

MEMO# 19981

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Institute Releases Ad Hoc Survey of Coverdell ESAs as of December 31, 2005

©2006 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. [19981] April 28, 2006 TO: PENSION COMMITTEE No. 12-06 PENSION OPERATIONS ADVISORY COMMITTEE No. 12-06 RESEARCH COMMITTEE No. 4-06 529 PLAN ADVISORY COMMITTEE No. 4-06 RE: INSTITUTE RELEASES AD HOC SURVEY OF COVERDELL ESAs AS OF DECEMBER 31, 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 2005, Coverdell Education Savings Accounts (ESAs) held \$4 billion in mutual fund assets and 529 savings plans held \$68.7 billion in assets³ (of which, 96 percent was invested in mutual funds). 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 December 31, 2005. This ad hoc survey was conducted in response to ongoing interest in the education savings market. Survey respondents indicate that between June 30, 2005 and December 31, 2005, the number of beneficiaries with Coverdell ESAs edged down slightly.⁵ Survey respondents indicated that Coverdell ESA assets invested in mutual funds increased 11.6 percent over the second half of 2005, reflecting in 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). 3See, ICI Memorandum #19982, dated April 28, 2006. 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 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 two years. In addition, however, some reporters noted migration to 529 plans. 2 part, positive equity market returns.⁶ Survey respondents managed assets for nearly 790,000 ESA beneficiaries at the end of December 2005. As of the end of December 2005, the average ESA beneficiary held a total of \$2,800 in mutual fund assets in 1.5 funds. Coverdell ESA Survey Results: Number of Coverdell ESA Beneficiaries Reported by the Sample

Year	Sample Size
2001 June	673,300
2002 December	753,000
2002 June	776,800
2003 December	786,400
2003 June	791,200
2004 December	791,200
2004 June	794,000
2005 December	792,000
2005 June	789,900

2005 December 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 54 percent of the \$4 billion of Coverdell ESA assets invested in mutual funds at year-end 2005. 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 The S&P 500 total return index was up 5.8 percent over the second half of 2005.

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