

Fundamentals

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Mutual Funds and the Retirement Market

The share of mutual fund assets held in retirement accounts remained near 35 percent in 1997 (Figure 1).¹ The share has been fairly stable since 1994, largely because equity fund investment performance has accounted for much

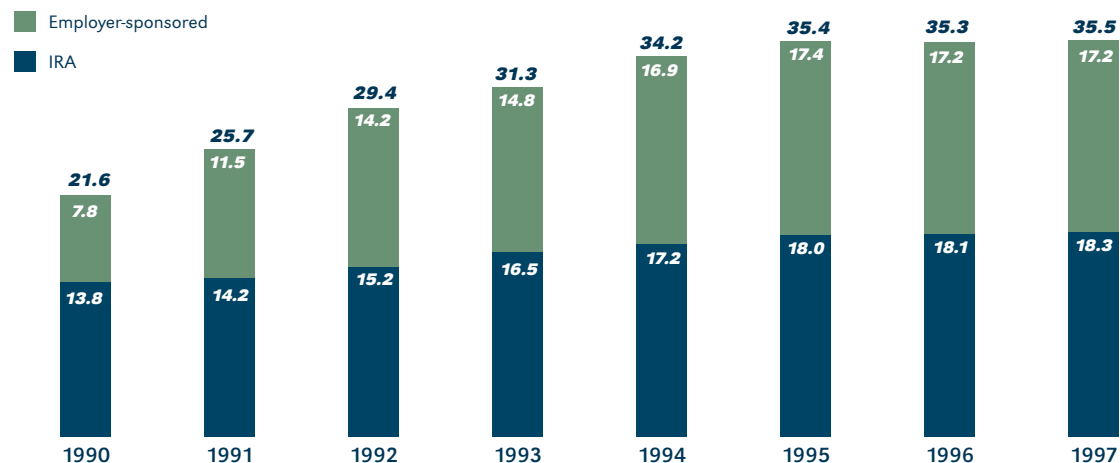
of the overall growth in mutual fund assets, including those held in retirement accounts.

Mutual fund assets in retirement plans rose 28 percent in 1997 to \$1.6 trillion (Figure 2). Investment performance—asset appreciation plus reinvested dividends and capital gains—accounted for an estimated 70 percent of the asset growth. Net new cash was an estimated \$104 billion.²

figure 1

Share of Mutual Fund Assets in Retirement Plans, 1990-1997

(percent)



note: Individual shares may not sum to totals because of rounding.

source: Investment Company Institute

¹ Based on data from the Institute's Annual Questionnaire for Retirement Statistics. The 1997 survey gathered data from 7,088 mutual fund share classes representing 82 percent of mutual fund industry assets. Assets were estimated for all non-respondent funds to produce total industry retirement plan assets. Reporting funds were grouped by investment objective and ratios were calculated of the reported retirement assets to the total net assets for each type of retirement plan. These ratios were used to estimate data for non-respondents.

A similar survey was conducted of brokers to ascertain the amount of retirement assets held in street name and omnibus accounts. The results of the broker survey and the mutual fund survey were combined to produce total mutual fund retirement assets.

² The Institute does not collect sales or net new cash flows for retirement plans on the Annual Retirement Questionnaire. Net new cash flow is new sales of shares (other than those through 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.

figure 2

Mutual Fund Retirement Assets and Net Flows to Retirement Accounts, 1990-1997¹

	Total Retirement ²		IRAs ³			Employer-sponsored Accounts ⁴		
	Assets (billions)	Net Flow (billions)	Assets (billions)	Net Flow (billions)	Net Flow as a Share of Change in Assets (percent)	Assets (billions)	Net Flow (billions)	Net Flow as a Share of Change in Assets (percent)
1990	\$230	\$30	\$147	\$20	100%	\$84	\$10	86%
1991 ⁵	358	13	198	11	21	160	2	3
1992	485	99	250	38	72	234	61	83
1993	649	93	342	53	58	308	40	55
1994	738	94	372	34	113	366	60	103
1995	1,000	71	509	45	33	491	26	21
1996	1,250	87	642	53	40	608	34	29
1997	1,596	104	822	61	34	774	43	26

figure footnotes:

¹ Data prior to 1997 have been revised. See text footnotes 3 and 4 for explanations of the revisions. Net flows are estimates. See text footnote 2 for an explanation of the estimation procedure.

