

The U.S. Retirement Market, 2007

KEY FINDINGS

- **Total U.S. retirement accumulations were \$17.6 trillion at year-end 2007, a 7 percent increase over year-end 2006.** Retirement assets now account for nearly 40 percent of all U.S. household financial assets, compared with 25 percent two decades ago.
- **Employer-sponsored retirement plans play a key role in helping American workers accumulate retirement assets.** The bulk (nearly two-thirds) of Americans' retirement assets is held in employer-sponsored retirement plans. Furthermore, a significant portion of assets held in Individual Retirement Accounts (IRAs) originated in employer plans and were then transferred (or "rolled over") into IRAs.
- **Over half of Americans' retirement savings are held in defined contribution plans and IRAs.** Assets in defined contribution (DC) plans and IRAs continued to grow more rapidly than assets in other types of retirement plans in 2007, increasing 11 percent compared with 3 percent asset growth for other retirement plans. 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 manage 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.

DC PLANS AND IRAS FUEL GROWTH IN U.S. RETIREMENT SAVINGS

In addition to relying on Social Security and general private savings to prepare for retirement, Americans use a variety of tax-advantaged investments specifically earmarked for retirement savings, including Individual Retirement Accounts (IRAs), employer-sponsored defined contribution (DC) and defined benefit (DB) pension plans, and annuities. Americans' savings

in these plans have grown substantially during the past two decades—reaching \$17.6 trillion at year-end 2007, an increase of 7 percent since 2006 (Figure 1).¹ Retirement asset growth is correlated with stock and bond market returns (Figure 2), with total retirement assets increasing in the late 1990s, falling from year-end 1999 to year-end 2002, and then rebounding the past five years.

Retirement savings vehicles are integral to Americans' overall retirement planning and preparedness, accounting for 39 percent of the \$45.4 trillion of U.S. household financial assets at year-end 2007 (Figure 3).² The bulk of retirement assets either is held in employer-sponsored retirement plans—including those sponsored by private-sector employers as well as by federal, state, and local governments—or originated there. Employer-sponsored plans directly hold 64 percent of retirement assets (Figure 1). In addition, about half of the assets in IRAs originated as employer-sponsored savings, representing another 14 percent of retirement assets.³

Over the past two decades, retirement savings vehicles that are typically individually directed—DC plans and IRAs—have experienced more rapid asset growth than traditional DB plans and annuities. DC plans and IRAs made up 52 percent of all retirement assets in 2007, up from 39 percent in 1990.⁴ IRA and DC plan assets grew 10 percent in 2007; other retirement assets grew 3 percent.

Mutual funds remain important stewards for retirement savers. In 2007, mutual funds managed \$4.6 trillion in retirement assets, about evenly split between IRAs and employer-sponsored DC plans.⁵

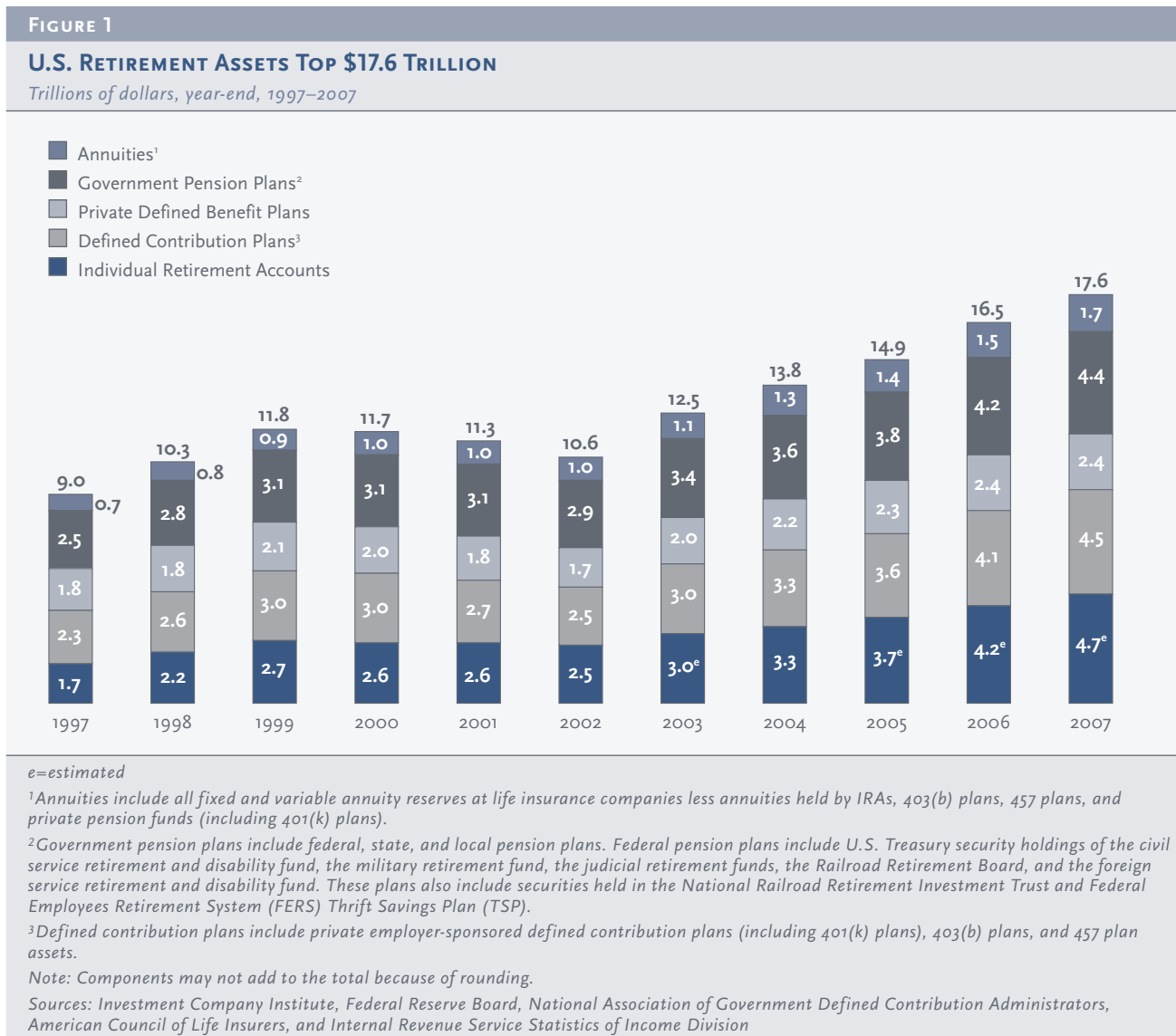
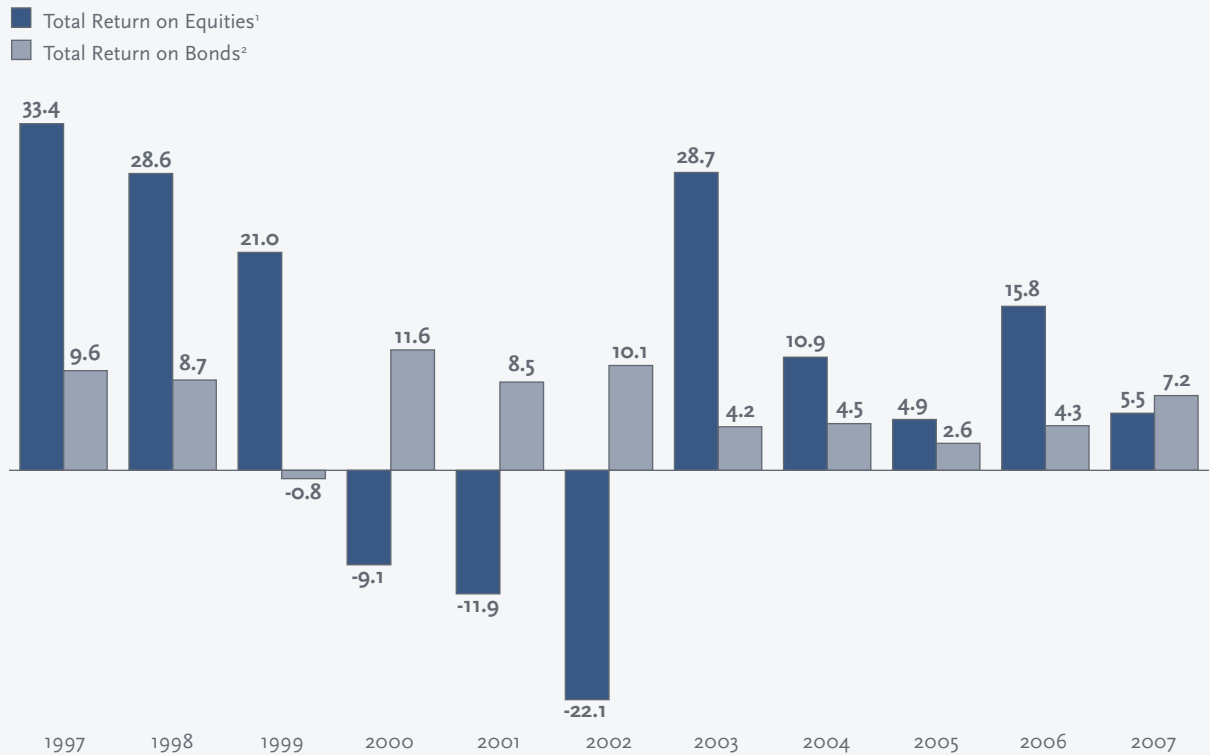


