

ASSET ALLOCATION OF DEFINED BENEFIT PENSION PLANS

November 19, 2015

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SUMMARY

This document analyzes the asset portfolio composition of large defined benefit (DB) pension plans. DB pension plans face conflicting objectives to seek returns in risky assets and to avoid volatility by investing in safer assets. Recent studies found inconclusive evidence on the relationship between asset allocation and the financial health of plans, but those studies were constrained by incomplete data. This study builds on the existing literature by analyzing a more current and complete dataset of pension asset allocation based on the *Form 5500 Annual Return/Report of Employee Benefit Plan* and the asset allocation fields of its *Schedule R Retirement Plan Information*. We find that large pension plans “de-risk” into less volatile investments as plans’ funding ratios improve. This finding holds for both single-employer and multiemployer large DB plans. We also find evidence that plans de-risk asset allocations as their share of active participants declines or after plans freeze benefit accruals, i.e., when their liability horizon shortens.

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1. INTRODUCTION

Defined benefit pension (DB) plans are a major component of the retirement resources of American workers. While the share of workers covered by such plans has declined over recent years, almost 44,000 private-sector DB plans covered 39 million participants and held \$2.7 trillion in assets in 2012 (U.S. Department of Labor, 2015). The financial solvency of DB plans is in part tied to their investment strategies. To a certain extent, this information can be gleaned from the asset allocation information of DB plans reported on the *Form 5500 Annual Return/Report of Employee Benefit Plan* ("Form 5500"). This report provides an analysis of the variation in asset allocations across very large DB plans and the relationship between asset allocations on the one hand and plan funding levels and other plan characteristics on the other hand. Recent studies found conflicting evidence on the relationship between asset allocation and plan financial health, but those studies were constrained by incomplete data (e.g., Rauh, 2009; Addoum, van Binsbergen, and Brandt, 2010). This study builds on the existing literature based on a more current and complete data source.

Employee benefit plan sponsors provide information about their plans on the Form 5500. The Form 5500 should also be filed by Direct Filing Entities (DFEs), which are certain financial vehicles in which employee benefit plans have invested assets. The Form 5500 consists of a main form with various Schedules and Attachments, depending on the nature and structure of the plan or DFE.

Since 2009, sponsors of DB plans with 1,000 or more participants must enter their plan's asset allocation on the *Schedule R Retirement Plan Information* ("Schedule R"). With 95% of 2012 DB plan participants in a plan covering more than 1,000 participants, the Schedule R captures the asset allocation underlying the benefits of a substantial portion of the covered population. Importantly, plan sponsors must incorporate the underlying assets of various investment vehicles, such as DFEs and Registered Investment Companies (RICs), which hold roughly 66% of DB assets. The asset allocations are reported on Schedule R, Line 19a (Figure 1). These responses form the primary data source for this study. Since only DB plans with 1,000 or more participants are required to fill out Line 19a, our analysis is restricted to these very large DB plans.

Figure 1. Asset Categories on Form 5500, Schedule R, Line 19a

- 19** If the total number of participants is 1,000 or more, complete lines (a) through (c)
- a** Enter the percentage of plan assets held as:
- Stock: ___% Investment-Grade Debt ___% High-Yield Debt: ___% Real Estate: ___% Other: ___%

This report is organized as follows. Section 2 provides a brief review of the relevant literature and background. Section 3 provides descriptive statistics for the data that will be used in the multivariate analysis. Section 4 presents the regression results for various types of asset allocation models. Section 5 concludes.

2. BACKGROUND

To form our analysis approach we reviewed relevant literature and interviewed actuaries, tax accountants and other pension investment subject matter specialists. We consolidated that background into our reduced-form hypotheses of asset allocation.

Subject Matter Specialists

Subject matter specialists frequently referred to the trend of plans “de-risking” from “return seeking” assets into “liability-hedging” assets.¹ The specialists indicated that, in recent years, plans have focused on reducing exposure to risky (“return seeking”) assets as the plans’ funded ratios (plan assets over liabilities) increase. The specialists suggested that plans have little use for excess returns after achieving fully funded status, but poor investment returns from risky allocations may require greater corporate contributions. In particular, surplus assets in frozen plans could be subject to significant excise taxes, so de-risking appears especially prevalent among frozen plans and plans with relatively large retiree populations.

Liability hedging does not imply avoidance of risky assets. Long-term liabilities may be hedged with long-term bonds, which can be quite volatile. For our purposes, key is that liability hedging primarily involves bonds whereas return seeking involves stocks or such alternative investments as private equity or hedge funds.

Although not the focus of this report, in some instances, de-risking involves the complete transfer of assets from the plan to another obligor, such as an insurance company. When plans de-risk in this manner, insurance companies assume the pension obligation.

Literature Review and Reduced-Form Hypotheses

While there is a substantial literature on investment strategies, the literature related specifically to DB plans and their characteristics is more limited. There are, however, two relatively recent papers that use data from a variety of sources, including the Form 5500, to examine the decision-making of DB plans. Contrary to the recent de-risking trend, Rauh (2009) found that better funded plans with higher shares of active employees are more likely to invest in riskier assets, specifically equities. However, building on the Rauh paper, Addoum, van Binsbergen, and Brandt (2010) (referred to herein as AVB) examined the relationship between asset allocations and regulatory funding rules, and they found that DB plans increased their investments in equities to avoid certain mandatory contribution requirements, such as the additional funding charge required by the Retirement Protection Act of 1994 for plans more than 20% underfunded. Similar conflicting results appear in earlier literature, such as Bodie (1987), who found a negative relationship between equities and funding levels, and Peterson (1996) who found a positive relationship.

¹ Liability hedging, or a liability-driven investment strategy, utilizes asset allocation to mitigate the risk associated with inflation, interest rates, equity volatility, changes in life expectancy, and changes in credit spreads, among others.

Both the recent Rauh and AVB papers made use of data from Form 5500 and its *Schedule H Financial Information* (“Schedule H”). Rauh uses Form 5500 filings from 1988 to 2003, while AVB uses a more recent period—1992 to 2007. Subject to certain exemptions, plan sponsors must report details regarding assets, liabilities, income, expenses, and other financial information on the Schedule H. The Schedule H captures a more detailed asset allocation for a larger plan population than the Schedule R, but, under some conditions, the Schedule H provides reporting relief related to trusts, DFEs, and other investment types. This reporting relief complicates Schedule H analyses of plan asset allocations, and for some assets, such as those invested in DFEs and RICs, the underlying asset allocation is difficult to determine.

