

Fundamentals

Investment Company Institute Research In Brief

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Mutual Funds and the Retirement Market

Mutual fund assets held in retirement accounts stood at \$1.86 trillion at the end of 1998, remaining at about one-third of all mutual fund assets (Figure 1).¹ Mutual fund

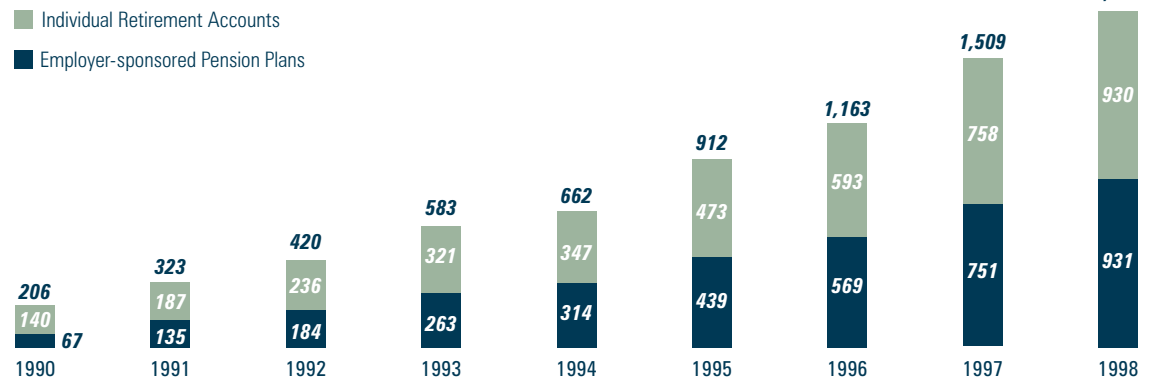
retirement assets accounted for about one-sixth of assets in the \$10.9 trillion U.S. retirement market (Figure 2).^{2,3}

Retirement assets in mutual funds increased 23 percent in 1998. The growth in assets was primarily the result of investment performance, which accounted for more than two-thirds of the increase.

figure 1

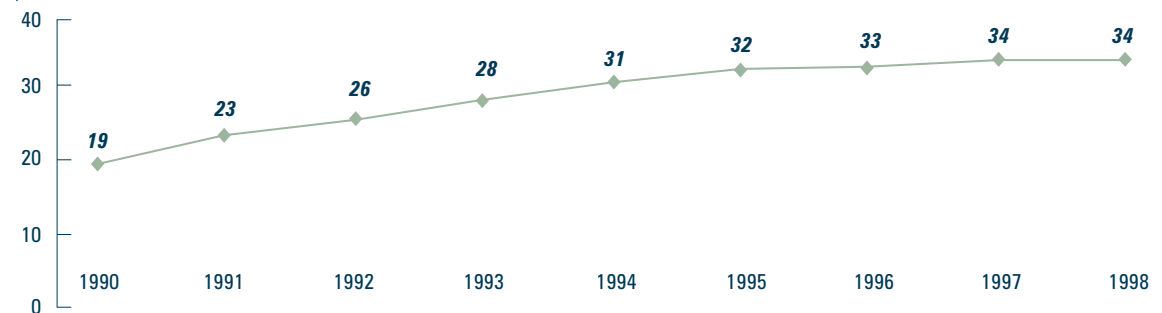
Mutual Fund Retirement Assets, 1990-1998

(billions of dollars)



Mutual Fund Retirement Assets as a Share of Total Mutual Fund Assets, 1990-1998

(percent)



note: Components may not add to totals due to rounding.

