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Notes

IRA Assets and Characteristics of IRA Owners

by Craig Copeland, EBRI

As defined contribution plans in recent years have become the dominant form of retirement plan for private-sector employees, the individual retirement account (IRA) has emerged as a primary vehicle for storing retirement wealth. Projections of future retirement income show that IRAs will continue this growth, strengthening their position as a primary source of this income.¹ Almost all of the growth in IRA assets in recent years is attributable to investment gains and rollovers from tax-qualified employment-based individual account retirement plans.² This article examines the level and the trends in assets in IRAs and in the type of financial institutions in which IRA assets are held. Furthermore, it ascertains the percentage of individuals owning IRAs, along with the relative frequency of ownership across various demographic groups. Lastly, the characteristics of those who make tax-deductible contributions to IRAs are explored, with a particular focus on the probability of the persistence of these contributions over a three-year period.

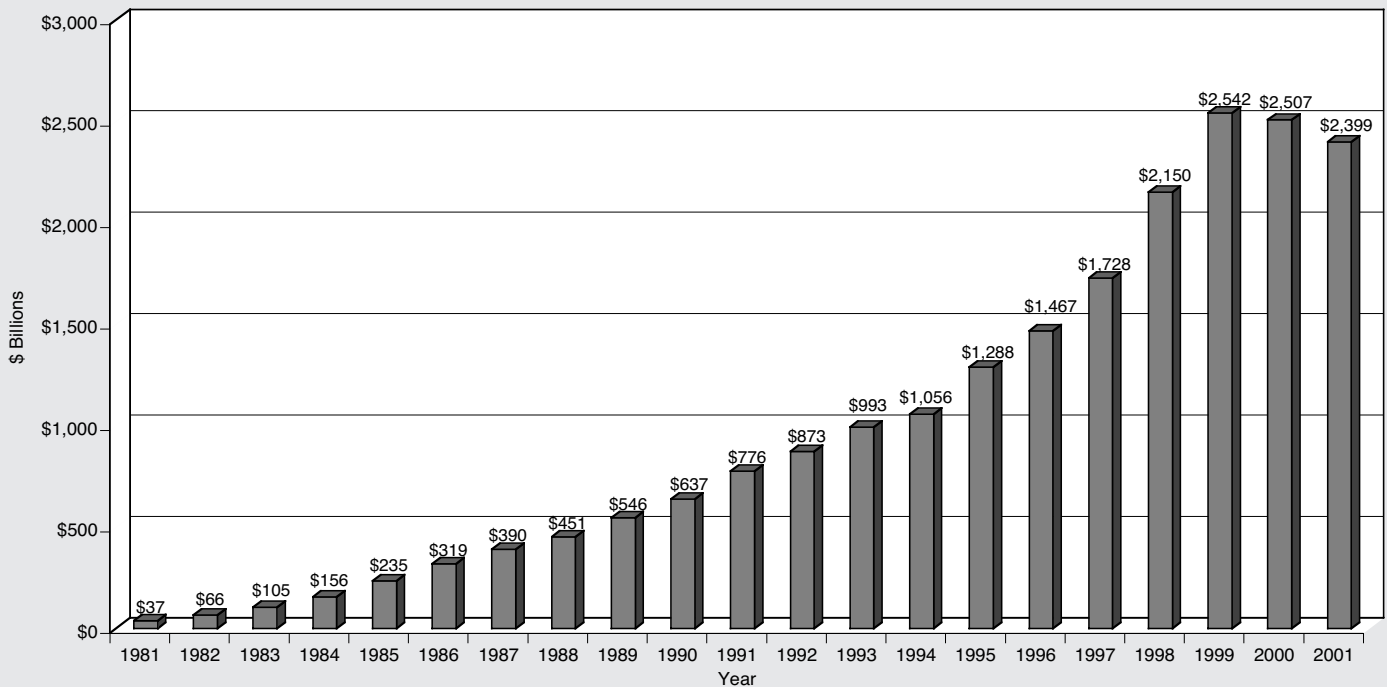
Total Assets

The level of IRA assets increased steadily from 1981 to 1999 before declining in 2000 and 2001. Total IRA assets reached \$2.542 trillion in 1999 before declining to \$2.507 trillion in 2000 and \$2.399 trillion in 2001 (Figure 1).³ These are the first two years of decreases in these assets. In fact, the assets had only one year (1994) with less than a double-digit percentage growth rate prior to 2000 (Figure 2).

Where Assets Are Held

Bank and thrift institutions held the highest percentage of IRA assets until being overtaken by brokerage self-directed accounts and mutual funds in the early 1990s (Figure 2). The percentage of the assets held in mutual funds increased rapidly from 26.6 percent in 1992 to 48.0 percent in 1999, while bank and thrift deposits fell from 31.5 percent in 1992 to 9.6 percent in 1999. However, in 2000 and 2001, the percentage of assets held in banks and thrift institutions increased to 10.6 percent, and the percentage held in mutual funds declined to 47.0 percent. Furthermore, IRA assets held in brokerage accounts decreased and IRA assets in life insurance companies increased during this same time. Much of this increase in the share of IRA assets held in bank and thrift deposits and life insurance companies was due to the significant declines in the level of assets in both mutual funds and brokerage accounts, as

Figure 1
TOTAL INDIVIDUAL RETIREMENT ACCOUNT ASSETS,^a 1981-2001
(\$ BILLIONS)



Source: Federal Reserve Board, *Flow of Funds*; Employee Benefit Research Institute.

^a Asset levels held at bank and thrift institutions include Keogh account assets.

BACKGROUND ON IRAS

An individual retirement account (IRA) allows individuals to save for retirement in a tax-deferred (or even tax-free) account. IRAs are not an investment themselves, but serve as a type of trust (or “custodial account”) established exclusively for individuals or their beneficiaries, and can hold a wide range of investments. With certain exceptions, “early” withdrawals (prior to age 59-1/2) are not permitted without paying income tax plus a 10% federal penalty tax.

IRAs were created under the Employee Retirement Income Security Act of 1974 (ERISA) as a way to provide workers who did not have employment-based pensions an opportunity to save for retirement on a tax-deferred basis. The Economic Recovery Tax Act of 1981 (ERTA) extended the availability of IRAs to all workers, including those with pension coverage. The Tax Reform Act of 1986 (TRA '86) restricted the tax deductibility of IRA contributions to those with incomes below certain levels (unless they have no access to a retirement plan at work), and created nondeductible IRAs (where the contribution is not tax-deductible but earnings still accrue tax-deferred), and partially (or wholly) deductible IRAs, depending on income. The Taxpayer Relief Act of 1997 (TRA '97) created a new type of nondeductible IRA—the Roth IRA—and allowed nonworking spouses to contribute to an IRA if their joint income is

less than \$150,000.

