
The Mutual Fund: The Most Important Financial Innovation in Modern History

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This year marks a historic anniversary. It has now been 100 years since the creation of the first US mutual fund. That was a pivotal moment for individual retail investors and the American economy. But it was more than that—so much more. I would argue that the mutual fund is the most important financial innovation in modern history.

I know what you are thinking. It's generally believed that mutual funds have today reached maturity, or even may be ready for pasture. While the number of mutual fund owners (and AUM) has continued to rise, other products, especially ETFs, have rapidly gained market share and attention. But the evolution of these investment vehicles only proves my point. The mutual fund launched the era of financial democratization. New products like ETFs, CITs, and the burgeoning opportunities in closed-end funds have been built on that foundation that mutual funds laid.

And what a foundation it is. Before the mutual fund, only the richest of the rich invested in public markets. At the turn of the 20th Century, an estimated 1% of Americans owned stocks. They paid large sums for that privilege, and even then, a well-diversified portfolio was out of reach.

Retirement savings were also a foreign concept for almost all Americans. Certainly, there was nothing like the current system. No 401(k)s or IRAs. No Social Security. Minimal protections for the few pension plans around.

But now, that era is foreign to us. Today, more than 54% of U.S. households are saving for their financial future through mutual funds and the innovations that followed. That's more than 120 million

individual investors. The overwhelming majority are middle-income.

In the past 50 years alone, average retirement assets per household have grown nearly nine-fold. Mutual funds are a big reason why. They've helped power IRAs, 401(k)s, and similar plans, which represent the fastest-growing part of the US retirement market.

Not only are investing and retirement saving more accessible than ever—they're also more affordable than ever. Since 1996, average expense ratios for equity and bond mutual funds have plunged by 60% and 56%, respectively. Expense ratios for ETFs, both active and index, have seen similar declines. Over the long run, these cost savings represent a windfall for individual investors.

People of all backgrounds are participating in this progress. Indeed, nearly 40% of mutual fund ?owning households who purchased their first fund after 2019 are people of color—more than double the percentage that bought their first fund before 1990. Seen through that lens, the mutual fund is making it possible for people of color to build the wealth that was closed off to them for generations.

Regardless of their race, today's investors have access to more savings options than their grandparents and great-grandparents ever imagined. For that matter, many of their parents never imagined it, either.

Right now, Gen Z households are twice as likely to have retirement accounts as same-age households were thirty-five years ago. Account balances have followed a similar trajectory. Adjusted for inflation, Gen Z and Millennial households with 401(k)s have more than twice as much wealth in those plans as people their age had in 1989.

Across generations, mutual funds and successive products have transformed lives. They've helped millions of people buy their first house. They've given middle-class Americans the opportunity to save for the best possible education for their children and grandchildren. Frankly, the mutual fund helped make the American middle class what it is today.

Americans now have the resources to live longer and better than any generation in human history. That fact alone makes the mutual fund uniquely transformative. But as we all know, the benefits don't end with investors themselves. The mutual fund has revolutionized our economy, too.

Right now, US-registered funds have injected more than \$33 trillion into the financial markets. That enormous sum helps businesses create jobs, invest and grow, and foster the next era of innovation. It also helps governments finance essential services. Policymakers in Europe, Japan and China are now looking to copy this American success story.

But despite this tremendous progress, there are threats on the horizon. The number of publicly traded companies is shrinking as red tape stifles IPO activity and regulated funds get saddled with more heavy-handed mandates. Meanwhile, policymakers are entranced by the rise of financial products that thrive in the private markets. That's fine, but they should reinvigorate the public universe or grant retail

investors meaningful access to private opportunities. Bottom line, the continued democratization of investing should be a top priority for policymakers, and funds offer a path forward. They can give far more everyday Americans the chance to reap the rewards of a thriving economy.

The mutual fund has sparked the development of new fund products and the democratization of finance. As such, we should call the mutual fund what it is—the greatest financial innovation in modern history. And we should continue to build on that innovation, bringing its ever-increasing benefits to ever more people—and ultimately, to every American.

Thank you.

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