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The U.S. Retirement Market, 2008

Key Findings

- **Total U.S. retirement assets were $14.0 trillion at year-end 2008, down $3.9 trillion, or 22 percent, from year-end 2007.** The decline in retirement assets largely was driven by investment returns. Nearly all asset classes experienced negative total returns in 2008.
- **Market performance exerted downward pressure on most retirement plan assets in 2008.** Individual retirement account (IRA) assets fell $1.1 trillion, or 24 percent; defined contribution (DC) plan assets fell $985 billion, or 22 percent; state and local pension plan assets fell $858 billion, or 27 percent; and private-sector defined benefit (DB) plan assets fell $734 billion, or 27 percent. Total federal government pension assets, which were primarily invested in nonmarketable government securities, were the exception, edging up 2 percent in 2008.
- **Employer-sponsored retirement plans play a key role in helping American workers save for retirement.** The bulk (nearly two-thirds) of Americans' retirement assets was held in employer-sponsored retirement plans at year-end 2008. Furthermore, a significant portion of assets held in IRAs originated in employer plans and were then transferred (or "rolled over") into IRAs.
- **DC plan and IRA assets invested in mutual funds constituted 22 percent of Americans' retirement savings in 2008.** About half of Americans' retirement savings were held in DC plans and IRAs at year-end 2008. Mutual funds managed 44 percent of DC plan assets and 44 percent of IRA assets.

The U.S. Retirement Market

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

U.S. retirement assets decreased to $14.0 trillion in 2008, down 22 percent from 2007 (Figure 1).[1] Other than federal government pensions (which hold primarily nonmarketable U.S. government securities), total assets of all types of retirement plans declined in value in 2008. Private-sector DB plan assets fell 27 percent; state and local government employee retirement plan assets fell 27 percent; employer-sponsored DC plan assets fell 22 percent; IRAs fell 24 percent; and annuity reserves outside of retirement plans fell 15 percent.

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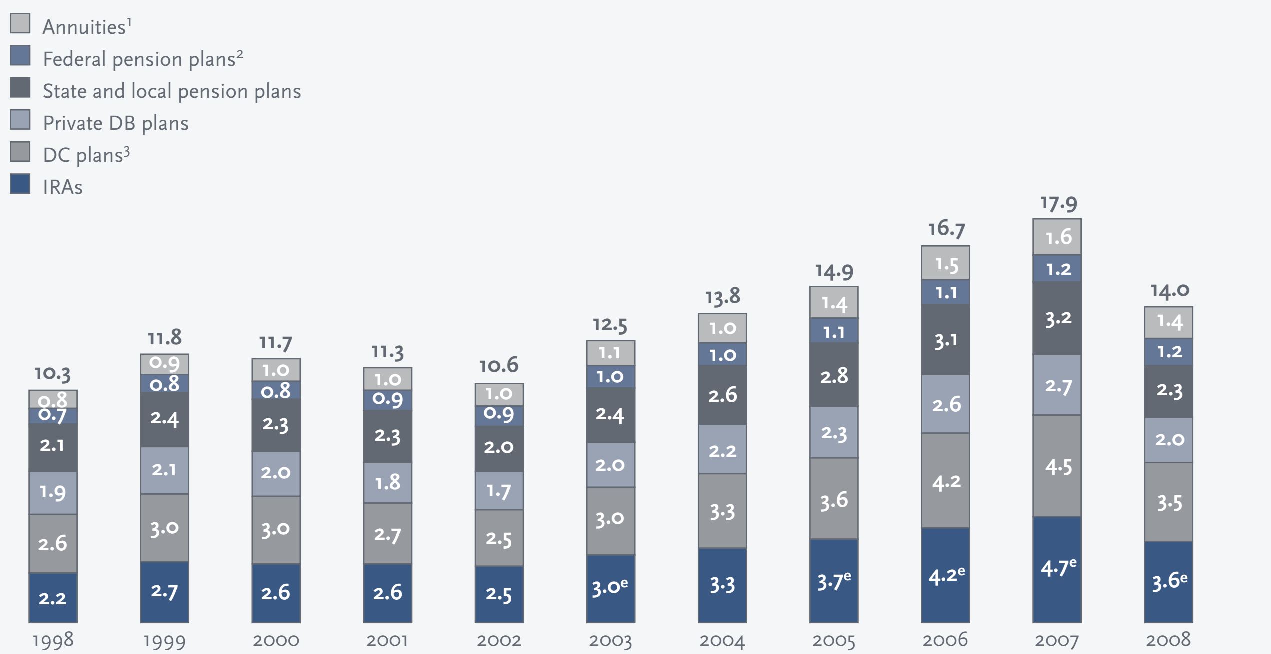
Figure 1

U.S. Retirement Assets

Trillions of dollars, end-of-period, 1998–2008



[1]Annuities include all fixed and variable annuity reserves at life insurance companies less annuities held by IRAs, 403(b) plans, 457 plans, and private pension funds (including 401(k) plans).

[2]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 Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP).

[3]DC plans include 403(b) plans, 457 plans, and private employer-sponsored DC plans (including 401(k) plans).

