INVESTMENT COMPANY INSTITUTE AND THE SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION

Equity and Bond Ownership in America, 2008

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Securities Industry and Financial Markets Association

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Key Findings

- **Ownership rates for equities and bonds across U.S. households grew dramatically between 1989 and 2001, but have since tapered off.** In the first quarter of 2008, 47 percent of U.S. households (54.5 million) owned equities and/or bonds. The overall ownership rate in 2008 is still much higher than it was in 1989.

- **Willingness to take risks has dropped among both younger and older households since 2001.** This decreased risk tolerance appears to be related to the reappearance of stock-market turbulence in the bear market of 2000–2002 and appears to have had a negative impact on ownership rates during the past few years.

- **The growth in ownership between 1989 and 2001 is largely associated with increased ownership through employer-sponsored retirement plans, which coincides with the expansion of defined contribution retirement plans.** In addition, the 2008 survey shows that ownership of equities and bonds at any given level of household income is much higher for those offered a DC plan at work, which reinforces the powerful role that employers can play in expanding ownership.

- **Household income is the dominant characteristic associated with ownership rates among the working-age population.** The observation that income is the most important explanatory variable is consistent with the fact that lower-earning households generally exhibit less tendency to save for retirement for two reasons. First, they may be more focused on near-term spending needs rather than retirement. Second, they get a higher benefit replacement rate through Social Security, reducing their desire for additional retirement savings.

- **In addition to household income, demographic variables like education, marital status, and race/ethnicity are also correlated with ownership rates.** Looking within income groups, one sees that ownership rates are generally higher for those with higher education and for non-Hispanic whites. The relationship between marital status and ownership rates varies with income levels, with lower-income married couples less likely to be owners and higher-income married couples more likely to be owners.

- **Investment goals and willingness to take risks among equity and bond owners vary systematically with age.** As investors age, their focus shifts from building a retirement nest egg to managing the variability of investment returns and generating an income stream. Through the household survey process, it is found that older investors are much less likely to say they are willing to take above-average or substantial risks in order to get higher returns.

- **Portfolio allocation and investment strategies over the life cycle are consistent with theoretical predictions and respondent self-reported savings goals and risk tolerance.** Investor statements about their goals and willingness to take risk in order to get higher returns are supported by observations on how the equity and bond shares of portfolios vary across age groups. Higher risk avoidance among the older investor group translates into higher shares of their portfolios invested in bonds, for example.

» **Most equity and bond investors use the Internet for financial purposes, and they often rely on professional advisers when making investment decisions.** Use of the Internet in general is rapidly becoming ubiquitous, and within the investor population, the tendency to view or manage investments online is now commonplace. Those who invest outside of retirement plans at work still rely significantly on the advice and support of financial advisers.

Introduction

In earlier volatile periods of U.S. financial markets, the main concern for most families was the impact on their earnings that resulted from the employment decisions made by business owners. Today, 47 percent of American households are equity and bond owners, so the financial market volatility being experienced as this study comes to press is also directly affecting financial wealth held by a much broader range of households than it did in earlier decades. Understanding the patterns of ownership across households and time, recognizing the factors that affect ownership, and analyzing the goals, strategies, and plans of the investor population have never been more essential.

The analysis in this study is based on the fourth in a series of household surveys conducted jointly by the Investment Company Institute (ICI) and the Securities Industry and Financial Markets Association (SIFMA). The latest survey was conducted between February and March 2008. It included 5,050 primary or co-decisionmakers for household saving and investing, of whom 2,359 reported owning equities or bonds. While the three previous studies focused primarily on equity ownership, the latest survey also included detailed questions about bond ownership, including "hybrid" funds that invest in both equities and bonds. The latest survey was also redesigned to gather crucial information about respondents who owned neither equities nor bonds, so that it would be possible to investigate how owners and non-owners differ.

The sampling strategy and questionnaire developed for this study were designed to accomplish a number of goals. The first goal was to create a data set that would allow—in conjunction with other ICI and publicly available surveys—an analysis of how ownership of equities and bonds in the United States has changed over time. This aspect of the analysis is the main focus of Chapter 1, and considers overall ownership rates, the extent to which investors are holding equity or bond assets inside or outside employer-sponsored retirement plans, and differences in ownership by age across different birth cohorts. The data also provide some direct measures of investor perceptions and willingness to take risk over time.

The second goal of this research was to develop an understanding of how ownership varies across types of households. In addition to collecting data on ownership of various assets by type and location (inside or outside employer-sponsored retirement plans), the 2008 survey collected extensive demographic details about both owner and non-owner households. This is the basis for the analysis in Chapter 2, which focuses on the dominant role of household income in determining ownership, but also the marginal effect of characteristics like education, marital status, and race/ethnicity within income groups. The characteristic most correlated with ownership (after controlling for income) is employer-sponsored DC plan coverage.

The third goal of the study involves exploring differences in investor goals, attitudes, and portfolio allocation behavior across the life cycle. Economic theory and financial planners are in general agreement about how investors' underlying strategy and actions should evolve as they move through their working lives to retirement, and the data in Chapter 3 provide general support for these views. The aging of the Baby Boom Generation adds some import to this analysis; significant changes in population-weighted investment strategies—like a sudden shift from equity to bond ownership at retirement—could have a first-order impact on financial markets. However, the analysis here suggests that changes in portfolio behavior by age are probably too modest to have significant impact on the relative demand for different types of underlying securities.

The fourth goal of this research was to investigate how investors interact with financial intermediaries and professional advisers. Chapter 4 discusses the results from a number of questions in the survey about topics such as use of the Internet for conducting financial business and whether and how advisers are used when making decisions. There has been dramatic growth in Internet use for investment-related purposes, but investors still consider their relationships with advisers to be very important, and generally rely on them for advice when making decisions.

REVISIONS TO THE ICI/SIFMA HOUSEHOLD SURVEY METHODOLOGY

The estimates in this study are based on a survey conducted in 2008 of over 5,000 U.S. households. In many ways the study design is similar to three earlier studies on equity ownership conducted by ICI and SIFMA in 1999, 2002, and 2005. However, there is one fundamental improvement in the methodology that differentiates these estimates from those earlier studies. As is usual in the course of household survey work, researchers periodically re-examine the estimation procedures used to ensure that the results published are representative of the millions of households in the United States. Accordingly, ICI and SIFMA engaged in such a process this year, and the figures presented here reflect a new weighting procedure. The new weighting procedure is consistent with the approach used by the Federal Reserve Board in their household surveys and also with ICI's Annual Mutual Fund Shareholder Tracking Survey. The results for statistics such as overall equity ownership rates are now comparable with those other surveys; the ownership rates are not comparable to the 1999, 2002, and 2005 ICI/SIFMA studies on equity ownership. The weighting procedure is discussed in more detail in Appendix A.

SUPPLEMENTAL DATA

The ICI/SIFMA survey also gathered data on the characteristics of U.S. households' equity and bond portfolios. These findings are available online at www.ici.org and www.sifma.org.

Chapter 1

Trends in Equity and Bond Ownership

Nearly half of U.S. households currently own either equities or bonds, according to a survey conducted in the first quarter of 2008 by the Investment Company Institute (ICI) and Securities Industry and Financial Markets Association (SIFMA). The fraction of households owning equities or bonds in 2008 is well above the 1989 level, which is the first year for which directly comparable household survey data are available. However, the overall ownership rate has fallen somewhat from the peak ownership rate reached in 2001.

The rapid growth in equity and bond ownership between 1989 and 2001 was driven mostly by increasing participation in defined contribution (DC) retirement plans. This is directly reflected in a rising fraction of households owning equities or bonds inside employer-sponsored retirement accounts. It is also reflected in differential rates of ownership across generations; all of the generations exposed to the recent expansion of DC plans during their working years have had successively higher rates of ownership at any given age.

The slowdown and ultimate decline in equity and bond ownership rates after 2001 can be attributed to at least two factors. First, ownership rates rise both with age and income, which implies that the overall ownership rate is affected by the underlying distribution of households by age and income. This is because younger households are less likely to save for retirement, and lower income households at any age are less likely to save for retirement because Social Security replaces a much higher fraction of their lifetime earnings. Second, because the desirability of equities and bonds is dependent upon investors' perceived risks, and those perceptions are strongly correlated with actual market performance, recent market volatility has decreased investors' willingness to take risk.

Ownership Trends in Household Survey Data

Analyzing trends in ownership over time requires using household surveys that are consistent in terms of both the questions asked and the population being studied. Although no single survey covers the entire two-decade period, it is possible to piece together the pattern of ownership rates over time using three different surveys: the Federal Reserve Board Survey of Consumer Finances (SCF), the ICI Annual Mutual Fund Shareholder Tracking Survey (ICI Tracking), and the ICI/SIFMA Equity and Bond Owners Survey (Figure 1.1).[1]

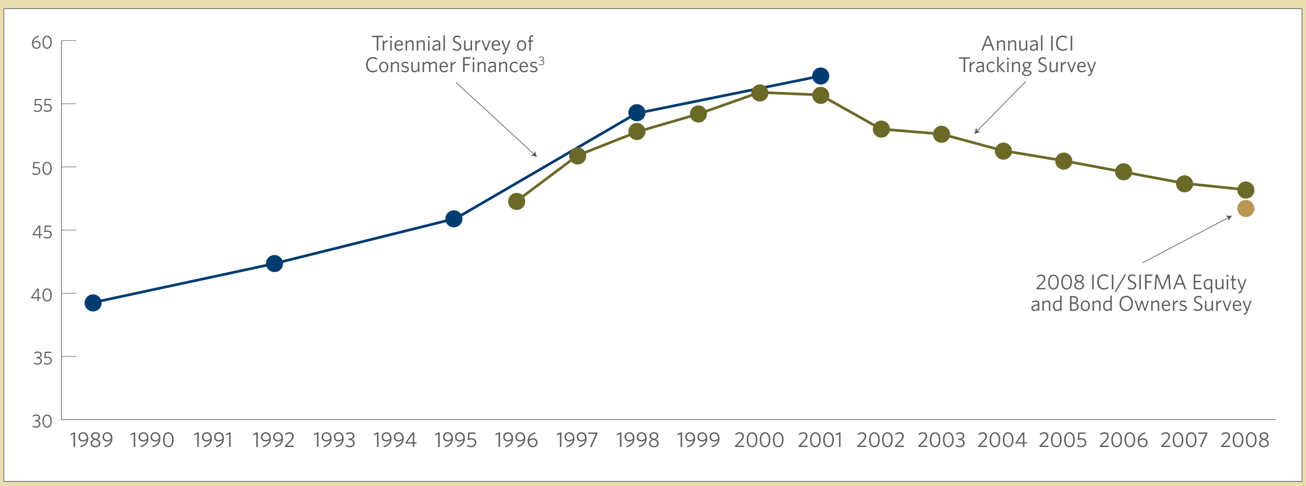
The SCF and ICI Tracking surveys are conducted by different organizations, involve different samples of households, and use different questionnaires, but the timing of the sharp rise and partial retreat in equity and bond ownership during the period over which they overlap is basically identical. The ownership rate in 1989 was 39 percent of U.S. households, and rose to a peak of about 57 percent (depending on the survey) in 2001.

The overall equity and bond ownership rate as measured by the ICI Tracking survey fell after 2001, reaching 48 percent of U.S. households by 2008. The equity and bond ownership rate in the 2008 ICI/SIFMA survey is very close to and within sampling tolerances when compared to the ICI Tracking results.[2] The overall ownership rate in the 2008 ICI/SIFMA survey is 47 percent of U.S. households.

FIGURE 1.1

OWNERSHIP OF EQUITIES AND BONDS ROSE BETWEEN 1989 AND 2001, BUT HAS SINCE TAPERED OFF

OWNERSHIP OF EQUITIES[1] OR BONDS[2] ACROSS THREE SURVEYS; PERCENTAGE OF U.S. HOUSEHOLDS



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Incidence from the 2004 SCF cannot be calculated because of questionnaire changes.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Surveys, 2008 ICI/SIFMA Equity and Bond Owners Survey, and Federal Reserve Board Survey of Consumer Finances

[1] Every three years the Federal Reserve Board surveys households about wealth and other characteristics; this survey serves as the basis for the SCF. Although the 2007 survey has been completed, the responses are still being edited by the Federal Reserve Board, and the results will not be available until early 2009. ICI conducts an annual Mutual Fund Shareholder Tracking survey. For more information on the survey, see Holden, Sarah, and Michael Bogdan 2007. "Trends in the Ownership of Mutual Funds in the United States, 2007." *Investment Company Institute Fundamentals* 16, no. 5 (November); available at www.ici.org/pdf/fm-v16n5.pdf. Finally, ICI and SIFMA have conducted surveys of equity owners in 1999, 2002, and 2005, which are the basis for earlier versions of this report. The 2008 ICI/SIFMA study was expanded to include bond owners who do not also own equities, and the interview strategy was changed to make it more like the SCF and ICI Tracking surveys. In particular, respondents who indicated they did not own equities or bonds were still asked a battery of questions, which makes it possible to identify differences between owners and non-owners and statistically adjust for differences in response rates to get an overall measure of ownership.

[2] The theoretical sampling tolerance for a measure like ownership (which is about 50 percent) in a survey this size is ± 1.4 percentage points.

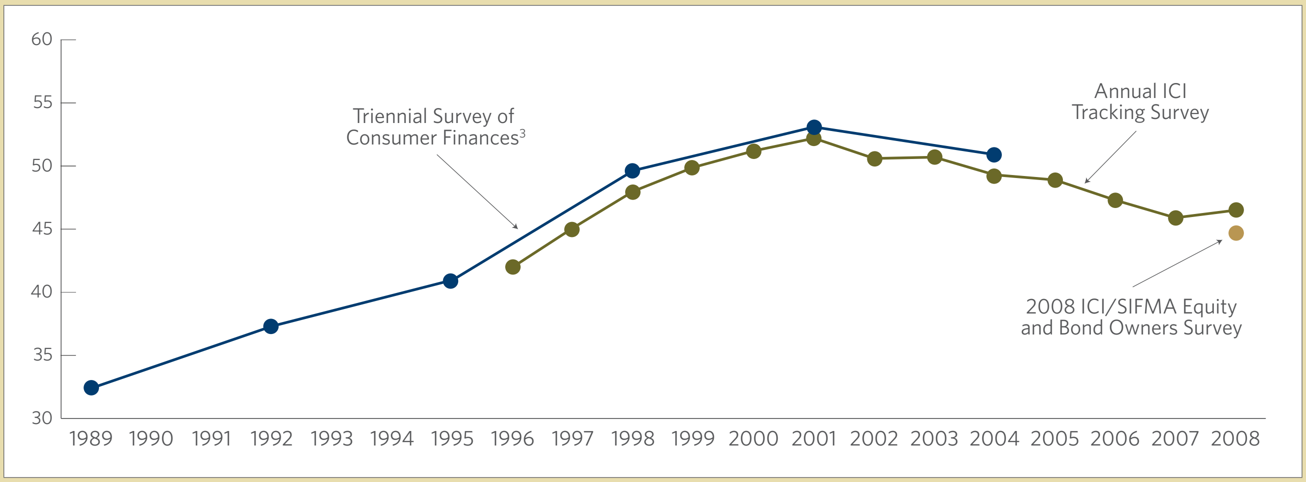
Together the three surveys show a very clear pattern of equity and bond asset ownership over the past two decades. Equity and bond ownership rates surged between 1989 and 2001, as 25.5 million U.S. households joined the ranks of equity- and bond-owning households, who numbered 36.4 million in 1989.[3] However, after 2001, the number of households owning equities or bonds retreated somewhat, falling by about 7.4 million as of early 2008. Still, both the overall count (54.5 million) and fraction (47 percent) of households owning bonds and equities are much higher in early 2008 than they were in 1989.

The rise in household equity and bond ownership is largely driven by an increased propensity to invest in equities (Figure 1.2). The fraction of households owning equities rose from 32 percent in 1989 to 53 percent by 2001 and has since retreated to 45 percent or 46 percent—again, depending on the specific survey.[4]

FIGURE 1.2

EQUITIES ARE THE DRIVING FORCE IN OVERALL OWNERSHIP RATES

OWNERSHIP OF EQUITIES[1] ACROSS THREE SURVEYS; PERCENTAGE OF U.S. HOUSEHOLDS



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Note that the fraction of households owning equities in the 2004 SCF is reported in this figure, even though the overall bond and equity ownership rate is not reported for 2004 in Figure 1.1. This is because the SCF questionnaire was changed between 2001 and 2004, and it is no longer possible to discern bond owners from households owning interest-bearing assets.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Surveys, 2008 ICI/SIFMA Equity and Bond Owners Survey, and Federal Reserve Board Survey of Consumer Finances

[3] The U.S. Census Bureau reports that in 1989, there were 92.8 million households. That count rose to 108.2 million in 2001 and then to 116.8 million by the beginning of 2008 (see U.S. Census Bureau 2008. *Income, Poverty, and Health Insurance Coverage in the United States: 2007*; available at www.census.gov/prod/2008pubs/p60-235.pdf). The counts reported here are based on applying the ownership rates in Figure 1.1 to these household count estimates.