In the Rauh and AVB analyses utilizing data from the Form 5500, both papers excluded plans that have a large fraction of investments in “opaque” investments, such as DFEs. In recent years DFEs and RICs have held roughly 66% of all pension assets, so in practice Rauh and AVB eliminated the vast majority of pension asset allocations from their analysis, leaving only small- to mid-sized plans (U.S. Department of Labor, 2014). Both analyses addressed this issue by supplementing with survey data of large pension plans.

Rauh (2009) estimated plan equity allocations as determined by a funding status metric, number of active employees, total assets, and lagged investment return, including year and plan fixed effects.² In our analysis, we build on the empirical strategy implemented by Rauh (2009) and examine the relationship between a plan’s decision to invest in riskier assets and certain characteristics of the plan. Specifically, we examine the hypothesis that better funded plans or plans with a longer liability horizon are more likely to invest in riskier assets. In addition to equities, our risky, or “aggressive,” asset definition includes measures of non-traditional investment classes, such as hedge funds and private equity. Unlike Rauh and AVB our analysis includes more recent and complete data, and further, these data include very large plans reflecting presumably the majority of pension plan assets. We measure the plan’s funding level by using the funded ratio (plan assets to plan liabilities), and to capture the plan’s liability horizon, we look at the ratio of active to total participants and whether the plan is frozen. We also examine the impact of plan-selected discount rate assumptions and various measures of aggregate economic activity.

² Rauh replaced the fixed effects with random effects when examining his supplemental sample.

3. DATA

The data used in this analysis consist of Form 5500 filings as posted in annual databases on the DOL website. The data reflect “latest” filings for 2009 through 2013, i.e., they are filings that the DOL deemed to be the most correct filing for a plan and exclude, for example, filings that were later amended. Given the focus on large DB Plans, we exclude filings of small plans on Form 5500-SF. We also exclude test filings and further restrict the data to current filings. For example, from the 2013 database of filings, we select only filings with a reporting period that started in calendar year 2013. This report refers to the year of the beginning of the reporting period as the “plan year.”

Reporting Requirements of the Form 5500 and Schedule R

The Employee Retirement Income Security Act of 1974 (ERISA) requires any administrator or sponsor of an employee benefit plan subject to ERISA to report details on such plans annually, unless they are exempt from filing. The Form 5500 was developed to satisfy this ERISA filing requirement.

Plans that operate a trust must generally attach to their Form 5500 filing a Schedule H (or its small-plan version, Schedule I) with details on the assets they hold.

Since 2009, Schedule R Line 19a collects information about the plan’s asset allocation. It must be completed for all DB pension plans with 1,000 or more participants at the beginning of the plan year.

Assets reported for Line 19a are required to:

- Reflect market value at the beginning of the year and exclude the value of any receivables;
- Sum to 100% across the five asset classes; and,
- Reflect total assets held in stocks, investment grade debt, high yield debt, real estate, or other asset classes independent of reporting classifications for Schedule H.

For assets held in trusts, mutual funds, or similar investments, assets are to be disaggregated and properly distributed among the five asset classes, and not reported as “Other” unless the investments contain no stocks, bonds, or real estate holdings. Reporting requirements mirror expectations for 10-K filings to the U.S. Securities Exchange Commission.

Descriptive and Summary Statistics

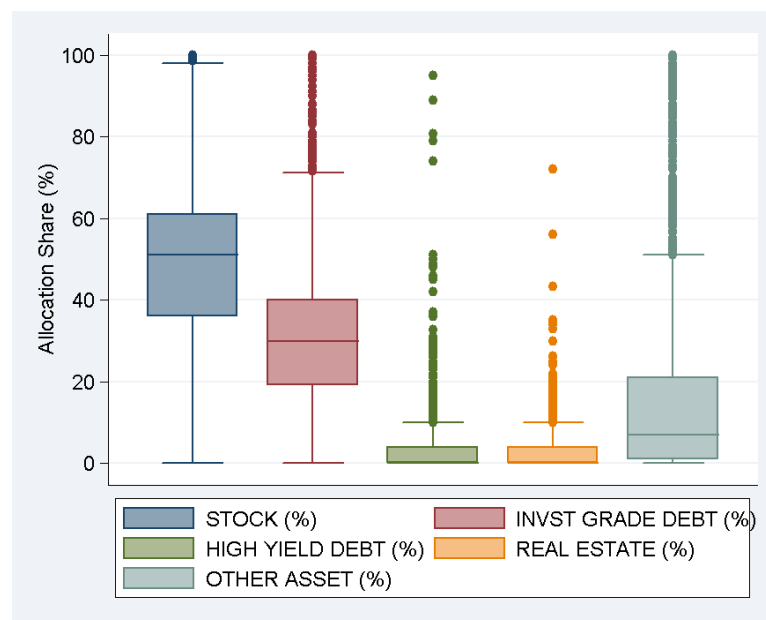
Table 1 tabulates the number of Form 5500 filings by DB plans with (non-zero, non-blank) entries in Schedule R, Line 19a. Between 3,400 and 4,000 DB plans annually provided asset allocation information on Schedule R, Line 19a. We confirmed that their asset allocations summed to 100%.

Table 1. Number of Filings in the Analysis, by Year

Plan year	Filings with Schedule R, Line 19a
2009	3,930
2010	3,937
2011	3,808
2012	3,706
2013	3,441

Source: Form 5500 filings.

Figure 2 plots the asset mix concentrations. Focusing just on 2013, the boxes contain lines corresponding to the 25th, 50th, and 75th percentiles, while the whiskers capture Tukey's "adjacent values" that represent relatively extreme values in the distribution.³ These plots show many asset shares greater than the respective upper adjacent values, suggesting that these plan allocations are relatively extreme. A cursory review of the most extreme values did not reveal any obvious errors or explanation, but due to the catchall nature of the "Other" assets category, we investigated a sample of outliers ("Other" allocations greater than the Tukey adjacent values of approximately 50%) in more detail.

