

# Fundamentals

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## Mutual Funds and the U.S. Retirement Market in 2002

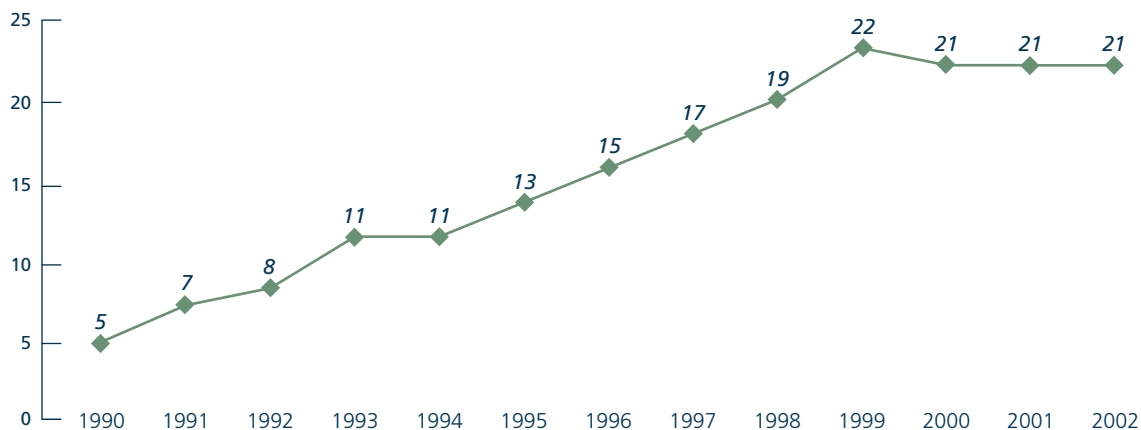
Assets in the U.S. retirement market stood at \$10.2 trillion at year-end 2002, with mutual funds maintaining a 21 percent share of that market (Figure 1), or \$2.1 trillion (Figure 2).<sup>1,2</sup> In 2002, the ongoing bear market in equities continued to create a drag on retirement asset values. Overall, assets in the U.S. retirement market were down 8 percent in 2002, and

retirement assets invested in mutual funds were down by a similar amount. The decline in retirement mutual fund assets occurred almost entirely in the category of equity funds, reflecting widespread weakness in stock prices in 2002. Both Individual Retirement Account (IRA) and employer-sponsored defined contribution plan assets experienced declines.

figure 1

### Mutual Fund Share of U.S. Retirement Assets,<sup>1,2</sup> 1990–2002

(percent)



<sup>1</sup> Retirement assets include Individual Retirement Accounts, annuities, 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.

<sup>2</sup> Mutual fund retirement assets exclude defined benefit plans' mutual fund holdings, which amount to about 1 percent of the U.S. retirement market.

**sources:** Investment Company Institute, Federal Reserve Board, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service

<sup>1</sup> Based on data from ICI's Annual Questionnaire for Retirement Statistics. The 2002 survey gathered data from 12,760 mutual fund share classes representing approximately 81 percent of mutual fund industry assets. Assets were estimated for all nonreporting funds. Data before 2002 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 Annual Questionnaire for Retirement Statistics and the Annual Institutional Survey.

<sup>2</sup> In this report, estimates of mutual fund assets in defined benefit plans have been excluded because of incomplete reporting. The Federal Reserve Board's *Flow of Funds Accounts* (June 5, 2003) data indicate that mutual fund assets held in defined benefit plans accounted for about 1 percent of the U.S. retirement market at year-end 2002.

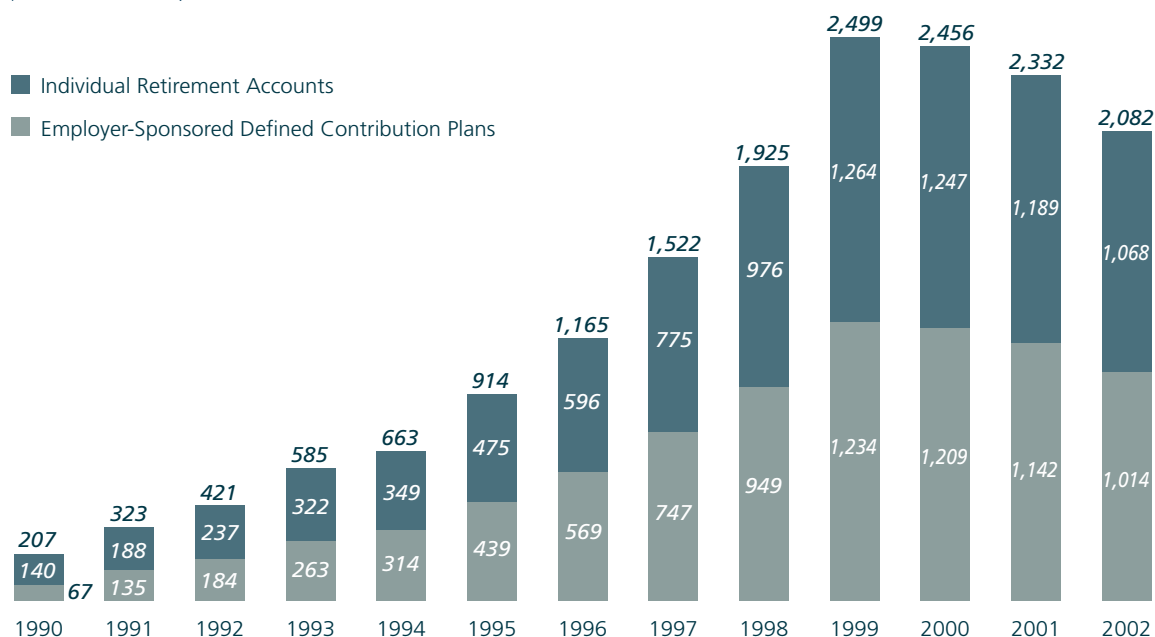
At year-end 2002, mutual fund assets held through retirement accounts continued to represent about one-third of all mutual fund assets (Figure 3).<sup>3</sup> Retirement accounts held 44 percent of all long-term mutual fund assets at year-end 2002, the same share for the fourth consecutive year. Retirement account assets represented a much smaller share of total money market fund assets—12 percent at year-end 2002.

