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LET'S MAKE DIVIDEND TAX REFORM A PERMANENT SUCCESS

The lower tax rates on dividends and long-term capital gains enacted in 2003 have already yielded tremendous economic results. Investors, businesses, and the U.S. economy have just started to accrue the most significant benefits from the reduced rates, but those gains may be temporary if the rates are allowed to expire at the end of 2008 as provided in current law. Indeed, the beneficial effects may stop long before then because of increasing uncertainty among investors and businesses as 2009 approaches. Congress must act soon to turn temporary success into permanent gain.

President Bush is expected to seek permanence for these important tax changes, which will keep the maximum tax rate on both dividends and long-term capital gains at 15 percent after 2008. If the changes are allowed to expire, the maximum tax rate for dividends will rise to 35 percent, while the top long-term capital gains tax rate will return to 20 percent.

Since enactment, more companies have begun offering dividend payments, and the size of those payments has jumped sharply. In 2003, 113 publicly traded companies began paying dividends, compared to an average of 22 companies in prior years. Total dividend payments by American companies increased by $81 billion from 2002 to 2004. Significantly, after-tax dividend income just from S&P 500 stocks was $56.6 billion in 2004, an increase of nearly 60 percent from 2002.

Nearly 60 percent of Americans who reported dividend income in 2002 had adjusted gross incomes of less than $75,000. The average dividend income reported by taxpayers in this category was more than $1,700. The increased dividends are especially important for millions of senior citizens who rely on this additional stable, long-term source of income to supplement their Social Security earnings and other retirement savings.

Businesses, too, have gained from the lower rates. Unlike dividends, retained earnings and debt financing are taxed more lightly, thereby discouraging the use of equity financing to raise capital. In turn, the tax-code bias in favor of debt encourages companies to become more highly leveraged, leaving them susceptible to failure when their revenues fall or interest rates rise. The 2003 tax cut has lessened that distortion.

Dividend payments also encourage firms to focus their attention on sustaining profitability to generate the cash to pay dividends. Since dividends can be a more tangible, reliable measure of corporate profitability than an accounting statement, investors benefit from greater transparency and improved corporate governance. Management undertakes only the most productive investments that increase shareholder value. Returning profits to shareholders increases efficiency, capital raising, and income and job growth.

Although the rate cuts do not expire until the end of 2008, Congress must act now so that investors can plan their savings for education, health costs, or retirement with absolute confidence. Similarly, business investments take time to plan, implement, and bring to maturity. Uncertainty in business hinders the planning process, breeds inaction, and discourages firms from adjusting their long-term investment horizons as long as the rates are temporary.

Acting now to make the lower capital gains and dividends tax rates permanent is a formula for success: more investors receiving greater dividend payments, businesses having more leeway in the type of financing they use to generate cash and being more accountable to their shareholders, and the U.S. economy continuing to grow at a healthy rate.

Marc E. Lackritz
President, Securities Industry Association

ARE U.S. RETIREMENT SAVINGS ADEQUATE?

Executive Summary

Only about one-third of U.S. households are saving enough to maintain their standards of living when they reach retirement. Falling savings rates and lower capital gains in recent years have left millions of Americans facing the prospect of income shortfalls in retirement.

If current trends continue, Americans can be grouped into three distinctive groups of roughly equal size: those who are ***on track*** to meet their retirement goals; those who are not saving adequately but could ***catch-up*** before retirement; and, those who have effectively ***fallen behind*** in the process of planning for retirement. Roughly, one-third of all U.S. households appear to be ***on track*** to provide adequately for themselves in retirement. That share could prove to be higher if optimistic assumptions are made, such as no change in the Social Security system, no substantial declines in investment returns and no significant financial mishaps such as a housing crash. To reach their full retirement income potential, however, they must continue to use all of the savings options and incentives available to them.

One-third of American workers are playing ***catch-up***, and these individuals will likely experience moderate declines in their living standards during retirement. Under a more pessimistic scenario – for example, lower stock market returns – the outlook is worse. Taking steps now to save more, and/or planning to retire later, can have a sizeable impact on retirement income levels.

The remaining third of workers have ***fallen behind*** in preparing for retirement and face a less secure future. Having not accumulated enough savings in their working lives, they will be dependent on Social Security. That income, however, will not replace enough pre-retirement income to maintain their standards of living. This group must do all it can to save more now.

Evidence shows that peoples' savings behavior can change, but first they must change their unrealistic expectations. Most individuals expect higher returns than are likely or think others will step in to provide retirement income. Many believe they can simply work for a few more years before retiring. In the latter case, most people retire earlier than planned due to health problems, downsizing or other factors.[1]

More can and should be done to augment retirement savings and improve investor education. Policymakers should consider simplifying certain tax-qualified savings plans and expanding current savings opportunities.

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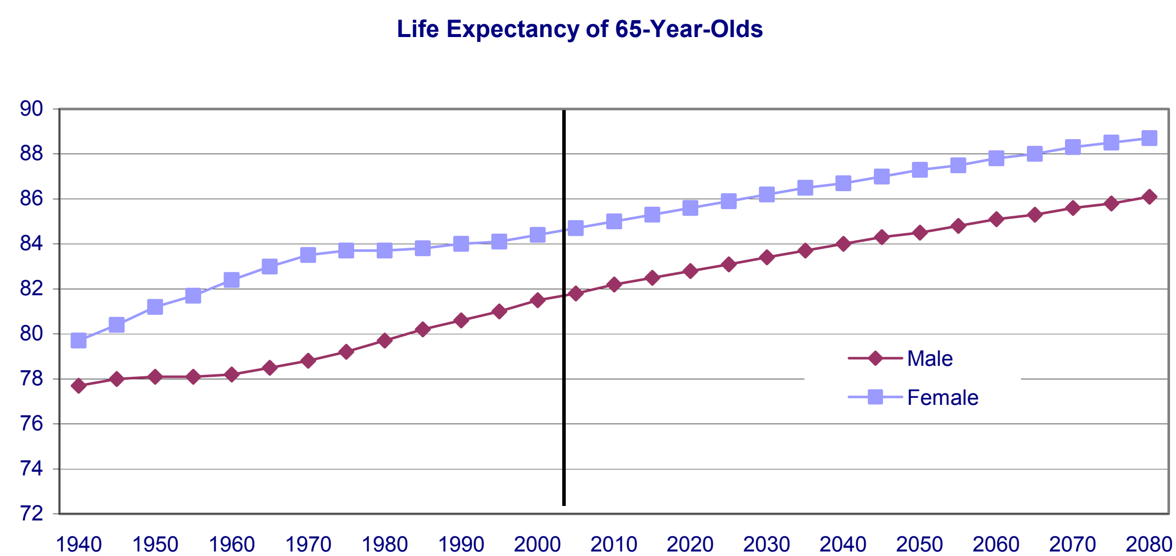
[1] Approximately 4 in 10 retirees leave the workforce earlier than planned.

Introduction

The recent deterioration in savings rates, the approaching retirement of the first of the baby-boom generation (those born between 1946 and 1964), and possible Social Security reform have heightened concerns that Americans are not financially prepared for retirement. This paper summarizes the current research on the adequacy of retirement savings, and makes specific policy recommendations to encourage additional saving for retirement.

Demographics

Demographic pressures are real, imposing, and imminent. The number of people in the United States aged 65 or older is expected to nearly double between 2000 and 2030, as that age group grows from 13 percent of the total population in 2000 to 20 percent in 2030. The 65+ age group will remain above 20 percent of the population for at least several decades thereafter.[2] With the labor force growing more slowly than the population of retirees, there will be fewer workers per retiree, which will likely alter both saving behavior and public policy.[3] Typical boomers are also projected to live longer than their parents did, increasing the amount they could spend in retirement, and hence raising the level of "needed" retirement savings. Boomers could very well face the risk of outliving their assets. Conversely, longer life expectancies also provide additional time for boomers to accumulate enough resources to meet their needs in retirement. Of course, that presumes boomers will choose to work more years than they currently do and there will be sufficient demand for seniors in the workforce.



Source: Social Security trustees' report 2004. Data from before 2004 is actual, data after are projections.

[2] Bureau of the Census, "National Population Projections – Annual Projections of the Resident Population by Age, Sex, Race, and Hispanic Origin: Lowest, Middle, Highest Series and Zero International Migration Series", 1999 to 2100."

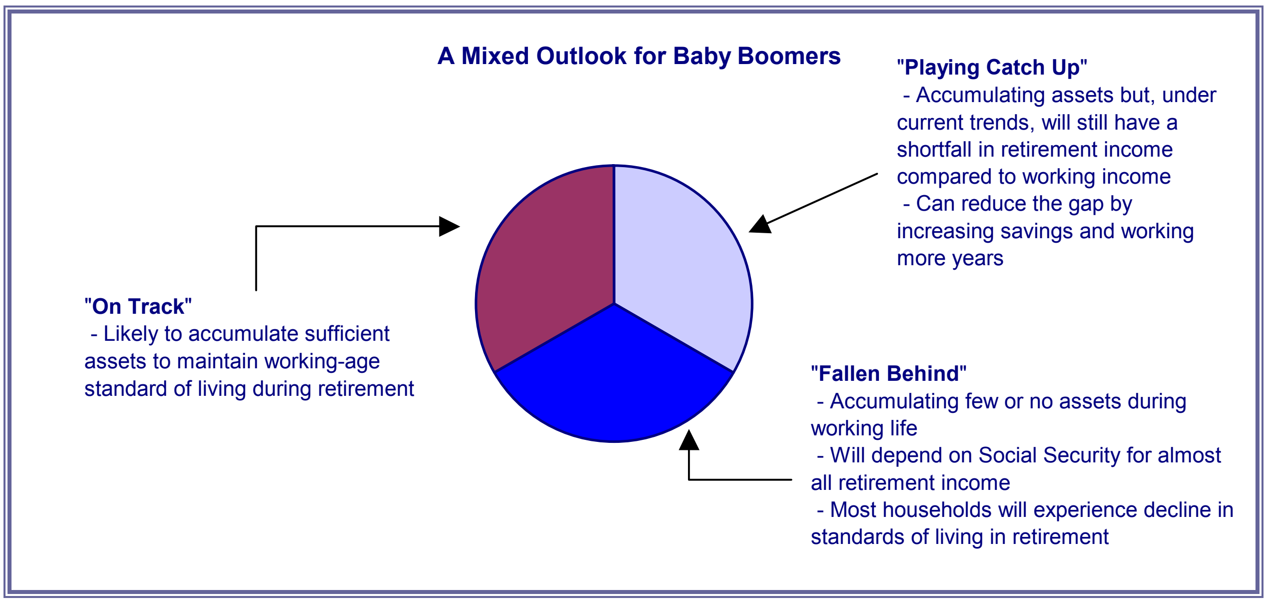
[3] According to the 2004 Annual Report of the Board of Trustees of Social Security, the number of workers per retiree is forecast to fall from 3.3 workers per retiree in 2000 to around 2.2 in 2030. This ratio is also known as the 'dependency ratio'.

