

Fundamentals

INVESTMENT COMPANY INSTITUTE RESEARCH IN BRIEF

Vol. 14 / No. 5

October 2005

1401 H Street, NW
Suite 1200
Washington, DC 20005
202/326-5800
www.ici.org

Copyright © 2005 by
the Investment Company
Institute

The Investment Company
Institute (ICI) is the
national association
of U.S. investment
companies. ICI seeks to
encourage adherence to
high ethical standards,
promote public
understanding, and
otherwise advance the
interests of funds, their
shareholders, directors,
and advisers.

U.S. Household Ownership of Mutual Funds in 2005

Household ownership of mutual funds has been steady over the past few years, but remains below its 2001 peak, according to an annual Investment Company Institute (ICI) survey conducted in June 2005.¹ This issue of *Fundamentals* summarizes the findings of the June 2005 survey and compares them to the results of previous ICI surveys of household ownership of mutual funds.² This analysis results in the following findings:

- **The number of households and individuals owning mutual funds has changed little over the past three years:** Currently, nearly 54 million U.S. households and more than 91 million individual investors own funds.
- **Nearly as many households own mutual funds inside employer-sponsored retirement plans as outside these plans:** The number of U.S. households owning mutual funds inside employer plans totals 35.6 million, while the number owning outside these plans is 38.9 million.
- **Most mutual fund shareholders are in their peak earning and saving years:** Two-thirds of U.S. households owning mutual funds are headed by people between the ages of 35 and 64.

- **Mutual funds continue to be largely a middle-class investment product:** More than half of U.S. households that own mutual funds in 2005 have incomes between \$25,000 and \$74,999.

Household Ownership of Mutual Funds Steady Since 2003

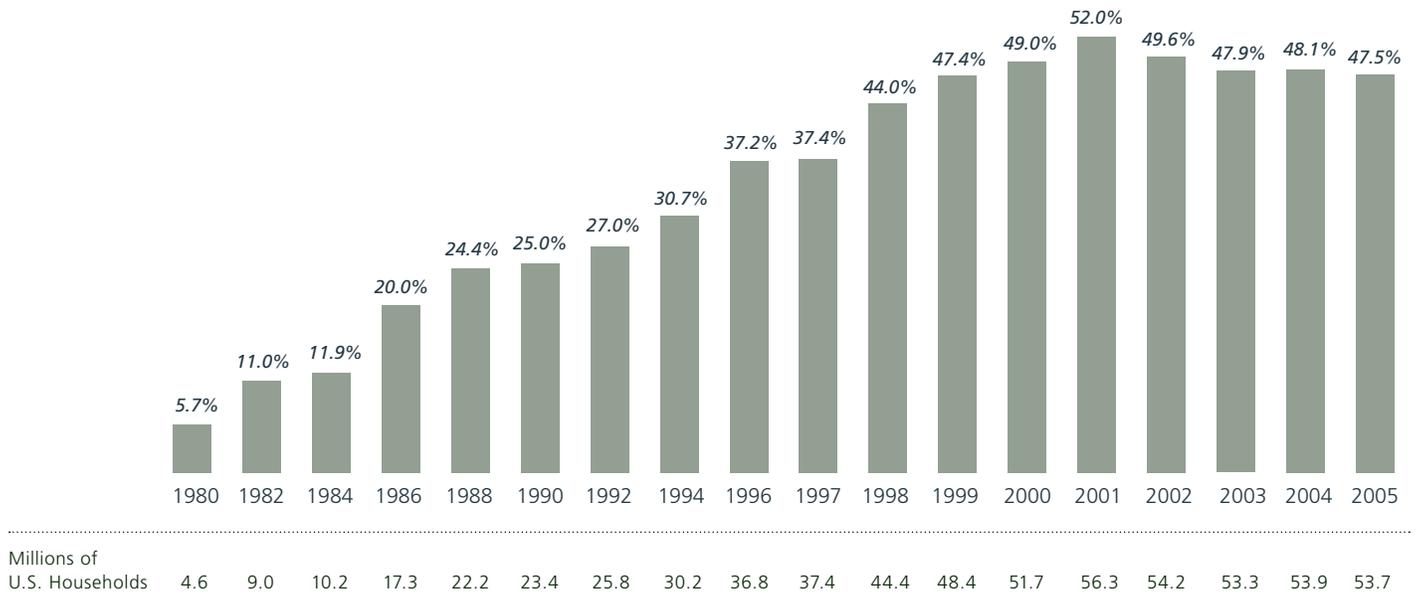
In June 2005, an estimated 53.7 million U.S. households, or 47.5 percent of households, owned mutual funds (Figure 1). The number of households owning mutual funds has remained fairly steady since 2003, with year-to-year movements in ownership not statistically meaningful. Fund ownership peaked in 2001 during the early stages of the recent bear market, which began in 2000 and ended in early 2003.

