

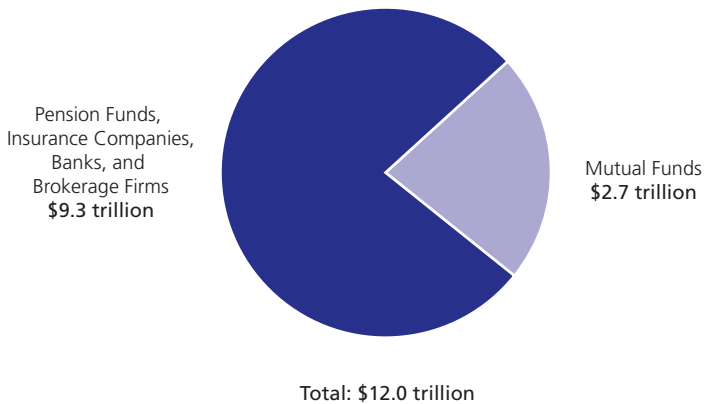
# Retirement and Education Savings Markets

**R**etirement saving and education saving are important investment objectives, and many Americans use mutual funds to reach these goals.

At year-end 2003, mutual funds accounted for \$2.7 trillion, or 22 percent, of the \$12.0 trillion U.S. retirement market. The remaining \$9.3 trillion of year-end 2003 retirement market assets were managed by pension funds, insurance companies, banks, and brokerage firms. In the education savings market, mutual funds accounted for an estimated 97 percent of the \$35.1 billion Section 529 savings plan market at year-end 2003. Funds also managed \$3 billion in Coverdell Education Savings Account (ESA)—formerly Education IRA—assets at year-end 2003.

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## U.S. Retirement Market Assets, 2003\*



\*Preliminary data

Sources: Investment Company Institute and Federal Reserve Board

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## Mutual Fund Retirement Assets, 1991–2003<sup>1</sup>

(billions of dollars)

	Total Retirement	Employer-Sponsored Accounts <sup>2</sup>	IRAs
1991	\$333	\$147	\$187
1992	434	199	235
1993	604	285	319
1994	685	339	346
1995	938	468	470
1996	1,197	607	590
1997	1,573	803	770
1998	1,988	1,020	968
1999	2,584	1,325	1,259
2000	2,527	1,294	1,233
2001	2,388	1,227	1,161
2002	2,124	1,092	1,032
2003	2,687	1,395	1,292

<sup>1</sup>Preliminary data

<sup>2</sup>Include private defined contribution plans (401(k), 403(b), and others), 457 plans, state and local government employee retirement plans, and private defined benefit plans.

Note: Components may not add to totals because of rounding.

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

## Retirement Accounts Hold About One-Third of Fund Assets

The \$2.7 trillion in mutual fund retirement assets represented about one-third of all mutual fund assets at year-end 2003. Mutual fund retirement assets primarily come from two sources: Individual Retirement Accounts (IRAs) and employer-sponsored defined contribution plans, such as 401(k) plans. Funds hold roughly the same amount of assets in IRAs and employer-sponsored defined contribution plans.

## Mutual Funds and the IRA Market

IRAs have been one of the fastest growing components of the U.S. retirement market between 1990 and 2003, and the mutual fund industry's share of the IRA market has increased from 22 percent in 1990 to 43 percent at year-end 2003.

Since 1990, assets in IRAs have grown primarily due to the investment performance of the securities held in IRA portfolios and rollovers into IRAs from employer-sponsored plans. In addition, various laws enacted since 1996 introduced new types of IRAs. Furthermore, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), enacted in 2001, increased the amount investors—especially those age 50 and older—can contribute to IRAs.

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### Assets in the IRA Market, 1990–2003

(billions of dollars)

	Bank and Thrift Deposits <sup>1</sup>	Life Insurance Companies <sup>2,3</sup>	Mutual Funds <sup>3</sup>	Securities Held Directly Through Brokerage Accounts <sup>3,4</sup>	Total IRA Assets
1990	\$266	\$40	\$139	\$191	\$637
1991	282	45	187	262	776
1992	275	50	235	314	873
1993	263	61	319	350	993
1994	255	69	346	386	1,056
1995	261	81	470	477	1,288
1996	258	92	590	527	1,467
1997	254	135	770	569	1,728
1998	249	156	968	776	2,150
1999	244	202	1,259	947	2,651
2000	252	202	1,233	943	2,629
2001	255	210	1,161	994 <sup>e</sup>	2,619 <sup>3</sup>
2002	263	267	1,032	883 <sup>e</sup>	2,445 <sup>e</sup>
2003	268	315 <sup>e</sup>	1,292	1,104 <sup>e</sup>	2,979 <sup>e</sup>

<sup>1</sup>Bank and thrift deposits include Keogh deposits.