[4] Note that the fraction of households owning equities in the 2004 SCF is reported in Figure 1.2, even though the overall bond and equity ownership rate is not reported for 2004 in Figure 1.1. This is because the SCF questionnaire was changed between 2001 and 2004, and it is no longer possible to discern bond owners from households owning interest-bearing assets generally. This is a good example of the pitfalls that can arise when using household surveys to measure changes over time, and it reinforces the observation that the similarity of results across the surveys is quite remarkable.

Ownership of equities leads the overall changes in bond and equity ownership because there is a high degree of overlap between stock and bond ownership. In particular, almost every bond-owning household is also an equity owner, so changes in the propensity to own bonds generally occur within the equity-owning population. Only 4 percent of owners in the ICI/SIFMA survey reported only owning bonds (Figure 1.3). A much higher percentage, 36 percent, reported only equity ownership. However, the majority of owners, 60 percent, reported some combination of equity and bonds, indicating significant portfolio diversification across equities and bonds.

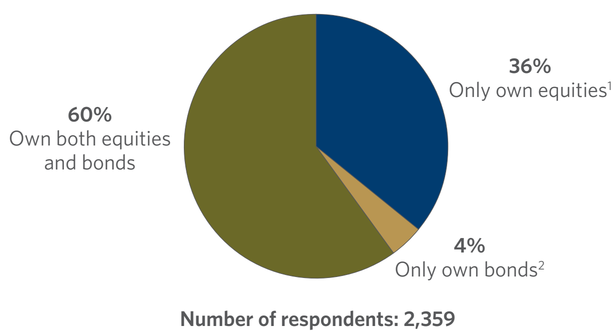
Growth in Equity Ownership Inside and Outside Retirement Accounts

The growth in equity and bond asset ownership since 1989 was clearly affected by the expansion of DC retirement plan coverage during this period. Between 1989 and 2005 (the latest year for which data are available), the number of participants in private-sector DC plans nearly doubled from 36 million to 65 million.[5] Thus, the ratio of private-sector DC plan participants rose from 0.39 per household to 0.58 per household. This does not mean that 58 percent of households currently have a DC plan participant living there because many households have two earners. In two-earner households, it may be the case that neither, one, or both of those earners is covered by a DC plan.[6] In any case, the increase in DC plan sponsorship by employers certainly increased the number of households exposed to DC plans.

FIGURE 1.3

MOST BOND OWNERS ARE ALSO EQUITY OWNERS

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS,[2] 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

[5] See U.S. Department of Labor 2008. *Private Pension Plan Bulletin Historical Tables*; available at www.dol.gov/dol/ebsa/pdf/privatepensionplanbulletinhistoricaltables.pdf.

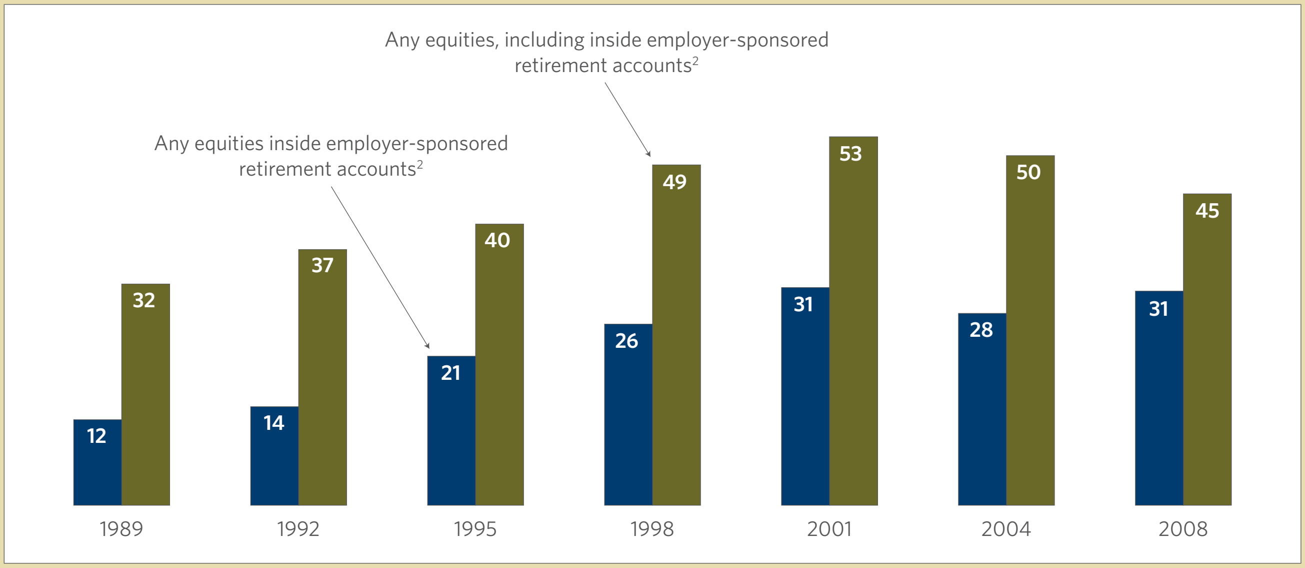
[6] There are difficulties directly measuring household-level pension coverage over time because the available surveys ask the coverage questions in different ways and get a fairly wide range of answers. See Sanzenbacher, Geoffrey 2006. *Estimating Pension Coverage Using Different Data Sets*. Issue in Brief, no. 51. Center for Retirement Research at Boston College; available at http://crr.bc.edu/briefs/estimating_pension_coverage_using_different_data_sets.html.

The effect of DC plans on equity and bond ownership comes through clearly in the household ownership data when one considers the differential between trends in overall equity ownership and ownership outside retirement accounts only. Between 1989 and 2001, the overall equity ownership rate jumped from 32 percent to 53 percent before falling back to 45 percent of households in 2008 (Figure 1.4). Over the same time period, the percentage of U.S. households owning equities inside retirement accounts at work rose from 12 percent to 31 percent, and the latest (2008) observation matches the 2001 peak.

FIGURE 1.4

EQUITY OWNERSHIP THROUGH RETIREMENT ACCOUNTS FUELED OVERALL GROWTH BETWEEN 1989 AND 2008

OWNERSHIP OF EQUITIES;[1] PERCENTAGE OF U.S. HOUSEHOLDS



[1]*Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.*
[2]*Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).*
Sources: ICI tabulations of Federal Reserve Board Survey of Consumer Finances 1989–2004 and 2008 ICI/SIFMA Equity and Bond Owners Survey

A second way to consider how DC plans have affected equity ownership is to consider differential ownership growth across birth cohorts. Cohorts born after 1940 were much more likely than older cohorts to have had DC plan coverage while working because DC coverage expanded greatly during the 1980s. Thus, it is not surprising to find rapidly rising equity ownership rates for working cohorts between 1989 and 2008, while equity ownership was largely stable for the cohorts born before 1940 who were much less likely to encounter a DC plan (Figure 1.5).

DC plans have become the dominant form of private-sector pension coverage, and this is the main reason that each successive cohort has generally higher equity ownership rates at any given age. As DC plans become more widespread, the chance that a worker will be exposed to DC coverage and shift into the equity-owning group at a younger age increases.

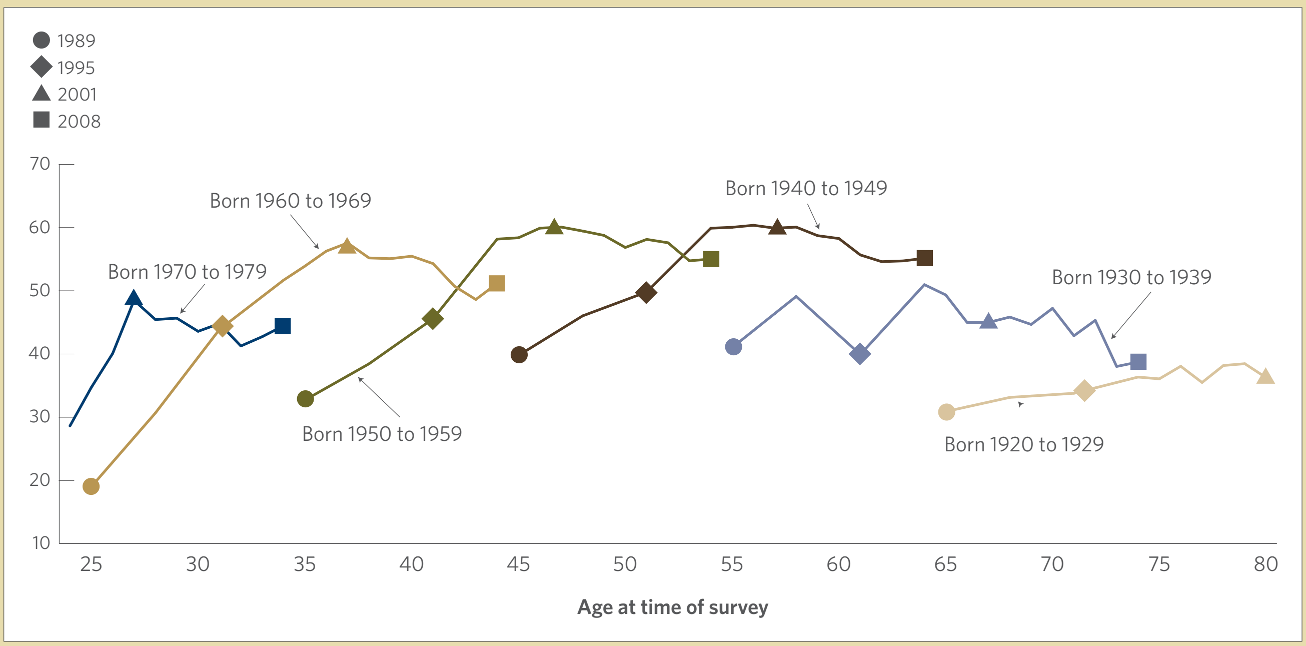
For example, when the 1950 to 1959 birth cohort averaged 35 years old—which was in 1989—their equity ownership rate was 33 percent (Figure 1.5). When the 1960 to 1969 birth cohort reached the same mark—35 years old in 1999—their equity ownership rate was 54 percent. The difference is mainly because the younger cohort had 10 additional years of exposure to DC plans.

This differential in equity ownership rates by cohort and age is not confined to one group. The ownership rate of the 1960 to 1969 cohort when they averaged 25 years old (in 1989) was 19 percent, while the 1970 to 1979 cohort had an overall ownership rate of 41 percent by the time they reached an average age of 25 in 2000. Also, ownership rates for the 1950 to 1959 cohort at age 45 was 58 percent, while the rate for the 1940 to 1949 cohort at age 45 was only 40 percent.

FIGURE 1.5

SUCCESSIVE COHORTS HAVE HIGHER AND FASTER GROWING RATES OF EQUITY OWNERSHIP

OWNERSHIP OF EQUITIES;[1] PERCENTAGE OF U.S. HOUSEHOLDS BY TEN-YEAR BIRTH COHORTS, 1989 THROUGH 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
Sources: ICI tabulations of Federal Reserve Board Survey of Consumer Finances and ICI Annual Mutual Fund Shareholder Tracking Surveys

Another way to describe the same patterns is to note that the growth in equity ownership occurred within every cohort group, and the overall increase is not merely an artifact of the Baby Boom Generation getting older combined with the observation that ownership rises with age. Every prime-age working cohort saw increases in equity ownership rates between 1989 and 2001. The size of the increases varied depending on where in the life cycle each specific cohort is observed over the twenty years. For those born after 1940, who are in their prime working years, the level of ownership is generally increasing over time. There was little or no trend in cohort-level ownership for those born before 1940, whose labor force attachment was already on the decline by 1989.

The cohort-level patterns suggest that DC plan coverage is largely responsible for the growth in overall equity ownership, but the observation that within-group ownership has stabilized or declined in recent years requires some further explanation. The point where lines cross reflects a situation where one cohort has a rate of equity ownership that exactly matches the preceding cohort.

The cohort-level patterns suggest a widespread stabilizing of ownership rates across the prime-age working groups. People born between 1940 and 1970 who have had significant exposure to the DC-dominated pension era have all achieved ownership rates approaching 60 percent, well above the ownership rates of earlier cohorts. However, ownership rates across cohorts seem to have stalled as they approach the 60 percent mark, or even fallen slightly in the last decade.

Why Did the Trend in Ownership Rates Change?

Both overall and working-age equity ownership rates show a clear pattern of stabilization or slight decline in the last few years after growing at an explosive rate between 1989 and 2001. There are two leading explanations for why equity ownership rates have stalled or fallen, and the empirical evidence lends credence to both ideas.

The first reason for a slowdown or decline in equity ownership ties back to the underlying cause of the explosive growth in the 1989 to 2001 period, which is the increase in DC pension coverage. DC plans are generally voluntary, and many younger and lower-earning employees are less likely than older and higher-earning employees to participate if they are offered a plan. Indeed, because some employees do not express an interest in participating in these sorts of voluntary saving arrangements, many firms do not even offer a DC plan.[7]

The fact that younger and lower-earning workers do not voluntarily participate in DC plans is in many ways not surprising. The young are much less likely to be focused on retirement as a saving goal because retirement is far off, and they are more likely to be liquidity constrained because they have young children, their incomes are likely still low relative to their lifetime average, and other reasons.

Lower earners have an additional reason for not participating in saving plans: the U.S. Social Security system. Social Security applies a proportional tax on earnings, but the benefit formula is designed to be progressive, meaning that the amount that retirees get back in benefits (relative to their average taxed income while working) is much higher for low earners.[8] Indeed, for many earners, the current level of Social Security benefits alone is sufficient to avoid a sharp drop in income after retirement.[9]

7 See Brady, Peter 2008. "Who Gets Retirement Plans and Why." *Investment Company Institute Perspective* 14, no. 2 (September); available at www.ici.org/pdf/per14-02.pdf.

8 An individual's Social Security benefit (called the Primary Insurance Amount, or PIA) is derived using a formula applied to their monthly earnings, averaged over their lifetime, after adjustment for inflation and real wage growth (called the Average Indexed Monthly Earnings, or AIME). The PIA for newly eligible retirees in 2008 (those born in 1946) is equal to 90 percent of the first $744 of AIME; plus 32 percent of AIME between $744 and $4,483; and 15 percent of any AIME over $4,483. The decline in the benefit formula percentages from 90 percent to 32 percent and then 15 percent is the reason why lower earners get a higher benefit relative to their preretirement earnings. See the Social Security Administration website (www.ssa.gov) for more details about benefit formulas and parameters.

9 The Congressional Budget Office estimates that pretax replacement rates from Social Security alone are about 65 percent for the lowest quintile of earners, 40 percent for the middle quintile, and about 20 percent for the highest quintile. These numbers do not consider the fact that workers stop paying taxes and saving after they retire, so, for example, the net drop in resources for the bottom quintile is much lower than 35 percent. See Congressional Budget Office 2008. *Updated Long-Term Projections for Social Security*; available at www.cbo.gov/ftpdocs/96xx/doc9649/08-20-SocialSecurityUpdate.pdf.

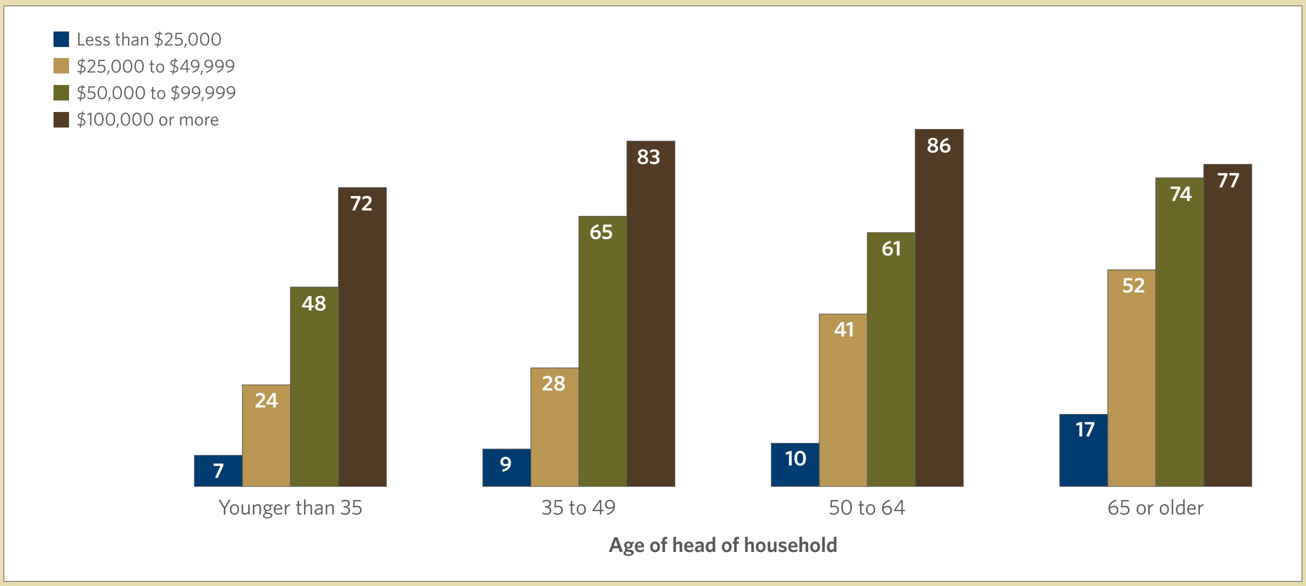
These principles suggest that DC plan participation, and hence equity ownership, will rise with both age and income, which is very much the case (Figure 1.6). While 86 percent of 50- to 64-year-old households with earnings of $100,000 or more are equity or bond owners, only 7 percent of those younger than 35 earning less than $25,000 are owners. Further, the effect of income seems to dominate because only 10 percent of 50- to 64-year-old households earning less than $25,000 are equity or bond owners.