Similar to the pattern of household ownership of mutual funds, the number of individuals owning funds also peaked in 2001 and has changed very little since 2003. As of June 2005, an estimated 91.3 million individual investors owned mutual funds (Figure 2).³

figure 1

U.S. Households' Ownership of Mutual Funds Steady Since 2003

Number and percentage of U.S. households owning mutual funds, 1980–2005, selected years

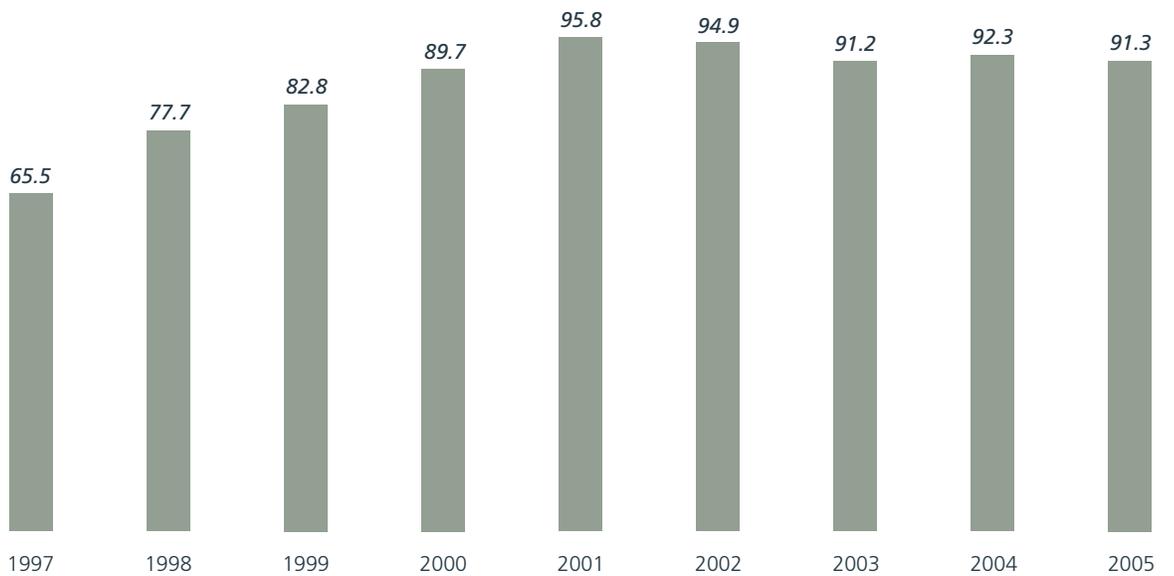


sources: Investment Company Institute and U.S. Census Bureau

figure 2

Ninety Million Individual Investors Own Mutual Funds in 2005

Millions of individual U.S. investors owning mutual funds, 1997–2005



sources: Investment Company Institute and U.S. Census Bureau

Gap Between Fund Ownership Inside and Outside Employer Plans Closing

Ownership of mutual funds outside employer-sponsored retirement plans exceeds ownership inside these plans,⁴ but the gap has narrowed in recent years. Fueled by the widespread use of mutual funds as investment options in defined contribution retirement plans, the number of

households owning funds inside employer plans increased 87 percent between 1997 and 2005. In contrast, the number of households owning funds outside employer plans grew 33 percent during this period. As of June 2005, an estimated 35.6 million U.S. households owned funds inside employer plans, compared with 38.9 million U.S. households owning funds outside these plans (Figure 3).