Figure 2. Asset Mix Concentration Box Plots (2013)

We reviewed 40 randomly chosen plans that reported more than 50 percent of plan assets invested in "Other" investment types. Our review of the financial documents that support the Form 5500 filing suggested that roughly three-quarters of the filings

³ In a simplified definition of adjacent values, let x represent the variable of interest. Define p_{25} and p_{75} as the 25th and 75th percentiles of x . The adjacent values are defined as $Lower\ Adjacent = p_{25} - \frac{3}{2}(p_{75} - p_{25})$ and $Upper\ Adjacent = p_{75} + \frac{3}{2}(p_{75} - p_{25})$. See Tukey (1977).

sampled overstated the “Other” assets owned by the plan. The most common reason for this discrepancy is an apparent failure to allocate the underlying assets owned by RICs and DFEs. Our results suggest that, where “Other” assets exceed 50%, the asset allocations presented on the Schedule R may not accurately capture the risk profile of those DB plans; therefore, we excluded those plans from the analysis. The outlier exclusion affected 323 plans in 2013. We also excluded four plans that did not file a Schedule H and appeared to have filed Schedule R voluntarily. The remaining sample consists of 3,114 plans in 2013 and a total of 16,836 plans in 2009-2013.

The Schedule R “Other” allocation includes cash and other investment types that are not stocks, bonds or real estate (e.g., private equity, hedge funds, and derivatives). We estimate the plan’s cash allocation using Schedule H and deduct that cash allocation from the Schedule R “Other” allocation. The remainder we refer to as “Alternative” assets.

Table 2 summarizes 2013 Schedule R Line 19a asset mixes, with “Other” split into “Alternative” and “Cash.” (The table is plan-weighted, not asset-weighted.) Stocks and investment-grade debt represented the most prevalent asset class concentrations at the mean and median. However, the range of asset mixes appears very broad. Some plans have all assets in stocks or investment-grade debt, while other plans have no assets in those categories. Further, while plans on average held 2%-3% of assets in real estate or high-yield debt, 855 plans and 781 plans held more than 70% of their assets in these classes, respectively (not shown). On average, Alternative investments make up about 10% of the assets of large DB plans.

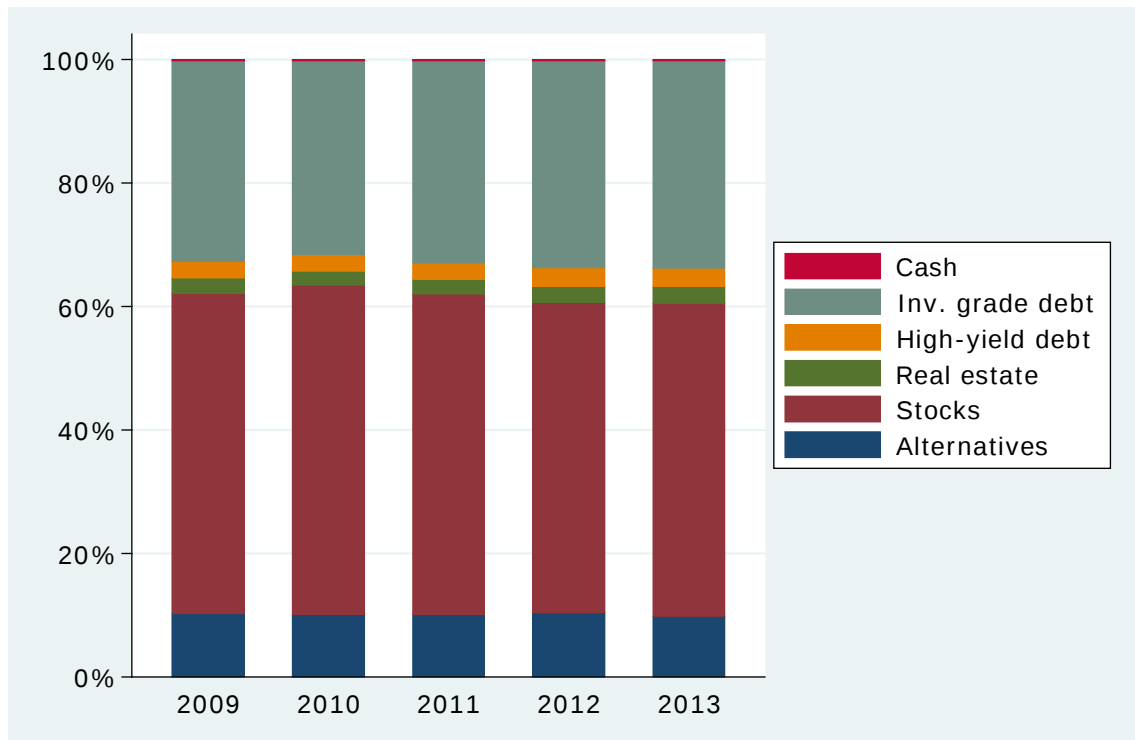
Table 2. Schedule R and Schedule H Asset Mix Summary Statistics (2013)

Asset Classes	Count	Mean	Std Dev	Min.	p25	Median	p75	Max.
Stock	3,114	50.6%	17.4%	0.0%	41.0%	53.0%	62.0%	100.0%
Investment-Grade Debt	3,114	33.7%	18.3%	0.0%	22.0%	32.0%	41.1%	100.0%
High-Yield Debt	3,114	3.0%	6.0%	0.0%	0.0%	1.0%	4.0%	95.0%
Real Estate	3,114	2.7%	4.7%	0.0%	0.0%	0.0%	4.9%	72.0%
Alternatives	3,114	9.8%	11.7%	0.0%	1.0%	5.0%	15.0%	50.0%
Cash	3,114	0.2%	0.6%	0.0%	0.0%	0.0%	0.0%	10.5%

Source: 2013 Form 5500 filings.

Note: p25 and p75 are the 25th and 75th percentiles, respectively.

Figure 3 displays the average asset composition across years. Generally speaking, more volatile asset classes are depicted toward the bottom and less volatile asset classes at the top. Consistent with de-risking trends highlighted by subject matter specialists, the average holdings of stocks and alternative assets declined slightly from 63% in 2010 to 60% in 2013, while the average debt allocation increased.