The relationship between age, income, and ownership and observed cohort-level patterns suggests that the effect of DC-plan expansion as designed under current law may have run its course—that ownership rates were ratcheted up to a new level, but the limitation of voluntary participation by younger and lower income households may indicate a new ceiling on ownership rates. However, there is one optimistic note worth sounding: recent innovations in DC plans involving automatic enrollment have proven to be effective ways of increasing participation among the groups who traditionally chose not to opt in.[10] Thus, there may be another wave of increased participation in the future.

FIGURE 1.6

EQUITY AND BOND OWNERSHIP RATES RISE WITH BOTH AGE AND INCOME

OWNERSHIP OF EQUITIES[1] OR BONDS;[2] PERCENTAGE OF U.S. HOUSEHOLDS BY AGE AND HOUSEHOLD INCOME,[3] 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Total reported is household income before taxes in 2007.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

[10] See, for example, Choi, James J., David Laibson, Brigitte C. Madrian, and Andrew Metrick 2001. "For Better or For Worse: Default Effects and 401(k) Savings Behavior." *NBER Working Paper*, no. 8651 (December) and Madrian, Brigitte C., and Dennis F. Shea 2001. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior." *The Quarterly Journal of Economics* CXVI, no. 4: 1149–1187.

The patterns of ownership generally fit the DC-coverage explanation quite well, except for the past few years. One other possibility is that households became less willing to take risk after stock market turbulence re-emerged in 2000 following a long hiatus.

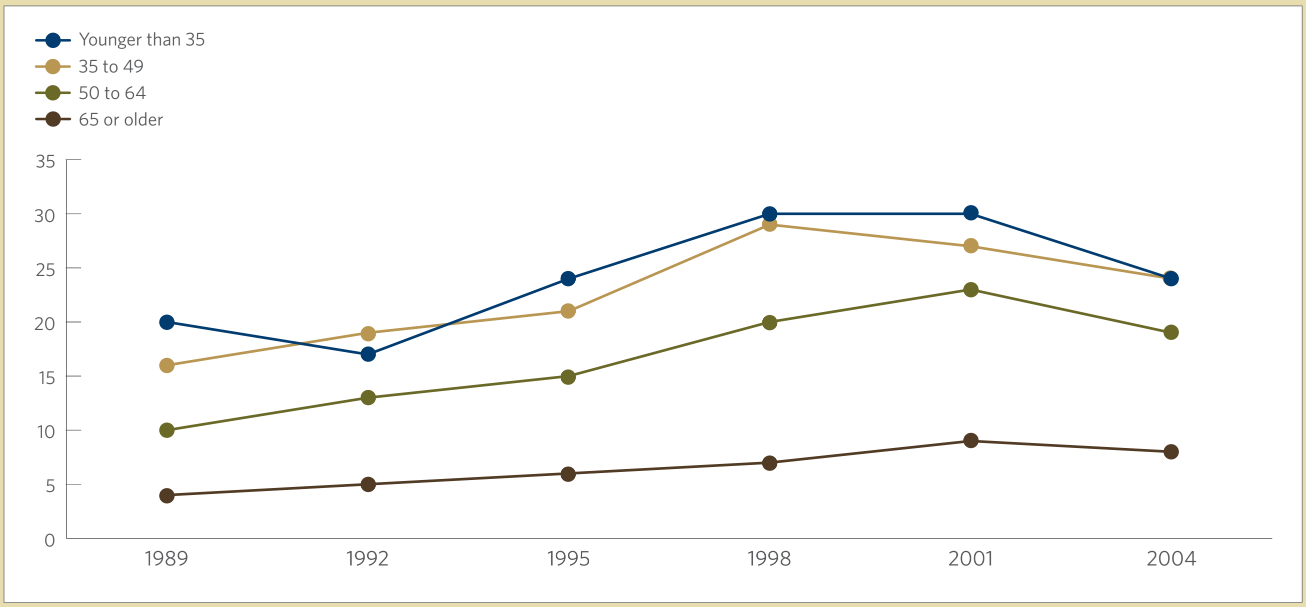
There are various ways to measure risk tolerance using survey data, and the SCF and ICI/SIFMA surveys both take the approach of asking respondents to choose from a range that describes how much risk they are willing to take to get higher returns. The fraction who answer either "above-average" or "substantial" risk are much more likely to be equity and bond investors.

Willingness to take risk is strongly affected by age, but has also varied over time within age groups (Figure 1.7). In 1989, the fraction of households under 35 willing to take risk was 20 percent, while only 4 percent of households 65 or older were in that category. By 2001, those fractions had risen to 30 percent and 9 percent, respectively. However, by 2004, the fraction reporting a willingness to take risk for higher returns fell to 24 percent in the under 35 group, and to 8 percent in the 65 or older group. Both were still well above the 1989 levels, but there clearly was a change in risk tolerance after 2001.

FIGURE 1.7

WILLINGNESS TO TAKE RISK FALLS WITH AGE AND HAS VARIED OVER TIME

PERCENTAGE OF ALL U.S. HOUSEHOLDS BY AGE OF HOUSEHOLD; WILLINGNESS TO TAKE ABOVE AVERAGE OR SUBSTANTIAL RISK[1]



[1]*Percentage reported is percentage of survey respondents indicating they are usually willing to take above average or substantial risk.*
Source: ICI tabulations of Federal Reserve Board Survey of Consumer Finances

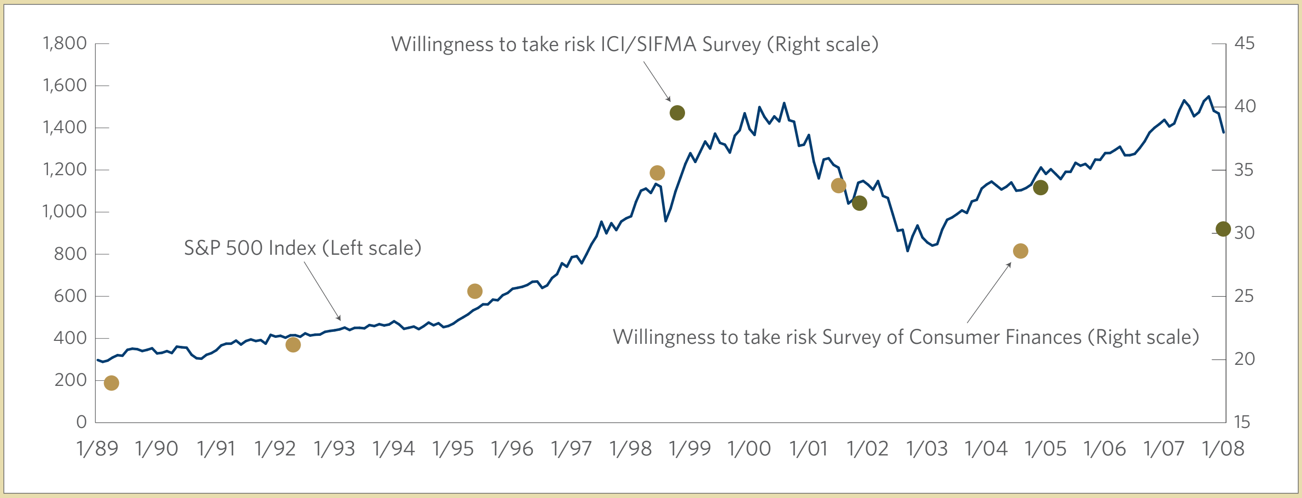
By focusing on equity owners, it is possible to use multiple surveys and observe the correlation between willingness to take risk and actual stock performance. Between 1989 and 2008, the Standard and Poor's 500 stock price index increased and fell over two major cycles (Figure 1.8). The relationship between willingness to take risk and actual stock performance is very strong. When the stock market rises, investors' willingness to take risk increases, and vice versa.

This decrease in willingness to take risk is likely one of the driving forces behind a reduction in equity and bond ownership in the United States during the past few years, both in aggregate and at the cohort level.

FIGURE 1.8

EQUITY OWNERS' WILLINGNESS TO TAKE RISK TENDS TO MOVE WITH THE S&P 500 STOCK INDEX

RISK AVERSION MEASURE IS PERCENTAGE WILLING TO TAKE ABOVE AVERAGE OR SUBSTANTIAL RISK[1]



[1]Percentage reported is percentage of survey respondents indicating they are usually willing to take above average or substantial risk.
Sources: ICI/SIFMA Equity and Bond Owners Survey, Federal Reserve Board Survey of Consumer Finances, and Standard & Poor's

Chapter 2

Characteristics of Working-Age Equity and Bond Owners

Overall U.S. ownership of equities and bonds rose dramatically between 1989 and 2001, and has since declined modestly. Ownership inside tax-deferred accounts accounted for most of the increase in the 1989 to 2001 period and has since remained steady, which implies that most of the decline since 2001 occurred outside tax-deferred accounts. Tax-deferred accounts include employer-sponsored retirement plans and Individual Retirement Accounts (IRAs). Thus, there is much to be learned by investigating differences in ownership within the working-age population.

Within the group of households where the decisionmaker or co-decisionmaker for saving and investing is aged 25 to 64, the ownership of equities and bonds is strongly correlated with a number of demographic characteristics. For example, ownership rates rise dramatically with both income and education. Also, ownership rates are higher for males, married couples, and non-Hispanic white respondents. However, each of the demographic characteristics that are correlated with ownership is also correlated with income, so any analysis of how education, gender, marital status, or race and ethnicity affect ownership is only appropriately conducted within income groups. Much of the explanatory power of these demographic characteristics is eliminated or greatly reduced after controlling for income differences.

Working for an employer that sponsors a DC retirement plan is one household characteristic that seems to have a significant effect on ownership rates even after controlling for income. As with the demographic characteristics, there is a strong correlation between income and whether the household reports having been offered a DC retirement plan at work. The higher rates of equity and bond ownership for those offered a DC plan at work within income groups suggest a causal relationship, but it is difficult to test because the respondents within a given income group who desire to save may have purposely selected employers who offer a DC plan.

Demographic Characteristics of Owners and Non-Owners

Equity and bond owners in their working years differ from non-owners along several demographic dimensions. One of the most striking differences in ownership rates occurs across household income groups, where ownership rates range from 10 percent for those earning less than $25,000 per year to more than 80 percent for those earning $100,000 or more (Figure 2.1). This glaring difference in ownership of equities and bonds—which is consistent with low holding of financial assets generally—is not unexpected for many reasons. One of the most important is the effect of Social Security, which provides a much higher retirement income replacement rate for low lifetime earners.[11]

FIGURE 2.1

WORKING-AGE EQUITY AND BOND OWNERSHIP RATES ACROSS DEMOGRAPHIC GROUPS

OWNERSHIP OF EQUITIES[1] OR BONDS;[2] PERCENTAGE OF U.S. HOUSEHOLDS AGED 25 TO 64, 2008

	All equity[1] or bond owners[2]
Household income[3]	
Less than $25,000	10
$25,000 to $34,999	22
$35,000 to $49,999	37
$50,000 to $74,999	54
$75,000 to $99,999	69
$100,000 or more	82
Education	
High school or less	30
Some college or associate's degree	51
Completed four years of college	67
Some graduate school or completed graduate school	75
Marital status	
Married or living with a partner	56
Single	33
Divorced, separated, or widowed	39
Household investment decisionmaker	
Co-decisionmakers	54
Female is sole decisionmaker	38
Male is sole decisionmaker	51
Ethnic background	
Non-Hispanic white	55
Other	33
Number of respondents	*1,846*

[1]*Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.*
[2]*Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.*
[3]*Total reported is household income before taxes in 2007.*
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

[11] See Footnote 8 in Chapter 1.

Income is not the only characteristic strongly associated with ownership, however. There are also significant differences in ownership rates by education group, ranging from 30 percent for those with a high school education or less to 75 percent for those with at least some graduate school (Figure 2.1). Also, married couples and those living with partners have an ownership rate of 56 percent, somewhat higher than those who are single (33 percent) or divorced, widowed, or separated (39 percent). Males or couples where the decisionmaking is joint have ownership rates over 50 percent, as opposed to female decisionmakers whose ownership rate is only 38 percent. Finally, non-Hispanic whites have an overall equity and bond ownership rate of 55 percent, well above the rate for the rest of the population at 33 percent.

Each of these characteristics is also correlated with income, however, so a true understanding of the relationship between the characteristic and ownership requires looking within income groups.

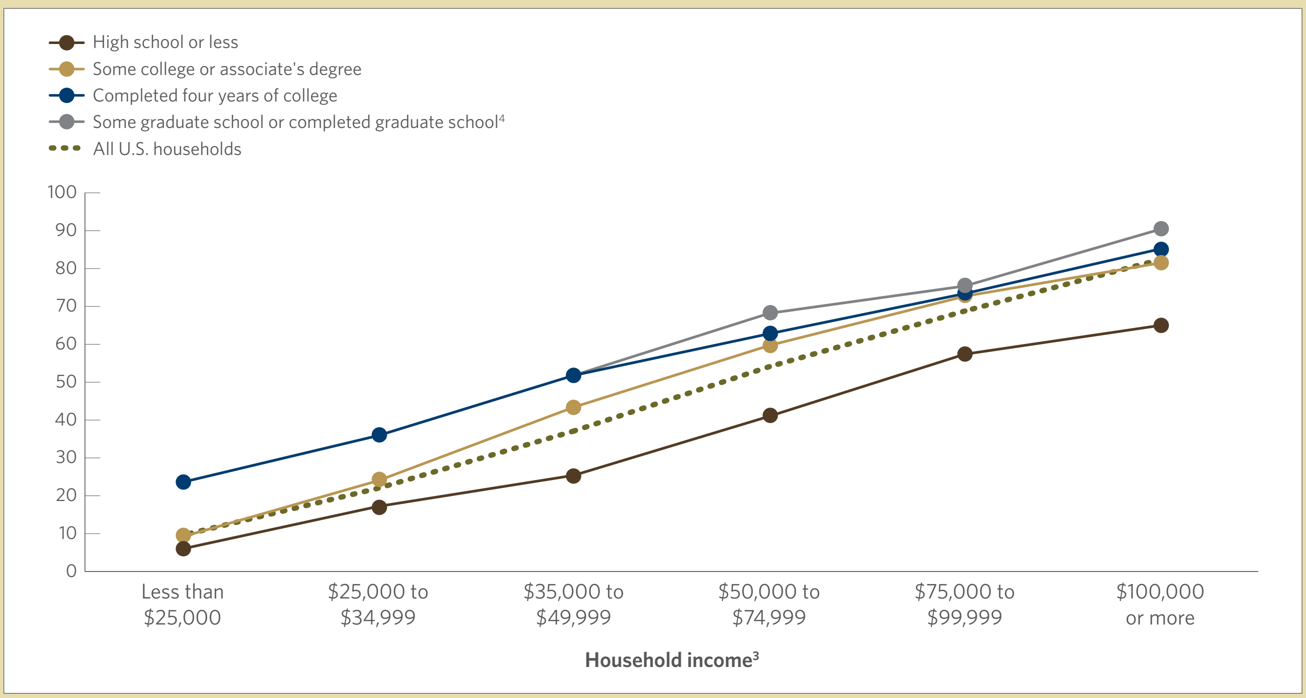
For example, the overall differences in ownership by educational attainment are quite large, but after one controls for income, the effect is somewhat dampened because income itself is highly correlated with education. Careful consideration of how ownership varies with education suggests that there may be some marginal effect because the more highly educated are more likely to be equity and bond owners within every income group.

In the highest income group—those earning $100,000 or more—the ownership rate varies from 65 percent for those with high school or less to 90 percent for those with at least some graduate school (Figure 2.2). The differences are also significant (but again not as large as the overall differences) for those near the middle of the earnings distribution.

