Americans Accumulate Substantial Retirement Assets in IRAs

IRA Ownership Widespread Across U.S. Population

Washington, DC, November 23, 2009 - Americans are accumulating significant resources in individual retirement accounts (IRAs) through rollovers from employer-sponsored retirement plans and contributions, according to a new report published today by the Investment Company Institute. At year-end 2008, IRAs accounted for one-quarter of all U.S. retirement wealth and 8.5 percent of total U.S. household financial assets.

The report, The Evolving Role of IRAs in U.S. Retirement Planning, found that changes in law and the evolution of employer-sponsored retirement plans have elevated the importance of IRAs for many U.S. households. IRA ownership was widespread across many different demographic dimensions, including age, income, and educational attainment, with 40.5 percent of U.S. households owning some type of IRA.

“In fact, more than half of IRA owners had incomes between $25,000 and $99,999 and more than two-thirds of individuals heading IRA-owning households were between the ages of 35 and 64,” said Dan Schrass, ICI associate economist and study coauthor. “This study highlights the significant role that IRAs play in retirement and retirement planning.”

The analysis found that the employer-sponsored retirement plan system has fueled growth in IRA ownership and balances as workers roll over plan assets when they leave jobs or retire. Rollovers generate a significant portion of the flows into IRAs, dwarfing new contributions as a source of growth. Rollovers into IRAs nearly doubled between 1996 and 2004. In addition, trends in the U.S. labor market and in retirement coverage such as the aging of the workforce and shortened vesting periods have increased IRA accumulations.

Withdrawals from IRA accounts have grown dramatically over the past decade, from $23.7 billion in 1988 to $189.8 billion in 2007, as the earliest waves of IRA owners enter their retirement years. However, withdrawals are still a modest share of IRA assets because assets have grown even more rapidly and many current retirees indicate they only take out the government-mandated required minimum distribution.

“We are on the leading edge of the first wave of IRA owners beginning to retire. IRAs have now been available for more than 30 years and the tremendous growth in IRA withdrawals may only just be beginning,” says coauthor and ICI senior economist John Sabelhaus. “The numbers suggest there is a coming ‘boom’ in IRA withdrawals—even though overall IRA balances will likely continue growing because of rollovers and investment earnings—because a significant fraction of IRA wealth is owned by households on the verge of retirement. Within a few years, those households will begin drawing down their IRA balances, and those withdrawals will be an important source of funding for retirees’ spending.”

Yet these withdrawals may not be fully measured as a source of retiree income. The study found that traditional estimates of retirees’ income, based on some household surveys, may underreport IRA withdrawals. The study authors find that when income questions are posed regarding “regular” withdrawals, households’ responses underreport the level of activity. On the other hand, asking about any IRA withdrawals when also asking households to think of their ownership of IRAs leads to better estimates.

The report also finds that employer-sponsored IRAs introduced at various points during the past three decades—Simplified Employee Pensions (SEP) IRA, Salary Reduction SEP (SAR-SEP) IRA, and Savings Incentive Match Plan for Employee (SIMPLE) IRA—are a relatively small but stable share of the total IRA market. At year-end 2008, employer-sponsored IRAs accounted for 6.2 percent of all IRA assets.