



# Changes in Asset Allocations Over the Past 30 Years:

## A Study of the Interaction Between Financial Markets and Public Plans

January 27, 2025

**AON**

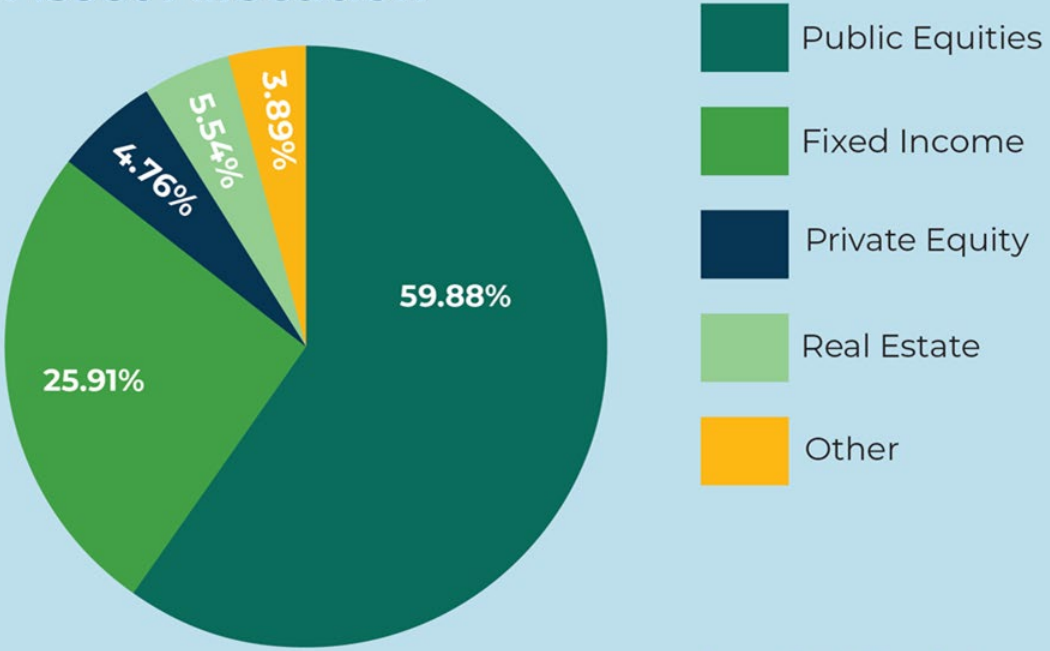


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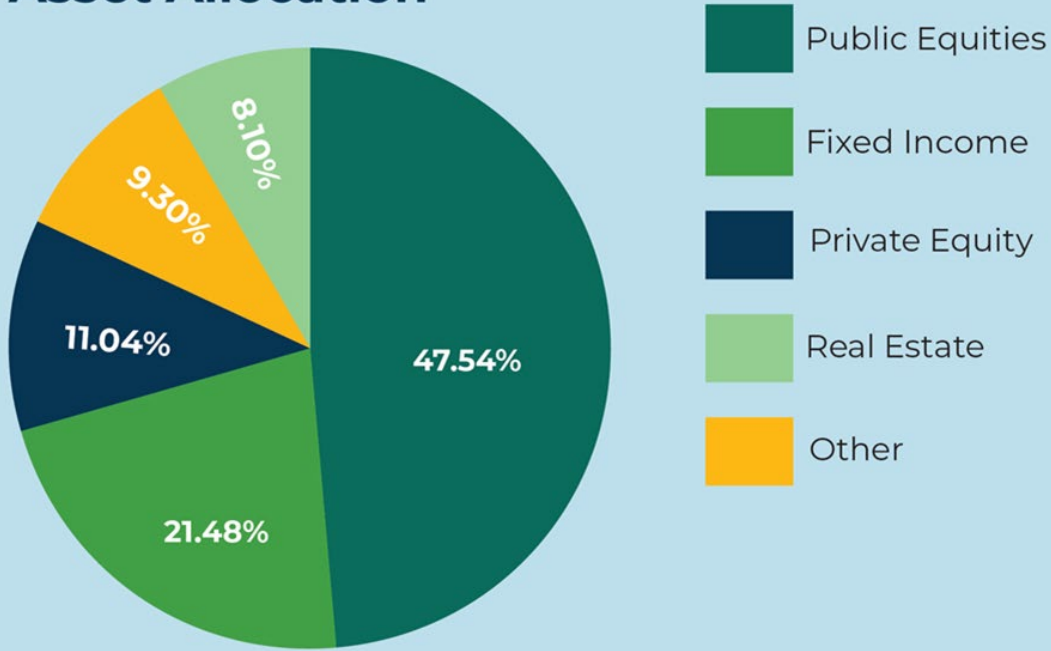
# Public Plan Asset Allocations Have Changed Significantly in Recent Years

**Figure 17A: FY 2007 Aggregate Asset Allocation**



Source: Public Plans Database

**Figure 17B: FY 2021 Aggregate Asset Allocation**



Source: Public Plans Database

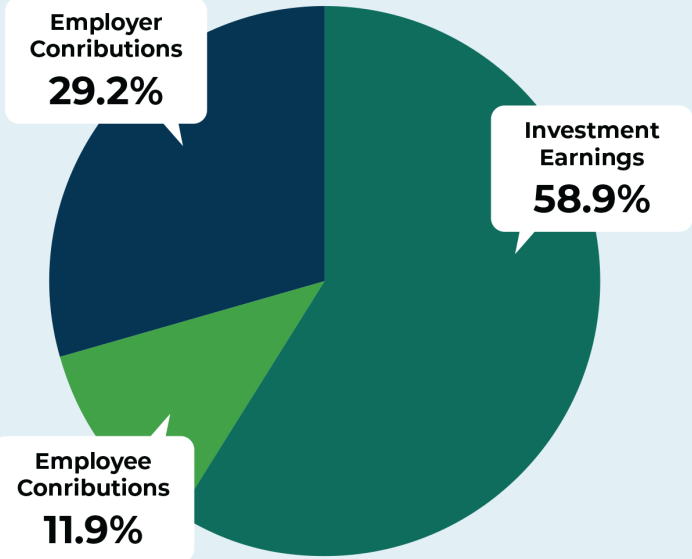
Source: *Examining the Experiences of Public Pension Plans Since the Great Recession*

# Investment Earnings Generate the Majority of Public Pension Revenue

Investing in financial markets with a diversified asset allocation has allowed public pension funds to generate more than half their revenues through investment earnings.

