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Insider

2022 asset allocations in Fortune 1000 pension plans

Overview of the 2022 Asset Allocation Study of Fortune 1000 Pension Plans

By Mercedes Aguirre and Brendan McFarland

Defined benefit (DB) plans sponsored by Fortune 1000 companies started 2022 in their strongest funded position since the 2008 global financial crisis at 96.5%. Over the past 13 years, plan sponsors have moved to de-risk DB investment portfolios by adopting liability-driven investment strategies and diversifying sources of investment returns beyond public equities by leveraging asset classes such as private equity and real assets. The capital market environment in 2022, including inflationary pressures and increasing interest rates, resulted in declining asset values due to double-digit losses for both public equity and fixed-income asset classes; however, higher interest rates also resulted in lower pension liabilities and left these plans with an aggregate funded position of 99.7% at the end of 2022.

Our study examines actual plan asset allocations at the beginning of 2023, but it's worth noting that sponsors are actively evaluating their asset allocation strategies in light of the effects of higher interest rates and lower asset values. As of November 2023, the market landscape has been fairly positive with returns well on positive ground, while interest rates continue at levels not seen since 2008. Based on 2022 experience, plan funded position is likely to still be faring well, but sponsors will need to continue to assess their asset allocation strategies to adapt to the changing environment.

Analysis highlights

- Over the past 13 years, there has been a steady shift from equities to fixed-income investments, which are predominantly used by pension funds to reduce volatility in pension funded status from interest rates. Looking at a consistent sample, aggregate pension assets allocated to public equities declined by roughly 20 percentage points since 2009, while allocations to cash and debt increased by almost 15 percentage points. Some of the decline in public equities in 2022 may be temporary due to the relative performance between public equities and alternative investments during the year.
- A strong correlation exists between a pension plan's design 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 63% of their assets in debt and cash investments versus 52% 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.
- Adjusting for plan status, as plans' funded status nears 100%, sponsors tend to increase allocations to debt. When underfunded, pension plan sponsors tend to

hold higher allocations to growth assets to help attain full funding. Sponsors with plans with a funded status greater than 110% at year-end 2022 show higher allocations to growth assets, mostly reflecting the higher prevalence of open plans — which tend to hold riskier portfolios — in this funding bucket.

- Between 2021 and 2022, aggregate pension asset holdings to alternative investments (hedge funds, private equity, real estate and others) increased from 15.9% of assets to 19.6%. This is likely a result of the diversifying nature of these assets instead of representing significant change in strategy, as many of these classes did not experience the same magnitude of losses during 2022 as public equities and debt. There remains a clear relationship between the scale of a retirement plan and its allocations toward alternative investments. This emphasizes the advantage larger plans possess in accessing greater internal resources, enabling them to effectively implement these strategic investment approaches. While the largest 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 2022.

2022 aggregate and average asset allocations

WTW's analysis of 2022 fiscal year-end DB plan asset allocations first takes a detailed look at 429 Fortune 1000 plan sponsors' actual asset holdings at the end of year.[1]

Figure 1a summarizes aggregate asset allocations weighted by the value of the sponsor's plan assets and

[1] The analysis consists of those Fortune 1000 DB plan sponsors reporting under U.S. generally accepted accounting principles, or GAAP, that provided comprehensive asset allocation disclosures in their annual reports.

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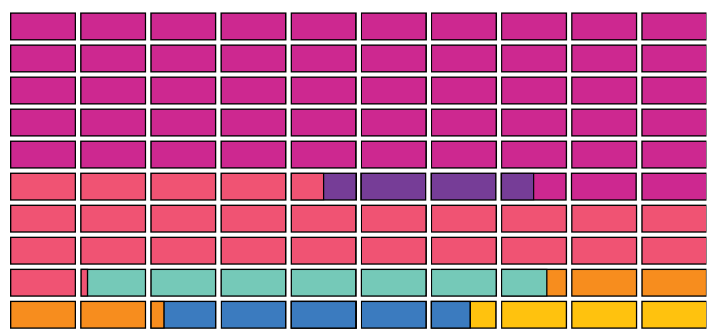
There remains a clear relationship between the scale of a retirement plan and its allocations toward alternative investments.

shows total-dollar allocations. As of year-end 2022, the companies in this analysis held more than $1.5 trillion in pension assets, comprising cash, public equity, debt and alternative investments (real estate, private equity, hedge funds and other).

