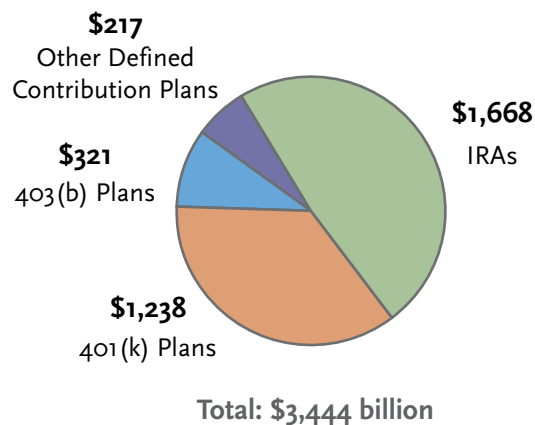


The Role of Mutual Funds in Helping Americans Meet Their Retirement Needs

About 70 percent of American households have either retirement plans through work or own individual retirement accounts (IRAs).¹ Nearly half of the assets in IRAs and defined contribution plans (such as 401(k)s) are invested in mutual funds. In total, at year-end 2005, Americans held more than \$3.4 trillion in mutual funds in various retirement vehicles.

Mutual Fund Assets by Type of Retirement Plan

(billions of dollars, 2005)



Source: Investment Company Institute, "The U.S. Retirement Market, 2005," *Fundamentals*, July 2006

Whether they invest in workplace plans, IRAs, or in retail accounts, most mutual fund investors are Americans of moderate financial means. More than one-half of fund investors have household incomes between \$35,000 and \$100,000; their median income is \$68,700.

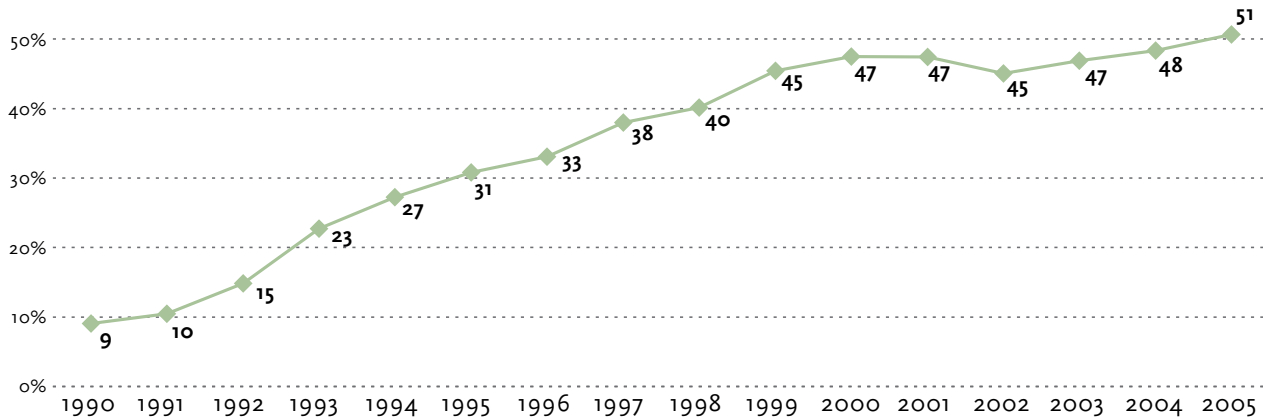
¹ Investment Company Institute, "The Role of IRAs in Americans' Retirement Preparedness," *Fundamentals*, January 2006.

401(k) Investors

Plan sponsors typically structure their 401(k) plans to offer a broad range of diversified investment alternatives, and mutual funds continue to meet that need.² As of year-end 2005, mutual funds represent about half of the assets held in 401(k) plans, up from nine percent in 1990.

