CHAPTER 8

US Retirement and Education Savings

National policies that have created or enhanced tax-advantaged savings accounts have proven integral to helping Americans save for retirement and other long-term goals. Assets earmarked for retirement represent close to one-third of US households' financial assets, and many Americans use mutual funds in tax-advantaged retirement accounts. ICI studies the US retirement market; the investors who use 401(k) plans, IRAs, 529 plans, and other tax-advantaged savings vehicles; and the role of mutual funds in the retirement and education savings markets. At year-end 2023, individual account-based retirement savings were 63 percent of the total US retirement market, and mutual funds managed about half of those account-based retirement assets.

IN THIS CHAPTER

The US Retirement System Has Many Components

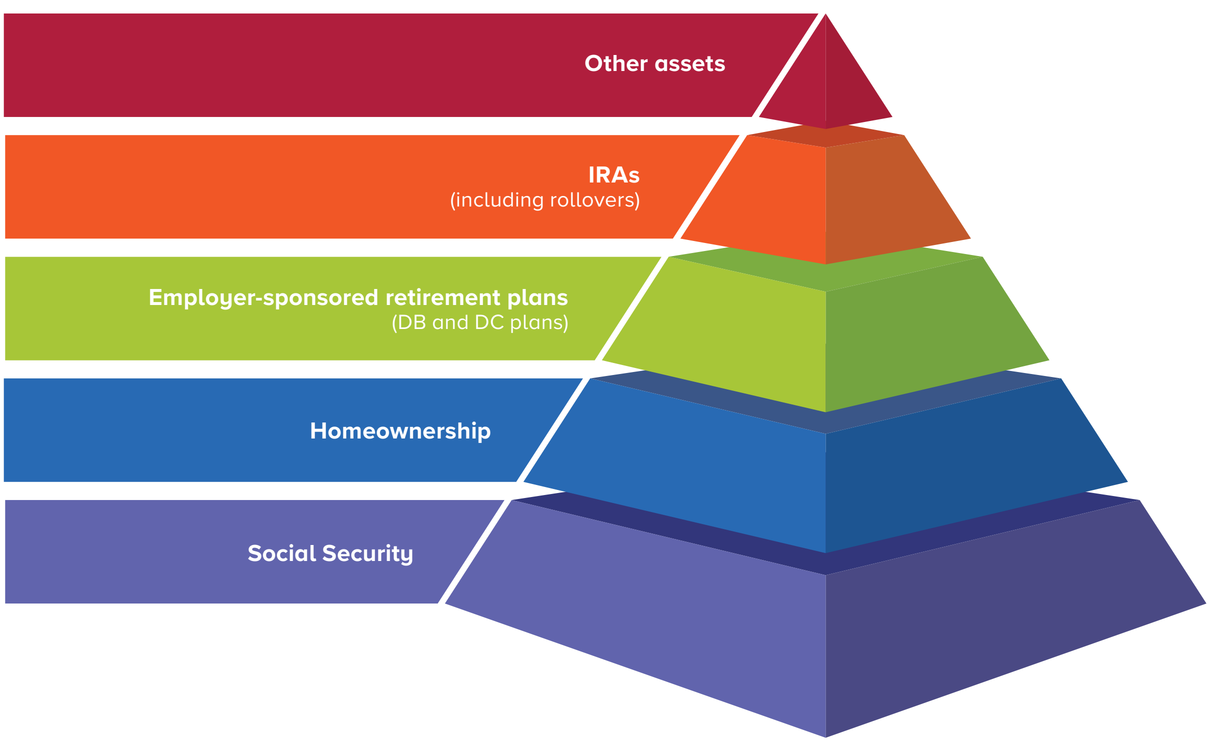
American households rely on a combination of resources in retirement, and the role each type of resource plays has changed over time and varies across households. The traditional analogy compares retirement resources to a three-legged stool, with resources divided equally among the legs—Social Security, employer-sponsored retirement plans, and private savings. A better analogy, however, is to think of Americans' retirement resources as a five-layer pyramid. Unlike the legs of a stool, pyramid layers need not be the same size.

Americans' Multi-Tiered Retirement Resources

The retirement resource pyramid has five layers, which draw from government programs, compensation deferred until retirement, and other savings (Figure 8.1):

- Social Security
- Homeownership
- Employer-sponsored retirement plans (private-sector and government employer plans, including both defined benefit [DB] and defined contribution [DC] plans)
- Individual retirement accounts (IRAs), including rollovers
- Other assets

FIGURE 8.1 **US Households Rely on Multi-Tiered Retirement Resources**



Source: Investment Company Institute, *The Success of the US Retirement System*

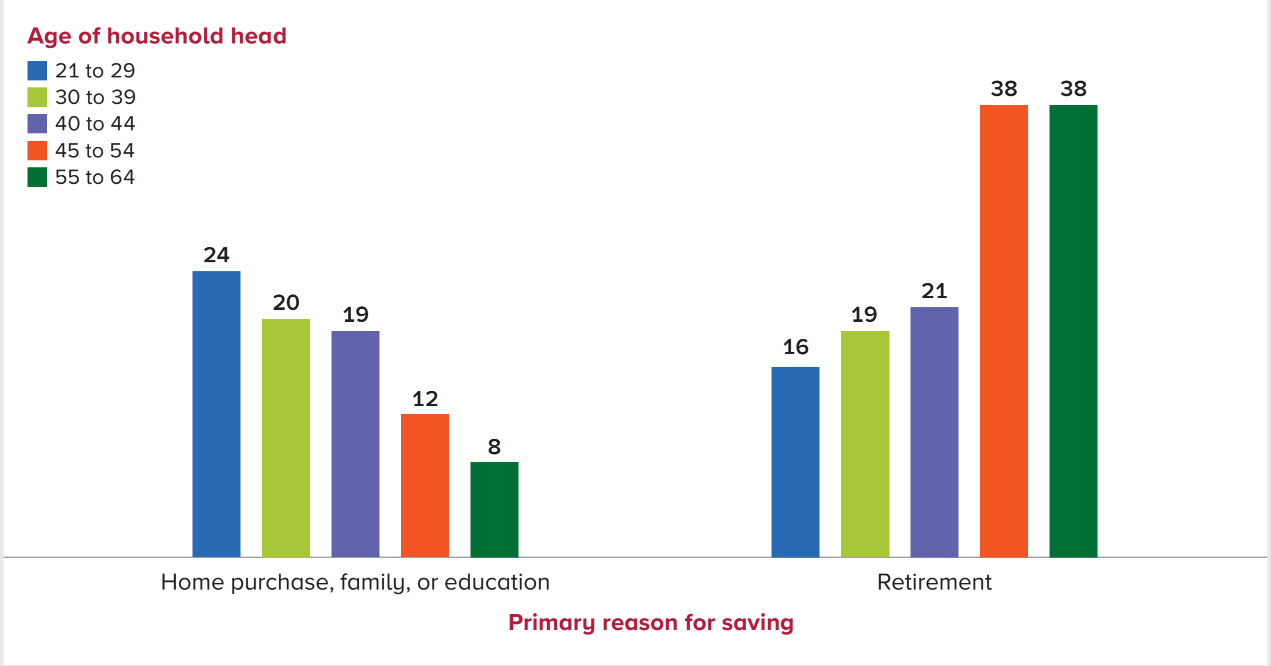
Together, these resources have broadly enabled recent generations of retirees to maintain their standard of living in retirement, though the use of each layer differs by household. For example, the composition of households' retirement resources varies with income. Lower-income households tend to rely more on Social Security, reflecting the fact that Social Security benefits replace a higher share of pre-retirement earnings for workers with lower lifetime earnings.

The amount and composition of retirement resources also change with age. Younger households are more likely to save primarily for a home purchase, family, or education (Figure 8.2). By contrast, older households are more likely to save primarily for retirement, as many have already reached their other savings goals. The tendency of younger workers to focus less on saving for retirement is consistent with economic models of life-cycle consumption, which predict that most workers delay saving for retirement until later in their careers, when they typically have higher earnings.