Figure 3. Schedule R and Schedule H Average Asset Composition, by Year

Outcome and Explanatory Variables

To facilitate our analysis, we constructed an asset allocation “riskiness” or “aggressive” metric from Schedule R and Schedule H. Since equities and alternative instruments introduce greater risk to plan assets than bonds, the metric includes these allocations. The risk metric (referred to herein as the “aggressive” allocation) combines Schedule R stock allocations with “Alternative” allocations. Table 3 summarizes the 2009 through 2013 aggressive allocations and the aggressive complement (i.e., the “defensive” allocation that equals one minus the aggressive allocation).

Table 3. Aggressive and Defensive Asset Mix Summary Statistics (Pooled 2009-2013)

Asset	Count	Mean	Std Dev	Min.	p25	Median	p75	Max.
Aggressive	16,830	61.8%	16.3%	0.0%	55.0%	63.0%	71.0%	100.0%
Defensive	16,830	38.2%	16.3%	0.0%	29.0%	37.0%	45.0%	100.0%

Source: 2013 Form 5500 filings.

Note: p25 and p75 are the 25th and 75th percentiles, respectively.

As mentioned previously, based on relevant literature and interviews with subject matter specialists, we consider several possible plan-level determinants of aggressive allocations, including:

- Funded ratio: the ratio of plan assets to plan liabilities;⁴
- Underfunded: an indicator of whether a plan's funded ratio is below 80%;
- Active ratio: the ratio of active participants to total participants, a reflection of the plan's liability horizon;⁵
- Frozen: an indicator of whether a plan is hard-frozen, a reflection of the plan's liability horizon;
- Discount rate: the approximate effective discount rate used to calculate future plan liabilities;⁶
- Participant counts: the logarithm of beginning-of-year participants;
- Industry: indicator variables for industries, including agriculture, mining construction, manufacturing, transportation, communication, utilities, wholesale trade, retail trade, financial services, and services
- Multiemployer plans versus single- or multiple-employer plans.

Figure 4 and Figure 5 chart univariate distributions of potential correlates of aggressive allocations for plans in 2013.⁷ Figure 4 shows that active ratio is distributed around a mean of about 40%, and it also shows a large group of plans with zero active participants. Funded ratio follows a bimodal distribution with local means just under 50% and 100%; more about this finding below. The participants distribution shows some filers have fewer than 1,000 participants ($\text{Log}(1,000) \approx 6.9$). The discount rate distribution appears tightly centered between 6% and 8%.

⁴ Funded ratio uses Form 5500 Schedule SB Line 14 or Schedule MB Line 2a divided by Schedule MB Line 2b(4).

⁵ Active ratio uses Form 5500 Line 6a(1) divided by Line 6f. If Line 6f is missing, active ratio uses Form 5500 Line 5 instead.

⁶ Discount rate uses Form 5500 Schedule SB Line 5 and Schedule MB Line 6d.

⁷ These plan characteristics generally have similar distributions between 2009 and 2013. Notable exceptions include the funded ratio and discount. Discount rates are based on annual IRS guidelines and rules based on market conditions, so these distributions shift within limited bounds across years. Funded ratio distributions show spikes at the exact 80% threshold in years 2009 to 2011, but the number of exact 80% funded ratios declines substantially in 2012 and 2013. It is our understanding that the change relates to accounting changes permitted by the Moving Ahead for Progress in the 21st Century Act (MAP-21).

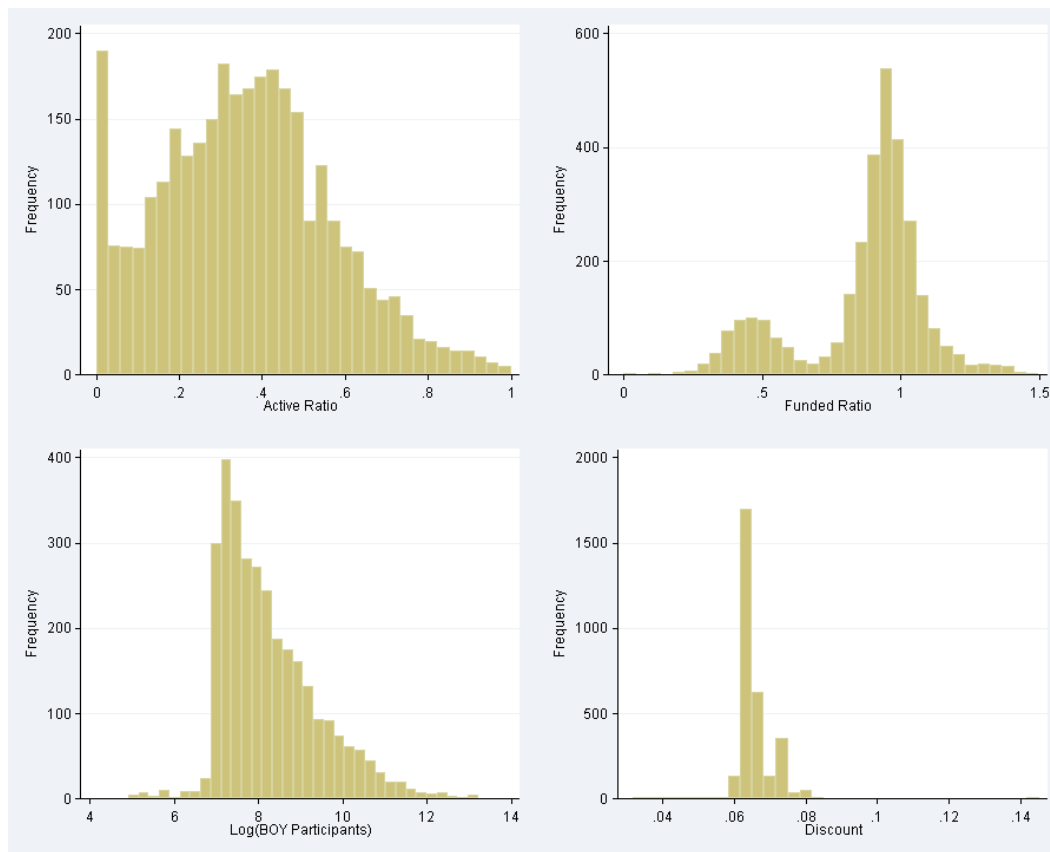
Figure 4. Continuous Univariate Charts (2013)

Figure 5 charts the discrete univariate distributions of potential correlates of aggressive allocations for plans in 2013. Most plans in the analysis come from the manufacturing, services, or financial services industries. Roughly one-fifth of plans are multiemployer and also roughly one-fifth are frozen. However, there is little overlap among these groups; multiemployer plans froze at a much lower rate than single employer plans (1.9% and 25.1% respectively).⁸ Also, roughly one-fifth of plans were underfunded, and these largely overlap with multiemployer plans. Multiemployer plans have a mean funded ratio of 49.3%, while single-employer plans have a mean funded ratio of 91.5%. Indeed, multiemployer plans comprise the vast majority of the first mode in the funded ratio panel of Figure 4.