At year-end 2022, 25.6% of pension assets, in aggregate, were allocated to public equity and 52.5% were allocated to debt, with the remaining assets spread among the other various categories.

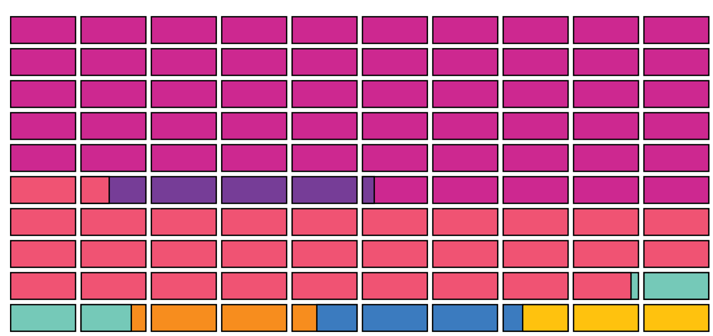
Figure 1b depicts average asset allocations (not weighted by plan assets) for the same sample of companies. The average Fortune 1000 pension plan sponsors in the

Figure 1a. **Aggregate asset class distribution, 2022**



Debt **52.5%** Cash **3.0%** Equity **25.6%** Private equity **6.6%** Hedge funds **4.5%** Real estate **4.4%** Other **3.4%**

Figure 1b. **Average asset class distribution, 2022**



Debt **54.8%** Cash **3.8%** Equity **30.3%** Private equity **2.9%** Hedge funds **2.6%** Real estate **2.9%** Other **2.7%**

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

analysis held on average above $3.6 billion in assets at year-end 2022.

The average allocation to public equity was 30.3%, while the average debt allocation was 54.8%. As for alternative assets — real estate, private equity, hedge funds and other investments — allocations averaged 11.1% (compared with aggregate allocations of 18.9%). The difference between the aggregate and the average reflects differences in plan size: Larger plans were more inclined than smaller plans to invest in private equity and other alternatives instead of public equities.

When we considered allocations in real estate, hedge funds and private equity combined as alternative investments, we found that 67% of sponsors in this analysis 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 42.3%, hedge funds accounting for 29.0% and real estate 28.7% (Figure 2a). In 2022, half of sponsors that held alternative assets held allocations of more than 10% of their assets in these types of investments (Figure 2b).

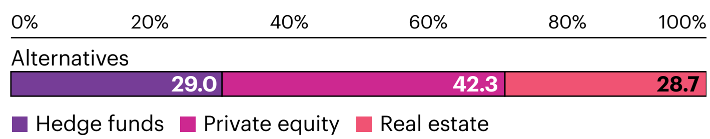
Changes to asset holdings over 2022

Looking into a consistent sample of 406 plan sponsors, between the end of 2021 and the end of 2022, average allocation to public equity declined by 3.8%, while average debt holdings experienced an increase of 1.8% over the period. In addition, the average allocation to alternative assets increased by 1.4%. Some of these differences may be a result of relative asset performance during 2022, as there were sizeable differences in returns among public equities, fixed-income and alternative strategies.

Almost 56% of plan sponsors showed an increase in their average allocations to debt, with 11% of sponsors showing increases of more than 10% of their holdings. On the other hand, only 2% of sponsors realized an increase in their equity holdings over more than 10% (Figure 3). 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.

