

# EBRI ISSUE BRIEF

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## INDIVIDUAL RETIREMENT ACCOUNTS: CHARACTERISTICS AND POLICY IMPLICATIONS

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### ABSTRACT

Individual retirement accounts (IRAs) were originally established in 1974 as a tax incentive for retirement savings for workers not covered by a pension plan. The Economic Recovery Tax Act (ERTA) of 1981 expanded IRA eligibility to all workers and increased the maximum allowable contribution. New data on who takes advantage of IRAs are now available based on the most complete survey ever undertaken on the subject. The survey was designed and sponsored by the Employee Benefit Research Institute (EBRI) and the U.S. Department of Health and Human Services (HHS). It was conducted by the U.S. Census Bureau, under contract, in May 1983. This Issue Brief presents the first, selected findings from the survey on IRAs and their relationship to other forms of retirement saving.

Detailed information is presented on the distribution of IRAs for 1982 by workers' earnings, age, sex, job tenure, and size of employer, and on the relationship of IRAs to the provision of employer pensions. More than half of the survey respondents said they established an IRA in order to obtain a tax deduction, as compared to 38 percent who were principally interested in saving for retirement. More than half of all funds contributed to IRAs in 1982 came from savings, while 43 percent came from earnings. Well over half of those who established an IRA for 1982 reported contributing \$2,000 or more. Fixed-interest investment instruments attracted more than 60 percent of IRA funds.

Employer-sponsored pensions are more broadly based than IRAs at all income levels and are more evenly distributed across the income spectrum. Nonetheless, IRAs are utilized across the age and income spectrum, and provide added protection for workers not vested in their pensions. At current growth rates, however, IRAs would not replace Social Security or employer-provided pensions as principal sources of the nation's total retirement income.

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## **ECONOMIC SECURITY AND THE HISTORY OF IRAS**

Economic security in retirement has been a national policy goal since enactment of the Social Security program in 1935. Retirees presently seek to meet this objective through a combination of government-provided, employer-provided and personal sources: Social Security, Medicare, employer pensions and other employer-sponsored capital accumulation programs, employer-provided postretirement health insurance, personal savings, family transfers, and employment.

The most recent addition to this "family" of income sources for all workers is the individual retirement account (IRA) -- a program which relies on the individual to save for retirement.

IRAs were first established by the Employee Retirement Income Security Act of 1974 (ERISA) for workers not otherwise participating in an employer-sponsored pension plan. IRAs were designed to provide these individuals a vehicle for funding retirement benefits on a preferential tax basis. President Nixon first called for this new tax incentive in 1971 in a message to Congress, citing the need to provide equitable treatment to individuals who lacked the advantage of tax-deferred savings through an employer.

### Equal Access Through ERTA

Following passage of ERISA, concern arose that many working Americans with employer-sponsored pensions also needed to be encouraged to save more toward retirement. The President's 1981 Commission on Pension Policy was one of several advisory groups which recommended major changes in IRA legislation to expand personal savings for retirement income. The Commission recommended that additional tax incentives be provided for IRAs through expanding the amounts that could be contributed to IRAs and expanding IRA eligibility.

The Economic Recovery Tax Act of 1981 (ERTA) was enacted in response to this call for greater individual savings effort. The goals of increasing household savings and stimulating the economy, combined with an interest in increasing the economic well-being of future retired Americans, brought easy passage. ERTA expanded the availability of IRAs by: 1) permitting contributions to IRAs by all workers under age 70 1/2 independent of their employers; 2) increasing the maximum deductible contribution from \$1,500 to \$2,000; 3) increasing the maximum combined contribution allowed for a spousal IRA from \$1,750 to \$2,250; and 4) raising employee contributions from \$1,500 to \$2,000 to an employer-sponsored individual retirement plan, called a simplified employee pension (SEP). The Senate Finance Committee in its report on the legislation gave the following reasons for support of IRA changes:

The committee is concerned that the resources available to individuals who retire are often not adequate to avoid a substantial decrease from preretirement living standards. The committee believes that retirement savings by individuals can make an important contribution toward maintaining preretirement living standards and that the present level of individual savings is too often inadequate for this purpose. The committee understands that personal savings of

individuals have recently declined in relation to personal disposable income (i.e., personal income after personal tax payments). During the years 1973 through 1975, the personal savings rate was no more than 8.6 percent. It declined to 5.2 percent in 1978 and 1979, and rose only slightly in 1980 to 5.6 percent. (These savings estimates include employer payments to private pension funds.)