figure 3

Ownership of Mutual Funds Inside Employer Plans Sees Rapid Growth

Number and percentage of U.S. households owning mutual funds inside and outside employer-sponsored retirement plans,¹ 1997–2005

	Number of U.S. Households (millions)		Share of U.S. Households (percent)	
	Inside Employer-Sponsored Retirement Plans ²	Outside Employer-Sponsored Retirement Plans	Inside Employer-Sponsored Retirement Plans ²	Outside Employer-Sponsored Retirement Plans
1997	19.0	29.3	19.0%	29.3%
1998	26.2	33.2	25.9%	32.9%
1999	28.9	37.5	28.3%	36.7%
2000	33.5	36.6	31.8%	34.7%
2001	36.1	41.4	33.4%	38.3%
2002	35.9	39.8	32.8%	36.4%
2003	36.4	38.4	32.7%	34.5%
2004	36.4	39.3	32.5%	35.1%
2005	35.6	38.9	31.5%	34.4%

¹ Multiple responses included.

² Mutual funds held in 401(k) plans, 403(b) plans, 457 plans, SAR-SEP IRAs, SEP-IRAs, and SIMPLE IRAs included. Formation of new SAR-SEP IRAs was prohibited after December 31, 1996.

sources: Investment Company Institute and U.S. Census Bureau

Most Mutual Fund Shareholders Are Age 35 to 64

Individuals of all ages own mutual funds. Nonetheless, the age distribution of individuals heading households that own mutual funds tends to be somewhat more concentrated among individuals in their prime saving and investing years than is the age distribution of all U.S. household heads. Two-thirds of the 53.7 million households owning mutual funds are headed by individuals age 35 to

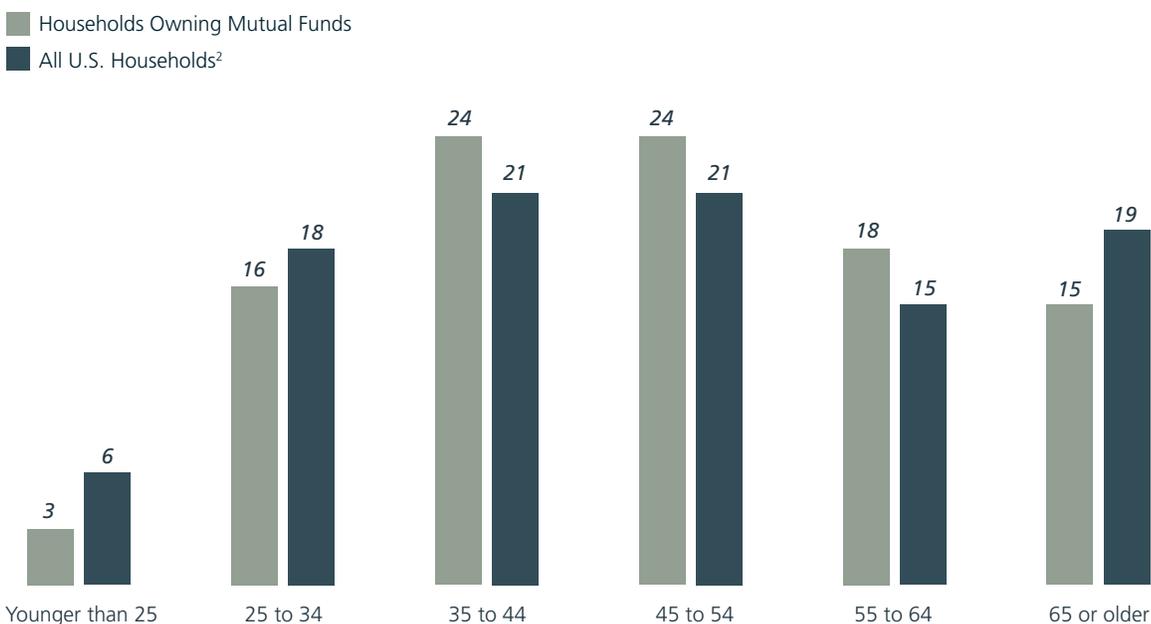
64, whereas 57 percent of all U.S. households are headed by individuals in this age group (Figure 4).

