

# NEWS

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### ASSETS OF PRIVATE AND PUBLIC PENSION FUNDS

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## ASSETS OF PRIVATE AND PUBLIC PENSION FUNDS

In the post-World War II era, private and public pension funds have grown to become a major financial asset of U.S. households and an important obligation of businesses and governments which offer such plans to their employees. At the end of 1946 pension fund reserves constituted 3.4% of aggregate financial assets of households; the comparable year-end figures for 1970 and 1979 are 12.4% and 16.2%, respectively. <sup>1/</sup> These figures, however, represent the amount of pension fund liabilities currently funded. The actual size of these financial liabilities is understated by the aggregate present value of future pension obligations not currently funded. <sup>2/</sup>

Table A-500 sets forth, for the period 1970-1979, asset values for four categories of pension fund assets: insured pension reserves, private noninsured pension funds, State and local government retirement funds, and U.S. Government retirement funds. As the Table illustrates, the aggregate assets of these pension funds grew at an annual compound rate of 11.6% from \$226.0 billion at the end of 1970 to \$609.3 billion at year-end 1979. During the same period, the Consumer Price Index increased 7.6% per year.

Private pension funds, which are largely currently funded because of requirements established by the Employee Retirement Income Security Act of 1974 ("ERISA"), have exhibited an annual compound growth rate of 11.3% and constitute 60% of the aggregate assets of private and public pension funds.

Private pension funds are composed of pension reserves insured by life insurance companies and "noninsured" pension funds. Most private noninsured pension funds are covered by plan termination insurance administered by the Pension Benefit Guaranty Corporation ("PBGC"). <sup>3/</sup> Insured pension reserves grew more rapidly than private noninsured pension funds during the 1970-1979 period; their respective growth rates (compounded annually) were 14.5% and 9.7% during the period. <sup>4/</sup>

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- <sup>1/</sup> "Flow of Funds Accounts: Assets and Liabilities Outstanding," Division of Research and Statistics, Board of Governors of the Federal Reserve System.
  - <sup>2/</sup> These figures also exclude obligations of the U.S. Government to members of the military services and to persons accruing social security benefits. Both of these programs are largely paid for out of current tax revenues.
  - <sup>3/</sup> The Pension Benefit Guaranty Corporation was established, within the U.S. Department of Labor, by Section 4002 of ERISA. About 17% of insured pension reserves consist of separate accounts managed by life insurance companies. These reserves are managed, but not insured, by life insurance companies. Most of the assets contained in separate accounts are covered by termination insurance administered by the PBGC.
  - <sup>4/</sup> Insured pension reserves grew more rapidly than private noninsured pension funds both before and after the enactment of ERISA.

Public pension funds (covering government employees) which represent 40% of private and public pension funds grew more rapidly than private pension funds during the 1970-1979 period, 12.1% versus 11.3%. Assets of pension plans sponsored by the U.S. Government increased 10.5% per year over the period, while assets of retirement plans covering State and municipal government employees rose 12.8% annually. 5/

#### Composition of Pension Portfolios

The asset composition of private noninsured pension funds is reported at book value quarterly in this publication. Table Q-510 sets forth such data for the first quarter of 1978 through the first quarter of 1980. As the Table indicates, corporate stocks represent the largest component (about half) of these pension portfolios. The next largest asset category consists primarily of corporate bonds, constituting 26.5% of total assets at the end of this year's first quarter. 6/

Insured pension reserves, in contrast to private noninsured pension funds, are invested mostly in corporate bonds and mortgages rather than corporate stocks. Based on data reported by the American Council of Life Insurance, it is estimated that corporate bonds and mortgages constituted 37% and 25% of insured pension reserves, respectively, at the end of 1979. Corporate stock is estimated to represent 14% of pension fund reserves, with 62% of that held in separate accounts managed by life insurance companies.

State and local government retirement funds exhibit yet another, different asset structure. At the end of 1979, such funds consisted primarily of corporate bonds (48% of total assets), corporate stocks (25%) and U.S. Government securities (17%). Finally, U.S. Government retirement funds, the other component of public pension funds, are invested almost entirely in U.S. Treasury securities.

At the end of 1979, aggregate assets of private and public pension funds consisted largely of \$196.7 billion in corporate bonds, \$175.5 billion in corporate stock, and \$126.9 billion in U. S. Government securities. Mortgages accounted for \$47.9 billion of pension assets and the remaining \$62.3 billion in assets were invested in a variety of other financial instruments. These pension assets accounted for 43% of corporate bonds outstanding, 15% of the market value of corporate stock outstanding, 14% of all U.S. Government securities outstanding, and 4% of all mortgages outstanding as of December 31, 1979.

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5/ The higher growth rate for State and local government retirement funds during the 1970-1979 period largely reflects the more rapid growth of State and local government employment relative to employment by the U.S. Government and the private sector. The number of State and municipal employees grew at an annual rate of 3.4% during the period. Private sector employment increased 2.1% annually over the period and civilian employment by the U.S. Government remained virtually unchanged.

6/ For a longer term perspective on the asset composition of private noninsured pension funds, see the May issue of this publication.