FIGURE 2

MARKET RETURNS EXERT POSITIVE INFLUENCE ON ASSETS IN 2007

Annual percentage change in total return index, 1997–2007



¹The total return on equities reported is the S&P 500 Index, which consists of 500 U.S. stocks chosen for market size, liquidity, and industry group representation.

²The total return on bonds reported is the Citigroup Broad Investment Grade Bond Index, which is a broad U.S. index consisting of treasuries, agency debt, corporates, noncorporate credit, mortgage-backed securities, and asset-backed securities.

Sources: Investment Company Institute, Bloomberg, Standard & Poor's, and Citigroup

In addition, U.S. households owned another \$1.0 trillion in mutual fund assets through variable life insurance company products—primarily variable annuity contracts—held outside of retirement accounts.^{6,7}

HOW ICI MEASURES U.S. RETIREMENT ASSETS

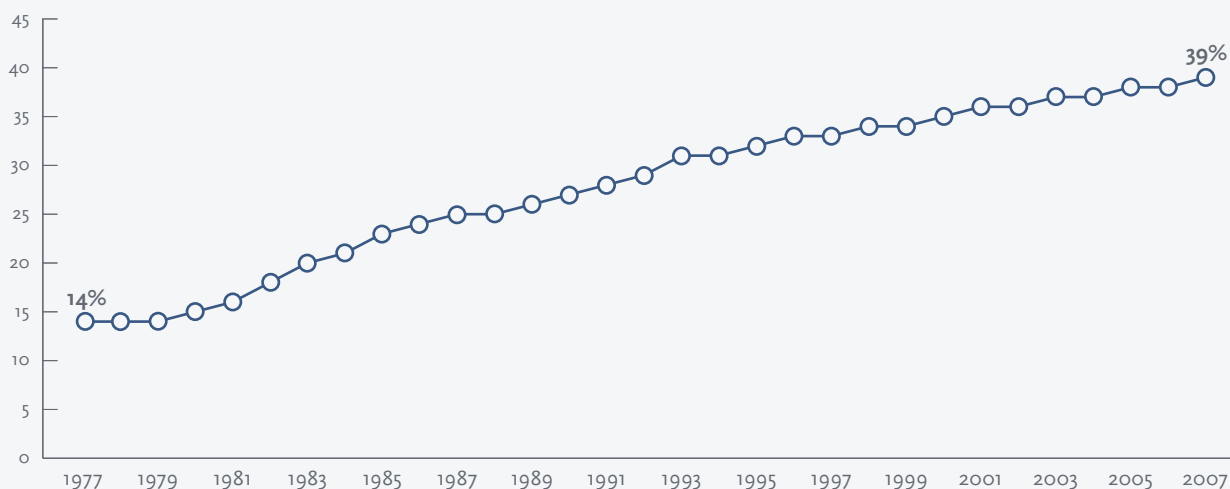
Given the importance of retirement savings to mutual funds⁸ and their investors,⁹ the Investment Company Institute (ICI) publishes statistics on the U.S. retirement market every quarter as an information resource for mutual fund companies, the media,

policymakers, and researchers. ICI combines data from its own mutual fund survey database^{10,11} and from other trade associations with data from the U.S. Department of Labor and the Federal Reserve Board to estimate both the employer-sponsored retirement plan system's holdings and those of annuities held outside retirement plans.¹² Detailed total IRA asset information for 2004 and some earlier years from the Internal Revenue Service (IRS) Statistics of Income Division rounds out the picture of the total U.S. retirement market, with ICI estimates of the total IRA market completing the data through 2007.

