

MEMO# 18035

September 23, 2004

INSTITUTE RELEASES AD HOC SURVEY OF COVERDELL ESAS AS OF JUNE 30, 2004

[18035] September 23, 2004 TO: PENSION COMMITTEE No. 44-04 PENSION OPERATIONS ADVISORY COMMITTEE No. 62-04 RESEARCH COMMITTEE No. 25-04 529 PLAN ADVISORY COMMITTEE No. 36-04 RE: INSTITUTE RELEASES AD HOC SURVEY OF COVERDELL ESAS AS OF JUNE 30, 2004 The Institute recently surveyed certain of its members in a continuing effort to track developments in the education savings market. Although 93 percent of households saving for college do so through taxable investments, 20 percent of households saving for college use education-targeted savings programs.^{1,2} At year-end 2003, Coverdell ESAs held \$3 billion in mutual fund assets³ and 529 savings plans held \$35.1 billion in assets.⁴ The Institute's most recent survey requested Coverdell Education Savings Account (ESA)⁵ data on the number of beneficiaries, average number of funds held per beneficiary, and value of their mutual fund assets as of June 30, 2004.⁶ This ad hoc survey was conducted in response to ongoing interest in the education savings market.⁷ 1 Education-targeted savings programs include state-sponsored 529 prepaid tuition plans, state-sponsored 529 savings plans, and Coverdell ESAs. 2 See Figure 5 in "Profile of Households Saving for College," which presents results from a 2003 ICI household survey on college saving activity among U.S. households with children age 18 and younger (available at: http://www.ici.org/stats/res/rpt_03_college_saving.pdf). 3 See "Mutual Funds and the U.S. Retirement Market in 2003," Fundamentals, Vol. 13, No. 2, June 2004 (available at: <http://www.ici.org/stats/res/fm-v13n2.pdf>). 4 Ninety-seven percent of 529 savings plan assets are invested in mutual funds. See, Chapter 7 in 2004 Mutual Fund Fact Book (available at: http://www.ici.org/statements/res/2004_factbook.pdf). 5 In July 2001, Education IRAs were renamed Coverdell ESAs. In addition, as allowed by the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, the annual contribution limit to these accounts was \$2,000 in 2002; \$2,000 in 2003; and \$2,000 in 2004 (up from \$500 previously). 6 The Institute has conducted four earlier ad hoc surveys containing questions on Coverdell ESAs or Education IRAs: (1) a Coverdell ESA survey for the same sample as the current survey, for December 2003, summarized in Institute Memorandum [# 17203], dated March 12, 2004, (2) a Coverdell ESA survey for the same sample as the current survey, for June 2003, summarized in Institute Memorandum [# 16554], dated September 17, 2003, (3) a Coverdell ESA survey for the same sample as the current survey, for June 2002, summarized in Institute Memorandum [#15230], dated October 3, 2002, and (4) a much earlier survey (containing a different number and composition of respondents) on Roth IRAs, Education IRAs and SIMPLE IRAs for first quarter 1998, summarized in Institute Memorandum [#10214], dated August 20, 1998. 7 For recent asset and account data on the 529 plan market, see the College Savings Plans Network data for June 2004 (distributed

in Institute Memorandum [#17943], dated September 2, 2004). 2 Survey respondents indicate that between December 31, 2003 and June 30, 2004, the number of beneficiaries with Coverdell ESAs was essentially unchanged.⁸ Survey respondents indicated that Coverdell ESA assets invested in mutual funds increased 16 percent over the first half of 2004, boosted in part by favorable investment returns.⁹ Survey respondents managed assets for about 791,300 ESA beneficiaries at the end of June 2004. As of the end of June 2004, the average ESA beneficiary held \$2,000 in mutual fund assets in 1.5 funds. Coverdell ESA Survey Results: Number of Coverdell ESA Beneficiaries 673,300 753,000 776,800 786,400 791,200 791,300 December 2001 June 2002 December 2002 June 2003 December 2003 June 2004 Source: Investment Company Institute, Coverdell ESA surveys of an ad hoc sample of member firms. These ad hoc survey results are based on the responses of 20 firms, representing an estimated 45 percent of the \$3 billion of Coverdell ESA assets invested in mutual funds at year- end 2003. 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 Holden Senior Economist Research Department 8 Growth in the number of Coverdell ESA beneficiaries may have been higher than reflected in the reported statistics. A few reporters indicated efforts to close very small or inactive accounts in their systems during the first half of the year. 9 At year-end 2003, domestic equity funds accounted for 75 percent of Coverdell ESA mutual fund assets, foreign equity funds for 6 percent, hybrid funds for 7 percent, bond funds for 6 percent, and money market funds for 6 percent (see “Mutual Fund Assets in Retirement Accounts: Results from ICI’s Annual Survey of Retirement Statistics” available at: <http://members.ici.org/getMemoPDF.do?file=aret03>).