There are two basic types of IRAs for retirement:

- **Traditional IRAs:** Anyone with earned income can contribute, as well as a nonearning spouse of an earner under certain conditions. Earnings in the this IRA accrue tax-deferred, and withdrawals after age 59-1/2 are taxed as ordinary income with contributions being tax deductible or not deductible, depending upon the earners' income and employment-based retirement plan participation. Minimum withdrawals are mandatory after age 70-1/2.

- **Roth IRAs:** This type of IRA offers tax-free investing for retirement: No taxes are paid on withdrawals made after age 59-1/2, as long as the Roth IRA has been held for at least five years. Contributions to Roth IRAs are not tax-deductible, but there is no mandatory withdrawal age (as there is with traditional IRAs). Certain income limits restrict eligibility for a Roth IRA for those with adjusted gross incomes of more than \$95,000 for individuals and \$150,000 for joint-filers.

The maximum contribution to an IRA through 2001 was \$2,000. Provisions in the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA) increased this maximum contribution limit to \$3,000 in 2002 and to \$5,000 in 2008. Those 50 and older can make “catch-up” contributions.

opposed to the growth in the level of assets held in the bank and thrift deposits or life insurance companies, as the growth in these assets, although positive, was relatively small.

Percentage of Total Retirement Market

IRA assets as a percentage of total retirement plan assets⁴ increased significantly from 1990 to 2001. In 1990, IRAs accounted for 16.0 percent of total retirement plan assets, and by 2001 that portion had grown to 22.1 percent (Figure 3). A similar increase in the percentage of total retirement plan assets occurred for private defined contribution plans. The types of plans surrendering total retirement plan asset share were private defined benefit plans and plans provided through life insurance companies. Consequently, there has been an increasing share of retirement assets that owners are required to manage themselves in retirement (primarily IRAs and private defined contribution plans), as opposed to assets that provide an automatic income stream for life (i.e., annuities), which traditionally has been provided in retirement by defined benefit plans.

IRA Ownership Data

The U.S. Census Bureau's 1996 Panel of the Survey of Income and Program Participation (SIPP) is a nationally representative survey that follows the same participants over a four-year period.⁵ It contains a core set of questions that are asked

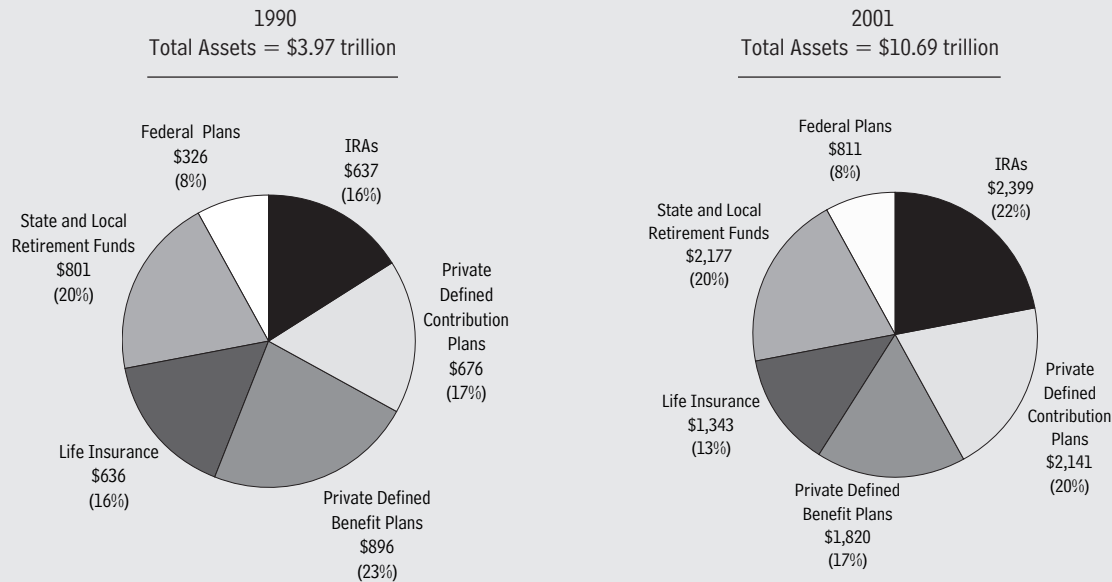
Figure 2
**DISTRIBUTION OF INDIVIDUAL RETIREMENT ACCOUNT ASSETS
BY FINANCIAL INSTITUTION, 1981-2001**

Year	Total Assets	Bank and Thrift Deposits ^a	Mutual Funds	Life Insurance	Brokerage Self-Directed Accounts	Percentage Increase
(billions)						
1981	\$37.0	\$27.0	\$3.0	\$3.0	\$4.0	
1982	66.0	47.0	6.0	6.0	8.0	78.4%
1983	105.0	72.0	11.0	9.0	13.0	59.1
1984	156.0	104.0	18.0	12.0	23.0	48.6
1985	235.0	140.0	34.0	16.0	45.0	50.6
1986	319.0	171.0	59.0	21.0	69.0	35.7
1987	390.0	194.0	80.0	26.0	91.0	22.3
1988	451.0	217.0	96.0	33.0	105.0	15.6
1989	546.0	244.2	120.9	37.9	143.1	21.1
1990	637.0	266.4	138.6	42.0	190.0	16.7
1991	776.0	282.8	183.8	49.7	259.6	21.8
1992	873.0	274.9	231.8	55.6	310.6	12.5
1993	993.0	262.7	314.7	69.5	346.2	13.7
1994	1,056.0	255.4	341.2	78.7	380.8	6.3
1995	1,288.0	261.0	462.5	94.3	470.2	22.0
1996	1,467.0	258.7	579.0	110.3	518.9	13.9
1997	1,728.0	254.0	751.0	160.0	563.0	17.8
1998	2,150.0	248.5	940.0	190.1	771.4	24.4
1999	2,542.0	242.9	1,219.0	245.5	834.6	18.2
2000	2,507.0	250.1	1,192.0	245.5	819.4	-1.4
2001	2,399.0	254.6	1,127.0	247.1	770.2	-4.3
(percentage of total assets)						
1981	23.7%	17.3%	1.9%	1.9%	2.6%	
1982	100.0	71.2	9.1	9.1	12.1	
1983	100.0	68.6	10.5	8.6	12.4	
1984	100.0	66.7	11.5	7.7	14.7	
1985	100.0	59.6	14.5	6.8	19.1	
1986	100.0	53.6	18.5	6.6	21.6	
1987	100.0	49.7	20.5	6.7	23.3	
1988	100.0	48.1	21.3	7.3	23.3	
1989	100.0	44.7	22.1	6.9	26.2	
1990	100.0	41.8	21.8	6.6	29.8	
1991	100.0	36.4	23.7	6.4	33.5	
1992	100.0	31.5	26.6	6.4	35.6	
1993	100.0	26.5	31.7	7.0	34.9	
1994	100.0	24.2	32.3	7.5	36.1	
1995	100.0	20.3	35.9	7.3	36.5	
1996	100.0	17.6	39.5	7.5	35.4	
1997	100.0	14.7	43.5	9.3	32.6	
1998	100.0	11.6	43.7	8.8	35.9	
1999	100.0	9.6	48.0	9.7	32.8	
2000	100.0	10.0	47.5	9.8	32.7	
2001	100.0	10.6	47.0	10.3	32.1	

Source: Federal Reserve Board, *Flow of Funds*; Employee Benefit Research Institute.