Who's Saving, Who's Not?

Given the looming demographic pressures ahead, it is critical to determine if Americans are financially prepared for retirement. We conclude that only about one-third of baby-boomer households are on track to accumulate enough retirement wealth to maintain their working-age standard of living after they retire.[4] The adequately prepared third of the population share various characteristics: they tend to be white, non-Hispanic, and married; they typically own a home and some stock and participate in corporate pension plans; they tend to save systematically; and, they plan to retire after age 65.[5]

A third of American workers are playing catch up. Under mid-range assumptions, most people in this group will see some shortfall in retirement income compared to working income, but will be able to offset this for the most part by saving more (even at a relatively late stage), and delaying retirement.[6]

The remaining one-third of baby boomer households are failing to accumulate significant wealth or savings. This group looks likely to have to depend on Social Security – or other informal means, such as friends and family – for almost the entirety of their retirement income. Individuals in this group tend to be low-income, low-skilled, younger, single, widowed, less-educated, and part of a household where the husband is unemployed or part of a minority group. For some of these households, Social Security will be sufficient to maintain working-age consumption patterns.[7] For most, however, standards of living are likely to drop.



4 This conclusion presumes agreement on what constitutes both wealth and an adequate stream of income in retirement and is based on Social Security continuing to follow current law, and reasonable assumptions about, for example, house prices. See William G. Gale, "The Aging of America: Will the Baby Boom Be Ready for Retirement?", *Brookings Review*, Vol. 15, No. 3 (1997); James F. Moore and Olivia S. Mitchell, "Projected Retirement Wealth and Savings Adequacy in the Health and Retirement Study," Working Paper 6240, National Bureau of Economic Research (October 1997), www.nber.org/papers/w6240; and Barbara A. Butrica, Howard M. Iams and Karen E. Smith, "It's All Relative: Understanding the Retirement Prospects of Baby-Boomers", CRR WP 2003-21, November 2003, Center for Retirement Research at Boston College, www.bc.edu/centers/crr/papers/wp_2003-21.pdf.

5 See for example Yonkyung Yuh, Catherine Phillips Montalto and Sherman Hanna, "Are Americans Prepared for Retirement?," *Financial Counseling and Planning*, Vol. 9, No. 1, 1998, pp. 1-13.

6 Based on assumptions on returns on savings and investments, age at retirement, housing equity, and eligibility for full Social Security benefits.

7 This is because Social Security checks replace a greater percentage of previous earnings for low-income households than it does for high-income households.

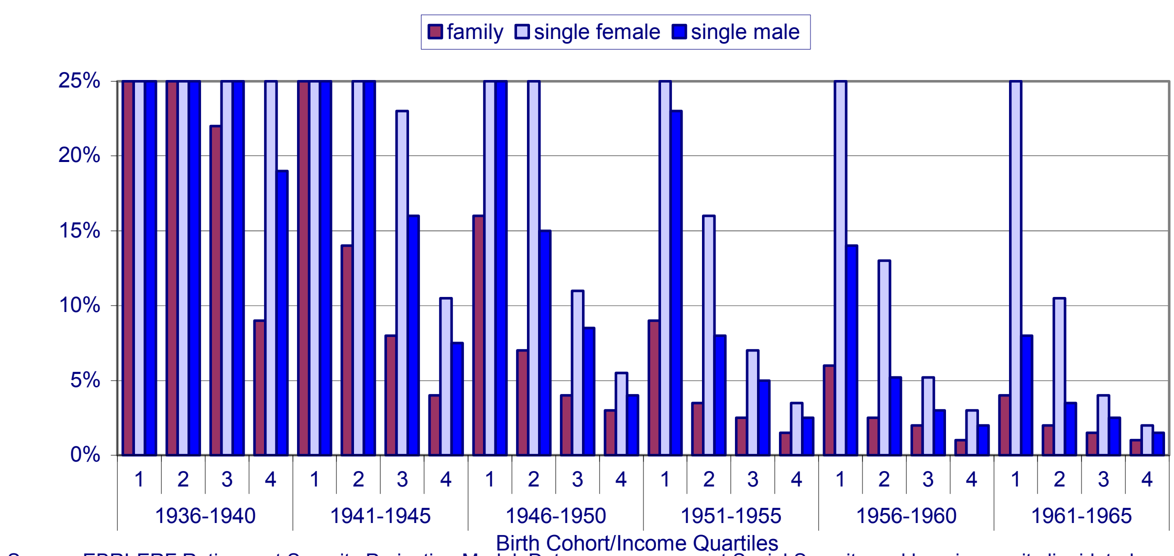
How Much More Do Households Need to Save?

How much more do those who are inadequately prepared for retirement need to save in order to avoid significant adjustments to their standard of living in retirement? The answer varies with the size of the savings shortfall. For some households, savings rates a few percentage points higher will have the desired effect. For others, though, it may be too late.

One study attempts to explicitly answer this question.[8] It calculates the additional percentage of income that must be saved annually until retirement in order to cover basic retirement expenses.[9] The study concludes that many households will need to save a significantly higher percentage of income in order to have a good chance of attaining adequate retirement income. In particular, as the following chart shows, it demonstrates that many groups – particularly older boomers, those in lower-income groups and single females – will need to save an additional 10 percent or more of income in order to have a good chance of adequate retirement income.

More importantly, for some cohorts it may already be too late. For example, workers in the bottom two income quartiles born before 1946 are very unlikely to be able to save enough prior to retirement to achieve reasonable certainty of having sufficient income to cover projected expenses. Single women in the bottom-income quartile, across all age groups, will also have to save at unrealistically high rates to achieve a minimum adequate retirement income. For those further from retirement, the outlook is brighter. Most workers born after 1960 can ensure a sufficient income level by saving less than 5 percent of their income (beyond current retirement savings) for the rest of their careers.

Percentage of Added Compensation That Must Be Saved Annually Until Retirement For a 90% Chance of Covering Basic Retirement Expenses



Source: EBRI-ERF Retirement Security Projection Model. Data assumes current Social Security and housing equity liquidated as needed.

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8 Vanderhei and Copeland, "Can America Afford Tomorrow's Retirees?," *EBRI Issue Brief*, November 2003. This analysis includes simulated income and benefits from Social Security, Medicare, Medicaid, occupational pensions and Individual Retirement Accounts. It assumes a retirement age of 65. The $400 billion figure includes income from liquidating home equity on an as-needed basis, but does not appear to include assets accumulated in non-retirement savings. EBRI notes that these results are preliminary.

9 Retirement expenses include covering basic outgoings, as well as a simulated average cost of unforeseen medical and nursing care outlays.

The same study calculates that America's elderly will face a shortfall of at least $45 billion annually by 2030 (i.e., the period when the majority of boomers enter retirement) just in their ability to cover basic living expenses and average nursing or home care expenses. The figure for the shortfall between their projected retirement income and the income needed to maintain their pre-retirement standard of living would be correspondingly higher. By comparison, total annual inflows to all mutual funds reached an estimated $215 billion in 2004.[10] In other words, savings by 2030 would need to increase by the equivalent of more than a fifth of current annual mutual fund flows.

The study reiterates the conclusion that while many middle- and upper-income Americans will be able to provide for themselves, particularly if they save more now and retire later, this remedy is beyond the reach of most lower-income households.

Importantly, however, even relatively small changes in behavior can have a significant impact on the adequacy of retirement income. For example, one study found that the median household will need to save an additional 16 percent of annual earnings to preserve pre-retirement income if retiring at age 62.[11] For retirement at age 65, the required additional savings drops to 7 percent of earnings per year. By retiring later, workers save more, accumulate greater capital gains, and increase their Social Security entitlements. They also reduce the number of years of retirement income that they need to finance. These factors can reduce needed retirement assets by 10 percent or more for every year of additional work after age 62.

Attitudes Towards Retirement Savings: A Mismatch Between Facts and Expectations

Surveys show that there appears to be a mismatch between workers' expectations of retirement income and the facts. As a result of unrealistic expectations about retirement, a significant percentage of the population will suffer a meaningful decrease in their income during retirement, particularly if they do not take steps now to increase their personal savings.

According to one recent survey, the proportion of Americans saying that they have saved for retirement has not increased since 2001.[12] While 6 in 10 workers say that they are currently saving for retirement, only 4 in 10 workers have taken any steps to calculate how much they need to in order to live comfortably in retirement.[13]

Even those who are saving for retirement may not be accumulating sufficiently large assets. The 2001 Survey of Consumer Finances found that the median assets of all American families are $136,010.[14] If the value of the primary home is excluded, then this number drops to only $47,000. Given that both the S&P 500 and Nasdaq stock indices are roughly at the same level in

[10] Investment Company Institute. Data refers to net inflows and does not include capital gains.

[11] James F. Moore and Olivia S. Mitchell, op cit.

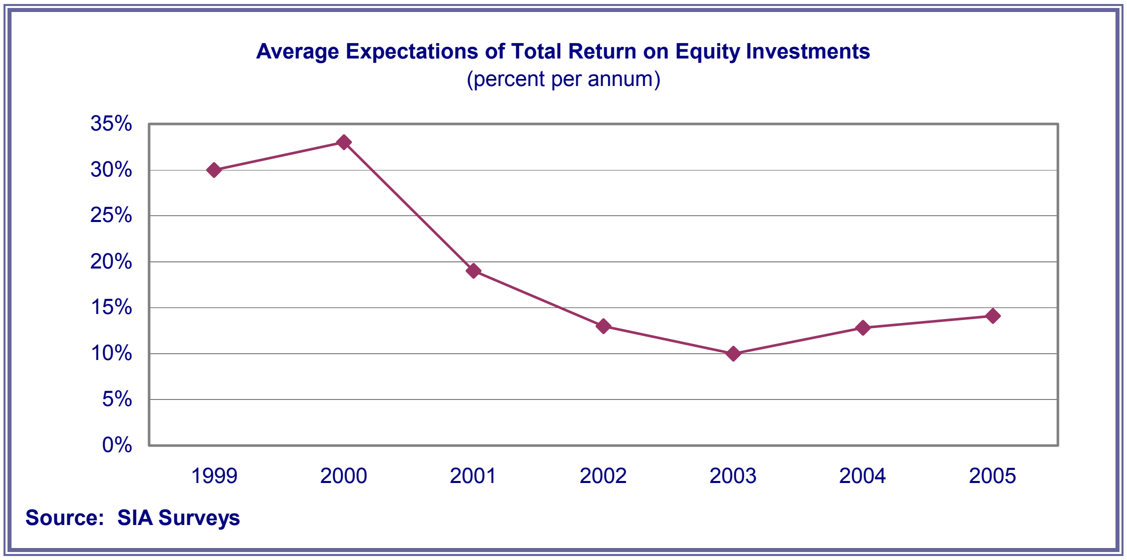
[12] EBRI 14th Retirement Confidence Survey, 2004, http://www.ebri.org/rcs/2004/0404ib.pdf.

