

Fundamentals

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Investment Company Institute

Mutual Funds and the Retirement Market

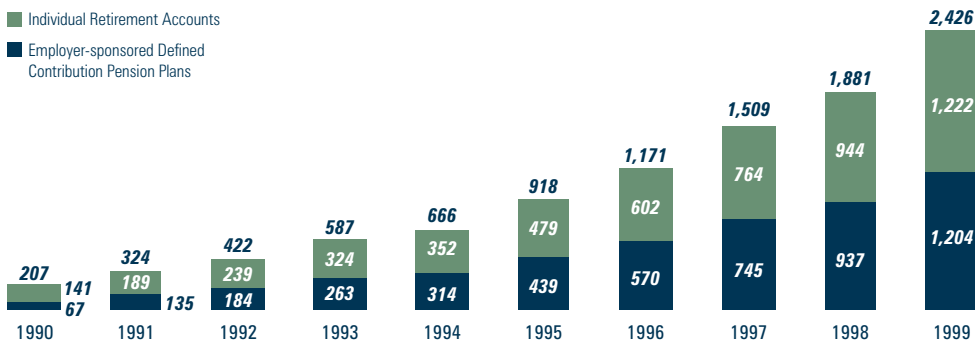
Mutual fund assets held in retirement accounts stood at \$2.4 trillion at the end of 1999, remaining at about one-third of all

mutual fund assets (Figure 1).^{1,2} Mutual fund retirement assets accounted for almost one-fifth of

figure 1

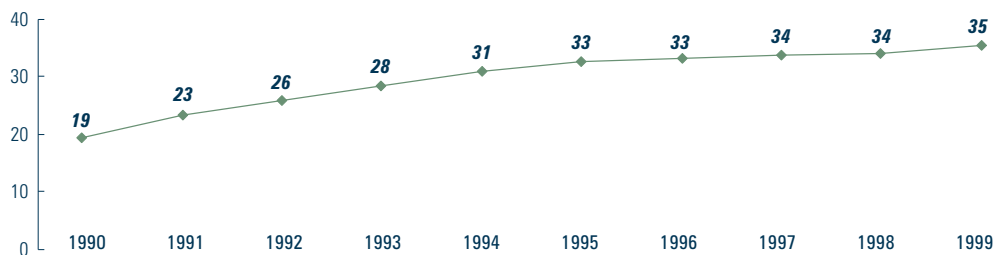
Mutual Fund Retirement Assets, 1990–1999

(billions of dollars)



Mutual Fund Retirement Assets as a Share of Total Mutual Fund Assets, 1990–1999

(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 1999 survey gathered data from 8,912 mutual fund share classes representing approximately 79 percent of mutual fund industry assets. Assets were estimated for all non-respondent funds. Data prior to 1999 reflect revisions to previously reported data.

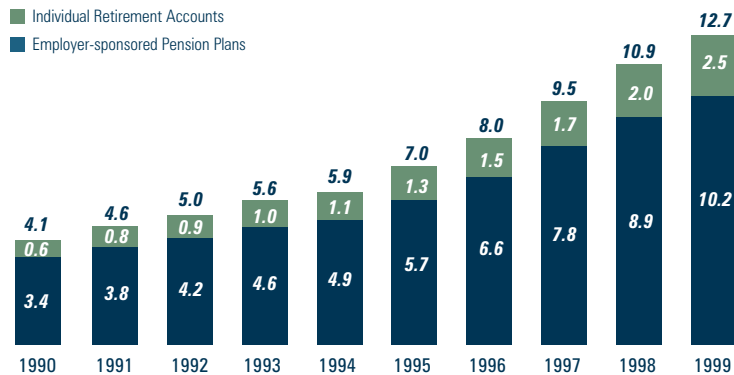
An estimate of retirement assets in broker street name and omnibus accounts was derived from data reported on the Institute's Annual Questionnaire for Retirement Statistics and the Annual Institutional Survey.