The committee has found that the present rules providing tax-favored treatment for individual retirement savings have become too restrictive in view of recent rates of inflation and because they do not sufficiently promote individual savings by employees who participate in employer-sponsored plans.

The committee bill is designed to promote greater retirement security by increasing the amount which individuals can set aside for retirement in an IRA, and by extending IRA eligibility to individuals who participate in employer-sponsored plans. The bill also extends additional tax-favored treatment to voluntary employee contributions to employer-sponsored plans so that plan participants can take advantage of systematic payroll deductions to accumulate tax-favored retirement savings.<sup>1</sup>

#### The IRA Debate

Since the creation of individual retirement accounts, a variety of public policy issues related to IRAs have been the subject of debate. This has led to a reevaluation of the value of IRAs as a retirement income source. The public policy perspectives are diverse. First, some proponents of individual retirement accounts believe that IRAs with higher contribution limits should be available in addition to other forms of retirement savings. Second, some IRA advocates would like IRA contribution limits raised, even if tax incentives for employer-sponsored pensions had to be reduced. Third, some believe that IRAs should be an explicit alternative to Social Security and that individuals should have the option of not contributing to the Social Security system. Fourth, some proponents of "basic tax reform" would increase the relative emphasis on individual initiative programs like IRAs. Finally, others think IRAs should be abolished altogether.

This debate has important consequences for retirement income in this country. For this reason, the Employee Benefit Research Institute (EBRI) is engaged in a major research effort on this issue. EBRI joined with the U.S. Department of Health and Human Services and contracted with the U.S. Bureau of the Census for a nationwide May 1983 survey on pension participation (the May 1983 EBRI/HHS Current Population Survey (CPS) pension supplement). The May 1983 EBRI/HHS CPS is the broadest and most complete survey ever undertaken on IRAs and other retirement income programs. The EBRI/HHS survey data include extensive information on IRA investment and utilization by income, age, sex, marital status, industry of employment, job tenure, date of original IRA creation, and other factors.

<sup>1</sup> U.S. Congress. Senate Committee on Finance. Report No. 97-144.

The survey also collected extensive data on other retirement programs. This information will be analyzed and reported in a major study by EBRI Research Associate Dr. Emily Andrews to be published in 1984 as: The Changing Profile of Pensions in America. While the survey does not provide the detailed marketing information some have sought, it provides the type of information essential to assess public policy. The analysis that follows presents selected survey findings on IRAs and their relationship to other forms of retirement saving.

#### The Early Years Brought Slow IRA Growth

During 1975, the first year of IRA availability, Internal Revenue Service (IRS) data show that 1.2 million (or 2.5 percent) of the approximately 48 million eligible individuals opened IRAs and deposited \$1.4 billion into these accounts. In 1981, the last tax year in which IRA use was limited, 3.4 million eligible taxpayers (or 7.0 percent) reported an IRA contribution, and deposited \$4.7 billion.

Using Internal Revenue Service (IRS) data, early IRA usage can be analyzed by taxable income category. Table 1 shows that the creation of IRAs in 1981 was most frequent at higher income levels. Data indicate that this was true in every tax year between 1975 and 1981. This is consistent with greater savings and higher tax rates found among households with higher incomes.

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TABLE 1  
Eligible Returns with IRA Deductions by Taxable Income for 1981

Taxable Income	Number (000's)	Distribution (percent)	Usage Within Income Levels (percent)
Total	3,415	100.0	7.0
\$0 to 19,999	782	22.8	4.3
\$20,000 to 49,999	1,987	58.2	21.8
\$50,000 and over	647	18.9	52.0

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Source: Employee Benefit Research Institute tabulations based upon U.S. Department of Treasury, Internal Revenue Service, 1981 Statistics of Income Individual Income Tax Returns (Washington, DC: Government Printing Office, 1983) pp. 38 and 45 and EBRI estimates of usage within income levels based on prior studies.

Note: Numbers and percents may not add to totals due to rounding.