Source: [\*Pensionomics 2025\*](#)

**Figure 1: Aggregate State and Local Pension Contributions by Source, 1993-2022**

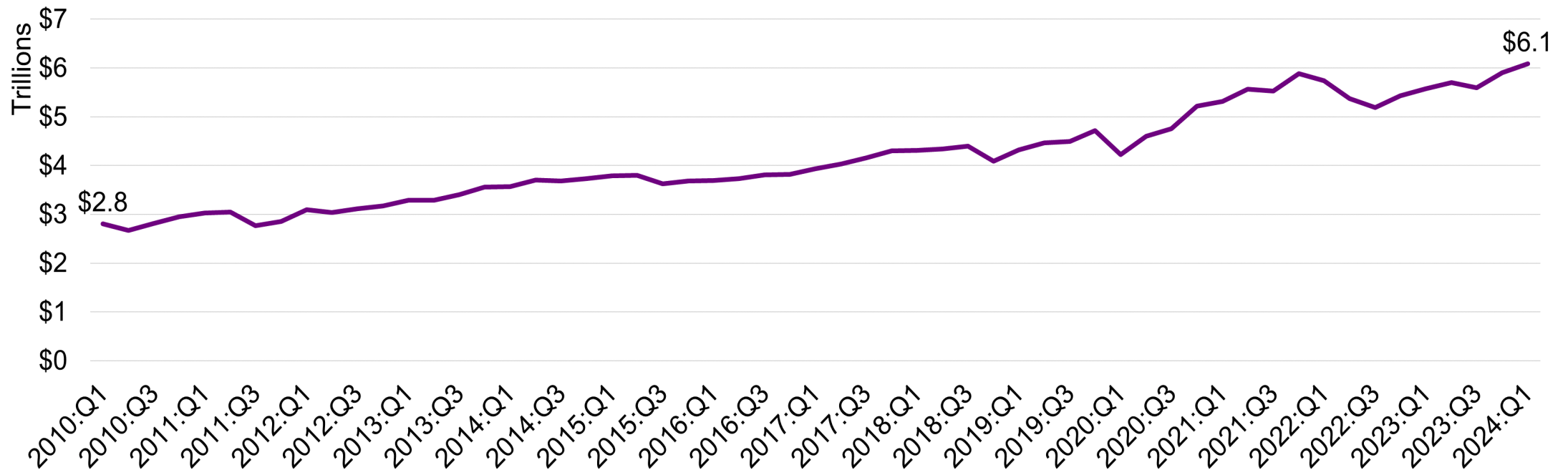


Note: Author's analysis of data from the U.S. Census Bureau

# Growth in Public Pension Assets Since GFC

## Public pension assets have more than doubled since 2010

Public Pension Assets (as reported by the Federal Reserve)

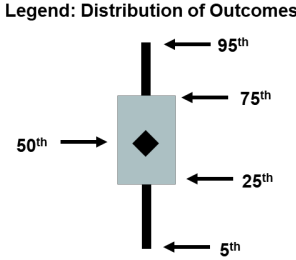
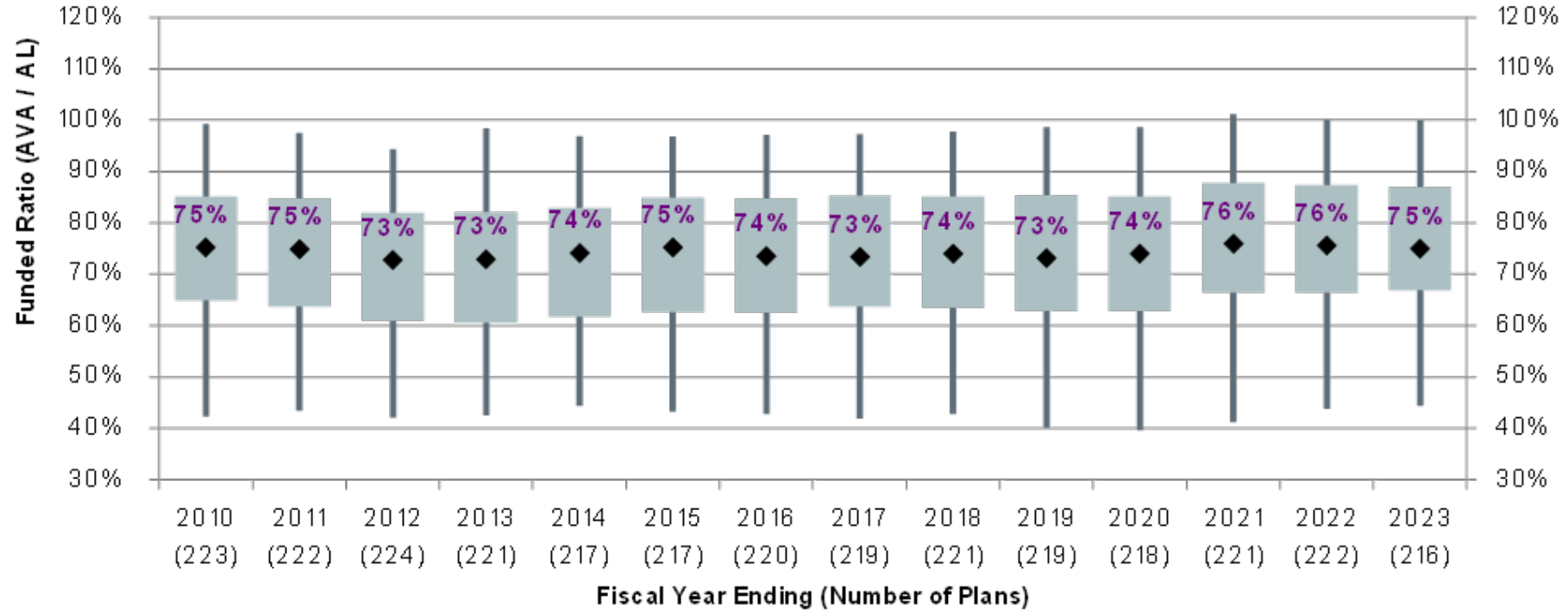


Source: Federal Reserve Board (<https://www.federalreserve.gov/releases/z1/default.htm>) as of July 2024; assets determined from L.120.b by subtracting line 16 (unfunded liabilities) from line 18 (liabilities)