² In this report, estimates of mutual fund assets in defined benefit plans have been excluded because of incomplete reporting. Using Department of Labor data and the incomplete Institute Survey information, the Institute estimates that mutual fund assets held in defined benefit plans accounted for about one-half of one percent of the U.S. retirement market at year-end 1999.

figure 2

U.S. Retirement Assets,^{1,2} 1990–1999

(trillions of dollars)



Mutual Fund Share of U.S. Retirement Assets,³ 1990–1999

(percent)

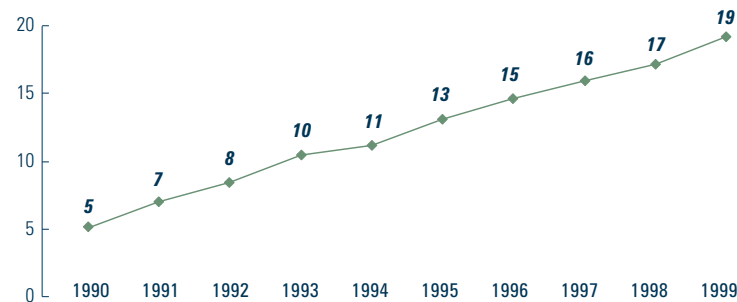


figure footnotes:

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.

² Components may not add to totals due to rounding.

³ Mutual fund retirement assets exclude defined benefit plans' mutual fund holdings, which amount to about one-half of one percent of the U.S. retirement market.

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

the assets in the \$12.7 trillion U.S. retirement market (Figure 2).³

Retirement assets in mutual funds increased 29 percent in 1999, after rising 25 percent in 1998 (Figure 1). The growth in assets was primarily the result of investment performance, which accounted for roughly three-quarters of the increase.

Net new cash flow to mutual funds from retirement accounts was an estimated \$133 billion in 1999, little changed from 1998 (Figure 3).⁴ Net flow to long-term funds from retirement accounts totaled \$110 billion (Figure 4), accounting for about 65 percent of all the net flow to long-term funds. Retirement net flow to equity funds amounted to \$112 billion in 1999, or about 60 percent of all equity fund inflows. Retirement inflow to money market funds was \$23 billion, or 12 percent of all short-term inflow.

IRA Holdings of Mutual Fund Assets

Mutual fund assets held in individual retirement accounts (IRAs) rose to \$1.2 trillion at year-end 1999. This figure represents 49 percent of the \$2.5 trillion IRA market, edging up from 47 percent at the end of 1998 (Figure 5).⁵

Mutual fund assets in IRAs increased 29 percent in 1999.⁶ Approximately 73 percent of the increase resulted from investment performance, with the

³ The U.S. retirement market comprises \$2.5 trillion in individual retirement account (IRA) assets, \$2.5 trillion in private employer-sponsored defined benefit pension plan assets, \$2.6 trillion in employer-sponsored defined contribution pension plan assets, \$3.1 trillion in state and local government employee retirement funds, \$1.3 trillion in annuity reserves at life insurance companies, and \$0.7 trillion in federal government defined benefit plan assets. (Estimates from the Investment Company Institute and Federal Reserve Board. See Figure 5 for the composition of the IRA total.)

⁴ The Institute does not collect sales or net new cash flow information 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 all 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 net new cash flow, TA represents total assets, TF represents total net new cash flow, and RA represents retirement assets.

⁵ Estimates of total IRA assets are derived from unpublished estimates of total IRA assets provided by the Statistics of Income Division of the Internal Revenue Service (IRS), for tax-years 1989, 1993, 1996, and 1997. Estimates are based on a sample of IRS returns.

⁶ Total mutual fund assets in IRAs include \$0.7 billion in Education IRAs in 1999 and \$0.2 billion Education IRAs in 1998.

remainder of the growth attributable to net new cash flow, which was \$75 billion (Figure 3).

At year-end 1999, 63 percent of mutual fund assets in IRAs were invested in domestic equity funds, compared with 50 percent at the end of 1996 (Figure 6). At year-end 1999, foreign equity funds maintained about a 10 percent share of IRA mutual fund assets, while the share of IRA assets held in bond, money market, and hybrid funds fell.