<sup>2</sup>Annuities held by IRAs, excluding variable annuity mutual fund IRA assets.

<sup>3</sup>Preliminary data

<sup>4</sup>Exclude mutual fund assets held through brokerage accounts, which are included in mutual funds.

<sup>e</sup>Estimated

Note: Components may not add to totals because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service

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### IRA Investors: Traditional, Roth, and Employer-Sponsored Owners

Approximately four out of 10 U.S. households, or 45.2 million, owned IRAs as of mid-2003. IRA households generally are headed by middle-aged individuals with moderate household income who are more likely to hold mutual funds, especially long-term mutual funds, in their IRA portfolios than any other type of investment.

As of mid-2003, approximately 36.4 million U.S. households owned “traditional” IRAs—the first type of IRA created (under the Employee Retirement Income Security Act of 1974)—while about 16.0 million U.S. households owned Roth IRAs, first available in 1998. An estimated 8.2 million U.S. households owned employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, or SAR-SEP IRAs).

Nearly two-thirds of IRA households included mutual funds in their IRAs, with 54 percent investing in equity funds, 26 percent in bond funds, 18 percent in hybrid funds, and 28 percent in money market funds. Thirty-eight percent of IRA households held individual stocks, 12 percent held individual bonds, 27 percent held annuities, and 25 percent held bank savings accounts, money market deposit accounts, or certificates of deposits.

### Types of IRAs and Their Owners

	Year Created	Number of U.S. Households with Type of IRA, 2003	Percent of U.S. Households with Type of IRA, 2003
Traditional IRA	1974 (Employee Retirement Income Security Act)	36.4 million	33.3%
Roth IRA	1997 (Taxpayer Relief Act)	16.0 million	14.6%
SEP IRA	1978 (Revenue Act)		
SAR-SEP IRA	1986 (Tax Reform Act)	8.2 million	7.5%
SIMPLE IRA	1996 (Small Business Job Protection Act)		

Sources: Investment Company Institute and U.S. Census Bureau (Fundamentals, “IRA Ownership in 2003,” [www.ici.org/pdf/fm-v12n3.pdf](http://www.ici.org/pdf/fm-v12n3.pdf))

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## Types of Assets Held in IRAs, 2003\*

(percent of U.S. households owning any type of IRA)

Mutual funds (total)	64
Equity mutual funds	54
Bond mutual funds	26
Hybrid mutual funds	18
Money market mutual funds	28
Individual stocks	38
Annuities (total)	27
Variable annuities	19
Fixed annuities	16
Bank savings accounts, money market deposit accounts, or certificates of deposit	25
Individual bonds	12
Other	5

\*Multiple responses included.

Source: Fundamentals, "IRA Ownership in 2003" ([www.ici.org/pdf/fm-v12n3.pdf](http://www.ici.org/pdf/fm-v12n3.pdf))