FIGURE 8.2

Primary Reason for Household Saving Changes with Age

Percentage of households by age of household reference person, 2022



Source: Investment Company Institute tabulations of the 2022 Federal Reserve Board Survey of Consumer Finances

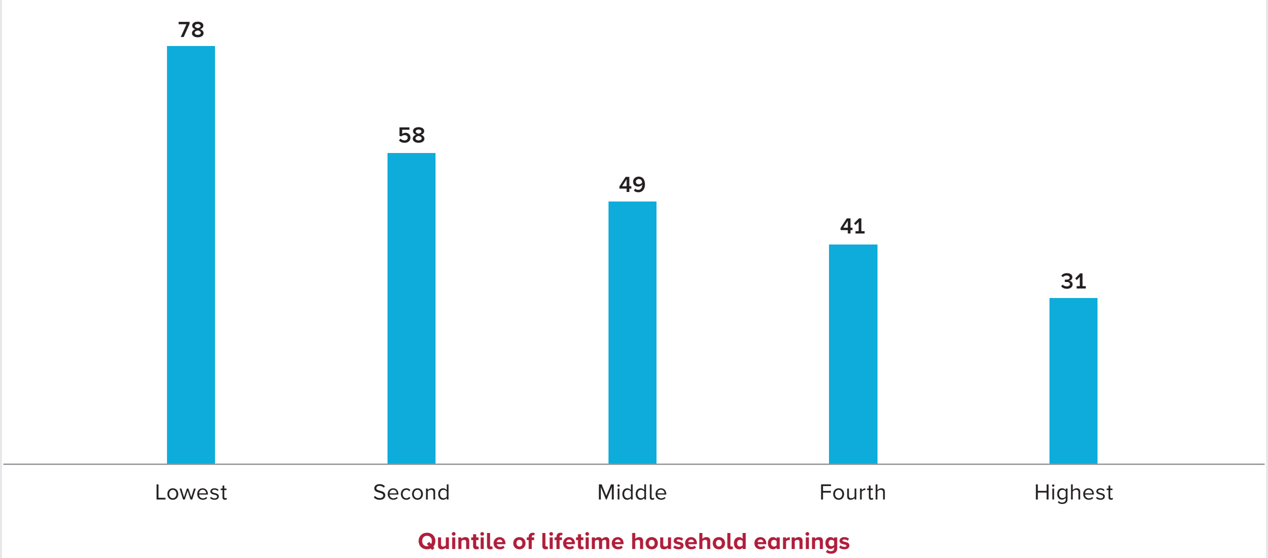
Social Security, the base of the US retirement resource pyramid, is a substantial component of retiree income and the primary source of income for lower-income retirees. Social Security benefits are funded through a payroll tax equal to 12.4 percent of earnings of covered workers (split equally between employers and employees) up to a maximum taxable earnings amount ($160,200 in 2023). The benefit formula is highly progressive, with benefits representing a much higher percentage of earnings for workers with lower lifetime earnings.

By design, Social Security is the primary means of support for retirees with low lifetime earnings and a substantial source of income for all retired workers. The Congressional Budget Office estimates that, for those in the lowest quintile (20 percent) of households ranked by lifetime household earnings, first-year Social Security benefits will replace 78 percent of inflation-indexed lifetime earnings, on average, for workers born in the 1960s who claim benefits at age 65 (Figure 8.3). That replacement rate drops to 58 percent for workers in the second quintile of households, and then declines more slowly as lifetime household earnings increase. Even for workers in the top 20 percent of households, Social Security benefits are projected to replace a considerable portion (31 percent) of earnings.

FIGURE 8.3

Social Security Benefit Formula Is Highly Progressive

Average scheduled Social Security replacement rates for workers in the 1960s birth cohort by quintile of lifetime household earnings, percent



Note: The replacement rate is the ratio of Social Security benefits net of income tax to average inflation-indexed lifetime earnings. Replacement rates are for workers claiming benefits at age 65. For workers born in the 1960s, the Social Security full benefit retirement age is 67. If these workers claimed benefits at age 67, benefits would increase by about 15 percent.

Source: Congressional Budget Office, *CBO's 2021 Long-Term Projections for Social Security: Additional Information*

Homeownership is the second most important retirement resource after Social Security for many near-retiree households. Older households are more likely to own their homes, more likely to own their homes without mortgage debt, and more likely to have small mortgages relative to the value of their homes if they do still have mortgages. Retired households typically benefit from this resource simply by living in their homes rent-free.

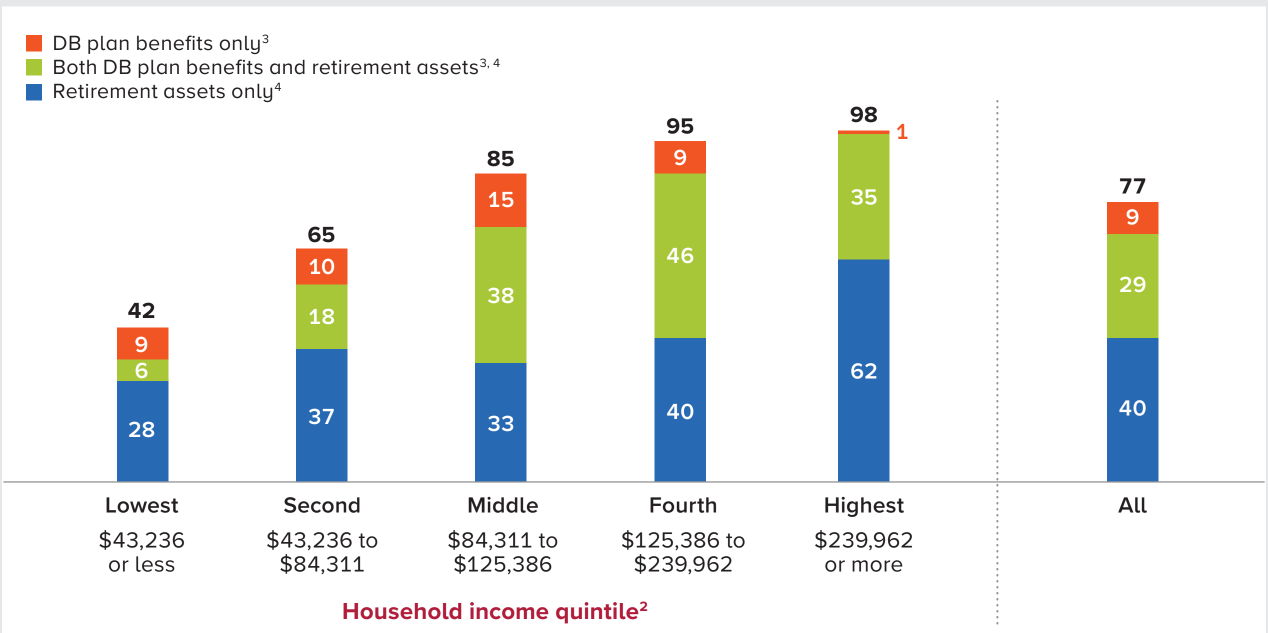
Employer-sponsored retirement plans and IRAs, which complement Social Security benefits and are important resources for households regardless of income or wealth, increase in importance for households for which Social Security replaces a smaller share of earnings. In 2022, more than three-quarters of near-retiree households had accrued benefits in employer-sponsored retirement plans—DB and DC plans sponsored by private-sector and government employers—or IRAs (Figure 8.4).

Finally, although less important on average, retirees also rely on ***other assets*** in retirement. These assets can be financial—including bank deposits, stocks, bonds, and mutual funds owned outside employer-sponsored retirement plans and IRAs. They also can be nonfinancial—including business equity, investment real estate, second homes, and consumer durables (long-lived goods such as vehicles, household appliances, and furniture). Higher-income households are more likely to have large holdings of assets in this category.

FIGURE 8.4

Near-Retiree Households Across All Income Groups Have Retirement Assets, DB Plan Benefits, or Both

Percentage of near-retiree households[1] by income quintile,[2] 2022



[1] *Near-retiree households* are those with a household reference person aged 55 to 64, and a working household reference person or working spouse.

