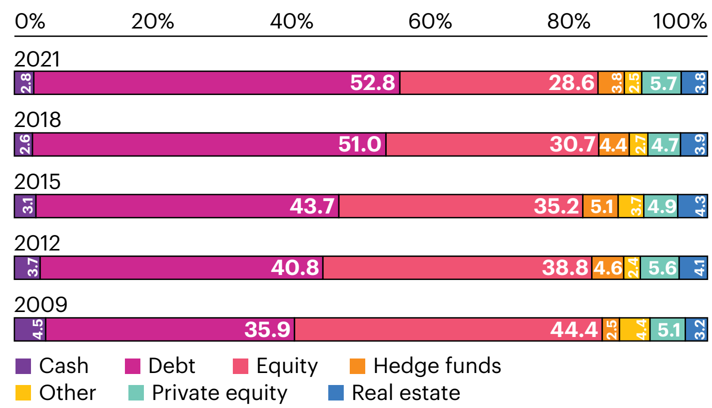
[8] Sponsors are prohibited from making additional contributions in the form of company stock (without special regulatory exemption) if total employer securities exceed 10% of plan assets.

Figure 7. **Allocations to company stock, 2021**



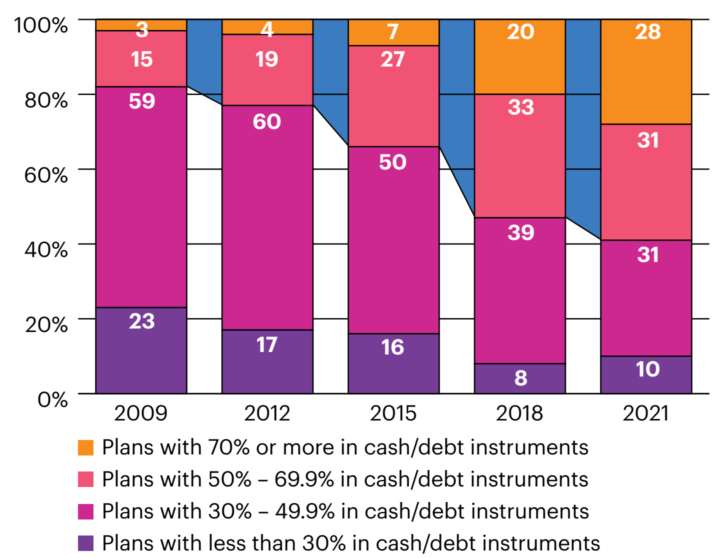
Source: WTW

Figure 8. **Aggregate asset allocations by investment class for consistent sample of Fortune 1000 companies (%), 2009, 2012, 2015, 2018 and 2021**



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 2021**



Source: WTW

Conclusion

Plan sponsors started 2022 in the strongest funded position since prior to the financial crisis, having benefited from several years of strong equity performance and prior contributions despite a long period of declining interest rates. From an asset management perspective, sponsors continued their path toward more de-risking portfolios as by 2021, with nearly 55% of plan assets allocated to liability hedging investments (debt and cash). Sponsors that manage frozen pension plans are further down the investment de-risking path, as many of these sponsors seek to reduce funded status volatility given the plans' legacy status. While the majority of pension plan assets are investments in public equities and fixed-income securities, sponsors of larger plans continue to utilize alternative assets (such as private equity, hedge funds and real estate) to improve returns as well as manage risk by providing diversification within their asset portfolio.

Through the first three quarters of 2022, public equities values entered correction territory and fixed-income returns were negative as interest rates rose to levels not seen since 2013. While losses on equities have been unfavorable to plan sponsor funded position, the rise in interest rates has reduced plan obligations (which, depending on the degree of liability hedging, may offset some of the decline from equity volatility). Given these market conditions with the asset de-risking that has been taken by many plan sponsors over the past few years, the effect of the volatility on plan funded status is expected to be smaller than seen in past periods of economic volatility for many sponsors. Note that there may still be implications on funding requirements or on the annual pension cost reflected on the sponsor's income statement.

Given the market volatility in 2022, plan sponsors are actively studying their next steps to manage their pension funded position and risk.

Given the market volatility in 2022, plan sponsors are actively studying their next steps to manage their pension funded position and risk. Some may explore changes to their investment philosophy due to the need to meet a higher hurdle rate and improve funded status while continuing to manage risk through diversification or liability-hedging strategies. Some sponsors may find the plan in a strong funded position in order to continue to provide pension benefits to employees. Others may explore risk transfer, such as purchasing annuities from an insurer, or prepare to expand lump sum options in 2023. As evidenced by the variation in asset allocation strategies illustrated herein, the appropriate strategy will differ by plan sponsor depending on the effect of the capital market environment, each plan sponsor's risk tolerance and overall objectives for the plan.

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