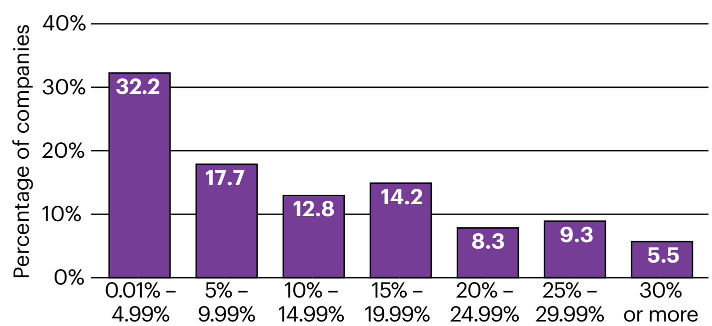
Larger plans were more inclined than smaller plans to invest in private equity and other alternatives.

Figure 2a. **Aggregate asset distribution of $239.9 billion within alternative investments, 2022**



Source: WTW

Figure 2b. **Distribution of companies by allocation to alternative assets, 2022**



Note: For those plans that hold alternatives (67% of sponsors)
Source: WTW

Figure 3. **Average annual changes in equity and debt allocations, 2022**

Change magnitude	Equity allocations: % of sponsors realizing a change in their equity allocations	Equity allocations: Average change realized in equity allocations	Debt allocations: % of sponsors realizing a change in their debt allocations	Debt allocations: Average change realized in debt allocations
An increase of 10% or more	**2.2%**	**19.7%**	**10.8%**	**21.7%**
5% – 9.9% increase	**2.7%**	**7.0%**	**11.6%**	**7.5%**
0.1% – 4.9% increase	**23.2%**	**1.5%**	**33.5%**	**1.9%**
No change	**2.0%**	**0.0%**	**0.2%**	**0.0%**
0.1% – 4.9% decrease	**40.6%**	**–2.3%**	**34.0%**	**–1.9%**
5% – 9.9% decrease	**15.8%**	**–7.5%**	**5.9%**	**–7.2%**
A decrease of 10% or more	**13.5%**	**–19.8%**	**3.9%**	**–24.8%**

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

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 (143 companies) held assets of less than $464 million; midsize plan sponsors (143 companies) held between $464 million and $1.9 billion, and larger plan sponsors (143 companies) held more than $1.9 billion in assets. The largest sponsor held pension assets worth nearly $59.7 billion. Weighting smaller, midsize and larger sponsors by plan assets emphasizes the large share of pension assets held by very large plans[2] 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 28.4% for larger plans versus 33.3% for smaller plans (Figure 4b). Larger plans are more likely to turn to diversifying alternative assets to support return needs. On average, these plans allocated more than three times as much as smaller plans to other return-seeking investments (13.5% versus 3.4%), 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 U.S. plan status

For this part of the analysis, we divided plan sponsors into three mutually exclusive categories by the current status of their primary U.S. 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, benefit accruals have ceased for plan participants. More than 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). In order to maintain a funded position, plan assets must generate returns to meet both interest on liabilities and the cost of benefits earned by employees. Frozen pensions held more debt investments compared with plans — either open or closed — in which workers were still actively accruing

[2] The 10 largest plans held 30.1% of all plan assets.

Figure 4a. **Aggregate asset allocations by plan size, 2022**

	Smallest plans (less than $464M)	Midsize plans ($464M – $1.9B)	Largest plans ($1.9B – $59.7B)
Cash	3.6%	2.8%	3.0%
Debt	58.2%	56.9%	52.0%
Equity	32.0%	29.5%	25.0%
Hedge funds	1.0%	3.2%	4.7%
Other	2.6%	2.6%	3.5%
Private equity	0.7%	1.9%	7.2%
Real estate	1.9%	3.1%	4.6%
Total assets ($ thousands)	$30,084,393 (N=143)	$145,743,158 (N=143)	$ 1,373,335,664 (N=143)

Figure 4b. **Average asset allocations by plan size, 2022**

	Smallest plans (less than $464M)	Midsize plans ($464M – $1.9B)	Largest plans ($1.9B – $59.7B)
Cash	4.8%	3.1%	3.6%
Debt	56.3%	56.9%	51.2%
Equity	33.3%	29.2%	28.4%
Hedge funds	1.1%	3.2%	3.5%
Other	2.2%	2.6%	3.3%
Private equity	0.6%	1.9%	6.1%
Real estate	1.7%	3.1%	3.9%
Average assets ($ thousands)	$210,380 (N=143)	$1,019,183 (N=143)	$9,603,746 (N=143)