[e]Data are 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, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

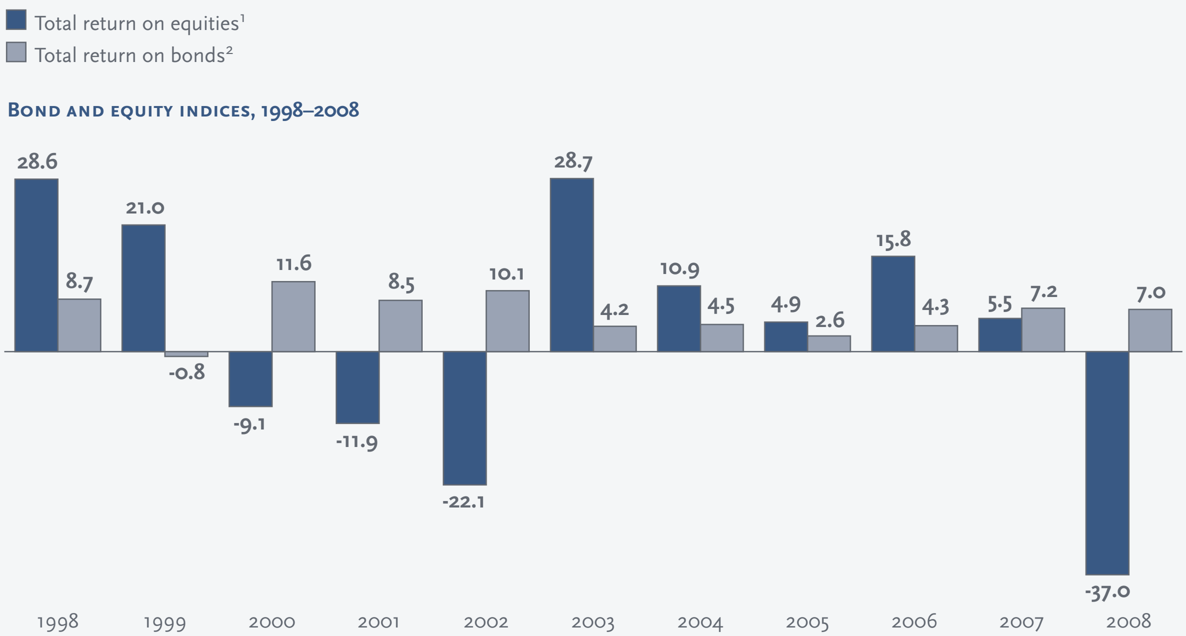
In the past, retirement asset growth has been correlated with stock and bond market returns, and 2008 was no exception. Nearly all asset classes experienced negative returns in 2008 (Figure 2). Large capitalization domestic equities experienced negative total returns of 37 percent; small capitalization domestic equities, negative 34 percent; foreign equities, negative 45 percent; corporate bonds, negative 6 percent; municipal bonds, negative 3 percent; and Treasury inflation-protected securities (TIPS), negative 1 percent, inclusive of a negative 8 percent total return from March 10 to the end of the year. The only asset class that did particularly well in 2008 was nominal Treasury securities, which had a positive total return of 23 percent.

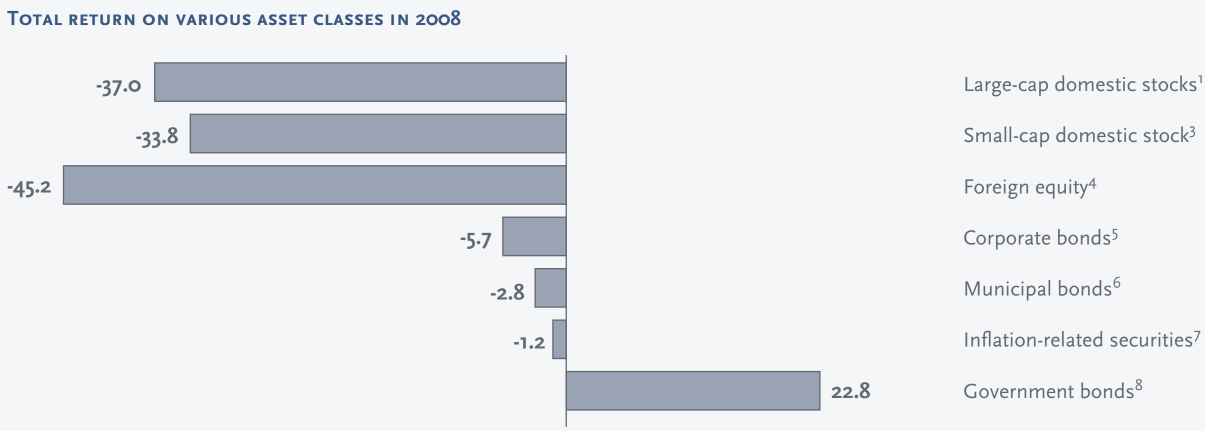
The largest components of retirement savings were IRAs and employer-sponsored DC plans, holding $3.6 trillion and $3.5 trillion, respectively, at year-end 2008. Private-sector DB pension funds held $2.0 trillion in assets, state and local government employee retirement plans held $2.3 trillion in assets, and federal government DB plans and the federal employees' Thrift Savings Plan (TSP) held $1.2 trillion in assets. In addition, there were $1.4 trillion in annuity reserves outside of retirement plans at year-end 2008.

Figure 2

Many Categories of Assets Experienced Negative Returns in 2008

Percentage change in total return index indicated





[1]The 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.

[2]The 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, corporate credit, noncorporate credit, mortgage-backed securities, and asset-backed securities.

[3]The total return on small-cap equities reported is the Russell 2000 Index, which measures the performance of the 2000 smallest companies of the Russell 3000 Index.

[4]The total return on foreign equities reported is the MSCI ACWI World ex-U.S. Total Return Index.

[5]The total return on corporate bonds reported is the Citigroup Corporate 7 to 10 Year Bond Index.

[6]The total return on municipal bonds reported is the S&P National Municipal Bond Index, which is a broad value-weighted index designed to seek to measure the performance of tax-exempt, investment grade U.S. municipal bond markets.