⁸ “Single employer plans” refers to plans required to file the Schedule SB, which include multiple employer plans. In contrast, multiemployer plans are required to file Schedule MB. Also see footnote 9 (page 13).

Figure 5. Discrete Univariate Charts

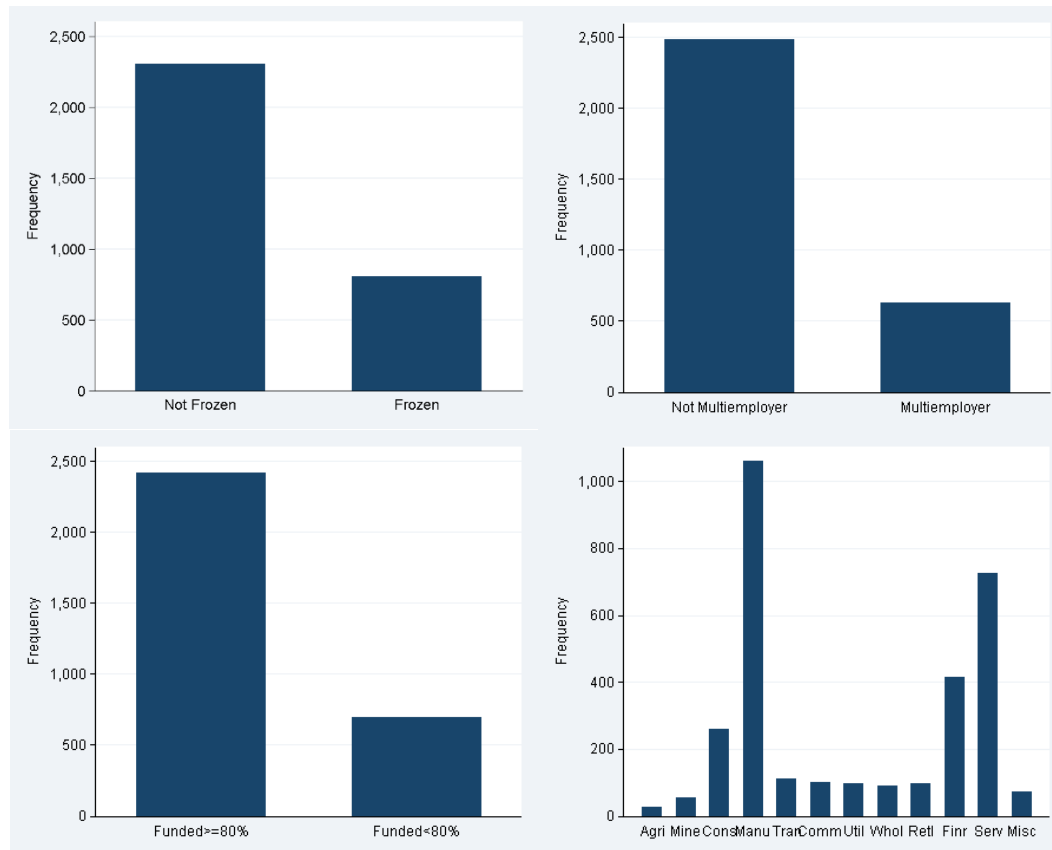


Figure 6 and Figure 7 plot the bivariate distributions of aggressive allocations and their potential determinants. Figure 6 shows slight positive relationships between aggressive allocations and the number of participants, as well as the ratio of active participants. The earlier observed first mode in the funded ratio appears here as a separate cluster. The cluster with lower funded ratios consists mostly of multiemployer plans, and the cluster with higher funded ratios of other plans.