# Distribution of U.S. Public Pension Plans

Funded ratio (based on actuarial value of assets) versus peers<sup>1</sup>

Distribution of U.S. Public Pension Funded Ratios

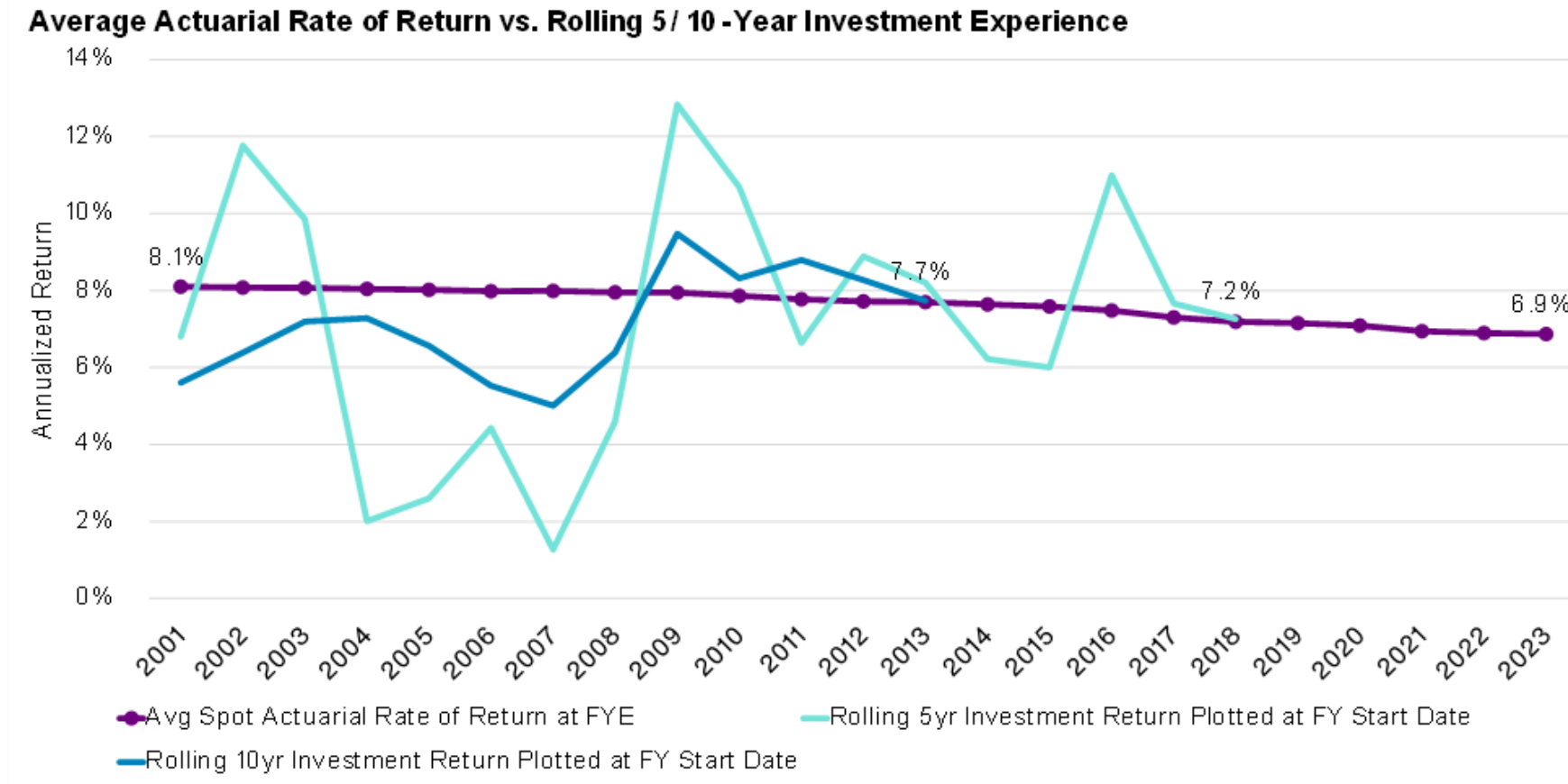


Source: Public Plans Data (publicplansdata.org) as of June 2024

<sup>1</sup> Peers defined as public funds published within publicplansdata.org as of June 2024; Number of plans per year are shown in parentheses

# Actuarial Rate of Return vs. Investment Performance

Actuarial assumed rates of return have declined over the period while investment experience, though volatile, has largely met expectations over the long-term for the subset studied

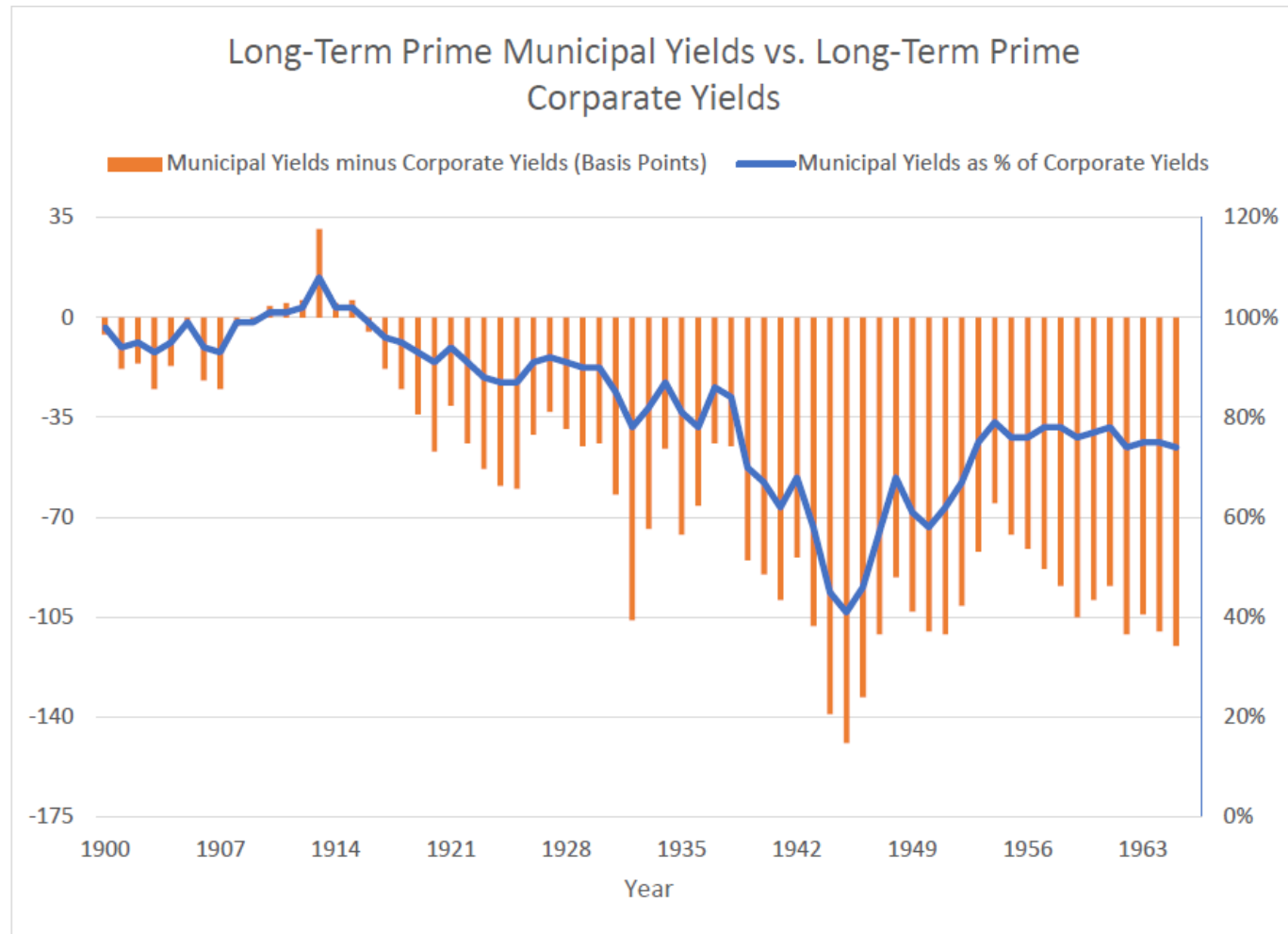


Source: Public Plans Data (publicplansdata.org) as of June 2024; specifically, 45 plans with Fiscal Year Ending June 30

# The Decline of Fiscal Mutualism

Fiscal mutualism was an investing philosophy according to which public pension plans almost exclusively invested in municipal bonds. This was seen as being mutually beneficial to the plan itself and the plan sponsor.

Fiscal mutualism dominated public plan investing during the 1920s and 1930s.



Source: Sidney Homer, "Factors Determining Municipal Bond Yields," in *State and Local Public Facility Needs and Financing: Volume 2, Public Facility Financing* (Washington, DC: Government Printing Office, 1966), 269-298 (Glass & Vanatta, 2021, p. 438).