[2] Income is household income before taxes in 2021.

[3] Households currently receiving DB plan benefits and households with the promise of future DB plan benefits, whether from private-sector or government employers, are counted in this category.

[4] In this figure, retirement assets include DC plan assets (401(k), 403(b), 457, thrift, and other DC plans), whether from private-sector or government employers, and IRAs (traditional, Roth, SEP, SAR-SEP, and SIMPLE).

Source: Investment Company Institute tabulations of the 2022 Federal Reserve Board Survey of Consumer Finances

US Households Have Accumulated a Significant Retirement Nest Egg

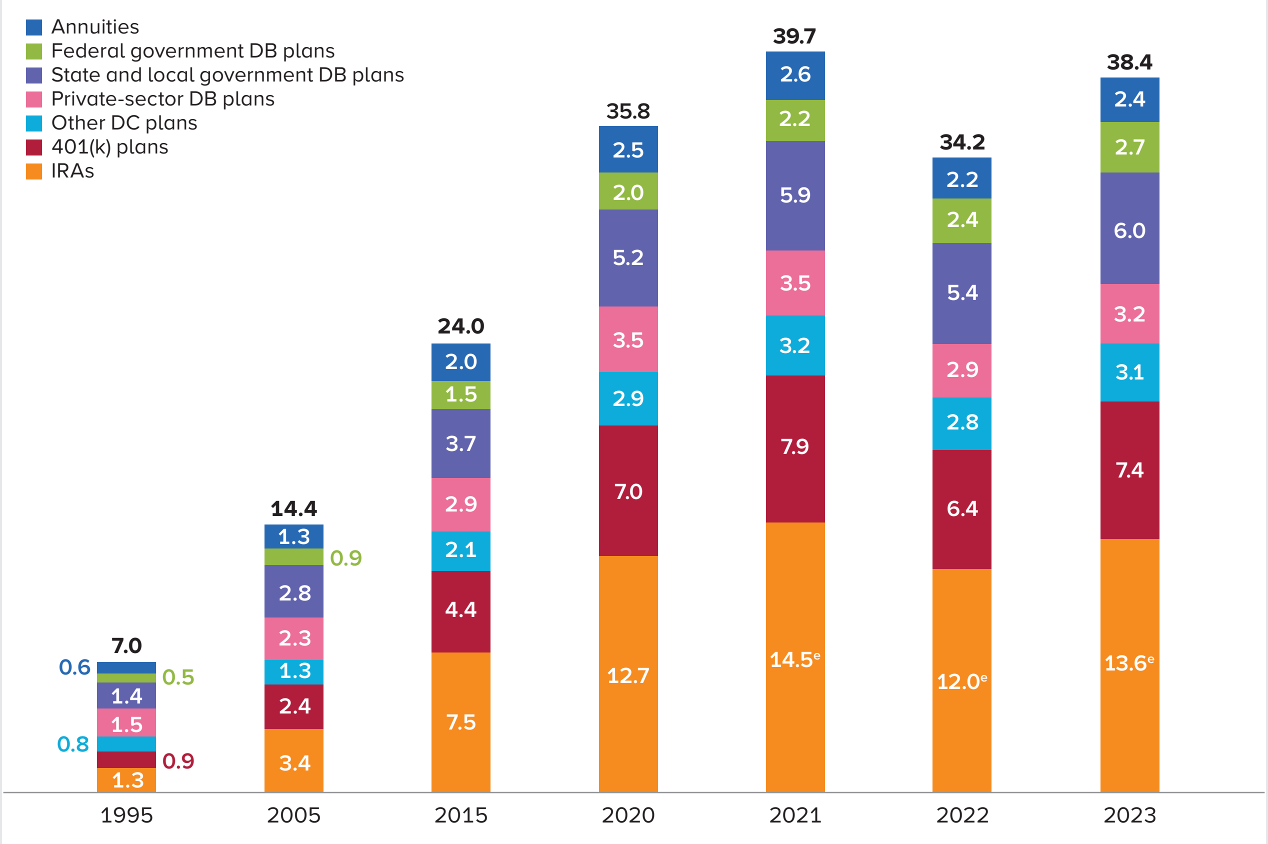
Employer-sponsored retirement plans, IRAs (including rollovers), and annuities play an important role in the US retirement system, with assets earmarked for retirement representing close to one-third of US households' total financial assets at year-end 2023.

Assets earmarked for retirement amounted to $38.4 trillion at year-end 2023 (Figure 8.5)—up 12 percent from year-end 2022. The largest components of retirement assets were IRAs and employer-sponsored DC plans (including 401(k) plans), which together represented 63 percent of all retirement market assets at year-end 2023. IRAs and DC plans had about half of their assets invested in mutual funds at year-end 2023 (Figure 8.15). In addition, US households had $1.3 trillion in variable annuity (VA) mutual fund assets held outside retirement accounts.

FIGURE 8.5

US Retirement Market Assets

Trillions of dollars, year-end



e Data are estimated.

Source: Investment Company Institute. For a complete list of sources, see Investment Company Institute, "The US Retirement Market, Fourth Quarter 2023."

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Retirement Market

www.ici.org/research/stats/retirement

While US households manage individual account-based savings (DC plans and IRAs), traditional DB plans promise to pay benefits in retirement typically based on salary and years of service. Some DB plans, however, do not have sufficient assets to cover promised benefits that households have a legal right to expect. Unfunded liabilities are a larger issue for government DB plans than for private-sector DB plans. As of year-end 2023, unfunded liabilities were 33 percent of benefit entitlements for state and local government DB plans, 31 percent of benefit entitlements for federal government DB plans, and 12 percent of benefit entitlements for private-sector DB plans.

The US Retirement System Produces Robust Income Replacement in Retirement

In retirement, most Americans maintain spendable income that is a high percentage of the spendable income they had in their late 50s, according to a study by ICI economists analyzing tax data. The study, which followed Americans who were aged 55 in 2000 until they were aged 72 in 2017, also finds that most retirees get substantial amounts of both Social Security benefits and retirement income—that is, distributions from employer-sponsored retirement plans, annuities, and IRAs. Indeed, at every age through age 72, the typical individual maintained more than 90 percent of the inflation-adjusted spendable income they had, on average, from age 55 through age 59. Spendable income is the income available after paying taxes and contributing to retirement accounts.

Lower-income Americans typically had higher spendable income replacement rates. Individuals were ranked by their average total income from age 55 to age 59 and split into 20 groups, or ventiles. At age 72, the median replacement rate for lower-income individuals (third ventile) was 103 percent, for middle-income individuals (10th ventile) was 93 percent, and for higher-income individuals (18th ventile) was 84 percent (Figure 8.6). A similar pattern by ventile is seen throughout the replacement rate distribution. At the 75th percentile, replacement rates were well above 100 percent for lower-income ventiles. At the 25th percentile, the relationship between replacement rates and income was less pronounced, with ventiles 4 through 16 all around 70 percent.