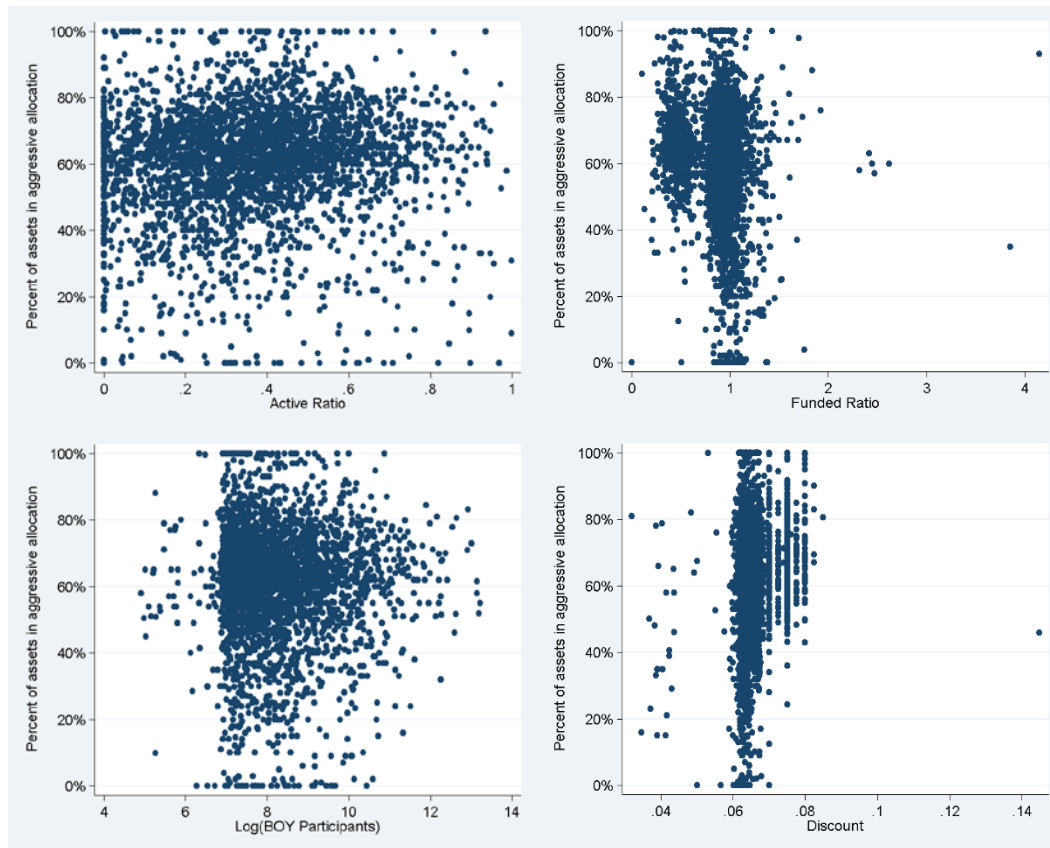
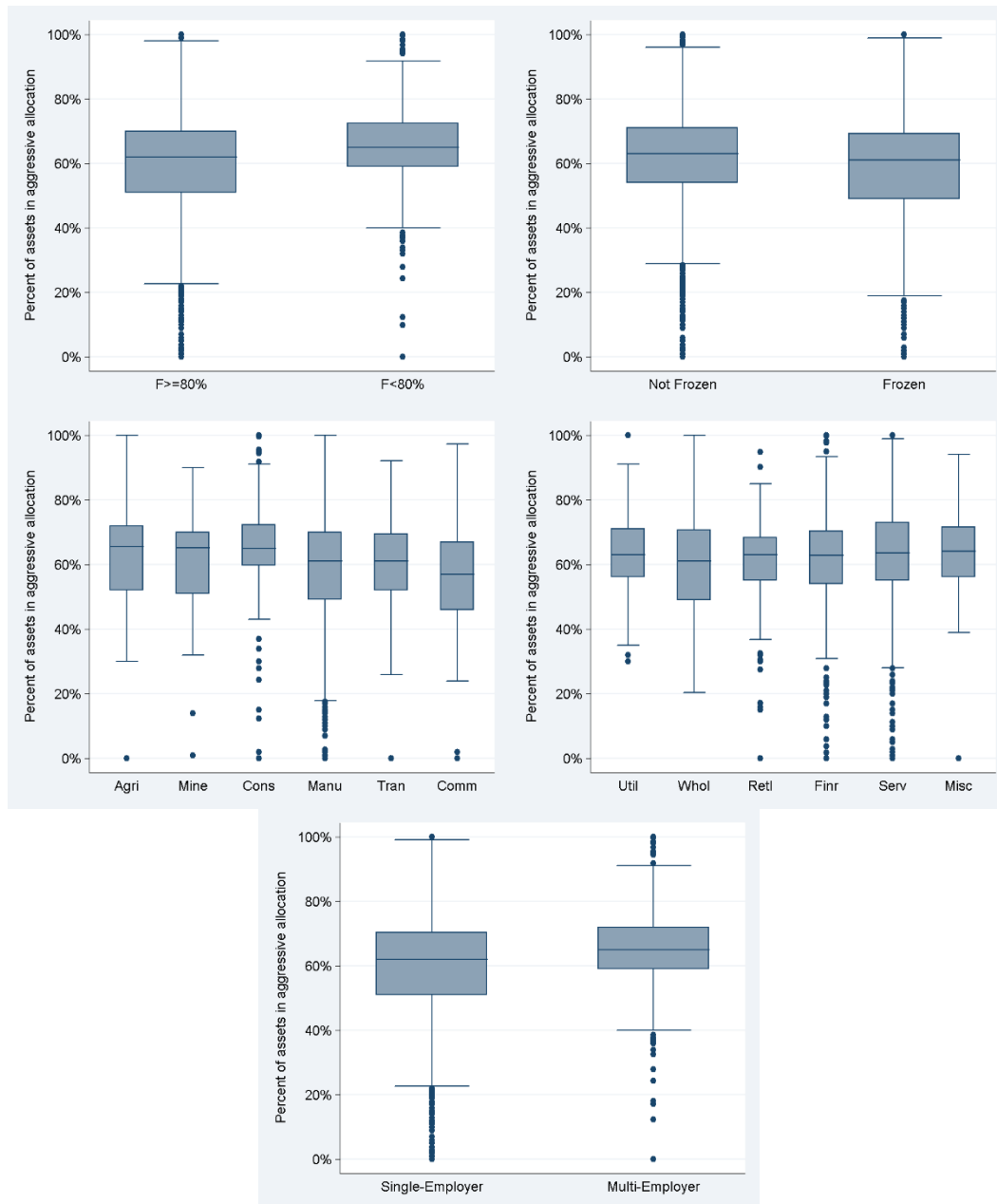
Figure 6. Continuous Bivariate Scatterplots

Figure 7 plots the discrete bivariate distributions of aggressive allocations and their potential correlates. Underfunded and multiemployer plans both have tighter distributions centered on a higher aggressive allocation than their counterparts. Frozen plans and not-frozen plans follow similar distributions. Industry distributions display some small differences.

Figure 7. Discrete Bivariate Charts



In addition to plan characteristics, we considered the influence of various macroeconomic indicators on plan aggressiveness. We explored real and nominal GDP growth, inflation, unemployment, equity markets (e.g., growth of the Dow Jones Industrial Average), and bond markets (e.g., 3- and 10-year treasury and BBB corporate yield rates). Further, we considered each indicator with a one-year lag (e.g. 2009 metrics were matched onto plan filings from 2010). Given their limited explanatory power and the risk of model saturation (see below), we present results only for time series of rates of return on corporate bonds and growth of the Dow Jones Industrial Average.

4. ANALYSIS

The analysis of aggressive allocation includes both a cross-sectional analysis of plan characteristics in 2013 and a longitudinal analysis of plans from 2009 to 2013. The 2013 cross-sectional analysis develops Tobit and ordinary least-squares (OLS) models using 2013 data. The longitudinal analysis expands those models to plans from 2009 through 2013, and also considers panel models that control for plan fixed effects.

Throughout, the outcome variable is the fraction of plan assets that are invested aggressively, i.e., in stocks or in non-cash “Other” assets. This fraction varies from zero (very defensive) to one (very aggressive). All models are plan-weighted, i.e., every plan contributes one observation with equal weight. The models are not weighted by assets.