[13] Note that 'worker' here is defined as anyone of working age, regardless of employment status. Seven in 10 workers say that they (or their spouse) have saved at some point for retirement. A separate survey by AXA reports that three-quarters of Americans are saving.

[14] Published in 2003, see http://www.federalreserve.gov/pubs/oss/oss2/2001/scf2001home.html. Note that assets do not include private defined-benefit pensions or expected Social Security payments.

early 2005 as they were in mid-2001, this figure is unlikely to have changed significantly since the time of the survey.

Moreover, investors also tend to overestimate the returns they will earn on their retirement investments, including future capital gains on equities and houses. Some studies argue that this helps explain why U.S. consumers are saving less than in the past. The Securities Industry Association (SIA) publishes a regular survey of investors that shows that while expected returns have dropped considerably from the 30 percent-plus nominal levels during the stock market bubble, they are still in double-digits.[15] Most economic forecasters do not expect a return to the double-digit nominal returns of the past two decades in the current era of low inflation and historically high stock and real estate market valuations.



Attitudes to retirement do not seem to reflect these facts. While 62 percent of workers expect that their income will be lower in retirement,[16] many have unrealistic expectations about how much of their pre-retirement income they will need when they retire. Three-quarters of workers think that they will need less than their current income in retirement and two-thirds of workers are either 'somewhat' or 'very' confident that they will have enough money to live comfortably in retirement. Even among those 4 in 10 workers who are not currently saving for retirement, nearly half are confident that they will have enough money for retirement. Yet, at the same time, 6 in 10 workers do not expect their standard of living to decline during retirement.[17]

Another survey comes to the same conclusion, finding that despite their lack of savings, and the fact that they on average expect their income to be lower, 61 percent of workers think that their retirement income will be sufficient.[18] Many expect employers, family and friends, or Social Security to come to the rescue, or anticipate being able to work in retirement. Simply put, many workers may be sharply underestimating what they will need to retire comfortably.

Some workers plan to retire later in order to make up for any shortfall in their retirement savings. This would be an effective tactic, as it would allow more savings to be accumulated

[15] See http://www.sia.com/publications/pdf/2004investorsurvey.pdf.

[16] AXA Retirement Scope, January 2005, http://retirementscope.axa.com/country/usa.htm.

[17] EBRI, *op. cit.*

[18] AXA Retirement Scope, *op. cit.*

and would delay the point at which savings are drawn on, allowing existing assets to grow for longer. However, expectations generally do not match up to reality. Surveys show that many workers will not be able to work as long as they hope. For example, approximately 4 in 10 retirees leave the workforce earlier than planned for various reasons.[19]

Fortunately, educating Americans about retirement can lead to changes in savings behavior. More than 4 in 10 workers who attempted a savings-needs exercise ended up changing their retirement planning as a result. Similarly, almost 3 in 10 of those who received retirement education through the workplace changed their retirement planning.[20]

Another important finding is that, by their own admission, many Americans feel that they could save more for retirement. More than two-thirds of those who save for retirement say that they could save an additional $20 per week for retirement. More than half of those households that do not save say that they too could save a similar amount. These results hold true even for low-income households.[21]

These results suggest that increased efforts to boost investor education and long-term financial planning may reap large rewards. In particular, it is important to reach out to a much broader audience – those who are less well positioned to rely on their existing retirement savings.

Policy Recommendations

Clearly, more can and should be done to help Americans save for retirement. Retirement saving shortfalls owing to inertia, irrationality, or poor information can often be mitigated through adjustments to the structure of retirement savings vehicles and more attention to investor education and long-term financial planning. In addition, policymakers should consider additional reforms that will simplify tax-qualified savings plans and expand current savings opportunities.

Simplify Savings Incentives

To address the shortfall in savings, policymakers should enact reforms that would simplify existing savings incentives. SIA has endorsed proposals to create Retirement Savings Accounts (RSAs), Employer Retirement Savings Accounts (ERSAs), and Lifetime Savings Accounts (LSAs). The need to simplify the myriad options is significant. Currently, there are at least five specific types of accounts for education, medical costs, and retirement savings in the tax code, all with different contribution levels and eligibility rules. Consolidating these vehicles and making them universally available to all Americans will reduce complexity, encourage personal saving, and enhance retirement security.

Make Permanent Retirement and Savings Provisions of *Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)*

EGTRRA included a number of significant reforms to expand savings opportunities, simplify existing savings vehicles, and promote plan sponsorship such as increases in contribution limits

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[19] EBRI, *op. cit.*

[20] *Ibid*.

[21] *Ibid*.

for individual retirement accounts (IRAs), 401(k)-type plans, SIMPLE-IRAs, a new catch-up contribution for workers aged 50 and over, portability among IRAs and defined contribution plans, and the moderate-income workers savings credit. Making these *EGTRRA* provisions permanent will provide more certainty for households, encouraging them to make the best use of these expanded opportunities for savings.

Statutory Exemption for Investment Advice

Legislation is also needed to remove the barriers that prohibit 401(k) participants from receiving investment advice from financial services firms that are already providing services to the 401(k) plan. The number of employees participating in 401(k) and other defined contribution plans has increased substantially to more than 42 million currently from 12 million in 1974. Unfortunately, workers are overwhelmed by choosing an appropriate 401(k) investment mix and often must make their own investment choices without any professional guidance. Legislation should also provide more certainty for plan sponsors while retaining important participant safeguards: Employers who choose to offer advice will not be held liable for the specific advice given to employees.

Encourage Automatic Enrollment and Automatic Savings Plans

According to a recent survey, 73 percent of workers who participate in a workplace retirement savings scheme, such as a 401(k) plan, say that they did not change the percentage of salary saved in the previous year.[22] This suggests that there is significant inertia in retirement planning, and particularly in regularly updating 401(k) contributions to reflect changing capacity to contribute.

SIA supports legislation that would remove barriers to the use of automatic enrollment and automatic savings plans. Automatic enrollment, accompanied with a mechanism to automatically increase salary deferrals, has the potential to significantly improve retirement security for millions of households. Congress should consider legislation that would encourage the adoption of these plans by providing a safe harbor from nondiscrimination and top-heavy rules as well as provide guidance on appropriate default investments.

Reform Social Security

Social Security is a key component of retirement security and cannot be overlooked in any discussion of retirement savings adequacy. Social Security needs to be restored to long-term solvency to ensure that it can meet its obligations to all of those who have paid into the system. Under the Social Security trustees' intermediate projections, the Social Security Trust Fund is projected to be insolvent by 2042. In 2018, Social Security is projected to go into cash-flow deficit.[23] It is imperative that Social Security's long-term challenges be addressed sooner rather than later so today's workers have time to adjust their savings behavior and working careers.

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[22] *Ibid*.

[23] Board of Trustees of the Social Security Administration, *2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.*

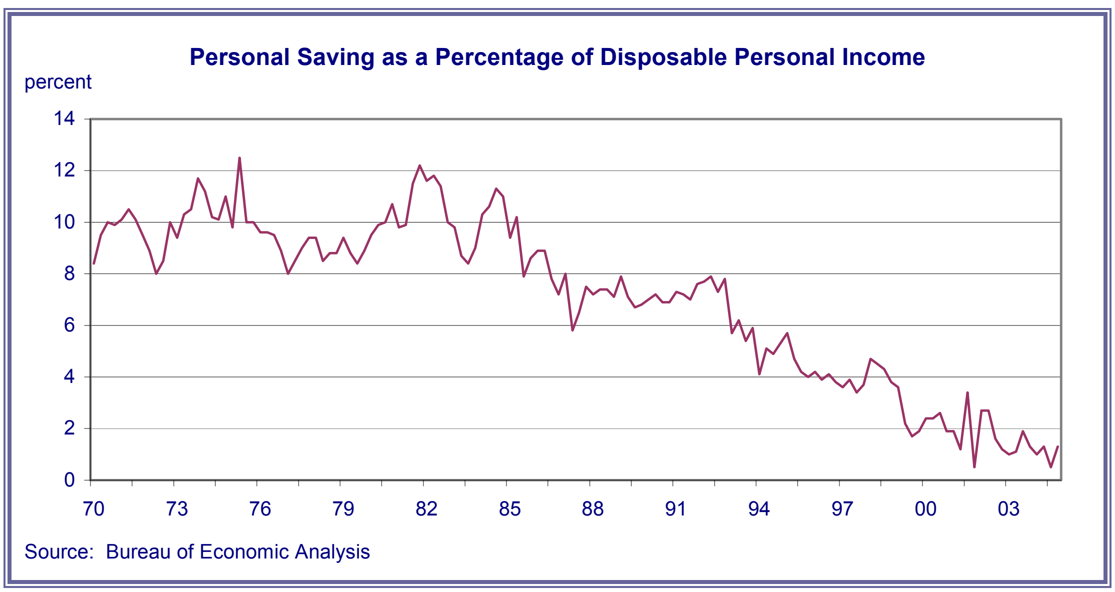
Appendix: Overview of the Evidence

Despite the different approaches and populations covered in the academic literature and in surveys there is general agreement in the conclusions drawn from the research on retirement savings prospects [24]. Overall, for some baby boomers, prospects for a comfortable retirement are good, but other boomers could face serious shortfalls in retirement income.[25]

The Problem of Measuring Wealth

In assessing retirement preparedness, the critical issue is whether or not Americans have (or will acquire) enough wealth to ensure an adequate stream of income in retirement. However, there are several commonly used measures of wealth, each successively broader than the preceding one. The measure one chooses (as well as the composition of the sample population with respect to age, education or other variables) dramatically affects the conclusions as to the adequacy of retirement savings. Different studies use different measures and few include all components. Unsurprisingly, the broader the definition of wealth a study uses, the larger the share of the population that appears adequately prepared for retirement.

Similarly, data that focuses on the narrowest measures of savings gives the impression that very few people have enough financial resources to retire comfortably. For example, aggregate personal saving, measured by the Bureau of Economic Analysis, averaged about 1 percent of disposable income during 2004, more than 6 percentage points lower than the average that has prevailed since the early 1970s.



[24] Congressional Budget Office, 'Major Recent Studies of Retirement Preparedness', Chapter 5 in "Baby Boomers' Retirement Prospects: An Overview", November 2003, provides a comprehensive review of the major studies of retirement preparedness that have been published in the past decade, grouped according to their approach and the population they cover, and draws general conclusions of their findings. See also Olivia S. Mitchell and James F. Moore, "Retirement Wealth Accumulation and Decumulation: New Developments and Outstanding Opportunities", *NBER Working Paper 6178*, National Bureau of Economic Research, September 1997.