Mutual fund assets in traditional IRAs increased 27 percent in 1999 to \$1.1 trillion, after rising 19 percent in 1998 (Figure 7). Mutual fund assets in traditional IRAs represented 90 percent of all mutual fund IRA assets. Prior to the introduction of Roth IRAs in 1998, traditional IRAs represented about 95 percent of total mutual fund IRA assets. Roth IRAs held \$51 billion in mutual fund assets at the end of 1999, an 82 percent increase from \$28 billion at

figure 3

Estimated Net New Cash Flow to Retirement Accounts Held in Mutual Funds,^{1,2} 1990–1999

(billions of dollars)

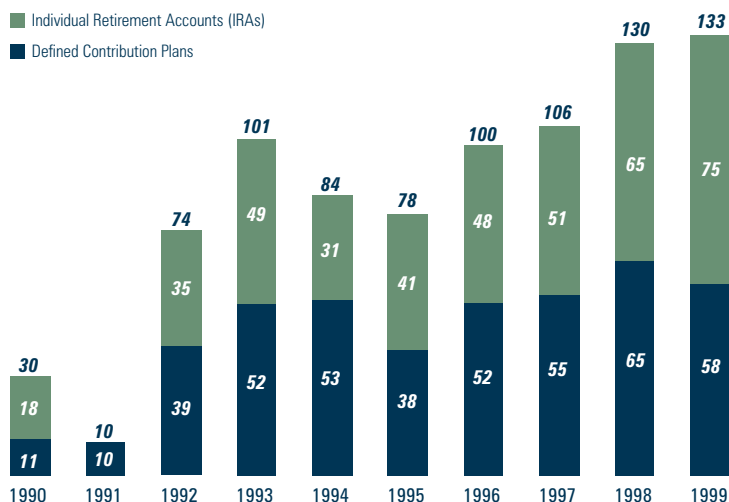


figure footnotes:

¹ See text footnote 4 for an explanation of the procedure used to estimate net new cash flows.

² Components may not add to totals due to rounding.

source: Investment Company Institute

figure 4

Estimated Net New Cash Flow to Retirement Accounts Held in Mutual Funds by Type of Fund,^{1,2} 1997–1999

(billions of dollars)

	1997	1998	1999
Total Retirement	106	130	133
Long-term Funds	116	103	110
Equity Funds ³			
IRAs	53	37	62
Defined Contribution Plans	49	42	50
Hybrid Funds ⁴			
IRAs	3	1	-4
Defined Contribution Plans	7	5	(*)
Bond Funds			
IRAs	1	9	2
Defined Contribution Plans	5	9	(*)
Money Market Funds	-11	28	23
IRAs	-5	19	15
Defined Contribution Plans	-6	9	8

figure footnotes:

¹ See text footnote 4 for an explanation of the procedure used to estimate net retirement inflows.

² Components may not add to totals due to rounding.

³ Domestic equity funds and foreign equity funds.

⁴ Hybrid funds invest in a mix of equity and fixed-income securities.

* Between \$500 million and -\$500 million.

source: Investment Company Institute

figure 5

IRA Assets and Share of Total IRA Assets by Institution, 1990–1999

	Mutual Funds		Bank and Thrift Deposits ¹		Life Insurance Companies		Securities Held in Brokerage Accounts		Total ² Assets (billions)
	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	
1990	\$141	22	\$266	42	\$53	8	\$176	28	\$635
1991	189	24	282	36	50	6	255	33	776
1992	239	28	275	32	56	6	297	34	866
1993	324	33	263	26	70	7	336	34	993
1994	352	33	255	24	79	7	370	35	1,056
1995	479	37	261	20	94	7	454	35	1,288
1996	602	41	258	18	110	8	496	34	1,467
1997	764	44	254	15	160	9	550	32	1,728
1998	944	47	249	12	190	9	646 ^e	32	2,029 ^e
1999	1,222	49	244	10	220 ^e	9	787 ^e	32	2,473 ^e

figure footnotes:

¹ Bank and thrift deposits include Keogh deposits.

² Components may not add to totals due to rounding.

³ Share of total IRA assets.

e=estimated

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

figure 6

Mutual Fund IRA Assets by Type of Fund, 1996–1999

	Domestic Equity		Foreign Equity		Hybrid ¹		Bond		Money Market		Total ² Assets (billions)
	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	
1996	\$298	50	\$63	10	\$67	11	\$79	13	\$94	16	\$602
1997	428	57	73	10	82	11	86	11	94	12	764
1998	551	58	83	9	93	10	98	10	119	13	944
1999	762	63	125	10	97	8	100	8	140	11	1,222

figure footnotes:

¹ Hybrid funds invest in a mix of equity and fixed-income securities.

² Components may not add to totals due to rounding.