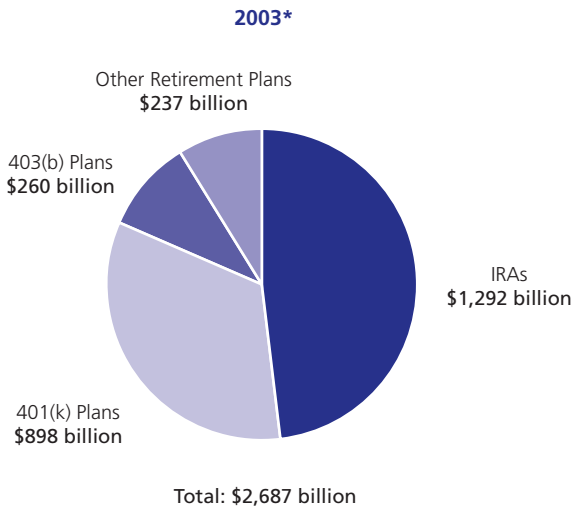
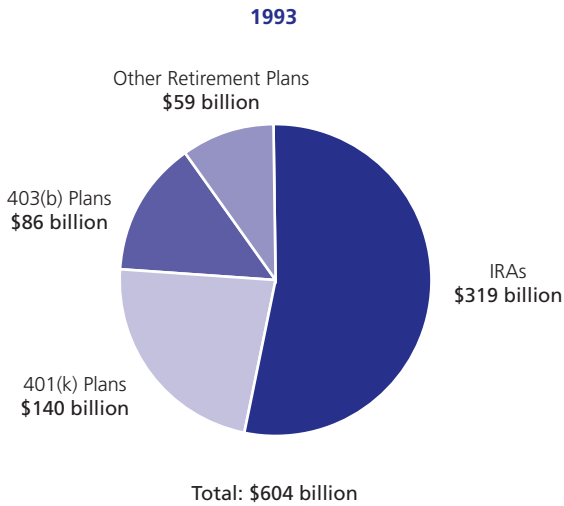
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Traditional IRA households held a median of \$30,000 in their traditional IRAs in 2003, typically in two accounts. Forty-five percent of these households had traditional IRA accounts that included assets "rolled over" from employer-sponsored retirement plans, and 33 percent also owned Roth IRAs. Traditional IRA households tended to have greater financial assets but lesser income than other types of IRA households. Individuals heading traditional IRA households generally were older and more likely to be retired than individuals heading Roth or employer-sponsored IRA households.

The majority of Roth IRA households owned one Roth IRA account with a median balance of \$10,000 in 2003. About one in three Roth IRA households opened a Roth IRA as their first IRA account. Individuals heading Roth IRA households had a median age of 45 years, and 83 percent were employed.

Households with employer-sponsored IRAs had a median of \$22,200 invested in all types of IRAs in 2003. Fifty-eight percent of these households also owned traditional IRAs and 29 percent also owned Roth IRAs. Nearly four in 10 individuals heading households with employer-sponsored IRAs were self-employed.

## Mutual Fund Assets by Type of Retirement Plan, 1993 and 2003\*



\*Preliminary data

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

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**Assets in 401(k) Plans, 1990–2003\***

(billions of dollars)

	Mutual Fund 401(k) Plan Assets	Other 401(k) Plan Assets	Total
1990	\$35	\$350	\$385
1991	46	394	440
1992	82	471	553
1993	140	476	616
1994	184	491	675
1995	266	598	864
1996	350	711	1,061
1997	479	785	1,264
1998	618	923	1,541
1999	813	977	1,790
2000	819	966 <sup>e</sup>	1,785 <sup>e</sup>
2001	792	923 <sup>e</sup>	1,715 <sup>e</sup>
2002	697	823 <sup>e</sup>	1,521 <sup>e</sup>
2003	898	970 <sup>e</sup>	1,867 <sup>e</sup>

\*Preliminary data

<sup>e</sup>Estimated

Note: Components may not add to totals because of rounding.

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

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**Mutual Funds and the Employer-Sponsored Pension Market**

The mutual fund industry's share of the employer-sponsored pension plan market increased from 2 percent in 1990 to 16 percent at year-end 2003.

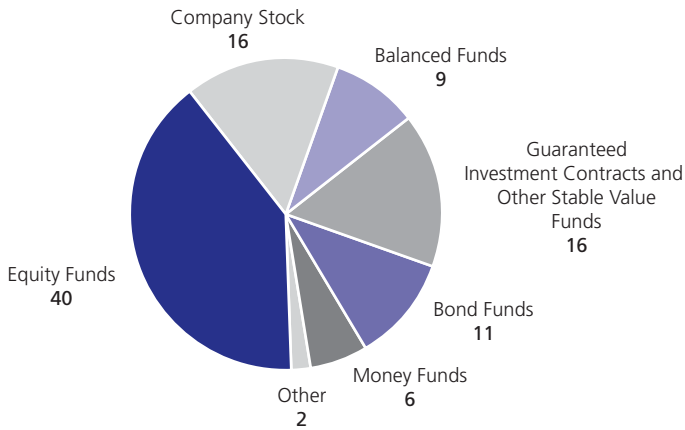
Mutual fund assets held in employer-sponsored retirement accounts totaled \$1.4 trillion in 2003, an increase of \$303 billion, or 28 percent, from 2002.