[7]The total return on inflation-linked securities reported is the Citigroup U.S. Treasury Inflation Linked Securities Index.

[8]The total return on government bonds reported is the Citigroup Treasury Government Sponsored 10+ Year Index.

Sources: Investment Company Institute, Bloomberg, Standard & Poor's, Russell Investments, Morgan Stanley Investment Management, and Citigroup

Retirement savings vehicles are integral to Americans' overall retirement planning and preparedness, accounting for more than one-third of the $40.8 trillion of U.S. household financial assets at year-end 2008 (Figure 3).[2] The bulk of retirement assets either was held in employer-sponsored retirement plans—including those sponsored by private-sector employers and by federal, state, and local governments—or originated there. Employer-sponsored plans directly held 65 percent of all 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 become a larger portion of U.S. retirement assets. In 2008, DC plans and IRAs made up 51 percent of all retirement assets, up from 39 percent in 1990.[4] In 2008, mutual funds managed $3.1 trillion in retirement assets, about evenly split between IRAs and employer-sponsored DC plans.[5]

In addition, U.S. households owned another $687 billion in mutual fund assets through variable life insurance company products—primarily variable annuity contracts—held outside of retirement accounts.[6, 7]

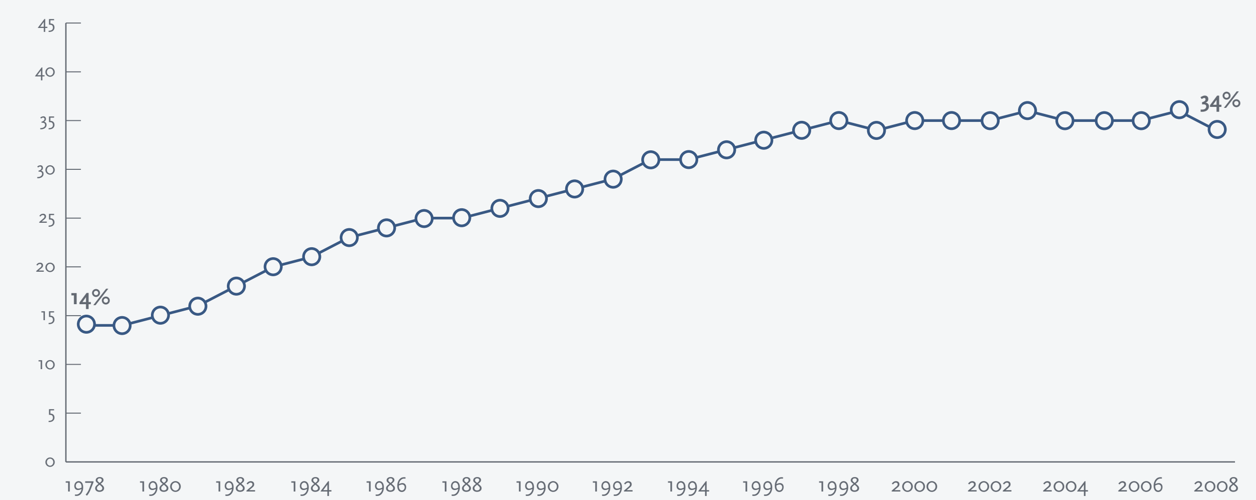
How ICI Measures U.S. Retirement Assets

Given the importance of retirement savings to mutual funds[8] 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 round out the picture of the total U.S. retirement market, with ICI estimates of the total IRA market completing the data through 2008.

Figure 3

Retirement Assets Represented 34 Percent of Household Assets

Retirement assets as a percentage of household financial assets, year-end, 1978–2008



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 $3.6 trillion in assets accounting for 26 percent of U.S. retirement market assets in 2008 (Figure 1). Another $1.4 trillion, or 10 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). During the bear market in equities in the early part of this decade, mutual funds' share of IRA holdings dropped to 41 percent at year-end 2002, but rebounded after 2002, registering a 49 percent share at year-end 2007.[14] Over the past year, mutual funds' share dropped down to 44 percent. In contrast, the share of IRA assets held through bank and thrift deposits fell from 10 percent at year-end 2002 to 7 percent at year-end 2007, but increased to 11 percent by year-end 2008.

Figure 4

44 Percent of IRA Assets Were Invested in Mutual Funds in the Fourth Quarter of 2008

IRA assets by type of institution, end-of-period, 1990–2008: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	$140	22%	$266	42%	$40	6%	$190	30%	$636
1991	188	24	283	36	45	6	260	34	776
1992	237	27	275	32	50	6	311	36	873
1993	321	32	263	26	62	6	347	35	993
1994	348	33	255	24	70	7	383	36	1,056
1995	474	37	261	20	81	6	472	37	1,288
1996	595	41	259	18	92	6	521	36	1,467
1997	780	45	254	15	136	8	558	32	1,728
1998	981	46	249	12	157	7	763	35	2,150
1999	1,277	48	243	9	203	8	929	35	2,651
2000	1,249	47	250	10	203	8	928	35	2,629
2001	1,176	45	255	10	211	8	978	37	2,619
2002	1,044	41	263	10	268	11	958	38	2,533
2003	1,327	44	268	9	285	10	1,114[e]	37	2,993[e]
2004	1,521	46	269	8	282	9	1,227	37	3,299
2005	1,700	47	278	8	308	8	1,366[e]	37	3,652[e]
2006	2,028	48	313	7	318	8	1,562[e]	37	4,220[e]
2007	2,304	49	340	7	325[e]	7	1,778[e]	37	4,747[e]
2008:Q1	2,165	48	351	8	321[e]	7	1,683[e]	37	4,520[e]
2008:Q2	2,155	48	359	8	321[e]	7	1,677[e]	37	4,512[e]
2008:Q3	1,928	47	370	9	318[e]	8	1,508[e]	37	4,124[e]
2008:Q4	1,596	44	391	11	301[e]	8	1,321[e]	37	3,610[e]

