

Annual Study of U.S. Retirement Assets Indicates Americans Continuing to Save for Retirement, July 2008

Despite Choppy Markets, Workers Keep Saving

ICI Reports Strong Inflows and Growth in IRA, DC Assets

Washington, DC, July 22, 2008 - Despite a year of turbulent financial markets, updated estimates show that Americans continued saving for retirement in 2007. Assets of Individual Retirement Accounts (IRAs) and employer-sponsored defined contribution (DC) plans, including 401(k) accounts, grew by 11 percent, the Investment Company Institute reported today, helping lift total U.S. retirement assets to \$17.6 trillion at year-end 2007.

"The automatic savings and investment in 401(k)s and similar plans are powerful tools for helping Americans continue to accumulate assets, even during challenging markets," said Sarah Holden, ICI senior director of retirement and investor research, who co-authored the study with Peter Brady, ICI senior economist. "The ongoing flows into retirement accounts suggest that many investors continue to keep a long-term view."

ICI released *The U.S. Retirement Market, 2007*, the Institute's annual update on the resources that Americans have saved toward retirement. The study represents an authoritative examination of the size and detailed composition of the U.S. retirement market, combining ICI's extensive data collection with data from the U.S. Department of Labor, Federal Reserve Board, the Internal Revenue Service Statistics of Income Division, and other trade associations. Preliminary data from the study were first released in May; today's report contains added detail on the distribution of assets among different retirement plans and the use of mutual funds in retirement savings.

Assets held in employer-sponsored retirement plans represented 64 percent of total U.S. retirement assets in 2007, playing a key role in helping American workers accumulate retirement savings. Investors held \$4.5 trillion in DC plans, accounting for 40 percent of employer-sponsored plan assets. Within this, investors held \$3.0 trillion in 401(k) plans, the most common and popular type of DC plan, a 10 percent increase in assets over the prior year.

As previously reported, lifecycle and lifestyle funds continued their rapid growth during 2007, grabbing an increasing share of retirement assets. Assets in those funds reached \$421 billion. Forty-six percent of lifestyle fund assets and 88 percent of lifecycle fund assets are held in retirement accounts.

Retirement account flows into mutual funds registered \$184 billion in net new cash flow in 2007, up 23 percent from the pace in 2006. Long-term (equity, hybrid, and bond) funds garnered the bulk of the flows, although retirement account flows to money market funds picked up to \$54 billion.

The new study breaks down the \$4.7 trillion in IRA assets by type of account. With \$4.2 trillion in assets at year-end 2007, traditional IRAs hold nearly 90 percent of all IRA assets. Although relatively new, Roth IRA assets were \$225 billion at year-end 2007, up 15 percent from year-end 2006. Employer-sponsored IRAs accounted for the rest of IRA assets.

Other highlights of 2007 include:

- Retirement savings vehicles account for 39 percent of the \$45.4 trillion of U.S. household financial assets, compared with 25 percent two decades ago.
- Over half of Americans' retirement savings are held in DC plans and IRAs. Together assets in DC plans and IRAs represented 52 percent of retirement assets in 2007, up from 39 percent in 1990.
- DC plan and IRA assets invested in mutual funds constituted 26 percent of Americans' retirement savings in 2007. Mutual funds managed 52 percent of DC plan assets and 47 percent of IRA assets. The growth in assets in these retirement plans in recent

years has lifted mutual funds' share of the retirement market.

- Despite market turbulence throughout the year, inflows into retirement accounts continued. Net flows into DC accounts in mutual funds were relatively unchanged at \$68 billion in 2007, with net flows into IRAs in mutual funds up 40 percent to \$116 billion in 2007, compared to \$82 billion in 2006. The latest data available from the IRS, from 2004, show that rollovers to IRAs from employer-sponsored plans are the main source of new cash flowing into IRAs.

Ongoing inflows and portfolio diversification muted the impact of the stock market decline in the fourth quarter on retirement assets. As previously reported, retirement assets reached a record \$17.8 trillion as of September 30, 2007. The 1.1 percent decline in retirement assets during the fourth quarter reflected market conditions: The Standard & Poor's 500 Stock Index fell 3.3 percent during the quarter.

ICI has published this annual report on retirement assets since 1998. In 2007, ICI began publishing quarterly updates for the total and detailed figures in the retirement report.