Since the mid-1990s, the incidence of mutual fund ownership has been greatest among households headed by individuals between the ages of 35 and 64. Since 1998, more than half of these households have owned mutual funds (Figure 5). Ownership among households headed by older individuals is higher now than it was in the mid-1990s. Nearly two-fifths of households headed by

figure 4

Two-Thirds of Households Owning Funds Are Headed by Individuals Age 35 to 64

Percentage distribution of households owning mutual funds and all U.S. households, by age,¹ 2005



¹ Age is based on individual heading household.

² The percentage of all U.S. households in each age group is based on ICI survey data.

source: Investment Company Institute

figure 5

Incidence of Mutual Fund Ownership Greatest Among 35 to 64 Year-Olds

Percentage of U.S. households within each age group¹ owning mutual funds, 1997–2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Younger than 25	23	24	28	23	32	27	27	25	24
25 to 34	34	42	47	49	50	48	44	43	44
35 to 44	45	52	55	58	60	57	54	57	54
45 to 54	44	53	58	59	60	59	57	55	53
55 to 64	44	51	50	54	54	55	59	55	57
65 or older	26	31	34	32	41	37	34	37	37

¹ Age is based on individual heading household.

source: Investment Company Institute

individuals age 65 or older currently own funds. After peaking in 2001, ownership among younger Americans has fallen back to the levels seen in the late 1990s. Currently, about one-quarter of households headed by individuals younger than 25 own funds.

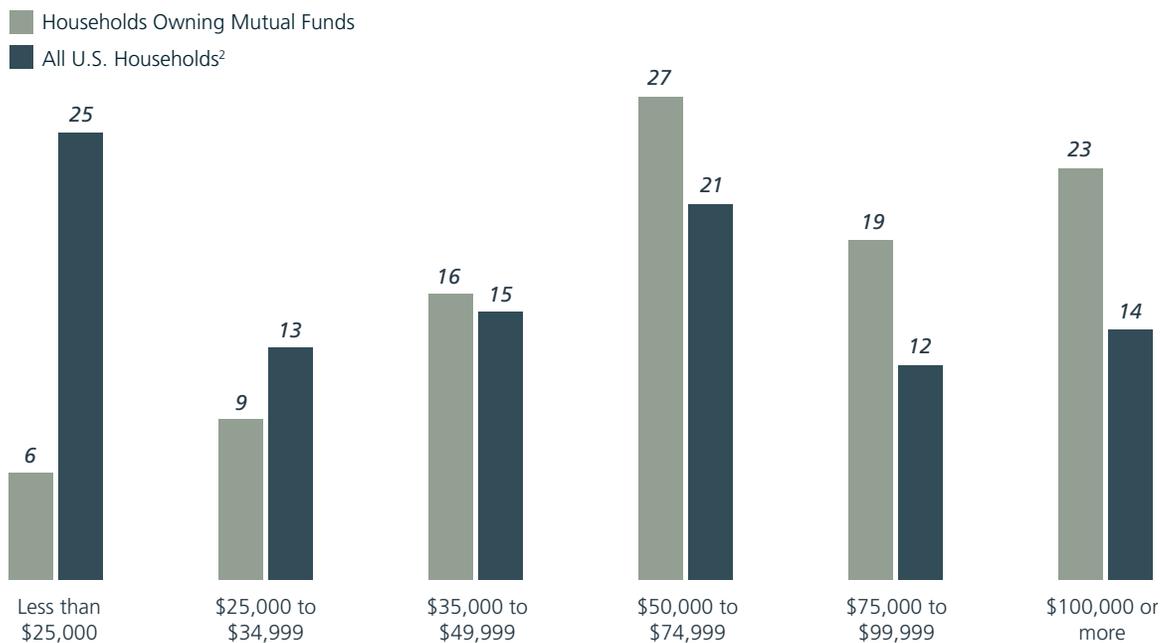
Mutual Fund Shareholders Typically Have Moderate Household Incomes