FIGURE 2.2

HIGHER EDUCATED MORE LIKELY TO BE EQUITY OR BOND OWNERS AT ANY INCOME LEVEL

OWNERSHIP OF EQUITIES[1] OR BONDS;[2] PERCENTAGE OF U.S. HOUSEHOLDS AGED 25 TO 64 BY HOUSEHOLD INCOME[3] AND EDUCATION, 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Total reported is household income before taxes in 2007.
[4]Sample sizes for the bottom two income groups in this category are too small for inclusion.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

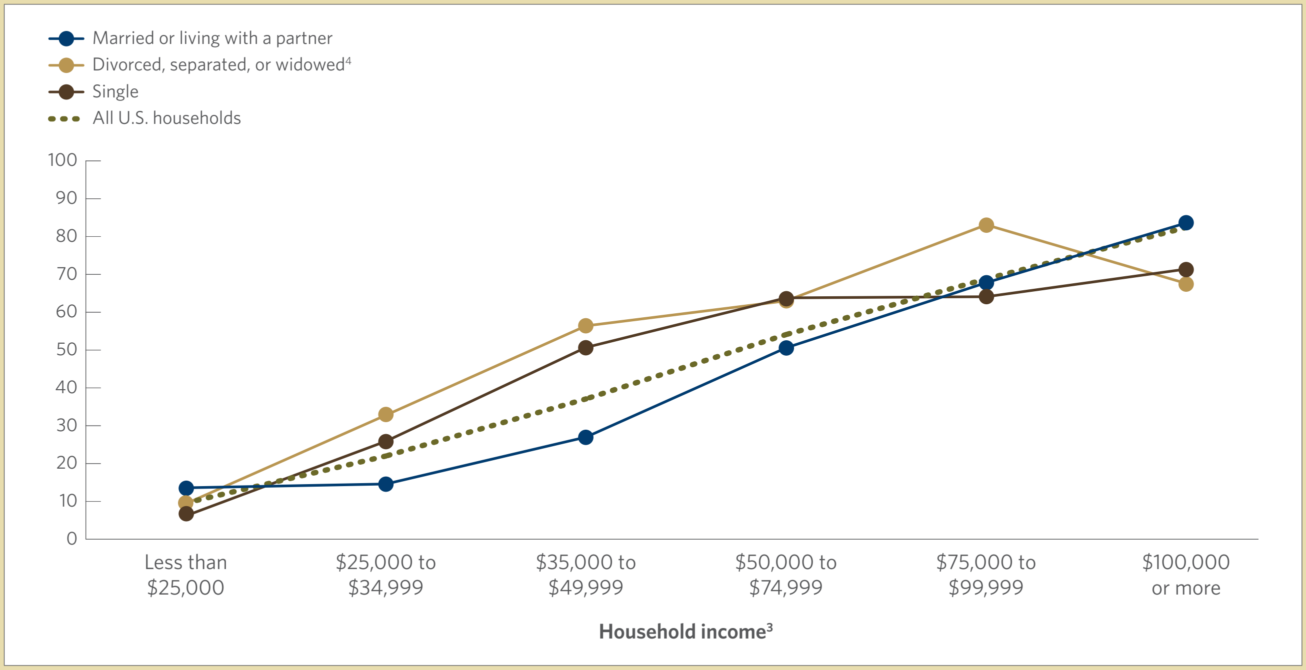
For example, in the group with income between $35,000 and $49,999, ownership ranges from 25 percent for the lowest education group to 52 percent for the two highest education groups.[12]

Differences in ownership rates across other demographic characteristics within income groups are even more attenuated, and in some cases, the relationship changes direction as income changes. For example, middle-income singles and divorced, widowed, or separated individuals are more likely to be owners than married couples in their income group (Figure 2.3). That may be a classification issue because it is difficult to characterize the differences in economic well-being between a couple at, say, $40,000 per year and a single person with the same income. In any case, the relationship actually flips at either end of the income distribution, with both low- and high-income couples more likely to be equity and bond owners than singles.

FIGURE 2.3

EFFECT OF MARITAL STATUS ON OWNERSHIP VARIES BY HOUSEHOLD INCOME

OWNERSHIP OF EQUITIES[1] OR BONDS;[2] PERCENTAGE OF U.S. HOUSEHOLDS AGED 25 TO 64 BY HOUSEHOLD INCOME[3] AND MARITAL STATUS, 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Total reported is household income before taxes in 2007.
[4]Sample size for top income group in this category is small.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

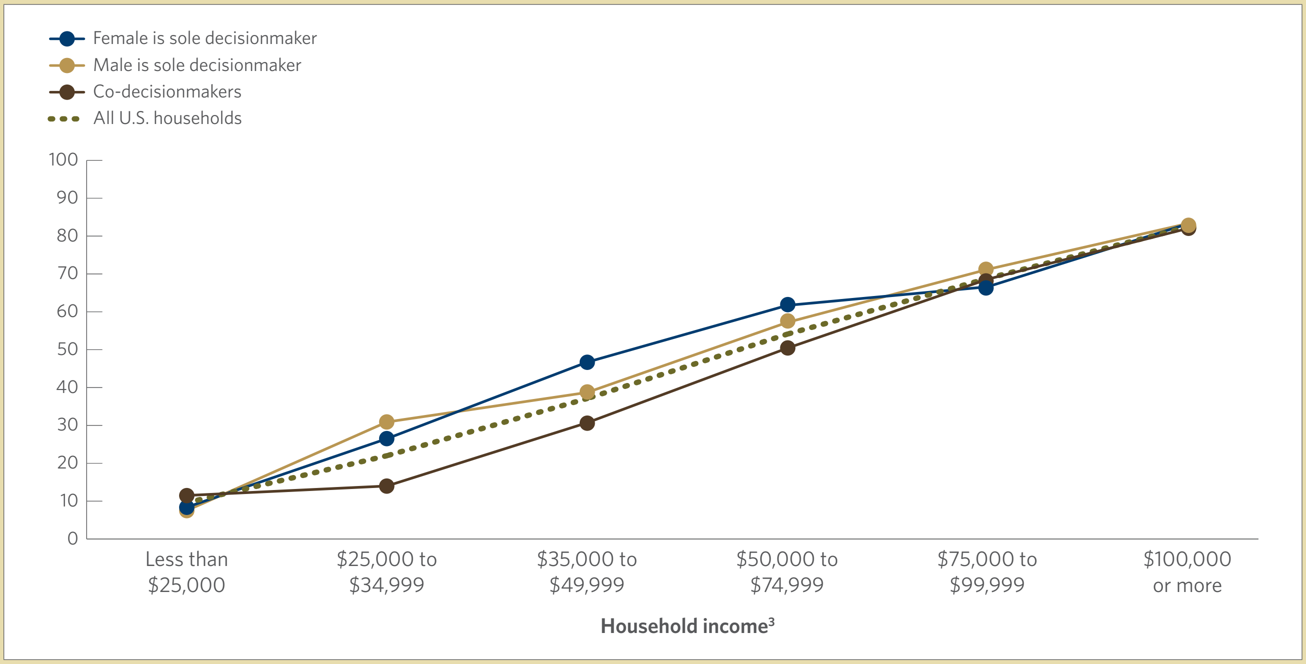
[12] One possible caveat to these findings is that the more highly educated within any given current income group may be more likely to have higher lifetime earnings, but it is impossible to separate out that effect using the available data. If that is true, then the education effect is really still just an income effect.

Although males and co-decisionmakers have higher ownership rates in aggregate, the difference is actually reversed or negligible after controlling for income. Females at or just above the middle of the household income distribution are slightly more likely to be equity and bond owners than males at the same income, and there are effectively no differences between males and females at the highest or lowest incomes (Figure 2.4).

FIGURE 2.4

EFFECT OF GENDER OF HOUSEHOLD DECISIONMAKER ON OWNERSHIP IS VERY SMALL AFTER CONTROLLING FOR INCOME

OWNERSHIP OF EQUITIES[1] OR BONDS;[2] PERCENTAGE OF U.S. HOUSEHOLDS AGED 25 TO 64 BY HOUSEHOLD INCOME[3] AND GENDER AND DECISIONMAKING STATUS, 2008



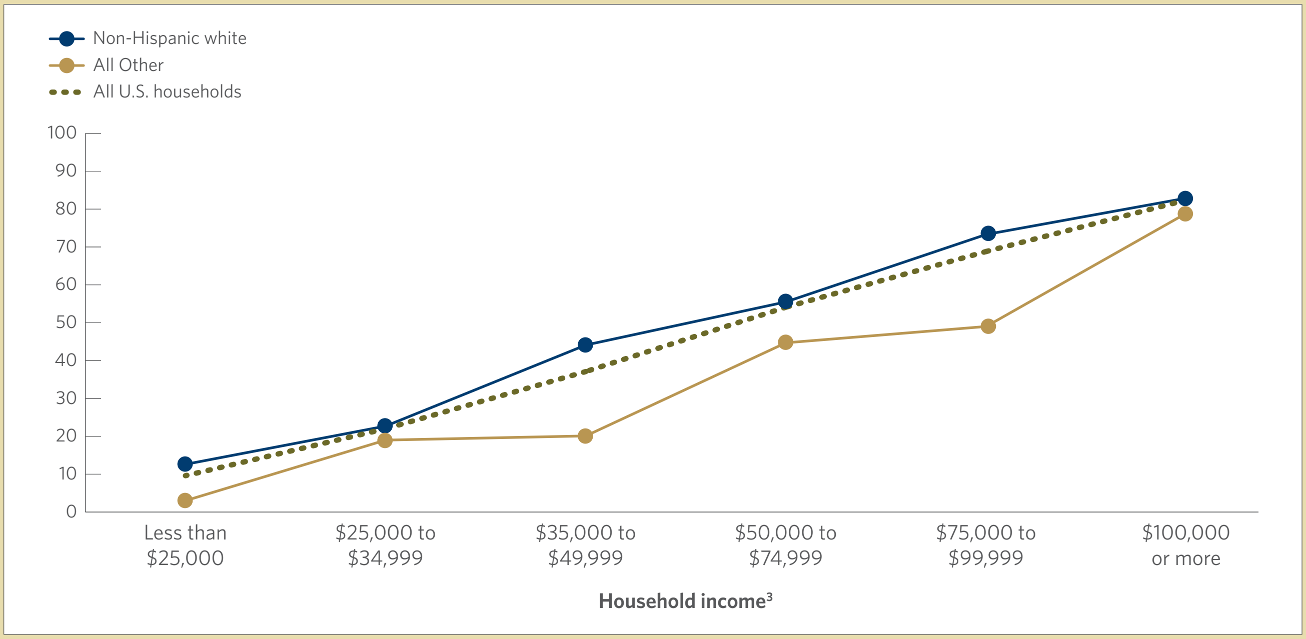
[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Total reported is household income before taxes in 2007.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

Race and ethnicity do seem to have an effect on ownership after controlling for income, an observation that is the basis for an ongoing study by Ariel Mutual Funds in conjunction with Charles Schwab.[13] The ICI/SIFMA survey results are based on a different sampling strategy, but generally affirm the main conclusions of that research, which is that upper-middle income whites are more likely to be equity owners. For example, the difference in ownership rates for those earning between $75,000 and $99,999 is 24 percentage points.[14] However, the differences in the highest income group ($100,000 or more) are negligible.[15]

FIGURE 2.5

NON-HISPANIC WHITE FAMILIES ARE MORE LIKELY TO BE EQUITY AND BOND OWNERS AT ANY GIVEN INCOME LEVEL

OWNERSHIP OF EQUITIES[1] OR BONDS;[2] PERCENTAGE OF U.S. HOUSHOLDS AGED 25 TO 64 BY HOUSEHOLD INCOME[3] AND RACE/ETHNICITY, 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Total reported is household income before taxes in 2007.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

[13] See Ariel Mutual Funds and Charles Schwab 2008. *The Ariel-Schwab Black Paper: A Decade of Research on African-American Wealth Building and Retirement Planning*; available at www.arielinvestments.com/blackinvestor. The Ariel-Schwab research is focused on uncovering differences between white and black investors, and the sampling strategy focuses on getting large samples of each group and then comparing behavior. The ICI/SIFMA survey results reported here are based on a random sample, and thus the ability to directly compare specific race and ethnicity groups is more limited because of sample size. The comparisons reported here are therefore limited to "Non-Hispanic white" versus "All other."

[14] Seventy-three percent of non-Hispanic white households in the $75,000 to $99,999 household income range own equities or bonds, while the ownership rate for all others is 49 percent—hence the difference of 24 percentage points.

[15] The Ariel-Schwab analysis did not look specifically at differences within income groups as done here. Instead, they controlled for income indirectly by setting the criteria for inclusion in the sample to be whether or not the household's income was $50,000 or higher. Again, differences between the results reported here and those in the Ariel-Schwab study could arise because of sampling strategy or the specific race/ethnicity groups being compared.

Given that the differences in equity and bond ownership are highly correlated with income (and variables such as education that are also highly correlated with income), it is not surprising that one would observe other differences between the financial situation of owners and non-owners. Owners are much more likely to have other types of financial assets such as bank deposit accounts, money market funds, annuities, and even U.S. savings bonds (Figure 2.6). Working-age equity and bond owners are also much more likely to be homeowners (85 percent) than non-owning households (only 55 percent).

FIGURE 2.6

OWNERSHIP OF OTHER ASSETS IS ALSO HIGHER FOR WORKING-AGE EQUITY AND BOND OWNERS

PERCENTAGE OF U.S. HOUSEHOLDS AGED 25 TO 64 WITHIN EACH OWNERSHIP GROUP, 2008

	Equity[1] or bond[2] owners	Non-owners
Bank deposit accounts[3]	88	59
Money market mutual funds	36	6
Annuities[4]	24	2
Real estate		
Own home	85	55
Other	29	13
U.S. savings bonds	36	12
Number of respondents	*1,846*	*1,878*

[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Bank deposit accounts include savings accounts, money market deposit accounts, or CDs.
[4]Annuities include fixed and variable annuities.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

The Role of Employer-Sponsored Retirement Plans

As described in the previous chapter, the dramatic increase in equity and bond ownership between 1989 and 2001 is directly related to increasing DC retirement plan coverage. The cross-section analysis of ownership rates in this chapter suggests that income is the key to understanding differences in ownership. Using the same methodological approach as above—considering differences across types of households within an income group—those two statements can be reconciled. In particular, the availability of DC coverage seems to be a crucial distinguishing factor between owners and non-owners.

The starting point for analyzing the combined effect of pension coverage and income on equity and bond ownership rates is to consider how overall pension coverage varies by income. In the ICI/SIFMA survey, 66 percent of working-age households have some type of pension coverage (Figure 2.7). This figure includes defined benefit (DB) only, DC only, and both DB and DC coverage. It also includes households where the respondent, the spouse, or both have coverage.[16]

FIGURE 2.7

DEFINED CONTRIBUTION PLAN COVERAGE RISES DRAMATICALLY WITH INCOME

PERCENTAGE OF U.S. HOUSEHOLDS AGED 25 TO 64 WITHIN EACH HOUSEHOLD INCOME GROUP,[1] 2008

	Any retirement plan coverage[2, 3]	DB coverage only[2]	DB and DC coverage[2, 3]	DC coverage only[3]
Household income[1]				
All U.S. households	66	5	23	38
Less than $25,000	23	4	3	16
$25,000 to $34,999	48	6	11	31
$35,000 to $49,999	63	6	15	42
$50,000 to $74,999	74	5	24	45
$75,000 to $99,999	87	4	31	52
$100,000 or more	90	3	45	42
Number of respondents	*2,471*	*170*	*1,425*	*876*

[1]Total reported is household income before taxes in 2007.
[2]DB coverage is defined as any household member being covered by or participating in a traditional pension plan.
[3]DC coverage is defined as any household member being covered by or participating in a 401(k), 403(b), 457 plan, or employer-sponsored IRA (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

[16] In this case "coverage" means the individual can participate in the employer plan if they choose to; it does not necessarily imply they have chosen to take the offered coverage.

Pension coverage rises with household income, but the effect is much stronger for DC coverage than it is for DB only. Overall, 23 percent of households with income less than $25,000 have any type of coverage available, while 90 percent of those with income of $100,000 or more are offered some type of pension. The DB only coverage rate is 5 percent overall and does not vary much with income. Both the DC only and combined DB/DC pension coverage rates rise dramatically with income.

The differences in equity and bond ownership across pension coverage groups within each income group are dramatic. Households that are offered DC pension plans are much more likely to be owners than those who have no pension coverage, with ownership rates of 29 percent for DC only and 44 percent for both DB and DC among those with incomes of less than $25,000 (Figure 2.8). The ownership rate for those without any pension coverage available is only 4 percent, and for those with DB coverage only, it is 15 percent.