# The Prudent Investor Takes Charge

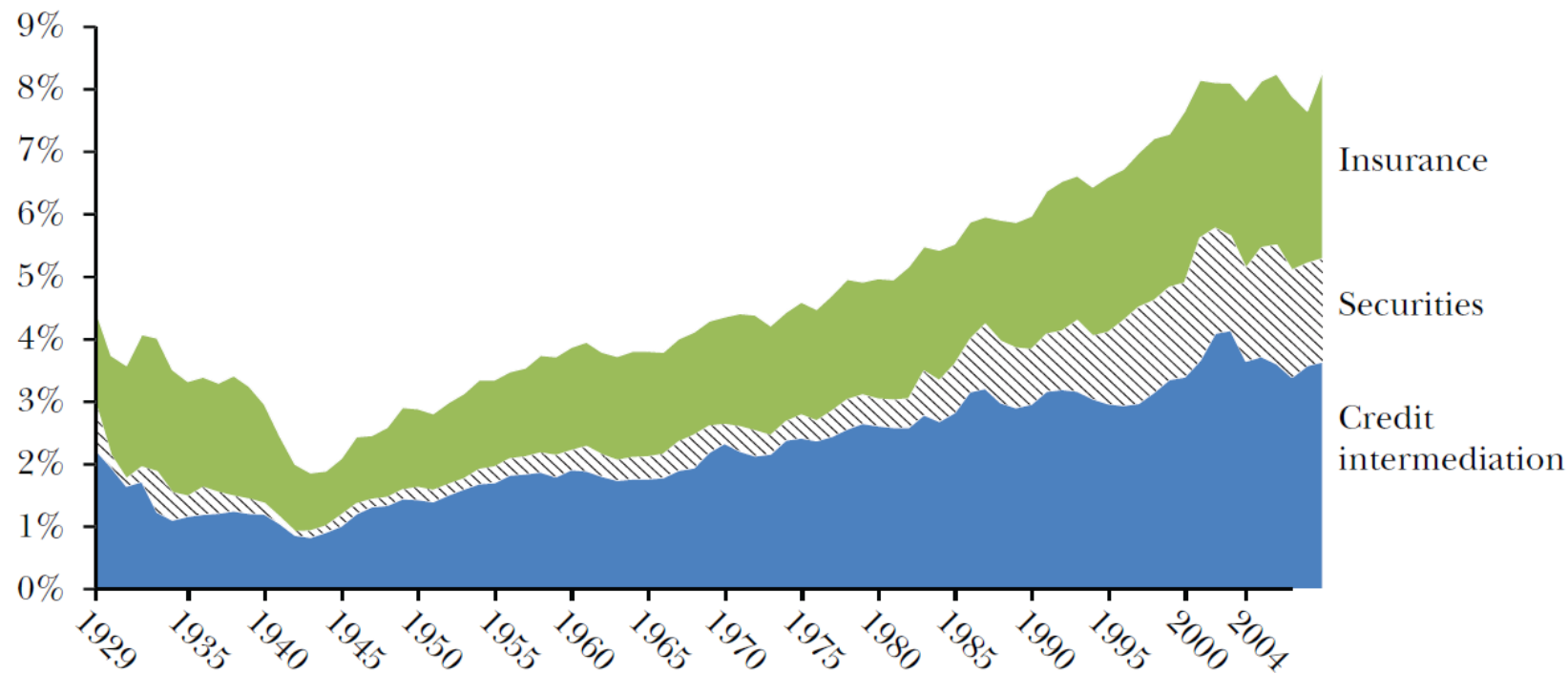
A fiduciary should manage a portfolio 'with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.'