Income from Retirement Plans
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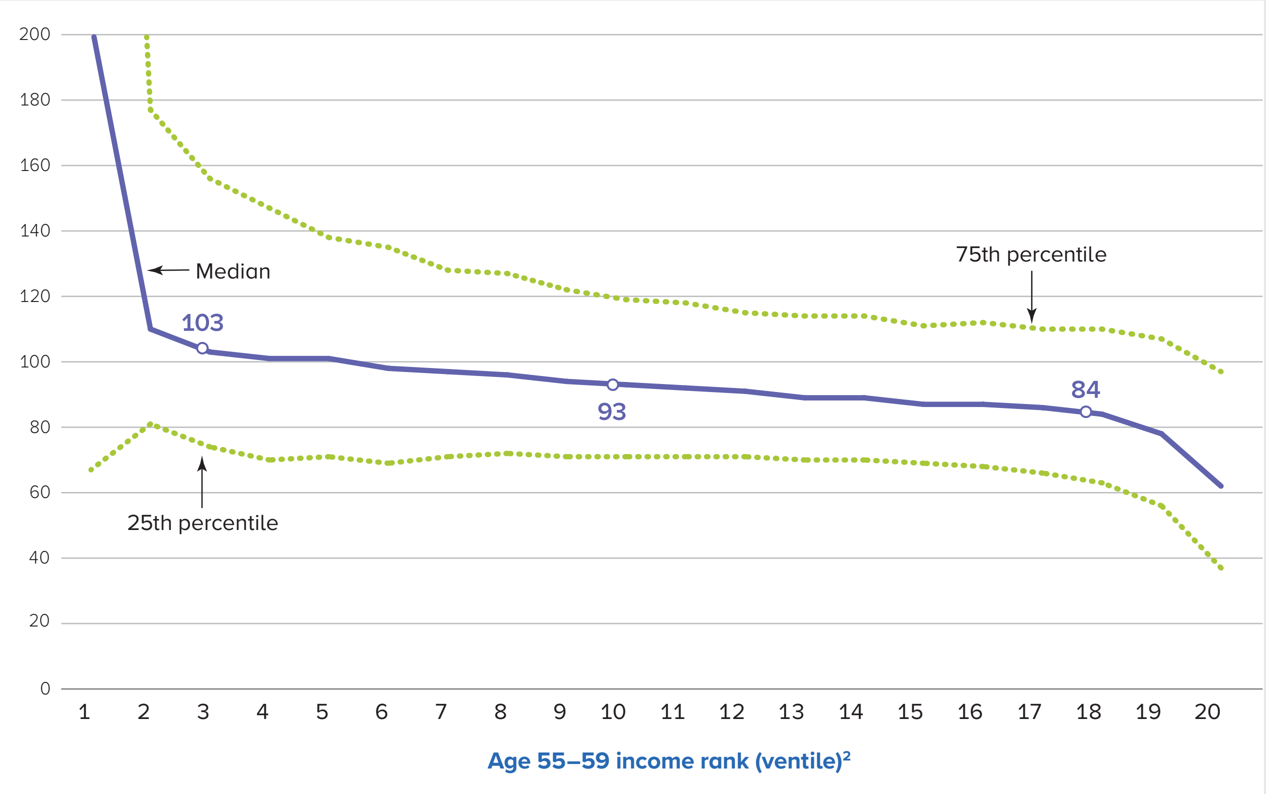
FIGURE 8.6

Lower-Income Individuals Tend to Replace Higher Percentages of Income in Retirement

Spendable income replacement rate[1] at age 72



[1] The replacement rate is spendable income at age 72 as a percentage of average inflation-adjusted spendable income between ages 55 and 59. Spendable income is the income available after paying taxes and contributing to retirement accounts. For married individuals, spendable income is per capita (that is, spendable income for the couple divided by two).

[2] Individuals were ranked by their average total income from age 55 to age 59 and split into 20 groups, or ventiles.

Note: The median replacement rate for individuals in the lowest income group was 204 percent at age 72, and the 75th percentile replacement rate was 604 percent. The sample consists of Americans aged 55 at year-end 2000 who were alive at year-end 2017 (when they were age 72).

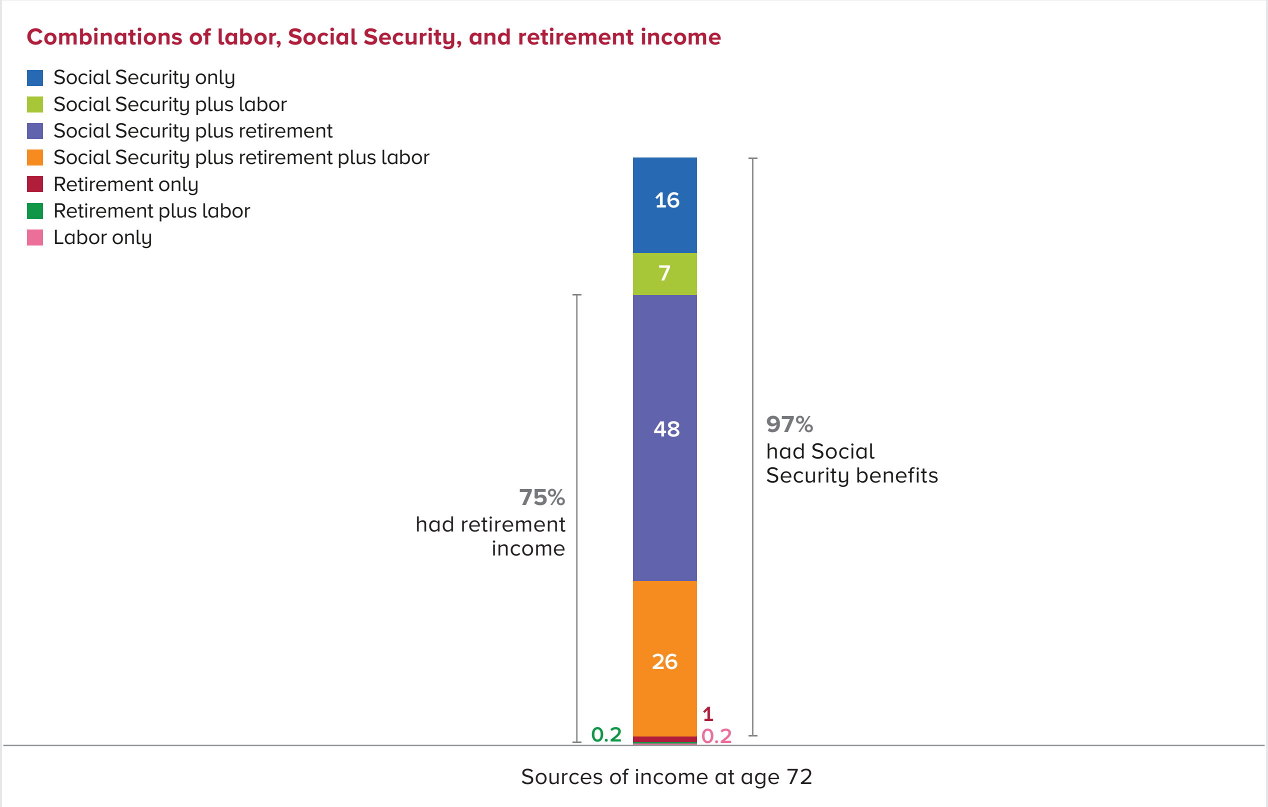
Source: *When I'm 64 (or Thereabouts): Changes in Income from Middle Age to Old Age*, available at www.ici.org/research/retirement/income

In addition to Social Security benefits, the study found that the vast majority of American retirees had income from employer-sponsored retirement plans, annuities, and IRAs. At age 72, either directly or through a spouse, 97 percent received Social Security benefits and 75 percent received retirement income (Figure 8.7). Nearly half (48 percent) had Social Security benefits and retirement income (but no labor income), and more than one-quarter had all three.

FIGURE 8.7

Most Americans Had Non–Social Security Retirement Income at Age 72

Percentage of Americans at age 72



Note: The sample consists of Americans aged 55 at year-end 2000 who were alive at year-end 2017 (when they were age 72). Retirement income is income from DB and DC pensions, annuities, and IRAs. Individuals are classified as having a given income type if they received it either directly or through a spouse. At age 72, 2 percent of Americans did not have labor, Social Security, or retirement income.

Source: *When I'm 64 (or Thereabouts): Changes in Income from Middle Age to Old Age*, available at www.ici.org/research/retirement/income

Defined Contribution Plans Play an Increasing Role in Retirement Saving

DC plans provide employees with a retirement account funded with employer contributions, employee contributions, or both, plus investment earnings or losses on those contributions, less withdrawals. Assets in employer-sponsored DC plans have grown faster than assets in DB plans over the past three decades, increasing from less than one-third of total DC and DB plan assets in 1993 to nearly half by year-end 2023.