[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 percentage of total IRA assets.*

[e] *Data are estimated.*

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, 47.3 million, or about four in 10, U.S. households owned IRAs in mid-2008 (Figure 5).[15] In 2008, approximately 37.5 million, or 32.1 percent of, U.S. households owned traditional IRAs—defined as those IRAs first allowed under the Employee Retirement Income Security Act of 1974 (ERISA)—while approximately 18.6 million, or 15.9 percent of, U.S. households had Roth IRAs, first made available in 1998 under the Taxpayer Relief Act of 1997.[16] In 2008, approximately 10.0 million, or 8.6 percent of, U.S. households had employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). The Simplified Employee Pension (SEP) 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 the Savings Incentive Match Plan for Employees (SIMPLE) IRAs, which were first available in 1997.

Figure 5

47 Million Households Owned IRAs

May 2008

	Year created	Number of U.S. households with type of IRA, 2008	Percentage of U.S. households with type of IRA, 2008
Traditional IRA	1974 (Employee Retirement Income Security Act)	37.5 million	32.1%
SEP IRA	1978 (Revenue Act)	10.0 million	8.6%
SAR-SEP IRA	1986 (Tax Reform Act)		
SIMPLE IRA	1996 (Small Business Job Protection Act)		
Roth IRA	1997 (Taxpayer Relief Act)	18.6 million	15.9%
Any IRA		47.3 million	40.5%

Note: Households may hold more than one type of IRA.

Sources: Investment Company Institute and U.S. Bureau of the Census (Fundamentals, *"The Role of IRAs in U.S. Households' Saving for Retirement, 2008" [www.ici.org/pdf/fm-v18n1.pdf]*)

Investors held $3.2 trillion in traditional IRAs in 2008 (Figure 6)[17] with the remaining $389 billion held in Roth and employer-sponsored IRAs. Roth and SIMPLE IRAs, introduced in the late 1990s, now represent 6 percent of all IRA assets.[18]

Households have used employer-sponsored plans and accounts to accumulate a sizable 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 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

Figure 6

Most IRA Assets Held in Traditional IRAs

IRA assets by type, year-end, 1998–2008

	Traditional[1]		SEP and SAR-SEP		Roth[2]		SIMPLE		Total assets[4] (billions)
	Assets (billions)	Share[3] (percent)	Assets (billions)	Share[3] (percent)	Assets (billions)	Share[3] (percent)	Assets (billions)	Share[3] (percent)	
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]
2008	3,221[e]	89	180[e]	5	165[e]	5	44[e]	1	3,610[e]

[1] Traditional IRAs include contributory and rollover IRAs.

[2] Roth IRAs include contributory and conversion Roth IRAs.

[3] Share is the percentage of total IRA assets.

[4] Education IRAs were renamed Coverdell Education Savings Accounts (ESAs) in July 2001 and are not included in total IRA assets.

(*) = less than 1/2 percent

[e] Data are estimated.

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

Sources: Investment Company Institute and Internal Revenue Service Statistics of Income Division 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 2007 were held in rollover IRAs.[19] Combined, employer-based IRAs and rollover IRAs accounted for more than half of all IRA assets in 2007 (Figure 8).

Figure 7

Rollovers Generate a Significant Portion of Flows into Traditional IRAs

Billions of dollars, 1996–2008

	Traditional IRAs				
	Contributions[1]	Rollovers[2]	Withdrawals[3]	Total assets[4] (year-end)	Of which: assets held in mutual funds (year-end)
1996	$14.1	$114.0	$45.5	N/A	$562
1997	15.0	121.5	55.2	$1,642[e]	734
1998	11.9	160.0	74.1	1,974	889
1999	10.3	199.9	87.1	2,423	1,141
2000	10.0	225.6	99.0	2,407	1,112
2001	9.2	187.8	94.3	2,395	1,044
2002	12.4	204.4	88.2	2,322	919
2003	12.3[e]	205.0[e]	88.3	2,719[e]	1,154
2004	12.6	214.9	101.7	2,957	1,315
2005	N/A	N/A	112.3	3,259[e]	1,459
2006	N/A	N/A	124.7	3,749[e]	1,731
2007	N/A	N/A	N/A	4,208[e]	1,958
2008	N/A	N/A	N/A	3,221[e]	1,359

[1] Contributions include both deductible and nondeductible contributions to traditional IRAs.

[2] Rollovers are primarily from employer-sponsored retirement plans.

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

[4] Total assets are the fair market value of assets at year-end.

[e] Data are estimated.

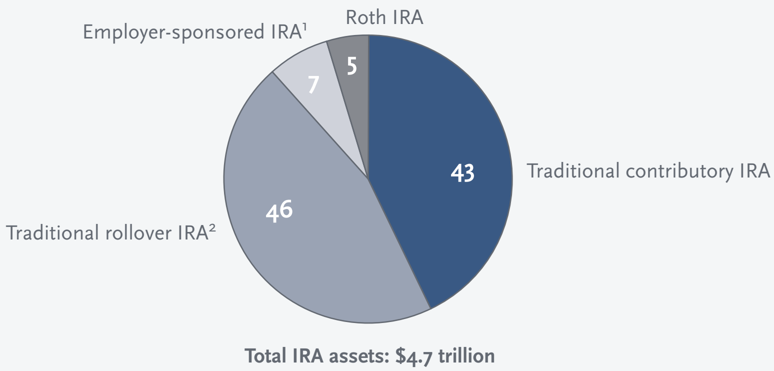
N/A = not available

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

Percentage of total IRA assets, year-end 2007



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

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

Note: Components do not add to 100 percent because of rounding.