source: Investment Company Institute

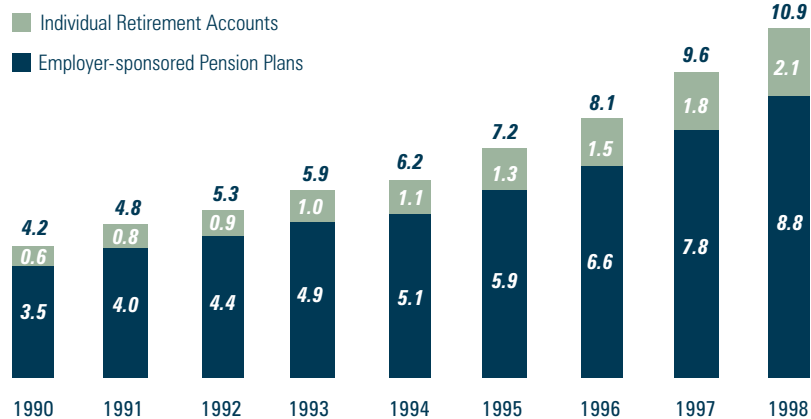
¹ Based on data from the Institute's Annual Questionnaire for Retirement Statistics. The 1998 survey gathered data from 8,215 mutual fund share classes representing approximately 80 percent of mutual fund industry assets. Assets were estimated for all non-respondent funds. Data prior to 1998 reflect revisions to previously reported data.

An estimate of retirement assets in street name and omnibus accounts was derived from data reported on the Annual Questionnaire for Retirement Statistics and the Annual Institutional Shareholder Survey.

figure 2

U.S. Retirement Assets¹, 1990-1998

(trillions of dollars)



Mutual Fund Share of U.S. Retirement Assets², 1990-1998

(percent)

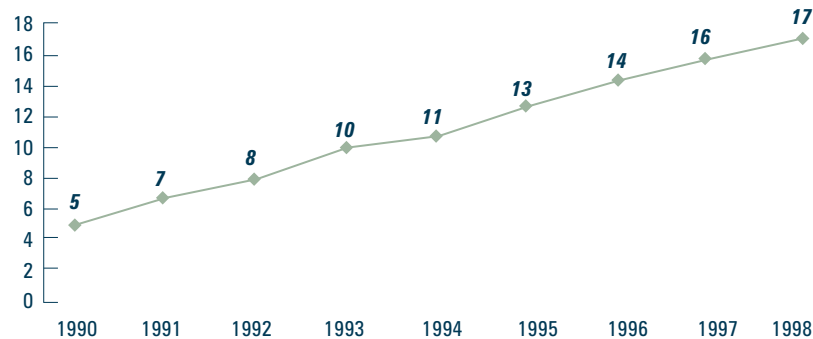


figure footnotes:

¹ Retirement assets include Individual Retirement Accounts and employer-sponsored defined-benefit and defined-contribution pension plans. Pension plans are sponsored by employers such as businesses, federal, state and local governments, and nonprofit organizations. Components may not add to totals due to rounding.

² Mutual fund retirement assets exclude mutual fund defined-benefit plan assets. Previous estimates indicated that mutual fund assets in defined-benefit plans accounted for about one-half of one percent of the U.S. retirement market.

sources: Investment Company Institute, Federal Reserve Board

Net new cash flow to mutual funds in retirement accounts was an estimated \$114 billion in 1998, little changed from 1997 (Figure 3).⁴ Net flows to long-term funds from retirement accounts totaled \$85 billion, accounting for about 35 percent of all long-term fund inflows. Retirement inflows to money market funds were \$28 billion, or 10 percent, of all short-term fund inflows.

IRA Holdings of Mutual Fund Assets

Mutual fund assets held in Individual Retirement Accounts (IRAs) stood at \$930 billion at the end of 1998. This figure represents 44 percent of the \$2.1 trillion IRA market, compared with 42 percent in 1997 (Figure 4).⁵

Mutual fund assets in IRAs rose 23 percent in 1998.⁶ Approximately two-thirds of the increase was the result of investment performance. The remainder of the growth was attributable to net new cash flow, which amounted to \$57 billion and was in line with inflows experienced during the past several years.