FIGURE 3

RETIREMENT ASSETS REPRESENT A GROWING SHARE OF HOUSEHOLD ASSETS

Retirement assets as a percent of household financial assets, year-end, 1977–2007



Sources: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

INDIVIDUAL ACCOUNTS: IRAs AND ANNUITY CONTRACTS

IRAs represented the largest component of the retirement market, with \$4.7 trillion in assets representing 27 percent of U.S. retirement market assets in 2007 (Figure 1). Another \$1.7 trillion, or 9 percent, of retirement assets were investments in annuity contracts—both variable and fixed annuities—held outside of retirement accounts.¹³

Households invest their IRA assets in mutual funds, bank and thrift deposits, annuity contracts, and individual securities (Figure 4). The share of IRA assets that households invest in mutual funds grew sharply in the 1990s, rising from 22 percent in 1990 to 47 percent in 1999. During the bear market in equities in the early part of this decade, mutual funds’ share of IRA holdings dropped, but rebounded after 2002, registering a 47 percent share in 2007.¹⁴ The share of IRA assets held through brokerage accounts also has grown since 1990, albeit at a slower rate. In contrast, the share of IRA assets held through life insurance companies remained nearly unchanged since 1990, and the share held through bank and thrift deposits has fallen to 7 percent, down from 42 percent in 1990.

FIGURE 4

MUTUAL FUNDS MANAGE 47 PERCENT OF IRA ASSETS*Individual retirement account assets by type of institution, end-of-period, 1990–2007:Q4*

	Mutual Funds		Bank and Thrift Deposits ¹		Life Insurance Companies ²		Securities Held in Brokerage Accounts ³		Total Assets (billions)
	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	
1990	\$138	22%	\$266	42%	\$40	6%	\$192	30%	\$637
1991	185	24	283	36	45	6	263	34	776
1992	233	27	275	31	50	6	316	36	874
1993	315	32	263	26	62	6	353	36	993
1994	342	32	255	24	70	7	390	37	1,056
1995	464	36	261	20	81	6	482	37	1,288
1996	582	40	259	18	92	6	534	36	1,467
1997	763	44	254	15	136	8	575	33	1,728
1998	961	45	249	12	157	7	783	36	2,150
1999	1,257	47	243	9	203	8	949	36	2,651
2000	1,231	47	250	10	203	8	945	36	2,629
2001	1,166	45	255	10	211	8	987	38	2,619
2002	1,043	41	263	10	268	11	959	38	2,533
2003	1,309	44	268	9	285	10	1,131 ^e	38	2,993 ^e
2004	1,491	45	269	8	282	9	1,257	38	3,299
2005	1,664	46	278	8	308	8	1,402 ^e	38	3,652 ^e
2006	1,977	47	313	7	318	8	1,612 ^e	38	4,220 ^e
2007:Q1	2,041	47	320	7	321 ^e	7	1,663 ^e	38	4,345 ^e
2007:Q2	2,173	47	328	7	330 ^e	7	1,767 ^e	38	4,598 ^e
2007:Q3	2,258	47	333	7	336 ^e	7	1,839 ^e	39	4,765 ^e
2007:Q4	2,243	47	340	7	336 ^e	7	1,827 ^e	38	4,747 ^e

*e=estimated*¹*Bank and thrift deposits include Keogh deposits.*²*Life insurance company IRA assets are annuities held by IRAs, excluding variable annuity mutual fund IRA assets, which are included in mutual funds.*³*Securities held in brokerage accounts exclude mutual fund assets held through brokerage accounts, which are included in mutual funds.*⁴*Share is the percent of total IRA assets.**Note: Components may not add to the total because of rounding.**Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division*

All told, 46.2 million, or about four in ten, U.S. households owned IRAs in mid-2007 (Figure 5).¹⁵ The Employee Retirement Income Security Act of 1974 (ERISA) created traditional IRAs, the most common type of IRA. In 2007, approximately 37.7 million, or 32.5 percent of, U.S. households had traditional IRAs.¹⁶ The SEP (Simplified Employee Pension) IRA was created under the Revenue Act of 1978. The salary reduction (SAR)-SEP IRA was created under the Tax Reform Act of 1986. The Small Business Job

Protection Act of 1996 prohibited the formation of new SAR-SEP IRAs after December 31, 1996, but introduced SIMPLE (Savings Incentive Match Plan for Employees) IRAs, which were first available in 1997. In 2007, approximately 9.2 million, or 7.9 percent of, U.S. households had employer-sponsored IRAs. Roth IRAs were created in the Taxpayer Relief Act of 1997 and were first available in 1998. In 2007, approximately 17.3 million, or 14.9 percent of, U.S. households had Roth IRAs.

FIGURE 5

MILLIONS OF HOUSEHOLDS OWN IRAs

	Year Created	Number of U.S. Households with Type of IRA, 2007	Percent of U.S. Households with Type of IRA, 2007
Traditional IRA	1974 (Employee Retirement Income Security Act)	37.7 million	32.5%
SEP IRA	1978 (Revenue Act)	} 9.2 million	7.9%
SAR-SEP IRA	1986 (Tax Reform Act)		
SIMPLE IRA	1996 (Small Business Job Protection Act)		
Roth IRA	1997 (Taxpayer Relief Act)	17.3 million	14.9%
Any IRA		46.2 million	39.8%

Note: Multiple responses are included.

Sources: Investment Company Institute and U.S. Bureau of the Census. See Fundamentals, "The Role of IRAs in U.S. Households' Saving for Retirement" (www.ici.org/pdf/fm-v17n1.pdf).