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, 2022**

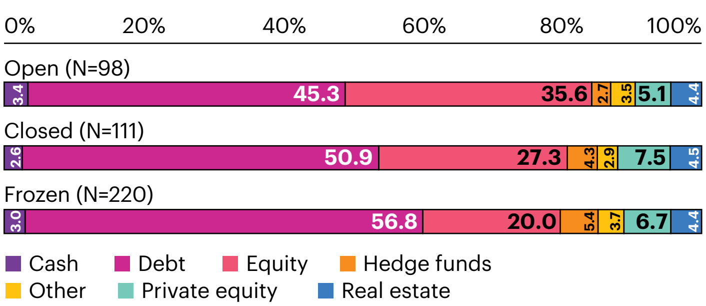
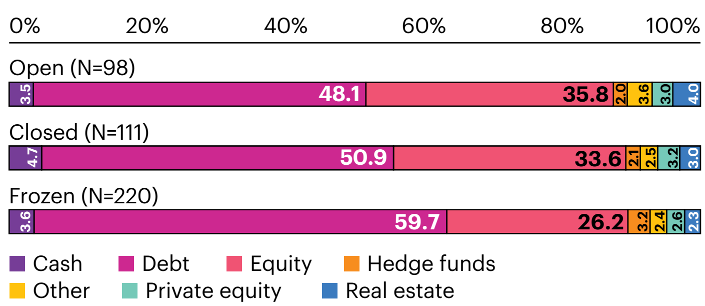


Figure 5b. **Average asset allocations by plan status, 2022**



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

pensions. In aggregate, sponsors of frozen plans held almost 59.8% of their assets in debt and cash versus 48.7% for sponsors of open plans, reflecting the higher return needs for plans where employees still earn additional benefits.

Asset allocations by funded status

Although plan sponsors faced negative equity market performance, funding levels stayed afloat and, for many sponsors, increased due to the steep rise in discount rates (which reduces obligations and pension deficits). Overall, the effect of discount rate increases more than compensated the slump in the equity markets, continuing the funded status improvements seen over the past five years.[3]

Our 2022 analysis shows a correlation between funded status at year-end 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] Similar to prior years, average fixed-income holdings surpassed equity investments across all funding levels, demonstrating sponsors' continuous efforts toward de-risking.

Overall, the effect of discount rate increases more than compensated the slump in the equity markets.

Overall, plans tend to become more risk averse as their funded status nears full funding; however, the lower allocation to debt for those with a funding level higher than 110% reflects a higher prevalence of open plans in that grouping, which as previously discussed tend to hold a higher percentage of growth assets compared with

[3] **2021 WTW Pension 100**

[4] LDI strategies typically use fixed-income assets as a hedge against interest-rate-driven movements in plan liabilities. In years when high-quality corporate bond interest rates decline, with corresponding increases in plan obligations, fixed-income assets will typically 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 (such as interest rates), with the sponsor shifting assets from equities to debt as funding levels improve to mitigate risk and volatility

Figure 6a. **Average asset allocations by plan funded status, 2022**

	Funded status				
Asset class	Less than 80%	80% – 89%	90% – 99%	100% – 109.9%	110% or more
Cash	3.7%	3.0%	3.2%	4.2%	5.4%
Debt	50.9%	52.7%	58.6%	62.8%	46.4%
Equity	37.1%	32.6%	25.4%	25.2%	34.4%
Hedge funds	1.6%	3.2%	3.6%	1.1%	3.0%
Other	2.7%	3.1%	2.6%	2.0%	3.1%
Private equity	1.5%	2.2%	3.6%	2.2%	4.5%
Real estate	2.5%	3.2%	3.0%	2.5%	3.2%
N	67	92	116	79	75

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 6b. **Average allocations to debt by funded status and benefit accrual rates, 2022**