Mutual fund assets in traditional IRAs increased 19 percent in 1998 to \$853 billion. At the same time, traditional IRA assets as a percentage of total mutual fund IRA assets fell to 92 percent from 94 percent in 1997, most of the drop reflecting conversions of traditional IRAs to Roth IRAs.⁷ Fund assets in Roth IRAs, which were available for the first time in 1998, amounted to \$21 billion, or 2 percent, of mutual fund IRA assets last year.

² Retirement assets include Individual Retirement Accounts and employer-sponsored defined-benefit and defined-contribution pension plans. Pension plans are sponsored by employers such as businesses, federal, state and local governments, and nonprofit organizations.

³ Estimates of mutual fund assets in defined-benefit plans, which had previously been included in mutual fund retirement assets, have been excluded in all years due to incomplete reporting. Previous estimates indicated that mutual fund assets in defined-benefit plans accounted for about one-half of one percent of the U.S. retirement market.

⁴ The Institute does not collect sales or net new cash flows for retirement plans on the Annual Retirement Questionnaire. Net new cash flow is sales of shares (other than reinvested distributions) less redemptions plus net exchanges. Net new cash flow was estimated by assuming that retirement assets within an investment objective category had the same investment performance as other mutual fund assets in that category. Investment performance for each investment objective was calculated by taking the total change in assets and adjusting for total net new cash flow during the year. Retirement assets were deflated by investment performance. The residual increase in assets was attributable to net new cash flow. The formula for the flow calculation is:

$$RF_t = \frac{((TA_t - TA_{t-1} - TF_t)(RA_{t-1}) - ((RA_t - RA_{t-1})(TA_{t-1} + TF_t/2)))}{(TA_t - TA_{t-1} - TF_t)/2 + (TA_{t-1} + TF_t/2)}$$

For a given investment objective, RF represents retirement flows, TA represents total assets, TF represents total flows and RA represents retirement assets.

⁵ Total IRA assets are derived from unpublished estimates of total IRA assets provided by the Statistics of Income Division, Internal Revenue Service for tax-years 1989, 1993 and 1996. Estimates are based on a sample of IRS returns. Total assets in IRAs from 1994 to 1997 have been revised downward and reflect new IRS data.

The breakdown of IRA assets is based on survey data, except for brokerage account holdings of directly held securities, which are calculated from total IRA assets less holdings in deposits, mutual funds and life insurance products. IRA holdings of deposits are published by the Federal Reserve Board in its H.6 release, *Money Stock, Liquid Assets, and Debt Measures*. IRA assets in life insurance products are from the American Council of Life Insurance's *Life Insurance Fact Book*.

Mutual fund assets in employer-sponsored IRAs totaled \$56 billion, or 6 percent of mutual fund IRA assets in 1998. Most of these assets were held in Simplified Employee Pension (SEP) IRAs, which grew to \$54 billion from \$43 billion in 1997. Mutual fund assets held in SIMPLE IRAs, available for the first time in 1997, grew rapidly in 1998, increasing to \$1.6 billion from \$0.3 billion.⁸

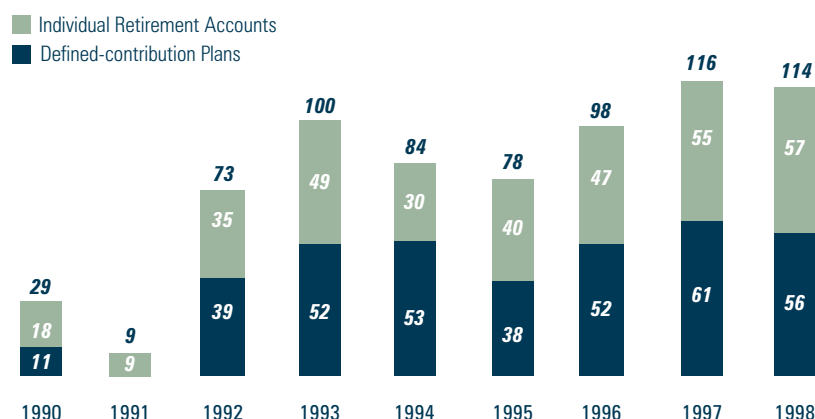
Employer-sponsored Retirement Plan Holdings of Mutual Fund Assets