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More IRAs were established by taxpayers earning less than \$20,000 than by those earning \$50,000 and over. The IRS data for 1981 indicate, however, that those with taxable incomes of less than \$20,000 held 16.7 percent of all

accumulated IRA dollars as compared to 22.9 percent for those with incomes above \$50,000 (see table 2).

Those advocating expansion of IRA availability in 1981 argued that greater utilization -- contributions to an IRA -- would be realized at all income levels. Those without employer pensions would also increase their utilization of IRAs, it was argued, because of the increase in advertising and the greater familiarity with the concept. The possibility of expanded savings, tax reduction, and retirement income resulting from expanded IRA availability generated policy interest, and was a major factor contributing to the enactment of the universal IRA in the Economic Recovery Tax Act. Until the EBRI study, however, no analyses on post-1981 IRA usage have supported or refuted these theories.

#### 1982: The First Year of the Universal IRA

Universal availability in 1982 brought greatly expanded IRA growth, and created a new and highly competitive market. IRS data for 1982 recorded 12.1 million contributions to IRAs in tax year 1982 -- nearly four times the number who contributed in 1981 (see table 2).

The IRS data indicate that the distribution of IRA holders between 1981 and 1982 across the income spectrum changed somewhat, as the absolute number of IRAs grew.

TABLE 2  
IRA Usage by Taxable Income for 1981 to 1982

Taxable Income	Returns with				Value of			
	IRA Deductions		IRA Deductions		IRA Deductions		IRA Deductions	
	Number (000's)		Distribution (percent)		Amount (billions)		Distribution (percent)	
	1981	1982	1981	1982	1981	1982	1981	1982
Total	3,415	12,098	100.0	100.0	\$4.8	\$28.4	100.0	100.0
\$0 - 19,999	782	2,286	22.8	18.9	0.8	4.1	16.7	14.4
\$20,000-49,999	1,987	7,202	58.2	59.5	2.8	17.0	58.3	59.9
\$50,000 and over	647	2,584	18.9	21.4	1.1	7.6	22.9	26.8

Source: Employee Benefit Research Institute tabulations based upon U.S. Department of Treasury, Internal Revenue Service, 1981 Statistics of Income Individual Income Tax Returns (Washington, DC: Government Printing Office, 1983) pp. 38 and 45 and Statistics of Income Bulletin, vol. 3, no. 3 (Winter, 1983-84), p. 18.

Note: Numbers and percents may not add to totals due to rounding.

As a share of the total, the number of IRAs formed in the lowest income categories in 1982 dropped from 22.8 percent to 18.9 percent, while in the highest income categories, formation increased from 18.9 percent to 21.4 percent of total IRAs.

Those with less than \$20,000 in income deducted 14.4 percent of total contributions in 1982, down from 16.7 percent of total contributions in 1981. The proportion of the dollar value of contributions shifted toward those in the highest income bracket from 22.9 percent in 1981 to 26.8 percent in 1982. This shift might be explained by the ERTA increase in contribution limits. Also, higher earners are more likely to be able to set aside the maximum amount.

The greater availability of IRAs allowed significant capital to accumulate in the accounts. At year end 1981, IRA and Keogh assets totaled just over 38 billion dollars. By the end of tax year 1982 they exceeded 80 billion dollars, and by December 1983 they exceeded 105 billion dollars. Some have projected that under current law IRA assets could reach one trillion dollars by the turn of the century.

#### FINDINGS FROM THE MAY 1983 EBRI/HHS CURRENT POPULATION SURVEY

Preliminary EBRI tabulations of the May 1983 EBRI/HHS CPS go well beyond the IRS data and provide interesting and valuable new information on the relationship of IRAs to age, income, sex, job tenure and pension coverage.