- Employee Retirement Income Security Act (ERISA) of 1974



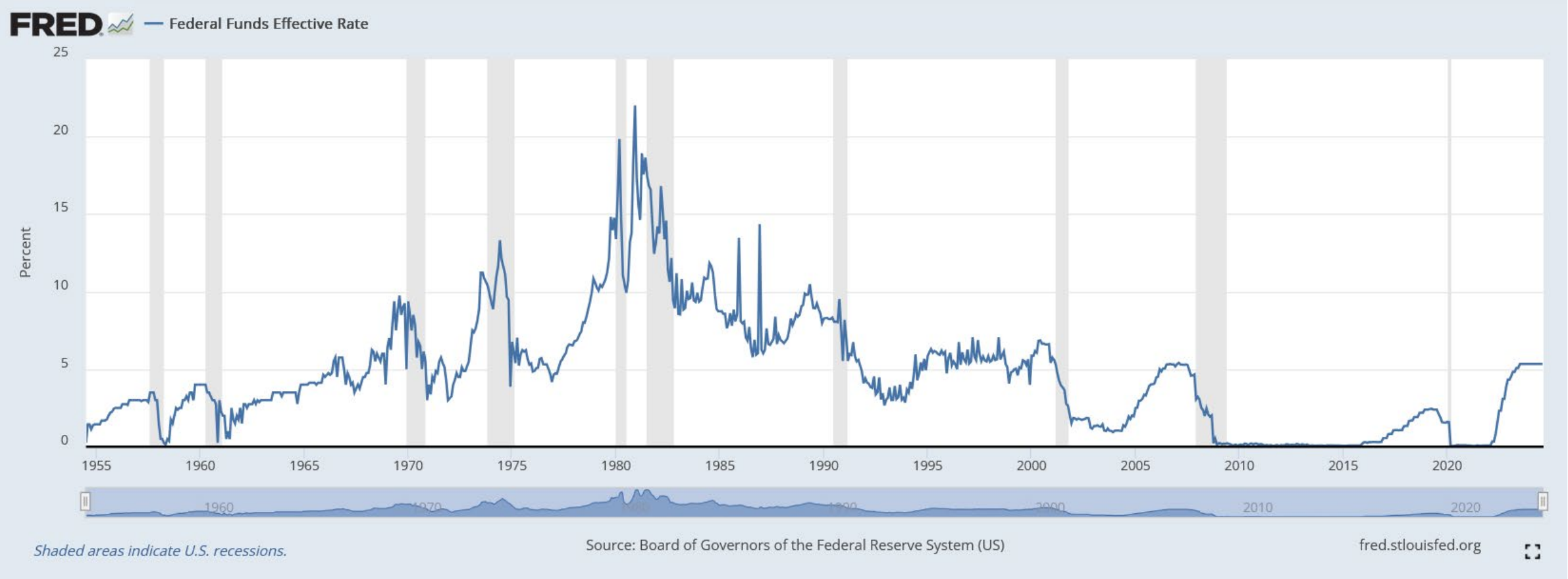
# The Financial Sector Grows

*Figure 1*  
**The Growth of Financial Services**  
*(value added share of GDP)*

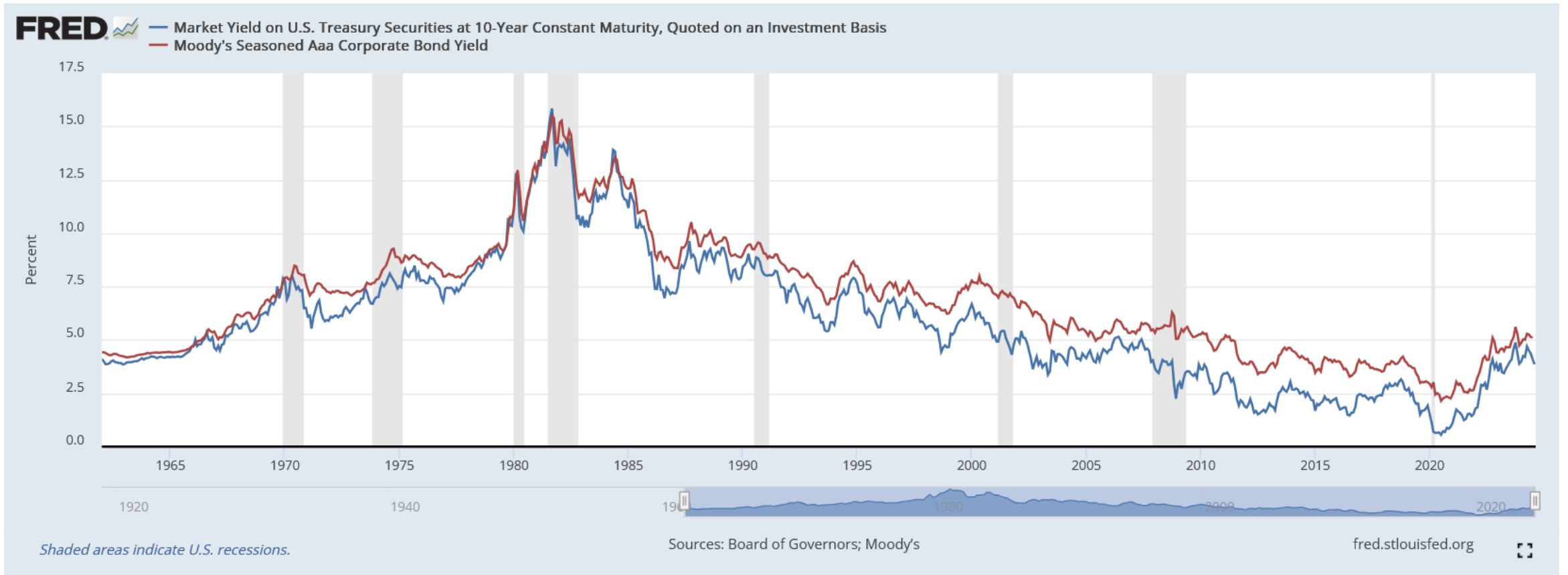


Source: Authors' calculations using data from National Income and Product Accounts (1947–2009) and the National Economic Accounts (1929–1947).  
From: Robin Greenwood and David Scharfstein, "The Growth of Finance", *Journal of Economic Perspectives*—Volume 27, Number 2—Spring 2013—Pages 3–28.

# Declining Interest Rates Contributed to Lower Yields from Bonds...



# ...And The Decline of Bond Yields Has Had a Major Impact on Pension Investing



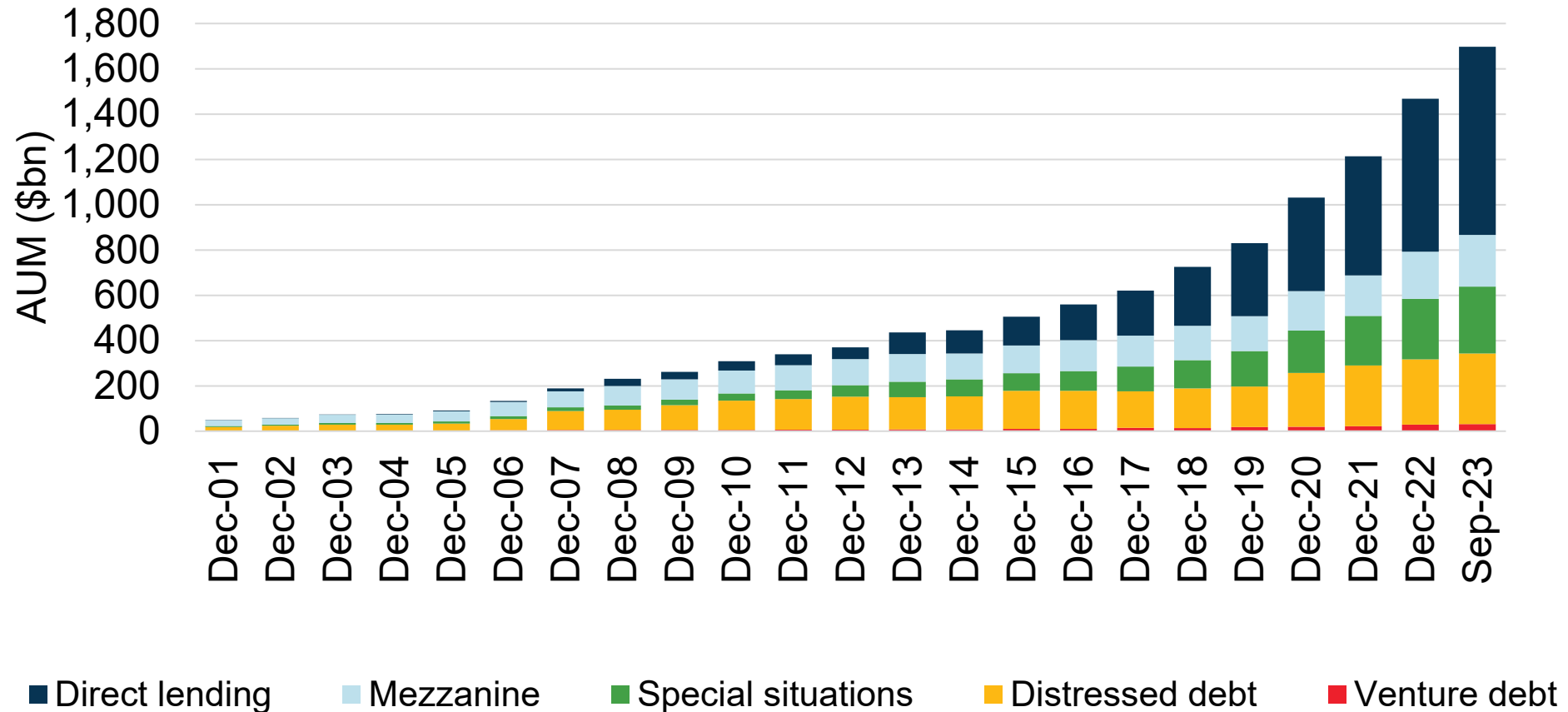
# Investors Looked Elsewhere to Lend and Earn Interest

“The emergence of interest to incentivize lending is the most significant of all innovations in the history of finance.”