^a These asset levels include Keogh account assets.

Figure 3
U.S. TOTAL RETIREMENT MARKET ASSETS, 1990 AND 2001
 (\$ BILLIONS)



Source: EBRI's *Pension Investment Report*, American Council of Life Insurers, Federal Reserve, U.S. Census Bureau, U.S. Department of Defense, U.S. Office of Personnel Management, and the Federal Thrift Investment Board.

in each wave of the survey, which covers four months. In addition to the core questions, SIPP asks survey participants more in-depth questions about various economic and demographic characteristics in Topical Modules of each wave of the survey. Two series of questions about IRAs from these Topical Modules were rotated through the various waves. The first series was included in the Topical Module surveys of waves 6, 9, and 12, which asked questions about IRA ownership, number of years contributed to a IRA, and average IRA balance. Topical Module surveys of waves 4, 7, and 10, which asked questions regarding IRA ownership, whether a tax-deductible contribution was made to an IRA and its level, and the amount earned or investment gain in the IRA, were included in the second series. These questions about IRA ownership are asked in a slightly dissimilar manner in each of these series. Since the results are not exactly comparable, each series is presented separately.

Wave 6, 9, and 12 Results

The first series of Topical Modules (including waves 6, 9, and 12) cover the four-month periods of November 1997–February 1998, November 1998–February 1999, and November 1999–February 2000. These data show that the percentage of all Americans ages 21 and older owning an IRA increased from 15.8 percent in the earliest four-month period to 17.2 percent in the November 1999–February 2000 period (Figure 4). The average balance for all those owning an IRA through February 1998 was \$30,180, which increased to \$40,960 for all those owning an IRA through February 2000. The increase was even larger if only those individuals who owned an IRA during each of the three waves are examined. The average balance increased from \$31,669 to \$45,746 over the entire study period. Furthermore, the average number of years that owners contributed to IRAs increased from 7.9 years to 8.6 years.

IRA ownership increased across all demographic groups from 1998 to 2000, and no group experienced a disproportional gain; the sole exception was among the highest-income families, where IRA ownership declined. However, individuals with certain demographic characteristics continued to have a lower probability of IRA ownership: those who were younger, had lower family income, a lower level of education, were minorities, never married, female, or nonworkers.

The average IRA balance also increased proportionally across all demographic groups. Average balances were higher for individuals who were older, had a higher level of education, were white, male or retired (Figure 4). The level of family income had no clear impact on the average IRA balance, as some of those with lower family income had higher IRA balances than those with higher family incomes (but not in a consistent manner). Years contrib-

Figure 4
**IRA OWNERSHIP, YEARS CONTRIBUTED, AND AVERAGE BALANCE,
 NOVEMBER 1997-FEBRUARY 1998, NOVEMBER 1998-FEBRUARY 1999, AND NOVEMBER 1999-FEBRUARY 2000**

	Wave 6: Nov. 1997-Feb. 1998			Wave 9: Nov. 1998-Feb. 1999			Wave 12: Nov. 1999-Feb. 2000			IRA in All Three Years			
	Number (millions)	Own IRA 15.8%	Average years contributed 7.9	Number (millions)	Own IRA 16.1%	Average years contributed 8.3	Number (millions)	Own IRA 17.2%	Average years contributed 8.6	Number (millions)	Own IRA 17.2%	Average years contributed 8.6	Balance
All	185.6		\$30,180	187.5		\$37,354	189.3		\$40,960			\$31,669	\$45,746
Age													
21-24	13.9	1.1	2,837	14.1	1.2	2.2	14.2	1.7	2.1	14.2	1.7	2.1	3,132
25-34	39.4	7.2	8,747	38.7	7.9	3.5	38.0	9.1	3.5	38.0	9.1	3.5	10,044
35-44	44.4	15.0	20,673	44.6	15.3	6.7	44.8	15.5	6.6	44.8	15.5	6.6	27,597
45-54	34.0	21.8	28,949	35.0	21.9	8.3	36.4	22.6	8.7	36.4	22.6	8.7	41,442
55-64	21.9	28.0	40,026	22.7	27.4	10.0	23.3	28.7	10.2	23.3	28.7	10.2	54,469
65-69	9.4	28.9	44,480	9.3	27.8	10.4	9.2	29.0	11.2	9.2	29.0	11.2	46,327
70 or older	22.7	14.8	41,759	23.0	16.2	11.3	23.3	18.3	11.6	23.3	18.3	11.6	55,879
Family Income													
Less than \$10,000	19.9	5.1	30,251	18.7	5.5	8.2	17.2	6.1	8.5	17.2	6.1	8.5	37,313
\$10,000-\$19,999	27.6	8.8	31,337	26.1	9.8	9.2	24.4	9.7	9.3	24.4	9.7	9.3	40,332
\$20,000-\$29,999	27.2	12.2	30,302	26.5	12.4	8.5	25.4	13.2	9.4	25.4	13.2	9.4	41,873
\$30,000-\$39,999	25.3	14.4	29,249	24.3	14.3	8.8	24.4	14.5	9.1	24.4	14.5	9.1	41,303
\$40,000-\$49,999	20.5	15.3	27,749	21.0	15.1	8.0	21.3	16.6	8.4	21.3	16.6	8.4	38,279
\$50,000-\$74,999	33.6	19.8	27,537	35.4	19.8	8.0	36.4	20.0	8.1	36.4	20.0	8.1	36,532
\$75,000 or more	31.5	28.8	32,969	35.6	27.4	8.2	40.3	28.4	8.4	40.3	28.4	8.4	44,679
Education Level													
No HS diploma	31.8	4.3	19,698	31.1	4.1	9.7	30.3	4.5	9.5	30.3	4.5	9.5	29,146
HS Diploma	58.9	11.4	26,828	59.6	11.2	8.5	60.2	11.9	9.0	60.2	11.9	9.0	35,644
Some College	53.2	15.6	26,308	54.2	16.2	7.7	55.1	17.0	8.0	55.1	17.0	8.0	35,482
Bachelor's Degree	28.3	27.1	31,719	28.6	28.2	8.0	29.4	30.1	8.1	29.4	30.1	8.1	42,197
Graduate Degree	13.5	38.5	41,276	14.0	38.9	9.2	14.3	40.4	9.4	14.3	40.4	9.4	57,098
Race/Ethnicity													
White	139.9	19.2	31,035	140.4	19.7	8.4	141.2	21.0	8.7	141.2	21.0	8.7	42,428
Black	20.3	4.1	10,477	20.8	4.2	6.2	21.1	4.5	6.3	21.1	4.5	6.3	17,417
Hispanic	17.9	4.0	24,030	18.5	4.6	7.3	19.0	5.1	7.6	19.0	5.1	7.6	26,671
Other	7.6	10.4	26,848	7.9	11.5	7.6	8.0	12.6	7.0	8.0	12.6	7.0	33,957
Marital Status													
Married	111.7	19.4	30,112	112.3	19.7	8.4	114.5	21.1	8.7	114.5	21.1	8.7	41,933
Widowed	14.1	14.0	39,884	14.1	14.7	9.9	14.1	14.7	11.0	14.1	14.7	11.0	51,988
Divorced	19.4	13.3	31,624	20.2	13.9	8.3	19.9	14.5	8.5	19.9	14.5	8.5	41,383
Separated	4.5	5.3	22,659	4.3	6.4	7.6	4.2	6.2	6.9	4.2	6.2	6.9	27,087
Never married	35.9	7.8	23,173	36.6	8.3	6.7	36.6	8.7	6.3	36.6	8.7	6.3	27,219
Gender													
Male	89.0	16.5	35,775	89.9	16.7	8.7	90.5	18.1	9.0	90.5	18.1	9.0	49,511
Female	96.6	15.1	24,507	97.7	15.6	7.9	98.8	16.4	8.2	98.8	16.4	8.2	32,342
Work Status													
Retired	34.5	18.6	41,994	35.0	18.9	10.4	35.6	20.9	11.0	35.6	20.9	11.0	58,333
Nonworker	23.6	5.9	21,487	23.4	6.1	6.7	22.9	7.4	6.6	22.9	7.4	6.6	27,969
Worker	127.5	16.8	27,236	129.1	17.2	7.8	130.8	17.9	7.9	130.8	17.9	7.9	36,350