At the end of 2003, the employer-sponsored pension market held an estimated \$9.0 trillion in assets.

The employer-sponsored pension market includes \$1.9 trillion in assets in private defined benefit pension plans, \$2.5 trillion in private defined contribution pension plans (and 457 plans), \$2.3 trillion in state and local government employee retirement plans, \$1.3 trillion in annuity reserves, and nearly \$1.0 trillion in federal government defined benefit plans and the federal employees' Thrift Savings Plan.

## Average Asset Allocation for All 401(k) Plan Balances, 2002

(percent)



Note: Funds include mutual funds and other pooled investments.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (Perspective, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2002," [www.ici.org/pdf/per09-05.pdf](http://www.ici.org/pdf/per09-05.pdf))

### Mutual Funds and the Defined Contribution Market

The most important source of mutual fund assets in the employer-sponsored pension plan market is defined contribution plans, especially 401(k) plans. At year-end 2003, 67 percent, or \$898 billion, of mutual fund defined contribution plan assets were held in 401(k) plans. Mutual funds' share of the 401(k) market increased from 9 percent in 1990 to an estimated 48 percent at year-end 2003. Nineteen percent, or \$260 billion, of mutual fund assets in defined contribution plans at year-end 2003 were held in 403(b) plans. The remaining mutual fund assets in defined contribution plans were in 457 plans, Keoghs, and other defined contribution plans without 401(k) features.

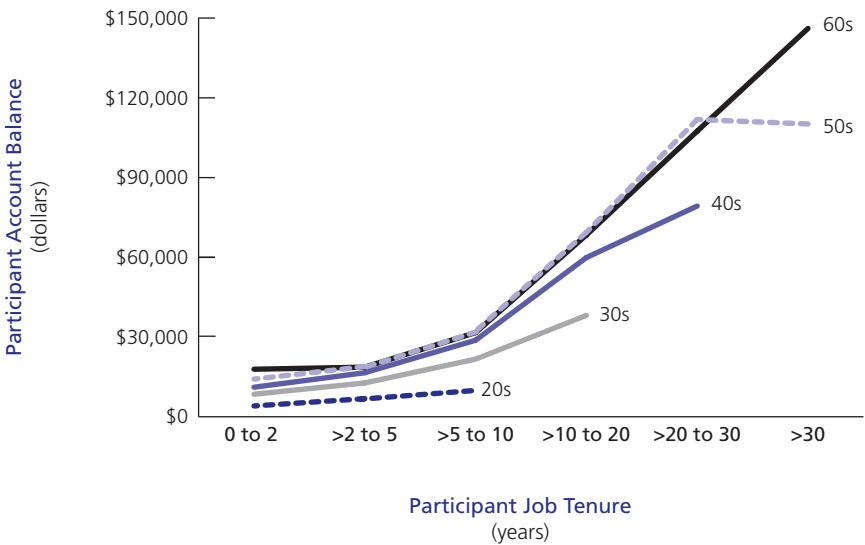
#### 401(k) Participants: Asset Allocations, Balances, and Loans

For many American workers, 401(k) plan accounts have become an important part of their retirement planning. The income these accounts are expected to provide in retirement depends, in part, on the asset allocation decisions of plan participants.

According to research conducted by ICI and the Employee Benefit Research Institute (EBRI), asset allocation behavior among 401(k) plan participants can vary widely, depending on a variety of factors. For example, younger participants tend to allocate a larger portion of their account balances to equity funds (which include equity mutual funds and other pooled equity investments), while older participants are more likely to invest in guaranteed investment contracts (GICs) and bond funds. On average, at year-end 2002, individuals in their twenties invested 50.5 percent of their assets in equity funds, 11.0 percent in balanced funds, 7.3 percent in GICs and other stable value funds, 9.1 percent in bond funds, 6.9 percent in money funds, and 13.6 percent in company stock. By comparison, individuals in their sixties invested 30.3 percent of their assets in equity funds, 8.0 percent in balanced funds, 26.7 percent in GICs and other stable value funds, 13.7 percent in bond funds, 7.3 percent in money funds, and 12.7 percent in company stock.