A Closer Look: 401(k) Plans Are the Most Common DC Plan

At the end of 2023, employer-sponsored DC plans—which include 401(k) plans, 403(b) plans, 457 plans, the federal Thrift Savings Plan (TSP), and other private-sector DC plans—held an estimated $10.6 trillion in assets (Figure 8.5). With $7.4 trillion in assets at year-end 2023, 401(k) plans held the largest share of employer-sponsored DC plan assets; 403(b) plans—which are similar to 401(k) plans and are offered by some education and nonprofit organizations—held another $1.3 trillion in assets.

With 90 percent of 401(k) plan participants in plans offering employer contributions, 401(k) plans are a powerful saving tool (Figure 8.8). DC-owning individuals agree that payroll deduction makes it easier to save and that the tax treatment of DC plans is a big incentive to contribute. The typical 401(k) plan offers a full assortment of investment options generally including domestic equity funds, international equity funds, domestic bond funds, and target date funds. Eighty-four percent of DC-owning individuals agree that their plan offers a good lineup of investment options.

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The BrightScope/ICI Defined Contribution Plan Profile
www.ici.org/research/retirement/dc-plan-profile

401(k) Plan Participants' Asset Allocation Varies with Participant Age

The vast majority of 401(k) plan participants embrace investing in equities—whether through equity funds, balanced funds* (including target date funds), or company stock. According to research conducted by ICI and the Employee Benefit Research Institute (EBRI), 97 percent of 401(k) participants held at least some equities in their 401(k) accounts at year-end 2022 (Figure 8.8).

FIGURE 8.8

401(k) Plans Offer Powerful and Convenient Saving and Investing

401(k) plans

- **70 million** active participants
- **$7.4 trillion** in assets at year-end 2023
    - **65 percent** of 401(k) plan assets invested in mutual funds
- **28** investment options, on average
    - Typically including domestic equity funds, international equity funds, domestic bond funds, and target date funds[1]

401(k) participants

- **90 percent** are offered employer contributions
- **97 percent** have investments in equities[2]
- **68 percent** have invested in target date funds[1]
- **84 percent** have access to plan loans

DC-owning individuals

- **87 percent** agree that payroll deduction makes it easier for them to save
- **82 percent** agree that the tax treatment of their retirement plan is a big incentive to contribute
- **84 percent** agree that their employer-sponsored retirement plan offers them a good lineup of investment options

[1] Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

[2] Equities include equity funds, company stock, and the equity portion of balanced funds. The Investment Company Institute classifies balanced funds as *hybrid* in its data.

Sources: Investment Company Institute, The US Retirement Market (www.ici.org/research/stats/retirement); The BrightScope/ICI Defined Contribution Plan Profile (www.ici.org/research/retirement/dc-plan-profile); EBRI/ICI 401(k) Database (www.ici.org/research/retirement/ebri-ici-401k); US Household Views on Retirement Savings (www.ici.org/research/retirement/us-views)

* The Investment Company Institute classifies balanced funds as *hybrid* in its data.

US Household Views on Retirement Saving
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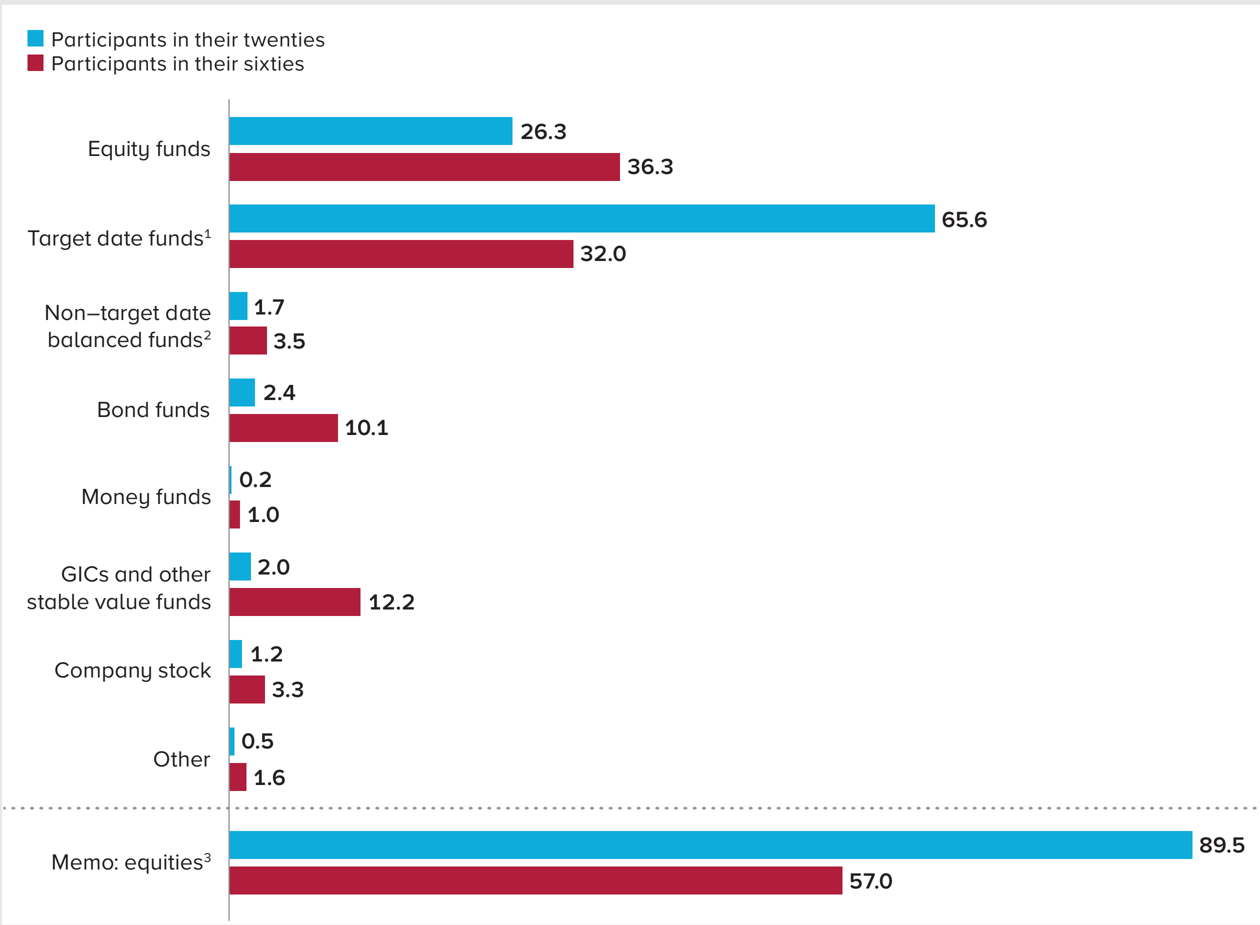
The composition of the asset allocation of 401(k) participants' accounts also varies with participant age. For example, at year-end 2022, 401(k) plan participants in their twenties had a much higher allocation to target date funds (66 percent of their 401(k) plan balances) than those in their sixties (32 percent) (Figure 8.9). And older 401(k) plan participants had much higher allocations to fixed-income investments (bond funds, GICs and other stable value funds, and money funds) compared with younger 401(k) plan participants. All told, younger participants allocate more of their portfolios to equities compared with older participants. At year-end 2022, participants in their twenties had 90 percent of their 401(k) assets invested in equities, on average, while those in their sixties had 57 percent of their 401(k) assets invested in equities. Furthermore, younger 401(k) plan participants were more likely to have high concentrations in equities in their accounts compared with older participants.

FIGURE 8.9

Average 401(k) Asset Allocation Varies with Participant Age

Average asset allocation of 401(k) account balances, percentage of account balances, year-end 2022



[1] A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

[2] The Investment Company Institute classifies balanced funds as *hybrid* in its data.

[3] Equities include equity funds, company stock, and the equity portion of balanced funds.

Note: Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. Percentages are dollar-weighted averages.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. See *ICI Research Perspective*, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2022."