- William Goetzmann, *Money Changes Everything: How Finance Made Civilization Possible*

# Private Credit Took Off in the 21<sup>st</sup> Century

Global Private Debt AUM by Strategy

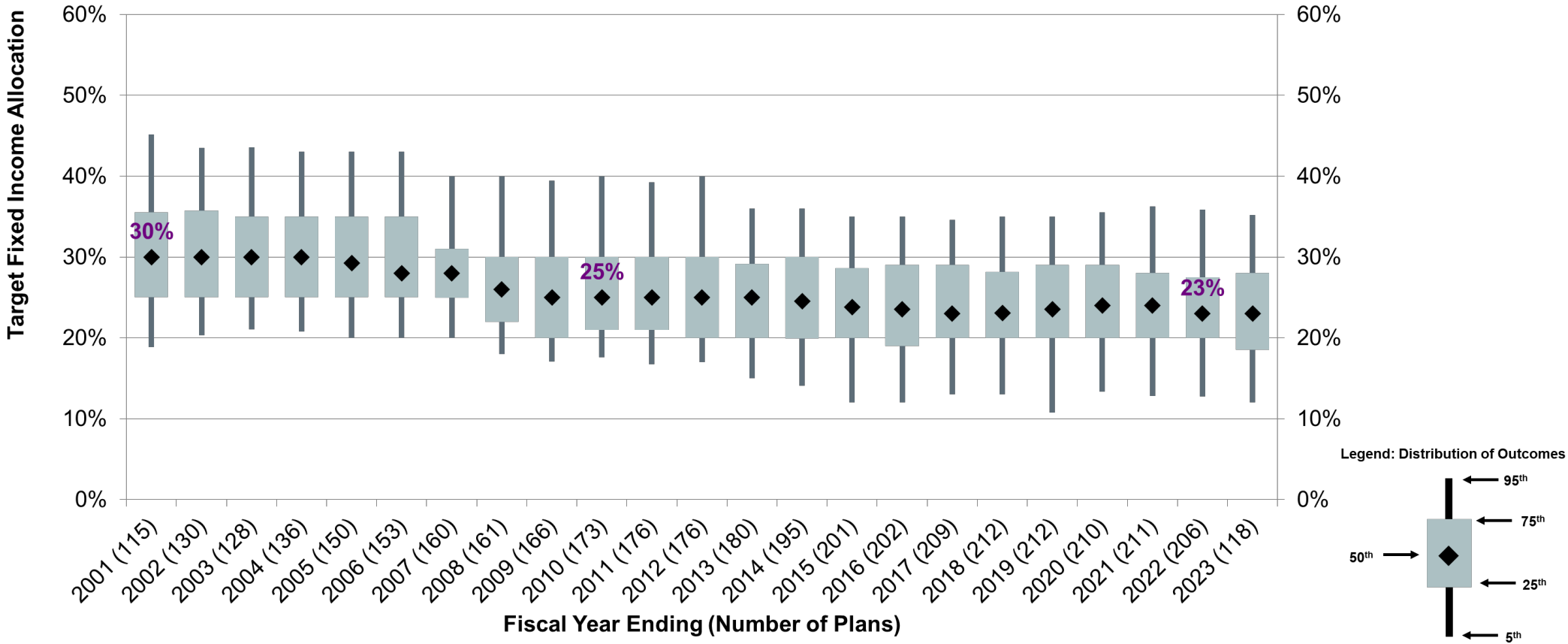


Source: Preqin Pro

# Distribution of U.S. Public Pension Plans

## Fixed Income target allocations versus peers<sup>1</sup>

Distribution of U.S. Public Pension Target Fixed Income Allocations

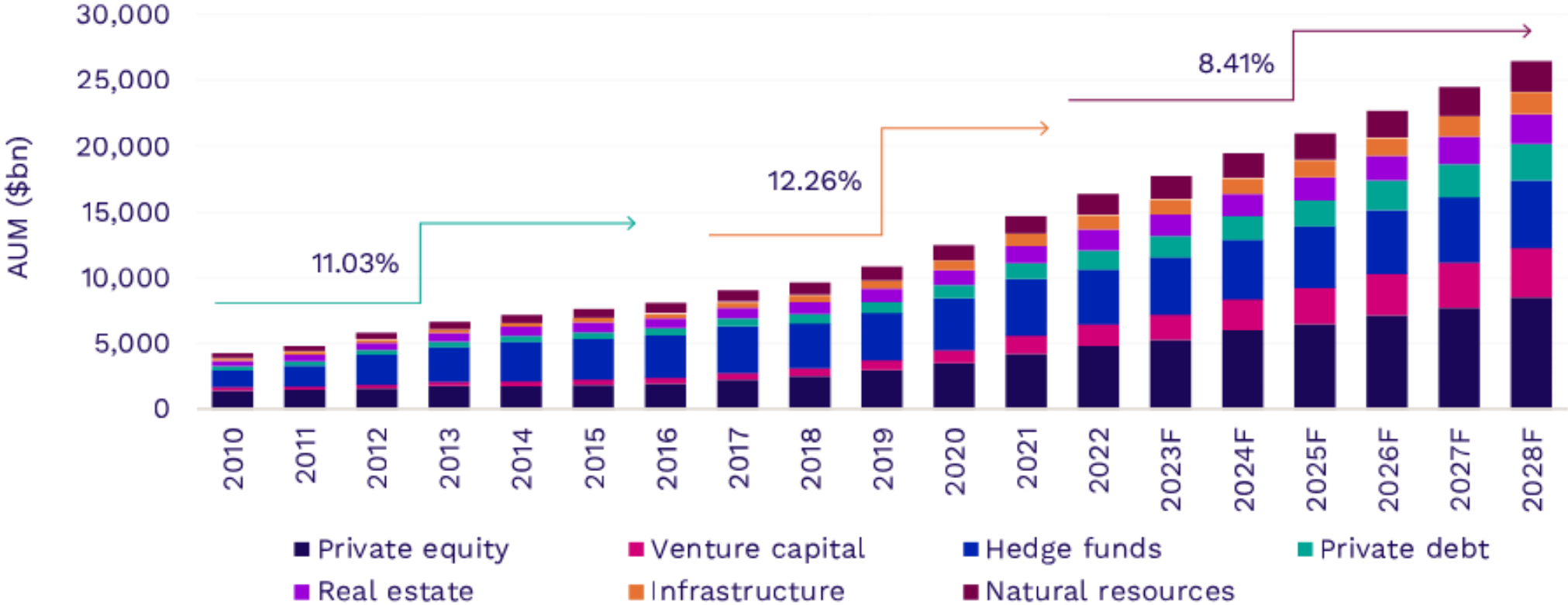


Source: Public Plans Data (publicplansdata.org) as of June 2024

<sup>1</sup> Peers defined as public funds published within publicplansdata.org as of June 2024; Number of plans per year are shown in parentheses