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

Employer-Sponsored Retirement Plans

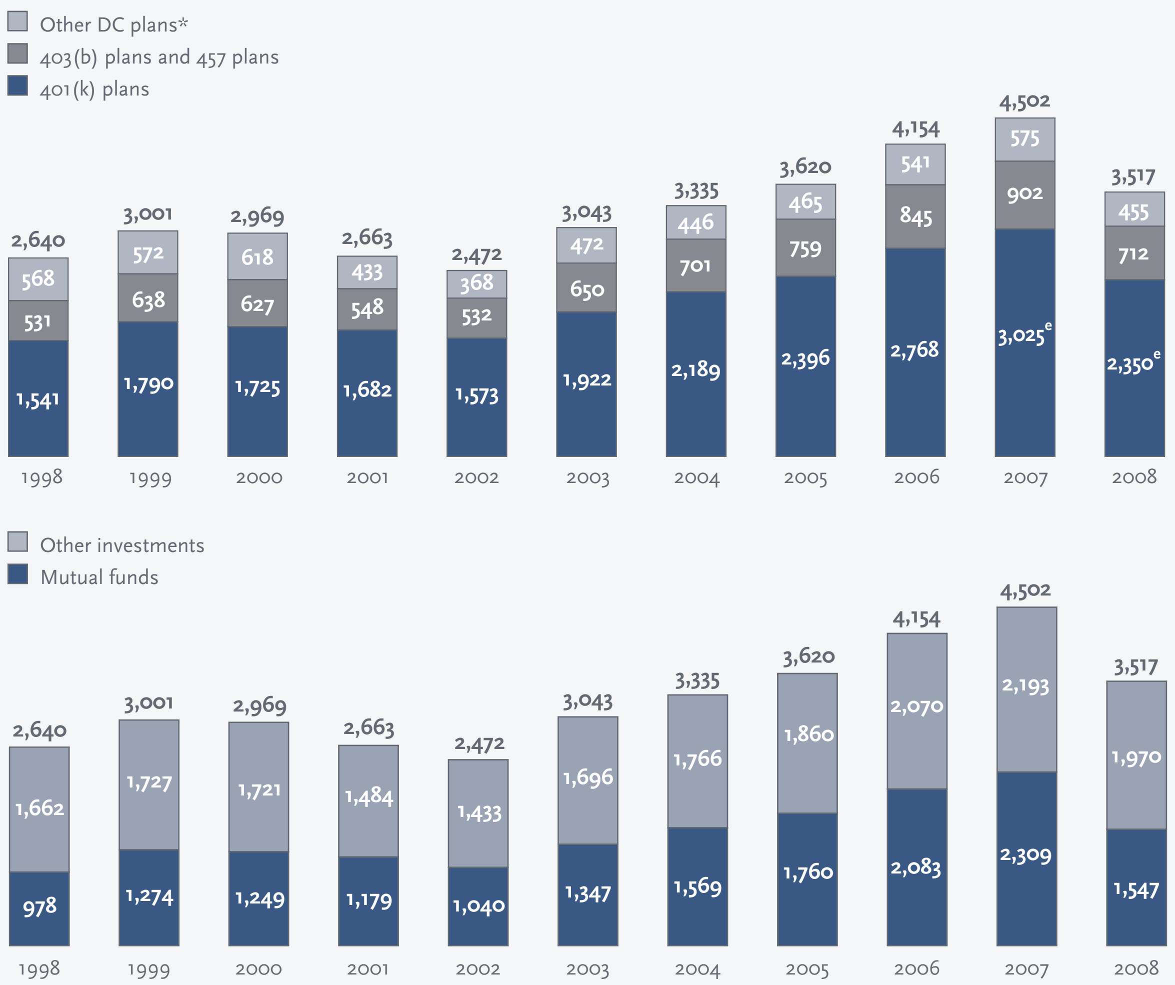
Assets held in employer-sponsored retirement plans represented 65 percent of total U.S. retirement assets in 2008.[20] Investors held $3.5 trillion in DC plans, accounting for 39 percent of employer-sponsored plan assets. Private-sector employer-sponsored DB plans, with $2.0 trillion, accounted for 22 percent of employer-sponsored plan assets in 2008. In addition, state and local government DB plans held $2.3 trillion, and federal pension plans held $1.2 trillion.[21]

In 2008, investors held $2.4 trillion in 401(k) plans, the most common type of DC plan (Figure 9).[22, 23] 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

Figure 9

Defined Contribution Plan Assets and Amounts Held in Mutual Funds

Billions of dollars, year-end, 1998–2008



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

[e] Data are estimated.