Investors held \$4.2 trillion in traditional IRAs in 2007 (Figure 6)¹⁷ with the remaining \$539 billion held in Roth and employer-sponsored IRAs (SEP, SAR-SEP, and SIMPLE IRAs). Although they make up only a small portion of the IRA market, Roth and SIMPLE IRAs have experienced robust growth since their introduction in the late 1990s, and now represent 6 percent of all IRA assets.¹⁸

Households have used employer-sponsored plans and accounts to accumulate a sizeable portion of the assets they now hold in IRAs. Indeed, SEP, SAR-SEP, and SIMPLE IRAs—despite being labeled “individual accounts” and counted as IRA assets—are, in fact, employer-sponsored savings vehicles. Furthermore, rollovers from 401(k) plans and other employer-sponsored plans are an important source of new

FIGURE 6

MOST IRA ASSETS HELD IN TRADITIONAL IRAS

IRA assets by type, year-end, 1997–2007

	Traditional ¹		SEP and SAR-SEP		Roth ²		SIMPLE		Total Assets ³ (billions)
	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	
1997	\$1,642	95%	\$85	5%	–	–	\$1	(*)	\$1,728
1998	1,974	92	115	5	\$57	3%	4	(*)	2,150
1999	2,423	91	143	5	76	3	9	(*)	2,651
2000	2,407	92	134	5	78	3	10	(*)	2,629
2001	2,395	91	131	5	79	3	14	1%	2,619
2002	2,322	92	117	5	78	3	16	1	2,533
2003	2,719 ^e	91	145 ^e	5	106 ^e	4	23 ^e	1	2,993 ^e
2004	2,957	90	169	5	140	4	34	1	3,299
2005	3,259 ^e	89	191 ^e	5	160 ^e	4	42 ^e	1	3,652 ^e
2006	3,749 ^e	89	223 ^e	5	195 ^e	5	53 ^e	1	4,220 ^e
2007	4,208 ^e	89	253 ^e	5	225 ^e	5	61 ^e	1	4,747 ^e

e=estimated

¹Traditional IRAs includes contributory and rollover IRAs.

²Roth IRAs includes contributory and conversion Roth IRAs.

³Total assets includes education IRAs, which were renamed Coverdell Education Savings Accounts (ESAs) in July 2001.

⁴Share is the percent of total IRA assets.

(*)=less than 1/2 percent

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute and Internal Revenue Service Statistics of Income Division

funds flowing into traditional IRAs. For example, in 2004 (the latest year for which data are available) rollovers totaled \$215 billion, while contributions to traditional IRAs totaled \$13 billion (Figure 7). Data from the Federal Reserve Board's Survey of Consumer Finances (SCF) indicate that about half of all traditional IRA assets in 2004 were held in rollover IRAs.¹⁹ Combined, employer-based IRAs and rollover IRAs accounted for more than half of all IRA assets in 2004 (Figure 8).

EMPLOYER-SPONSORED RETIREMENT PLANS

Assets held in employer-sponsored retirement plans represented 64 percent of total U.S. retirement assets in 2007.²⁰ Investors held \$4.5 trillion in DC plans, accounting for 40 percent of employer-sponsored plan assets, up from 27 percent in 1985. Private-sector employer-sponsored DB plans, with \$2.4 trillion, accounted for 21 percent of employer-sponsored plan assets in 2007, down from 43 percent in 1985. In addition, state and local government DB plans held \$3.2 trillion, and federal pension plans held \$1.2 trillion.²¹

FIGURE 7

ROLLOVERS GENERATE A SIGNIFICANT PORTION OF FLOWS INTO TRADITIONAL IRAS

Billions of dollars, 1996–2007

	Traditional IRAs				Of Which: Assets Held in Mutual Funds (year-end)
	Contributions ¹	Rollovers ²	Withdrawals ³	Total Assets ⁴ (year-end)	
1996	\$14.1	\$114.0	\$45.5	N/A	\$550
1997	15.0	121.5	55.2	\$1,642 ^e	718
1998	11.9	160.0	74.1	1,974	871
1999	10.3	199.9	87.1	2,423	1,123
2000	10.0	225.6	99.0	2,407	1,096
2001	9.2	187.8	94.3	2,395	1,036
2002	12.4	204.4	88.2	2,322	919
2003	12.3 ^e	205.0 ^e	88.3	2,719 ^e	1,140
2004	12.6	214.9	101.7	2,957	1,290
2005	N/A	N/A	112.3	3,259 ^e	1,429
2006	N/A	N/A	N/A	3,749 ^e	1,690
2007	N/A	N/A	N/A	4,208 ^e	1,909

e=estimated

N/A=not available

¹Contributions includes both deductible and nondeductible contributions to traditional IRAs.

²Rollovers are primarily from employer-sponsored retirement plans.

³Withdrawals consist of taxable IRA distributions reported on Form 1040, which have been primarily from traditional IRAs.

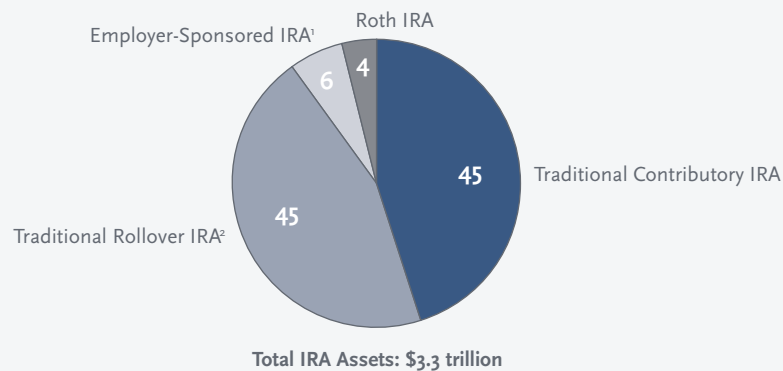
⁴Total assets is the fair market value of assets at year-end.

Sources: Investment Company Institute and Internal Revenue Service Statistics of Income Division

FIGURE 8

EMPLOYER-BASED SAVINGS ARE THE SOURCE OF HALF OF IRA ASSETS

Percent of total IRA assets, year-end, 2004



¹Employer-sponsored IRAs include SEP, SAR-SEP, and SIMPLE IRA assets.

²Traditional rollover IRA assets include all assets contained in IRA accounts classified as rollover IRAs as estimated from the Survey of Consumer Finances.

Sources: Internal Revenue Service Statistics of Income Division and Investment Company Institute tabulations of Survey of Consumer Finances

