Size in 1990:

All Assets: 13.7 Trillion

Institutions: 6.1 Trillion

Pension Funds: 2.2 Trillion

a. 80% defined benefit
b. 20% defined contribution
Defined Contribution:

(1) Each investor has a separate account.

(2) Value depends on contribution and appreciation, and pension depends on value of account at retirement.

(3) Investor chooses allocation.

(4) Usually a menu of choices.

(5) Employer defines menu.
**Defined Benefit:**

(1). One pool for all investors.

(2). Benefit related to salary.

(3). Corporation allocates assets.

(4). Corporation has a residual liability – pension fund is a senior claimant.

(5). PBC has final residual liability.
Some Structural Decisions for Defined Benefit

- Internal or external manager.
- Passive or active.
- Proportion in any asset category.

Some Comments

- Major decisions aggregate asset allocation and which manager.
- Decision made by management committee.
Financial Intermediaries
Key Characteristics of Financial Intermediaries:

(1). Leverage

(2). Assets & liabilities are both financial instruments.

Leverage example – typical insurance company balance sheet:

 Assets:     41B  Liability:   40B  
 Net Worth:  1B

Implication – mostly bonds.
Major Asset Classes:

(1). Common Equity

(2). Bonds

(3). Real Estate

(4). Commodity and Financial Futures

(5). Domestic and International

(6). Privately and publicly traded