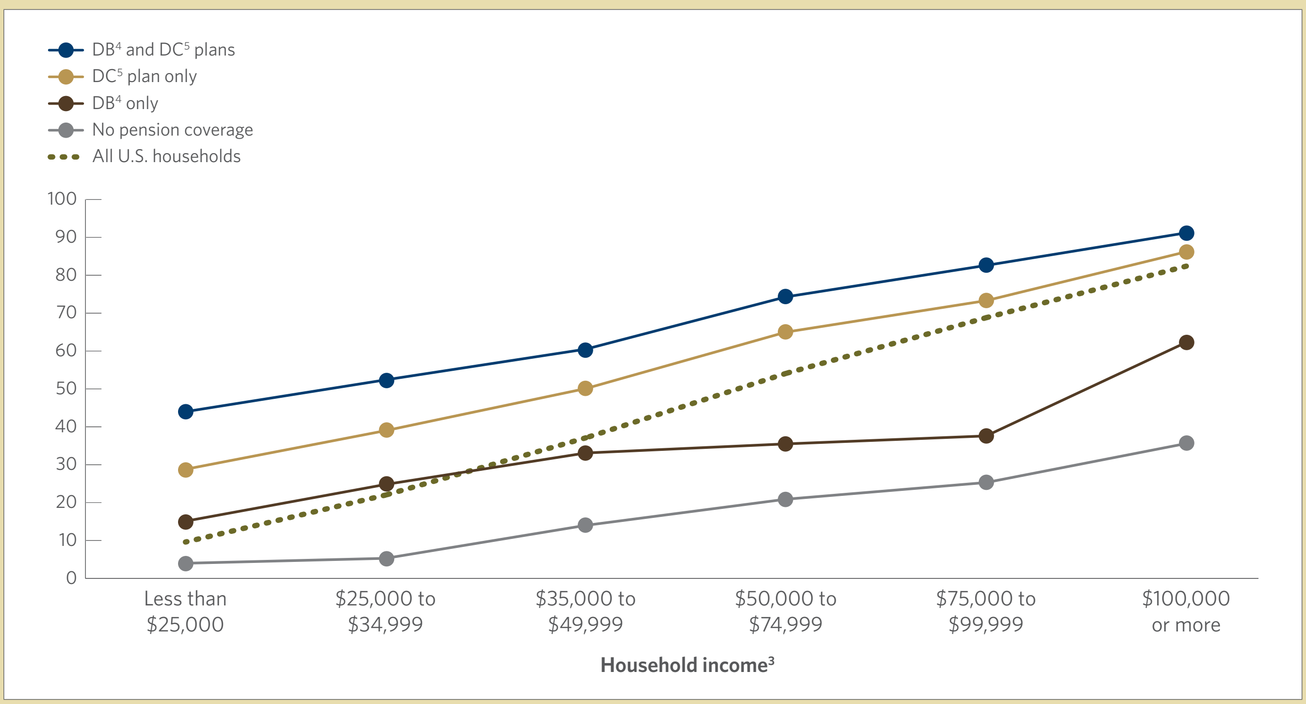
These differences for the lowest income group hold throughout the earnings distribution. Among households earning $100,000 or more, the ownership rates are 36 percent for those with no coverage, 62 percent for DB only, 86 percent for DC only, and 91 percent for both DB and DC. At any given income level, those with pension coverage available are much more likely to be equity or bond owners.

Does the analysis of ownership across pension coverage and income groups imply that DC pension availability causes ownership rates to rise? The answer is probably, but it is impossible to tell for sure with these data. The problem is this: the households at any given earnings level that want to save for retirement may be more likely to seek out employers who offer DC plans so they can save in a tax-advantaged account. It is statistically impossible to distinguish that possibility from the idea that DC plans turn non-owners into owners at any given income level.

FIGURE 2.8

EFFECT OF DEFINED CONTRIBUTION PLAN AVAILABILITY ON OWNERSHIP IS VERY STRONG WITHIN INCOME GROUPS

OWNERSHIP OF EQUITIES[1] OR BONDS;[2] PERCENTAGE OF U.S. HOUSEHOLDS AGED 25 TO 64 BY HOUSEHOLD INCOME[3] AND RETIREMENT PLAN COVERAGE, 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Total reported is household income before taxes in 2007.
[4]DB coverage is defined as any household member being covered by or participating in a traditional pension plan.
[5]DC coverage is defined as any household member being covered by or participating in a 401(k), 403(b), 457 plan, or employer-sponsored IRA (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

However, the correlation between ownership and DC pension coverage is very strong, and it seems likely there is some causal effect.

At the same time, the evidence also suggests that there is probably some upper limit on the ability of the DC pension system to turn non-owners into owners. Among those households with the lowest incomes (under $25,000), more than half of those with DC-only and DB/DC coverage are still non-owners. Thus, simply making DC coverage available does not guarantee that employees will voluntarily start investing in equities and bonds.

One implication of the importance of employer-provided DC plans is that households' equity and bond wealth will be concentrated in retirement accounts. One can take a narrow view and only consider employer-sponsored retirement accounts, or a broader view and include IRAs—much of which started out as employer-sponsored plan assets.[17] Either way, only 18 percent of stock or bond owners have their entire portfolios outside of employer-sponsored retirement plans, and only 4 percent have their entire portfolio outside of tax-deferred accounts defined broadly (Figure 2.9).

The shares of portfolios inside and outside retirement accounts is also indicative of the importance that employer-provided DC plans play in the wealth accumulation process. Using the broad definition that includes all tax-deferred accounts, the data indicate that 50 percent of respondents have more than 75 percent of their portfolios in some sort of tax-deferred account.

FIGURE 2.9

WORKING-AGE EQUITY AND BOND OWNERS HOLD MOST OF THEIR FINANCIAL ASSETS INSIDE RETIREMENT PLANS AND TAX-DEFERRED ACCOUNTS

PERCENTAGE OF U.S. HOUSEHOLDS AGED 25 TO 64 OWNING EQUITIES[1] OR BONDS,[2] 2008

	Employer-sponsored retirement plans[3]	All tax-deferred accounts[4]
Ownership of equities[1] or bonds[2]		
Inside only[5]	38	56
Inside and outside[5, 6]	44	40
Outside only[6]	18	4
Percentage of financial assets inside[5]		
25% or less	18	12
26% to 50%	22	17
51% to 75%	23	21
More than 75%	37	50
Number of respondents	*1,771*	*1,771*

[1]Equities include individual stocks, stock mutual funds, and hybrid mutual funds.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
[4]All tax-deferred accounts include employer-sponsored retirement plans and IRAs.
[5]Ownership "inside" indicates the household owns equities or bonds inside the type of accounts indicated in the column heading.
[6]Ownership "outside" indicates the household owns equities or bonds outside the type of accounts indicated in the column heading.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

[17] See Brady, Peter, and Sarah Holden 2008. "The U.S. Retirement Market, 2007." *Investment Company Institute Fundamentals* 17, no. 3 (July); available at www.ici.org/pdf/fm-v17n3pdf.

CHAPTER 3

Investor Sentiment and Portfolios over the Life Cycle

The U.S. equity and bond investor population is aging, and that shift portends predictable changes in both goals and strategies. Older investors are much less willing to take risk, and they have a strong desire to establish a steady income stream and a cushion of assets to be used in case of emergencies. This suggests that portfolio composition will tend to become less growth-oriented as investors age, and the data support this expectation.

However, it is too simplistic to consider only whether or not a particular investor holds just equities, just bonds, or a mix of equities and bonds. Most investors at all ages have some balance in their portfolios, though the way in which that balance is established does vary systematically as one looks across the age distribution. Younger investors are more likely to have a balanced portfolio through ownership of hybrid or lifecycle mutual funds, while older investors diversify directly or by holding bonds and purchasing products like variable annuities that give them equity exposure.

When asked to pierce the veil of their various portfolio holdings, investors generally report asset allocations across the various categories that are consistent with both theory and the advice of financial professionals. The equity share of portfolios clearly falls with age while the bond share rises. When asked (in early 2008) about their intentions for future investments, a fairly large share of every age group said they expected to increase their allocation to bonds in the future. Although there does seem to be some life cycle motives underlying the answers, the consistency across age groups suggest that investors may also be reacting to market turbulence by shifting to what they perceive as more stable investments.

An Aging Investor Population

Official U.S. Census Bureau projections confirm that the demographic effect of the Baby Boom is about to enter its final stage. Between now and 2020 the share of the population 65 or older is expected to rise from 13 percent to 16 percent, before climbing to 19 percent in 2030 (Figure 3.1).[18] Interestingly, after the Baby Boom crosses the retirement threshold, the age distribution of the population is expected to remain fairly stable. There are two offsetting forces affecting the U.S. age distribution. Rising life expectancy will increase the share of the elderly population, but (historically) high immigration rates are expected to increase the share of the population younger than 65. Thus, on net, there is only a slight increase expected in the share of the population 65 or older after 2030, rising to 20 percent for both 2040 and 2050.

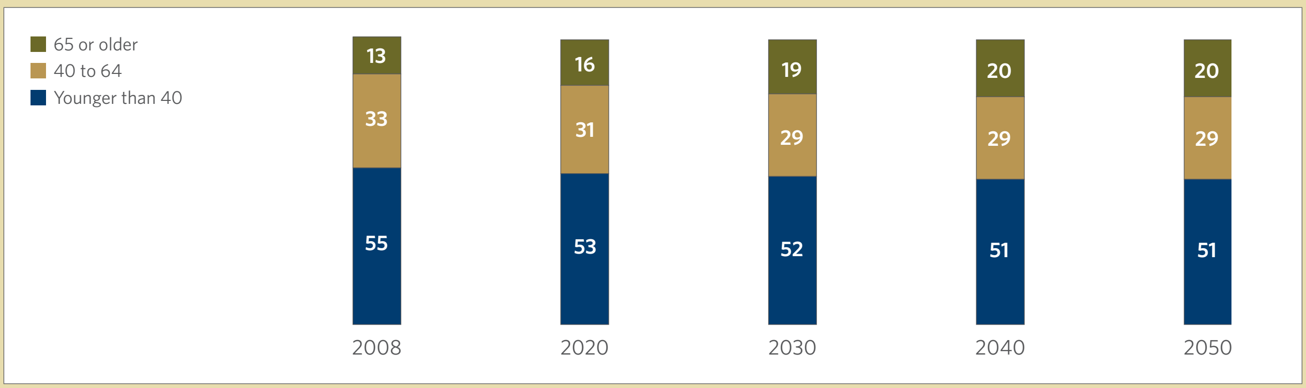
Differences in Saving Goals and Risk Tolerance by Age

If younger and older investors had the same goals, risk tolerance, and strategies, the expected demographic shift would not have significant implications for equity and bond investments. However, investor sentiments do vary with age, and there are important messages one can identify from direct questions about topics such as goals, risk tolerance, and investment strategy.

FIGURE 3.1

RETIREES ARE FASTEST GROWING AGE GROUP

PERCENTAGE OF PROJECTED U.S. POPULATION BY AGE GROUP



Note: Percentages may not add to 100 because of rounding.
Source: U.S. Census Bureau

[18] Population projections are from the U.S. Bureau of the Census; available at www.census.gov/population/www/projections/files/nation/download/filelayout_NP2008_D1.txt.

The differences between young and old investors are not great when they are given the opportunity to simply agree or disagree with multiple reasons about why they are saving. For example, the majority within every age group indicates they are investing for retirement and emergencies, and about half say they are trying to reduce their taxes or leave an inheritance (Figure 3.2). The popularity of some answers varies with age; 36 percent of households younger than 40 say they are saving for a home purchase and 60 percent for education, while the corresponding numbers for the 65 or older group are 9 percent and 12 percent, respectively. At the same time, 58 percent of respondents 65 or older say that their investment goal is generating current income, an answer that only 32 percent of those younger than 40 indicated as a goal.

FIGURE 3.2

EQUITY AND BOND INVESTORS' FINANCIAL GOALS VARY BY AGE

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS,[2] 2008

		Age of household head		
	All equity[1] and bond[2] owners	Younger than 40	40 to 64	65 or older
Financial goals for investments[3]				
Retirement	88	95	90	74
Reduce taxes	52	48	53	52
Emergency	61	65	58	63
Education	34	60	29	12
Current income	34	32	26	58
Purchase a home or other large item	17	36	12	9
Inheritance	47	52	42	55
Other	4	5	5	4
Primary financial goal for investments[4]				
Retirement	60	57	68	42
Reduce taxes	4	2	4	5
Emergency	6	7	5	8
Education	10	17	10	2
Current income	10	5	7	29
Purchase a home or other large item	4	8	2	2
Inheritance	5	3	3	10
Other	1	1	1	2
Number of respondents	*2,359*	*618*	*1,293*	*448*

[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Multiple responses are included.
[4]Column percentages may not add to 100 because of rounding.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

When asked to choose one investment goal above all others, the differences by age become more apparent. Sixty-eight percent of respondents aged 40 to 64 chose retirement as their primary goal, as did 57 percent of those under 40 (Figure 3.2). Retirement was still the most popular answer for the 65 or older group, at 42 percent, but there were also significant minorities in the oldest group who indicated current income (29 percent) or leaving an inheritance (10 percent) as their primary goal.

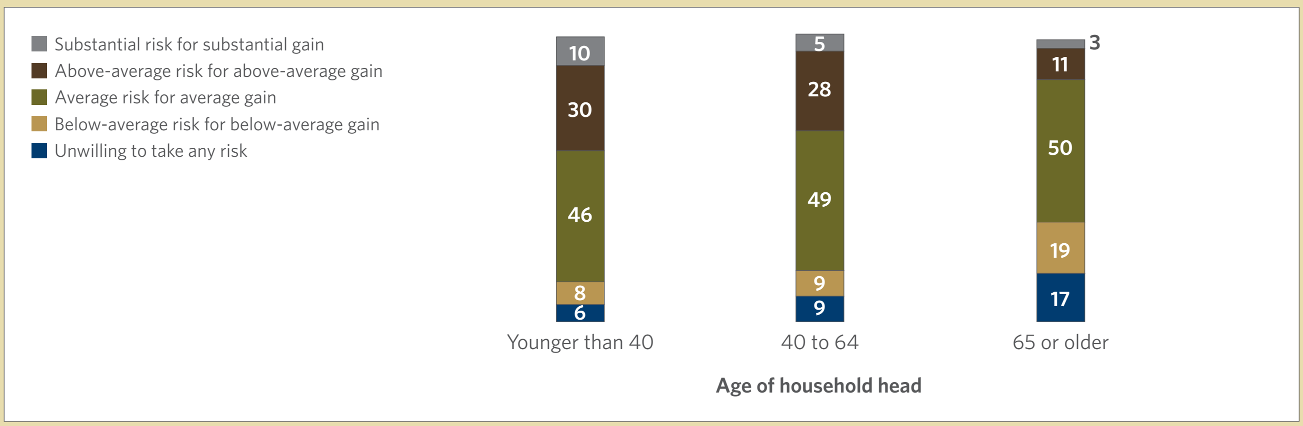
Life cycle changes in investment goals are one reason why risk tolerance—as measured by the willingness to take risk in order to get higher returns—might be expected to vary with age. If at age 40 one has the goal of funding retirement, it makes sense to invest for long-term growth, which requires assuming a certain amount of risk. However, if one's goal is to establish a steady income stream at age 65, then minimizing risk is a key part of the strategy. There are plenty of other reasons to expect risk avoidance to rise with age, however, because investors become more exposed to other types of risk, such as health-related events. Having a relatively safer portfolio provides some assurance that one can offset unexpected costs if they arise.

Risk tolerance does indeed vary systematically over the life cycle. Seventeen percent of equity and bond owners 65 or older reported that they were unwilling to take any risk, and another 19 percent said they were willing to take only below average risk, even though that meant giving up higher expected returns (Figure 3.3). For those under 40, the corresponding numbers were 6 percent and 8 percent. At the other end of the risk tolerance scale, 40 percent of those under age 40 were willing to take at least above average risks to get higher returns, while only 14 percent of those 65 or older were in that category.

FIGURE 3.3

INVESTOR WILLINGNESS TO TAKE RISK IS STRONGLY CORRELATED WITH AGE

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] BY AGE OF HOUSEHOLD HEAD, 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
Note: Percentages may not add to 100 because of rounding.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

Although systematic differences in investor preferences are evident when direct questions about goals and risk tolerance are posed, there are a number of statements about investing that investors of all ages generally agreed about. For example, 71 percent of all investors agreed that they were "not concerned about short-term fluctuations in my investments," and there was very little variance by age, from 69 percent for those 65 or older to 73 percent for those under 40 (Figure 3.4). The statement for which there was the widest range was "I am confident I will have enough money in retirement on which to live comfortably," with which 83 percent of those 65 or older agreed, but only 65 percent of the group aged 40 to 64 agreed.

FIGURE 3.4

INVESTORS OF ALL AGES GENERALLY AGREE ON SOME BASIC PRINCIPLES

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] WHO AGREED WITH EACH STATEMENT, 2008

		Age of household head		
	All equity[1] or bond[2] owners	Younger than 40	40 to 64	65 or older
I am not concerned about short-term fluctuations in my investments	71	73	71	69
I tend to follow a buy-and-hold investment strategy	81	80	82	80
I view my investments as savings for the long term	96	97	96	91
Investing in individual stocks or stock mutual funds involves accepting some degree of risk	93	95	94	83
I am confident that I will have enough money in retirement on which to live comfortably	70	70	65	83
Number of respondents	*2,359*	*618*	*1,293*	*448*

[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

Portfolio Diversification in Principle and in Practice

Investors at various stages of the life cycle exhibit systematic differences in terms of savings goals and willingness to take risk. The implication of those revealed preferences is that older investors should be more cautious in their portfolio choices, which is generally interpreted to mean they will be more likely to hold bonds instead of equities.

Simply considering overall rates of equity and bond ownership by age seems to cast doubt on this inference, however. Overall, 60 percent of U.S. households owning equities or bonds own both equities and bonds, and that fraction varies only between 57 percent and 61 percent as one moves from the youngest to oldest group of investors (Figure 3.5). The fraction of investor households holding only equities falls from 38 percent for those younger than 40 to 34 percent for those 65 or older, and the fraction owning only bonds is 4 percent or 5 percent for all age groups.