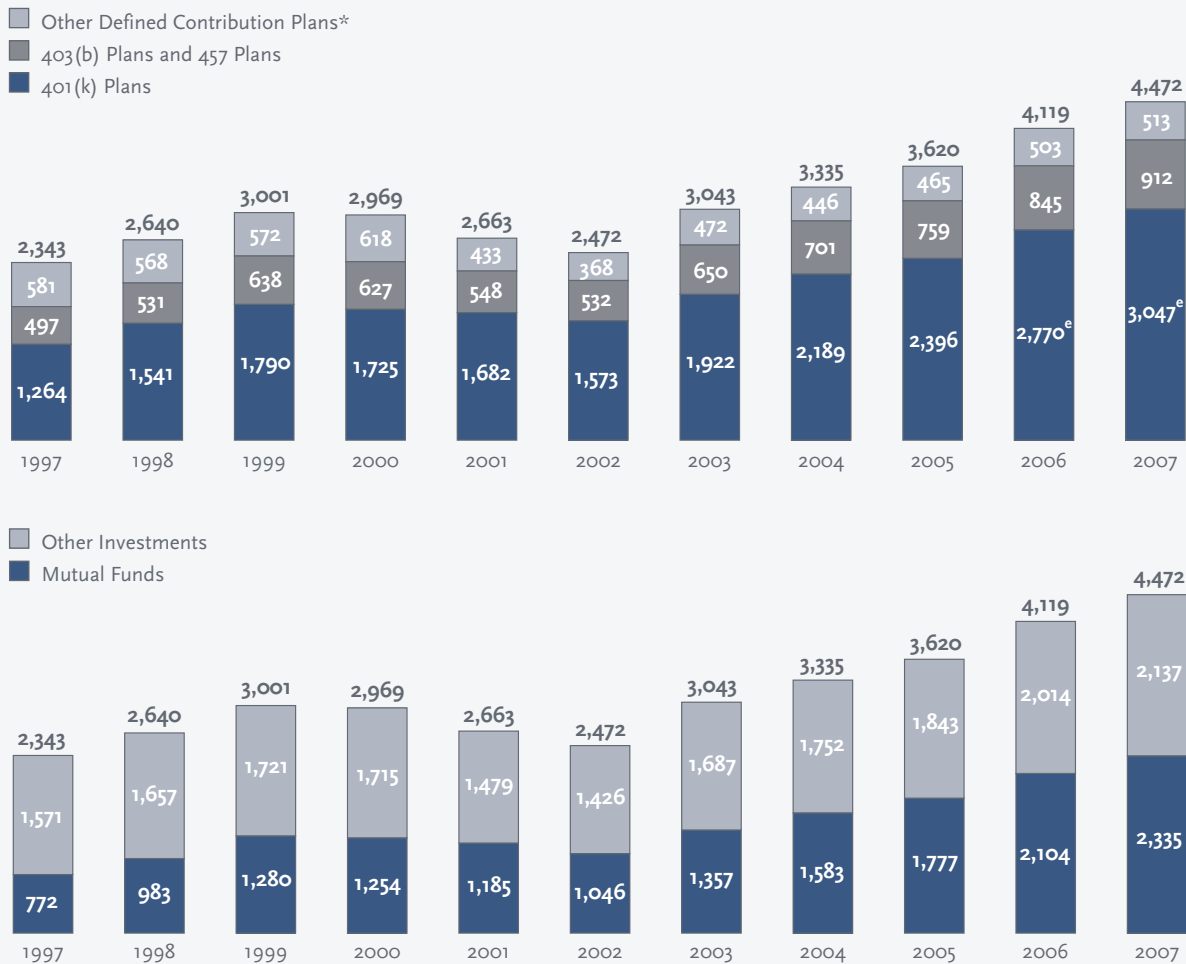
In 2007, investors held \$3.0 trillion in 401(k) plans, the most common type of DC plan (Figure 9).²² Assets in 401(k) plans increased 10 percent for the year. Some employers offer their workers other types of DC plans. For example, many educational institutions and certain nonprofit organizations offer 403(b) plans, and state and local governments (and certain tax-exempt organizations) provide 457 plans to their employees. Both 403(b)

and 457 plans have features similar to those of 401(k) plans, such as allowing participants to defer current salary and direct the investment allocation of their assets. Some private-sector employers offer other types of DC plans—such as non-contributory profit-sharing plans—that may not have 401(k) features. Investors hold \$1.4 trillion in non-401(k) DC plans in 2007, a 6 percent increase from 2006.

FIGURE 9

DEFINED CONTRIBUTION PLAN ASSETS AND AMOUNTS HELD IN MUTUAL FUNDS

Billions of dollars, year-end, 1997–2007



e=estimated

*Other defined contribution plans include Keoghs and other defined contribution plans (profit-sharing, thrift-savings, stock bonus, and money purchase) without 401(k) features.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, and American Council of Life Insurers

Investors rely on mutual funds to manage \$2.3 trillion in DC plan assets: \$1.7 trillion in 401(k) plans, \$392 billion in 403(b) plans, \$78 billion in 457 plans (Figure 10), and \$210 billion in other DC plans.²³ Overall, mutual funds manage 54 percent of the assets in 401(k) and 403(b) plans, 45 percent

of 457 plan assets, and 41 percent of other DC plan assets. Mutual fund shares held in 403(b) plans include both variable annuity (VA) mutual fund shares totaling \$221 billion and non-VA mutual fund shares of \$171 billion (Figure 11).