Net flows to mutual funds from retirement accounts slowed somewhat in 2002. Retirement account investors, on net, purchased an estimated \$114 billion in mutual fund shares, down from \$149 billion in 2001 (Figure 4).<sup>4</sup> They contributed \$50 billion to mutual funds held in IRAs and added \$64 billion to funds held through defined contribution plans. Equity funds received a net inflow of \$26 billion from retirement accounts, down from \$66 billion in 2001. Nonetheless,

figure 2

### Mutual Fund Retirement Assets, 1990–2002

(billions of dollars)



**note:** Components may not add to total because of rounding.

**source:** Investment Company Institute

<sup>3</sup> The retirement share of mutual fund assets has remained stable, in part, because equity fund performance has accounted for a large portion of the change in mutual fund assets inside and outside retirement accounts since the mid-1990s.

<sup>4</sup> ICI does not collect sales or net new cash flow for retirement plans on its 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 adjusted by investment performance. The residual change in assets was attributable to net new cash flow. The formula for the flow calculation is:

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

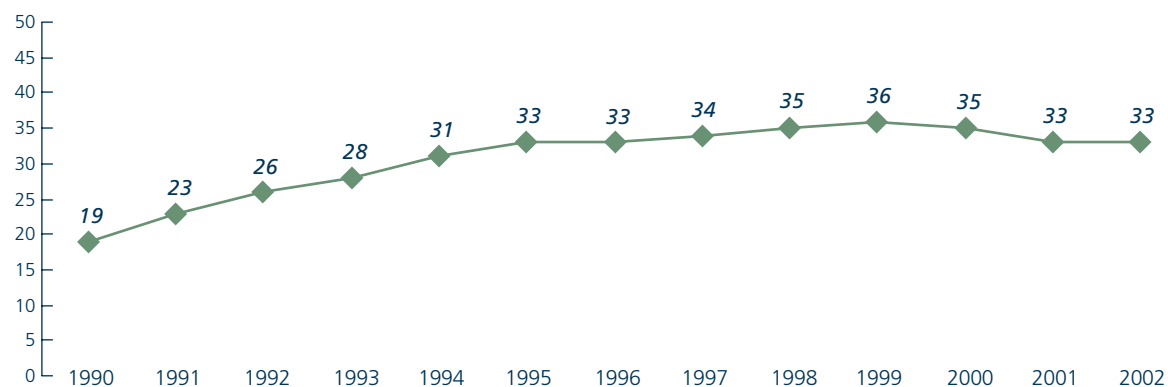
For a given investment objective, RF represents retirement net new cash flow, TA represents total assets, TF represents total net new cash flow, and RA represents retirement assets.

figure 3

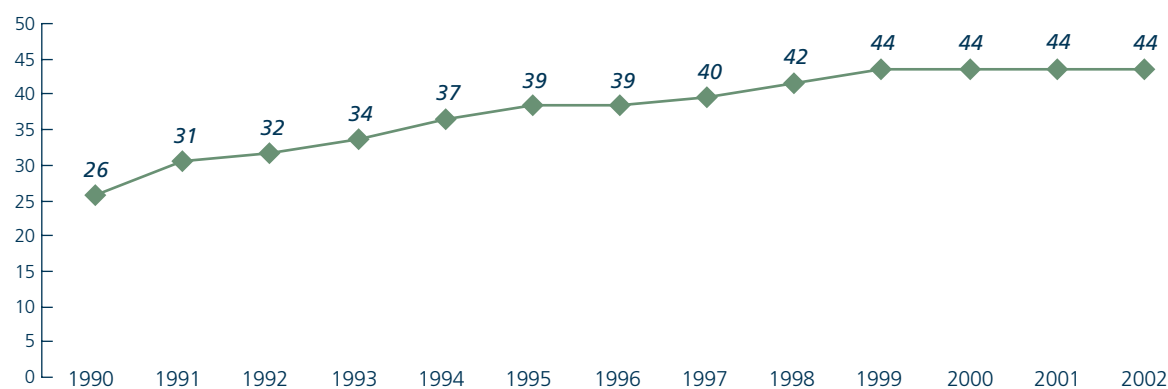
### Mutual Fund Retirement Assets as a Share of Total Mutual Fund Assets, 1990–2002

(percent)

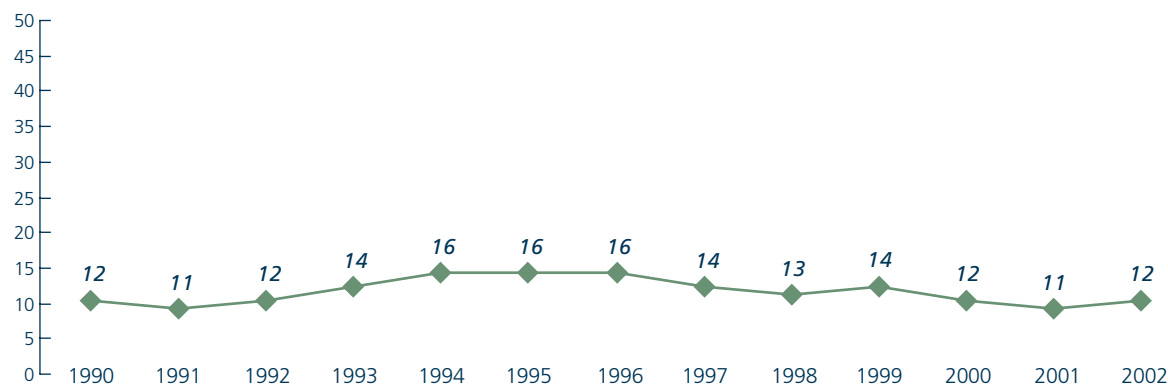
#### All Funds



#### Long-Term Funds\*



#### Short-Term (Money Market) Funds



\*Includes equity, hybrid, and bond mutual funds.