Source: Employee Benefit Research Institute estimates of the 1996 Panel of the Survey of Income and Program Participation (SIPP) Topical Modules Waves 6, 9, and 12.

IRA OWNERSHIP, CONTRIBUTIONS, AND EARNINGS, 1996-1998

Figure 5

	Wave 4: March 1997-June 1997						Wave 7: March 1998-June 1998						Wave 10: March 1999-June 1999						
	Number (millions)	Own IRA	deductible contri- bution in 1996	Of those making a contribution		Average IRA earnings in 1996	Number (millions)	Own IRA	deductible contri- bution in 1997	Of those making a contribution		Average IRA earnings in 1997	Number (millions)	Own IRA	deductible contri- bution in 1998	Of those making a contribution		Average IRA earnings in 1998	
				16.3%	3.9%					\$1,590	65.9%					\$3,204	186.2		16.2%
All	184.5	16.3%	3.9%	\$1,590	65.9%	\$3,204	186.2	16.2%	3.8%	\$1,623	68.0%	\$4,371	188.2	16.8%	4.1%	\$1,669	70.7%	\$4,390	
Age																			
21-24	13.9	1.4	0.4	1,350	48.4	570	13.9	1.6	0.5	1,437	59.5	727	14.3	1.9	0.7	1,269	50.7	352	
25-34	40.0	8.0	2.7	1,432	56.2	1,690	39.2	8.6	2.7	1,429	55.7	1,757	38.3	9.2	2.9	1,538	61.4	1,957	
35-44	44.0	16.1	4.6	1,556	64.1	2,368	44.4	15.4	4.4	1,577	63.8	3,561	44.8	16.1	4.7	1,642	67.8	3,498	
45-54	33.3	22.0	6.1	1,636	66.8	3,055	34.3	22.0	6.0	1,638	68.6	4,188	35.3	22.1	6.5	1,706	73.7	4,397	
55-64	21.4	28.0	7.1	1,695	74.6	4,405	22.2	27.2	6.9	1,766	78.2	5,888	23.0	27.8	7.4	1,755	77.4	6,071	
65-69	9.5	30.7	3.8	1,636	73.6	4,447	9.4	28.1	3.3	1,782	79.8	7,321	9.3	28.1	3.5	1,768	78.3	6,374	
70 or older	22.4	14.8	0.5	1,496	39.7	4,358	22.8	15.3	0.4	1,558	67.5	5,159	23.2	16.2	0.6	1,549	53.6	5,031	
Family Income																			
Less than \$10,000	20.5	4.8	1.2	1,688	75.0	5,330	19.1	5.3	1.2	1,669	73.5	5,590	18.0	5.5	1.2	1,700	75.3	3,282	
\$10,000-\$19,999	29.0	8.5	1.3	1,424	51.1	4,475	27.4	8.8	1.4	1,450	60.2	3,967	25.9	9.3	1.4	1,503	56.8	5,155	
\$20,000-\$29,999	27.8	12.9	2.5	1,422	51.2	3,239	26.2	12.5	2.6	1,473	55.3	4,278	26.0	12.5	2.6	1,554	61.8	4,028	
\$30,000-\$39,999	25.3	15.1	3.6	1,560	65.3	3,346	24.7	15.4	3.3	1,502	59.2	4,179	24.0	15.6	3.5	1,514	59.5	3,759	
\$40,000-\$49,999	20.1	18.0	4.9	1,519	62.7	2,310	20.5	15.3	3.9	1,521	62.9	4,009	21.6	16.8	4.3	1,607	65.5	4,216	
\$50,000-\$74,999	32.3	20.9	5.4	1,589	66.1	2,785	34.6	20.4	5.1	1,646	67.7	4,359	36.1	19.7	5.5	1,645	68.7	3,883	
\$75,000 or more	29.5	29.8	7.6	1,712	74.0	3,375	33.7	28.1	7.0	1,760	78.0	4,549	36.6	28.6	7.6	1,795	80.5	4,965	
Education Level																			
No HS diploma	32.0	5.0	0.8	1,505	55.3	2,605	31.5	4.6	0.7	1,482	59.2	2,674	30.9	4.4	0.6	1,522	60.6	3,609	
HS Diploma	58.8	11.7	2.5	1,587	64.3	2,563	58.9	9.6	2.5	1,612	68.9	3,441	59.8	11.8	2.5	1,644	69.6	2,967	
Some College	52.7	16.6	4.0	1,522	61.5	2,636	53.4	16.4	3.9	1,510	60.0	4,083	54.4	16.8	4.1	1,582	64.6	3,725	
Bachelor's Degree	27.8	27.3	6.9	1,574	66.3	3,475	28.7	27.4	7.0	1,656	69.8	4,634	29.0	29.4	7.9	1,693	72.3	4,937	
Graduate Degree	13.3	38.9	10.8	1,735	76.2	4,297	13.7	38.7	9.4	1,795	78.7	5,648	14.1	38.9	11.1	1,804	79.9	5,940	
Race/Ethnicity																			
White	139.5	19.9	4.7	1,603	66.9	3,231	139.9	19.8	4.5	1,624	67.9	4,390	140.8	20.5	4.9	1,681	71.1	4,461	
Black	20.0	4.4	1.0	905	25.5	2,659	20.5	4.6	1.2	1,364	53.7	2,867	21.0	4.6	1.3	1,252	48.6	4,110	
Hispanic	17.5	4.0	0.9	1,411	48.6	2,745	18.1	4.0	1.2	1,574	62.8	5,593	18.6	4.5	1.2	1,585	62.5	2,456	
Other	7.5	9.8	3.0	1,645	66.2	2,950	7.7	10.8	3.6	1,809	83.2	3,791	7.8	12.0	4.3	1,760	83.1	3,644	
Marital Status																			
Married	110.8	20.1	4.8	1,578	64.9	3,013	111.9	19.8	4.6	1,651	70.3	4,345	113.5	20.5	5.1	1,693	72.4	4,325	
Widowed	14.0	13.8	1.7	1,751	79.0	5,428	14.1	13.9	1.6	1,611	64.3	5,790	14.0	14.6	1.4	1,747	72.1	7,096	
Divorced	19.6	14.3	3.9	1,664	71.0	3,585	19.6	13.8	3.8	1,555	61.5	4,659	19.9	14.2	3.9	1,671	70.8	5,214	
Separated	4.7	5.5	1.3	1,370	53.8	3,344	4.4	6.2	1.1	1,132	31.8	3,505	4.3	5.9	1.2	1,238	39.6	2,850	
Never married	35.4	7.9	2.4	1,566	64.6	3,223	36.2	8.2	2.4	1,562	64.2	3,710	36.5	8.7	2.5	1,534	62.3	3,185	
Gender																			
Male	88.5	17.3	4.2	1,619	67.6	3,852	89.3	16.9	4.0	1,640	68.9	5,311	90.1	17.7	4.5	1,675	70.5	5,221	
Female	96.0	15.3	3.6	1,560	64.2	2,496	96.9	15.5	3.6	1,606	67.0	3,391	98.1	16.0	3.7	1,662	70.9	3,530	
Work Status																			
Retired	33.8	18.9	1.2	1,472	57.1	4,553	34.6	18.3	0.9	1,721	79.2	6,342	35.1	18.9	1.5	1,666	67.3	5,949	
Nonworker	24.2	5.8	1.5	1,356	53.4	2,300	23.6	6.2	1.5	1,688	77.8	2,597	23.3	6.4	1.7	1,725	78.6	3,524	
Worker	126.5	17.6	5.1	1,610	67.2	2,899	128.0	17.4	5.0	1,614	66.8	4,019	129.8	18.1	5.3	1,665	70.5	4,043	