FIGURE 3.5

TYPES OF EQUITY AND BOND OWNERSHIP VARY SYSTEMATICALLY WITH AGE

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] BY AGE OF HOUSEHOLD HEAD, 2008

		Age of household head		
	All equity[1] or bond[2] owners	Younger than 40	40 to 64	65 or older
Both equities[1] and bonds[2]	**60**	**57**	**61**	**61**
Hybrid mutual funds	43	43	45	36
Other equity and bond combinations	17	14	16	25
Equities only[1]	**36**	**38**	**35**	**34**
Individual stocks or stock mutual funds	19	22	18	13
ETFs only	1	2	1	1
Variable annuities only	4	2	4	8
Other equity combinations	12	12	12	12
Bonds only[2]	**4**	**5**	**4**	**5**
Number of respondents	*2,359*	*618*	*1,293*	*448*

[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

There are important differences in the nature of equity and bond holding across age groups. The 57 percent of younger households owning both equities and bonds can be split into two groups: 43 percent own hybrid (including lifecycle) mutual funds, and 14 percent diversify through some other combination of individual stock, stock mutual fund, individual bond, or bond mutual fund holdings. Among the 65 or older group, the fraction achieving diversification across stocks and bonds using hybrid mutual funds is smaller, at 36 percent.

Likewise, the way in which equity exposure is achieved also varies by age. For example, the fraction of households 65 or older with "equity only" exposure is only 4 percentage points below the rate for younger households, but 8 percent of those older households are in that group because they report having variable annuities and no other investments. Only 2 percent of the youngest group reports having only variable annuities, so were it not for the variable annuity products, the "equity only" fraction for the 65 or older group would be 10 percentage points below the younger than 40 group—not just 4 percentage points.

The greater desire for income-generating assets among older investors clearly shows up in terms of holdings outside the specific categories of equities and bonds. For example, 40 percent of investors 65 or older report owning money market mutual funds, while the ownership rate for those under 40 is only 31 percent (Figure 3.6). Ownership rates for annuities also rise with age.

Equity and bond ownership by age is very much affected by employer-sponsored retirement plans, as suggested in the previous chapter. Overall, the fraction of equity- or bond-owning households whose equity or bond portfolios are completely in employer-sponsored retirement plans is 46 percent for those younger than 40, and only 14 percent for those 65 or older (Figure 3.7). Portfolio diversification is also strongly associated with employer-sponsored plans, as the share of younger households reporting various types of mutual funds (stock, bond, and hybrid) is dominated by the group whose only holdings are inside plans. As expected, assets held by investors 65 or older tend to be outside employer-sponsored retirement plans, and in fact, the share of any given asset ownership group in the "outside retirement plans only" group always dominates the fraction reporting ownership inside only or both inside and outside.

FIGURE 3.6

OWNERSHIP OF INCOME-GENERATING ASSETS RISES WITH AGE

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] BY AGE OF HOUSEHOLD HEAD, 2008

		Age of household head		
	All equity[1] or bond[2] owners	Younger than 40	40 to 64	65 or older
Bank deposit accounts[3]	84	90	86	71
Money market mutual funds	36	31	37	40
Annuities[4]	27	13	28	42
Real estate				
Own home	82	72	89	74
Other real estate	28	19	33	26
U.S. Savings Bonds	35	37	36	27
Number of respondents	*2,359*	*618*	*1,293*	*448*

[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Bank deposit accounts include savings accounts, money market deposit accounts, or CDs.
[4]Annuities include fixed and variable annuities.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

FIGURE 3.7

YOUNGER INVESTORS ARE MORE LIKELY TO HOLD ANY GIVEN ASSET THROUGH EMPLOYER-SPONSORED RETIREMENT PLANS

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] BY AGE OF HOUSEHOLD HEAD, 2008

		Age of household head		
	All equity[1] or bond[2] owners	Younger than 40	40 to 64	65 or older
All stocks and bonds	**100**	**100**	**100**	**100**
Inside employer-sponsored retirement plan only	34	46	35	14
Both inside and outside employer-sponsored retirement plan	39	35	46	24
Outside employer-sponsored retirement plan only	27	19	19	62
Individual stocks	**49**	**42**	**49**	**57**
Inside employer-sponsored retirement plan only	13	16	14	6
Both inside and outside employer-sponsored retirement plan	11	9	13	8
Outside employer-sponsored retirement plan only	25	17	22	43
Stock mutual funds	**80**	**80**	**83**	**72**
Inside employer-sponsored retirement plan only	34	42	36	14
Both inside and outside employer-sponsored retirement plan	26	24	30	14
Outside employer-sponsored retirement plan only	21	14	17	44
Individual bonds	**23**	**20**	**21**	**34**
Inside employer-sponsored retirement plan only	8	10	9	5
Both inside and outside employer-sponsored retirement plan	5	3	5	6
Outside employer-sponsored retirement plan only	10	7	7	23
Bond mutual funds	**43**	**39**	**43**	**47**
Inside employer-sponsored retirement plan only	20	25	21	11
Both inside and outside employer-sponsored retirement plan	12	10	14	8
Outside employer-sponsored retirement plan only	11	4	8	28
Hybrid mutual funds	**45**	**44**	**47**	**39**
Inside employer-sponsored retirement plan only	21	28	21	10
Both inside and outside employer-sponsored retirement plan	12	9	15	6
Outside employer-sponsored retirement plan only	12	7	10	23
Number of respondents	*2,237*	*597*	*1,233*	*407*

[1]Equities include individual stocks, stock mutual funds, and hybrid mutual funds; exclude variable annuities and exchange-traded funds.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
Note: Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

The characterization of older investors as holding various types of assets outside retirement plans is really incomplete, however, because many investments are rolled over from employer-sponsored plans at job change or retirement into IRAs. If the concept of "retirement plan" is broadened to include any type of tax-advantaged savings, the story changes somewhat. For example, the fraction of investors 65 or older whose only equity or bond holdings are outside of tax-advantaged accounts is only 17 percent (Figure 3.8); the corresponding number for assets held outside retirement plans at work is 62 percent (Figure 3.7). It is still the case that younger investors are more likely to hold any particular asset through a tax-advantaged account (Figure 3.8), but the differences between young and old are much smaller when compared to the breakdown by inside/outside of employer-based retirement plans (Figure 3.7).

The ultimate question one might ask when investigating differences in portfolios over the life cycle is how the overall share of equities and bonds differs by age. This is often a difficult question for investors to answer. Although it is straightforward to report whether or not one owns equities, bonds, or both, it is sometimes difficult to report the composition of the underlying assets. This is especially the case with hybrid or lifecycle funds, for which the respondent may not have a good sense of the allocation within the fund.

The interviewing strategy used in the ICI/SIFMA survey to get around this measurement problem was two-pronged. Experience has shown that respondents are pretty capable of reporting the market value of stocks and stock mutual funds. Thus, the portfolio share of equities is derived by dividing reported equity holdings by total financial assets. The problem with this measure is that the value of equities inside hybrid and lifecycle funds is not captured, so this measure is biased down at any given age. The second part of the portfolio measurement strategy was focused on bonds, and here the survey allowed respondents to characterize the share of their portfolio invested in bonds in very broad terms, choosing from less than 10 percent, 11 percent to 30 percent, 31 percent to 50 percent, and more than 50 percent.

FIGURE 3.8

INVESTORS OF ALL AGES MAKE USE OF TAX-ADVANTAGED SAVING OPPORTUNITIES

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] BY AGE OF HOUSEHOLD HEAD, 2008

		Age of household head		
	All equity[1] or bond[2] owners	Younger than 40	40 to 64	65 or older
All stocks and bonds	**100**	**100**	**100**	**100**
Inside tax-deferred account only	52	65	51	37
Both inside and outside tax-deferred account	41	28	45	46
Outside tax-deferred account only	7	7	4	17
Individual stocks	**49**	**42**	**49**	**57**
Inside tax-deferred account only	23	24	23	19
Both inside and outside tax-deferred account	17	11	19	22
Outside tax-deferred account only	9	7	7	16
Stock mutual funds	**80**	**80**	**83**	**72**
Inside tax-deferred account only	49	58	51	32
Both inside and outside tax-deferred account	25	17	28	25
Outside tax-deferred account only	6	5	4	15
Individual bonds	**23**	**20**	**21**	**34**
Inside tax-deferred account only	11	12	11	11
Both inside and outside tax-deferred account	9	6	8	17
Outside tax-deferred account only	3	2	2	6
Bond mutual funds	**43**	**39**	**43**	**47**
Inside tax-deferred account only	26	30	26	19
Both inside and outside tax-deferred account	15	8	16	22
Outside tax-deferred account only	2	1	2	6
Hybrid mutual funds	**45**	**44**	**47**	**39**
Inside tax-deferred account only	28	34	28	18
Both inside and outside tax-deferred account	15	9	18	16
Outside tax-deferred account only	2	1	1	5
Number of respondents	*2,237*	*597*	*1,233*	*407*

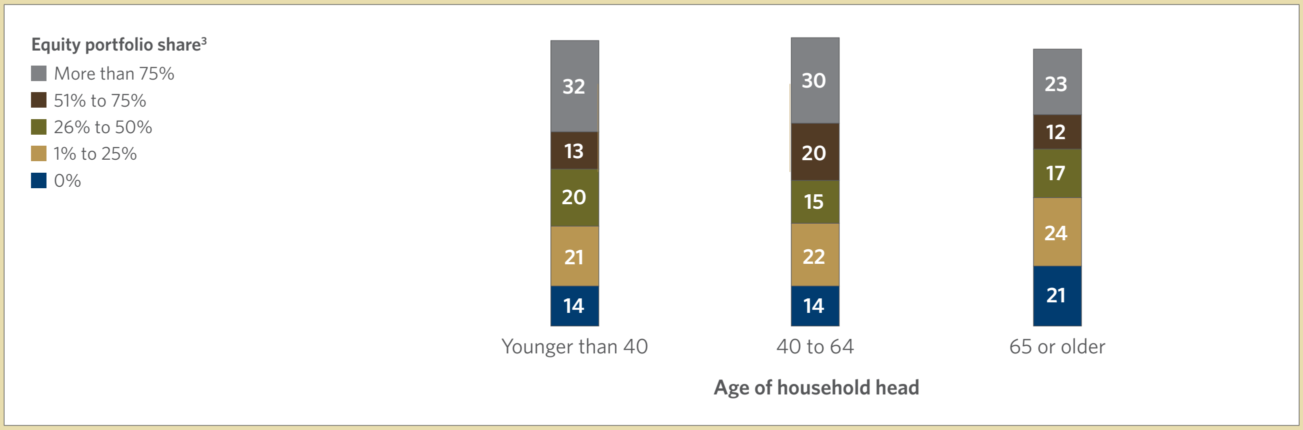
[1]Equities include individual stocks, stock mutual funds, and hybrid mutual funds; exclude variable annuities and exchange traded funds (ETFs).
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
Note: Tax-deferred accounts include DC plans (such as 401(k), 403(b), or 457 plans) and IRAs (traditional, Roth, SEP, SAR-SEP and SIMPLE IRAs).
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

The results of these two separate approaches are consistent with each other and with expectations based on lifecycle theory and investor self-reported sentiments. For example, the share of investors who reported individual stock and stock mutual fund portfolio shares above 75 percent of their household's financial assets is 32 percent for those under 40, but only 23 percent for those 65 or older (Figure 3.9). The fraction of investor households reporting more than 30 percent of household financial assets invested in bonds is 10 percent for the youngest group and rises to 19 percent for the oldest (Figure 3.10).

FIGURE 3.9

PORTFOLIO SHARE ALLOCATED TO INDIVIDUAL STOCKS AND STOCK MUTUAL FUNDS DECREASES WITH AGE

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] BY AGE OF HOUSEHOLD HEAD, 2008

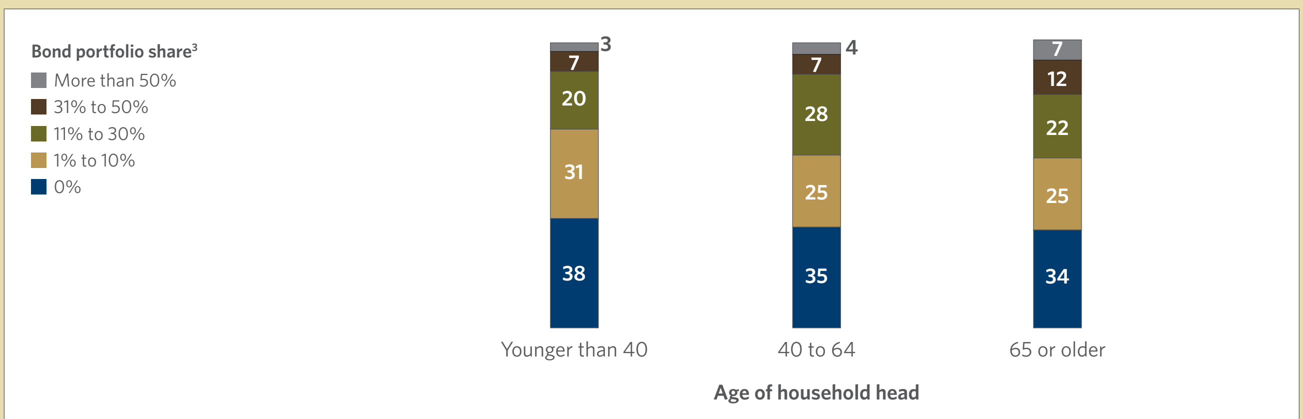


[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds,exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Equity portfolio share is the percentage of household financial asssets (includes assets in employer-sponsored retirement plans but excludes the household's primary residence) invested in stocks and stock mutual funds. Equities held through hybrid or lifecycle funds could not be included in the analysis.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

FIGURE 3.10

PORTFOLIO SHARE ALLOCATED TO BONDS INCREASES WITH AGE

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] BY AGE OF HOUSEHOLD HEAD, 2008



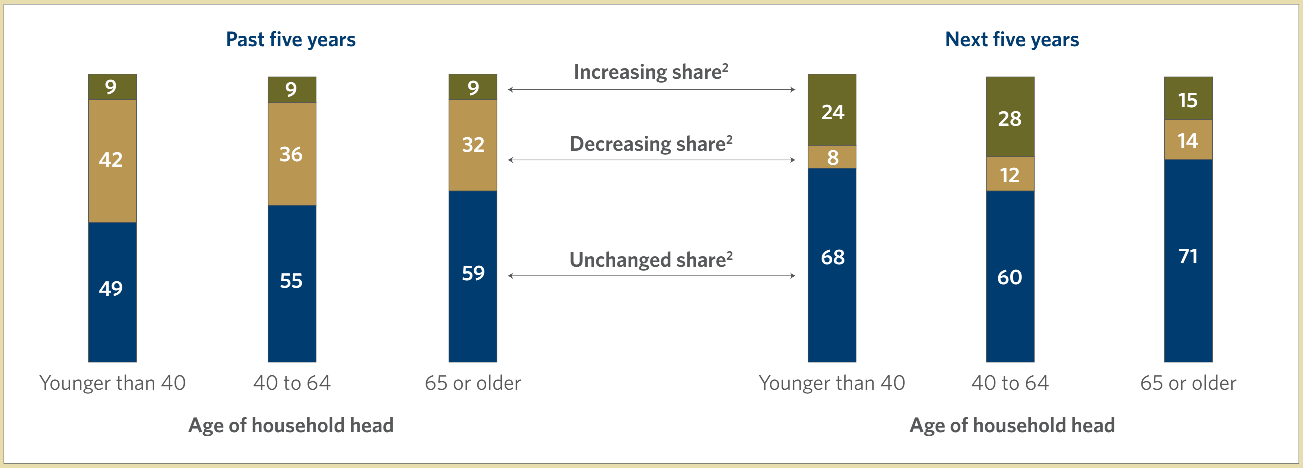
[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Bond portfolio share is the percentage of household financial asssets (includes assets in employer-sponsored retirement plans but excludes the household's primary residence) invested in bonds (individual bonds, bond mutual funds, and the bond component of hybrid or lifecycle funds).
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

One further set of questions was intended to establish how investors' portfolio strategy varies over the lifecycle. Respondents who owned bonds were asked whether the share of bonds in their portfolio had increased, decreased, or stayed the same in the past five years. Then they were asked what their intentions were for the bond share in the next five years. Only 9 percent of respondents in any given age group reported increasing bond shares in the past five years, but much higher percentages (28 percent for those 40 to 64 years old) indicated they expected the bond share of their household's financial assets to rise in the future (Figure 3.11). Some of this is the expected lifecycle effect where investors approaching retirement shift toward bonds, but the generally higher interest in bonds looking ahead (24 percent of the youngest group and 15 percent of the oldest group also expected to increase their bond shares) suggests that investors might have already begun to react to the stock market turbulence occurring in the few months preceding the ICI/SIFMA survey.

FIGURE 3.11

INVESTORS EXPECT THE BOND SHARES OF THEIR PORTFOLIOS TO RISE OR STAY THE SAME IN THE FUTURE

PERCENTAGE OF HOUSEHOLDS OWNING BONDS[1] REPORTING INCREASES, DECREASES, OR NO CHANGE IN BOND SHARE OF PORTFOLIO[2] BY AGE OF HOUSEHOLD HEAD, 2008



[1]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[2]Bond portfolio share is the percentage of household financial asssets (includes assets in employer-sponsored retirement plans but excludes the household's primary residence) invested in bonds (individual bonds, bond mutual funds, and the bond component of hybrid or lifecycle funds).
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

CHAPTER 4

U.S. Households' Management of Their Investment Portfolios

Most U.S. households owning equities or bonds (directly and through mutual funds, exchange-traded funds, and variable annuities) are using the Internet for financial purposes. While many households hold equities or bonds through retirement plans at work, a large number also own equities or bonds outside these plans. Households holding equities or bonds outside retirement plans at work usually purchased them through professional financial advisers. These equity- or bond-owning households regularly seek guidance from their advisers that relates to their retirement savings: allocating assets in retirement and investing in retirement plans at work. Most of these households have one financial adviser with whom they confer twice a year, on average. Despite widespread financial-related use of the Internet and interactive investment planning with financial advisers, most equity-owning households did not conduct an active equity transaction in 2007.