The average 401(k) account balance, excluding plan loans, was \$39,885 at year-end 2002. Workers in their sixties with at least 30 years of job tenure at their current employer had an average 401(k) account balance of \$146,211.

### Average 401(k) Account Balance by Age and Tenure, 2002



Note: See page 162 for data points on this chart.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (Perspective, "Appendix: Additional Figures for the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project for Year-End 2002," [www.ici.org/pdf/per09-05\\_appendix.pdf](http://www.ici.org/pdf/per09-05_appendix.pdf))

Most 401(k) participants do not borrow from their plans. At year-end 2002, only 17 percent of those eligible for loans had loans outstanding. The average unpaid loan balance for these participants represented about 16 percent of their remaining account balances (net of the unpaid loan balances).

### Types of Funds Used by Retirement Plan Investors

Of the \$2.7 trillion in mutual fund retirement assets at year-end 2003, \$1.8 trillion, or 68 percent, were invested in domestic or foreign equity funds. Domestic equity funds alone constituted \$1.6 trillion, or 59 percent, of mutual fund retirement assets. By comparison, about half of overall fund industry assets—including retirement and nonretirement accounts—were invested in domestic and foreign equity funds at year-end 2003.

At year-end 2003, approximately \$583 billion, or 22 percent, of mutual fund retirement assets were invested in fixed-income funds: bond or money market funds. Bond funds held \$307 billion, or 11 percent, of mutual fund retirement assets, and money market funds accounted for \$276 billion, or 10 percent. The remaining \$287 billion, or approximately 11 percent, of mutual fund retirement assets were held in hybrid funds, which invest in a mix of equity and fixed-income securities.

### Mutual Fund Retirement Assets by Type of Fund, 2003<sup>1</sup>

(billions of dollars)

	Equity		Bond	Hybrid	Money Market	Total
	Domestic	Foreign				
IRAs	\$724	\$113	\$157	\$138	\$160	\$1,292
401(k) Plans	549	83	77	112	77	898
403(b) Plans	194	17	17	19	14	260
Other Employer-Sponsored Plans <sup>2</sup>	119	18	57	19	25	237
Total	1,585	232	307	287	276	2,687

<sup>1</sup>Preliminary data

<sup>2</sup>Include 457 plans, private defined benefit plans, state and local government employee retirement plans, Keoghs, and other defined contribution plans without 401(k) features.

Note: Components may not add to totals because of rounding.

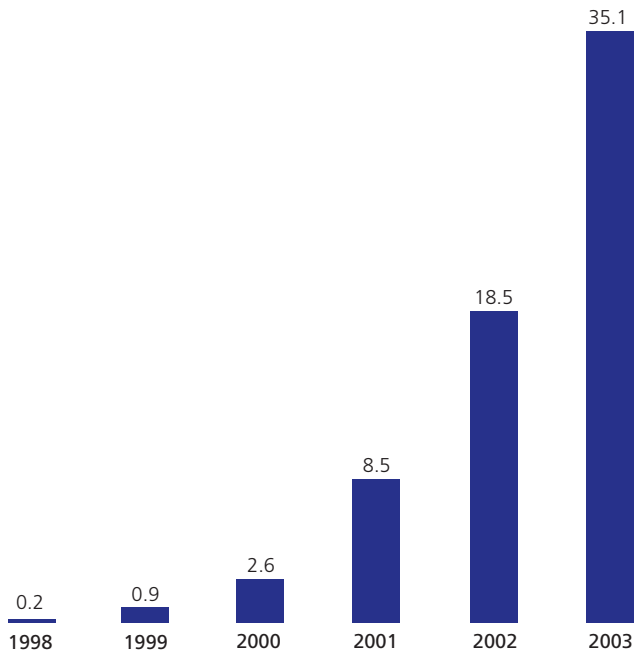
## Education Saving: Section 529 Plans and Coverdell Education Savings Accounts

According to the Federal Reserve Board's 2001 Survey of Consumer Finances, about 11 percent of all U.S. households considered education as their most important motivation for saving. In addition, ICI research in 2004 finds that 30 percent of households owning mutual funds cited education as a financial goal for their mutual fund investments. Nevertheless, the demand for education savings vehicles has been historically modest since their introduction in the 1990s, partly attributable to investors' lack of familiarity with them and because of their limited availability. More recently, the enactment of EGTRRA in 2001 enhanced the attractiveness of both Section 529 plans and Coverdell ESAs—two education savings vehicles—by allowing greater contributions and flexibility in the plans.