source: Investment Company Institute

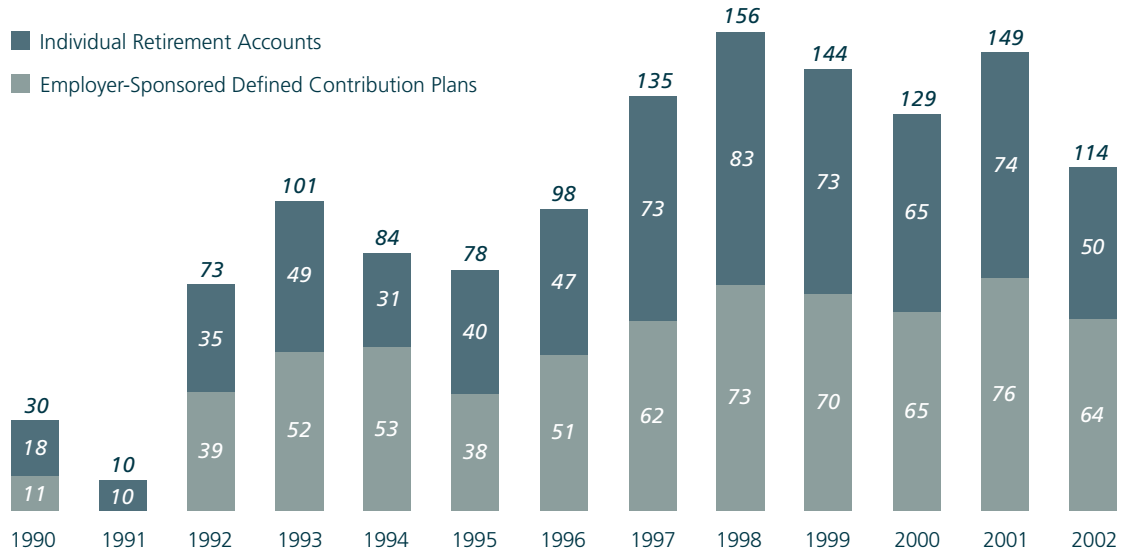
retirement account inflows to equity funds held up better than for nonretirement accounts, which had a net outflow of \$54 billion in 2002. Retirement account flows to bond funds rose to \$51 billion in 2002, compared with \$38 billion in 2001. The

heavier inflows to these funds mirrored the overall increase in bond fund flows industrywide. Hybrid and money market funds had somewhat smaller net inflows from retirement accounts in 2002 than during the previous year.

figure 4

**Estimated Net New Cash Flow to Retirement Accounts Held in Mutual Funds,\* 1990–2002**

(billions of dollars)



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

**note:** Components may not add to total because of rounding.

**source:** Investment Company Institute

## An Overview of the U.S. Retirement Market

The U.S. retirement market is comprised of IRAs, public and private defined contribution and defined benefit plans, and annuities not otherwise held in IRAs and pension plans (Figure 5).<sup>5</sup> At year-end 2002, IRAs held \$2.3 trillion (23 percent) of the total U.S. retirement market and defined contribution plans held \$2.2 trillion (22 percent). Defined

benefit plan assets, including those in private and federal defined benefit plans and the vast majority of those in state and local government retirement funds,<sup>6</sup> held \$4.5 trillion (44 percent) of the total retirement market. The remaining \$1.2 trillion (12 percent) of total retirement assets were fixed and variable annuities, excluding those held in IRAs, 457 plans, or private pension plans.

figure 5

### U.S. Total Retirement Market, 1990–2002

(billions of dollars)

	IRAs	Defined Contribution Plans <sup>1</sup>	State and Local Government Employee Retirement Funds	Private Defined Benefit Plans	Federal Defined Benefit Plans <sup>2</sup>	Annuities <sup>3</sup>	Total
1990	637	756	810	924	333	519	3,978
1991	776	912	878	1,075	371	562	4,574
1992	873	999	971	1,100	411	629	4,982
1993	993	1,140	1,063	1,214	448	696	5,554
1994	1,056	1,224	1,103	1,307	486	705	5,880
1995	1,288	1,512	1,320	1,494	506	771	6,892
1996	1,467	1,732	1,515	1,616	561	823	7,713
1997	1,728	2,080	1,842	1,786	602	878	8,915
1998	2,150	2,396	2,085	1,930	643	999	10,203
1999	2,651	2,650	2,262	2,150	684	1,136	11,534
2000	2,629 <sup>p</sup>	2,632	2,331	2,055	705	1,150	11,502
2001	2,540 <sup>e</sup>	2,472	2,226	1,872	766	1,168	11,043
2002	2,333 <sup>e</sup>	2,183	2,016	1,642	800	1,175	10,150

e=estimated

p=preliminary

<sup>1</sup> Includes private employer-sponsored defined contribution plans, the Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP), and 457 plan assets.

<sup>2</sup> Includes 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. Also includes securities held in the National Railroad Retirement Investment Trust.