Target Date Funds Are Widely Available and Frequently Used

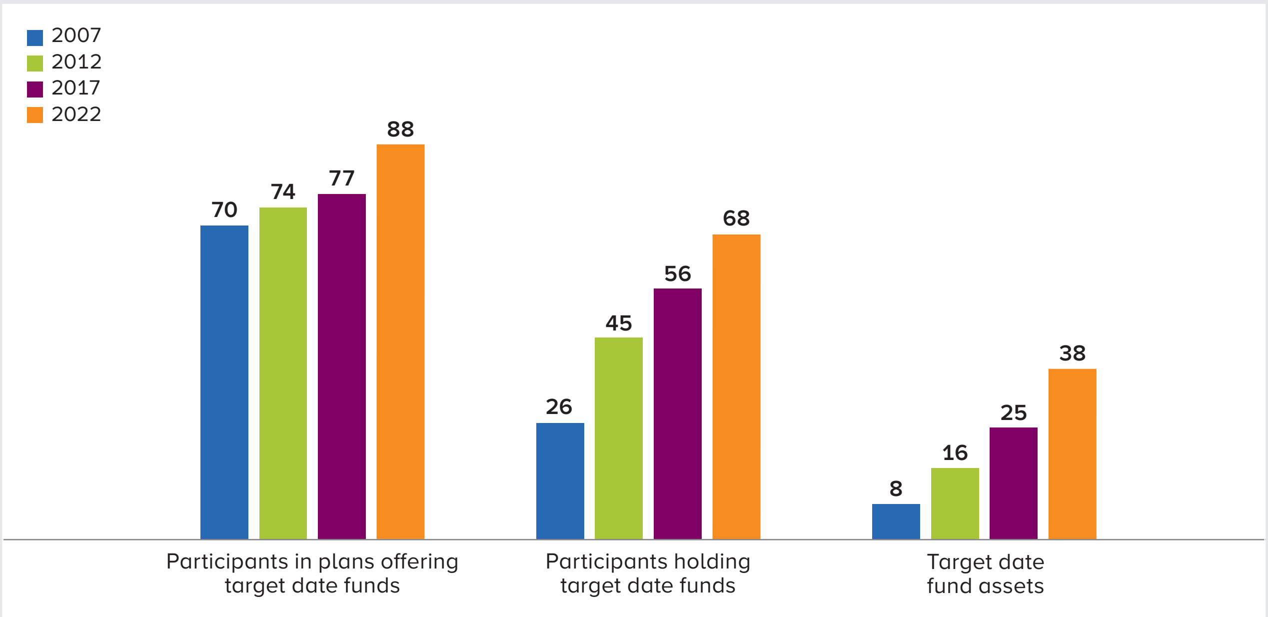
A target date fund follows a predetermined reallocation of assets over time based on a specified target retirement date. Typically, the fund rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date, which is usually indicated in the fund's name.

The offering and use of target date funds in 401(k) plans have increased in recent years. Target date funds (including target date mutual funds, target date collective investment trusts (CITs), and other pooled target date investments) have risen from 8 percent of 401(k) plan assets at year-end 2007 to 38 percent at year-end 2022 (Figure 8.10). Participant use of target date funds has also increased—at year-end 2022 nearly seven in 10 401(k) plan participants held target date funds.

FIGURE 8.10

Target Date Funds' Rising 401(k) Market Share

Percentage of total 401(k) market, year-end



Note: A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. Funds include mutual funds, bank collective trusts, life insurance separate accounts, and other pooled investment products.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. See *ICI Research Perspective*, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2022."

Defined Contribution Plan Participants' Activities

www.ici.org/research/retirement/dc-plan-activities

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401(k) Plan Loans Can Offer a Safety Valve in Times of Need

Most 401(k) plan participants do not borrow from their plans, although the majority have access to plan loans. The percentage of 401(k) plan participants with loans outstanding has been trending down in the wake of changes to plan rules regarding hardship withdrawals since 2019 and special COVID-related access during 2020. According to the ICI Survey of DC Plan Recordkeepers, only 13 percent of DC plan participants had loans outstanding at year-end 2022. Analysis of EBRI/ICI 401(k) data finds that outstanding loan balances among participants with loans averaged 10 percent of the remaining 401(k) account balance at year-end 2022. And US Department of Labor data indicate that outstanding loan amounts were less than 1 percent of 401(k) plan assets in 2021.

IRAs Are a Significant Part of US Retirement Savings

IRA assets totaled $13.6 trillion at year-end 2023, accounting for 35 percent of US retirement market assets (Figure 8.5). Mutual funds were 43 percent of IRA assets at year-end 2023 (Figure 8.11). More than four in 10, or 56 million, US households owned IRAs in 2023.

The first type of IRA—known as a traditional IRA—was created under the Employee Retirement Income Security Act of 1974 (ERISA) and is the most common type of IRA. IRAs provide all workers with a contributory retirement savings vehicle, and, through rollovers, give workers leaving jobs a means to preserve the tax benefits and growth opportunities that employer-sponsored retirement plans provide. Roth IRAs, first available in 1998, were created to provide a contributory retirement savings vehicle on an after-tax basis, with qualified withdrawals distributed tax-free. In addition, policymakers have added employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) to encourage small businesses to provide retirement plans by simplifying the rules applicable to tax-qualified plans.

Traditional IRA–owning households access a full array of investment options, with 71 percent reporting they held mutual funds and 31 percent indicating they held ETFs in their traditional IRAs (Figure 8.11). More than two-thirds of traditional IRA–owning households have a strategy to manage income and assets in retirement. Typically, these strategies have many components, such as reviewing asset allocations, determining their retirement expenses, developing a retirement income plan, setting aside emergency funds, and determining when to take Social Security benefits.

Roth IRA–owning households also access a full array of investment options, with 72 percent reporting they held mutual funds and 35 percent indicating they held ETFs in their Roth IRAs (Figure 8.11). Roth IRA–owning households skew younger than traditional IRA–owning households.

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The Role of IRAs in US Households' Saving for Retirement

www.ici.org/research/retirement/role-of-iras

FIGURE 8.11

IRAs Play an Important Role in US Households' Retirement Saving

IRAs

56 million US households own IRAs

$13.6 trillion in assets at year-end 2023

- **43 percent** of IRA assets invested in mutual funds

Traditional IRA–owning households

$11.4 trillion in assets in traditional IRAs

71 percent have mutual funds in their traditional IRAs

31 percent have ETFs in their traditional IRAs

62 percent have rollovers from employer-sponsored retirement plans in their traditional IRAs

The three most common primary reasons for rolling over were:

- **22 percent** not wanting to leave assets behind at the former employer
- **21 percent** wanting to consolidate assets
- **17 percent** wanting more investment options

68 percent have a strategy to manage income and assets in retirement

62 years old is their median age

Roth IRA–owning households

$1.4 trillion in assets in Roth IRAs

72 percent have mutual funds in their Roth IRAs

35 percent have ETFs in their Roth IRAs

65 percent have a strategy to manage income and assets in retirement

51 years old is their median age

Sources: Investment Company Institute, The US Retirement Market (www.ici.org/research/stats/retirement); The Role of IRAs in US Households' Saving for Retirement (www.ici.org/research/retirement/role-of-iras)

The IRA Investor Database™
www.ici.org/research/retirement/ira-investor-database
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Analysis of the IRA Investor Database—which contains information on millions of IRA investors—finds that contributions are more important for opening new Roth IRAs, while rollovers are more important for opening new traditional IRAs. In 2020, 77 percent of new Roth IRAs were opened solely with contributions, while 74 percent of new traditional IRAs were opened only with rollovers (Figure 8.12).

FIGURE 8.12

New Roth IRAs Are Often Opened with Contributions; New Traditional IRAs Are Often Opened with Rollovers

Percentage of new IRAs opened in 2020 by type of IRA

Note: New IRAs are accounts that did not exist in The IRA Investor Database in 2019 and were opened by one of the paths indicated in 2020. The calculation excludes IRAs that changed financial services firms. The samples are 0.3 million new Roth IRA investors aged 18 or older at year-end 2020 and 0.3 million new traditional IRA investors aged 18 to 74 at year-end 2020.