TABLE 3  
IRA Usage by Earnings for 1982  
(Civilian Employment, May 1983)

Earnings	Civilian Employment		IRA Usage		
	Number (000's)	Distribution (percent)	Number (000's)	Distribution (percent)	Within Earnings Levels (percent)
Total	98,964	100.0	16,713	100.0	16.9
\$ 1 to \$ 4,999	11,940	12.1	842	5.0	7.1
\$ 5,000 to \$ 9,999	16,738	16.9	1,417	8.5	8.5
\$10,000 to \$14,999	19,044	19.2	2,109	12.6	11.1
\$15,000 to \$19,999	13,644	13.8	2,366	14.2	17.3
\$20,000 to \$24,999	10,685	10.8	2,146	12.8	20.1
\$25,000 to \$29,999	5,817	5.9	1,654	9.9	28.4
\$30,000 to \$49,999	7,178	7.3	2,781	16.6	38.7
\$50,000 and over	2,020	2.0	1,165	7.0	57.6

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported.

### IRAs by Earnings

According to the May 1983 EBRI/HHS CPS, more than 16.7 million IRAs had been established by the end of tax year 1982. (Some respondents may have more than one IRA which would overstate the number of IRAs, but some might have responded on behalf of themselves and a working spouse which would understate the number of IRAs. For the sake of analysis, an assumption is made here that these are individual IRAs.) Assuming that each belongs to a different individual, 16.9 percent of all wage and salary earners had established IRAs for 1982.

The data in table 3 show that IRA usage increases with income. The midpoint (median) of IRA earnings is \$25,000; 50 percent of all IRAs are established above and below that level. This compares to a median individual earnings for employed civilian workers of approximately \$17,000. Furthermore, only 15.1 percent of all survey respondents earn above \$25,000.

### IRAs by Age

Studies of saving indicate increased savings as individuals grow older. Table 4 shows that this tendency holds true for IRAs. Highest use rates occur between 55 and 64, while the greatest proportion of IRAs are held by those between 45 and 54. The median age for IRAs is approximately 46 compared to a working population median of approximately 36.

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TABLE 4  
IRA Usage by Age for 1982  
(Civilian Employment, May 1983)

Age	Employment		IRA Usage		
	Number (000's)	Distribution (percent)	Number (000's)	Distribution (percent)	Within Age Group (percent)
Total	98,964	100.0	16,713	100.0	16.9
Less than 25 years	19,127	19.3	445	2.7	2.3
25 to 34 years	28,773	29.1	3,108	18.6	10.8
35 to 44 years	21,484	21.7	3,967	23.7	18.5
45 to 54 years	15,493	15.7	4,532	27.1	29.3
55 to 64 years	11,218	11.3	4,169	24.9	37.2
65 years and over	2,870	2.9	491	2.9	17.1

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Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose age was not reported.

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**TABLE 5**  
**IRA Usage by Earnings, Job Tenure and Sex for 1982**  
**(Nonagricultural Wage and Salary Workers, May 1983)**

Earnings	<u>All Tenures</u>	<u>3 to 5 years</u> <u>Tenure</u>	<u>26 or more years</u> <u>Tenure</u>
	IRA Usage within Earnings Levels (percent)	IRA Usage within Earnings Levels (percent)	IRA Usage within Earnings Levels (percent)
<b><u>MEN</u></b>			
Total	18.5	13.8	43.0
\$1 to 4,999	4.4	8.7	a
\$5,000 to 9,999	5.5	7.4	14.8
\$10,000 to 14,999	7.3	6.3	15.3
\$15,000 to 19,999	14.8	10.4	34.1
\$20,000 to 24,999	18.4	12.8	33.7
\$25,000 to 29,999	28.0	20.2	44.1
\$30,000 to 49,999	38.9	30.5	57.0
\$50,000 and over	59.2	52.0	8.7
<b><u>WOMEN</u></b>			
Total	15.2	14.2	35.7
\$1 to 4,999	8.8	11.0	12.3
\$5,000 to 9,999	9.8	10.3	16.2
\$10,000 to 14,999	14.2	12.1	33.0
\$15,000 to 19,999	21.4	17.1	34.7
\$20,000 to 24,999	25.4	23.2	42.1
\$25,000 to 29,999	35.8	41.1	65.0
\$30,000 to 49,999	43.9	40.3	70.9
\$50,000 and over	51.8	a	a

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported.

<sup>a</sup> Numbers are too small to infer significance.

#### IRAs by Earnings, Sex and Job Tenure

Women at most earnings levels are more likely to establish IRAs than men. Table 5 indicates that this is true among all job tenure groups as well. Among those who had worked with their current employer between three and five years in 1982 and earned between \$15,000 and \$30,000, women were almost twice



as likely as men to have established an IRA.