<sup>3</sup> All fixed and variable annuity reserves at life insurance companies less annuities held by IRAs, 457 plans, and private pension funds. Some of these annuity reserves represent assets of individuals held outside retirement plan arrangements and IRAs; however, information to separate out such reserves is not available.

**note:** Components may not add to 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

<sup>5</sup> ICI adds IRA and 457 plan assets to total pension reserves reported by the Federal Reserve Board's *Flow of Funds Accounts*.

<sup>6</sup> ICI tabulations of the *2000 Survey of State and Local Government Employee Retirement Systems*, conducted by the Government Finance Officers Association Research Center, indicate that defined benefit plans represent about 90 percent of the actuarial value of assets held by state and local government retirement funds.

## IRA Holdings of Mutual Funds

Total IRA market assets declined 8 percent in 2002 to \$2.3 trillion (Figure 6).<sup>7</sup> Mutual fund assets held in IRAs also declined in 2002, falling

10 percent to \$1.1 trillion. At the end of 2002, mutual fund IRA assets were 46 percent of total IRA assets, roughly the same share for the sixth consecutive year.

figure 6

### IRA Assets and Share of Total IRA Assets by Institution, 1990–2002

	Mutual Funds		Bank and Thrift Deposits <sup>1</sup>		Life Insurance Companies <sup>2</sup>		Securities Held in Brokerage Accounts <sup>3</sup>		Total Assets (billions)
	Assets (billions)	Share <sup>4</sup> (percent)	Assets (billions)	Share <sup>4</sup> (percent)	Assets (billions)	Share <sup>4</sup> (percent)	Assets (billions)	Share <sup>4</sup> (percent)	
1990	\$140	22	\$266	42	\$40	6	\$190	30	\$637
1991	188	24	282	36	45	6	261	34	776
1992	237	27	275	31	50	6	311	36	873
1993	322	32	263	26	61	6	347	35	993
1994	349	33	255	24	69	7	383	36	1,056
1995	475	37	261	20	81	6	472	37	1,288
1996	596	41	258	18	92	6	520	35	1,467
1997	775	45	254	15	135	8	564	33	1,728
1998	976	45	249	12	156	7	769	36	2,150
1999	1,264	48	244	9	201	8	942	36	2,651
2000	1,247	47	252	10	202	8	929 <sup>e</sup>	35	2,629 <sup>p</sup>
2001	1,189	47	255	10	210	8	886 <sup>e</sup>	35	2,540 <sup>e</sup>
2002	1,068	46	263	11	208 <sup>e</sup>	9	794 <sup>e</sup>	34	2,333 <sup>e</sup>

e=estimated

p=preliminary

<sup>1</sup> Bank and thrift deposits include Keogh deposits.

<sup>2</sup> Annuities held by IRAs, excluding variable annuity mutual fund IRA assets.

<sup>3</sup> Excludes mutual fund assets held through brokerage accounts, which are included in mutual funds.

<sup>4</sup> Percent of total IRA assets.

**note:** Components may not add to total because of rounding.

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

<sup>7</sup> Total IRA market assets are derived from unpublished tabulations of total IRA assets provided by the IRS Statistics of Income Division for tax-years 1989, 1993, 1996, 1997, 1998, 1999, and 2000. These tabulations are based on a sample of IRS returns.

**Types of Mutual Funds in IRAs.** The decline in mutual fund IRA assets occurred solely in the category of equity funds, as IRA assets in bond and money market fund categories posted gains in 2002 and IRA assets in hybrid funds were unchanged from year-end 2001 (Figure 7). Equity fund assets represented the largest component of mutual fund

IRA assets by a wide margin, accounting for 60 percent of total mutual fund IRA assets at year-end 2002. Money market funds represented 17 percent of total mutual fund IRA assets, while the share of bond funds was 14 percent and that of hybrid funds was 9 percent. Furthermore, \$59 billion, or 6 percent, of mutual funds held

figure 7

### Mutual Fund IRA Assets by Type of Fund, 1996–2002

	Domestic Equity		Foreign Equity		Hybrid <sup>1</sup>		Bond		Money Market		Total Assets (billions)
	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	
1996	\$301	50	\$63	11	\$65	11	\$78	13	\$90	15	\$596
1997	438	57	75	10	83	11	87	11	92	12	775
1998	575	59	90	9	94	10	100	10	117	12	976
1999	793	63	134	11	98	8	102	8	138	11	1,264
2000	791	63	123	10	93	7	97	8	144	12	1,247
2001	710	60	99	8	99	8	118	10	163	14	1,189
2002	553	52	82	8	99	9	154	14	178	17	1,068

<sup>1</sup> Hybrid funds invest in a mix of equity and fixed-income securities.

<sup>2</sup> Percent of total mutual fund assets in IRAs.

**note:** Components may not add to total because of rounding.

**source:** Investment Company Institute

in IRAs were in index mutual funds—which are equity, bond, and hybrid funds that target specific market indexes. About half of the \$325 billion in index fund assets at year-end 2002 were held in retirement accounts, with about one-fifth held in IRAs (Figure 8).