A-500: ASSETS OF PRIVATE AND PUBLIC PENSION FUNDS

Book Value, End of Year  
(Billions of Dollars)

|                                                | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> | <u>1978</u> | <u>1979</u> |
|------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1. Insured Pension Reserves                    | 41.2        | 46.4        | 52.3        | 56.1        | 60.8        | 72.2        | 89.0        | 101.5       | 119.1       | 139.2       |
| 2. Private Noninsured Pension Funds            | 97.0        | 106.4       | 117.5       | 126.5       | 133.7       | 145.2       | 160.4       | 181.5       | 202.2       | 223.5       |
| 3. Total Private Pension Funds                 | 138.2       | 152.8       | 169.8       | 182.6       | 194.5       | 217.4       | 249.4       | 283.0       | 321.3       | 362.7       |
| 4. State and Local Government Retirement Funds | 60.3        | 69.0        | 80.6        | 84.7        | 88.0        | 104.8       | 120.6       | 132.6       | 153.0       | 178.9       |
| 5. U.S. Government Retirement Funds            | 27.5        | 30.4        | 33.4        | 35.5        | 38.2        | 41.9        | 46.4        | 52.9        | 59.8        | 67.7        |
| 6. Total Public Pension Funds                  | 87.8        | 99.4        | 114.0       | 120.2       | 126.2       | 146.7       | 167.0       | 185.5       | 212.8       | 246.6       |
| 7. Total Private and Public Pension Funds      | 226.0       | 252.2       | 283.8       | 302.8       | 320.7       | 364.1       | 416.4       | 468.5       | 534.1       | 609.3       |

SOURCES:

1. Insured Pension Reserves (including separate accounts) — American Council of Life Insurance.
2. Private Noninsured Pension Funds — U.S. Securities and Exchange Commission.
3. State and Local Government Retirement Funds — Board of Governors of the Federal Reserve System.
4. U.S. Government Retirement Funds (including the Railroad Retirement Fund) — Board of Governors of the Federal Reserve System.

Q-510: ASSETS OF PRIVATE NONINSURED PENSION FUNDS

Quarterly, Book Value

(Millions of Dollars)

|                    | 1978    |         |         |         | 1979    |         |         |         | 1980    |    |    |    |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----|----|----|
|                    | 1Q      | 2Q      | 3Q      | 4Q      | 1Q      | 2Q      | 3Q      | 4Q      | 1Q      | 2Q | 3Q | 4Q |
| Cash and depts     | 4,369   | 5,483   | 7,400   | 8,110   | 7,840   | 7,767   | 8,741   | 8,609   | 8,199   |    |    |    |
| U.S. Gov't sec.    | 21,272  | 21,533  | 19,362  | 19,695  | 21,011  | 21,876  | 21,357  | 22,459  | 24,720  |    |    |    |
| Corp. & other debt | 49,009  | 50,853  | 51,511  | 53,824  | 55,589  | 57,021  | 58,091  | 59,537  | 60,926  |    |    |    |
| Preferred stock    | 1,152   | 1,136   | 1,119   | 1,274   | 1,072   | 1,328   | 1,324   | 1,350   | 1,251   |    |    |    |
| Common stock       | 95,233  | 95,113  | 97,723  | 100,424 | 102,238 | 104,375 | 108,161 | 110,943 | 114,395 |    |    |    |
| Mortgages          | 2,520   | 2,594   | 2,705   | 2,789   | 2,791   | 2,801   | 2,991   | 3,091   | 2,934   |    |    |    |
| Other assets       | 12,850  | 13,431  | 15,668  | 16,121  | 16,841  | 17,196  | 17,342  | 17,476  | 17,897  |    |    |    |
| Total Assets       | 186,410 | 190,138 | 195,993 | 202,237 | 207,382 | 212,364 | 218,007 | 223,465 | 230,322 |    |    |    |

As a percent of Total Assets

|                    |       |       |       |       |       |       |       |       |       |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Cash and depts     | 2.3   | 2.9   | 3.8   | 4.0   | 3.8   | 3.7   | 4.0   | 3.9   | 3.6   |
| U.S. Gov't sec.    | 11.4  | 11.3  | 10.1  | 9.7   | 10.1  | 10.3  | 9.8   | 10.1  | 10.7  |
| Corp. & other debt | 26.3  | 26.7  | 26.3  | 26.6  | 26.8  | 26.9  | 26.6  | 26.6  | 26.5  |
| Preferred stock    | 0.6   | 0.6   | 0.6   | 0.6   | 0.5   | 0.6   | 0.6   | 0.6   | 0.5   |
| Common stock       | 51.1  | 50.0  | 49.9  | 49.7  | 49.3  | 49.1  | 49.6  | 49.6  | 49.7  |
| Mortgages          | 1.4   | 1.4   | 1.4   | 1.4   | 1.3   | 1.3   | 1.4   | 1.4   | 1.3   |
| Other assets       | 6.9   | 7.1   | 8.0   | 8.0   | 8.1   | 8.1   | 8.0   | 7.8   | 7.8   |
| Total Assets       | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

NOTE: Includes deferred profit sharing and pension funds of corporations, unions, multiemployer groups and nonprofit organizations.