Global pension assets rebound past USD 55 Trillion

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NEW YORK, Feb. 26, 2024 (GLOBE NEWSWIRE) -- Global pensions assets returned to growth in 2023, rising in aggregate by 11% to reach USD 55.7 trillion*, according to WTW's (NASDAQ: WTW) Thinking Ahead Institute from their latest Global Pension Assets Study.

This compares to USD 50.2 trillion at the end of 2022, when the same study by the Thinking Ahead Institute (TAI) had previously measured the largest annual fall since the global financial crisis, interrupting a decade of previous uninterrupted growth.

The return to growth during 2023 is, in large part, the result of stronger capital market performance throughout the year, following a much more negative impact from markets in the correction of 2022. The TAI estimates that the (USD-measured) return for a reference portfolio of 60% global equities and 40% global bonds, stood at 16.6% in the twelve months to December 2023.

On a related note, actual investment allocations among global pension funds have shifted considerably over the twenty-year history of the study. Since 2003, equity allocations have shrunk by nine percentage points over two decades, from 51% to stand at 42% in 2023. Meanwhile, allocation to bonds among global pension funds remains stable at an average of 36% – the same in 2023 as in 2003.

Compared with 20 years ago, pension funds' asset allocation to "other" asset classes - from real estate and infrastructure to private equity - has significantly increased. Such 'alternatives' now make up 20% of global pension investments compared to just 12% in 2003. At the same time, reflecting an awareness of market risk and systemic uncertainty among global pension funds, average allocations to cash instruments have slightly increased from 1% to an estimated 3% over the last two decades.

Considered individually, the United States dominates as the largest single pensions market, accounting for 63.9% of assets among the largest 22 pension markets, followed by Japan and the UK with 6.1% and 5.8% respectively. Together, these three largest markets account for over three quarters of global pension assets.

An overwhelming 91% of P22 assets are concentrated in the seven largest markets. TAI conducted a deeper analysis of this top 'P7', now comprising assets of USD 50.8 trillion as of 2023. Within this group, defined contribution (DC) pensions now account for a 58% majority.

Pensions systems and structures continue to evolve. While DB funds still dominate in the Netherlands and Japan at 94% and 95% of total pensions assets, respectively, elsewhere there is a continued shift to DC. It needs to be pointed out that the Netherlands' pension system is undergoing a reform, transitioning from the traditional DB to DC.

In Australia, defined contribution assets already make up 88% of total pensions assets while Canada, formerly home to a clear DB majority, has seen DC rise to a considerable 44% share. In the UK, DC now exceeds a quarter of pensions assets, leaving UK DB assets at 74% and steadily declining as a share of the total.

Jessica Gao, director at the Thinking Ahead Institute said: "Pension assets are growing once again – just as the importance of the pensions industry itself consistently increases in a world facing new challenges and opportunities for future prosperity. Growth is back on the agenda.

"This global growth is not yet rapid, and pension assets remain behind their pre-2022 position, but it is far better than the experience a year before. Inflation has moderated, and as a result financial markets have remained supported by interest rates which appear also to have peaked, at least for now, in most countries.

"Alongside this encouraging bounce-back, there are still essential lessons and warnings. Systemic risk, which is the possibility of a malfunctioning of the system, is still rising. So too are the day-to-day expectations on pension funds to adapt fast in a changing world. We are already seeing many asset owners redefine their operating model as a partnership of HI and AI – human intelligence and artificial intelligence – to craft and deliver innovative financial solutions, produce more accurate and timely reporting and foster organizational agility.

"Meanwhile, the pensions industry also faces a growing interest from regulators. Government influence on pension schemes is also at high level as governments look for new ways to fund the systemic investment needed to overcome capital-hungry systemic issues such as the energy transition, climate change mitigation and sustained high-tech growth.

"To maintain positive momentum and well-funded future pensions incomes for end investors, any truly long-term investor must continue to pay attention and think in terms of complete systems – especially as the world approaches the end of the first quarter of the 21st century."

Notes to editors:

*As of December 31, 2023

- The P22 refers to the 22 largest pension markets included in the study which are Australia, Brazil, Canada, Chile, China, Finland, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Malaysia, Mexico, Netherlands, South Africa, South Korea, Spain, Switzerland, the UK and the US
- The P7 refers to the seven largest pension markets (91% of total assets in the study): Australia, Canada, Japan, Netherlands, Switzerland, UK and US.
- All figures are rounded and 2023 figures are estimates.
- All dates refer to the calendar end of that year.

About the Thinking Ahead Institute
The Thinking Ahead Institute was established in January 2015 and is a global not-for-profit investment research and innovation member group made up of engaged institutional asset owners and asset managers committed to mobilising capital for a sustainable future. It has 50 members around the world and is an outgrowth of the WTW Investments' Thinking Ahead Group which was set up in 2002. Learn more at www.thinkingaheadinstitute.org.

About WTW
At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help organizations sharpen their strategy, enhance organizational resilience, motivate their workforce and maximize performance.

Working shoulder to shoulder with our clients, we uncover opportunities for sustainable success—and provide perspective that moves you.

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