

FUNDAMENTALS

MUTUAL FUND RESEARCH IN BRIEF

ICI RESEARCH DEPARTMENT

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Shareholders with 401(k) Plans Invested in Mutual Funds

An estimated 210,000 U.S. corporations offer 401(k) plans,¹ making this employee benefit one of the most widely provided retirement plans nationwide. At yearend 1994, 401(k) plans held assets of \$525 billion, up from \$55 billion a decade earlier. Because mutual funds provide portfolio diversification, offer extensive choices to employees, and are managed

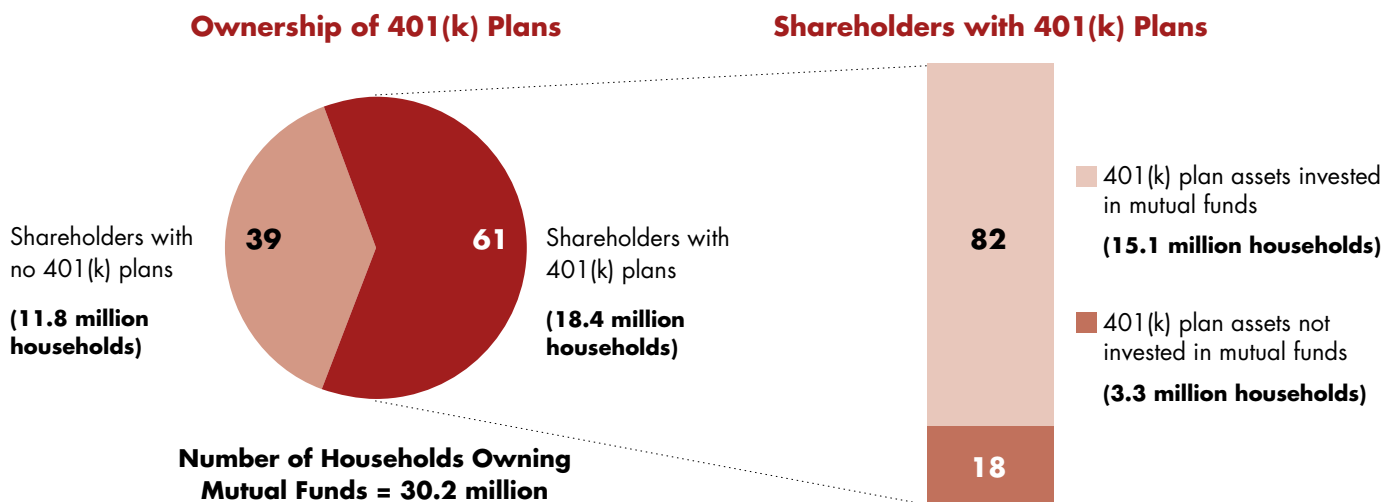
according to well-defined policies, they have steadily attracted 401(k) plan assets. Mutual funds accounted for an estimated 38 percent of 401(k) plan assets in 1995, compared with 8 percent in 1986.

An estimated 18.4 million households owning mutual funds participated in 401(k) plans in mid-1995. A total of 15.1 million shareholder households owned mutual funds through 401(k) plans, equal to roughly half of all fund-owning households (Figure 1).² The median age of shareholders with a 401(k) plan invested in mutual funds was 39 years old, their median household income was \$60,000, and their median household financial

Figure 1

Participation of Mutual Fund Shareholders in 401(k) Plans

(percent of respondents)



¹Established by the Employee Retirement Income Security Act of 1974, a 401(k) plan is usually a profit-sharing plan that includes a cash or deferred arrangement. Such arrangements permit employees to have a portion of their compensation contributed to a tax-sheltered plan on their behalf or paid to them directly as additional taxable compensation. Thus, an employee may elect to reduce his or her taxable compensation with contributions to a 401(k) plan where those amounts will accumulate tax free. Employers often match these amounts with employer contributions.

