The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

The Development of the US Retirement System and Opportunities for Japan

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The US retirement system has achieved significant success in enhancing retirement savings, largely through industry innovation, competition, and a series of regulatory and policy initiatives. This paper provides an overview of this system, including the benefits of defined contribution (DC) plans and tax incentives that have driven this success, offering potential lessons and opportunities for Japan.

Building a Nest Egg

As retail investor participation in US capital markets has grown, so too has individual retirement savings. DC plans have become the dominant form of private-sector employer-sponsored retirement plans, with 401(k) plans being the most prevalent. These plans, established through an employer, typically involve voluntary, regular contributions from both employees and employers. Participants can allocate their savings across a diversified menu of investment options.

In addition to employer-sponsored plans, Americans have access to individual retirement accounts (IRAs), which offer portability between jobs by accepting rollovers from employer-sponsored plans. IRAs also allow individuals to make their own contributions and select investments through a financial institution of their choice.

The broad adoption of 401(k)s and other similar DC plans, together with IRAs, has played a crucial role in securing the financial future of the US middle class. Mutual funds are a key component of these retirement savings vehicles, accounting for 65 percent of 401(k) assets and 43 percent of IRA assets as of year-end 2023. Together with Social Security, these savings vehicles have enabled millions of Americans to build financial security for retirement.

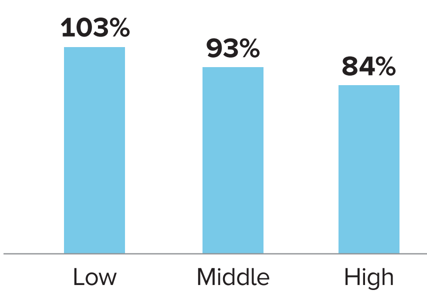
401(k)s and IRAs are designed to complement Social Security by allowing American workers to save on a tax-advantaged basis, together helping to provide a steady income during retirement. Today, most Americans rely on a mix of Social Security benefits, retirement plans including 401(k)s, and IRAs to support their retirement.

This combination has proven highly effective. Recent ICI research indicates that the typical 72-year-old American can replace more than 90 percent of their average spendable income from their mid- to late-50s, adjusted for inflation, thanks largely to this combination of Social Security, and income from retirement plans, such as 401 (k)s, and from IRAs.[1]

US Retirement System Produces Robust Income Replacement in Retirement

In retirement, most Americans maintain spendable income that is a high percentage of the spendable income they had in their late 50s, according to a study by ICI economists analyzing tax data.

Spendable income replacement rate at age 72, by income



Lower-income individuals rely more on Social Security but replace a higher share of their late 50s spendable income.

Overall, **75%** of individuals have income from IRAs, DB or DC employer plans, or annuities (either directly or through a spouse).

[1] Spendable income is the income available after paying taxes and contributing to retirement accounts. See Chapter 8 in the *2024 Investment Company Fact Book* for further details.

Building a Culture of Long-Term Investing

The growth of private retirement savings in the United States has played a crucial role in promoting a culture of long-term investing. For example, 401(k) plans have introduced millions of workers at companies of all sizes to the practice of regular saving and investing in diversified funds like mutual funds. By offering access to a broad range of asset classes, mutual funds within 401(k) plans enable individuals to capitalize on long-term growth potential. In 2023, 64 percent of mutual fund–owning households reported that their first mutual fund purchase was made through a workplace retirement plan.[2] By encouraging regular contributions—often through automatic payroll deductions—401(k) plans have helped millions of Americans establish consistent saving habits.

Tax advantages, like the tax-deferred growth in 401(k)s and tax-free withdrawals in Roth IRAs, further incentivize participants to stay invested, maximizing the power of compounding over time. Americans overwhelmingly support maintaining these tax incentives. Nearly nine in 10 Americans disagree with proposals to remove or reduce these incentives, reflecting widespread recognition of their importance for long-term financial security and importance of the tax treatment of their retirement plans as an incentive to contribute.