³ Percent of total mutual fund assets in IRAs.

source: Investment Company Institute

figure 7

Mutual Fund IRA Assets and Share of Total Mutual Fund IRA Assets by Type of IRA, 1992–1999

	Traditional IRA ¹		SEP and SAR-SEP		Roth ²		SIMPLE		Education		Total ³ Assets (billions)
	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	Assets (billions)	Share ⁴ (percent)	
1992	\$231	97	\$8	3	-	-	-	-	-	-	\$239
1993	310	96	14	4	-	-	-	-	-	-	324
1994	338	96	14	4	-	-	-	-	-	-	352
1995	455	95	24	5	-	-	-	-	-	-	479
1996	569	95	32	5	-	-	-	-	-	-	602
1997	720	94	44	6	-	-	(*)	(**)	-	-	764
1998	859	91	55	6	28	3	2	(**)	(*)	(**)	944
1999	1,094	90	70	6	51	4	6	(**)	1	(**)	1,222

figure footnotes:

¹ Includes contributory and rollover IRAs.

² Includes contributory and conversion Roth IRAs.

³ Components may not add to totals due to rounding.

⁴ Percent of total mutual fund IRA assets.

(*): Less than \$500 million.

(**): Less than 1/2 percent.

source: Investment Company Institute

year-end 1998.⁷ Mutual fund assets in Roth IRAs represent 4 percent of mutual fund assets in IRAs.

Mutual fund assets in employer-sponsored IRAs totaled \$76 billion, or 6 percent of mutual fund IRA assets in 1999. Most of these assets were in Simplified Employee Pension (SEP) and salary reduction (SAR) SEP-IRAs,⁸ which grew 27 percent in 1999 to \$70 billion (Figure 7). Mutual fund assets in savings incentive match plans for employees (SIMPLE) IRAs tripled over 1999 to \$6 billion, from \$2 billion in 1998. SIMPLE IRAs, which were first available in 1997, are designed for firms with 100 or fewer employees. Indeed, an Institute survey found that 87 percent

of SIMPLE IRA plans had 10 or fewer participants at the end of 1999.⁹

Defined Contribution Pension Plan Holdings of Mutual Fund Assets

Mutual fund assets in employer-sponsored defined contribution plans increased 28 percent in 1999 to \$1.2 trillion, after rising 26 percent in 1998 (Figure 8). Approximately 78 percent of the increase in assets in 1999 was attributable to investment performance, with the remainder coming from a net inflow of \$58 billion (Figure 3).

Domestic equity funds represented 73 percent of all defined contribution plan assets invested in

⁷ The majority of fund complexes were unable to provide a breakdown of contributory and conversion Roth IRA assets.

⁸ The SEP-IRA was created under the Revenue Act of 1978. The Small Business Job Protection Act of 1996 prohibited the formation of new SAR-SEPs after December 31, 1996.

⁹ The Institute surveyed certain of its members representing an estimated 65 percent of SIMPLE IRA assets invested in mutual funds at year-end 1999. In addition, the ad hoc survey respondents indicated that about 810,800 workers were participating in SIMPLE IRA plans at year-end 1999.

figure 8

Mutual Fund Assets in Defined Contribution (DC) Pension Plans, 1990–1999

	401(k)		403(b)		457		Other DC		Total ¹ DC Assets (billions)
	Assets (billions)	Share ² (percent)	Assets (billions)	Share ² (percent)	Assets (billions)	Share ² (percent)	Assets (billions)	Share ² (percent)	
1990	\$35	53	\$15	23	\$2	2	\$15	23	\$67
1991 ³	46	34	68	50	2	1	20	15	135
1992	82	45	74	40	3	2	25	14	184
1993	140	53	86	33	4	2	33	13	263
1994	184	59	90	29	6	2	35	11	314
1995	266	61	119	27	8	2	46	10	439
1996	349	61	146	26	11	2	64	11	570
1997	471	63	183	25	16	2	75	10	745
1998	598	64	227	24	22	2	90	10	937
1999	777	65	281	23	30	2	116	10	1,204

figure footnotes:

¹ Components may not add to totals due to rounding.

² Share of total mutual fund assets in defined contribution plans.

³ Beginning with 1991 data, the assets of the College Retirement Equities Fund (CREF) are included in retirement mutual fund assets.