	Funded status*									
	Less than 80%		80% – 89%		90% – 99%		100% – 109%		110% or more	
Accrual rate**	N	Debt %	N	Debt %	N	Debt %	N	Debt %	N	Debt %
Less than 0.5%	13	51.0%	29	49.0%	33	67.8%	36	72.0%	18	61.1%
0.5% – 1.9%	18	56.7%	34	56.1%	43	59.7%	19	63.5%	21	47.1%
2.0% – 2.9%	13	52.3%	13	50.3%	21	54.9%	10	53.9%	12	44.2%
3.0% or more	22	46.5%	16	54.3%	18	43.4%	14	44.4%	23	36.0%
N	66		92		115		79		74	

*A sponsor's funded status is determined by the sum of all its pension assets divided by its pension liabilities on a global level.
**Accrual rate is defined as the ratio of service cost over end-of-year PBO.
Source: WTW

their frozen and closed peers. While the samples above are generally composed of about 50% of frozen plans, in the "110% or more" category, only 33% of the plans are frozen. Figure 6b (previous page) depicts the relationship between higher allocations to debt as the plan's funded status improves, separated by benefit accrual rate.[5] 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. Interestingly, even after accounting for benefit accrual rates, plans that are over 110% funded still show higher allocations to return-seeking assets than similar peers — perhaps suggesting that those sponsors have a higher tolerance for risk given the stronger funded position of the plans.

Pension assets held in company securities

Roughly 8% of Fortune 1000 DB plan sponsors held company securities as pension assets in 2022. These allocations averaged 6.3% of pension assets in 2022 (4.3% 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.

In 2022, for those that held company securities, 57% held less than 4% of pension assets in company securities, while 23% held more than 10% of pension assets in these funds (Figure 7).[6]

Trends in allocations since 2009

We next track asset allocation trends from the start of our studies in 2009, based on a consistent sample of 175 pension sponsors that have been in the Fortune 1000 over the past 13 years. Figure 8 shows asset allocations for these companies on an aggregate basis for 2009, 2012, 2015, 2018, 2021 and 2022.

The shift from equities to fixed-income investments has been consistent throughout the period. Since 2009, aggregate allocations to public equities declined by 19.9 percentage points, while allocations to fixed-income increased by 15.1%.

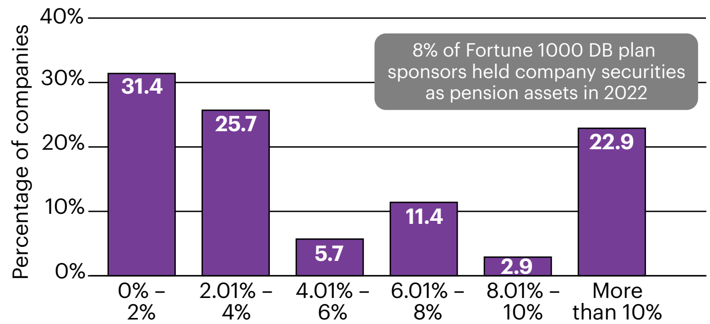
Asset de-risking

Between 2009 and 2022, among a consistent sample of 175 sponsors, the portion of plans whose pensions held 50% or more in cash and fixed-income assets more than tripled, rising from 17% to 62% (Figure 9). The variation

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

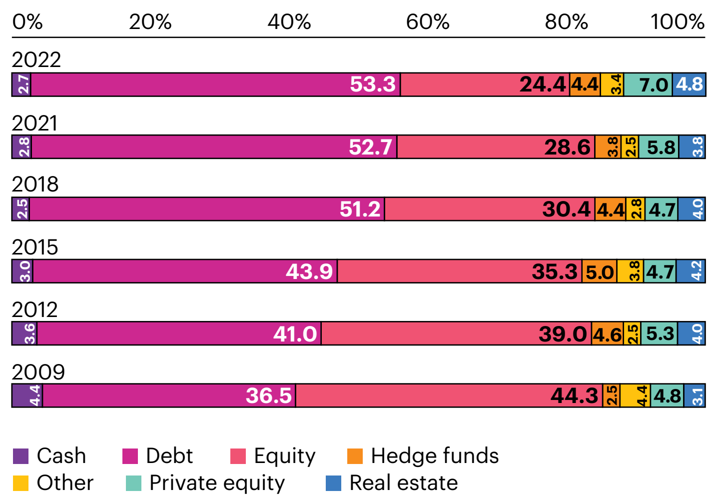
[6] Sponsors are prohibited from making additional contributions in the form of company stock (without special regulatory exemption) if total employer securities exceed 10% of plan assets.