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

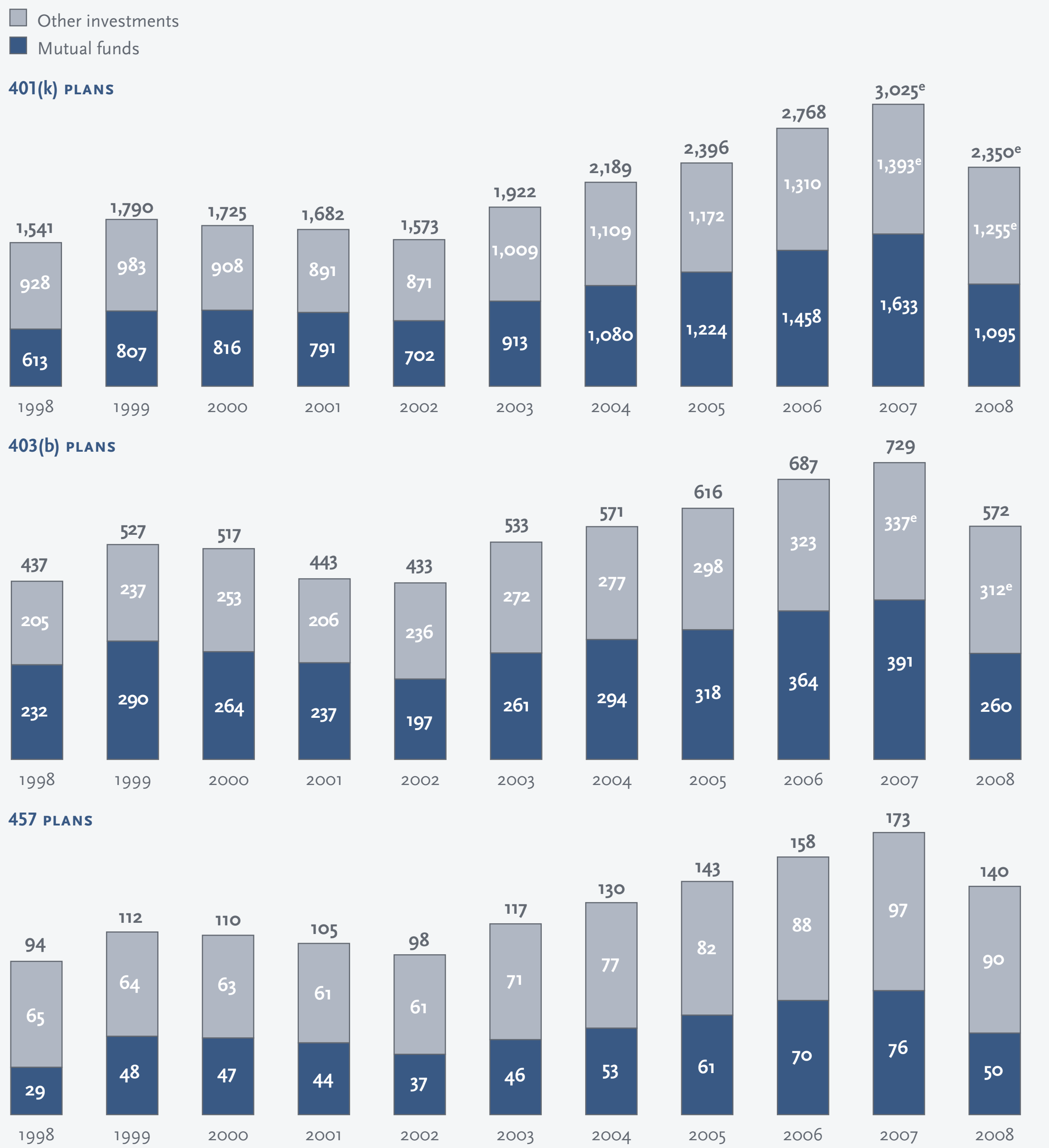
Sources: Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, and American Council of Life Insurers and direct the investment allocation of their assets. Some private-sector employers offer other types of DC plans—such as noncontributory profit-sharing plans—that may not have 401(k) features. Investors held $1.2 trillion in non-401(k) DC plans in 2008.

At year-end 2008, investors relied on mutual funds to manage $1.5 trillion in DC plan assets: $1.1 trillion in 401(k) plans, $260 billion in 403(b) plans, $50 billion in 457 plans (Figure 10), and $142 billion in other DC plans.[24] Overall, mutual funds managed 47 percent of

Figure 10

Defined Contribution Plans Hold Significant Mutual Fund Assets

Billions of dollars, year-end, 1998–2008



[e] Data are 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 assets in 401(k) plans, 45 percent of the assets in 403(b) plans, 36 percent of 457 plan assets, and 31 percent of other DC plan assets. Mutual fund shares held in 403(b) plans include both variable annuity (VA) mutual fund shares totaling $144 billion and non-VA mutual fund shares of $116 billion (Figure 11).

Figure 11

403(b) Plan Assets and Share of Total 403(b) Plan Assets by Institution

End-of-period, 1996–2008: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	337[e]	46	221	30	170	23	729
2008:Q1	335[e]	48	202	29	157	23	694
2008:Q2	335[e]	48	199	29	158	23	693
2008:Q3	329[e]	51	178	27	140	22	647
2008:Q4	312[e]	55	144	25	116	20	572

[1] Annuities held by 403(b) plans exclude variable annuity (VA) mutual fund 403(b) assets.
[2] Share is the percentage of total 403(b) plan assets.
[e] Data are estimated.
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 held long-term (stock, hybrid, and bond) mutual funds in DC plans and IRAs. In 2008, 57 percent, or $1.8 trillion, of the $3.1 trillion of DC plan and IRA mutual fund assets were invested in stock funds (Figure 12).[25] Hybrid funds (which invest in a mix of equity and fixed-income securities and include most lifestyle and lifecycle funds) managed $526 billion in DC plan and IRA assets; bond funds held an additional $415 billion; and money market funds held $420 billion. Most DC plan and IRA long-term mutual fund assets were actively managed funds. At year-end 2008, $2.5 trillion of long-term mutual fund assets held in DC plans and IRAs were actively managed, compared with $262 billion invested in passively managed, or index, mutual funds.[26] Investors allocate assets in VA mutual funds held outside of retirement accounts in a similar manner, 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).[27]

Assets in Lifecycle and Lifestyle Mutual Funds

Lifecycle (or target date) and lifestyle (or target risk) mutual funds have grown in popularity among investors and retirement plan sponsors in recent years.[28] Lifecycle investment options (including lifecycle mutual funds), in particular, have been increasingly offered in the investment lineup of plan sponsors[29] and held in the accounts of recently hired 401(k) plan investors.