[25] It is also worth noting that conclusions also vary according to differing assumptions about the future values of a range of variables, including earnings and savings rates, returns on assets, retirement dates, life expectancy, changes in status (such as divorce, widowhood and illness), pension incomes and the likelihood and size of government benefits. Controlling for these differences in standards, samples and assumptions leaves reasonably consistent results.

Personal savings (measured as the difference between current income and current expenditure) account for only a portion of total private savings, suggesting that the chart above underestimates wealth accumulation. Even so, Americans in recent years have been saving significantly less than in the past and less than in the populations of other countries with similar levels of income and development.[26]

Estimated Personal Savings Rates for Selected Countries by Age

Source: Global Financial Stability Report 2004, International Monetary Fund. Drawn from Schieber, Sylvester J., 2003, "Global Aging: Opportunity or Threat for the US Economy", and Borsch-Supan, Axel, 2004, "Mind the Gap", Discussion Paper No. 52-04, Mannheim Research Institute for the Economics of Aging.
Ages are of the household head/reference person; savings rate in each age group is for all households in their respective samples.

The narrowest and most liquid form of wealth holdings is *net financial wealth*, which includes financial assets (the sum of funds held in stocks, bonds, checking and savings accounts, money markets, and business capital net of financial liabilities, which is household debt other than mortgage obligations). An intermediate measure would add accumulations in IRAs and Keoghs to net financial wealth. These measures are narrow in that they exclude all equity in real estate.

Broader measures include *financial assets* and *equity in real estate*. Most analysts agree that it is appropriate to include some, but not all, housing equity in retirement savings calculations.[27] Not all equity value is included since liquidating housing wealth through various mortgage equity withdrawal mechanisms (net sales, refinancing, home-equity loans and reverse mortgages) imposes some transaction costs and is constrained by prudent limits of leverage.

[26] A broader measure, the household savings rate reported in the Federal Reserve Board's Flow of Funds Accounts, is higher, at 5 percent of disposable income. This rate, too, is significantly lower than its average level in the past. It is also adjusted for investment in durable goods, inflation, tax accruals in retirement accounts, and corporate savings.

[27] For a fuller explanation see Erik M. Engen, William G. Gale and Cori E. Uccello, "The Adequacy of Retirement Saving," *Brookings Papers on Economic Activity*, No. 2, 1999.

There are also behavioral constraints, such as the historic reluctance of retirees who rely on primary residences for housing to tap into this wealth, although that reluctance has substantially eased in recent years.

The broadest measure of wealth, *total net wealth*, would add to the above the calculated values of public and private retirement pensions. This includes accumulations in defined contribution plans (including 401k's), and the annuity value of defined benefit plans and Social Security pensions. Increasingly, despite the added complexity, researchers prefer to use the broadest measure of wealth. Unsurprisingly, the broader the definition of wealth a study uses, the larger the share of the population that appears adequately prepared for retirement.

There are two more fundamental problems with these aggregate measures. The first is that they mask substantial diversity among cohorts of the population that are preparing for retirement. As such, they do not provide much useful information for judging the extent to which households in any given cohort are saving for retirement. For example, analysis by Federal Reserve staff indicates that changes in saving behavior by households in the top income quintile account for nearly the entire decline in the aggregate personal savings rate since 1989. Given that these higher-income households have more financial resources to weather shocks, the significant decline in savings is less troublesome than if it had occurred in the lower part of the income distribution.[28]

Secondly, these measures look only at what people are saving. They ignore the other side of the coin: what do people need in retirement? Studies show that standards of preparedness for retirement, or the adequacy of income or wealth, vary a great deal. In addition, saving behavior is influenced by expectations about future benefits. To the extent that future retirees believe that difficulties in funding government entitlement programs will occur, they may increase their savings or retire at a later age than they had originally planned or than most models assume.[29]

Finally, any conclusions are more robust for those who are closer to retirement, such as the boomer generation. For those born after the mid-1960s, in Generations 'X' and 'Y', it is harder to draw firm conclusions because small changes in the underlying variables compounded over many years will deliver drastically different results. For that reason, many studies focus on the boomer generation that will be retiring over the next 20 years.

Determining Adequacy

In attempting to assess whether income will be adequate in retirement, researchers have drawn on a number of recurring, nationally representative surveys. Despite the different approaches and different populations covered in the surveys, there is general agreement on what constitutes both wealth and an adequate stream of income retirement.[30] Generally, the resources that are included to assess adequacy include the annuitized value of household

[28] January 2005 speech by Federal Reserve Governor Susan Bies, drawing on data from the Survey of Consumer Finance.

[29] There is, however, debate on this point. Some survey work suggests that workers do not increase their savings even if they think Social Security benefits will be lower than planned.

[30] See footnote 25.

pension wealth, net savings, net housing value and Social Security.[31] Nearly all of these studies assume that Social Security and other government benefits will be paid as prescribed by current law, notwithstanding current and potential proposals to alter these plans. While these assumptions provide a useful baseline to assist in examining alternative proposals, to the extent that future retirees are relatively dependent on Social Security, calculations of the adequacy of their retirement savings are vulnerable if future budgetary pressures result in lower benefit levels. Among households without a pension, Social Security is assumed to replace 35 percent of average final earnings (annual income in the final year before retirement) for those with less than 16 years of education, and 21 percent of average final earnings for those with 16 or more years of education.[32]

Some studies are simply historically comparative, generally comparing the financial status (including both current and projected wealth) of a sample of the population approaching retirement with a sample from the preceding generation at the same age. Most recent studies take a more comprehensive approach, measuring adequacy in terms of either an 'absolute' standard of need, such as an official poverty level or, more commonly, against a 'relative' measure, such as maintaining roughly the same standard of living in retirement as prior to retirement. Generally, the measure of the adequacy of a stream of income in retirement is expressed as a "replacement rate" reflecting the ability to replace a fixed percentage of pre-retirement income (generally the last year before retirement).[33]

Aggregated data – both in absolute and relative terms – shows a generally optimistic picture. Wealth accumulation patterns amongst boomers are not dissimilar from their parents' wealth-to-income ratios. With median incomes on the rise, a constant wealth-to-income ratio implies that the boomer generation is doing at least as well as its forbearers. For example, a study in the mid-1990s showed that, while boomers' financial savings rates were slightly lower than their parents' (as the personal-savings rate data clearly indicates) leading to lower rates of financial wealth accumulation by the narrowest definition, this was offset by larger contributions to retirement accounts (both private and occupational) and higher capital gains on their investments.[34]

Data from the 2001 Consumer Survey of Finance shows that the ratio of median wealth to median income for households aged 35-54 (i.e., the majority of boomers) has changed little over time, implying that households in 2001 have been accumulating wealth relative to income at

[31] See, for example, Robert Haveman, Karen Holden, Barbara Wolfe and Shane Sherlund, "Have Newly Retired Workers in the U.S. Saved Enough to Maintain Well-Being Through Retirement Years?," IIPF Paper (October 23, 2002), Institute for Research on Poverty, University of Wisconsin-Madison, www.vanderbilt.edu/Econ/monstaweaver/sempapers/Wolfe.pdf.

[32] By comparison, for households with both pensions and Social Security, the replacement rates of the two combined are 64% and 57% of final earnings for the two educational groups, respectively. See Erik M. Engen, William G. Gale and Cori E. Uccello, "Effects of Stock Market Fluctuations on the Adequacy of Retirement Wealth Accumulation", Center for Retirement Research at Boston College, CRR WP-2004-16, May 2004.

[33] Expenses may be lower in retirement for a range of reasons: lower or no mortgage payments, lower expenditure on children, or a greater propensity to undertake work (such as meal preparation) that they would have had less time to do while working. One problem with this 'relative' approach, however, is that the lack of an absolute standard may result in unacceptably low levels of retirement income being deemed 'adequate'. For example, low-income households whose income drops by 20% at retirement may have 'adequate' retirement income by a relative measure – yet still be below the poverty line. The recent study by Scholz, Seshadri and Khitatrakun ('Are Americans Saving Optimally for Retirement', January 2004, *NBER Working Paper No. W10260*) falls into this trap.

[34] O.P. Attanasio and M. Paiella, Household Savings in the USA, *Research in Economics*, Vol. 55, No. 1 (March 2001).

roughly the same rate as their parents.[35] This means that they are on track to finance roughly the same proportion of their working-age income in retirement as their predecessors.

It is important to note, though, that these studies draw on data from 2001 or earlier – that is, before significant declines in U.S. stock markets. To a large extent, the decline in the narrow definition of savings was offset by the increasing reliance on capital gains as a source of wealth accumulation. The decline in equity valuations, coupled with the continuing decline in financial savings, suggests that the wealth-to-income ratios may shrink significantly in the future.

In terms of absolute levels of income, the prognosis for future retirees is positive. For example, one recent study projected that only about 4 percent of households aged 62 or older would be living below the official poverty line in 2020, down from about 8 percent in the early 1990s as a result of rising real wages and hence increasing Social Security payouts.[36]

Turning to 'relative' studies – which look at how retirees will fare compared to their working incomes and standards of living – the aggregate picture is less positive, however. The consensus from studies appears to be that most households are set to replace a substantial share of pre-retirement earnings, but not enough to prevent shortfalls in retirement income. For example, several studies estimate that the median household would be able to replace between one-half and two-thirds of average yearly earnings after retiring. This suggests that, on average, there are significant shortfalls.[37]

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Editorial comments provided by Elizabeth A. Varley, Vice President and Director, Retirement Policy.

[35] This includes the value of the primary home.

[36] See Toder et al., "Modeling Income in the Near Term: Revised Projections of Retirement Income Through 2020 for the 1931-1960 Birth Cohorts", 2002, Urban Institute, www.urban.org.