Mutual Funds' Share of Total 401(k) Assets

(percent)



Sources: Investment Company Institute, Federal Reserve Board, and Department of Labor

IRA Investors

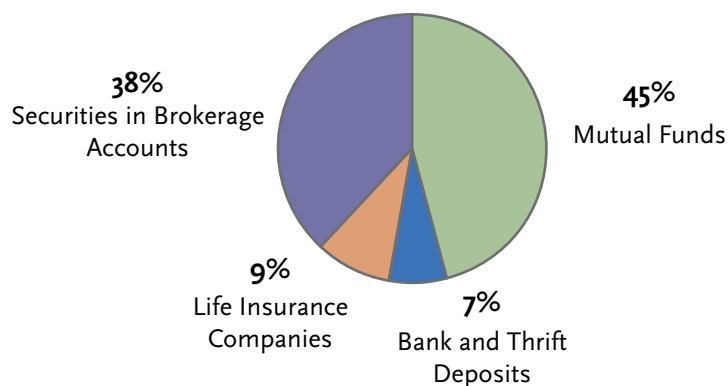
Approximately four out of 10 U.S. households, or 46.8 million households, owned IRAs as of 2005, including traditional and Roth IRAs and employer-sponsored SEP and SIMPLE IRAs. IRAs serve a dual role, as a contributory retirement savings plan and as the recipient of rollovers when workers change jobs or retire. In 2005, more than 16 million U.S. households, or 43 percent of all U.S. households owning traditional IRAs, had traditional IRAs that included rollover assets. In 2003, households transferred about \$174 billion from employer-sponsored retirement plans to IRAs.

Mutual funds are the largest component of IRA assets: of the \$3.7 trillion in total IRA assets as of year-end 2005, mutual funds represented \$1.7 trillion. Seventy percent of IRA-owning households invest at least part of their IRAs in mutual funds.

² Plans complying with Section 404(c) of ERISA, which provides liability relief for plan fiduciaries from losses resulting from employees' exercise of investment control, must satisfy specific Department of Labor regulations. These plans must offer at least three diversified investment options with materially different risk and return characteristics. 29 C.F.R. § 2550.404c-1.

IRA Assets by Financial Institution, 2005

(percent)



Note: Components do not add to 100 percent because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and IRS Statistics of Income Division

Mutual Funds Provide Americans Simple Retirement Solutions

Mutual funds provide ordinary Americans with access to:

- » professional investment management;
- » instant diversification;
- » daily pricing and on-demand redemption of shares;
- » a variety of shareholder services; and
- » transparent fee disclosure allowing easy comparisons.

Mutual fund companies continue to innovate to meet investors' needs to save for their future.

Embracing technology. Mutual funds pioneered web portals that are both easy to use and stocked with a wealth of investment education. Fund investors have access to sophisticated retirement calculators, asset allocation models, and portfolio analyses.

Innovative products. Lifecycle and lifestyle funds, which invest in a mix of stocks and bonds, determined by an individual's anticipated retirement date (lifecycle) or risk tolerance (lifestyle), have grown in popularity since their introduction. Almost half of 401(k) plans offered lifecycle or lifestyle funds as of year-end 2005.³

³ Profit Sharing/401k Council of America (PSCA), *49th Annual Survey of Profit Sharing and 401(k) Plans: Reflecting 2005 Plan Experience, 2006*.

Savings for Retirement Outside Tax-Advantaged Accounts

Millions of Americans also use mutual funds to save for retirement outside of 401(k) plans and IRAs. In an Institute survey, 68 percent of individuals who own mutual funds outside of employer-sponsored plans indicated that their primary financial goal was to save for retirement.⁴ For these savers, one of the most frustrating aspects of the tax law is the rule that a fund's long-term capital gains are taxed each year even if they are automatically reinvested by mutual fund investors. Fund shareholders, like other investors, should be taxed when they sell their shares—not before, while they are still building savings for retirement.

The bipartisan GROWTH Act (Generating Retirement Ownership Through Long-Term Holding) is a timely proposal that will keep more retirement savings invested longer and growing larger by deferring the taxation of automatically reinvested capital gains until fund shares are sold—rather than allowing these long-term gains, which generate no current cash in hand, to be taxed every year.

⁴ Investment Company Institute, *2004 Profile of Mutual Fund Shareholders*, Fall 2004, Figure 55, pages 110–11.



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