Mutual fund assets in employer-sponsored defined-contribution plans rose 24 percent in 1998 to \$931 billion (Figure 5).⁹ Nearly 70 percent of the growth in assets was the result of investment performance, with the rest coming from net new investments.

figure 3

Net Retirement Inflows to Mutual Funds, 1990-1998

(billions of dollars)



note: Components may not add to totals due to rounding.

source: Investment Company Institute

figure 4

IRA Plan Assets and Share of the Total IRA Market by Institution, 1990-1998

	Mutual Funds		Bank and Thrift Deposits ¹		Life Insurance Companies		Securities Directly Held Through Brokerage Accounts		Total ² Assets (billions)
	Assets (billions)	Share ³ (percent)	Assets (billions)	Share (percent)	Assets (billions)	Share (percent)	Assets (billions)	Share (percent)	
1990	\$140	22%	\$266	42%	\$53	8%	\$177	27%	\$636
1991	187	24	282	36	50	6	257	33	776
1992	236	27	275	32	56	6	300	35	866
1993	321	32	263	26	70	7	340	34	993
1994	347	33	255	24	79	7	375	36	1,056
1995	473	37	261	20	94	7	461	36	1,289
1996	593	40	258	18	110	8	505	34	1,467
1997	758	42	254	14	168	9	619	34	1,800
1998	930	44	249	12	195	9	721	34	2,095

figure footnotes:

¹ Bank and thrift deposits include Keogh deposits.

² See text footnote 5 for an explanation of the procedure used to estimate total IRA assets. Components may not add to totals due to rounding.

³ Share of total IRA plan assets.

sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurance, Internal Revenue Service

⁶ Total IRA assets include \$0.2 billion in Education IRAs, which are not retirement assets.

⁷ The majority of fund complexes were unable to provide a breakdown of contributory and conversion Roth IRA assets. Those funds that could provide a breakdown indicated that roughly three-quarters of Roth IRA assets were the result of conversions from traditional IRAs.

⁸ Assets in SIMPLE plans for 1997 have been revised downward to reflect changes in previously reported data and estimates for non-reporting funds.

⁹ Defined-contribution plan holdings of mutual funds prior to 1998 have been revised. Changes to the 1996 and 1997 data reflect revisions to the retirement survey. Data before 1996 have been revised to incorporate information on defined-contribution plan holdings of mutual funds published by the *Private Pension Plan Bulletin*, U.S. Department of Labor and Pension Welfare Benefits Administration, No. 8, Spring 1999, and the *Flow of Funds Accounts*, Federal Reserve Board (June 11, 1999).

figure 5

Mutual Fund Assets in Defined-contribution Pension Plans, 1990-1998

(billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total	\$67	\$135	\$184	\$263	\$314	\$439	\$569	\$751	\$931
401(k)	35	46	82	140	184	266	350	474	593
403(b)	15	68	74	86	90	119	148	189	231
457	2	2	3	4	6	8	11	14	20
Other DC	15	20	25	33	35	46	60	73	87