[37] See CBO, 2003, *op. cit.*

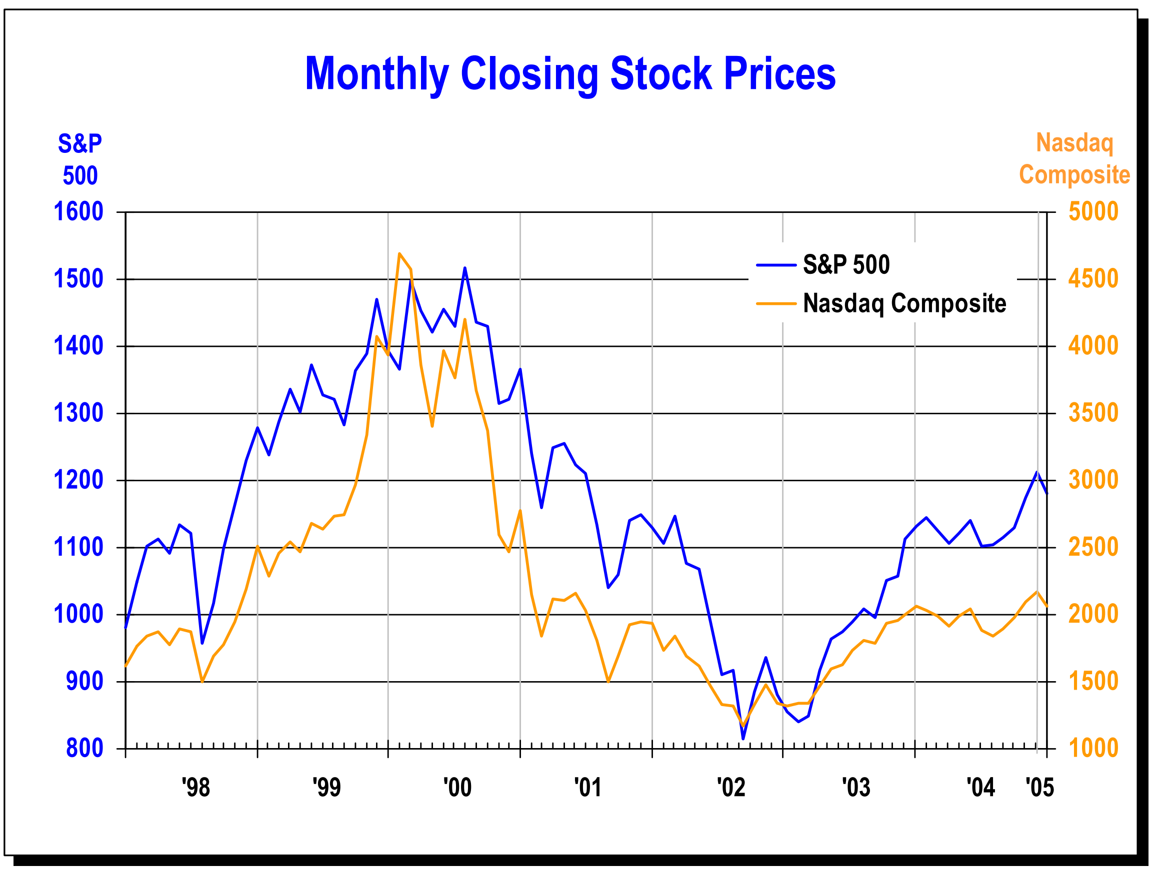
MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

Stock Prices - The U.S. stock market got off to a weak start this year. All of the major market indices fell for the first three weeks of January, partly due to profit-taking after two months of solid gains. Stocks were also driven lower after the release of the minutes of the Federal Open Market Committee's December 14, 2004, meeting revealed increased worries by some Fed members about the inflation outlook. Stocks rebounded in the final days of trading, buoyed by positive fourth-quarter earnings reports, the success of the Iraqi elections, and a spurt of new merger activity. Among the deals announced were Procter & Gamble's $55 billion deal to buy Gillette, SBC Communications' $16 billion acquisition of AT&T, and MetLife's $12 billion deal to buy Citigroup's Travelers Life & Annuity division.

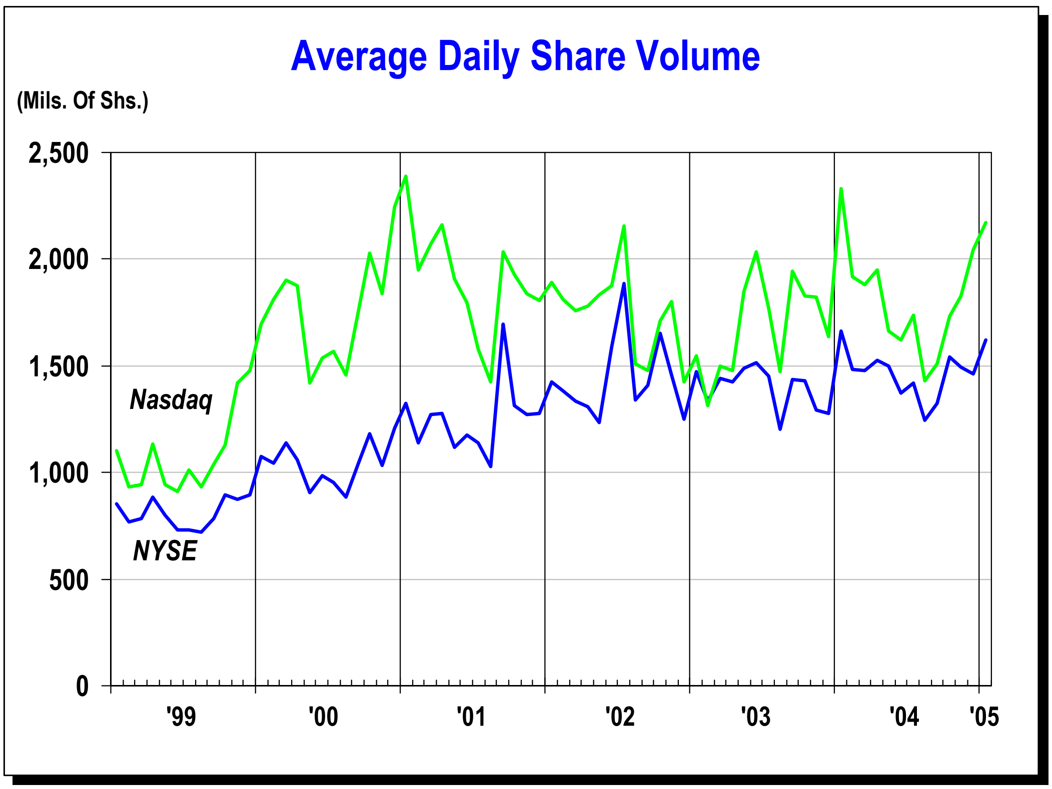
Although the market ended January on a high note, the three major indices posted losses for the month overall. The Dow Jones Industrials fell 2.7% to close at 10,489.94, while the S&P 500 dropped 2.5% to 1,181.27. A sharp pullback in technology stocks drove the Nasdaq Composite Index down 5.2% to 2,062.41. This marked the first time since last July that these three indices ended down from the previous monthly close.

Thus far in February, larger-cap stocks have registered moderate gains, but Nasdaq stocks continued to lose ground. For the year-to-date through February 24, the Dow is now down 0.3%, the S&P 500 is off 1.0%, and the Nasdaq Composite is down 5.7%.



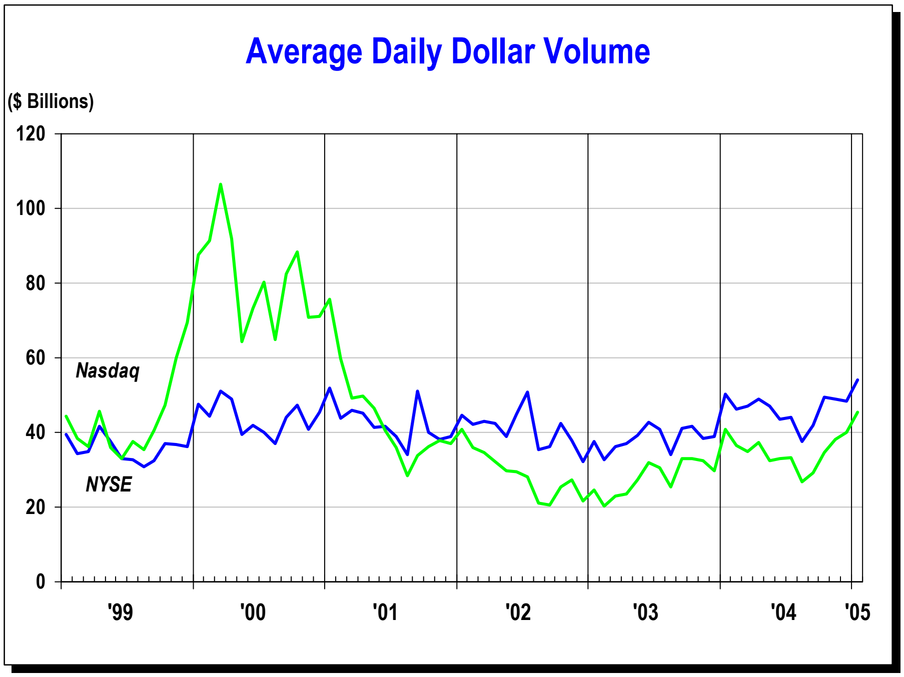
Share Volume - Trading activity accelerated on the major U.S. equity markets in January, with volume reaching its highest level in 12 months. After declining in the final two months of 2004, average daily share volume on the NYSE increased 10.6% from December's level to 1.62 billion in January. On Nasdaq, average daily share volume rose for the fifth consecutive month to 2.17 billion in January, up 6.4% from 2.04 billion in December.

Despite the month-over-month increases, January volume on both these markets fell short of the elevated levels reached in January 2004 – which was the second and third busiest month on Nasdaq and the NYSE, respectively.



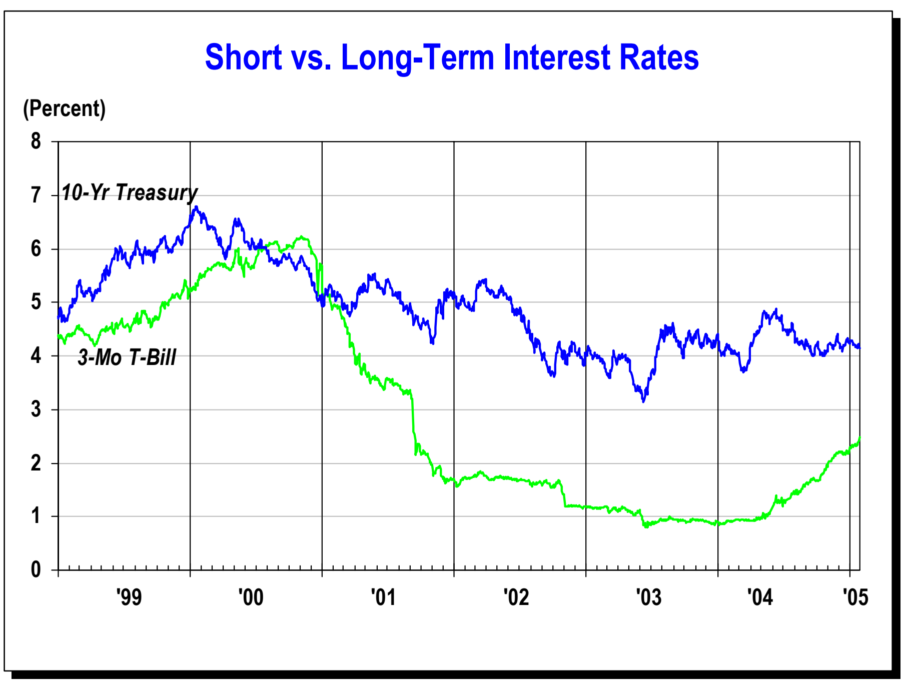
Dollar Volume - January's heightened trading activity, combined with a higher average price per share traded, led to increased dollar volumes on both the NYSE and Nasdaq. The value of shares traded in NYSE stocks jumped 11.8% from December's level to $54.1 billion daily in January. That marked a new monthly record, surpassing the previous record of $52.0 billion daily set in January 2001.