Eighty-eight percent of the assets of lifecycle mutual funds were held in retirement accounts at year-end 2008 (Figure 13). A lifecycle fund pursues a long-term investment strategy, using a mix of asset classes, or asset allocation, that the fund provider adjusts to become more conservative over time. The asset allocation path that the lifecycle fund follows to become more conservative over time is typically referred to as the "glide path." Since discussions of asset allocation usually focus on the percentage of the portfolio invested in equities, the glide path generally reflects the declining percentage of equities in the

Figure 12

Majority of Mutual Fund Retirement Assets Invested in Stocks

Mutual fund retirement assets by type of fund, billions of dollars, 2008:Q4

	Equity						
	Total	Domestic	Foreign	Hybrid[1]	Bond	Money market	Total
Retirement accounts	**$1,781**	**$1,395**	**$386**	**$526**	**$415**	**$420**	**$3,143**
IRAs	851	661	190	241	229	274	1,596
DC plans	930	734	196	285	186	146	1,547
401(k) plans	646	495	151	227	132	89	1,095
403(b) plans	177	155	22	30	27	26	260
457 plans	32	26	6	9	7	2	50
Other DC plans[2]	75	58	17	19	20	28	142
VA mutual funds (outside of retirement accounts)[3]	**438**	**346**	**92**	**49**	**145**	**55**	**687**
Total	**2,219**	**1,741**	**478**	**575**	**561**	**475**	**3,830**

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

[2] Other DC plans include Keoghs and other DC plans without 401(k) features.

[3] Some 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 totals because of rounding.

Source: Investment Company Institute

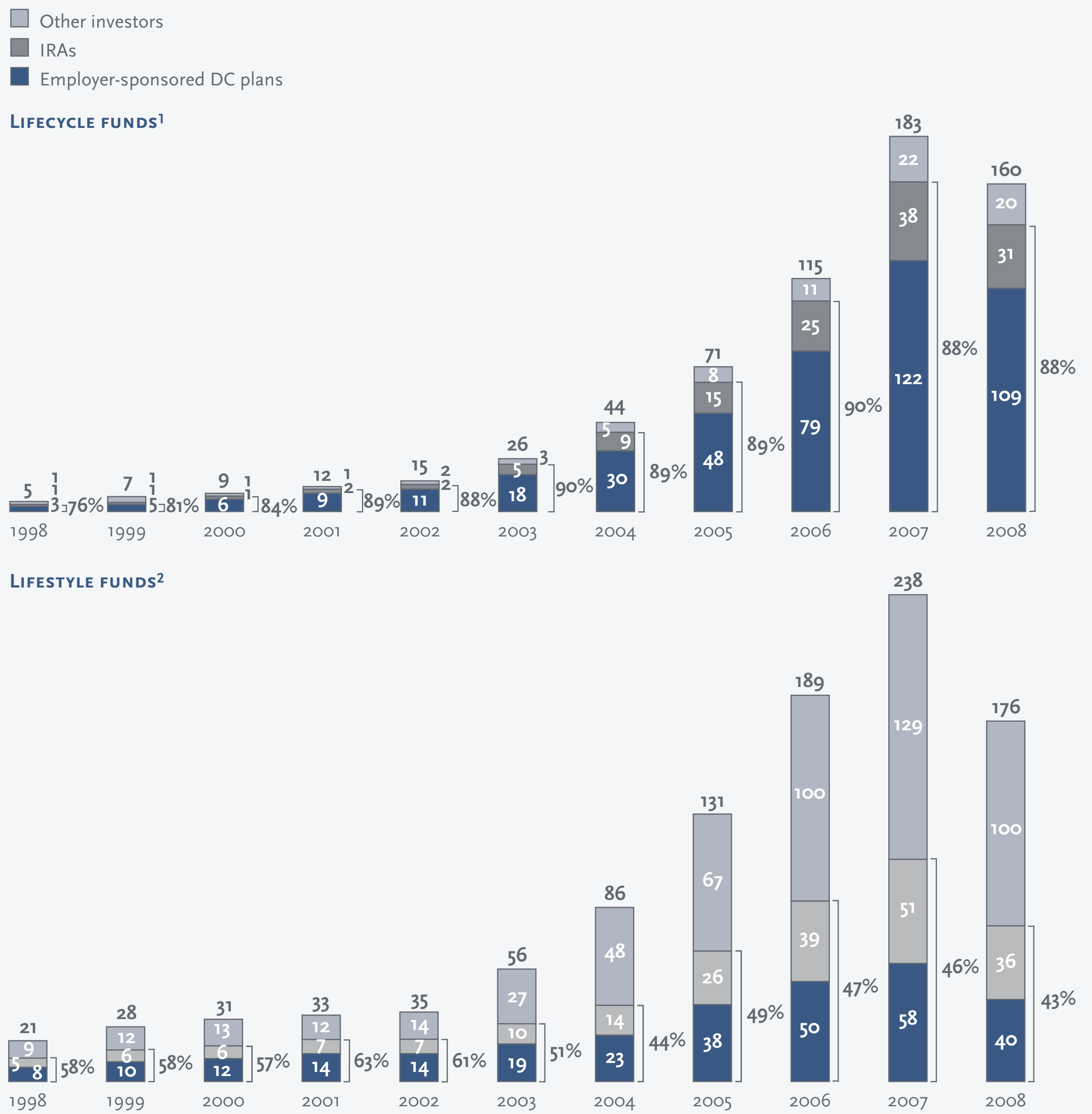
portfolio as it approaches and passes the target date, which is usually indicated in the fund's name. The target date generally is the date at which the typical investor for whom that fund is designed would reach retirement age and stop making new investments in the fund.