Both the outcome variable and covariates (insofar relevant) are measured as fractions. For example, an aggressiveness of 60% is captured as 0.6 and a funding ratio of 85% as 0.85.

Cross-Sectional Analysis of Allocations in 2013

The evolving regulatory environment and the uncovered relationships between multiemployer plans and potential determinants of aggressive allocation suggest that modeling multiemployer and single employer plans separately is more appropriate than a combined analysis.⁹ Table 4 and Table 5 construct models for single and multiemployer plans respectively. The parameter estimates are Tobit and OLS coefficients, the numbers in parentheses represent standard errors, and the asterisks flag parameters' statistical significance away from zero (***=1%, **=5%, *=10%). The Tobit models are censored from below at zero (0%) and from above at one (100%). Industry controlled models should be interpreted relative to the omitted industry category, Manufacturing.

Table 4 estimates Tobit and OLS models of single-employer plan asset allocation aggressiveness in 2013. The funded ratio, frozen status, active ratio and discount rate are all strongly significantly related to the aggressiveness of plan asset allocations and confirm our hypotheses about asset allocations: better funded plans tend to invest more defensively and plans with a longer liability horizon more aggressively.

⁹ Throughout this document we distinguish multiemployer and single-employer plans. For purposes of simplicity, we combine single- and multiple-employer plans into a category that we refer to as “single-employer” plans. The statutory and regulatory regimes for those two types are more similar to one another than to the regime for multiemployer plans. We explored and tested for differences between single- and multiple-employer plans, but found no significant differences with respect to asset allocations.

Table 4. Models of Asset Allocation Aggressiveness among Single-Employer Plans (2013)

	Tobit	OLS	OLS w/ Discount	OLS w/ Industry
Funded Ratio	-0.102 *** (0.023)	-0.100 *** (0.023)	-0.077 *** (0.023)	-0.097 *** (0.023)
Funded Ratio <80%	0.039 * (0.021)	0.038 * (0.021)	0.041 ** (0.020)	0.041 ** (0.021)
Frozen	-0.021 ** (0.008)	-0.021 ** (0.008)	-0.022 *** (0.008)	-0.023 *** (0.008)
Active Ratio	0.061 *** (0.018)	0.063 *** (0.018)	0.059 *** (0.017)	0.048 *** (0.019)
Log(Participants)	-0.005 (0.003)	-0.005 (0.003)	-0.005 (0.003)	-0.004 (0.003)
Discount			7.137 *** (1.170)	
Agriculture				0.035 (0.036)
Mining				0.001 (0.026)
Construction				-0.089 * (0.048)
Transportation				0.004 (0.023)
Communication				-0.023 (0.020)
Utilities				0.024 (0.019)
Wholesale Trade				0.010 (0.020)
Retail Trade				-0.011 (0.025)
Financial Services				0.002 (0.013)
Services				0.022 ** (0.009)
Constant	0.718 *** (0.036)	0.713 *** (0.035)	0.238 *** (0.085)	0.706 *** (0.035)
Number of observations	2,483	2,483	2,483	2,483

Note: Standard errors in parentheses. Significance: ***=1%, **=5%, *=10%.

The results of Tobit and OLS models are very similar. On average, underfunded plans hold a four percentage point higher aggressive allocation than plans with funded ratios greater than 80%. More generally, plans become less aggressive as the funded ratio increases; a 10 percentage point increase in the funded ratio reduces the aggressive allocation by 1 percentage point. On average, frozen plans hold a two percentage point less aggressive allocation than active plans. Indeed, the greater the ratio of active participants to total participants, the more aggressive the plan's allocation tends to be. Plans' discount rates have a comparatively weak relationship

with aggressive allocations. Industry controls have little effect on the model, and do not enter significantly.

The discount rate (third column) is positively and highly significantly related to the aggressiveness of plans' asset allocations. However, the causality of the relationship may well run from allocation to discount rate: plans with more aggressive allocations are likely to adopt a higher discount rate.

There does not appear to be a strong relationship between industry sector and asset allocation.

Table 5 presents the estimates of the same set of model specifications for multiemployer plans. Fewer covariates were significant than for single-employer models, possibly in part because the number of multiemployer plans was only about one-fourth of the number of plans in the single-employer sample. Only the funded ratio appears significant for predicting multiemployer aggressive allocations. On average, a 12 percentage point increase in the funded ratio corresponds to a 1 percentage point less aggressive allocation. The mining industry control variable enters significantly, but this is driven by only two mining industry observations, which had invested particularly aggressively.

Table 5. Models of Asset Allocation Aggressiveness among Multiemployer Plans (2013)

	Tobit	OLS	OLS w/ Discount	OLS w/ Industry
Funded Ratio	-0.084 *	-0.084 *	-0.011	-0.110 **
	(0.045)	(0.045)	(0.047)	(0.046)
Funded Ratio <80%	0.036	0.036	0.027	0.050
	(0.042)	(0.042)	(0.042)	(0.042)
Frozen	-0.054	-0.054	-0.059 *	-0.032
	(0.036)	(0.036)	(0.035)	(0.038)
Active Ratio	0.015	0.015	0.015	0.002
	(0.035)	(0.035)	(0.034)	(0.037)
Log(Participants)	0.004	0.004	0.002	0.004
	(0.004)	(0.004)	(0.004)	(0.004)
Discount			5.921 ***	
			(1.285)	
Agriculture				-0.115
				(0.092)
Mining				0.265 ***
				(0.089)
Construction				0.006
				(0.017)
Transportation				-0.039 *
				(0.023)
Communication				-0.006
				(0.050)
Wholesale Trade				-0.011
				(0.044)
Retail Trade				-0.001
				(0.025)
Financial Services				0.006
				(0.018)
Services				0.022
				(0.021)
Constant	0.627 ***	0.626 ***	0.181	0.626 ***
	(0.067)	(0.067)	(0.117)	(0.070)
Number of observations	631	631	631	631

Note: Standard errors in parentheses. Significance: *** =1%, ** =5%, * =10%.

Longitudinal Analysis

The longitudinal analysis extends the earlier models to plans from 2009 through 2013. The main objective is to examine changes over time. Similar to the earlier analysis, we model single-employer and multiemployer plans separately, and we use the same plan characteristics.

A pooled cross-section of 2009 through 2013 indicates similar relationships as found in the 2013 cross-section—see the first column of Table 6 and Table 7. The sign and significance for all variables remains as expected: the higher the funding level, the

less aggressive the asset allocation, and the longer the liability horizon, the more aggressive the asset allocation.

For single-employer plans, the overall time trend is downward, i.e., the trend toward de-risking is not caused by changes in funding or liability horizon (Table 6). The second column replaces a linear time trend with year indicators. The omitted year is 2009; the coefficient is positive in 2010 and increasingly negative in 2011, 2012, and 2013. For simplicity, subsequent specifications use a linear time trend.

The coefficient on discount rate is again positive and significant, but that may be due to reverse causality (see above). Macro variables suggest, counter intuitively, that higher corporate bond yields trigger more aggressive asset allocations. However, macro trends are identified off the annual average aggressiveness. Since the data span only five years, the model may be suffering of saturation.

Finally, the last column of Table 6 shows estimates of a model with fixed plan effects. Most covariates lose their significance, suggesting that there is little intra-plan variation of the covariates over time.

Table 6. Models of Asset Allocation Aggressiveness among Single Employer Plans (2009 to 2013)

	Time Series w/o Discount	Time Dummies	Time Series w/ Discount	Time Series w/ Macro Variables	Plan Fixed Effects
Funded Ratio	-0.049 *** (0.008)	-0.048 *** (0.008)	-0.055 *** (0.008)	-0.049 *** (0.008)	-0.068 *** (0.011)
Funded Ratio <80%	0.030 *** (0.005)	0.030 *** (0.005)	0.032 *** (0.005)	0.030 *** (0.005)	-0.003 (0.011)
Frozen	-0.023 *** (0.004)	-0.023 *** (0.004)	-0.023 *** (0.004)	-0.023 *** (0.004)	-0.006 (0.004)
Active Ratio	0.067 *** (0.007)	0.068 *** (0.007)	0.069 *** (0.007)	0.068 *** (0.007)	-0.014 (0.005)
Log(Participants)	-0.004 *** (0.001)	-0.004 *** (0.001)	-0.004 *** (0.001)	-0.004 *** (0.001)	0.034 *** (0.008)
Discount			1.481 *** (0.235)		
Year Trend	-0.005 *** (0.001)		-0.001 (0.001)	0.006 * (0.003)	-0.006 *** (0.001)
Year 2010		0.011 ** (0.004)			
Year 2011		-0.011 ** (0.005)			
Year 2012		-0.012 *** (0.005)			
Year 2013		-0.014 *** (0.005)			
Growth in DJIA (1-yr lag)				-0.023 (0.023)	
BBB Corporate Bond Yield (1-yr lag)				1.119 *** (0.432)	
Constant	0.676 *** (0.014)	0.665 *** (0.014)	0.570 *** (0.022)	0.789 *** (0.232)	0.423 *** (0.070)
Number of observations	13,331	13,331	13,331	13,331	13,331

Note: Standard errors in parentheses. Significance: ***=1%, **=5%, *=10%.

Table 8 shows estimates for multiemployer plans. While few covariates were significant in the 2013 multiemployer analysis, the results for pooled 2009-2013 data are generally in line with our hypotheses regarding funding level and liability horizons. The main difference with single-employer plans is that the time trend is significantly positive: conditional on other factors, multiemployer plans appear to have increased their exposure to risky assets.

Somewhat surprisingly, the model with plan fixed effects suggests that funding levels prompt plans to increase their exposure to risky assets. This finding goes counter to the insights provided by our subject matter specialists. A potential explanation points at reverse causality: plans that were aggressively invested may have benefitted from strong stock market returns after 2009 and thereby improved their funding level.

Table 7. Models of Asset Allocation Aggressiveness among Multiemployer Plans (2009 to 2013)

	Time Series w/o Discount	Time Dummies	Time Series w/ Discount	Time Series w/ Macro Variables	Plan Fixed Effects
Funded Ratio	-0.072 *** (0.020)	-0.083 *** (0.020)	-0.021 (0.021)	-0.083 *** (0.020)	0.099 *** (0.029)
Funded Ratio <80%	0.069 *** (0.017)	0.065 *** (0.017)	0.057 *** (0.017)	0.065 *** (0.017)	0.006 (0.029)
Frozen	-0.036 * (0.020)	-0.033 * (0.020)	-0.038 * (0.020)	-0.034 * (0.020)	-0.003 (0.021)
Active Ratio	0.003 (0.015)	0.005 (0.015)	0.004 (0.015)	0.005 (0.015)	-0.034 (0.029)
Log(Participants)	0.003 (0.002)	0.003 (0.002)	0.001 (0.002)	0.003 (0.002)	-0.001 (0.023)
Discount			4.449 *** (0.610)		
Year Trend	0.006 *** (0.002)		0.007 *** (0.002)	0.008 * (0.005)	0.006 *** (0.001)
Year 2010		0.032 *** (0.007)			
Year 2011		0.035 *** (0.007)			
Year 2012		0.025 *** (0.007)			
Year 2013		0.036 *** (0.007)			
Growth in DJIA (1-yr lag)				-0.136 *** (0.034)	
BBB Corporate Bond Yield (1-yr lag)				-0.884 (0.650)	
Constant	0.571 *** (0.029)	0.572 *** (0.029)	0.239 *** (0.054)	1.902 *** (0.356)	0.595 *** (0.190)
Number of observations	3,499	3,499	3,499	3,499	3,499

Note: Standard errors in parentheses. Significance: ***=1%, **=5%, *=10%.

5. CONCLUSION

The literature on asset allocations of DB plans is sparse and somewhat dated. We used publicly available data from the recently mandated Schedule R of the Form 5500 to update and deepen our understanding of plan asset allocations.

Our findings are consistent with the hypotheses that well-funded plans tend to invest more defensively than poorly funded plans, and that plans with a longer liability horizon are taking on more risk. We also find some evidence for a trend toward de-risking among single-employer plans, but not among multiemployer plans.

Line 19a of the Schedule R, the primary source for our analysis, was introduced for the 2009 plan year. While some data quality issues exists—notably with roughly 10% of plans reporting “Other” assets that should have been allocated over stocks, bonds, and real estate—we conclude that the first five years of available data offer good opportunities for tracking the asset allocations of very large DB plans.

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Services for this report were provided under contract DOL-OPS-14-D-0021 from the U.S. Department of Labor.

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