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ICI Report Examines Mutual Funds and the U.S. Retirement Market in 2004, August 2005

Mutual Funds and the U.S. Retirement Market in 2004

Washington, DC, August 18, 2005 – Retirement assets invested in mutual funds reached a record $3.1 trillion in 2004, according to the Investment Company Institute's annual report on the U.S. retirement market released today. At the same time, all tax-advantaged retirement savings totaled a record $12.9 trillion.

Assets in individual retirement accounts (IRAs) and defined contribution plans, the two largest components of the U.S. retirement market, continued to outpace the growth of other types of retirement plans. In 2004, they had a combined growth rate of 13 percent, compared with 7 percent for other retirement plan assets. They now account for more than half of all retirement assets, up from less than 40 percent in 1990. The findings are reported in the August 2005 issue of Fundamentals, an ICI research brief.

The 2004 survey also found that investors saving on their own and through employer-sponsored defined contribution plans are increasingly choosing lifestyle and lifecycle funds, a move reflected in the rapid growth of these funds over the last several years. Assets in these funds totaled $103 billion in 2004, up from $69 billion in 2003 and $44 billion in 2002. Retirement assets accounted for about two-thirds of the total assets in these funds in 2004.

A lifestyle fund invests in a mix of equity and fixed income securities to maintain a certain risk level and generally contains "conservative," "moderate," or "aggressive" in the fund's name; a lifecycle fund typically rebalances the asset mix to an increasingly conservative portfolio as the target date of the fund approaches.

Four out of 10 U.S. households own IRAs, and overall IRA assets climbed to a record $3.5 trillion at year-end 2004. Another $3.2 trillion are held in defined contribution plans, with 401(k) plan assets reaching an estimated $2.1 trillion.

"As impressive as these numbers are, policymakers are definitely on the right track in their efforts to encourage automatic enrollment of workers into employer-sponsored retirement plans and to offer them a broader array of long-term investment choices," said ICI President Paul Schott Stevens.

"IRAs, too, must be improved; current limits are too low to allow conscientious savers and investors without access to 401(k) plans to build up the savings they'll need," Stevens added.

The ICI survey gathered data from 14,992 mutual fund share classes representing approximately 84 percent of mutual fund industry assets. Assets were estimated for all non-reporting funds. The report also used data from the U.S. Department of Labor, Federal Reserve Board, and other trade associations, as well as ICI's own mutual fund survey information. In addition, Internal Revenue Service Statistics of Income data were used to complete the picture of the total U.S. retirement market.