# Alternative Asset Classes Have Grown Significantly Since the GFC

Alternative AUM\* by asset class, 2010-2028F



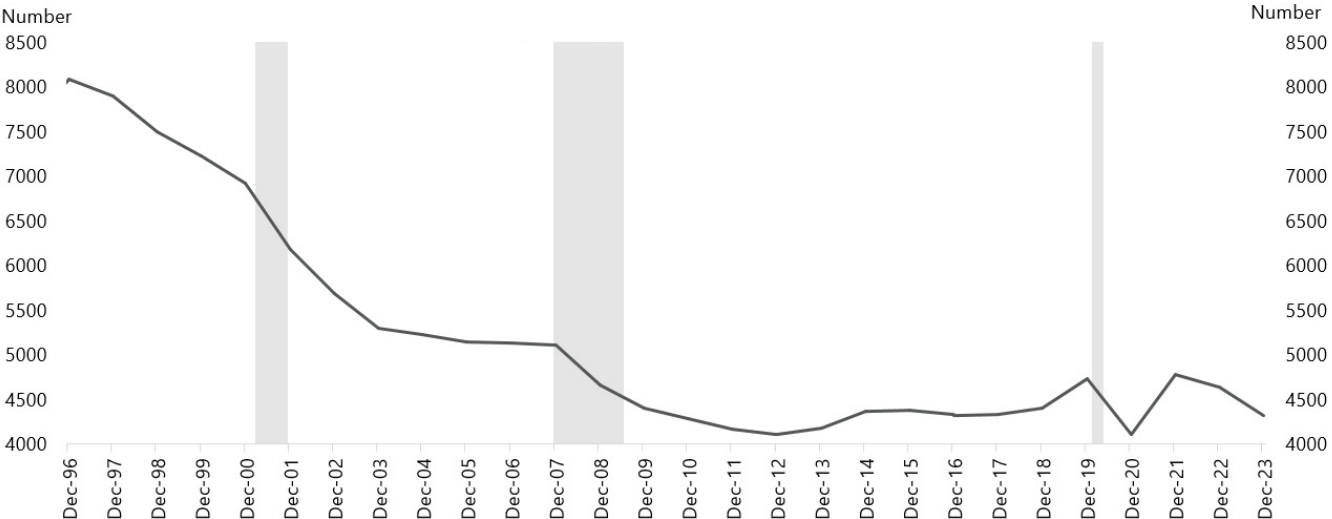
\*AUM figures excludes funds denominated in Yuan Renminbi

Source: Preqin

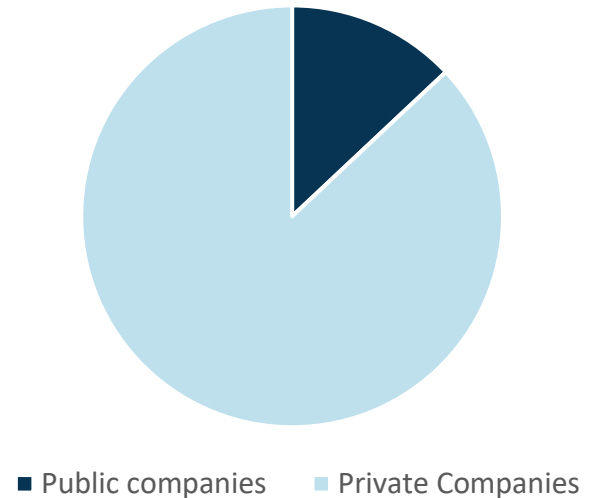
# Shift From Public to Private Companies

Number of publicly listed companies has declined 50% since the mid-1990s

Number of publicly Listed companies in the U.S.



Share of U.S. public and private companies with revenue >\$100M



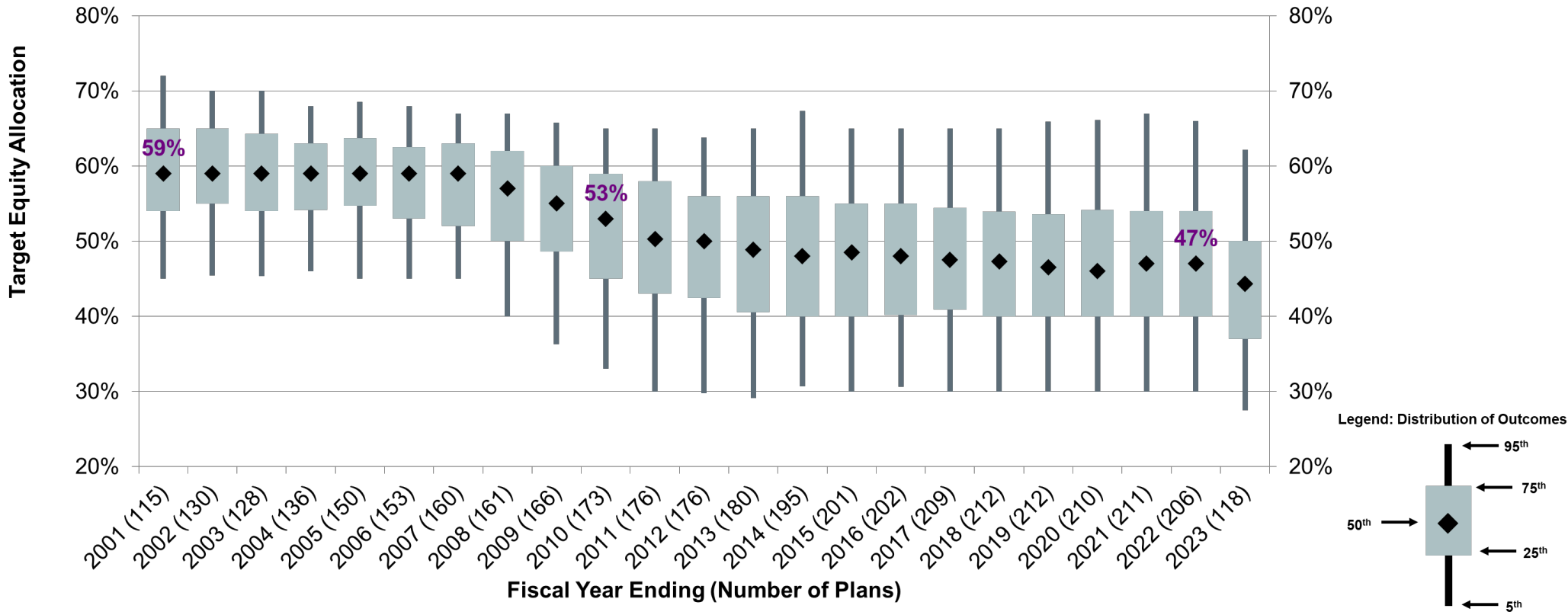
Source: [PublicMarketsAreASmallPartOfTheEconomy-051924 v2.pdf \(apolloacademy.com\)](#): WDI, Apollo Chief Economist.  
Source: S&P CapitalIQ, Apollo Chief Economist. Note: For companies with last 12-month revenue greater then \$100mn by count