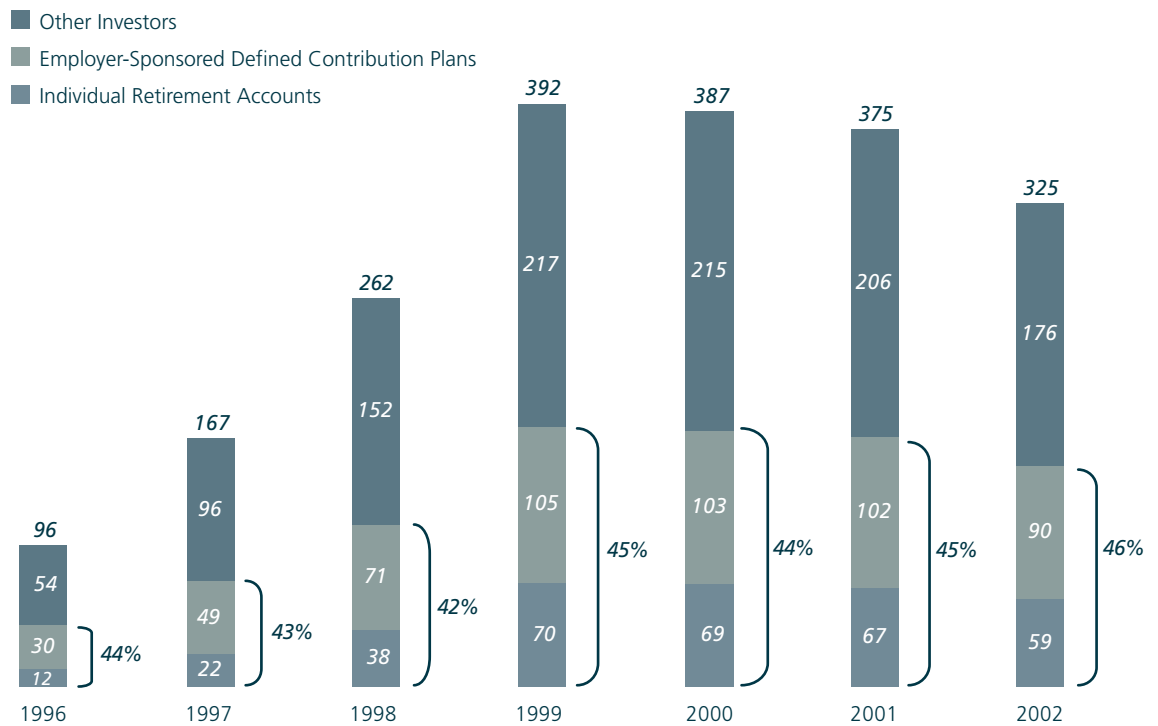
**Estimated Net New Cash Flow.** Net new cash flow from IRAs to mutual funds was an estimated

\$50 billion in 2002, compared with an estimated \$74 billion in 2001 (Figure 9). Net purchases of equity funds through IRA accounts declined for the second consecutive year, as some IRA investors shied away from equity funds much as equity fund investors did in general.<sup>8</sup> The net flow to bond funds from IRAs increased in 2002 to \$30 billion, compared with \$18 billion in 2001.

figure 8

### Index Mutual Fund Assets\* and Retirement Accounts, 1996–2002

(billions of dollars)



\*Index mutual funds are equity, bond, and hybrid funds that target specific market indexes with the general objective of meeting the performance of that index. Equity index funds are the most common type of index funds, accounting for 86 percent of the \$325 billion of index fund assets at year-end 2002.

**note:** Components may not add to total because of rounding.

**source:** Investment Company Institute

<sup>8</sup> For a discussion of industry developments in 2002, see Brian Reid and Stefan Kimball, “Mutual Fund Industry Developments in 2002,” *Perspective*, Vol. 9, No. 1, February 2003, Investment Company Institute ([www.ici.org/pdf/per09-01.pdf](http://www.ici.org/pdf/per09-01.pdf)).



figure 9

## Estimated Net New Cash Flow<sup>1</sup> to Retirement Accounts Held in Mutual Funds by Type of Fund, 1997–2002

(billions of dollars)

	1997	1998	1999	2000	2001	2002
<b>Total Retirement</b>	135	156	144	129	149	114
IRAs	73	83	73	65	74	50
Defined Contribution Plans	62	73	70	65	76	64
<b>Long-Term Funds</b>	144	126	117	130	127	96
IRAs	76	63	59	66	60	38
Defined Contribution Plans	68	63	59	65	67	58
<b>Equity Funds</b>	127	98	117	146	66	26
IRAs	70	51	60	78	33	-1
Defined Contribution Plans	57	47	56	68	32	27
<b>Hybrid Funds<sup>2</sup></b>	12	9	-2	-3	23	18
IRAs	4	2	-3	-4	9	8
Defined Contribution Plans	8	7	1	1	14	10
<b>Bond Funds</b>	5	19	3	-13	38	51
IRAs	3	10	1	-8	18	30
Defined Contribution Plans	3	9	2	-4	20	21
<b>Money Market Funds</b>	-9	30	26	-1	23	18
IRAs	-3	20	15	-1	14	12
Defined Contribution Plans	-6	10	12	(*)	9	6
<b>Memo:</b>						
<b>Industry Net New Cash Flow</b>	374	477	363	389	505	75
Equity Funds	227	157	188	309	32	-28
Hybrid Funds <sup>2</sup>	16	10	-14	-31	10	9
Bond Funds	28	75	-4	-50	88	140
Money Market Funds	102	235	194	160	376	-47

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

<sup>2</sup> Hybrid funds invest in a mix of equity and fixed-income securities.

(\*): Between \$500 million and -\$500 million.