Moreover, employers and financial institutions provide educational resources that highlight the importance of starting early and maintaining a long-term perspective, particularly for younger generations. This has resulted in a growing investment culture where younger Americans, including Gen Z and Millennials, are increasingly taking advantage of tax-deferred retirement plans. As a result, these younger households have made significantly more progress in retirement saving than previous generations did at the same stages of life.[3]

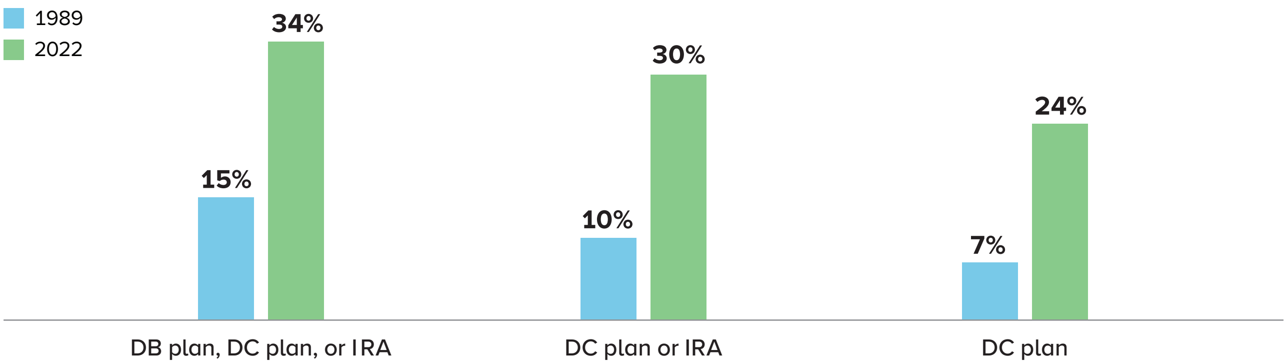
[2] See "Characteristics of Mutual Fund Investors, 2023," *ICI Research Perspective*, **www.ici.org/files/2023/per29-11.pdf**.

[3] See "Ok, Boomer: Retirement Prospects for Younger Americans Actually Look Bright," *ICI Viewpoints*, **www.ici.org/viewpoints/24-view-retirement-prospects**.

The emphasis on retirement readiness has catalyzed a cultural shift, making long-term investing an essential practice. This shift has empowered Americans of all ages to build substantial wealth and secure their financial futures.

Young Households More Engaged in Retirement Saving Than Gen X Counterparts Were at Similar Ages

Percentage of households aged 18 to 25 with a retirement account



Note: Age is based on the age of the reference person. Households currently receiving DB plan benefits and households with the promise of future DB plan benefits, whether from private-sector or government employers, are counted in the DB plan category. DC plan assets (401(k), 403(b), 457, thrift, and other DC plans) and assets held in SEP, SAR-SEP, or SIMPLE plans, whether from private-sector or government employers, are counted in the DC plan category. Traditional and Roth individual retirement account assets are counted in the IRA category.

Source: ICI tabulations of Federal Reserve Board Survey of Consumer Finances

Future Opportunities

Japan has a tremendous opportunity to further unlock its capital markets, take advantage of the benefits of investment funds, and build asset-based income and wealth for its people. ICI is committed to being a strong partner for the Japanese government and Japanese households to strengthen the domestic and international asset management industry in Japan and increase opportunities for Japanese households to invest for a secure financial future.

About ICI

The Investment Company Institute (ICI) is the leading association representing regulated investment funds globally. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. With total assets of approximately $48 trillion, ICI's membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and undertakings for collective investment in transferable securities (UCITS) and similar funds offered to investors in Europe, Asia, and other jurisdictions. ICI has offices in Brussels, London, and Washington, DC.

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- The *2024 Investment Company Fact Book* – Japanese translations of *Quick Facts Guide*: **https://bit.ly/4d4axDa**
- Global Retirement Resource Center – Japanese translations of *Lessons from the US Retirement System:* **www.ici.org/global_retirement#japanese**