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EMPLOYEE BENEFIT RESEARCH INSTITUTE®

NOTES

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Executive Summary:

IRA and Keogh Assets and Contributions

- ***Major source of retirement assets***—Combined, individual retirement accounts (IRAs) and Keoghs (for the self-employed) account for a sizable portion of the assets held by Americans in tax-preferred retirement plans and are likely to become the single largest source of retirement income outside of Social Security benefits for private-sector workers.
- ***IRA growth trend returns***—IRA asset levels increased continuously from 1981 through 1999 before declining for three consecutive years from 2000 through 2002. In 2003, the IRA asset level increased to a new historical high of $3.08 trillion before rising again in 2004 to $3.48 trillion, indicating that the significant growth trend that total IRA assets enjoyed for the approximately 20 years (prior to the stock market retrenchment starting in 2000) has returned.
- ***Self-management of assets a big question***—The *accumulation* of assets in individual accounts raises important questions for the ultimate *distribution* of these assets: Will retirees be able to manage these assets so as not to outlive them? Do individuals understand that life expectancy is an *average,* and not a definite number? Are individuals aware of and/or do they understand products such as annuities that insure against longevity risk? The build-up of IRA assets alone is not enough to ensure these assets will ultimately be successful in providing Americans security in retirement.

Income of the Elderly Population, Age 65 and Over, 2004

- ***Social Security remains most important***—In 2004, Social Security was the largest source of income for those currently age 65 and older, accounting for about 42 percent of their income on average. Pension and retirement plan income accounted for 21 percent, income from assets 13 percent, and earnings 23 percent.
- ***Median income declining***—The median (midpoint) income level of the elderly population increased from $11,679 in 1974 to $15,407 in 1999, and declined to $15,043 in 2004 (in constant dollars).

IRA and Keogh Assets and Contributions

by Craig Copeland, EBRI

Introduction

Individual retirement accounts (IRAs) are an important retirement account vehicle both for storing wealth built up in employment-based retirement plans and for building wealth within them. Keogh accounts are a tax-preferred account for the self-employed that allows these workers to save money for retirement comparable to what can be saved in employment-based retirement plans offered to salaried workers. Combined, IRAs and Keoghs account for a sizable portion of the assets held by Americans in tax-preferred plans designed for retirement, and surpass the assets held in private-sector defined contribution plans. IRA assets have continued to grow in importance and are likely to become the single largest source of retirement income outside of Social Security benefits for private-sector workers in retirement.[1]

This article examines the level of assets contained in IRAs and Keoghs; the amount of tax-deductible contributions to them, with a particular focus on IRAs; and the demographic characteristics associated with those who make tax-deductible contributions to traditional IRAs and Keoghs. It should be noted that there are several different types of IRAs, and that the IRA contribution data reported here include only tax-deductible contributions to traditional IRAs; because of the special tax status of these IRAs, these contributions are regularly tallied and reported by the Internal Revenue Service (IRS) in their *Statistics of Income* publication. This report does *not* include nondeductible contributions to either traditional IRAs or Roth (tax-free on withdrawal) IRAs, as these contributions are typically only reported in special reports done by the IRS. Consequently, total IRA contributions are higher than shown in this report, but it cannot be determined by how much more for the most recent years (2002/2003) of available tax-deductible data.