² Components may not sum to totals because of rounding.

³ IRAs include contributory rollovers, SEPs, SAR/SEPs, and SIMPLE IRAs.

⁴ Employer-sponsored plans are public and private defined-contribution and defined-benefit employer-sponsored pension plans and self-employed Keogh plans.

⁵ Beginning with 1991 data, the assets of the College Retirement Equity Fund (CREF) are included in employer-sponsored total retirement mutual fund assets.

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

figure 3

Assets in U.S. Retirement Plans, 1990-1997¹

(trillions of dollars)

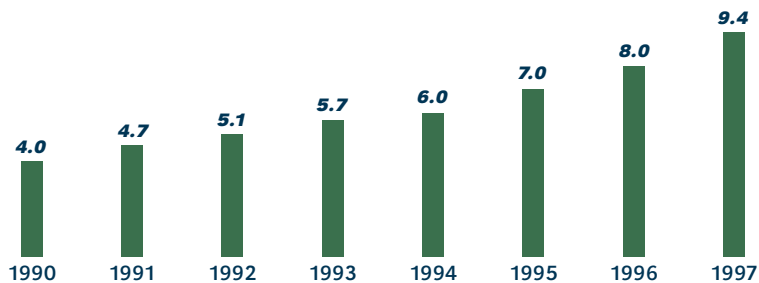


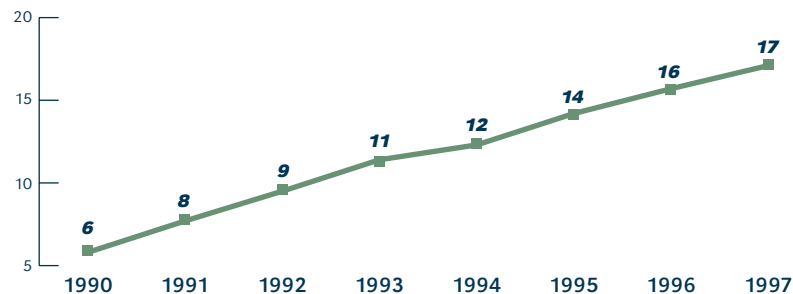
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¹ IRAs and employer-sponsored pension plans.

Mutual fund retirement assets represent 17 percent of the \$9.4 trillion U.S. retirement market (Figure 3). The mutual fund industry's share of the U.S. retirement market has almost tripled since 1990. The fund industry's higher market share reflects a growing presence of IRAs and defined-contribution plans that has been driven by steady inflows. In addition, the investment performance of mutual funds has outpaced the average performance of all retirement assets primarily because mutual funds held in retirement plans are concentrated in equity funds.

Mutual Fund Share of U.S. Retirement Assets, 1990-1997

(percent)



sources: Investment Company Institute and Federal Reserve Board

IRA Holdings of Mutual Fund Assets

In 1997, mutual fund assets in IRAs rose 28 percent to \$822 billion (Figure 4). This growth rate is in line with the average growth rate of mutual fund IRA assets since 1990. Investment performance has accounted for more than half of the mutual fund IRA asset growth this decade. In 1997, two-thirds of the growth came from investment performance.

Mutual funds' share of the IRA market rose to 42 percent in 1997 (Figure 4).³ During this decade,

³ The Institute's estimate of mutual funds' share of the IRA market has been revised downward as a result of an upward revision to the Institute's estimate of the overall size of the IRA market. This revision was based on unpublished estimates of total IRA assets provided by the Statistics of Income Division, Internal Revenue Service, in April 1998 for tax years 1989 and 1993. These estimates were based on a sample of IRS information returns.