²The percentage of mutual fund owners participating in 401(k) plans is based upon a random sample of 1,497 mutual fund shareholders conducted in 1995 by the Investment Company Institute. The estimate of the number of shareholder households with 401(k) plans was developed by applying the percentage of shareholders with such plans (61%) from the Institute's 1995 survey to the estimate of the number of fund-owning households in the U.S. (30.2 million) from the Institute's 1994 Ownership Tracking Survey (see *Fundamentals*, September 1994). The derived estimate of 401(k) plan owners has been found to be consistent with estimates from other Institute studies conducted in 1994, 1995, and 1996. However, any estimate of the incidence of 401(k) plan owners should be interpreted with caution, as it may either understate or overstate the actual number of shareholders participating in 401(k) plans. Despite any misstatement, this issue of *Fundamentals* uses the term 401(k) plan in describing survey results. Other results from the Institute's 1995 survey can be found in the publication *Mutual Fund Shareholders: People Behind the Growth*, which outlines the demographic, financial, and fund ownership characteristics for key shareholder segments.

assets were \$30,000. More than 70 percent of these shareholders were married and 93 percent were employed (Figure 2).

Shareholders Only Owning Mutual Funds Through 401(k) Plans

Of those 15.1 million households that held mutual funds in their 401(k) plans, 46 percent only owned mutual funds in their 401(k) plans and held none outside these plans. These shareholders had several characteristics that distinguished them from shareholders owning mutual funds both inside and outside of 401(k) plans (Figure 3).

The typical shareholder only owning mutual funds through a 401(k) plan had plan assets of \$12,000. Altogether, 52 percent of such shareholders held plan assets in stock funds, 26 percent in bond and income funds, and 39 percent in money market funds (Figure 4).

The typical shareholder only owning mutual funds through a 401(k) plan was 37 years old and had a household income of \$50,000. The median household financial assets this segment of shareholders held outside 401(k) and other retirement plans was \$20,000. Forty percent of these shareholders had a bachelor's

Figure 2

Characteristics of Mutual Fund Shareholders by Participation in 401(k) Plans and Mutual Fund Investments in These Plans¹

	Shareholders with 401(k) Plans			Shareholders with No 401(k) Plans
	All Shareholders with 401(k) Plans	Shareholders with a 401(k) Plan Invested in Mutual Funds	Shareholders with a 401(k) Plan Not Invested in Mutual Funds	
Number of Households (millions)	18.4	15.1	3.3	11.8
Median				
Age	40	39	43	46
Household income	\$60,000	\$60,000	\$60,000	\$50,000
Household financial assets outside of employer-sponsored retirement plans ²	\$30,000	\$30,000	\$67,500	\$60,000
Percent				
Married	72%	71%	76%	68%
Widowed	2	2	3	8
Four-year college degree or more	52	50	57	57
Completed graduate school	17	17	18	21
Employed (full- or part-time)	92	93	87	71
Retired from lifetime occupation	8	6	12	26
Own outside of employer-sponsored retirement plans: ³				
Individual stocks	55	53	63	47
Individual bonds	22	20	29	25
Annuities (fixed and variable)	17	15	24	31
Real estate (excluding primary residence)	33	31	43	42
Have: ³				
An IRA	53	48	77	74
A Keogh or SEP IRA	14	13	19	16
A company pension plan other than 401(k) plan	51	50	56	46

¹Refers to responses by the financial decisionmaker within the household.

²Also excludes primary residence.

³Multiple responses included.

Note: Number of responses varies.

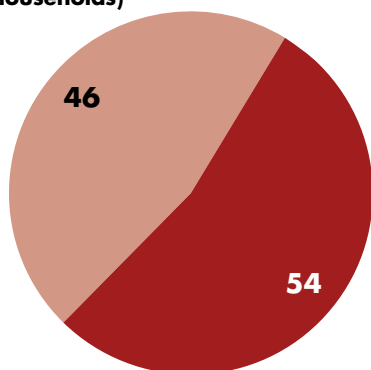
Figure 3

Shareholders with 401(k) Plan Assets Invested in Mutual Funds

(percent of respondents)

Only own mutual funds in a 401(k) plan

(6.9 million households)



Own mutual funds within and outside of a 401(k) plan

(8.2 million households)

Number of Shareholders with a 401(k) Plan Invested in Mutual Funds = 15.1 million

degree and 13 percent had completed graduate school. Some shareholders only owning mutual funds through 401(k) plans had investments outside of 401(k) plans; 43 percent owned individual stocks outside of such plans, 22 percent owned investment real estate, and 19 percent owned individual bonds. In addition, 25 percent of these shareholders had IRAs and 32 percent had company pension plans other than 401(k) plans (Figure 5).