Source: The IRA Investor Database™

Traditional IRA–owning households generally researched the decision to roll over money from their former employers' retirement plans into traditional IRAs. Traditional IRA–owning households with rollovers cite multiple reasons for rolling over their retirement plan assets into traditional IRAs. The three most common primary reasons for rolling over were not wanting to leave assets behind at the former employer, wanting to consolidate assets, and wanting more investment options (Figure 8.11).

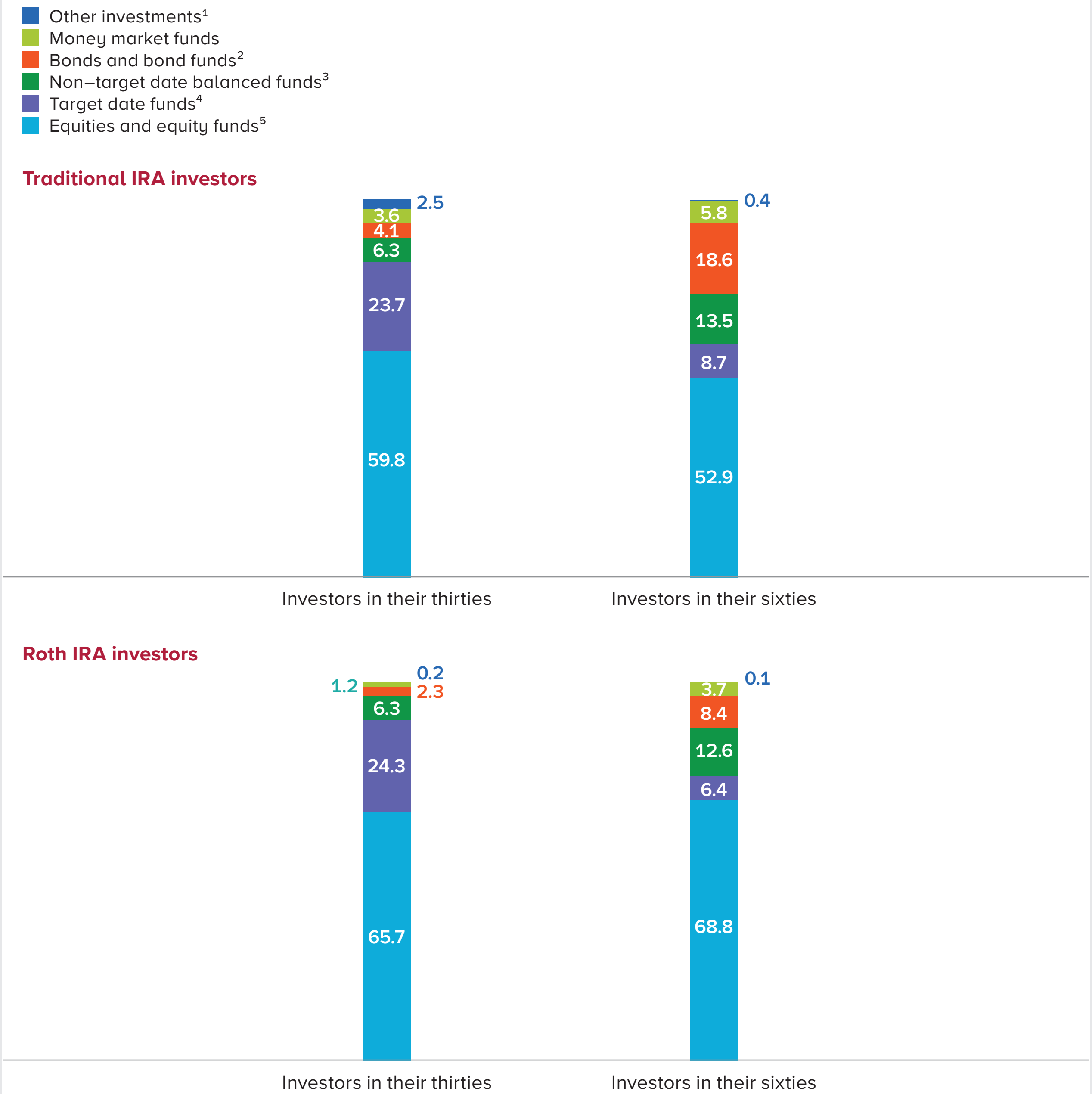
IRA Portfolios Often Reach Toward Equity Investments

As with 401(k) plan assets, a majority of IRA assets is invested in equities, and younger IRA investors tend to have a larger share of their assets invested in equities, equity funds, and target date funds than older investors. Older IRA investors tend to be more invested in bonds, bond funds, and non–target date balanced funds (Figure 8.13). Roth IRA investors display a similar pattern of investing by age compared with traditional IRA investors, although in all age groups, Roth IRA investors tended to have higher allocations to equities and equity funds and lower allocations to bonds and bond funds.

FIGURE 8.13

Average IRA Asset Allocation Varies with Investor Age

Average asset allocation of IRA balances, percentage of assets, year-end 2020



1 *Other investments* includes certificates of deposit and unidentifiable assets.

2 Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.

3 The Investment Company Institute classifies balanced funds as *hybrid* in its data.

4 A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

5 Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

Note: Percentages are dollar-weighted averages.

Source: The IRA Investor Database™

IRA Withdrawals Are Rare Until Required by Law Later in Life

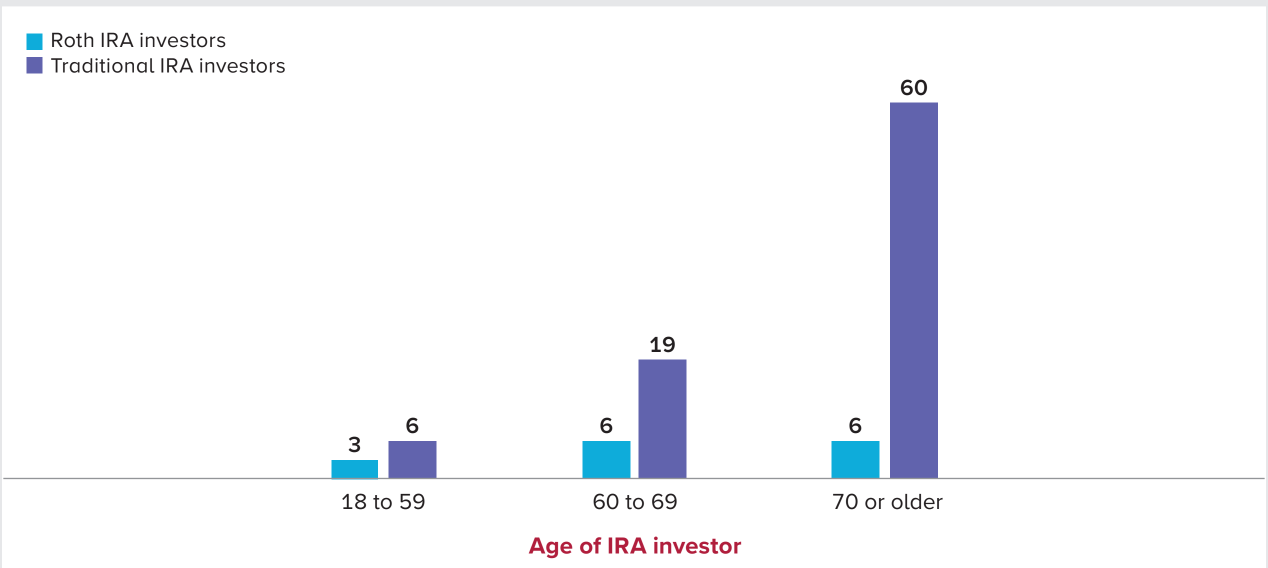
Withdrawals from IRAs tend to occur later in life, often to fulfill required minimum distributions (RMDs) under the law. An RMD is calculated as a percentage of the IRA balance, based on remaining life expectancy. Older traditional IRA owners generally must withdraw at least the minimum amount each year, or pay a penalty (historically, RMDs began at age 70½, but this age has since increased to 73). In addition, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) waived RMDs for 2020.