# Distribution of U.S. Public Pension Plans

## Public equity target allocations versus peers<sup>1</sup>

Distribution of U.S. Public Pension Target Equity Allocations



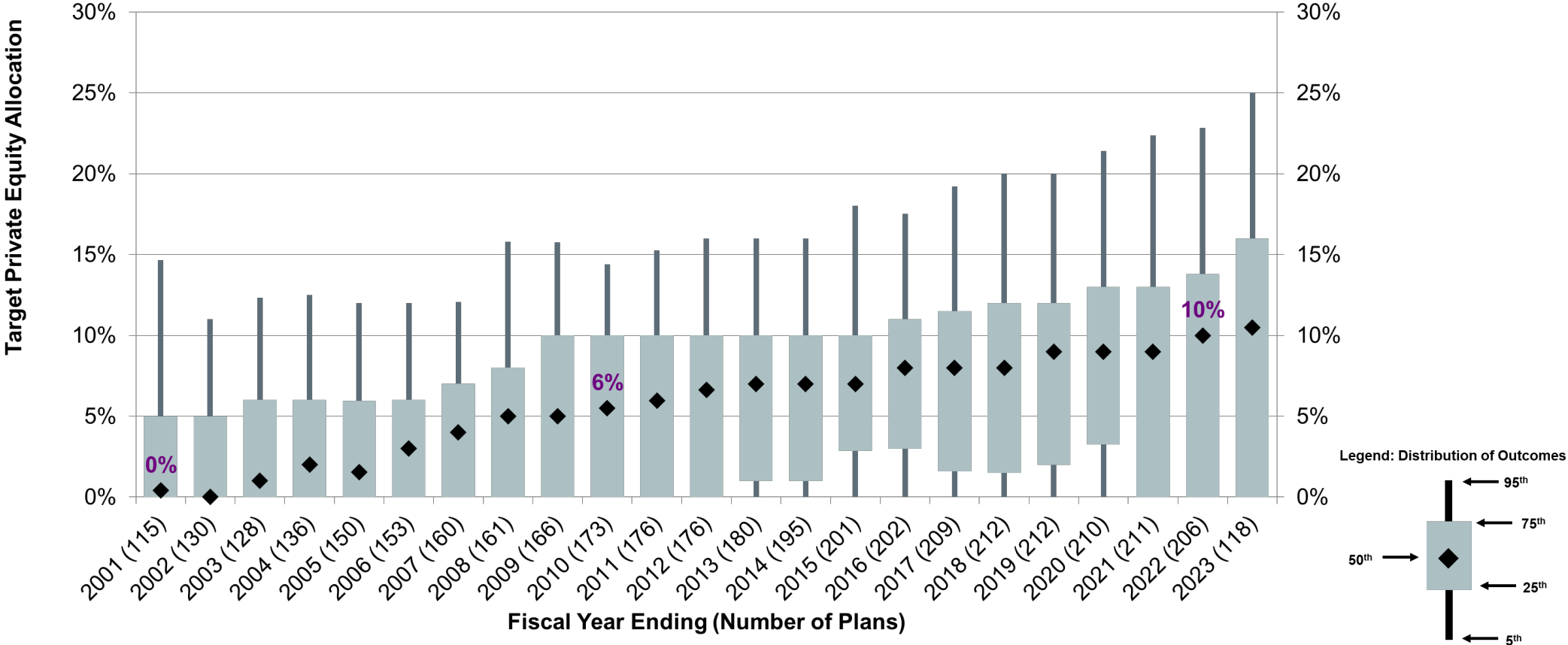
Source: Public Plans Data (publicplansdata.org) as of June 2024

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# Distribution of U.S. Public Pension Plans

## Private equity target allocations versus peers<sup>1</sup>

Distribution of U.S. Public Pension Target Private Equity Allocations



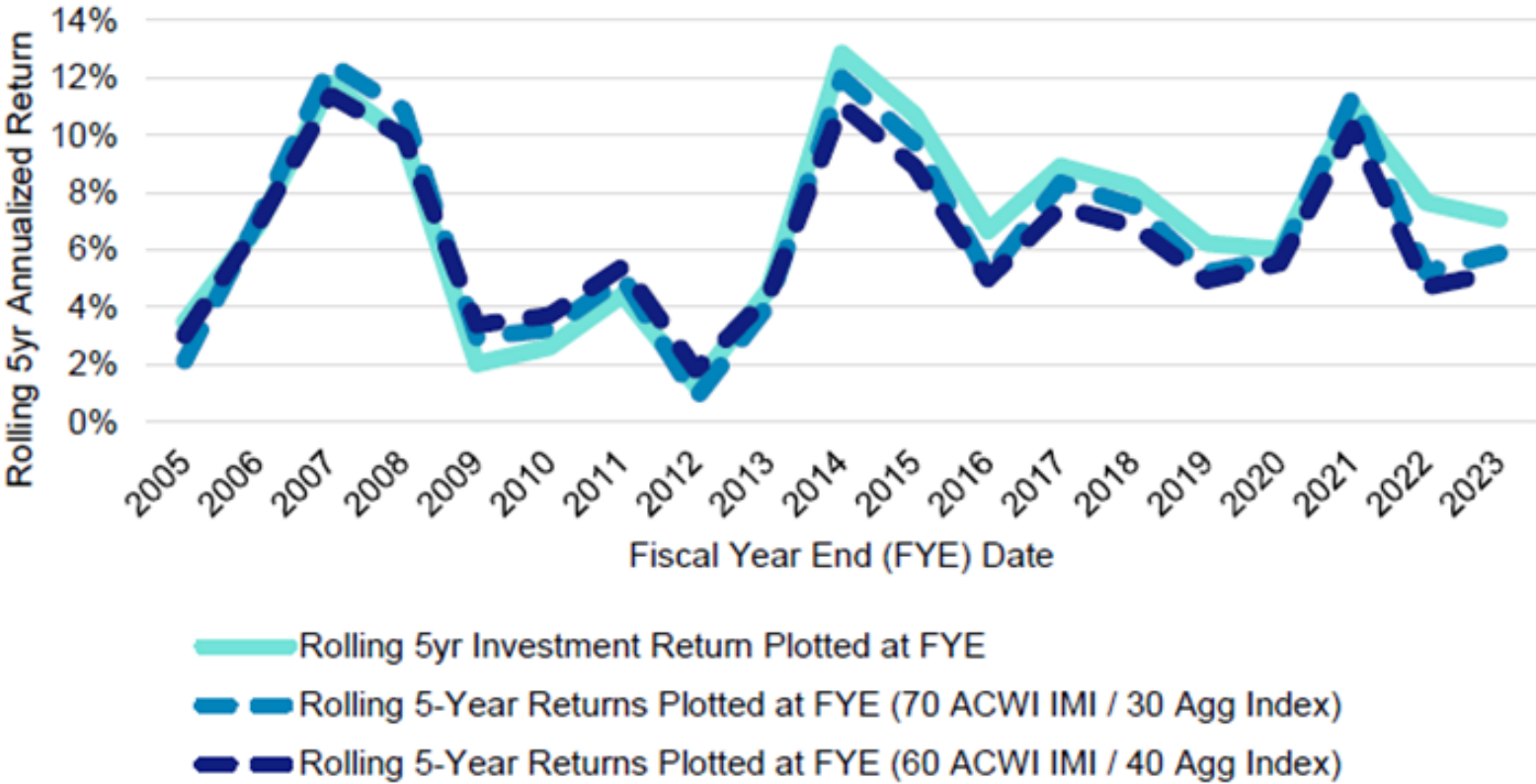
Source: Public Plans Data (publicplansdata.org) as of June 2024

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# Investment Performance: Simple vs. Diversified

Diversified portfolio returns have offered superior results versus more simplified portfolios over recent years

Investment Performance: Simple vs. Diversified Portfolios



Source: Public Plans Data (publicplansdata.org) as of June 2024; specifically, 45 plans with Fiscal Year Ending June 30

# Public Pension Plan Investing Matters for the Broader Economy

- Does the investing activity of public pension funds in financial markets matter for the broader economy? Yes!
- The growth in the financial sector -> growth in pension fund assets -> greater pension benefit security -> stronger downstream economic impact of pension spending -> positive impact on jobs and wages
- Pension benefit spending is also counter-cyclical:
  - Benefits are still paid, regardless of economic scenario making the sequence of returns important
  - Pensions generally have a long-term focus, so they continue to invest and pay benefits while markets recover
- The evolution of pension investing with capital markets has improved investment performance

# Questions





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