**note:** Components may not add to total because of rounding.

**source:** Investment Company Institute

**Types of IRAs in Mutual Funds.** Mutual fund assets in traditional IRAs<sup>9</sup> stood at \$943 billion at year-end 2002, representing 88 percent of all mutual fund IRA assets (Figure 10). Roth IRAs<sup>10</sup> held \$53 billion, or 5 percent of all mutual fund IRA assets, at year-end 2002. Mutual fund assets in employer-sponsored IRAs totaled \$71 billion, or 6 percent of mutual fund IRA assets, in 2002. Most of these assets were in simplified employee pension (SEP) IRAs and salary reduction (SAR) SEP IRAs,<sup>11</sup> which held \$59 billion at year-end

2002. Mutual fund assets in SIMPLE IRAs<sup>12</sup> grew 9 percent in 2002 to \$12 billion from \$11 billion at year-end 2001. SIMPLE IRAs are designed for firms with 100 or fewer employees. Indeed, an ICI survey found that 89 percent of SIMPLE IRA plans had 10 or fewer participants at the end of 2002.<sup>13</sup> Education IRAs, now known as Coverdell Education Savings Accounts (ESAs),<sup>14</sup> held about \$2 billion in mutual funds at year-end 2002 (Figure 10).

figure 10

### Mutual Fund IRA Assets and Share of Total Mutual Fund IRA Assets by Type of IRA, 1992–2002

	Traditional IRA <sup>1</sup>		SEP and SAR-SEP		Roth <sup>2</sup>		SIMPLE		Education <sup>3</sup>		Total Assets (billions)
	Assets (billions)	Share <sup>4</sup> (percent)	Assets (billions)	Share <sup>4</sup> (percent)	Assets (billions)	Share <sup>4</sup> (percent)	Assets (billions)	Share <sup>4</sup> (percent)	Assets (billions)	Share <sup>4</sup> (percent)	
1992	\$230	97	\$7	3	-	-	-	-	-	-	\$237
1993	309	96	13	4	-	-	-	-	-	-	322
1994	335	96	14	4	-	-	-	-	-	-	349
1995	451	95	24	5	-	-	-	-	-	-	475
1996	564	95	32	5	-	-	-	-	-	-	596
1997	730	94	44	6	-	-	(*)	(**)	-	-	775
1998	887	91	57	6	\$30	3	\$2	(**)	(*)	(**)	976
1999	1,131	89	73	6	53	4	6	(**)	\$1	(**)	1,264
2000	1,111	89	70	6	56	4	8	1	1	(**)	1,247
2001	1,057	89	65	5	54	5	11	1	2	(**)	1,189
2002	943	88	59	5	53	5	12	1	2	(**)	1,068

<sup>1</sup> Includes contributory and rollover IRAs.

<sup>2</sup> Includes contributory and conversion Roth IRAs.

<sup>3</sup> Education IRAs were renamed Coverdell Education Savings Accounts (ESAs) in July 2001.

<sup>4</sup> Percent of total mutual fund IRA assets.

(\*): Less than \$500 million.

(\*\*): Less than ½ percent.

**note:** Components may not add to total because of rounding.

**source:** Investment Company Institute

<sup>9</sup> The traditional IRA was created under the Employee Retirement Income Security Act (ERISA) of 1974. As of May 2002, an estimated 34.8 million, or 32.7 percent, of U.S. households owned traditional IRAs (see Investment Company Institute, “IRA Ownership in 2002,” *Fundamentals*, Vol. 11, No. 3, September 2002; [www.ici.org/pdf/fm-v11n3.pdf](http://www.ici.org/pdf/fm-v11n3.pdf)).

<sup>10</sup> Roth IRAs were created under the Taxpayer Relief Act of 1997 and were first available in 1998.

<sup>11</sup> The SEP IRA was created under the Revenue Act of 1978. The SAR-SEP IRA was created under the Tax Reform Act of 1986, and the Small Business Job Protection Act of 1996 prohibited the formation of new SAR-SEP IRAs after December 31, 1996.

<sup>12</sup> SIMPLE IRAs were created under the Small Business Job Protection Act of 1996 and were first available in 1997.

<sup>13</sup> ICI surveyed a segment of its members representing an estimated 73 percent of SIMPLE IRA assets invested in mutual funds at year-end 2002. The survey respondents indicated that more than 1.5 million workers were participating in 350,100 SIMPLE IRA plans at year-end 2002.

<sup>14</sup> Education IRAs were created under the Taxpayer Relief Act of 1997 and were first available in 1998. In July 2001, Education IRAs were renamed Coverdell ESAs.

## Defined Contribution Plan Holdings of Mutual Funds

Mutual fund assets in defined contribution plans decreased 11 percent in 2002 to \$1.0 trillion (Figure 11). Pulled down by the bear market, equity fund assets held by defined contribution plans declined 19 percent in 2002. The decline in assets attributable to falling stock prices was offset somewhat by an estimated net new cash flow of \$27 billion (Figure 9). Defined contribution plan assets in bond funds recorded a substantial increase, while defined contribution plan holdings of money market funds rose moderately (Figure 11). Holding a mixture of stocks and bonds, plan assets held in hybrid funds edged down slightly in 2002.

### *Types of Mutual Funds in Defined*

*Contribution Plans.* At year-end 2002, 68 percent of defined contribution plan assets held in mutual funds were invested in equity funds, with domestic equity funds representing 61 percent of the total and foreign equity funds accounting for 7 percent (Figure 11). In addition, hybrid and bond fund assets each represented 11 percent of all mutual fund defined contribution plan assets. Assets held in money market funds accounted for the remaining 10 percent of the total. Furthermore, index mutual funds—which are equity, bond, and hybrid funds that target a specific market index—represented about 9 percent of defined contribution plan mutual fund assets, or \$90 billion, at year-end 2002 (Figure 8).

figure 11

### Mutual Fund Defined Contribution Plan Assets by Type of Fund, 1996–2002

	Domestic Equity		Foreign Equity		Hybrid <sup>1</sup>		Bond		Money Market		Total Assets (billions)
	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	
1996	\$380	67	\$38	7	\$54	10	\$43	7	\$55	10	\$569
1997	520	70	52	7	74	10	48	6	52	7	747
1998	672	71	62	7	90	9	60	6	65	7	949
1999	895	72	99	8	99	8	61	5	80	7	1,234
2000	865	72	100	8	100	8	60	5	84	7	1,209
2001	768	67	84	7	111	10	83	7	95	8	1,142
2002	617	61	74	7	108	11	112	11	103	10	1,014

<sup>1</sup> Hybrid funds invest in a mix of equity and fixed-income securities.