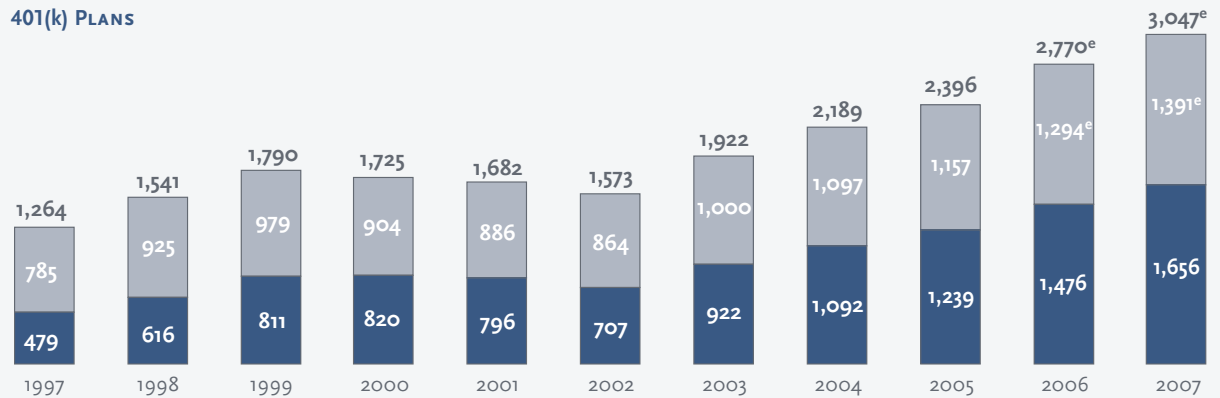
FIGURE 10

DEFINED CONTRIBUTION PLANS HOLD SIGNIFICANT MUTUAL FUND ASSETS

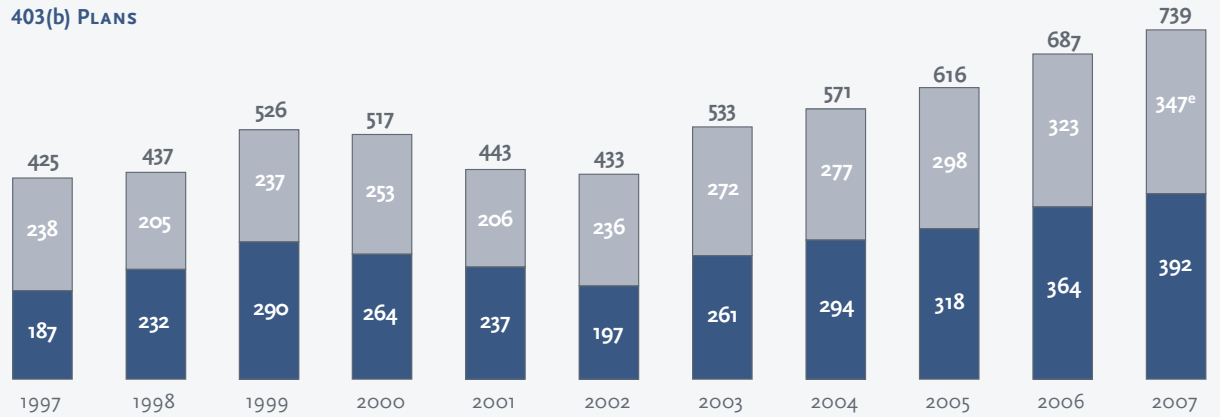
Billions of dollars, year-end, 1997–2007

Other Investments
Mutual Funds

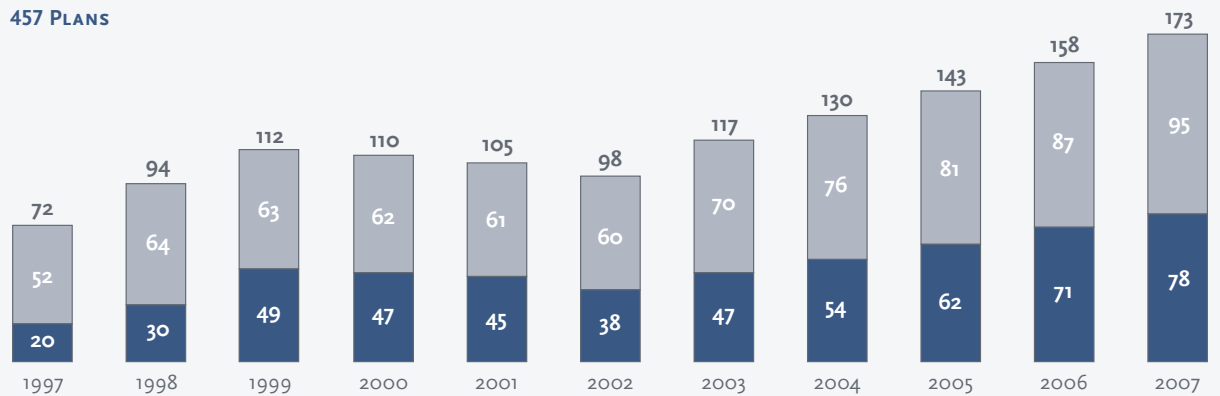
401(k) PLANS



403(b) PLANS



457 PLANS



e=estimated

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, and American Council of Life Insurers

FIGURE 11

403(b) PLAN ASSETS AND SHARE OF TOTAL 403(b) PLAN ASSETS BY INSTITUTION

End-of-period, 1996–2007:Q4

	Life Insurance Companies ¹		VA Mutual Funds		Non-VA Mutual Funds		Total Assets (billions)
	Assets (billions)	Share ² (percent)	Assets (billions)	Share ² (percent)	Assets (billions)	Share ² (percent)	
1996	\$208 ^e	58%	\$103	29%	\$45	13%	\$356
1997	238 ^e	56	129	30	59	14	425
1998	205	47	158	36	75	17	437
1999	237	45	190	36	100	19	527
2000	253	49	173	33	91	18	517
2001	206	47	149	34	88	20	443
2002	236	54	120	28	78	18	433
2003	272	51	157	29	104	20	533
2004	277	48	175	31	119	21	571
2005	298	48	185	30	133	22	616
2006	323	47	210	31	153	22	687
2007:Q1	327 ^e	47	215	31	157	22	699
2007:Q2	337 ^e	46	225	31	168	23	730
2007:Q3	344 ^e	46	229	31	173	23	745
2007:Q4	347 ^e	47	221	30	171	23	739

*e=estimated*¹Annuities held by 403(b) plans exclude variable annuity (VA) mutual fund 403(b) assets.²Share is the percent of total 403(b) plan assets.

Note: Components may not add to the total because of rounding.

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

MUTUAL FUND RETIREMENT INVESTORS FAVOR LONG-TERM FUNDS

Investors primarily hold long-term (stock, hybrid, and bond) mutual funds in DC plans and IRAs. In 2007, 68 percent, or \$3.1 trillion, of the \$4.6 trillion of DC plan and IRA mutual fund assets were invested in stock funds (Figure 12).²⁴ Hybrid funds (which invest in a mix of equity and fixed-income securities and include most lifestyle and lifecycle funds) managed \$695 billion in DC plan and IRA assets; bond funds held an additional \$408 billion; and money market funds

held \$360 billion. Most DC plan and IRA long-term mutual fund assets are actively managed funds. At year-end 2007, \$3.8 trillion of long-term mutual fund assets held in DC plans and IRAs were actively managed, compared with \$376 billion invested in passively managed, or index, mutual funds.²⁵ Investors allocate assets in VA mutual funds held outside of retirement accounts similarly, although with a higher proportion in stock and bond VA mutual funds and a lower proportion in hybrid and money market VA mutual funds (Figure 12).²⁶

FIGURE 12

MAJORITY OF MUTUAL FUND RETIREMENT ASSETS INVESTED IN STOCKS*Mutual fund retirement assets by type of fund, billions of dollars, year-end, 2007*

	Equity				Bond	Money Market	Total
	Total	Domestic	Foreign	Hybrid ¹			
Retirement Accounts	\$3,116	\$2,389	\$727	\$695	\$408	\$360	\$4,578
IRAs	1,451	1,106	345	323	230	240	2,243
Defined Contribution Plans	1,665	1,284	381	372	178	120	2,335
401(k) Plans	1,160	864	296	297	124	74	1,656
403(b) Plans	311	270	41	37	24	20	392
457 Plans	56	44	12	13	7	2	78
Other Defined Contribution Plans ²	137	105	32	26	23	24	210
VA Mutual Funds (outside of retirement accounts)³	762	605	157	76	153	38	1,028
Total	3,877	2,994	883	771	560	398	5,606

¹Hybrid funds invest in a mix of equities and fixed-income securities. The bulk of lifecycle and lifestyle funds are counted in this category.