Total Assets

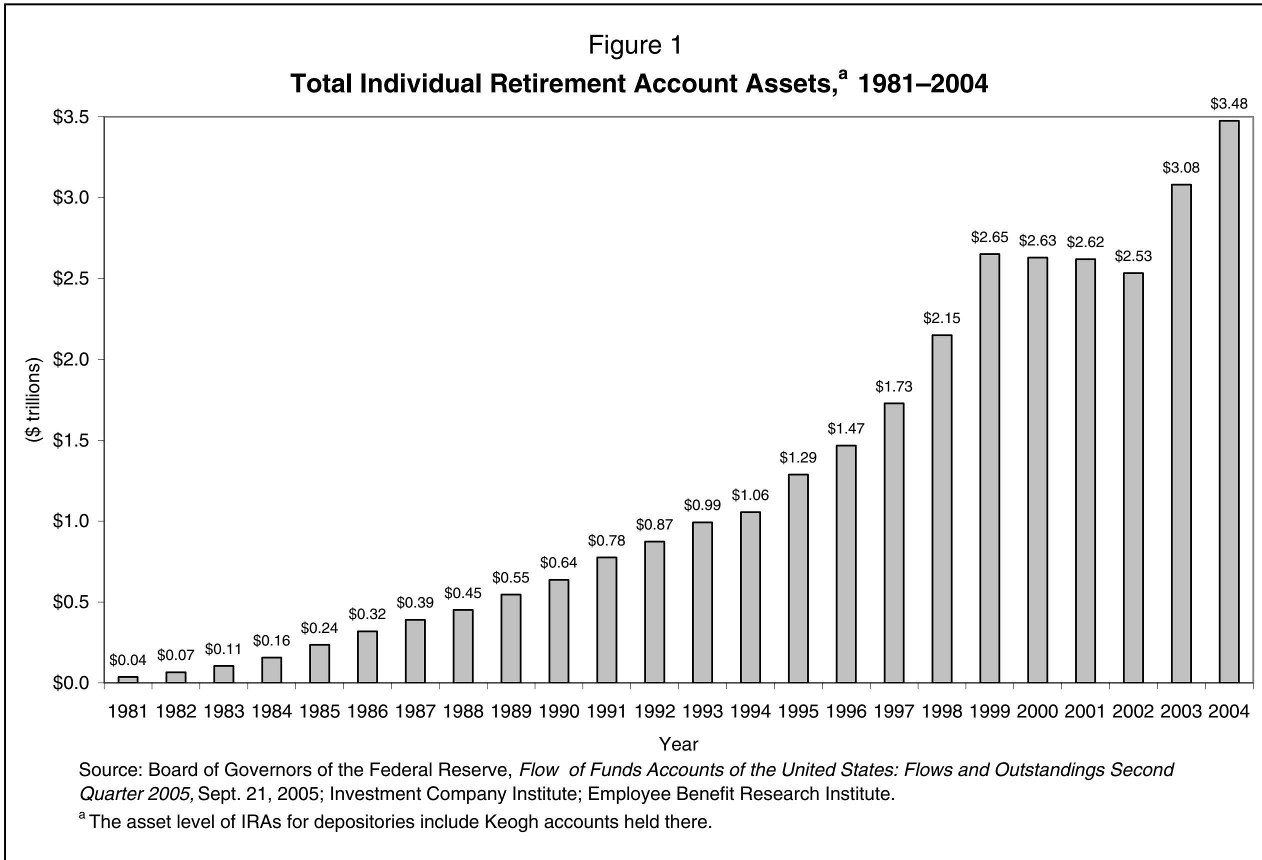
IRA asset levels increased continuously from 1981 through 1999 before declining for three consecutive years from 2000 through 2002 (Figure 1).[2] These assets peaked at $2.65 trillion in 1999 before falling back to $2.53 trillion in 2002. However, in 2003 the IRA asset level increased to a new historical high of $3.08 trillion before rising again in 2004 to $3.48 trillion. Consequently, the significant growth trend that total IRA assets enjoyed for the approximately 20 years (prior to the stock market retrenchment starting in 2000) has returned.

The 21.6 percent increase in the total asset level in 2003 and the 12.8 percent increase in 2004 are comparable to the growth rates in the late 1990s, when increases ranged from 13.9 percent to 24.4 percent (Figure 2). Furthermore, double-digit percentage increases in assets occurred in every year except one from 1981 until the declines of 2000–2002.

This surge was driven by the growth of assets held in mutual funds and in self-directed brokerage accounts. Assets increased from $989.0 billion in 2002 to $1.42 trillion in 2004 in mutual funds, and in self-directed brokerage accounts from $973.0 billion to $1.40 trillion over the same period (Figure 2).[3] By comparison, assets held in banks and thrifts and life insurance policies also increased, but by a much smaller amount. Consequently, the share of the total assets held in mutual funds and self-directed brokerage accounts each increased by 2 percentage points over the 2002–2004 period, pushing the proportion of assets held in banks and thrifts to their lowest levels ever, after having gained some market share during the declining years. However, mutual funds have not reached or topped their prior peak market share (Figure 3). Both the declines in the IRA assets and the increases in 2003 and 2004 followed the stock market returns in those years, as market returns are a critical factor in the increases or decreases in these assets from year-to-year.

IRA and Private Retirement Plan Asset Comparison

In 1998, private-sector defined contribution (DC) plans (primarily the 401(k)-type plan) held more assets than both IRAs and private-sector defined benefit (DB) plans, at $2.22 trillion, compared with $2.15 trillion and $1.89 trillion, respectively (Figure 4).[4] While IRA assets already surpassed those



accumulated in DB plans in 1998, 1999 was the first year in which IRA assets surpassed those in DC plans, when IRAs reached $2.65 trillion, compared with the DC level of $2.50 trillion. Even as assets in DC plans and IRAs decreased from 2000 through 2002, the level of IRA assets relative to DC plans increased, with IRA assets standing at $2.53 trillion and DC plan assets at $1.90 trillion in 2002. Even though both DC plans and IRAs had significant asset growth in 2003 and 2004, IRAs grew more—widening the gap between the asset levels, as IRAs reached $3.48 trillion, compared with $2.68 trillion for DC plans. DB plan assets continued to lag significantly behind the assets in both DC plans and IRAs.