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### Section 529 Savings Plan Assets, 1998–2003

(billions of dollars)



Note: Data were estimated for a few individual state observations in order to construct a continuous time series.

Sources: Investment Company Institute and College Savings Plans Network

Assets in Section 529 savings plans almost doubled in 2003, increasing from \$18.5 billion at year-end 2002 to \$35.1 billion by year-end 2003. The number of accounts rose to more than four million, and the average account size was approximately \$8,200.

### **Households Saving for College**

A 2003 ICI survey of households with children age 18 or younger found that 93 percent of households saving for college were using taxable investments to achieve this financial goal. Forty-two percent of parents saving for college were using U.S. Savings Bonds. Twenty percent of parents saving for college were using education-targeted savings programs, such as state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs. Most of the parents using education-targeted savings programs were also saving for college with taxable investments.

The characteristics of households saving for college using education-targeted savings programs differed from those of households not using these programs. Parents who were using these programs were more likely to have four-year college or postgraduate degrees than parents not using these programs. In addition, households that were using education-targeted savings programs generally had greater household incomes, household financial assets, and college savings. Parents not using these programs were more likely to expect to rely on scholarships, student loans, or income or savings earned by their child to pay for college than were parents using these programs.

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### **Investments Used to Save for College, 2003<sup>1</sup>**

*(percent of respondents saving for college)*

Taxable investments	93
U.S. Savings Bonds	42
Education-targeted savings programs <sup>2</sup>	20
UGMA or UTMA accounts	15

<sup>1</sup>Multiple responses included. Number of respondents varies.

<sup>2</sup>Include state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.

Source: Profile of Households Saving for College ([www.ici.org/pdf/rprt\\_03\\_college\\_saving.pdf](http://www.ici.org/pdf/rprt_03_college_saving.pdf))

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## Characteristics of Responding Households Saving for College by Use of Education-Targeted Savings Programs,<sup>1</sup> 2003

	Using Education-Targeted Savings Programs	Not Using Education-Targeted Savings Programs
<b>Median</b>		
Age <sup>2</sup>	41 years	42 years
Household income	\$99,200	\$74,500 <sup>a</sup>
Household financial assets <sup>3</sup>	\$129,100	\$70,000 <sup>a</sup>
Current college savings	\$15,000	\$10,000
Years saving for college	6 years	6 years
Age of oldest or only child	9 years	12 years
<b>Percent</b>		
Married or living with a partner <sup>2</sup>	94	90 <sup>a</sup>
College or postgraduate degree <sup>2</sup>	73	51 <sup>a</sup>
Employed <sup>2</sup>	89	84
Number of children age 18 or younger in the household:		
One	29	33
Two	51	44
Three or more	20	23
Very or somewhat likely to rely on college funding from: <sup>4</sup>		
Academic or athletic scholarships	62	72 <sup>a</sup>
Student loans	57	68 <sup>a</sup>
Income/savings earned by child	53	63 <sup>a</sup>

<sup>a</sup>Responses of respondents not using education-targeted savings programs to save for college are statistically different at the 95 percent confidence level from those of respondents who are using education-targeted savings programs to save for college.

<sup>1</sup>Include state-sponsored 529 prepaid tuition plans, state-sponsored 529 college savings plans, and Coverdell ESAs.

<sup>2</sup>Refers to the household's responding financial decisionmaker for investments.

<sup>3</sup>Include assets in employer-sponsored retirement plans but exclude primary residence.

<sup>4</sup>Multiple responses included.

Note: Number of respondents varies.

Source: Profile of Households Saving for College ([www.ici.org/pdf/rpt\\_03\\_college\\_saving.pdf](http://www.ici.org/pdf/rpt_03_college_saving.pdf))