Nasdaq dollar volume trended upward for the fifth-straight month to $45.5 billion daily in January, a 14.0% increase over the prior month. Although that represented its highest level since May 2001, it was still less than half the record high of $106.4 billion daily reached in March of 2000.



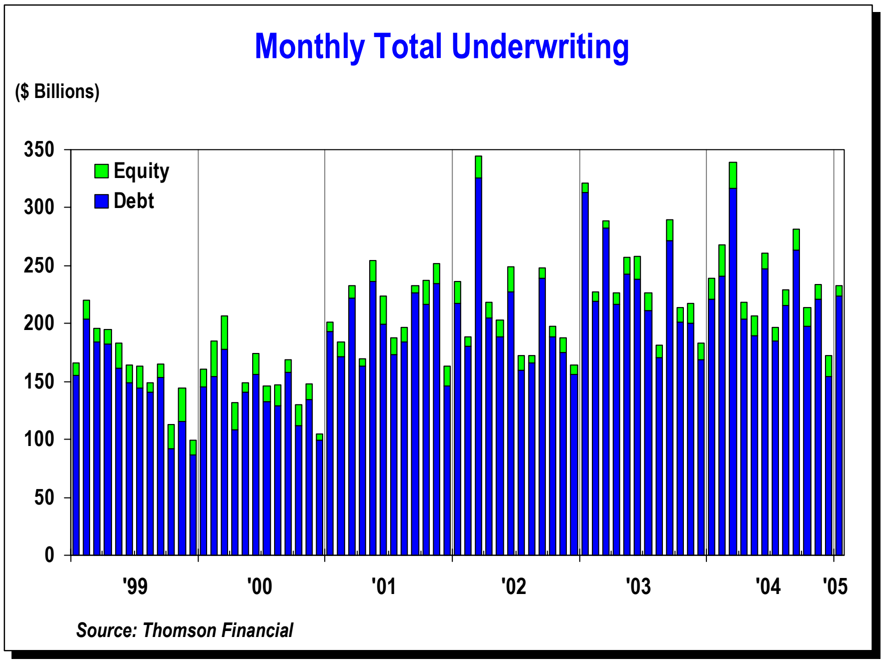
Interest Rates - Short-term interest rates continued on its upward trajectory, with yields on three-month Treasury bills rising 14 basis points for the month to an average of 2.33% in January, or its highest level since September 2001. On the long end of the yield curve, 10-year Treasury yields were pushed lower, partly due to softer-than expected fourth quarter GDP growth of 3.1% annualized. For the month overall, 10-year Treasury yields averaged 4.22% in January compared with 4.23% in December.

The yield spread has flattened dramatically over the past eight months. The spread between the 10-year Treasury note and three-month T-bill has been cut nearly in half, from 370 basis points in May to 189 basis points in January.

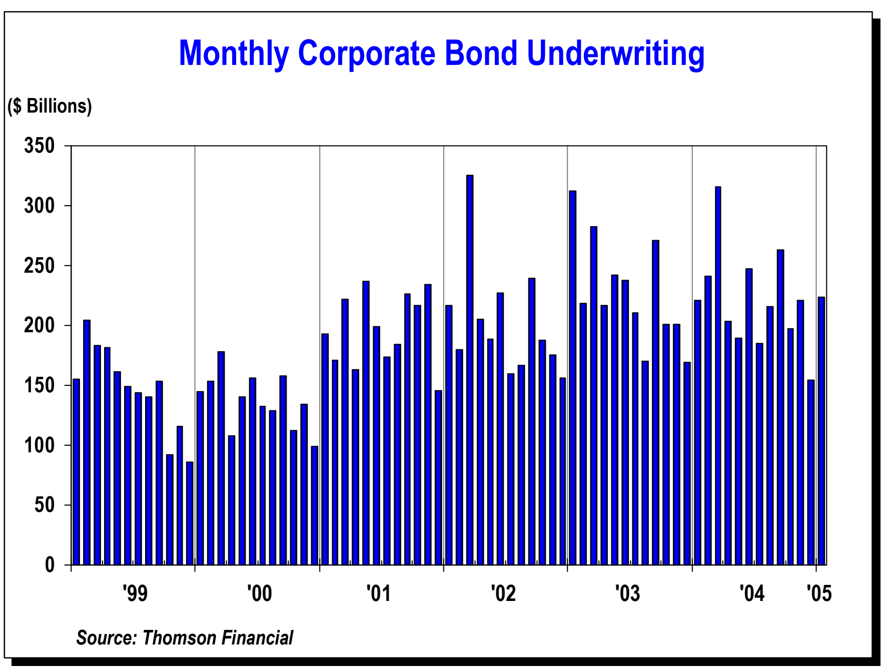


U.S. Underwriting Activity

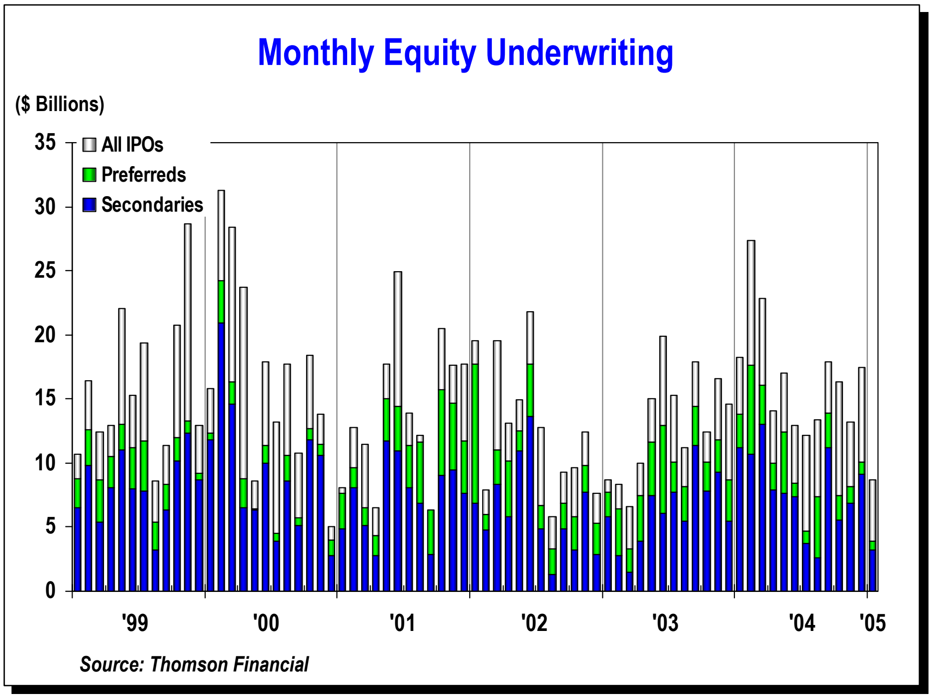
Total underwriting activity in the U.S. market jumped 35.3% in January from $172.1 billion in December, as a surge in corporate bond issuance offset a cutback in new stock offerings. Compared to last year, however, total underwriting was off 2.7% from January 2004's level.



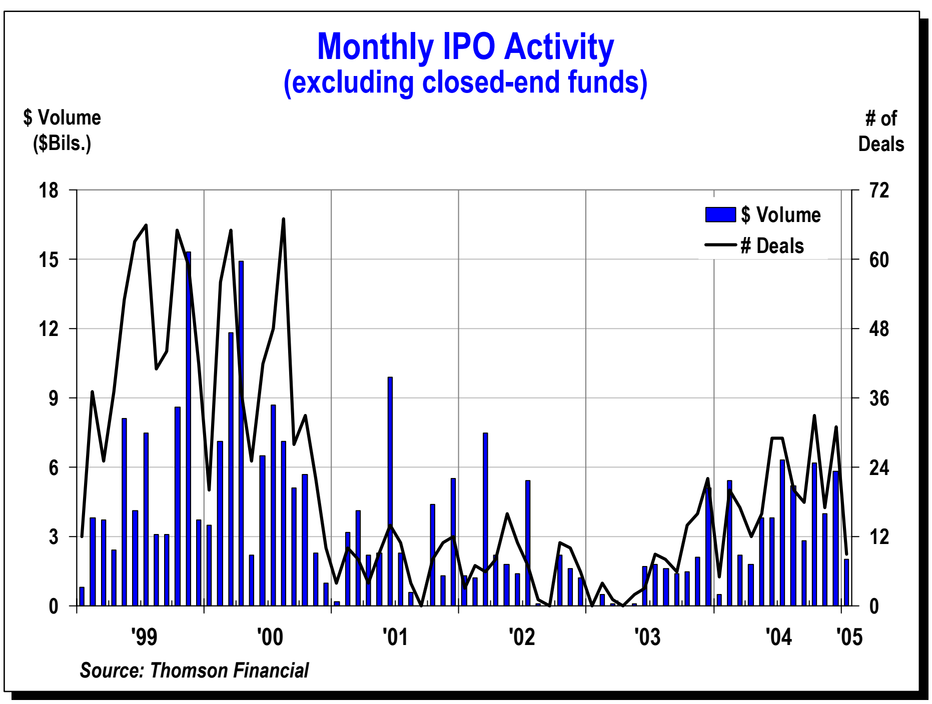
Corporate Bond Underwriting – Activity in the primary corporate bond market picked up considerably in January. After sinking to a three-year low of $154.6 billion in December, total corporate bond underwriting climbed to $224.1 billion in January, up 45.0% from the prior month and 1.4% above the amount raised in last year's comparable period. Accounting for most of the increase was a sharp rise in straight corporate debt issuance during January from weak December levels.