### IRAs by Employer Size

ERISA and ERTA clearly state that one objective of IRAs is to encourage savings for retirement among those in greatest need of saving by providing a tax incentive. This need is greatest among those without pension coverage, without long-term employment stability, and with lower levels of compensation. These characteristics are frequently related to employer size. Table 6 assesses the success of this objective across firms of different sizes. A comparison of table 6 with previous tables show that IRA utilization is much less a function of employer size than it is of earnings (table 3), age (table 4), and sex (table 5).

TABLE 6  
IRA Usage by Size of Employer for 1982  
(Civilian Employment, May 1983)

Size of Employer	Employment		IRA Usage		
	Number (000's)	Distribution (percent)	Number (000's)	Distribution (percent)	Within Employer Size Categories (percent)
Total	98,964	100.0	16,713	100.0	16.9
Self-Employed	9,144	9.2	1,649	9.9	18.0
Wage and Salary Employees					
Less than 25	21,202	21.4	2,866	17.1	13.5
25 to 99	10,214	10.3	1,510	9.0	14.8
100 to 499	10,785	11.0	1,927	11.5	17.9
500 to 999	4,431	4.4	796	4.8	18.0
1,000 and over	29,536	30.0	6,007	36.0	20.3

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose employer size was not reported.

### IRAs Among Those without Employer Pensions

Establishment of IRAs by those not covered by employer pensions has increased substantially. IRS data report 3.415 million IRAs among those without

employer pensions at the end of tax year 1981. The May 1983 EBRI/HHS CPS reported 4.8 million IRAs among those not covered by employer pensions for tax year 1982. The Department of Labor/HHS 1979 CPS found 1.5 million IRAs at the end of the 1978 tax year. Table 7 presents data on IRA utilization by income class for employed workers not covered by a pension plan. IRA utilization generally increases with individual earnings. But, utilization is lower for the noncovered (table 7) in every earnings category than among those with pensions (see table 3).

TABLE 7  
IRA Usage Among Workers Not Covered by Pensions  
by Earnings for 1982  
(Civilian Employment, May 1983)

Earnings Levels	Employment		IRA Usage		Within Earnings Levels (percent)
	Number (000's)	Distribution (percent)	Number (000's)	Distribution (percent)	
Total	30,998	100.0	3,745	100.0	12.1
\$1 to 4,999	6,248	20.2	341	9.1	5.5
\$5,000 to 9,999	7,770	25.1	520	13.9	6.7
\$10,000 to 14,999	6,387	20.6	627	16.7	9.8
\$15,000 to 19,999	3,113	10.0	614	16.4	19.7
\$20,000 to 24,999	1,831	5.9	352	9.4	19.2
\$25,000 to 29,999	1,021	3.3	303	8.1	29.7
\$30,000 to 49,999	929	3.0	358	9.6	38.5
\$50,000 and over	215	0.7	102	2.7	47.4

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported.

IRAs and salary reduction programs -- which allow an employee to take a reduction in salary which is then placed in a tax-qualified trust -- represent retirement savings in addition to a pension for the vast majority of workers. Table 8 shows that more than 46 percent of those with IRAs have a vested pension right with their current employer. (For older age groups, other EBRI tabulations show that vesting rates are much higher.) Note, again, that rates of coverage and usage of IRAs and salary reduction arrangements are lowest among those without employer pension plan coverage.

Spousal IRAs

The most recent "equity" debate surrounding IRAs relates to spousal IRAs -- those which are available for nonworking spouses. Of the 16.7 million workers who reported having IRAs in the May 1983 EBRI/HHS CPS, 3.95 million (20.9 percent) reported having a nonworking spouse. Of those, 1.95 million (55.7 percent) established spousal IRAs.

TABLE 8  
Distribution of IRA, Spousal IRA and 401(k) Plan Participants  
by Pension Status for 1982  
(Civilian Employment, May 1983)

Pension Status	<u>IRA Usage</u>	<u>Spousal IRA Usage</u>	<u>401(k) Plan Usage</u>	
			Eligible	Participants
		Number (000's)		
	16,713	1,954	7,059	2,703
		Percent		
Covered	71.1	76.1	90.6	90.6
Participant	64.8	72.7	79.4	86.9
Vested	46.1	57.0	49.7	59.8
Not Covered	22.7	16.6	7.4	8.2
Not Known	6.2	7.4	a	a
Total	100.0	100.0	100.0	100.0

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding.