Mutual funds are largely a middle-class investment product. The majority of households owning mutual funds have moderate incomes, even though their incomes tend to be somewhat higher than the average American household's income. About half of all U.S. households owning funds in 2005 have incomes between \$25,000 and \$74,999 (Figure 6).

figure 6

More Than Half of Households Owning Mutual Funds Are Middle Income

Percentage distribution of households owning mutual funds and all U.S. households, by income,¹ 2005



¹ Income is based on 2004 pre-tax household income.

² The percentage of all U.S. households in each income group is based on ICI survey data.

source: Investment Company Institute

The higher-than-average incomes among mutual fund owners occur because the incidence of mutual fund ownership increases with household income. For instance, 70 percent of all U.S. households with incomes of \$50,000 or more own funds in 2005, compared with 27 percent

of households with incomes less than \$50,000 (Figure 7). Since 1997, the incidence of fund ownership has increased the most among households with incomes between \$35,000 and \$50,000. In 2005, nearly half of these households own mutual funds.

figure 7

Ownership of Mutual Funds Increases with Household Income

Percentage of U.S. households within each income group¹ owning mutual funds, 1997–2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Less than \$25,000	12	13	15	17	21	14	15	15	12
\$25,000 to \$34,999	31	28	30	37	38	36	33	32	32
\$35,000 to \$49,999	38	47	49	49	49	48	41	40	49
\$50,000 to \$74,999	57	62	62	66	66	67	59	61	61
\$75,000 to \$99,999	66	72	78	77	78	79	77	77	73
\$100,000 or more	80	77	78	79	85	82	83	83	82
Less than \$50,000	24	27	29	32	35	30	28	27	27
\$50,000 or more	64	68	70	72	74	74	70	72	70

¹ Income is based on the previous year's pre-tax household income.

source: Investment Company Institute

Notes

¹ The June 2005 survey included a sample of 3,000 randomly selected U.S. households. The survey's standard error for the total sample is ± 1.8 percentage points at the 95 percent confidence level. The sample was weighted to match the age distribution of the U.S. population. The number of U.S. households owning mutual funds in 2005 is based on the U.S. Census Bureau's estimate of 113.1 million total U.S. households as of March 2005 (see U.S. Census Bureau, Current Population Reports, Series P60-229, *Income, Poverty, and Health Insurance Coverage in the United States: 2004*, August 2005 (www.census.gov/prod/2005pubs/p60-229.pdf)).

² Households owning mutual funds in 1980 through 1986 were estimated by dividing the total number of household accounts by the number of accounts per household. Beginning in 1988, the incidence of mutual fund ownership is estimated through household surveys. Incidence estimates for 1988 through 1992 exclude households only owning mutual funds through

employer-sponsored retirement plans; estimates for 1994 through 2005 include households only owning mutual funds through employer-sponsored retirement plans. Incidence estimates for 1998 through 2005 include fund ownership through variable annuities. Since 1997, survey data have been weighted to match the age distribution of the U.S. population. The estimated number of U.S. households owning mutual funds each year is calculated using the U.S. Census Bureau's annual estimates of the total number of U.S. households. The number of U.S. households owning mutual funds in 2005 is based on the U.S. Census Bureau's estimate of 113.1 million total U.S. households in March 2005 (see U.S. Census Bureau, August 2005).

³ The mean number of mutual fund shareholders per fund-owning household was 1.752 in 1997, 1.741 in 1998, 1.710 in 1999, 1.736 in 2000, 1.702 in 2001, 1.750 in 2002, 1.711 in 2003, 1.713 in 2004, and 1.699 in 2005.

⁴ Employer-sponsored retirement plans include 401(k) plans, 403(b) plans, 457 plans, SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.