Figure 7. **Allocations to company stock, 2022**



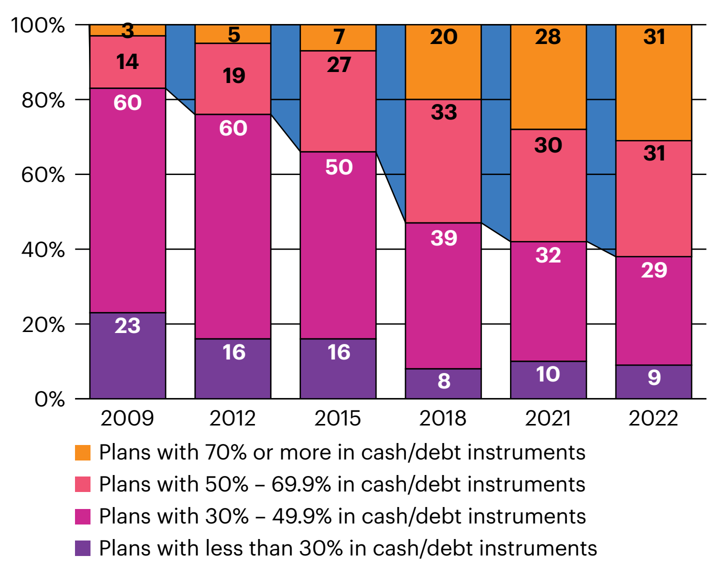
Source: WTW

Figure 8. **Aggregate asset allocations by investment class for consistent sample of Fortune 1000 companies (%), 2009, 2012, 2015, 2018, 2021 and 2022**



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, 2021 and 2022**



Source: WTW

in investment allocation strategies has increased over the past decade. By the end of 2022, three out of 10 plan sponsors held more than 70% of their assets in fixed-income (a total of 55 sponsors), up from only 3% in 2009 (totaling six sponsors).

The analysis shows a clear de-risking trend, with plan sponsors focusing more on hedging liabilities and less on generating higher returns. Many sponsors have complemented investment 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).

Conclusion

Overall plan assets declined during 2022 as both equity markets and fixed-income assets had negative overall returns. While losses on equities and fixed-income were unfavorable to plan funded position, the rise in interest rates reduced plan obligations, acting as counterweight to the decline in asset values. As the majority of plan sponsors are not fully hedged from interest rate risk, overall plan funded status improved during 2022 despite the asset headwinds.

Relative to immediately after the financial crisis, plan assets are invested much differently today, as nearly 60% of plan assets are 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 distributed among 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 to manage risk by providing diversification within their asset portfolio. These asset classes were particularly helpful diversifiers during 2022.

While 2022 had favorable results for plan funded status for many sponsors, challenges still remain for some, which will lead to continued action for the management of plan assets. Sponsors may explore changes to their return targets to meet hurdle rates or improve funded positions to manage the risk of future cash contribution requirements. Sponsors that find themselves well-funded may have more options — either the flexibility to maintain growth assets (and potentially DB benefits for employees) or exploring risk reduction strategies with plan investment allocation changes or risk transfers (such as purchasing annuities or executing plan terminations). As evidenced by the variation in asset allocation strategies seen today, the appropriate strategy will differ by plan sponsor depending on the capital market conditions and each plan sponsor's objectives and risk tolerance for the plan.

About the study

The Financial Accounting Standards Board began requiring more detailed pension asset disclosures in 2009. These analyses track asset allocation trends and patterns over time in Fortune 1000 plans. This 14th edition looks at fiscal year-end 2022 global 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 2022 for a consistent sample of plan sponsors to examine how plan sponsors have modified their investment strategies over time.

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