<sup>a</sup> Numbers for eligible workers are too small to infer significance.

Tables 9 and 10 provide data on spousal IRA use by income and age. The proportion of spousal IRAs among higher earnings groups is significantly greater than among lower earnings groups. The proportion of all spousal IRAs established by those 55 to 64 is much greater than at younger ages (see table 10).

**TABLE 9**  
**Spousal IRA Usage Among Respondents with an IRA by Earnings for 1982**

Earnings	Number Eligible (000's)	Distribution (percent)	Number Contributing (000's)	Distribution (percent)	Within Earnings Levels (percent)
Total	3,504	100.0	1,954	100.0	55.8
\$ 1 to \$ 4,999	114	3.3	58	3.0	51.0
\$ 5,000 to \$ 9,999	172	4.9	a	a	a
\$10,000 to \$14,999	301	8.6	104	5.3	34.4
\$15,000 to \$19,999	409	11.7	205	10.5	50.0
\$20,000 to \$24,999	429	12.2	267	13.7	62.2
\$25,000 to \$29,999	359	10.2	182	9.3	50.7
\$30,000 to \$49,999	686	19.6	444	22.7	64.7
\$50,000 and over	436	12.4	330	16.9	75.7

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported.

a Numbers are too small to infer significance.

**TABLE 10**  
**Spousal IRA Usage Among Respondents with an IRA by Age for 1982**

Age	Number Eligible (000's)	Distribution (percent)	Number Contributing (000's)	Distribution (percent)	Within Age Group (percent)
Total	3,504	100.0	1,954	100.0	55.8
Under 25 years	a	a	a	a	a
25 to 34 years	306	8.7	113	5.8	36.9
35 to 44 years	588	16.8	279	14.3	47.4
45 to 54 years	980	30.0	580	29.7	59.2
55 to 64 years	1,366	39.0	854	43.7	62.5
65 years and over	221	6.3	124	6.3	56.2

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose age was not reported.

a Numbers are too small to infer significance.

Employer pension coverage appears to increase the likelihood of spousal IRA use. The EBRI/HHS study shows that among covered workers establishing an IRA and eligible to open a spousal IRA, 61 percent do so. This compares to 44.26 percent rate of spousal IRA use for those without employer pension coverage. Among those with a vested pension right, the use rate is 66 percent.

#### Why Do People Establish IRAs?

The reasons people give for establishing an IRA show that the tax code can affect behavior. Obtaining the tax deduction motivated 53.1 percent of those using IRAs as compared to 38.4 percent who were principally interested in saving for retirement. Tables 11 and 12 show that workers established IRAs for retirement income more frequently at younger ages and lower earnings levels.

#### Where Do IRA Contributions Come From?

More than half of all the funds contributed to IRAs in 1982 came from savings, while 43 percent were contributed from earnings. Tables 13 and 14 show that this relationship was quite consistent across age groups and at all income levels. Those earning between \$20,000 and \$50,000 were most likely to make the contribution from savings.

TABLE 11  
Reasons for IRA Usage by Age for 1982  
(Civilian Employment, May 1983)

Age	Number of IRAs (000's)	Reasons				
		Total Deduction (percent)	Tax Deduction (percent)	Retire- ment (percent)	Other (percent)	Not Given (percent)
Total	16,713	100.0	53.1	38.4	2.2	6.3
Under 25 years	445	100.0	38.2	43.8	a	a
25 to 34 years	3,108	100.0	53.3	37.9	3.1	5.7
35 to 44 years	3,967	100.0	51.9	39.7	2.0	6.4
45 to 54 years	4,532	100.0	52.9	38.5	1.5	7.1
55 to 64 years	4,169	100.0	55.2	37.9	1.6	5.3
65 years and over	491	100.0	60.3	28.9	a	a

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of individuals whose age was not reported.

<sup>a</sup> Numbers are too small to infer significance.