Shareholders with Mutual Funds in Addition to Those in 401(k) Plans

Shareholders owning mutual funds both within and outside of a 401(k) plan had median assets of \$25,000 in their 401(k) plans, \$13,000 greater than the median of those who owned mutual funds only through 401(k) plans. Two-thirds of this segment of shareholders owned stock funds in their 401(k) plans, 30 percent owned bond and income funds, and 41 percent owned money market funds (Figure 4). In contrast, 76 percent of shareholders owning mutual funds both within and outside of a 401(k) plan owned stock funds outside of their 401(k) plans, 51 percent owned bond and income funds, and 48 percent owned money market funds.

Figure 4

Characteristics of 401(k) Plans for Shareholders with a 401(k) Plan Invested in Mutual Funds

	All Shareholders with a 401(k) Plan Invested in Mutual Funds	Only Own Mutual Funds Through 401(k) Plans ¹	Own Mutual Funds Within and Outside of 401(k) Plans
Number of Households (millions)	15.1	6.9	8.2
Median per Household			
401(k) plan assets	\$20,000 ²	\$12,000	\$25,000 ²
Number of funds owned through 401(k) plans	2	1	2
Percent of Households with 401(k) Plans Assets Invested in:			
Stock mutual funds	60%	52%	66%
Bond and income mutual funds	28	26	30
Money market mutual funds	40	39	41
Other	4	3	5
Don't know type	5	7	3

¹Shareholders who own mutual funds only through 401(k) plans represent 22 percent of all mutual fund shareholders.

²May include 401(k) plan investments not in mutual funds.

Compared with shareholders owning mutual funds only through 401(k) plans, more shareholders owning mutual funds both within and outside of a 401(k) plan had non-fund investments. Sixty-two percent of shareholders with mutual funds in addition to those in 401(k) plans owned individual stocks outside of 401(k) plans, 21 percent owned individual bonds, and 38 percent owned investment real estate. Also, 68 percent of these shareholders had IRAs, in contrast to 25 percent of shareholders owning mutual funds only in 401(k) plans. Furthermore, 65 percent of shareholders owning funds within and outside of 401(k) plans had company pension plans other than 401(k) plans, compared with 32 percent of shareholders owning mutual funds only in 401(k) plans (Figure 5).

Shareholders with mutual funds both within and outside of 401(k) plans had a median age of 41 years and a median household income of \$60,000. Excluding employer-sponsored retirement plan holdings, this segment's median household financial assets totaled \$50,000, \$30,000 greater than that of shareholders only owning funds through 401(k) plans. Sixty percent of shareholders with mutual funds both within and outside of 401(k) plans completed four years of college, compared with 40 percent of those only owning mutual funds through 401(k) plans (Figure 5).

Figure 5

Characteristics of Households with 401(k) Plan Assets Invested in Mutual Funds¹

	All Shareholders with a 401(k) Plan Invested in Mutual Funds	Only Own Mutual Funds Through 401(k) Plans	Own Mutual Funds Within and Outside of 401(k) Plans
Number of Households (millions)	15.1	6.9	8.2
Median			
Age	39	37	41
Household income	\$60,000	\$50,000	\$60,000
Household financial assets outside of employer-sponsored retirement plans ²	\$30,000	\$20,000	\$50,000
Percent			
Married	71%	66%	76%
Widowed	2	1	2
Four-year college degree or more	50	40	60
Completed graduate school	17	13	20
Employed (full- or part-time)	93	95	91
Retired from lifetime occupation	6	4	8
Own outside of employer-sponsored retirement plans: ³			
Individual stocks	53	43	62
Individual bonds	20	19	21
Annuities (fixed and variable)	15	8	22
Real estate (excluding primary residence)	31	22	38
Have: ³			
An IRA	48	25	68
A Keogh or SEP IRA	13	5	19
A company pension plan other than 401(k) plan	50	32	65

¹Refers to responses by the financial decisionmaker within the household.

²Also excludes primary residence.

³Multiple responses included.

Note: Number of responses varies.

For more information on various segments of the mutual fund shareholder population, call the Institute's Research Department at (202) 326-5913.

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