<sup>2</sup> Percent of total mutual fund assets in defined contribution plans.

**note:** Components may not add to total because of rounding.

**source:** Investment Company Institute

**Estimated Net New Cash Flow.** Net new cash flow from defined contribution plan accounts to mutual funds was an estimated \$64 billion in 2002, compared with an estimated \$76 billion in 2001 (Figure 9). Despite the harsh stock market environment, net new cash from defined contribution plans into equity funds only edged back to \$27 billion in 2002, compared with \$32 billion in 2001. Hybrid and money market funds also experienced smaller inflows from defined contribution plans in 2002 compared to 2001, while flows to bond funds —\$21 billion in 2002— were about the same as in 2001.

**Types of Defined Contribution Plans in Mutual Funds.** At year-end 2002, defined contribution plans held \$1.0 trillion in mutual funds. These mutual fund assets were held by 401(k) plans, 403(b) plans, 457 plans, and other defined contribution plans (including Keoghs and other defined contribution plans without 401(k) features).

**401(k) Plans.** At year-end 2002, mutual fund assets held in 401(k) plans stood at \$686 billion (Figure 12) and accounted for approximately 45 percent of all 401(k) plan assets (Figure 13).<sup>15</sup>

figure 12

### Mutual Fund Assets in Defined Contribution Plans by Type of Plan, 1991–2002

(billions of dollars)

	401(k) Plans	403(b) Plans	457 Plans	Other Defined Contribution Plans	Total
1991	46	68	2	20	135
1992	82	74	3	25	184
1993	140	86	4	33	263
1994	184	90	6	35	314
1995	266	119	8	46	439
1996	347	146	11	64	569
1997	471	184	16	77	747
1998	605	227	23	93	949
1999	793	283	38	121	1,234
2000	799	258	37	115	1,209
2001	770	231	36	106	1,142
2002	686	194	30	104	1,014

**note:** Components may not add to total because of rounding.

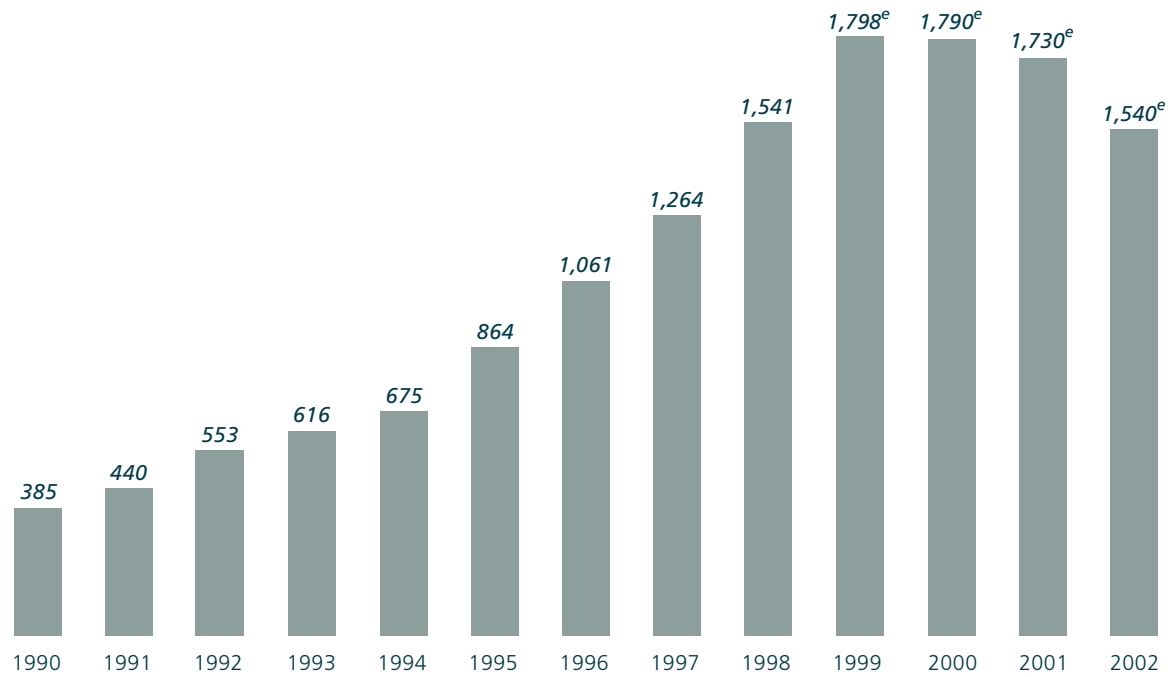
**sources:** Investment Company Institute, Federal Reserve Board, and Department of Labor

<sup>15</sup> Assets in 401(k) plans refer to private defined contribution plans with 401(k) features (e.g., salary deferral feature). However, 401(k) assets reported for mutual funds and the 401(k) market may include some profit-sharing plans that do not have 401(k) features. For the years 1990 through 1998, total 401(k) asset data are from *Private Pension Plan Bulletin*, U.S. Department of Labor, Pension and Welfare Benefits Administration (now Employee Benefits Security Administration), No. 11, Winter 2001–2002. ICI estimates of 401(k) plan assets after 1998 were made by assuming that 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 calculated using data from the Federal Reserve Board's *Flow of Funds Accounts* (June 5, 2003).

figure 13

### 401(k) Assets, 1990–2002

(billions of dollars)



### Mutual Fund Share of 401(k) Assets, 1990–2002

(percent)



e=estimated

**note:** See text footnote 15 for a description of the data and the estimation procedure.

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

At year-end 2002, about 67 percent of 401(k) plan mutual fund assets were invested in equity funds, 11 percent in bond funds, 12 percent in hybrid funds, and 10 percent in money market funds (Figure 14). Net new cash flow to mutual funds from 401(k) plans totaled \$42 billion in 2002, compared with \$61 billion in 2001.