TABLE 12  
Reasons for IRA Usage by Earnings for 1982  
(Civilian Employment, May 1983)

Earnings	Number of IRAs (000's)	Reasons				
		Total (percent)	Tax Deduction (percent)	Retire- ment (percent)	Other Reasons (percent)	Reasons Not Given (percent)
Total	16,713	100.0	53.0	38.0	2.2	6.2
\$1 to 4,999	842	100.0	52.1	37.0	<sup>a</sup>	9.2
\$5,000 to 9,999	1,417	100.0	44.3	44.0	5.6	6.8
\$10,000 to 14,999	2,109	100.0	43.1	48.0	<sup>a</sup>	6.8
\$15,000 to 19,999	2,366	100.0	50.1	42.1	2.3	5.5
\$20,000 to 24,999	2,146	100.0	54.0	38.0	2.3	6.0
\$25,000 to 29,999	1,654	100.0	56.0	39.0	<sup>a</sup>	3.5
\$30,000 to 49,999	2,781	100.0	61.0	31.0	2.1	6.1
\$50,000 and over	1,165	100.0	64.2	29.1	<sup>a</sup>	5.8

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported.

<sup>a</sup> Numbers are too small to infer significance.

**TABLE 13**  
Sources of IRA Funds by Earnings for 1982  
(Civilian Employment, May 1983)

Earnings	Number of IRAs (000's)	Within Earnings Level	
		Savings (percent)	Salary (percent)
Total	16,713	54.0	43.0
\$1 to 4,999	842	49.0	40.0
\$5,000 to 9,999	1,417	49.2	48.0
\$10,000 to 14,999	2,109	52.0	42.3
\$15,000 to 19,999	2,366	52.0	47.0
\$20,000 to 24,999	2,146	58.0	42.0
\$25,000 to 29,999	1,654	59.3	35.0
\$30,000 to 49,999	2,781	61.0	40.0
\$50,000 and over	1,165	50.0	46.3

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported.

**TABLE 14**  
Sources of IRA Funds by Age for 1982  
(Civilian Employment, May 1983)

Age	Number of IRAs (000's)	Within Age Groups	
		Savings (percent)	Salary (percent)
Total	16,713	54.0	43.0
Under 25 years	445	42.5	50.3
25 to 34 years	3,108	48.6	43.9
35 to 44 years	3,967	49.6	46.2
45 to 54 years	4,532	56.3	41.5
55 to 64 years	4,169	59.8	39.2
65 years and over	491	53.0	51.1

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose age was not reported.

<sup>a</sup> Numbers are too small to infer significance.

How Much Do Workers Contribute to IRAs?

More than 57 percent reported contributing \$2,000 or more to an IRA account for 1982. Table 15 shows that contributions were slightly lower among women than men. Table 16 shows that maximum contributions were common at all earnings levels, but they were much more likely among the highest earners of both sexes.

TABLE 15  
IRA Contributions by Sex for 1982  
(Civilian Employment, May 1983)

Amount of Contribution	Total		Men		Women	
	Number of IRAs (000's)	Distribution (percent)	Number of IRAs (000's)	Distribution (percent)	Number of IRAs (000's)	Distribution (percent)
Total	16,713	100.0	10,224	100.0	6,489	100.0
Less than \$100	1,381	8.3	793	7.8	588	9.1
\$100 to 499	1,034	6.2	544	5.3	490	7.6
\$500 to 999	1,054	6.3	587	5.7	467	7.2
\$1,000 to 1,999	2,404	14.4	1,415	13.8	989	15.2
\$2,000 and over	9,623	57.6	6,125	59.9	3,498	53.9
Not reported	1,217	7.3	761	7.4	456	7.0

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding.



TABLE 16  
 IRA Contributions of \$2,000 or More  
 by Sex and Earnings for 1982  
 (Civilian Employment, May 1983)

Earnings	Total		Male		Female	
	Number (000's)	Distri- bution. (percent)	Number (000's)	Distri- bution (percent)	Number (000's)	Distri- bution (percent)
Total	9,623	100.0	6,125	100.0	3,498	100.0
\$1 to 4,999	371	3.9	55	0.9	315	9.0
\$5,000 to 9,999	619	6.4	122	2.0	497	14.2
\$10,000 to 14,999	1,064	11.1	292	4.8	771	22.0
\$15,000 to 19,999	1,222	12.7	591	9.6	630	18.0
\$20,000 to 24,999	1,223	12.7	786	12.8	437	12.5
\$25,000 to 29,999	1,048	10.9	755	12.3	293	8.4
\$30,000 to 49,999	1,909	19.8	1,658	27.1	251	7.2
\$50,000 and over	926	9.6	891	14.5	a	a

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings were not reported.