Source: Employee Benefit Research Institute estimates of the 1996 Panel of the Survey of Income and Program Participation (SIPP) Topical Modules Waves 4, 7, and 10.

uted to an IRA increased over the study period with little variation across demographic groups, except for those variables strongly correlated with older age (such as individuals who were retired or widowed), which were higher.

Wave 4, 7, and 10 Results

The second series of Topical Modules (including waves 4, 7, and 10) cover the four-month periods of March 1997–June 1997, March 1998–June 1998, and March 1999–June 1999. These ask questions about contributions to IRAs and IRA earnings in the prior year (1996, 1997, and 1998, respectively). In this series, IRA ownership for all Americans ages 21 and older increased from 16.3 percent to 16.8 percent over the period, while the percentage of individuals making a tax-deductible contribution was found to be stable at approximately 4 percent from 1996 to 1998 (Figure 5). The average tax-deductible contribution increased from \$1,590 in 1996 to \$1,669 in 1998, due to a higher percentage of those contributing the then-maximum amount, \$2,000.⁶ Furthermore, the average IRA earnings (investment gains) for those owning an IRA increased from \$3,204 in 1996 to \$4,390 in 1998.

Ownership patterns across the demographic groups followed the same patterns as described above from the other series of waves. The unique data from these waves involve IRA contributions and earnings. The percentage of indi-

viduals making contributions to the IRAs within the demographic groups remained consistent over the three years, but there were certain demographic characteristics that were associated with a higher probability of contributing to an IRA: individuals who had either higher family income or educational attainment, were white, married, male, or older up to age 65.

With few exceptions, the average contribution for those making a contribution was relatively constant across the demographic characteristics. Those exceptions (having a significantly lower average contribution) were those who were youngest, separated, or black, and not surprisingly these groups also had a significantly less likelihood of making the maximum contribution. The percentage of those making the maximum contribution increased steadily with age through age 69 and with educational attainment.

As would be expected, those with higher balances (measured in the other Topical Modules) also tended to have higher average earnings on these balances. This is the obvious result expected, as an IRA owner with a higher balance would be expected to have higher absolute earnings in the IRA. Therefore, even if there was more aggressive investing by those with lower balances, it did not appear to result in a higher absolute gain relative to those with higher balances, such as older IRA owners who would be expected to be less aggressive in their investing.⁷

Persistence of Contributing to an IRA

A unique feature of SIPP is that it follows the same individuals over the time period of the survey. Consequently, the individuals who made a tax-deductible contribution in 1998 can be examined to determine their contribution behavior in 1996 and 1997. Nearly 22 percent of those making a contribution in 1998 also made a contribution in 1996 and 1997, with 51.0 percent making a contribution in either 1996 or 1997 (Figure 6). The average contribution for those contributing all three years was not significantly different relative to all of those that contributed in 1998 at \$1,694 and \$1,669, respectively. However, the percentage of those contributing all three years who contributed \$2,000 was 4 percentage points higher.

When focusing only on those individuals who contributed to an IRA in all three years, the sample size is significantly reduced. Therefore, demographic characteristic breaks must be more general to allow for sufficient sample size for each break. Consequently, only a small number of breaks can be provided for determining characteristics of those who contribute persistently. Those individuals who showed this persistence were predominately under 55 years of age, white, and had a family income of \$40,000 or more (Figure 6). In addition, they were slightly more likely to have had a lower educational attainment.

Figure 6
PERSISTENCE OF CONTRIBUTING TO AN IRA, 1996–1998

Percentage of Individuals Who Made a Tax Deductible Contribution in 1998 Who:	
Made one in 1997 and 1996	21.8%
Made one in either 1997 or 1996	51.0%
Made one in 1997	39.4%
Made one in 1996	33.4%
Average Deductible Contribution in 1998 by:	
Those who contributed all three years	\$1,694
All who contributed in 1998	\$1,669
Percentage who made \$2,000 Contribution Among:	
Those who contributed all three years	74.7%
All who contributed in 1998	70.7%
Basic Demographics of Those Contributing All Three Years:	
Age	
Under 55	66.4%
55 or older	33.6%
Race	
White	93.8%
Nonwhite	6.2%
Education	
Less than college degree	53.7%
College degree or higher	46.3%
Family Income	
Less than \$40,000	30.7%
\$40,000 or more	69.3%

Source: Employee Benefit Research Institute estimates of the 1996 Panel of the Survey of Income and Program Participation Topical Modules Waves 4, 7, and 10.