²Other defined contribution plans include Keoghs and other defined contribution plans without 401(k) features.

³Some of the VA mutual fund assets may be assets held in variable life insurance policies, which are not counted as part of the U.S. retirement market. ICI is not able to separately identify the portion of VA mutual fund assets contained in these policies.

Note: Components may not add to the total because of rounding.

Source: Investment Company Institute

ASSETS IN LIFESTYLE AND LIFECYCLE FUNDS GROW 39 PERCENT

Lifestyle and lifecycle funds have grown in popularity among investors and retirement plan sponsors in recent years. The assets in these funds grew 39 percent in 2007 to \$420 billion, after rising 50 percent in 2006.²⁷

Eighty-eight percent of the assets of lifecycle funds are held in retirement accounts (Figure 13). These funds follow a predetermined reallocation of assets over time to a specified target date, and typically rebalance their portfolios to become more conservative and income-producing by the target date, which is usually indicated in the fund's name. Forty-six percent of lifestyle fund assets are held in retirement accounts. These funds maintain a predetermined risk level and generally use words such as "conservative," "moderate," or "aggressive" in their names to indicate the fund's risk level.

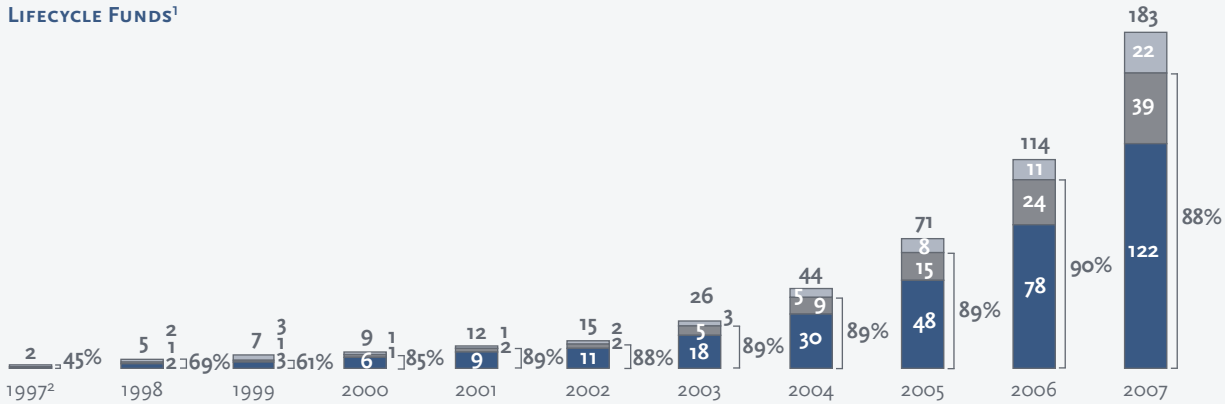
FIGURE 13

LIFECYCLE AND LIFESTYLE FUND ASSETS CONTINUE TO GROW RAPIDLY

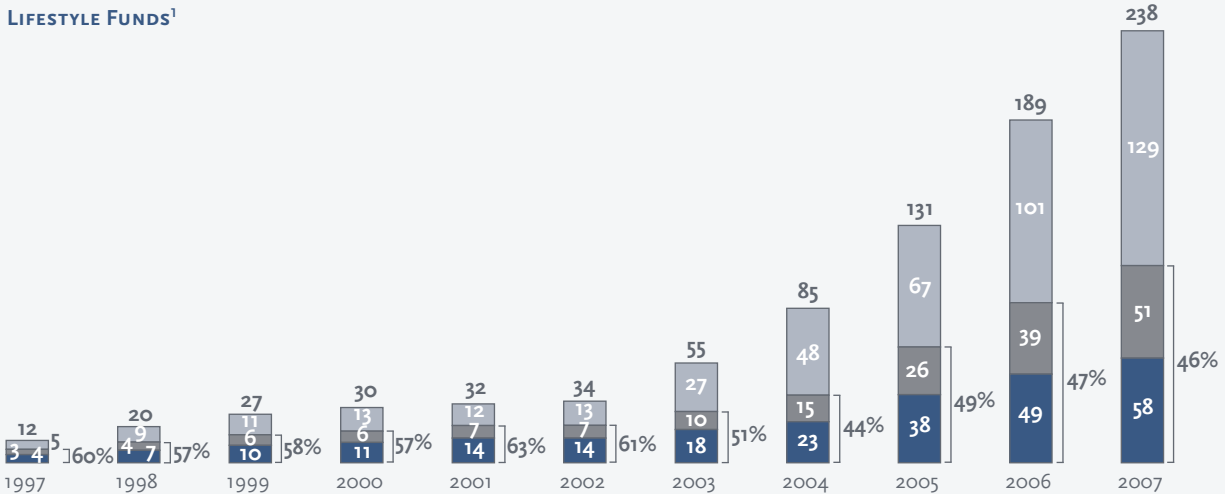
Billions of dollars, year-end, 1997–2007

- Other Investors
- Individual Retirement Accounts
- Employer-Sponsored Defined Contribution Plans

LIFECYCLE FUNDS¹



LIFESTYLE FUNDS¹



¹A lifestyle mutual fund maintains a predetermined risk level and generally contains “conservative,” “aggressive,” or “moderate” in the fund’s name. A lifecycle mutual fund is a hybrid fund that typically rebalances to an increasingly conservative portfolio as the target date of the fund (mentioned in its name) approaches.

²Components not labeled are less than \$1 billion dollars.

Note: Components may not add to the total because of rounding.