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

figure 9

Mutual Fund Defined Contribution Plan Assets by Type of Fund, 1996–1999

	Domestic Equity		Foreign Equity		Hybrid ¹		Bond		Money Market		Total ² Assets (billions)
	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	Assets (billions)	Share ³ (percent)	
1996	\$380	67	\$38	7	\$56	10	\$41	7	\$55	10	\$570
1997	518	70	52	7	73	10	49	7	53	7	745
1998	664	71	60	6	87	9	60	6	65	7	937
1999	877	73	95	8	95	8	60	5	76	6	1,204

figure footnotes:

¹ Hybrid funds invest in a mix of equity and fixed-income securities.

² Components may not add to totals due to rounding.

³ Percent of total mutual fund assets in defined contribution plans.

source: Investment Company Institute

mutual funds at year-end 1999, compared with 67 percent at year-end 1996 (Figure 9). Foreign equity funds edged up in share to 8 percent of all defined contribution plan mutual fund assets in 1999. Bond, hybrid, and money market funds all experienced decreases in share.

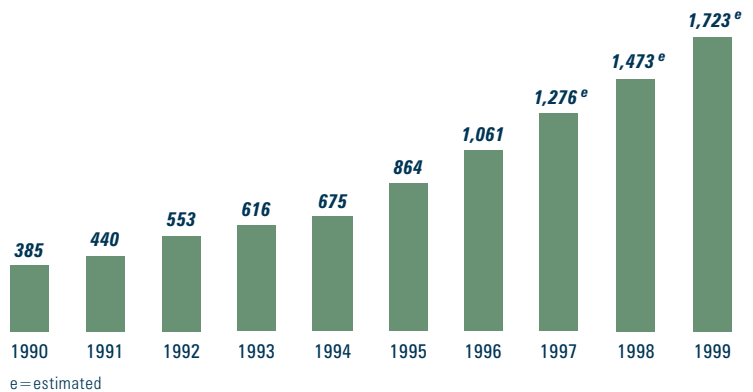
Mutual fund assets held in 401(k) plans accounted for \$777 billion, or nearly two-thirds of all mutual fund defined contribution plan assets in 1999 (Figure 8). Mutual funds' share of the 401(k) market was estimated at 45 percent last year, compared with 9 percent at the beginning of the decade (Figure 10).¹⁰ Investment performance accounted for approximately three-quarters of the growth in mutual fund 401(k) assets last year. Net new cash flow into these accounts in 1999 was estimated at \$42 billion.

Mutual fund assets in defined contribution plans other than 401(k) plans rose to \$427 billion in 1999 from \$339 billion in 1998 (Figure 8).¹¹ Approximately two-thirds, or \$281 billion, of defined contribution plan assets held outside of 401(k) plans were invested in 403(b) plans at year-end 1999.¹² Mutual fund assets held in 457 plans rose 36 percent in 1999, to \$30 billion, and the remaining \$116 billion were held in other defined contribution plans.

figure 10

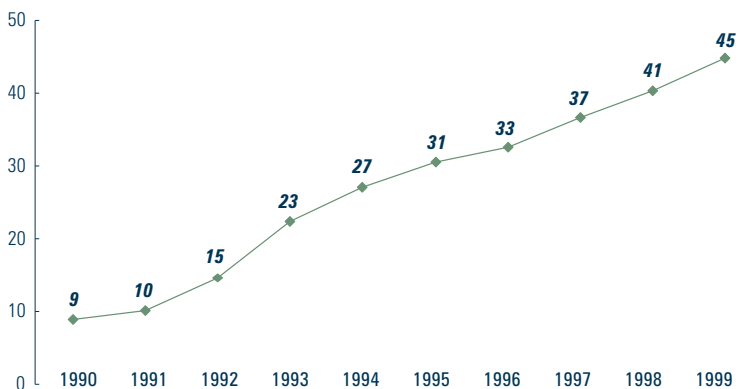
401(k) Assets, 1990–1999

(billions of dollars)



Mutual Fund Share of 401(k) Assets, 1990–1999

(percent)



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, and Department of Labor

¹⁰ Assets in 401(k) plans refer to private defined contribution plans with 401(k) features. As a result, 401(k) assets reported for mutual funds and the 401(k) market may include some profit-sharing plan assets that do not have 401(k) features. For 1990-1996, total 401(k) assets data are from *Private Pension Plan Bulletin*, U.S. Department of Labor, Pension and Welfare Benefits Administration, No. 9, Winter 1999-2000. Estimates of 401(k) plan assets after 1996 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 (March 10, 2000).

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

¹² At the end of 1999, 67 percent of mutual fund assets in 403(b) plans were variable annuity funds.

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