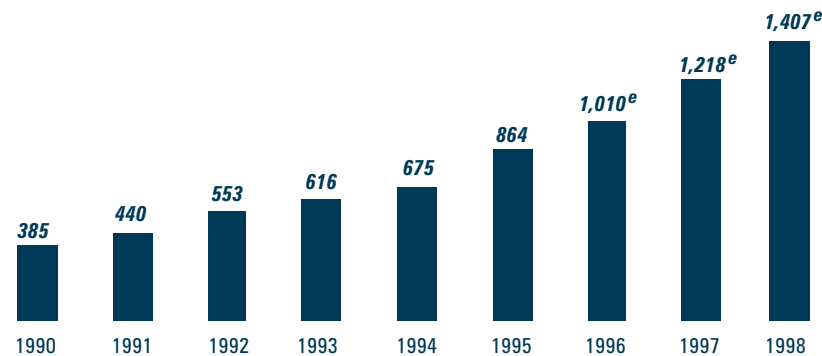
note: Components may not add to totals due to rounding.

sources: Investment Company Institute, Federal Reserve Board, Department of Labor

figure 6

401(k) Assets, 1990-1998

(billions of dollars)



Mutual fund assets held in 401(k) plans accounted for \$593 billion, or nearly two-thirds of all mutual fund defined-contribution plan assets in 1998. Mutual funds' share of the 401(k) market was estimated at 42 percent last year, compared with 9 percent at the beginning of the decade (Figure 6).¹⁰ Investment performance accounted for approximately two-thirds of the growth in mutual fund 401(k) assets last year. Net new cash flow into these accounts was estimated at \$39 billion.

Mutual fund assets in defined-contribution plans other than 401(k) plans rose to \$338 billion in 1998 from \$277 billion in 1997.¹¹ Approximately two-thirds, or \$231 billion, of defined-contribution plan assets held outside of 401(k) plans were invested in 403(b) plans.¹² Mutual fund assets held in 457 plans totaled \$20 billion and the remaining \$87 billion were held in other defined-contribution plans.

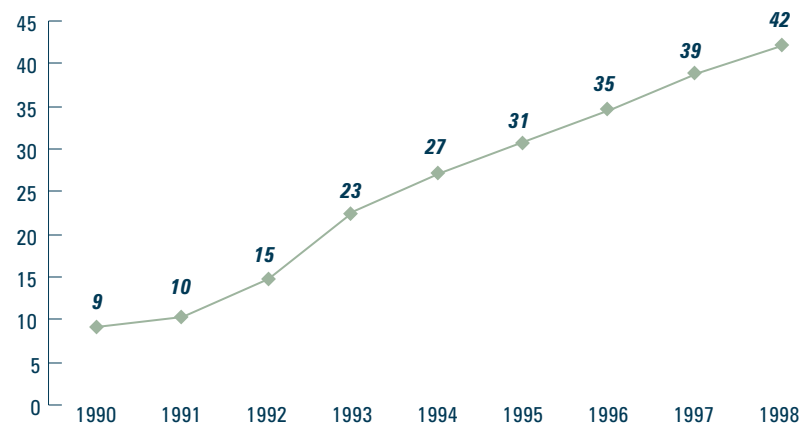
¹⁰ Assets in 401(k) plans refer to private defined-contribution plans with 401(k) features; thus, 401(k) assets reported for mutual funds and the 401(k) market may include some profit-sharing assets that do not have 401(k) features. For 1990-1995, total 401(k) assets data are from *Private Pension Plan Bulletin*, U.S. Department of Labor and Pension Welfare Benefits Administration, No. 8, Spring 1999. Estimates of 401(k) plan assets after 1995 were made by assuming that the 401(k) assets grew at a slightly faster rate than assets in all defined-contribution plans. The growth rate of defined-contribution plan assets was obtained from the *Flow of Funds Accounts*, Federal Reserve Board (June 11, 1999).

¹¹ Defined-contribution plans other than 401(k) plans include profit-sharing, stock bonus and money purchase plans without 401(k) features as well as 403(b), 457, and Keogh plans.

¹² Assets in 403(b) plans include variable annuities.

Mutual Fund Share of 401(k) Assets, 1990-1998

(percent)



e=estimated

note: See text footnote 10 for a description of the data and a discussion of the estimation procedure.

sources: Investment Company Institute, Federal Reserve Board, Department of Labor