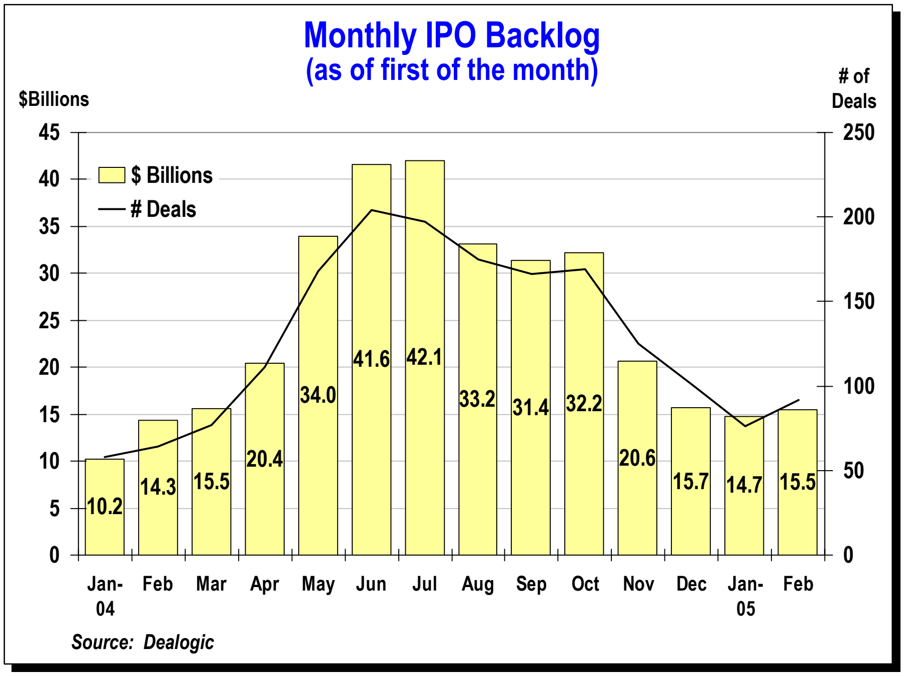
Equity Underwriting – Common and preferred stock underwriting volume cooled off in January following a spike in activity late last year. Equity issuance plunged 50.3% from $17.5 billion in December to $8.7 billion in January, the lowest monthly showing in nearly two years. On a year-over-year basis, equity underwriting was down 52.3%.



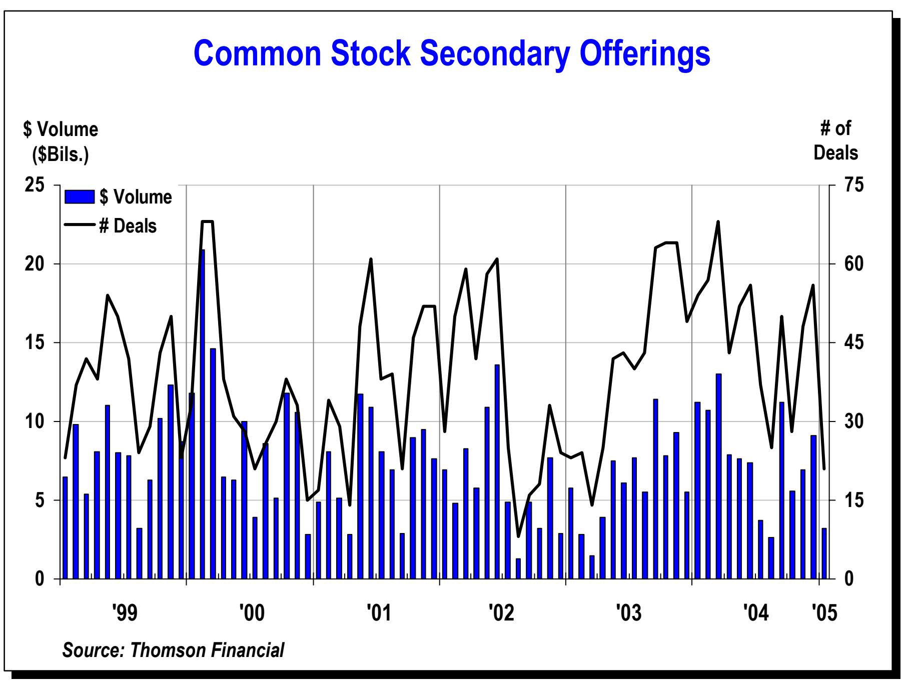
Initial Public Offerings (IPOs) – How well the IPO market performed in January depends on whether you view the glass as half-empty or half-full. IPOs raised $2.0 billion in January, a steep 65.5% decline from December's $5.8 billion total and the lowest level in nine months. Even so, it was the strongest January in five years, and equaled the combined total amount raised in January of 2001, 2002, 2003 and 2004.



The filed IPO backlog increased to $15.5 billion at the beginning of February from $14.7 billion in January and $14.3 billion a year ago. The recent pickup in IPO filings should lead to a more active IPO market going forward.



Secondary common stock issuance sank to $3.2 billion in January, down 64.8% from $9.1 billion in December and 71.3% below the $11.2 billion raised in last year's comparable period.



Grace Toto

Vice President and Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In $ Billions)

	Straight Corporate Debt	Con-vertible Debt	Asset-Backed Debt	TOTAL **DEBT**	Common Stock	Preferred Stock	TOTAL **EQUITY**	All IPOs	"True" IPOs	Secondaries	**TOTAL UNDER-WRITINGS**
1985	76.4	7.5	20.8	104.7	24.7	8.6	33.3	8.5	8.4	16.2	138.0
1986	149.8	10.1	67.8	227.7	43.2	13.9	57.1	22.3	18.1	20.9	284.8
1987	117.8	9.9	91.7	219.4	41.5	11.4	52.9	24.0	14.3	17.5	272.3
1988	120.3	3.1	113.8	237.2	29.7	7.6	37.3	23.6	5.7	6.1	274.5
1989	134.1	5.5	135.3	274.9	22.9	7.7	30.6	13.7	6.1	9.2	305.5
1990	107.7	4.7	176.1	288.4	19.2	4.7	23.9	10.1	4.5	9.0	312.3
1991	203.6	7.8	300.0	511.5	56.0	19.9	75.9	25.1	16.4	30.9	587.4
1992	319.8	7.1	427.0	753.8	72.5	29.3	101.8	39.6	24.1	32.9	855.7
1993	448.4	9.3	474.8	932.5	102.4	28.4	130.8	57.4	41.3	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	61.4	15.5	76.9	33.7	28.3	27.7	716.4
1995	466.0	6.9	152.4	625.3	82.0	15.1	97.1	30.2	30.0	51.8	722.4
1996	564.8	9.3	252.9	827.0	115.5	36.5	151.9	50.0	49.9	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	120.2	33.3	153.4	44.2	43.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	115.0	37.8	152.7	43.7	36.6	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	164.3	27.5	191.7	66.8	64.3	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	189.1	15.4	204.5	76.1	75.8	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	128.4	41.3	169.7	40.8	36.0	87.6	2,535.1
2002	1,303.2	8.6	1,115.4	2,427.2	116.4	37.6	154.0	41.2	25.8	75.2	2,581.1
2003	1,370.7	10.6	1,352.3	2,733.6	118.5	37.8	156.3	43.7	15.9	74.8	2,889.9
2004	1,278.4	5.5	1,372.3	2,656.2	169.6	33.2	202.7	72.8	47.9	96.7	2,859.0
2004											
Jan	139.4	1.4	80.3	221.1	15.6	2.6	18.2	4.4	0.5	11.2	239.2
Feb	132.2	0.7	108.1	240.9	20.5	6.9	27.4	9.8	5.4	10.7	268.2
Mar	170.5	0.6	145.2	316.2	19.8	3.1	22.8	6.7	2.2	13.0	339.1
Apr	101.6	0.3	101.9	203.9	12.0	2.1	14.1	4.1	1.8	7.9	218.0
May	81.4	0.1	108.1	189.6	12.2	4.8	17.0	4.6	3.8	7.6	206.6
June	107.0	0.0	140.6	247.6	11.8	1.0	12.9	4.5	3.8	7.4	260.5
July	74.2	0.0	110.7	184.9	11.2	1.0	12.2	7.5	6.3	3.7	197.1
Aug	81.0	0.0	134.7	215.7	8.6	4.8	13.4	6.0	5.2	2.6	229.1
Sept	130.5	0.6	132.1	263.2	15.2	2.7	17.9	4.0	2.8	11.2	281.1
Oct	81.0	1.1	115.6	197.7	14.4	1.9	16.3	8.8	6.2	5.6	214.0
Nov	108.7	0.4	111.7	220.9	11.8	1.3	13.1	5.0	4.0	6.9	234.0
Dec	70.9	0.3	83.5	154.6	16.5	1.0	17.5	7.4	5.8	9.1	172.1
2005											
Jan	134.4	0.2	89.6	224.1	8.0	0.7	8.7	4.8	2.0	3.2	232.8
YTD '04	139.4	1.4	80.3	221.1	15.6	2.6	18.2	4.4	0.5	11.2	239.2
YTD '05	134.4	0.2	89.6	224.1	8.0	0.7	8.7	4.8	2.0	3.2	232.8
% Change	-3.6%	-85.7%	11.5%	1.4%	-48.7%	-74.2%	-52.3%	8.2%	293.4%	-71.3%	-2.7%

Note: IPOs and secondaries are subsets of common stock. “True” IPOs exclude closed-end funds.
Source: Thomson Financial

MUNICIPAL BOND UNDERWRITINGS
(In $ Billions)

INTEREST RATES
(Averages)