**403(b) Plans.** Mutual fund assets in defined contribution plans other than 401(k) plans fell to \$328 billion in 2002 from \$373 billion in 2001 (Figure 12). At year-end 2002, about 59 percent,

or \$194 billion,<sup>16</sup> of defined contribution plan mutual fund assets held outside of 401(k) plans were invested in 403(b) plans, which are tax-deferred retirement plans available to employees of educational institutions and certain nonprofit organizations. At year-end 2002, about 80 percent of 403(b) mutual fund assets were invested in equity funds, 7 percent in bond funds, 6 percent in hybrid funds, and 7 percent in money market funds (Figure 14).

figure 14

### Mutual Fund Defined Contribution Plan Assets by Type of Plan and Fund, 2002

	Domestic Equity		Foreign Equity		Bond		Hybrid <sup>1</sup>		Money Market		Total Assets (billions)
	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	Assets (billions)	Share <sup>2</sup> (percent)	
401(k) Plans	\$407	59	\$54	8	\$72	11	\$84	12	\$67	10	\$686
403(b) Plans	143	74	12	6	13	7	12	6	14	7	194
457 Plans	20	65	2	7	3	9	4	13	2	6	30
Other Defined Contribution Plans	47	45	6	6	24	23	8	8	20	19	104

<sup>1</sup> Hybrid funds invest in a mix of equity and fixed-income securities.

<sup>2</sup> Percent of mutual fund plan assets invested in type of fund.

**note:** Components may not add to total because of rounding.

**source:** Investment Company Institute

<sup>16</sup> An estimated 64 percent of mutual fund assets in 403(b) plans at year-end 2002 were variable annuity funds.

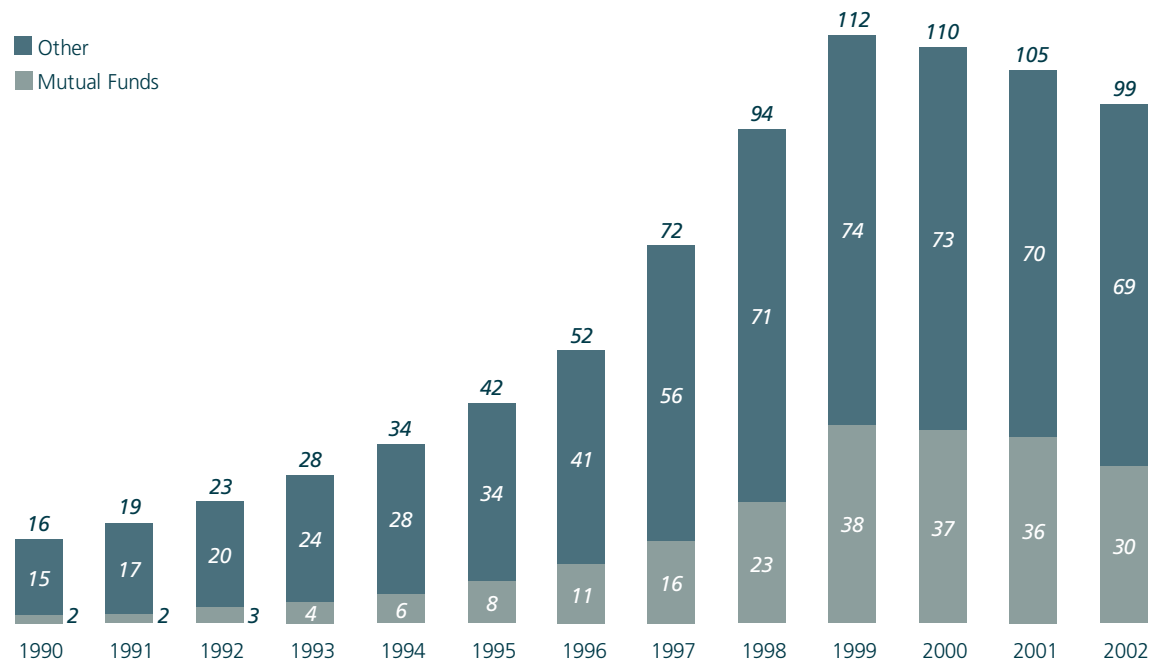
**457 Plans.** Another 9 percent, or \$30 billion, of defined contribution plan mutual fund assets outside of 401(k) plans were held in 457 plans at year-end 2002 (Figure 12). Almost three-quarters of mutual fund 457 plan assets were invested in equity funds at year-end 2002 (Figure 14). These plans, which allow deferred compensation by employees of state and local governments and certain tax-exempt organizations, had total assets of \$99 billion at the end of 2002 (Figure 15).

**Other Defined Contribution Plans.** The remainder of mutual fund assets held in defined contribution plans other than 401(k) plans totaled \$104 billion at the end of 2002 (Figure 12). These plans include Keogh, profit-sharing, stock bonus, and money purchase plans without 401(k) features. About half of these plans' mutual fund assets were invested in equity funds at year-end 2002, while about one-quarter were in bond funds (Figure 14).

figure 15

**457 Plan Assets, 1990–2002**

(billions of dollars)



*note:* Components may not add to total because of rounding.

*sources:* Investment Company Institute, National Association of Government Defined Contribution Administrators, and American Council of Life Insurers

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