Withdrawal activity is lower among younger traditional and Roth IRA investors, likely related to early withdrawal penalties for distributions taken by individuals younger than 59½ (Figure 8.14). Withdrawal activity rises for investors in their sixties (where withdrawals are generally penalty free) and increases substantially for traditional IRA investors aged 70 or older, likely related to RMD rules. The 60 percent of traditional IRA investors aged 70 or older taking withdrawals in 2020 represents a reduced rate of withdrawal activity—compared with 81 percent in 2019—reflecting the CARES Act suspension of RMDs in that year. The withdrawal rate does not increase after age 70 for Roth IRA investors, who are not subject to RMDs during the owner's lifetime.

FIGURE 8.14

Roth IRA Investors Rarely Take Withdrawals; Traditional IRA Investors Are Heavily Affected by RMDs

Percentage of IRA investors with withdrawals by type of IRA and investor age, 2020



Note: The samples are 4.6 million Roth IRA investors aged 18 or older at year-end 2020 and 6.6 million traditional IRA investors aged 18 or older at year-end 2020.

Source: The IRA Investor Database™

The Role of Mutual Funds in Retirement Savings

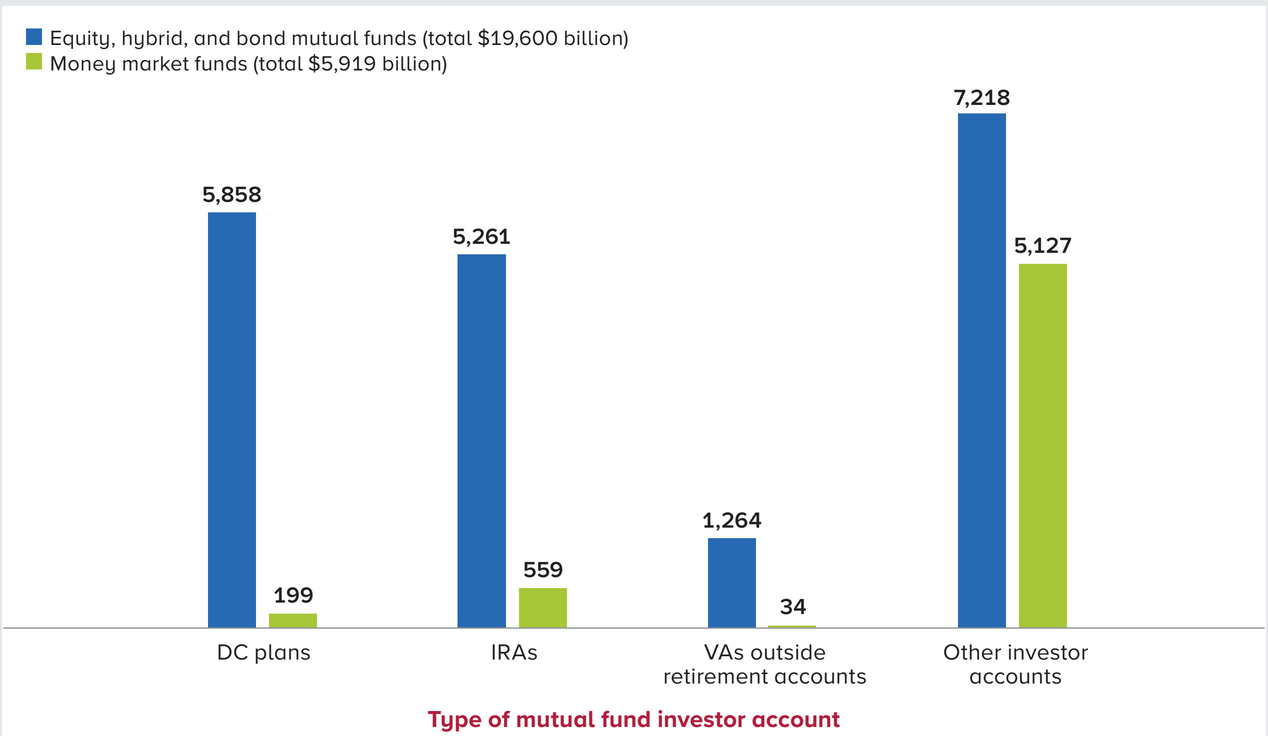
Mutual funds play a major role in employer-sponsored DC plans (such as 401(k) plans) and IRAs. At year-end 2023, mutual funds accounted for 57 percent of DC plan assets and 43 percent of IRA assets (Figures 8.5 and 8.15). Investors held slightly more mutual fund assets in DC plans ($6.1 trillion) than in IRAs ($5.8 trillion) (Figure 8.15).

Mutual fund assets held in DC plans and IRAs represent a large share of mutual fund assets overall, and long-term mutual fund assets in particular (Figure 8.15). The $11.9 trillion in mutual fund retirement assets made up 47 percent of all mutual fund assets at year-end 2023. DC plans and IRAs held 57 percent of equity, hybrid, and bond mutual fund assets, but only 13 percent of money market fund assets. Another $1.3 trillion held in VA mutual funds outside retirement accounts represented another 6 percent of long-term mutual fund assets.

FIGURE 8.15

Substantial Amounts of Retirement Market Assets Are Invested in Long-Term Mutual Funds

Billions of dollars, year-end 2023



Source: Investment Company Institute. See Investment Company Institute, “The US Retirement Market, Fourth Quarter 2023.”

Mutual Funds Also Play a Role in Education Savings

Twelve percent of households that owned mutual funds in 2023 cited education as a financial goal for their fund investments (see Figure 7.2), and 15 percent of mutual fund–owning households have 529 plans. Nevertheless, the demand for education savings vehicles has been moderate since their introduction in the 1990s, partly because of their limited availability and partly due to investors' lack of familiarity with them. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) enhanced the attractiveness of two education savings vehicles—Section 529 plans and Coverdell education savings accounts (ESAs)—by making them more flexible and allowing larger contributions. The 2006 Pension Protection Act (PPA) made the EGTRRA enhancements permanent. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended the EGTRRA enhancements to Coverdell ESAs for two years; the American Taxpayer Relief Act of 2012 made these enhancements permanent. The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) expanded the types of education costs that are covered by 529 plans. The SECURE 2.0 Act of 2022 allowed Roth IRA rollovers of a limited amount of 529 plan assets starting in 2024.

Assets in Section 529 savings plans were $446.6 billion at year-end 2023, up 15 percent from year-end 2022. As of year-end 2023, there were 15.6 million 529 savings plan accounts, with an average account size of approximately $28,700.

Households Saving for College Tend to Be Younger

In 2023, as a group, households saving for college through 529 plans, Coverdell ESAs, or mutual funds or ETFs held outside these accounts tended to be headed by younger individuals—about half (49 percent) were younger than 45 (Figure 8.16). Heads of households saving for college had a range of educational attainment levels. Sixty-five percent had completed college, 20 percent had an associate's degree or some college experience, and 15 percent had a high school diploma or less. These households also represented a range of incomes, with 37 percent of households saving for college having household income of less than $100,000. Finally, these households typically had children (younger than 18) in the home.

529 Plan Program Statistics
www.ici.org/research/stats/529s

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FIGURE 8.16

Characteristics of Households Saving for College

Percentage of US households saving for college,[1] 2023

Age of household survey respondent	
Younger than 35	23
35 to 44	26
45 to 54	25
55 to 64	14
65 or older	12
Education level of household survey respondent	
High school diploma or less	15
Associate's degree or some college	20
Completed college	38
Completed graduate school	27
Household income[2]	
Less than $50,000	18
$50,000 to $99,999	19
$100,000 to $149,999	22
$150,000 to $199,999	15
$200,000 or more	26
Number of children in home[3]	
None	44
One	24
Two	22
Three or more	10

1 Households saving for college are households that own education savings plans (Coverdell ESAs or 529 plans) or that said paying for education was one of their financial goals for their mutual funds or ETFs.

2 Total reported is household income before taxes in 2022.

3 The number of children reported is children younger than 18 living in the home.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey