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INSTITUTE RELEASES AD HOC SURVEY OF COVERDELL ESAS AS OF JUNE 30, 2005

©2005 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [19218] October 5, 2005 TO: 529 PLAN ADVISORY COMMITTEE No. 28-05 PENSION COMMITTEE No. 33-05 PENSION OPERATIONS ADVISORY COMMITTEE No. 28-05 RESEARCH COMMITTEE No. 14-05 RE: INSTITUTE RELEASES AD HOC SURVEY OF COVERDELL ESAs AS OF JUNE 30, 2005 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 2004, Coverdell Education Savings Accounts (ESAs) held \$3 billion in mutual fund assets and 529 savings plans held \$52.2 billion in assets.³ The Institute's most recent survey requested Coverdell ESA⁴ data on the number of beneficiaries, average number of funds held per beneficiary, and value of their mutual fund assets as of June 30, 2005. This ad hoc survey was conducted in response to ongoing interest in the education savings market.⁵ Survey respondents indicate that between December 31, 2004 and June 30, 2005, the number of beneficiaries with Coverdell ESAs edged down slightly.⁶ Survey respondents 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 ICI's 2005 Investment Company Fact Book, Section Five: Mutual Funds in the Retirement and Education Savings Markets (available at: http://www.ici.org/stats/mf/2005_factbook.pdf). About 97 percent of 529 savings plan assets were invested in mutual funds at year-end 2004. 4 In July 2001, Education IRAs were renamed Coverdell ESAs. In addition, as allowed by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the annual contribution limit to these accounts is \$2,000 for tax-years 2002 through 2010 (up from \$500 prior to 2002). 5 For recent asset and account data on the 529 plan market, see the College Savings Plans Network data for March 2005 (distributed in Institute Memorandum [#18980], dated June 29, 2005). 6 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 past year and a half. In addition, however, some reporters noted migration to 529 plans. 2 indicated that Coverdell ESA assets invested in mutual funds increased 10.4 percent over the first half of 2005, despite slightly

negative equity market returns.⁷ Survey respondents managed assets for about 792,000 ESA beneficiaries at the end of June 2005. As of the end of June 2005, the average ESA beneficiary held a total of \$2,500 in mutual fund assets in 1.5 funds. Coverdell ESA Survey Results: Number of Coverdell ESA Beneficiaries Reported by the Sample 673,300 753,000 776,800 786,400 791,200 791,200 794,000 792,000 December 2001 June 2002 December 2002 June 2003 December 2003 June 2004 December 2004 June 2005 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 53 percent of the \$3 billion of Coverdell ESA assets invested in mutual funds at year- end 2004. 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 7 The S&P 500 total return index was down 0.8 percent over the first half of 2005; the Russell 2000 total return index was down 1.3 percent.

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