Source: Investment Company Institute

NOTES

- ¹ Additional data are in an appendix, which is available online at www.ici.org/pdf/fm-v17n3_appendix.pdf. For additional details regarding retirement assets by type of savings vehicle, see Appendix Figure A1.
- ² See Federal Reserve Board, *Flow of Funds Accounts of the United States*, June 5, 2008.
- ³ Derivation of this estimate based on information from the Federal Reserve Board's Survey of Consumer Finances and is explained in more detail in endnote 19. See Federal Reserve Board, *Survey of Consumer Finances*, February 2006. For the article summarizing the 2004 SCF, see Bucks, Kennickell, and Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," March 2006.
- ⁴ See Appendix Figure A1.
- ⁵ See Appendix Figure A2. Derivation of these estimates is described in endnotes 10 and 11.
- ⁶ See Appendix Figure A4. These mutual funds are commonly referred to as "variable annuity (VA) mutual funds." However, some of the VA mutual fund assets backing variable products at life insurance companies may be held in variable life insurance policies, which are not counted as part of the U.S. retirement market. ICI is unable to separately identify the type of variable product in which VA mutual funds shares are held. Estimates from Federal Reserve Board staff, based on tabulation of 2005 AM Best data, are that approximately 15 percent of assets in life insurance company separate accounts (the accounts that back variable products at life insurance companies) are in variable life policies.
- ⁷ All told, households hold 88 percent of the \$12 trillion in mutual fund assets through taxable, tax-deferred, and tax-exempt accounts at year-end 2007. See Investment Company Institute, *2008 Investment Company Fact Book*, 2008.
- ⁸ At year-end 2007, retirement accounts (DC plans and IRAs) held 38 percent of all mutual fund assets (see Appendix Figure A5). Another 9 percent of industrywide mutual fund assets were VA mutual funds that back variable life insurance company products held outside of retirement accounts.
- ⁹ Ninety-one percent of mutual fund shareholders indicate that saving for retirement is one of their financial goals and 73 percent indicate that it is their primary financial goal. See Schrass and Holden, "Profile of Mutual Fund-Owning Households," Spring 2008 and Schrass and Sabelhaus, "Characteristics of Mutual Fund Investors, 2007," April 2008.
- ¹⁰ Based on data from ICI's Annual Questionnaire for Retirement Statistics, which gathered data from 18,306 mutual fund share classes representing approximately 84 percent of mutual fund industry assets. Assets were estimated for all nonreporting funds. Data reflect revisions to previously reported data.

Estimates of retirement assets in broker street name and omnibus accounts were derived from data reported on the Annual Questionnaire for Retirement Statistics and the Annual Questionnaire for Classification of Shareholder Assets.
- ¹¹ In this report, estimates of mutual fund assets in defined benefit (DB) plans have been excluded because of incomplete reporting. Federal Reserve Board data indicate that mutual fund assets held in private-sector DB plans accounted for \$226 billion at year-end 2007, or less than 1½ percent of the U.S. retirement market. See Federal Reserve Board, *Flow of Funds Accounts of the United States*, June 5, 2008. In addition, the Federal Reserve Board reports that state and local government (DB) employee retirement funds held \$312 billion in mutual fund assets at year-end 2007, or about 1½ percent of the U.S. retirement market. See Federal Reserve Board, *Flow of Funds Accounts of the United States*, June 5, 2008.
- ¹² ICI reports a lower annuities total than the Flow of Funds Accounts (see Federal Reserve Board, *Flow of Funds Accounts of the United States*, June 5, 2008) because annuities held in IRAs, 457 plans, and 403(b) plans are netted from Flow of Funds Accounts annuities (life insurance pension fund reserves) figure and reported in their respective categories by ICI.
- ¹³ See endnote 12.
- ¹⁴ See Figure 2 for stock and bond returns.
- ¹⁵ For additional discussion of IRA-owning households, see Holden and Bogdan, "The Role of IRAs in U.S. Households' Saving for Retirement," January 2008.
- ¹⁶ For a history of IRAs, see Holden, Ireland, Leonard-Chambers, and Bogdan, "The Individual Retirement Account at Age 30: A Retrospective," February 2005.
- ¹⁷ Total IRA market assets are derived from tabulations of total IRA assets provided by the IRS Statistics of Income (SOI) Division for tax-years 1989, 1993, 1996 through 2002, and 2004. These tabulations are based on a sample of IRS returns. For a description of the SOI estimation techniques, see Sailer, Weber, and Gurka, "Are Taxpayers Increasing the Buildup of Retirement Assets? Preliminary Results from a Matched File of Tax Year 1999 Tax Returns and Information Returns," 2003; Sailer and Nutter, "Accumulation and Distribution of Individual Retirement Arrangements," 2000; "Accumulation and Distribution of Individual Retirement Arrangements, 2001–2002," Spring 2006; and Bryant, "Accumulation and Distribution of Individual Retirement Arrangements, 2004," Spring 2008.
- ¹⁸ See Appendix Figures A8 to A13 for additional details on IRAs.
- ¹⁹ See Federal Reserve Board, *2004 Survey of Consumer Finances*, February 20, 2006. The SCF added a new series of questions to their survey to ascertain the type of IRA assets held by households (beginning with the 2001 survey) and the amount of assets in each type of IRA (beginning with the 2004 survey). The SCF asks respondents to identify the type(s) of (non-employer sponsored) IRAs that they own: Roth, rollover, regular or other, or Keogh. It then asks for the value of each type of account. To estimate the percentage of traditional IRAs that are rollover IRAs, ICI used the ratio from the SCF of "roll-over" IRAs to the sum of "roll-over" and "regular or other" IRAs. The accuracy of this estimate will depend on the extent to which SCF respondents properly characterized and allocated their IRA assets among types of IRAs.
- ²⁰ See Appendix Figure A1 for a breakdown of total retirement assets by all plan types.
- ²¹ Federal pension plans include U.S. Treasury security holdings of the Civil Service Retirement and Disability Fund, the Military Retirement Fund, the judicial retirement funds, the Railroad Retirement Board, and the Foreign Service Retirement and Disability Fund. These plans also include securities held in the National Railroad Retirement Investment Trust and the Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP). Although the TSP is similar to a 401(k) plan, assets held by the TSP are included in federal government retirement assets and are not included in the DC plan total. At year-end 2007, the TSP held \$232 billion in assets. For more details regarding TSP, see Deloitte and Touche LLP, "Financial Statements of the Thrift Savings Fund—2007 and 2006," March 2008.
- ²² Cerulli Associates estimates that there were 641,000 private-sector DC plans (i.e., not 403(b) or 457 plans) at the end of 2007 with 54.6 million active participants. The bulk of these plans were 401(k) plans, with 469,000 plans and 47.2 million active participants. See Cerulli Associates, "Retirement Markets, 2007," 2007.
- ²³ See Appendix Figure A15 for DC plan holdings of mutual funds by type of plan.
- ²⁴ See Appendix Figures A8 and A14 for historical data on IRA and DC plan holdings of mutual funds by type of fund.
- ²⁵ See Appendix Figure A6 for index mutual fund assets.
- ²⁶ See Appendix Figure A4 for total VA mutual fund assets.
- ²⁷ Often, lifestyle and lifecycle funds are organized as funds of funds, with their underlying portfolios invested in other funds managed by the fund sponsor.

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