<sup>a</sup> Numbers are too small to infer significance.

TABLE 17  
 Placement of IRA Investments for 1982  
 (Civilian Employment, May 1983)

Financial Institution	Number of IRAs (000's)	Distribution (percent)
Banks	6,719	40.2
Savings and Loan	3,903	23.4
Mutual Funds	1,607	9.6
Broker	1,906	11.4
Not Reported	2,578	15.4
Total	16,713	100.0

Source: Preliminary Employee Benefit Research Institute tabulations of May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

TABLE 18  
 Participation in Alternative Retirement  
 Income Programs by Earnings for 1982  
 (Civilian Employment, May 1983)

Earnings	Number of Participants (000's)		
	IRA	401(k)	Pension Plan
Total	16,713	2,703	42,640
\$1 to 4,999	842	20	824
\$5,000 to 9,999	1,417	123	3,735
\$10,000 to 14,999	2,109	381	8,643
\$15,000 to 19,999	2,366	474	8,530
\$20,000 to 24,999	2,146	477	7,642
\$25,000 to 29,999	1,654	351	4,160
\$30,000 to 49,999	2,781	579	5,497
\$50,000 and over	1,165	176	1,563

Earnings	Distribution of Participants (percent)		
	IRA	401(k)	Pension Plan
Total	100.0	100.0	100.0
\$1 to 4,999	5.0	0.7	2.0
\$5,000 to 9,999	8.5	4.4	8.8
\$10,000 to 14,999	12.6	13.9	20.2
\$15,000 to 19,999	14.2	17.5	20.0
\$20,000 to 24,999	12.8	17.7	17.9
\$25,000 to 29,999	9.9	13.1	9.8
\$30,000 to 49,999	16.6	21.1	12.9
\$50,000 and over	7.0	6.5	3.7

Earnings	Participants Within Earnings Groups (percent)		
	IRA	401(k)	Pension Plan
Total	16.9	2.7	43.1
\$1 to 4,999	7.1	0.2	7.8
\$5,000 to 9,999	8.5	0.8	23.5
\$10,000 to 14,999	11.1	2.1	47.2
\$15,000 to 19,999	17.3	3.5	63.7
\$20,000 to 24,999	20.1	4.5	72.8
\$25,000 to 29,999	28.4	6.2	73.0
\$30,000 to 49,999	38.7	8.2	77.4
\$50,000 and over	57.6	8.6	74.4

Source: Preliminary Employee Benefit Research Institute tabulations of the May 1983 EBRI/HHS Current Population Survey (CPS) Pension Supplement.

Note: Numbers and percents may not add to totals due to rounding and exclusion of respondents whose earnings was not reported.

### Where Are IRA Contributions Invested?

Men's and women's choices of an IRA investment medium were not significantly different, but were very much affected by age and earnings. Table 17 shows that fixed interest instruments were the investment vehicle for 63.6 percent of IRA funds. Other EBRI tabulations show that older individuals with lower earnings were most likely to have their funds in banks and savings and loan institutions. Younger workers with high income were the most likely to invest in mutual funds. Across all ages the highest earners were most likely to place IRAs with brokers. Younger and low wage earners tended to open IRAs with insurance companies. Data available on the distribution of IRA assets since 1975 indicate that the institutional allocation of IRA funds has not changed significantly.

### CONCLUSION

Employer-sponsored pensions are the most widespread retirement income programs supplementing Social Security. Compared to IRAs and 401(k) salary reduction programs, pensions are more widely based at all earnings levels and are more evenly distributed across the earnings spectrum (see table 18). IRAs are utilized across the age and income spectrum, even if significantly less than employer pensions. For those not yet vested in their pensions, IRAs can add to their retirement resources. But, at current growth rates, IRAs would not replace either Social Security or employer pensions.

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