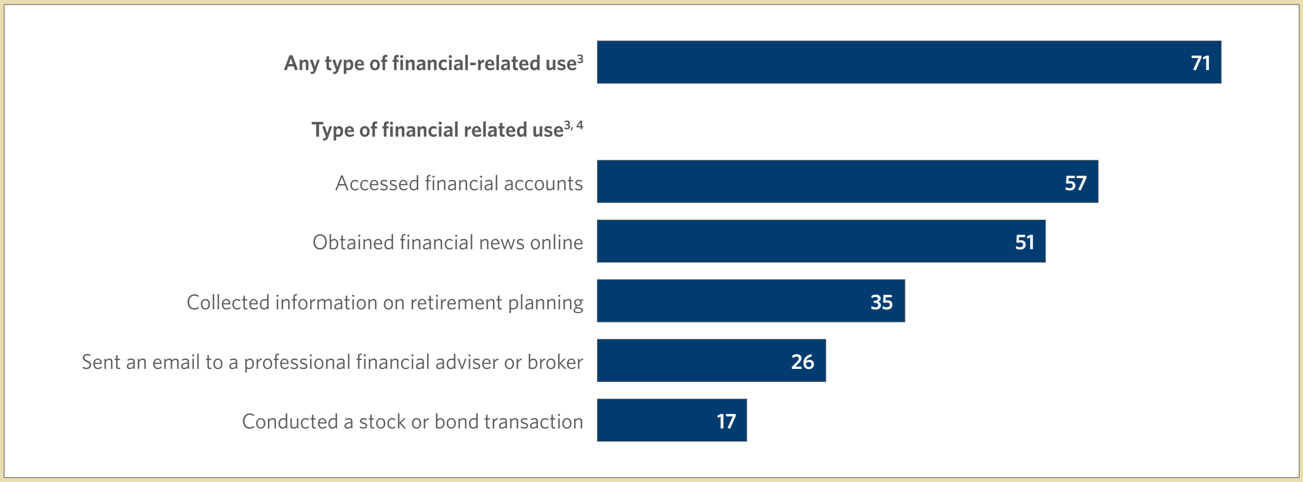
Use of the Internet

Use of the Internet is widespread among equity- and bond-owning households, with more than 70 percent using the Internet for financial-related purposes during 2007 (Figure 4.1). The most frequently mentioned financial uses were to access financial accounts or get financial news. The least frequently mentioned financial use was to buy or sell stocks or bonds; only 17 percent used the Internet to conduct stock or bond transactions during 2007.

FIGURE 4.1

MOST EQUITY AND BOND INVESTORS USE THE INTERNET FOR FINANCIAL-RELATED PURPOSES

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS,[2] 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Households reported on financial-related Internet use in 2007.
[4]Multiple responses are included.
Note: Number of respondents varies.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

Households owning equities or bonds who used the Internet for financial-related purposes during 2007 included those of all ages, educational backgrounds, and household income levels. However, use of the Internet for financial-related purposes is greatest among younger households, those with college or postgraduate degrees, and those with greater household incomes (Figure 4.2). Males and co-decisionmakers were also more likely to use the Internet for financial-related purposes than female sole decisionmakers.

FIGURE 4.2

ALL TYPES OF EQUITY AND BOND INVESTORS USE THE INTERNET FOR FINANCIAL-RELATED PURPOSES

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] BY HOUSEHOLD CHARACTERISTICS, 2008

	Used the Internet for financial-related purpose[3]
Age of head of household	
Younger than 40 years	82
40 to 64 years	74
65 years or older	47
Household investment decisionmaker	
Co-decisionmakers	74
Female is sole decisionmaker	60
Male is sole decisionmaker	74
Education	
High school or less	55
Some college or associate's degree	70
Completed four years of college	82
Some graduate school or completed graduate school	80
Household income[4]	
Less than $50,000	53
$50,000 to $99,999	69
$100,000 to $149,999	83
$150,000 or more	90
All households owning equities[1] or bonds[2]	**71**

[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Households reported on financial-related Internet use in 2007.
[4]Total reported is household income before taxes in 2007.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

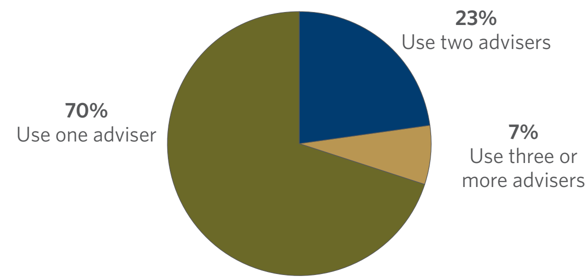
The Adviser-Investor Relationship

Sixty-seven percent of U.S. households owning equities or bonds reported that they consulted with financial advisers in the five years preceding the survey (2003 to 2008). Seventy percent of equity- or bond-owning households who conferred with financial professionals within the last five years had one adviser (Figure 4.3). Another 23 percent used two advisers, and 7 percent used three or more advisers.

FIGURE 4.3

MOST EQUITY AND BOND INVESTORS HAVE ONE ADVISER

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] WHO CONSULTED FINANCIAL ADVISERS BETWEEN 2003 AND 2008



Number of respondents: 1,490

[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

U.S. households owning equities or bonds of all age groups are most likely to use one financial adviser (Figure 4.4). Use of multiple advisers increases with household financial assets. Among households who had consulted advisers within the last five years, 22 percent of those with household financial assets below $50,000 used two or more advisers, compared with 39 percent of those with household financial assets of $500,000 or more. Use of multiple advisers also increases with household income and education levels.

FIGURE 4.4

USE OF MULTIPLE ADVISERS INCREASES WITH EDUCATION, HOUSEHOLD INCOME, AND FINANCIAL ASSETS

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] WHO CONSULTED ADVISERS BETWEEN 2003 AND 2008

	Number of advisers used	
	One	Two or more
Age of head of household		
Younger than 40 years	69	31
40 to 64 years	69	31
65 years or older	74	26
Education		
High school or less	82	18
Some college or associate's degree	70	30
College or postgraduate degree	66	34
Some graduate school or completed graduate school	60	40
Household income[3]		
Less than $50,000	76	24
$50,000 to $99,999	71	29
$100,000 to $149,999	71	29
$150,000 or more	57	43
Household financial assets[4]		
Less than $50,000	78	22
$50,000 to $149,999	71	29
$150,000 to $499,999	69	31
$500,000 or more	61	39
All U.S. households owning equities[1] or bonds[2]	70	30

[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Total reported is household income before taxes in 2007.
[4]Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

The primary financial advisers to U.S. households owning equities or bonds are typically either full-service brokers or independent financial planners. Among households that have consulted with advisers within the last five years, 34 percent indicated their primary advisers were full-service brokers, and 26 percent pointed to independent financial planners (Figure 4.5). Another 10 percent cited bank or savings institution representatives as their primary financial advisers.

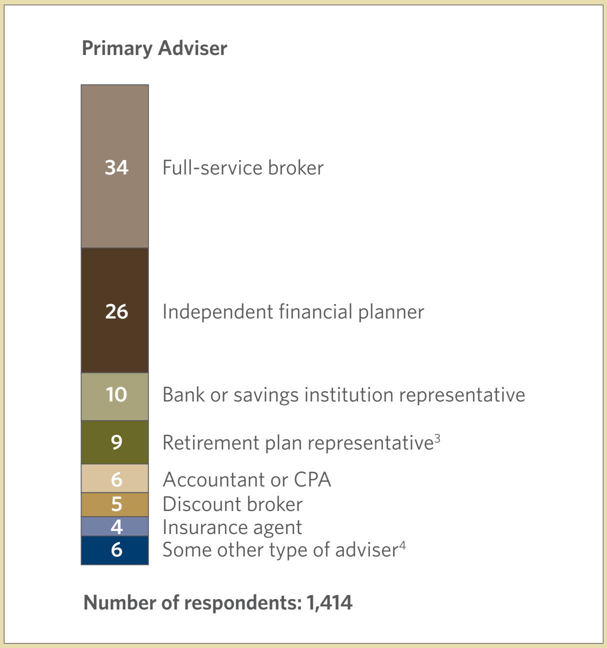
Reliance on Advisers When Making Investment Decisions

Most households that own equities or bonds through advisers regularly rely on their advisers for investment advice and guidance. Sixty-nine percent of these households conferred with professional financial advisers in the five years preceding the survey as part of their investment decisionmaking process (Figure 4.6). A majority stated that they "always" or "sometimes" consult their advisers.

FIGURE 4.5

EQUITY AND BOND INVESTORS' PRIMARY ADVISERS ARE USUALLY FULL-SERVICE BROKERS OR FINANCIAL PLANNERS

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] WHO CONSULTED ADVISERS BETWEEN 2003 AND 2008

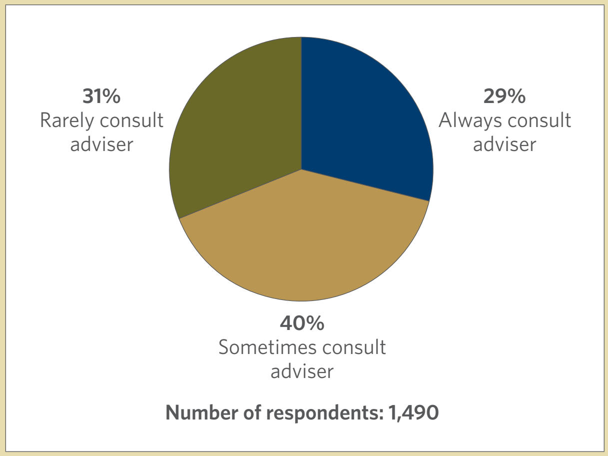


[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Representative from the investment firm providing services for a household member's retirement plan at work.
[4]Other includes retirement plan benefits specialist at work, lawyer, family member, and financial media commentator.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

FIGURE 4.6

ABOUT HALF OF INVESTORS WHO OWN EQUITIES AND BONDS THROUGH ADVISERS CONSULT THEM WHEN MAKING INVESTMENT DECISIONS

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] WHO CONSULTED ADVISERS BETWEEN 2003 AND 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

Reliance on advisers is greater among households with higher household income and those with substantial household financial assets. For example, 80 percent of households that have household financial assets of $500,000 or more generally sought professional investment guidance within the last five years, compared with 51 percent of those with household financial assets below $50,000 (Figure 4.7).

Among equity- and bond-owning households who typically consulted financial advisers, most conferred with their primary advisers two or more times a year (Figure 4.8), usually to discuss retirement-related matters—a finding that reflects the overall aging of these households. In total, 56 percent obtained guidance on saving and investing through retirement plans at work (Figure 4.9).

FIGURE 4.7

EQUITY AND BOND INVESTORS OF ALL TYPES RELY ON ADVISERS WHEN MAKING INVESTMENT DECISIONS

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] WHO CONSULTED ADVISERS BETWEEN 2003 AND 2008

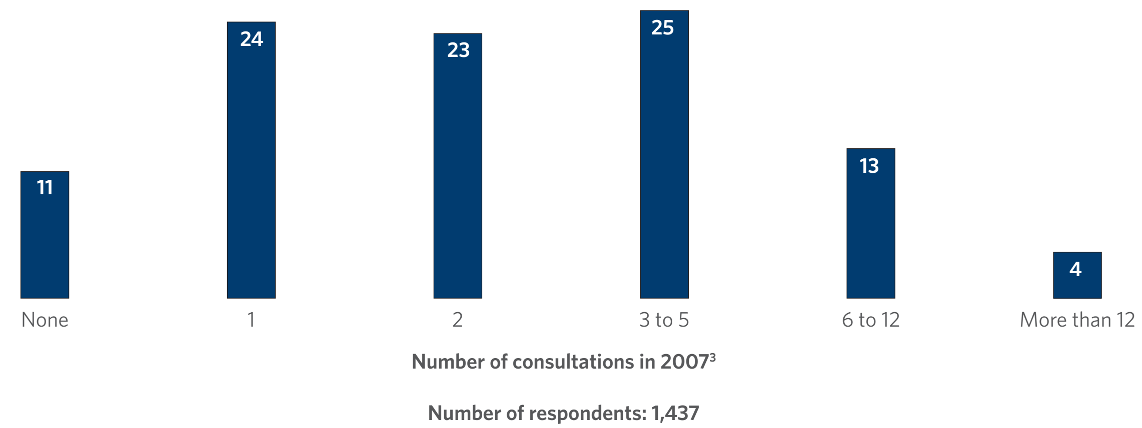
	Frequency of consultation with advisers[3]		
	Always	Sometimes	Rarely
Household investment decisionmaker			
Male is sole decisionmaker	29	38	33
Female is sole decisionmaker	31	38	31
Co-decisionmakers	28	42	30
Education			
High school graduate or less	25	43	32
Some college or associate's degree	25	39	36
Completed four years of college	33	40	27
Some graduate school or completed graduate school	34	40	26
Household income[4]			
Less than $50,000	27	37	36
$50,000 to $99,999	26	41	33
$100,000 to $149,999	27	45	28
$150,000 or more	41	37	22
Household financial assets[5]			
Less than $50,000	18	33	49
$50,000 to $149,999	20	42	38
$150,000 to $499,999	23	45	32
$500,000 or more	36	44	20
All U.S. households owning equities[1] or bonds[2]	29	40	31

[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]In the five years preceding the survey (i.e., between 2003 and 2008).
[4]Total reported is household income before taxes in 2007.
[5]Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

FIGURE 4.8

EQUITY AND BOND INVESTORS WHO USE ADVISERS TYPICALLY CONSULT THEIR PRIMARY ADVISERS TWICE A YEAR

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] WHO CONSULTED ADVISERS BETWEEN 2003 AND 2008

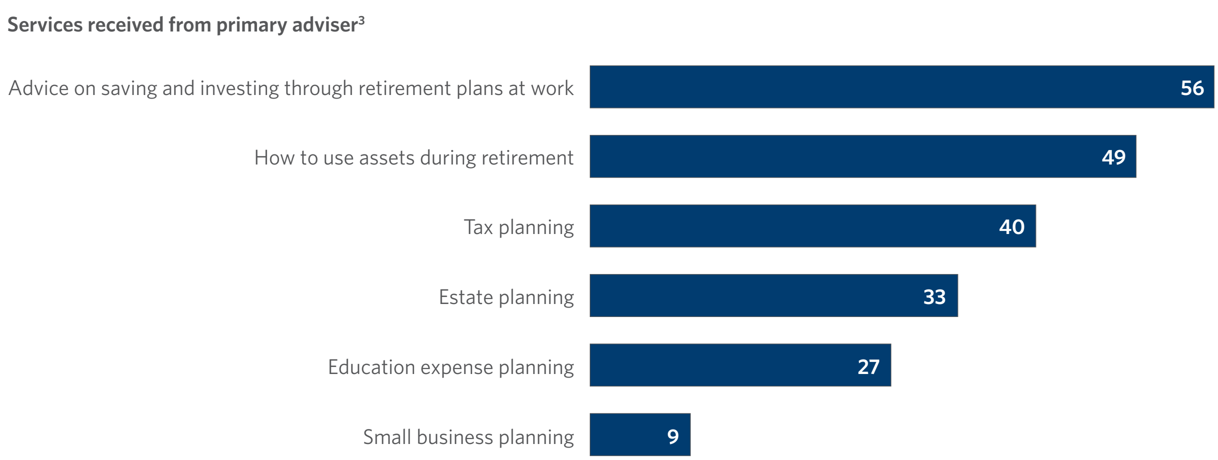


[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]The median number of consultations was twice per year; the mean number of consultations was five times per year.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

FIGURE 4.9

EQUITY AND BOND INVESTORS RELY ON ADVISERS FOR MORE THAN ORDER EXECUTION

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] WHO CONSULTED ADVISERS BETWEEN 2003 AND 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
[3]Multiple responses are included. The number of respondents varies.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

Almost half of households who had consulted professional financial advisers within the last five years received advice on how to use accumulated assets in retirement (Figure 4.9). Some received assistance with tax planning, estate planning, and education expense planning. Very few consulted with their advisers about small business planning.

U.S. households owning equities or bonds typically have a collaborative approach with their primary financial advisers to making investment decisions. Nearly 60 percent of households who consulted financial advisers within the last five years said that they make investment decisions together with their primary advisers (Figure 4.10). More than one-quarter of these households indicated that they personally take the lead in making investment decisions, and 14 percent said their primary advisers take the lead.