IRA holdings of deposits shown in Figure 4 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 IRA assets are obtained from Investment Company Institute surveys. Brokerage account holdings of directly held securities are calculated from total IRA assets less holdings in deposits, mutual funds, and life insurance products for 1989 and 1993. For other years, the brokerage data are estimated using an Investment Company Institute survey of brokers.

figure 4

IRA Plan Assets and Share of the Total IRA Market by Institution, 1990-1997

	Mutual Funds		Bank and Thrift Deposits ²		Life Insurance Companies		Securities Directly Held Through Brokerage Accounts		Total ³ Assets (billions)
	Assets (billions)	Share ¹ (percent)	Assets (billions)	Share (percent)	Assets (billions)	Share (percent)	Assets (billions)	Share (percent)	
1990	\$147	23%	\$266	42%	\$53	8%	\$169	27%	\$634
1991	198	26	282	37	50	6	243	31	773
1992	250	29	275	32	56	6	283	33	864
1993	342	34	263	26	70	7	319	32	993
1994	372	34	255	24	79	7	373	35	1,079
1995	509	38	261	19	94	7	488	36	1,352
1996	642	41	258	16	110	7	568	36	1,578
1997	822	42	259	13	129	7	739	38	1,948

figure footnotes:

¹ Share of total IRA plan assets.

² Bank and thrift deposits include Keogh deposits.

³ See text footnote 3 for an explanation of the procedure used to estimate total IRA assets.

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

the mutual fund share of the IRA market has nearly doubled, in part because the strong performance of the U.S. stock market boosted assets in stock and hybrid funds. Moreover, mutual funds have had significant IRA inflows each year, some of which includes rollovers from employer-sponsored pension plans.

SIMPLE IRAs. The creation of SIMPLE IRAs through the “Small Business Job Protection Act of 1996” provided another source of IRA growth for mutual funds in 1997. By year-end, 1.3 million SIMPLE IRA accounts investing in mutual funds, holding \$6.6 billion in mutual fund assets, had been established.

Employer-sponsored Pension Plans

Employer-sponsored pension plan holdings of mutual fund assets through defined-benefit and defined-contribution plans increased 27 percent in 1997 to \$774 billion from \$608 billion (Figure 5).⁴ Roughly three-quarters of

figure 5

Mutual Fund Assets in Employer-sponsored Retirement Plans, 1990-1997¹

(billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997
Defined Contribution	\$77	\$149	\$219	\$285	\$340	\$464	\$574	\$734
401(k)	35	46	82	140	176	258	329	444
403(b)	15	68	74	86	90	119	146	185
457	2	2	3	3	6	8	11	14
Other DC	25	34	60	56	68	79	89	92
Defined Benefit	7	11	16	22	26	27	34	39
Total	84	160	234	308	366	491	608	774

figure footnote:

¹ Components may not sum to totals because of rounding. Change in assets from year to year reflects net new cash flow and investment performance.

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

⁴ Employer-sponsored pension plan holdings of mutual funds prior to 1997 have been revised. Changes to the 1996 data reflect revisions to the 1996 Retirement Survey. Data before 1996 have been revised to incorporate information on employer-sponsored pension plan holdings of mutual funds published by the Department of Labor and the Federal Reserve Board.

the increase was attributable to investment performance, slightly higher than that for IRAs, as equity funds account for a slightly larger share of pension plan holdings of mutual funds than in IRAs.

figure 6

Assets in 401(k) Plans, 1990-1997¹

(billions of dollars)

