

**MEMO# 17203**

March 12, 2004

## **INSTITUTE RELEASES AD HOC SURVEY OF COVERDELL ESAS AS OF DECEMBER 31, 2003**

[17203] March 12, 2004 TO: 529 PLAN ADVISORY COMMITTEE No. 9-04 PENSION COMMITTEE No. 14-04 PENSION OPERATIONS ADVISORY COMMITTEE No. 24-04 RESEARCH COMMITTEE No. 8-04 RE: INSTITUTE RELEASES AD HOC SURVEY OF COVERDELL ESAs AS OF DECEMBER 31, 2003 The Institute recently surveyed certain of its members in a continuing effort to track developments in the education savings market. The Institute's survey requested Coverdell Education Savings Account (ESA)<sup>1</sup> data on the number of beneficiaries, average number of funds held per beneficiary, and value of their mutual fund assets as of December 31, 2003.<sup>2</sup> This ad hoc survey was conducted in response to ongoing interest in the education savings market.<sup>3</sup> Survey respondents indicate that between December 31, 2002 and December 31, 2003, the number of beneficiaries with Coverdell ESAs rose 3 percent, after increasing 15 percent in 2002. Survey respondents indicated that Coverdell ESA assets invested in mutual funds increased 64 percent over 2003, boosted in part by favorable investment returns.<sup>4</sup> Survey respondents managed assets for about 798,900 ESA beneficiaries at the end of December 2003. 1 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 and \$2,000 in 2003 (up from \$500 previously). 2 The Institute has conducted three 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 June 2003, summarized in Institute Memorandum [# 16554], dated September 17, 2003, (2) 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 (3) 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. 3 For recent asset and account data on the 529 plan market, see the College Savings Plans Network data for December 2003 (distributed in Institute Memorandum [#17121], dated February 20, 2004). In addition, for results from an ICI household survey on college saving activity among U.S. households with children age 18 and younger, see "Profile of Households Saving for College" (available at: [http://www.ici.org/stats/res/rpt\\_03\\_college\\_saving.pdf](http://www.ici.org/stats/res/rpt_03_college_saving.pdf)). 4 At year-end 2002 (latest data available), domestic equity funds accounted for 75 percent of Coverdell ESA mutual fund assets, foreign equity funds for 6 percent, hybrid funds for 6 percent, bond funds for 8 percent, and money market funds for 5 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=aret02>). 2 As of the end of December 2003,

the average ESA beneficiary held \$1,700 in mutual fund assets in 1.4 funds. Coverdell ESA Survey Results: Number of Coverdell ESA Beneficiaries 673,300 753,000 776,800 786,400 798,900 December 2001 June 2002 December 2002 June 2003 December 2003 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 40 percent of the \$2 billion of Coverdell ESA assets invested in mutual funds at year- end 2002.<sup>5</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 Holden Senior Economist

5 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 2002," *Fundamentals*, Vol. 12, No. 1, June 2003 (available at: <http://www.ici.org/stats/res/fm-v12n1.pdf> ).

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