A Closer Look at Equity Investing Inside and Outside Retirement Accounts

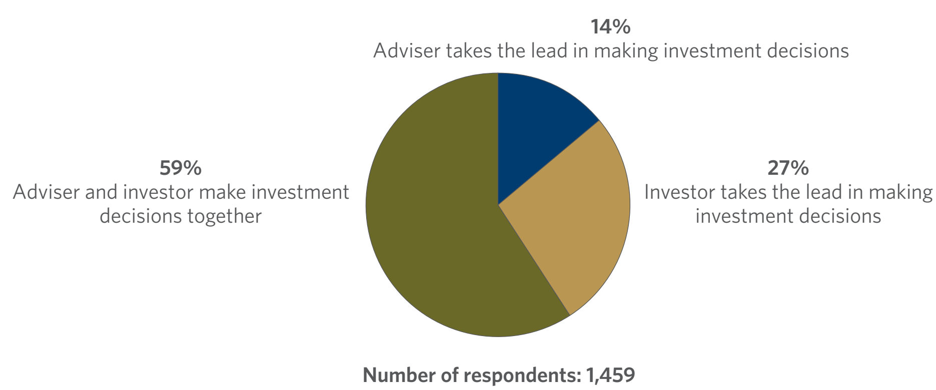
Professional financial advisers help households select investments suitable to their financial goals and risk tolerance. Advisers also provide households with a range of services, including executing purchase and sales transactions, maintaining financial records, and coordinating the distribution of prospectuses, financial reports, and proxy statements.[19]

In contrast, fund supermarkets and discount brokerage firms generally do not provide advice, and households typically must undertake their own investment research. However, supermarkets and discount brokerages generally provide a variety of products and tools to assist in decisionmaking.

FIGURE 4.10

MOST EQUITY AND BOND INVESTORS COLLABORATE WITH THEIR PRIMARY ADVISERS WHEN MAKING INVESTMENT DECISIONS

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OR BONDS[2] WHO CONSULTED ADVISERS BETWEEN 2003 AND 2008



[1]Equities include individual stocks, stock mutual funds, hybrid mutual funds, exchange-traded funds, and variable annuities.
[2]Bonds include individual bonds, bond mutual funds, and hybrid mutual funds.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

[19] For survey results reporting on U.S. mutual fund shareholders and their use of financial advisers, please see Schrass, Daniel 2008. "Ownership of Mutual Funds Through Professional Financial Advisers, 2007." *Investment Company Institute Fundamentals* 17, no. 4 (September); available at www.ici.org/pdf/fm-v17n4pdf.

Thirty-five percent of equity-owning households in 2008 owned equities exclusively through employer-sponsored retirement plans (Figure 4.11). Another 28 percent only owned equities outside employer plans, and 37 percent owned equities inside and outside employer plans. Among the 65 percent of households that owned outside employer-sponsored retirement plans, more than 79 percent owned equities that were purchased through professional financial advisers—44 percent owned equities solely through advisers, and 35 percent held equities purchased both through advisers and direct sources. Sixteen percent owned equities solely through direct sources.

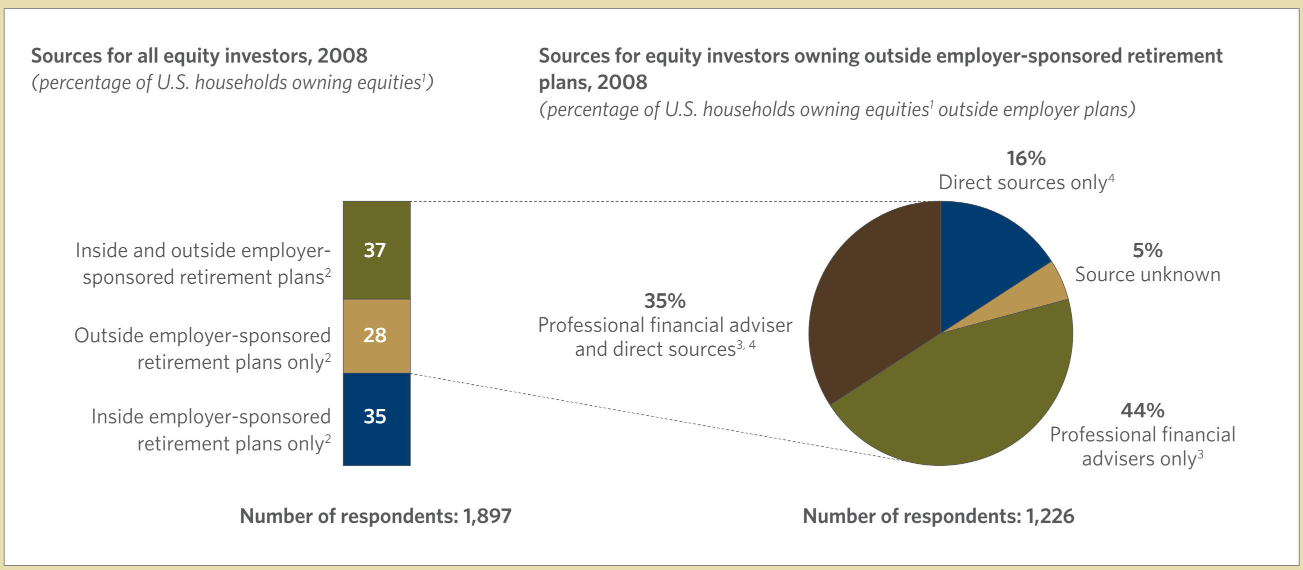
Ownership of Equities Through Professional Financial Advisers

Ownership of equities through advisers—either solely or in combination with direct sources—is predominant across all investor groups, including households of all ages, education levels, household incomes, household financial assets, and lengths of stock or stock mutual fund ownership. In each of these classifications, at least 72 percent of households have used advisers to purchase equities outside employer-sponsored retirement plans. For example, 82 percent of households under age 40 holding stocks or stock mutual funds outside employer plans own through advisers, as do 88 percent of those aged 65 or older (Figure 4.12).

Although ownership of equities outside employer-sponsored retirement plans is widespread, some households are far more likely than others to own equities exclusively through advisers. This is especially evident when considering the gender of the household decisionmaker. Among households holding equities outside employer plans, 55 percent of females who are sole investment decisionmakers own equities exclusively through advisers, compared with 38 percent of males who are sole investment decisionmakers (Figure 4.12). Equity ownership through both advisers and direct sources varies with age, household income, household financial assets, and length of equity ownership.

FIGURE 4.11

MOST INVESTORS HOLDING EQUITIES OUTSIDE EMPLOYER-SPONSORED RETIREMENT PLANS PURCHASE THEM THROUGH ADVISERS[2]



[1]*Equities include individual stocks and stock mutual funds; exclude hybrid mutual funds, variable annuities, and exchange-traded funds.*
[2]*Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).*
[3]*Professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.*
[4]*Direct sources include companies issuing individual stock or stock mutual funds directly and discount brokers.*
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

FIGURE 4.12

EQUITY INVESTORS OF ALL TYPES USE ADVISERS

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] OUTSIDE EMPLOYER-SPONSORED RETIREMENT PLANS THROUGH ADVISERS AND DIRECT SOURCES BY HOUSEHOLD CHARACTERISTICS, 2008

	Own equities through professional financial advisers only[2]	Own equities through professional financial advisers and direct sources[2, 3]	Own equities through direct sources only[3]
Age of head of household			
Younger than 40 years	47	35	18
40 to 64 years	46	35	19
65 years or older	47	41	12
Household investment decisionmaker			
Male is sole decisionmaker	38	38	24
Female is sole decisionmaker	55	29	16
Co-decisionmakers	47	38	15
Education			
High school or less	48	43	9
Some college or associate's degree	56	29	15
Completed four years of college	42	36	22
Some graduate school or completed graduate school	41	37	22
Household income[4]			
Less than $50,000	54	30	16
$50,000 to $99,999	51	34	14
$100,000 to $149,999	40	41	19
$150,000 or more	38	40	22
Household financial assets[5]			
Less than $50,000	60	21	19
$50,000 to $149,999	45	36	19
$150,000 to $499,999	42	30	28
$500,000 or more	40	44	16
Length of equity ownership			
Less than five years	46	33	21
Five to nine years	64	23	13
Ten years or more	41	40	19
Type of equity owned			
Individual stock only	46	28	26
Stock mutual funds only	59	24	17
Both individual stock and stock mutual funds	36	50	14

[1]Equities include individual stocks and stock mutual funds; exclude hybrid mutual funds, variable annuities, and exchange-traded funds.
[2]Professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.
[3]Direct sources include companies issuing individual stock or stock mutual funds directly and discount brokers.
[4]Total reported is household income before taxes in 2007.
[5]Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

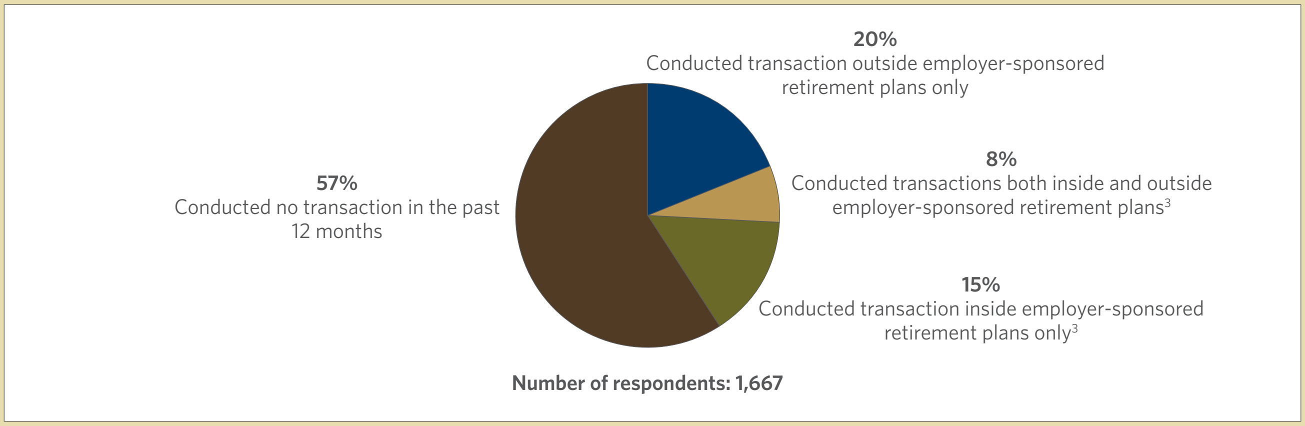
Equity Trading Activity

Most equity-owning households are not frequent traders, likely because they are saving for retirement and have long-term investment horizons. As a group, these investors do not have a pattern of buying or selling in response to the stock market conditions in 2007. The share of households who conducted stock or stock mutual fund transactions in 2007 (excluding automatic reinvestment of dividends and automatic contributions) was about 43 percent (Figure 4.13).

FIGURE 4.13

THE MAJORITY OF EQUITY INVESTORS ARE NOT FREQUENT TRADERS

PERCENTAGE OF U.S. HOUSEHOLDS OWNING EQUITIES[1] BY TRANSACTION ACTIVITY,[2] 2008



[1]Equities include individual stocks and stock mutual funds.
[2]Transaction activity includes the purchase or sale of individual stock or stock mutual funds but excludes automatic contributions from a paycheck or bank account, as well as automatic reinvestment of dividends.
[3]Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
Source: 2008 ICI/SIFMA Equity and Bond Owners Survey

APPENDIX A

Survey Methodology

This report summarizes results of a survey conducted by the Boston Research Group between February and March 2008 under the direction of the Investment Company Institute (ICI) and the Securities Industry and Financial Markets Association (SIFMA). The questions in the 2008 survey were based in large part on three earlier surveys focused on equity ownership conducted by the two organizations. The first survey was undertaken in 1999, the second in 2002, and the third in 2005.

There are two important differences between the 2008 survey and the three earlier versions. First, as reflected in the title of this study, the 2008 survey focused on both equity and bond ownership instead of just equities. Second, the sampling strategy was changed in order to make the survey usable for overall incidence analysis. In prior versions of the survey when respondents indicated at the beginning of the survey that they did not own equities, no further information about them was collected. In the 2008 survey, several questions were asked of the non-owners that allowed a statistical re-weighting to match the known universe of all U.S. households as revealed through publicly available data sources.

The difference in survey methodology resulted in the following implications. Any estimates over time about outcomes within the equity-owning population are feasible using the four ICI/SIFMA surveys. However, estimates for some measures, such as the percentage of households that own equities, will be different across the surveys because the lack of data on the non-owners in earlier surveys is now known to lead to bias in those results. The approach used in the 2008 survey eliminates that bias, but unfortunately it implies that some measures will not be comparable between the samples in 1999, 2002, and 2005, when compared to 2008.

Survey Content

The survey collected detailed information on individual stock and stock mutual fund ownership inside and outside employer-sponsored retirement plans, along with information about individual bonds, bond mutual funds, and hybrid mutual funds.[20] The survey included sections on ownership of: 1) individual stock inside employer-sponsored retirement plans, 2) stock mutual funds inside employer-sponsored retirement plans, 3) individual stock outside employer-sponsored retirement plans, 4) stock mutual funds outside employer-sponsored retirement plans, and 5) various types of bond holdings, including hybrid mutual funds. Another section included equity investors' views on various aspects of equity investing, financial goals, willingness to take financial risk, use of the Internet, and use of professional financial advisers. The final section of the survey collected demographic data on both owners and non-owners, such as their age, household income, household financial assets, education, marital status, and retirement status.

[20] Employer-sponsored retirement plans include defined contribution plans (401(k), 403(b), 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Interviewing and Sampling Procedures

The sampling and interview strategy was in many ways similar to the approach used in 1999, 2002, and 2005. Interviews were conducted by telephone and were completed in February and March 2008. Eligible respondents were age 18 or older and were characterized as "owners" if they owned individual, publicly traded stock or stock mutual funds, individual bonds or bond mutual funds, hybrid (including lifecycle) funds, exchange-traded funds, or variable annuities. These assets could be held either inside or outside employer-sponsored retirement plans. All interviews were conducted with the household decisionmaker most knowledgeable about savings and investments.

A random digit dial (RDD) national probability sample was used to generate a sample of equity and bond holders nationwide. A total of 4,629 respondents is included in the RDD sample.

Next, to ensure that high net-worth households were represented in the study, 421 interviews were conducted with high net-worth equity and bond owners. A randomly selected sample of affluent equity owners was drawn from the Donnelly Marketing, Inc., Affluence Model, which incorporates available financial, demographic, and geographic information to build a profile of each household in the United States. Based on that information, each household is assigned an affluence rating. To confirm affluence, all household financial decisionmakers contacted were asked whether they had household incomes of $100,000 or more or household financial assets of $250,000 or more. Decisionmakers who did not meet these criteria were not interviewed. After interviewing, households in this high net-worth sample were assigned a weight based on the proportion of affluent equity and bond owners in the random digit dial sample and were then included in the database.

A population re-weighting (or "raking") procedure was performed to correct the sampling weight for differences in demographic control totals with the 2008 Current Population Survey, Annual Social and Economic Supplement.[21] The control totals used were census region, age distribution, household income distribution, and educational attainment of the U.S. population. The final dataset consists of 5,050 household financial decisionmakers. After weighting, 2,359 decisionmakers, or 47 percent, indicated that their households owned equities or bonds.

Throughout this report, percentages may not add to 100 because of rounding. Where respondents were allowed to provide multiple responses, percentages may add to more than 100. Subgroups of respondents on which percentage results are based exclude those respondents who were unable or unwilling to answer the questions that define the subgroups. Some subgroups of respondents are not mutually exclusive. For example, the subgroup of respondents owning individual stock includes respondents who also own stock mutual funds, and vice versa. Many of the figures in this report include the weighted number of respondents answering survey questions.

[21] See U.S. Census Bureau 2008. *Income, Poverty, and Health Insurance Coverage in the United States: 2007*; available at www.census.gov/prod/2008pubs/p60-235.pdf.

Sampling Tolerances

The use of sample surveys is standard practice for constructing estimates about a total population. Estimates derived through survey sampling are subject to sampling error. As sample size increases, the level of potential sampling error generally becomes smaller. This confidence level can be used to construct "confidence intervals"—ranges that would include the average estimate taken across all possible samples with known probability. Approximately 95 percent of the intervals figured in all possible samples would contain the average estimate taken across all samples. Figure A.1 shows the approximate sampling error for estimates of proportions computed for the sample as a whole and for subsamples of various sizes. The overall sampling error for the survey is ± 1.4 percentage points at the 95 percent confidence level.

FIGURE A.1

SAMPLING ERROR AT THE 95 PERCENT CONFIDENCE LEVEL FOR SELECTED PERCENTAGES OF RESPONSES BY SAMPLE SIZE

Sample size	10 percent or 90 percent	20 percent or 80 percent	30 percent or 70 percent	40 percent or 60 percent	50 percent
5,050	1	1	1	1	1
2,500	1	2	2	2	2
2,359	1	2	2	2	2
2,000	1	2	2	2	2
1,500	2	2	2	2	3
1,250	2	2	3	3	3
1,000	2	2	3	3	3
800	2	3	3	3	3
500	3	4	4	4	4
100	6	8	9	10	10
50	8	11	13	14	14

Note: This table shows, for example, that if the sample size is 1,500 and if 10 percent of the respondents provide the same answer to a question and 90 percent provide the other answer, then, using the same procedures, these responses can be expected to be replicated for the entire population within a range of ± 2 percentage points 95 percent of the time.

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