	Compet. Rev. Bonds	Nego. Rev. Bonds	**TOTAL REVENUE BONDS**	Compet. G.O.s	Nego. G.O.s	**TOTAL G.O.s**	**TOTAL MUNICIPAL BONDS**	3-Mo. T Bills	10-Year Treasuries	SPREAD
1985	10.2	150.8	161.0	17.6	22.8	40.4	201.4	7.47	10.62	3.15
1986	10.0	92.6	102.6	23.1	22.6	45.7	148.3	5.97	7.68	1.71
1987	7.1	64.4	71.5	16.3	14.2	30.5	102.0	5.78	8.39	2.61
1988	7.6	78.1	85.7	19.2	12.7	31.9	117.6	6.67	8.85	2.18
1989	9.2	75.8	85.0	20.7	17.2	37.9	122.9	8.11	8.49	0.38
1990	7.6	78.4	86.0	22.7	17.5	40.2	126.2	7.50	8.55	1.05
1991	11.0	102.1	113.1	29.8	28.1	57.9	171.0	5.38	7.86	2.48
1992	12.5	139.0	151.6	32.5	49.0	81.5	233.1	3.43	7.01	3.58
1993	20.0	175.6	195.6	35.6	56.7	92.4	287.9	3.00	5.87	2.87
1994	15.0	89.2	104.2	34.5	23.2	57.7	161.9	4.25	7.09	2.84
1995	13.5	81.7	95.2	27.6	32.2	59.8	155.0	5.49	6.57	1.08
1996	15.6	100.1	115.7	31.3	33.2	64.5	180.2	5.01	6.44	1.43
1997	12.3	130.2	142.6	35.5	36.5	72.0	214.6	5.06	6.35	1.29
1998	21.4	165.6	187.0	43.7	49.0	92.8	279.8	4.78	5.26	0.48
1999	14.3	134.9	149.2	38.5	31.3	69.8	219.0	4.64	5.65	1.01
2000	13.6	116.2	129.7	35.0	29.3	64.3	194.0	5.82	6.03	0.21
2001	17.6	164.2	181.8	45.5	56.3	101.8	283.5	3.39	5.02	1.63
2002	19.5	210.5	230.0	52.3	73.1	125.4	355.4	1.60	4.61	3.01
2003	21.1	215.8	236.9	54.7	87.7	142.4	379.3	1.01	4.02	3.00
2004	17.2	209.8	227.1	51.5	77.7	129.2	356.3	1.37	4.27	2.90
2004										
Jan	0.7	10.4	11.1	3.6	5.7	9.3	20.4	0.88	4.15	3.27
Feb	1.0	13.0	14.1	4.8	7.7	12.5	26.5	0.93	4.08	3.15
Mar	2.7	19.7	22.4	5.6	10.5	16.1	38.5	0.94	3.83	2.89
Apr	1.0	18.1	19.0	3.5	8.2	11.8	30.8	0.94	4.35	3.41
May	1.4	28.0	29.5	3.1	4.7	7.8	37.2	1.02	4.72	3.70
June	1.3	24.0	25.3	4.5	5.4	9.8	35.1	1.27	4.73	3.46
July	1.8	14.6	16.5	5.1	3.7	8.9	25.3	1.33	4.50	3.17
Aug	0.6	15.5	16.1	4.0	7.6	11.6	27.7	1.48	4.28	2.80
Sept	1.7	13.2	14.9	5.3	4.8	10.1	25.0	1.65	4.13	2.48
Oct	2.4	17.7	20.0	5.3	6.5	11.8	31.9	1.76	4.10	2.34
Nov	1.1	17.2	18.3	2.3	4.6	6.8	25.1	2.07	4.19	2.12
Dec	1.5	18.5	20.0	4.5	8.3	12.7	32.7	2.19	4.23	2.04
2005										
Jan	1.0	11.9	12.9	3.6	6.5	10.1	23.0	2.33	4.22	1.89
YTD '04	0.7	10.4	11.1	3.6	5.7	9.3	20.4	0.88	4.15	3.27
YTD '05	1.0	11.9	12.8	3.2	6.7	9.9	22.7	2.33	4.22	1.89
% Change	32.9%	14.3%	15.5%	-10.0%	17.3%	6.7%	11.5%	164.8%	1.7%	-42.2%

Sources: Thomson Financial; Federal Reserve

	STOCK MARKET PERFORMANCE INDICES (End of Period)				STOCK MARKET VOLUME (Daily Avg., Mils. of Shs.)			VALUE TRADED (Daily Avg., $ Bils.)	
	Dow Jones Industrial Average	S&P 500	NYSE Composite	Nasdaq Composite	NYSE	AMEX	Nasdaq	NYSE	Nasdaq
1985	1,546.67	211.28	1,285.66	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	1,465.31	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	1,461.61	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	1,652.25	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	2,062.30	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	1,908.45	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	2,426.04	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	2,539.92	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	2,739.44	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	2,653.37	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	3,484.15	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	4,148.07	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	5,405.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	6,299.93	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	6,876.10	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	6,945.57	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001	10,021.50	1,148.08	6,236.39	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
2002	8,341.63	879.82	5,000.00	1,335.51	1,441.0	63.7	1,752.8	40.9	28.8
2003	10,453.92	1,111.92	6,440.30	2,003.37	1,398.4	67.1	1,685.5	38.5	28.0
2004	10,783.01	1,211.92	7,250.06	2,175.44	1,456.7	65.6	1,801.3	46.1	34.6
2004									
Jan	10,488.07	1,131.13	6,551.63	2,066.15	1,663.1	83.5	2,331.7	50.3	40.9
Feb	10,583.92	1,144.94	6,692.37	2,029.82	1,481.2	75.6	1,917.2	46.3	36.5
Mar	10,357.70	1,126.21	6,599.06	1,994.22	1,477.5	77.3	1,880.6	47.1	34.9
Apr	10,225.57	1,107.30	6,439.42	1,920.15	1,524.7	78.3	1,950.8	49.0	37.3
May	10,188.45	1,120.68	6,484.72	1,986.74	1,500.0	72.1	1,663.6	46.9	32.3
June	10,435.48	1,140.84	6,602.99	2,047.79	1,371.4	57.4	1,623.3	43.5	32.9
July	10,139.71	1,101.72	6,403.15	1,887.36	1,418.1	54.1	1,734.8	44.1	33.2
Aug	10,173.92	1,104.24	6,454.22	1,838.10	1,243.5	49.9	1,431.0	37.7	26.7
Sept	10,080.27	1,114.58	6,570.25	1,896.84	1,322.2	52.7	1,510.7	41.8	29.1
Oct	10,027.47	1,130.20	6,692.71	1,974.99	1,543.5	61.3	1,730.7	49.5	34.5
Nov	10,428.02	1,173.82	7,005.72	2,096.81	1,494.4	68.5	1,827.6	49.0	38.0
Dec	10,783.01	1,211.92	7,250.06	2,175.44	1,463.3	63.3	2,042.2	48.4	39.9
2005									
Jan	10,489.94	1,181.27	7,089.83	2,062.41	1,618.4	62.5	2,172.3	54.1	45.5
YTD '04	10,488.07	1,131.13	6,551.63	2,066.15	1,663.1	83.5	2,331.7	50.3	40.9
YTD '05	10,489.94	1,181.27	7,089.83	2,062.41	1,618.4	62.5	2,172.3	54.1	45.5
% Change	0.0%	4.4%	8.2%	-0.2%	-2.7%	-25.1%	-6.8%	7.4%	11.5%

MUTUAL FUND ASSETS

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL ASSETS**
1985	116.9	12.0	122.6	243.8	495.4
1986	161.4	18.8	243.3	292.2	715.7
1987	180.5	24.2	248.4	316.1	769.2
1988	194.7	21.1	255.7	338.0	809.4
1989	248.8	31.8	271.9	428.1	980.7
1990	239.5	36.1	291.3	498.3	1,065.2
1991	404.7	52.2	393.8	542.5	1,393.2
1992	514.1	78.0	504.2	546.2	1,642.5
1993	740.7	144.5	619.5	565.3	2,070.0
1994	852.8	164.5	527.1	611.0	2,155.4
1995	1,249.1	210.5	598.9	753.0	2,811.5
1996	1,726.1	252.9	645.4	901.8	3,526.3
1997	2,368.0	317.1	724.2	1,058.9	4,468.2
1998	2,978.2	364.7	830.6	1,351.7	5,525.2
1999	4,041.9	383.2	808.1	1,613.1	6,846.3
2000	3,962.0	346.3	811.1	1,845.2	6,964.7
2001	3,418.2	346.3	925.1	2,285.3	6,975.0
2002	2,667.0	327.4	1,124.9	2,272.0	6,391.3
2003	3,684.8	436.7	1,240.9	2,051.7	7,414.1
2004	4,384.1	519.3	1,290.3	1,913.2	8,106.9
2004					
Jan	3,804.2	440.7	1,256.6	2,032.1	7,533.7
Feb	3,893.5	452.7	1,267.2	2,015.2	7,628.6
Mar	3,885.1	455.7	1,277.7	2,006.8	7,625.4
Apr	3,811.3	452.5	1,245.7	1,964.2	7,473.7
May	3,855.0	457.1	1,223.3	1,974.6	7,510.0
June	3,948.0	467.0	1,220.9	1,954.3	7,590.3
July	3,796.9	462.4	1,229.2	1,953.6	7,442.2
Aug	3,804.1	469.9	1,253.4	1,944.5	7,471.8
Sept	3,916.5	479.0	1,263.9	1,903.6	7,563.0
Oct	3,994.1	487.4	1,277.8	1,891.4	7,650.7
Nov	4,222.3	504.5	1,276.5	1,920.2	7,923.5
Dec	4,384.1	519.3	1,290.3	1,913.2	8,106.9
2005					
Jan	4,289.7	516.9	1,301.9	1,889.0	7,997.5
YTD '04	3,804.2	440.7	1,256.6	2,032.1	7,533.7
YTD '05	4,289.7	516.9	1,301.9	1,889.0	7,997.5
% Change	12.8%	17.3%	3.6%	-7.0%	6.2%

MUTUAL FUND NET NEW CASH FLOW*

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL**	Total Long-Term Funds
1985	8.5	1.9	63.2	-5.4	68.2	73.6
1986	21.7	5.6	102.6	33.9	163.8	129.9
1987	19.0	4.0	6.8	10.2	40.0	29.8
1988	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	5.8	4.2	-1.2	64.1	72.8	8.8
1990	12.8	2.2	6.2	23.2	44.4	21.2
1991	39.4	8.0	58.9	5.5	111.8	106.3
1992	78.9	21.8	71.0	-16.3	155.4	171.7
1993	129.4	39.4	73.3	-14.1	228.0	242.1
1994	118.9	20.9	-64.6	8.8	84.1	75.2
1995	127.6	5.3	-10.5	89.4	211.8	122.4
1996	216.9	12.3	2.8	89.4	321.3	232.0
1997	227.1	16.5	28.4	102.1	374.1	272.0
1998	157.0	10.2	74.6	235.3	477.1	241.8
1999	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	309.4	-30.7	-49.8	159.6	388.6	228.9
2001	31.9	9.5	87.7	375.6	504.8	129.2
2002	-27.7	8.6	140.3	-46.7	74.5	121.2
2003	152.3	32.6	31.0	-258.5	-42.6	215.8
2004	177.7	42.6	-10.6	-156.8	52.9	209.7
2004						
Jan	43.0	5.4	-0.3	-19.5	28.7	48.2
Feb	26.1	5.0	1.5	-20.8	11.8	32.6
Mar	15.5	4.8	7.5	-9.1	18.6	27.7
Apr	23.0	4.6	-7.8	-44.3	-24.5	19.8
May	0.4	2.3	-16.2	8.6	-4.9	-13.5
June	10.0	2.4	-7.5	-21.3	-16.4	4.9
July	9.4	3.0	-1.2	-2.0	9.2	11.2
Aug	1.2	2.6	4.2	-10.3	-2.3	8.0
Sept	10.3	3.0	2.8	-42.4	-26.3	16.1
Oct	7.2	3.5	3.6	-14.1	0.1	14.2
Nov	21.4	4.1	2.0	26.5	54.0	27.6
Dec	10.2	1.9	0.8	-8.1	4.9	13.0
2005						
Jan	8.7	5.3	4.8	-28.3	-9.4	18.9
YTD '04	43.0	5.4	-0.3	-19.5	28.7	48.2
YTD '05	8.7	5.3	4.8	-28.3	-9.4	18.9
% Change	-79.7%	-1.8%	NM	NM	-132.7%	-60.8%

* New sales (excluding reinvested dividends) minus redemptions, combined with net exchanges

Source: Investment Company Institute

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