Conclusion

Even with the decrease in IRA assets in 2000 and 2001, IRA assets still accounted for a significantly higher percentage of the total retirement asset market in 2001 relative to 1990. The IRA share of total retirement assets should continue to increase along with the increase in the private-sector defined contribution plan growth, as many individuals roll over their assets from these defined contribution plans at job change or retirement to IRAs—spurring their growth.

IRA ownership showed some growth from 1997 to 2000, but the percentage of those contributing remained relatively constant. While ownership growth occurred across all demographic categories, some demographic groups had lower ownership rates, such as those who are younger, have lower family income, have lower educational attainment, or are from a minority group. These same characteristics are also correlated with lower average balances and probabilities of contributing to an IRA with the exception of family income and

average balance. In most cases, for those who did decide to contribute to an IRA, the average contribution was not greatly different across demographic groups.

A significant number (51.0 percent) of those who made a tax-deductible contribution in 1998 had made one previously in either 1996 or 1997, with nearly 22 percent having contributed in both 1996 and 1997. Thus, it seems once an individual begins to make contributions, there is a high probability that he or she will continue to make contributions in the future. Consequently, getting individuals to make that first step or contributions could be the most important hurdle to overcome in an individual's path to retirement saving.

Endnotes

¹ See Jack VanDerhei and Craig Copeland, "The Changing Face of Private Retirement Plans," *EBRI Issue Brief*, no. 232 (Employee Benefit Research Institute, April 2001).

² See John Sabelhaus, "Projecting IRA Balance and Withdrawals," *EBRI Notes*, no. 5 (Employee Benefit Research Institute, May 1999): 1–4.

³ The assets that are reported for bank and thrift institutions include Keogh account assets held at those institutions. The percentage of the assets belonging to Keoghs is minor relative to the total.

⁴ The sources of retirement plan assets include private-sector defined contribution plans, private-sector defined benefit plans, federal retirement plans, state and local plans, individual retirement accounts, and retirement

plan assets provided through life insurance companies.

⁵ For further information about the U.S. Census Bureau's Survey of Income and Program Participation (SIPP), see www.sipp.census.gov/sipp/ (accessed Nov. 1, 2002).

⁶ The maximum contribution to an individual retirement account in 1996 through 1998 was \$2,000. This maximum contribution was increased to \$3,000 in 2002 and will increase to \$5,000 in 2008.

⁷ See Craig Copeland, "Asset Allocation: IRAs and 401(k)-Type Plans," *EBRI Notes*, no. 10 (Employee Benefit Research Institute, October 2000): 5–9 for asset allocation in IRAs by age, where older individuals are found to be less likely to be invested mostly in stocks.

Washington Update

by Jim Jaffe, EBRI

Election Impact: The 108th Congress

The new Congress that convenes in January will bring a modest number of new members but a very high percentage of new leaders (see next item). Sen. Trent Lott (R-MS) will resume his role of Senate majority leader. In the House, Speaker Dennis Hastert (R-IL) and a new majority leader, Tom DeLay (R-TX), will set the agenda. But the GOP lacks a large enough majority in either chamber to *guarantee* enactment of party priorities—what has been won is the power to set the agenda and immunity from any congressional probes into alleged White House failings.

Democrats in the House selected Rep. Nancy Pelosi (D-CA) to replace Dick Gephardt (D-MO) as the new the minority leader, following Gephardt's decision to resign his leadership position. Pelosi believes the Democrats should be more confrontational. In a preview of generational tension within the party, Pelosi was challenged by Rep. Harold Ford (D-TN); Ford's in his early 30s, while both Gephardt and Pelosi are in their 60s.

Domestically, the top priorities in the new all-Republican majority Congress will be enacting President Bush's as yet unspecified tax

priorities. But if the U.S. invades Iraq, the domestic agenda could again be sidetracked by the war on terrorism.

The Bush administration has some undefined long-term big plans that are likely to follow the 2004 election, like possibly replacing the income tax system and reforming Social Security to focus on individual accounts. A far more immediate priority includes jump-starting a faltering economy, but at this point no specifics are on the table. Advocates of partially privatizing Social Security, who have seen their issue knocked back by the decline of the stock market in recent years, were buoyed by election results that clearly did not punish proponents of individual accounts.

One Republican goal is to make permanent—and perhaps accelerate and expand—the enlarged retirement savings options contained in last year's tax bill (EGTRRA). They'll try to make other elements of that bill permanent as well. But the tax debate will be broader. The corporate community did not have corporate rate reduction or an end to double taxation of dividends in the 2001 tax bill, but was promised subsequent relief, and is pushing to have that commitment honored. Given continuing projected deficits, it is clear that not everyone can be satisfied immediately. Many Democrats will resist the Republicans' retirement incentives that

are focused on higher allowed contributions, which tend to benefit upper-income taxpayers, unless there is also tax relief for workers in lower brackets.

Treasury Secretary Paul O'Neill is working on a proposal to fundamentally overhaul the federal tax code, and the Bush administration is considering a comprehensive tax reform bill, some provisions of which may threaten the employment-based benefits system. This initiative may include expansion of individual-based tax-favored benefits, such as medical savings accounts (MSAs), health insurance premium deductions without reference to the current 7 percent limitation, and rollover of flexible spending account (FSA) year-end balances. All these programs would make it easier for small employers to "walk away" from sponsoring health insurance for workers. This initiative may also include IRAs with \$15,000 annual contribution limits and no income tests to allow all persons to do as much with an IRA as those with a 401(k) plan. This would make it easier for small employers to defer creation of employment-based retirement plans. How the beginning of this broad debate will interact with the specific tax cuts already on the table isn't clear at this point. If reformers focus on lowering rates as Ronald Reagan did in 1985-86, some tax expenditures (the largest of which subsidizes employee benefits) could be at risk.

Congress: New Chairs, New Priorities

With the Republicans retaking control of the Senate, all the committees will have new chairmen. In many cases, this suggests new agendas as well. For benefits-related issues, here's a run-down of how the leadership is changing in some key committees:

- ***Senate Health, Education, Labor, and Pensions Committee:*** The new chairman is Sen. Judd Gregg (R-NH), who replaces Sen. Edward Kennedy (D-MA). Gregg is a moderate with a strong interest in pensions and Social Security issues, as well as in union issues. The panel will probably have equal interest in pension reform as the last Congress, but with a different orientation. The strongly regulatory 401(k) bill that Kennedy narrowly pushed through the committee earlier this year—much to the consternation of the plan sponsor community—will not advance in the next Congress.
- ***Senate Banking Committee:*** Sen. Richard Shelby (R-AL) replaces Sen. Paul Sarbanes (D-MD) as chairman of the panel that has jurisdiction over many corporate reform issues, including accounting questions. Shelby worked closely with Sarbanes on accounting reform and has been a critic of the SEC and

Wall Street practices. He has cooperated with Ralph Nader on legislation to allow shareholders who feel they've been defrauded to sue corporate executives and their lawyers or accountants.

- ***Senate Finance Committee:*** Sen. Charles Grassley (R-IA) reclaims the gavel from Sen. Max Baucus (D-MT), but there is not likely to be any radical change. The two have worked closely to craft bipartisan initiatives in the past and will likely continue that habit. Add the fact that tax proposals must start in the House of Representatives and you have the formula for minimal short-term excitement in the Finance Committee. Grassley is one of the relatively few lawmakers in Congress who has a strong personal interest in retirement issues, and will be a key player in shaping pension tax provisions next year.
- ***Senate Government Affairs Committee and Special Investigations Subcommittee:*** Sen. Susan Collins (R-ME) takes the chair of both units, with interesting implications for private pension issues. As a staff member of former Senator Bill Cohen (R-ME) when he held the same gavel 20 years ago, she staffed hearings related to the Teamster's pension plan

and pension fund proxy voting and corporate governance. With current concerns about pension accounting and funding practices, she may pick up where she left off.

Regulatory Changes

Election day was also marked by the resignation of embattled Securities and Exchange Commission Chairman Harvey Pitt. Pitt quit shortly after it was learned that he'd failed to tell his colleagues that William Webster, the new chairman of the accounting supervisory board, had chaired the audit committee of a troubled firm that fired its accounting firm. Webster resigned the following week.

How this will all play out in terms of corporate governance reforms remains murky. One extreme possibility is that activists with a more ambitious agenda will be appointed. The other is that the debate over personnel will allow the sense of urgency about such issues to dissipate further, thereby reducing the likelihood of major governance reform.

SEC Sets New Audit Panel Rules

The Securities and Exchange Commission is proposing new rules to implement new responsibilities required by the Sarbanes-Oxley Act of 2002. In press releases, the commission proposed new standards for corporate audit

committees as well as for lawyers who appear before the regulatory agency. Both are available at www.sec.gov/news/press.shtml

Proposed Minimum Distribution Rule Delayed

The Treasury Department has announced that it will delay the effective date of a new policy mandating minimum distributions from defined benefit plans. Earlier, Treasury proposed that the new rules would govern after Jan. 1. There's no word on when to expect further action.

EBRI in Focus

EBRI Education On the Road

EBRI's series of presentations on EBRI research findings continued in November, including these events:

- EBRI Health Research Analyst Rachel Christensen moderated a scientific session entitled "Developing Programs and Policies to Serve the Uninsured" at the 130th Annual Meeting of the American Public Health Association in Philadelphia Nov. 12. The APHA annual meeting is the primary professional and scientific conference of the U.S. public health community, and was attended this year by more than 13,000 public health professionals.
- EBRI Senior Research Associate Craig Copeland attended the Nov. 15 meeting in Paris, France, of the Organization of Economic Cooperation and Development (OECD) Task Force on Pension Statistics as EBRI's representative on the United States delegation to the panel. The Task Force is working on the process and standards necessary for the collection of data on pension plans from both member and nonmember OECD countries.
- EBRI Senior Research Associate Paul Fronstin spoke at the Florida Association for Managed

Care Professionals/Florida Hospital Association Annual Meeting and Conference Nov. 20 in Lake Buena Vista, FL, on the impact of consumer-driven health plans.

- EBRI Research Associate Ken McDonnell, sponsored by the Japanese Ministry of Health, Labor, and Welfare and the Research Institute for Policies on Aging (RIPA), met with government and industry officials and EBRI Member firms in Japan Nov. 1–12. His meetings were related to a new research project being launched by RIPA to evaluate recent pension reforms, in particular in the United States and Europe. McDonnell's presentations focused on "The U.S. Pension System: Trends and Issues."

Washington, DC-area events attended by EBRI CEO Dallas Salisbury in November included a study panel on individual retirement accounts of the National Association of Social Insurance (NASI); a live Web-based computer "chat room" on 401(k) and retirement preparation issues, sponsored by WorldatWork; a leadership conference and board meeting of the Society for Human Resources Management; participation in the Secretary of Health and Human Services Advisory Committee on Medicare Education (of which he is a member), where he moderated a discussion on long-term care education; and a meeting with high-ranking health officials of the

Japanese Ministry of Health, Labor, and Welfare.

Other presentations by Salisbury included:

- On Nov. 4 at the New York Times Foundation's International Longevity Center, 3rd Annual Age Boom Academy for Reporters, he was part of a panel that addressed the issue of "The Income-Age Race: Managing Economic Security in Later Life." Nineteen health and finance reporters from major national papers were the "student body" for the presentation. Salisbury highlighted results of the EBRI/Milbank Study of Future Economic Security in Kansas, results of the EBRI/ICI Defined Contribution Database on Asset Allocation by Age, and the implications of market declines at different life stages, as well as results of recent EBRI work on the savings needed to finance retiree health expenses during retirement.
- On Nov. 4, he was on a panel of the 8th Personal Finance Conference of the Society of American Business Editors and Writers, held at the Wharton School of Economics in Philadelphia. Salisbury reviewed the history of the development of accounting standards for defined benefit pension plans, the current funded status of plans, and implications of the current

debate over accounting for pension earnings and liabilities for plan growth and continuation. He was joined by Allen Sloan of *Newsweek Magazine* and James Kline of the American Benefits Council, as they engaged 85 business and personal finance writers in a discussion of the complexities of reporting pension funding and accounting.

- On Nov. 7, he addressed "Trends in Pension Funds and Implications for Bond Managers" at the Institutional Investor Fixed Income Forum in Boston. Salisbury presented a current picture of the defined benefit and defined contribution system, including data from EBRI's *Pension Investment Report* on long-term asset allocation trends in public and private plans and asset allocation detail on defined contribution participants by age. The data suggest a growing role for fixed income investments as the population ages and assets shift to individual accounts and rollover IRAs.

Also on Nov. 7, Salisbury joined more than 220 HR professionals for the 10th annual New Fellows installation dinner in New York City; he has been a Fellow of the National Academy for Human Resources since 1992.

- On Nov. 8, Salisbury conducted a seminar for a Japanese Study Delegation from the Sumitomo-Life Research Institute Inc., Tokyo, Japan, on “The U.S. Pension System—1950 to 2050.”
- On Nov. 12, Salisbury presented a keynote presentation to the 200 assembled labor leaders at the National Coordinating Committee for Multiemployer Plans (NCCMP) annual conference in Florida. His topic was on “Pension Opportunities and Challenges in Post-Enron America.”
- On Nov. 14, he spoke on the topic of “The 2002 Election and Pension Policy: What Should Plan Sponsors Expect?” at the Novartis Corp. U.S. Investment Committee and Finance Meeting in New Orleans.
- On Nov. 17, Salisbury delivered a presentation on “Initiatives to Reduce Health Costs: What Is Consumer-Driven Health Care?” at the Printing Industries of America Government Affairs Committee Annual Meeting in New Orleans.

