

**MEMO# 15230**

October 3, 2002

## **INSTITUTE RELEASES AD HOC SURVEY OF COVERDELL ESAS AS OF JUNE 30, 2002**

[15230] October 3, 2002 TO: PENSION MEMBERS No. 47-02 PENSION OPERATIONS ADVISORY COMMITTEE No. 66-02 RESEARCH COMMITTEE No. 19-02 529 PLAN ADVISORY COMMITTEE No. 33-02 RE: INSTITUTE RELEASES AD HOC SURVEY OF COVERDELL ESAS AS OF JUNE 30, 2002 The Institute recently surveyed certain of its members in a continuing effort to track developments in the education savings market.<sup>1</sup> The Institute's survey requested Coverdell Education Savings Account (ESA)<sup>2</sup> data on the number of beneficiaries, average number of funds held per beneficiary, and value of the assets as of December 31, 2001 and June 30, 2002. This ad hoc survey was conducted in response to recently increased attention given to the education savings market. An Institute household survey indicates that one-third of mutual fund shareholders cite saving to pay for education as a financial goal, and 11 percent of mutual fund shareholders indicate that saving to pay for education is their primary financial goal.<sup>3</sup> Assets in 529 savings plans, another tax-favored education savings vehicle, more than tripled in 2001, and have increased about 70 percent in the first half of 2002.<sup>4</sup> In addition, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 increased contribution limits to Coverdell ESAs.<sup>5</sup> Survey respondents indicate that between December 31, 2001 and June 30, 2002, the number of beneficiaries with Coverdell ESAs rose 8 percent and Coverdell ESA assets invested 1 The Institute conducted one much earlier ad hoc survey containing questions on Education IRAs: a survey on Roth IRAs, Education IRAs and SIMPLE IRAs for first quarter 1998, summarized in Institute Memorandum to Pension Members No. 52-98 and Pension Operations Advisory Committee No. 38-98, dated August 20, 1998. Please note that this survey contains a different number and composition of respondents. 2 In July 2001, Education IRAs were renamed Coverdell ESAs. 3 See Investment Company Institute, 2001 Profile of Mutual Fund Shareholders, Figure 45 on page 72 (available at: [http://www.ici.org/pdf/rpt\\_profile01.pdf](http://www.ici.org/pdf/rpt_profile01.pdf)). 4 See Investment Company Institute, 2002 Mutual Fund Fact Book, page 55 (available at: [http://www.ici.org/pdf/02fb\\_complete.pdf](http://www.ici.org/pdf/02fb_complete.pdf)) and College Savings Plans Network data for June 2002 (distributed in Institute Memorandum to 529 Plan Advisory Committee No. 32-02 and Research Committee No. 18-02, dated October 3, 2002). 5 Furthermore, among other changes, EGTRRA made it possible for families to contribute without penalty to both an ESA and a 529 plan for the same beneficiary in the same tax year. 2 in mutual funds increased 17 percent. Survey respondents managed assets for about 730,000 ESA beneficiaries at the end of June 2002. As of the end of June 2002, the average ESA beneficiary held \$1,100 in mutual fund assets in 1.4 funds. These ad hoc survey results are based on the responses of 21 firms, representing an estimated 33 percent of the \$2 billion of Coverdell ESA assets invested in mutual funds at year- end 2001.<sup>6</sup> Note that the survey respondents are not

randomly selected and therefore do not necessarily reflect the characteristics of the typical Coverdell ESA invested in mutual funds. If you have any questions or comments concerning the survey, please call me at (202) 326-5915. Sarah A. Holden Senior Economist Research Department 6 For data on retirement (and Coverdell ESA) assets invested in mutual funds, see the Investment Company Institute, "Mutual Funds and the U.S. Retirement Market in 2001," Fundamentals, Vol. 11, No. 2, June 2002 (available at: <http://www.ici.org/pdf/fm-v11n2.pdf>).

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