Retirement Plan Assets: Year-end 2001

I. Total Assets in the Retirement Market
As of year-end 2001, total retirement plan assets amounted to $10.69 trillion. These assets consisted of $4.0 trillion in private trusteed plans ($1.89 trillion in defined benefit plans and $2.11 trillion in defined contribution plans), $2.40 trillion in individual retirement accounts (IRAs) and Keogh plans, $2.18 trillion in state and local government plans, $1.34 trillion in private insured plans, and $811 billion in the federal government's plans for its employees (see Figure 1).

![Figure 1: Sources of Assets for the Retirement Market, 2001](chart)

<table>
<thead>
<tr>
<th>Source</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRA &amp; Keogh</td>
<td>$2.40 t.</td>
</tr>
<tr>
<td>Defined Benefit</td>
<td>$1.85 t.</td>
</tr>
<tr>
<td>Defined Contribution</td>
<td>$2.11 t.</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>$2.18 t.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>$811 b.</td>
</tr>
<tr>
<td>Private Insured</td>
<td>$1.34 t.</td>
</tr>
</tbody>
</table>


*Includes civilian and military.

II. Employment-based Plans
The largest subset of the retirement market is assets held in employment-based plans. These are defined as assets held by plans that are sponsored by an organization with the sole purpose of providing income for their current employees in retirement. This subset includes all of the categories mentioned in Figure 1 above, except for IRAs and Keoghs (which are individual-based and not employment-based). These employment-based plans held assets totaling $8.30 trillion as of year-end 2001.

- *Trusteed* pension funds are managed by a trustee appointed by the plan sponsor. The trustee may be an employee of the plan sponsor or a bank or trust company. Contributions are placed in a trust set up exclusively for the pension plan. The trustee is legally responsible for ensuring that the fund’s assets are managed solely in the interests of the plan participants. In a defined benefit plan, the investment risk is borne by the plan sponsor, who must adjust contributions according to any actuarial losses (or gains) that occur. In a defined contribution plan, plan participants, who often have some say in the investment of contributions to their
individual accounts, bear the investment risk; investment performance is reflected in the balance of their individual accounts.

- *Private insured* plans are managed by life insurance companies. The insurance company and plan sponsor, who serves as the plan fiduciary, enter into a contractual agreement under which the sponsor pays the premium to the insurance company, which in return guarantees payment of future benefits. The insurance company must further acknowledge in writing that it is a fiduciary with respect to the plan. The plan sponsor may choose to transfer all investment decisions and risk to the insurer or may choose to share in investment decisions and investment gains and losses. The pension commitments may be backed by the assets of the life insurance company’s general accounts, which also back life insurance and other commitments, or they may be backed by separate accounts invested exclusively for pension commitments.

### III. Asset Allocation

The following section contains asset allocation breakdowns of the categories of the retirement market for which data are available: private trusteeed, state and local governments, and private insured plans.

**Private Trusteed Plans**

#### Defined Benefit Plans

- The value of direct equity holdings by defined benefit plans declined from $336 billion, or 41.3 percent, of all defined benefit plan assets in 1985 to $298 billion, or 33.8 percent of all defined benefit plan assets, in 1988. After 1988, direct equity holdings increased in dollar amount and the percentage of all defined benefit plan assets through 1999, when their value reached $1,157 billion, or 53.4 percent of all defined benefit plan assets. After 1999, the value of the direct equity holdings of defined benefit plans declined, falling to $856 billion, or 45.5 percent of all defined benefit plan assets, as of year-end 2001.

- Direct bond holdings have shown an inverse relationship to direct equity holdings. From 1985 through 1988, as direct equity holdings declined as a percentage of total defined benefit plan assets, direct bond holdings increased. In 1985, 29.4 percent ($240 billion) of total defined benefit plan assets were in bonds. This percentage increased to 35.2 percent ($311 billion) in 1988, and then declined to 22.0 percent ($477 billion) by year-end 1999. After 1999, direct bond holdings steadily increased as a percentage of total assets, reaching 26.8 percent as of year-end 2001, but the dollar value fluctuated from $530 billion in 2000 to $504 billion as of year-end 2001.

#### Defined Contribution Plans

- Among defined contribution plans, other assets have grown steadily since 1985. According to EBRI definitions, assets held in mutual funds are allocated to *other assets*. In 1985, other assets were valued at $129 billion, or 31.0 percent of total defined contribution plan assets. The value of these assets steadily increased until year-end 1999, when it was $1,076 billion. By year-end 2001, the value of other assets had declined to $979 billion. Other assets peaked as a percentage of all defined contribution plan assets in 1997 at 50.7 percent. Since 1997, other assets have steadily declined as a percentage of all defined contribution plan assets, amounting to 46.5 percent in 2001.

- Direct equity holdings of defined contribution plans increased steadily from 1985 to 1999, with slight movement up and down. In 1985, direct equity holdings accounted for 38.1 percent ($159 billion) of total defined contribution plan assets. By 1999, direct equity holdings accounted for 42.1 percent ($952 billion) of total defined contribution plan assets. After 1999, direct equity holdings declined steadily, falling to 40.7 percent ($857 billion) as of year-end 2001.
• Direct bond holdings in defined contribution plans have fluctuated in dollar value in recent years: 1985 ($69 billion), 1986 ($106 billion), 1988 ($67 billion), 1991 ($100 billion), 1991 ($96 billion), 1993 ($106 billion), 1995 ($92 billion), 1998 ($124 billion), and 2001 ($134 billion). As a percentage of all defined contribution assets, direct bond holdings declined from a peak 22.2 percent in 1986 to 4.6 percent in 1999. Since 1999, direct bond holdings have increased as a percentage of all defined contribution plan assets, reaching 6.4 percent in 2001.

State and Local Governments
• Direct equity holdings of state and local government plans, following the pattern of private trusted plans, increased steadily in dollar value and as a percentage of total assets from 1985 ($120.1 billion, or 30 percent) to 1999 ($1,343.2 billion, or 60 percent). These equity holdings steadily declined in value and as a percentage of total assets, to $1,215.7 billion, or 56 percent, as of year-end 2001.

• Direct bond holdings of state and local government plans followed the pattern of private trusted plans, decreasing steadily in dollar value and as a percentage of total assets from 1985 ($232.0 billion, or 58 percent) to 1999 ($689.4 billion, or 31 percent). These bond holdings steadily increased as a percentage of total assets, reaching 33 percent in 2001, but the dollar value fluctuated from $739.8 billion in 2000 to $718.0 billion as of year-end 2001.

Private Insured Plans
• Data presented here for asset allocation are for pension assets held in separate accounts by life insurance companies. Assets in separate accounts increased from $73.7 billion in 1985 to $790.9 billion in 2000.

• Direct equity holdings in separate accounts steadily increased in value from 1985 ($31.6 billion) to 2000 ($635.3 billion). The percentage of total assets accounted for by direct equity holdings in separate accounts increased from 42.9 percent in 1985 to 82.5 percent in 1999, and declined slightly to 80.3 percent in 2000.

• Direct bond holdings in separate accounts plans have fluctuated in dollar value in recent years: 1985 ($31.6 billion), 1986 ($34.7 billion), 1994 ($72.4 billion), 1996 ($64.0 billion), 1997 ($79.0 billion), 1999 ($66.8 billion), 2000 ($109.3 billion). As a percentage of separate account assets, direct bond holdings declined between 1985 and 1989 (from 42.9 percent in 1985 to 32.3 percent in 1989). In 1990, direct bond holdings increased to 35.6 percent of separate account assets. This percentage then declined until 1999 when direct bond holdings accounted for 13.5 percent of separate account assets. In 2000, direct bond holdings increased slightly to 13.8 percent.

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