New Publications & Internet Resources

[Note: To order publications from the U.S. Government Printing Office (GPO), call (202) 512-1800; to order congressional publications published by GPO, call (202) 512-1808. To order U.S. General Accounting Office (GAO) publications, call (202) 512-6000; to order from the Congressional Budget Office (CBO), call (202) 226-2809.]

Aging

National Institute on Aging and U.S. Administration on Aging. Resource Directory for Older People. Free. NIA Information Center, (800) 222-2225; www.nia.nih.gov/resource or www.aoa.gov/directory.

Ogura, Seiritsu, Toshiaki Tachibanaki, and David A. Wise. *Aging Issues in the United States and Japan*. \$75. University of Chicago Press, Order Dept., 11030 S. Langley Ave., Chicago, IL, 60628, (800) 621-2736, fax: (800) 621-8476.

Compensation

WorldatWork. Report on the 2002-2003 Total Salary Increase Budget Survey. WorldatWork members, \$95; nonmembers, \$125. WorkatWork, Attn: Customer Relations, 14040 N. Northsight Blvd., Scottsdale, AZ 85260, (877) 951-9191.

Employee Benefits

Hay Group. 2002 Hay Benefits Report: Volume I: Prevalence of Benefits Practices and Executive Summary. Survey participants, \$995; nonparticipants, \$1,990. Hay Group, 100 Penn Square East, Philadelphia, PA 19107-3388, Attn: Joyce Chrostowski, (215) 861-2784, fax: (215) 861-2106.

Entitlement Programs

Mercer Human Resource Consulting. 2003 Guide to Social Security and Medicare. Cost varies by quantity ordered. Mercer Human Resource Consulting, Social Security Division, 462 S. 4th St., Suite 1500, Louisville, KY 40202-9780, (800) 333-3070, fax: (502) 561-7858, www.imercer.com/socialsecurity.

Health Care

Conning Research & Consulting, Inc. State Regulation of Health Insurance: The Unseen Crisis. \$1,250. Conning Corp., City Place II, 185 Asylum St., Hartford, CT 06103, (888) 707-1177, fax: (860) 520-1521.

Health2 Resources. How Employers Are Using the Internet to Manage Health Benefits – The eHealth Promise. Employers, \$24.95; consultants and vendors, \$74. Health2 Resources, 344 Maple Ave. West, Suite 245,

Vienna, VA 22180, (703) 319-0957, fax: (703) 319-0956, www.hin.com.

Henry J. Kaiser Family Foundation, Commonwealth Fund, and Tufts-New England Medical Center. Seniors and Prescription Drugs: Findings from a 2001 Survey of Seniors in Eight States. Free. Henry J. Kaiser Family Foundation, 1450 G St., NW, Washington, DC 20005, (800) 656-4533, www.kff.org/.

Pharmacy Benefit Management Institute, Inc. The Takeda Prescription Drug Benefit Cost and Plan Design Survey Report. Free at www.pbmi.com or call (202) 338-8256.

Pharmaceutical Care Management Association. Patient Satisfaction Survey of Prescription Drug Benefits Programs Administered by Pharmacy Benefits Managers. Free at www.pbmi.com or call (202) 338-8256.

Pension Plans/Retirement

John Hancock Financial Services. Defined Contribution Plan Survey: Insight Into Participant Investment Knowledge & Behavior. Eighth annual edition. Free. Wayne Gates, John Hancock Financial Services, (617) 572-9140, wgates@jhancock.com.

National Association of Government Deferred Compensation Administrators. 2001 Survey of 457 Plans. [CD-ROM format] NAGDCA members, \$75; nonmembers, \$100. National Association of Government Deferred Compensation Administrators, 167 W. Main St., Suite 600, Lexington, KY 40507, (859) 231-1904, fax: (859) 514-9188.

Society of Actuaries, and Nationwide Financial Services. Risks in Investment Accumulation Products of Financial Institutions. \$25. The Actuarial Foundation, Attn: Laura Hogan, Foundation Administrator, 475 N. Martingale Rd., Suite 800, Schaumburg, IL 60173, Fax: (847) 706-3599.

Wells Fargo Retirement Plan Services, Inc. 401(k) Answer Book: 2003 Edition. \$195. Panel Publishers, 1185 Avenue of the Americas, 37th Floor, New York, NY 10036, (800) 638-8437.

Reference

Omnigraphics, Inc. Headquarters USA 2003: A Directory of Contact Information for Headquarters and Other Central Offices of Major Businesses & Organizations in the United States and in Canada. \$175. Omnigraphics, Inc., Penobscot Bldg., Detroit, MI 48226, (800) 234-1340.

Social Security

Plamondon, Pierre, et al. Actuarial Practice in Social Security. \$60. International Labor Office, ILO Publications Center, P.O. Box 753, Waldorf, MD 20604-0753, (301) 638-3152.

Tax Policy

Poterba, James M. Tax Policy and the Economy 16. \$25. The MIT Press, c/o Trilateral, 100 Maple Ridge Dr., Cumberland, RI 02864, (800) 405-1619 or (401) 658-4226, fax: (401) 531-2801.

Internet Documents

Employee Tenure

www.bls.gov/news.release/tenure.toc.htm

Health Insurance Coverage: 2001
www.census.gov/hhes/www/hlthin01.html

Health Insurance Is a Family Matter
www.nap.edu/books/0309085187/html/

How America Saves: A Report on Vanguard Defined Contribution Plans
institutional.vanguard.com/pdf/HAS_2002.pdf

Lost Retirement Money and Social Security
benefitslink.com/articles/lostfunds200209.pdf

Maximum Benefits and Contributions Limits for 2000-2003
benefitsattorney.com/415.html

Nature or Nurture: Why Do 401(k) Participants Save Differently than Other Workers?
www.federalreserve.gov/pubs/feds/2002/200233/200233pap.pdf

The Taxation of Individual Retirement Plans: Increasing Choice for Seniors
www.house.gov/jec/tax/irp.pdf

Employee Benefit Serials on the Web

BNA Pension & Benefits Reporter
www.bna.com/products/eb/pen.htm

Benefits Quarterly
www.iscebs.org/BQinfo/

Business Insurance
www.businessinsurance.com

CUPA-HR News
www.cupahr.org/cupahrnews/

Contingencies
www.contingencies.org

Employee Benefit News
www.benefitnews.com

Employee Benefit Plan Review
www.spencernet.com/EBPR.html

Employee Ownership Report
www.nceo.org/nceo/newsletter.html

HR Magazine
www.shrm.org/hrmagazine

Health Affairs
www.healthaffairs.org/

Pensions & Investments
www.pionline.com

Plan Sponsor
www.plansponsor.com

Social Security Bulletin
www.ssa.gov/policy/pubs/SSB/

Workforce
www.workforce.com

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