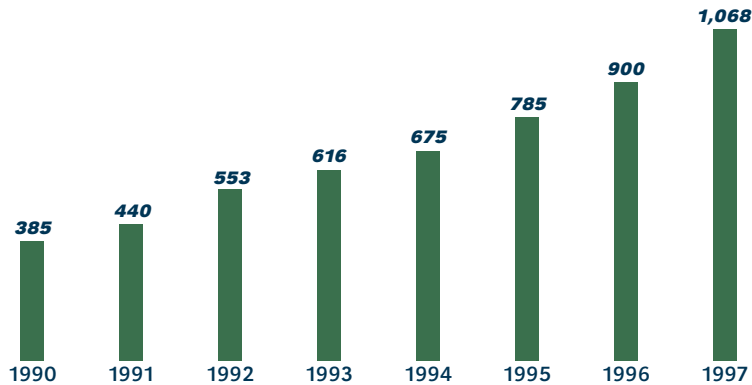
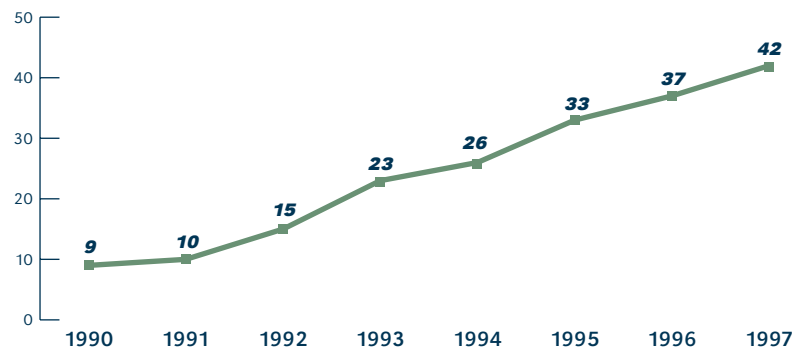


figure footnote:

¹ See text footnote 6 for a description of the data and a discussion of the estimation procedure.

Mutual Fund Share of 401(k) Assets, 1990-1997

(percent)



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

Mutual funds' share of the \$7.5 trillion U.S. employer-sponsored pension market rose to more than 10 percent in 1997 from 9.5 percent in 1996.⁵ Approximately 95 percent of those pension assets invested in mutual funds were held in defined-contribution plans; 60 percent of these were in 401(k) plans.

Mutual funds' share of the overall 401(k) market rose to an estimated 42 percent last year, continuing an upward trend that has been in place throughout the 1990s (Figure 6).⁶ Mutual funds held in 401(k) plans rose 35 percent in 1997, compared with an estimated growth rate of 401(k) assets of 19 percent. Inflows to mutual funds from 401(k) plans totaled \$45 billion and accounted for about 40 percent of the increase in mutual fund 401(k) assets; the remaining growth came from investment performance.

Mutual fund assets in defined-contribution plans other than 401(k) plans rose 18 percent in 1997 to \$291 billion from \$246 billion.⁷ Mutual fund 403(b) plan assets, including variable annuities, rose 27 percent to \$185 billion from \$146 billion. Inflows to mutual funds from these plans totaled an estimated \$10 billion, accounting for one-quarter of the asset growth. Mutual fund assets in 457 plans rose to \$14 billion (Figure 5).

Defined-benefit plans, which account for almost three-quarters of employer-sponsored plan assets in the United States, account for only a small portion of the retirement assets in mutual funds. At the end of 1997, these plans held \$39 billion of mutual funds, up from \$34 billion in 1996. Investment performance accounted for almost all of the increase, with inflows estimated to have been minor.

⁵ Estimates of the size of employer-sponsored retirement assets are based on data from the Federal Reserve Board's Z.1 release, *Flow of Funds Accounts of the United States: Flows and Outstandings First Quarter 1998* (June 11, 1998). These data include assets held in public- and private-trusteed funds (excluding Social Security) and individual and group annuities. The Federal Reserve data exclude assets held in 457 plans and a portion of the assets held in 403(b) plans. These data have been added to the *Flow of Funds* data, which increases the size of the retirement market by approximately \$150 billion in 1997.

⁶ Assets in 401(k) plans refer to private defined-contribution plans with 401(k) features. For 1990 through 1994, total 401(k) assets data are from *Private Pension Plan Bulletin*, U.S. Department of Labor and Pension and Welfare Benefits Administration, No. 7, Spring 1998. These are assets of all defined-contribution plans with 401(k) features. Estimates of 401(k) plan assets after 1994 were made by assuming that the 401(k) assets grew at the same rate as all defined-contribution plan assets. The growth rate of defined-contribution plan assets was obtained from the *Flow of Funds Accounts*, Federal Reserve Board (June 11, 1998).

⁷ 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. The Institute no longer collects separate asset data for Keogh plan holdings of mutual funds, and these assets are now included in other defined-contribution plan assets.