Forty-three percent of lifestyle mutual fund assets were held in retirement accounts (Figure 13). 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

Billions of dollars, year-end, 1998–2008



[1]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.

[2]A lifestyle mutual fund maintains a predetermined risk level and generally contains "conservative," "aggressive," or "moderate" in the fund's name.

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-v18n5_appendix.pdf. For additional details regarding retirement assets by type of savings vehicle, see Appendix Figure A1.

[2] See Federal Reserve Board 2009b.

[3] Derivation of this estimate is based on information from the Federal Reserve Board's Survey of Consumer Finances (SCF) and is explained in more detail in endnote 19. See Federal Reserve Board 2009a. For the article summarizing the 2007 SCF, see Bucks, Kennickell, Mach, and Moore 2009.

[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 A.M. 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) were in variable life policies.

[7] All told, households held 88 percent of the $9.6 trillion in mutual fund assets through taxable, tax-deferred, and tax-exempt accounts at year-end 2008. See Investment Company Institute 2009.

[8] At year-end 2008, retirement accounts (DC plans and IRAs) held 33 percent of all mutual fund assets (see Appendix Figure A5). Another 10 percent of industrywide mutual fund assets were VA mutual funds that back variable life insurance company products held outside of retirement accounts.

[9] Ninety-five percent of mutual fund shareholders indicate that saving for retirement is one of their financial goals and 76 percent indicate that it is their primary financial goal. See Schrass and Bass 2009 and Sabelhaus, Schrass, and Bass 2009.

[10] This is based on data from ICI's Quarterly Questionnaire for Retirement Statistics, which gathered data from mutual fund share classes representing approximately 81 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 Classification of Shareholder Assets.

[11] In this report, estimates of mutual fund assets in 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 $228 billion at year-end 2008, or less than 2 percent of the U.S. retirement market. In addition, the Federal Reserve Board reports that state and local government (DB) employee retirement funds held $217 billion in mutual fund assets at year-end 2008, or less than 2 percent of the U.S. retirement market. See Federal Reserve Board 2009b.

[12] ICI reports a lower annuities total than the Flow of Funds Accounts (see Federal Reserve Board 2009b) because annuities held in IRAs, 457 plans, and 403(b) plans are netted from the 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 Schrass 2009a.

[16] For a history of IRAs, see Holden, Ireland, Leonard-Chambers, and Bogdan 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, 1996–2002, 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 2003; Sailer and Nutter 2004; Bryant and Sailer 2006; and Bryant 2008.

[18] See Appendix Figures A8–A14 for additional details on IRAs.

[19] See Federal Reserve Board 2009a. 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 the 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 2008, the TSP held $203 billion in assets. For more details regarding the TSP, see Clifton Gunderson LLP 2009.

[22] Prior to 2005, the U.S. Department of Labor private pension plan bulletin updates reported a count of active 401(k) plan participants that had been adjusted from the number of active participants that was actually reported in the Form 5500 filings to exclude: (1) individuals eligible to participate in a 401(k) plan who had not elected to have their employers make contributions; and (2) non-vested former employees who had not (at the time the Form 5500s were submitted) incurred the break in service period established by their plan (see U.S. Department of Labor 2008a for further detail). This change in methodology results in a dramatic increase in the number of individuals reported as active participants in 401(k) plans: in 2004, the number of active participants increased to 53.1 million (new method) from 44.4 million (old method; see U.S. Department of Labor 2008a). As the Department of Labor notes: "In a purely economic sense and for research purposes, individuals in these groups should not be included in the count of active participants." However, the form schedule needed to make the adjustment is no longer required. Using National Compensation Survey data and historical relationships and trends evident in the Form 5500 data, ICI estimates the number of active 401(k) participants to be 49.8 million in 2008, and the number of 401(k) plans to be 474,800.

[23] For a history of 401(k) plans, see Holden, Hadley, and Brady 2006.

[24] See Appendix Figure A16 for DC plan holdings of mutual funds by type of plan.

[25] See Appendix Figures A9 and A15 for historical data on IRA and DC plan holdings of mutual funds by type of fund.

[26] See Appendix Figure A6 for index mutual fund assets.

[27] See Appendix Figure A4 for total VA mutual fund assets.

[28] Often, lifecycle and lifestyle funds are organized as funds of funds, with their underlying portfolios invested in other funds managed by the fund sponsor.

[29] See Holden, VanDerhei, Alonso, and Copeland 2008 for lifecycle investment option offering and use among 401(k) plans and plan participants at year-end 2006 and year-end 2007. For example, at year-end 2007, two-thirds of plans in the EBRI/ICI 401(k) database had lifecycle investment options in their plan lineups; one-quarter of the 21.8 million 401(k) participants in the EBRI/ICI database held lifecycle investments, and lifecycle investments represented 7.4 percent of the EBRI/ICI 401(k) database assets.

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