Aggregate Contributions

According to IRS data, tax-deductible contributions to IRAs increased from $7.407 billion in 2001 to $9.462 billion in 2002 to $10.007 billion in 2003—the highest amount since before 1990 (Figure 5).[5] This reversed a four-year decline from 1998 through 2001 in the dollar value of IRA deductions. It also coincides with the first two years of the increases in the contribution limits to IRAs enacted in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001.[6]

While the dollar amount of IRA contributions increased in 2002, the number of returns claiming the deduction declined from 3.4 million in 2001 to 3.3 million in 2002. This decrease in the number of returns claiming the deduction has persisted since 1997, when an IRA deduction was claimed on 4.1 million returns. However, in 2003, the number of returns claiming the deduction increased from its 2002 level but was still below its 2001 level. Therefore, the increased contribution limits appear to have had a significant impact for those individuals/families *who use* these vehicles, but the higher limits did not appear to be able to draw a significant increase in the *number of* individuals/families claiming these deductions.

The dollar amount of contributions also significantly increased for Keoghs in 2002 and 2003, even though the number of returns claiming a Keogh deduction was less than that claimed from in each year from 1999 through 2001. EGTRRA also increased the contribution limits to Keoghs, which can explain

the higher contribution levels in 2002 and 2003, despite there being fewer returns claiming a Keogh deduction in each year.

Even though the enactment of higher contribution limits under EGTRRA appears to have resulted in contribution growth to IRAs, the main drivers of IRA asset growth are rollovers from employment-based retirement plans and asset returns. In 2001, rollovers added $187.1 billion to total IRA assets, and changes in market value reduced the total IRA assets by $129.0 billion. This is compared with the $7.4 billion in deductible contributions and $2.4 billion in nondeductible contributions to traditional IRAs in 2001. An additional $11.1 billion was contributed to Roth IRAs and $15.5 billion was contributed to employment-based IRAs (SIMPLEs and SEPs), for a total of $36.5 billion in IRA contributions in 2001. These two sources (rollovers and market changes) are likely to continue to be the drivers of future IRA asset growth, given their historical size relative to the other sources as well as their potential growth. However, as baby boomers reach the minimum distribution age, withdrawals have the potential to be become of one the top sources of changes in the total IRA asset level. IRA withdrawals amounted to $104.5 billion in 2001.[7]

Figure 2
Distribution of Individual Retirement Account Assets, by Financial Institution, 1981–2004

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	182.6	49.7	260.9	21.8
1992	873.0	274.9	229.8	55.6	312.6	12.5
1993	993.0	262.7	310.7	69.5	350.2	13.7
1994	1,056.0	255.4	336.2	78.7	385.8	6.3
1995	1,288.0	261.0	455.5	94.3	477.2	22.0
1996	1,467.0	258.7	570.0	110.3	527.9	13.9
1997	1,728.0	254.0	744.0	160.0	570.0	17.8
1998	2,150.0	248.6	933.0	190.1	778.3	24.4
1999	2,651.0	243.0	1,213.0	245.5	949.5	23.3
2000	2,629.0	250.1	1,184.0	245.5	949.4	-0.8
2001	2,619.0	254.6	1,115.0	251.0	998.4	-0.4
2002	2,533.0	262.8	989.0	308.3	973.0	-3.3
2003	3,080.0	267.9	1,246.0	338.4	1,227.6	21.6
2004	3,475.0	269.4	1,422.0	379.0	1,404.6	12.8
			(percentage of total assets)			
1981	100.0%	73.0%	8.1%	8.1%	10.8%	
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	23.5	6.4	33.6	
1992	100.0	31.5	26.3	6.4	35.8	
1993	100.0	26.5	31.3	7.0	35.3	
1994	100.0	24.2	31.8	7.5	36.5	
1995	100.0	20.3	35.4	7.3	37.0	
1996	100.0	17.6	38.9	7.5	36.0	
1997	100.0	14.7	43.1	9.3	33.0	
1998	100.0	11.6	43.4	8.8	36.2	
1999	100.0	9.2	45.8	9.3	35.8	
2000	100.0	9.5	45.0	9.3	36.1	
2001	100.0	9.7	42.6	9.6	38.1	
2002	100.0	10.4	39.0	12.2	38.4	
2003	100.0	8.7	40.5	11.0	39.9	
2004	100.0	7.8	40.9	10.9	40.4	

Source: Board of Governors of the Federal Reserve Board, *Flow of Funds, Accounts of the United States: Flows and Outstandings Second Quarter 2005,* Sept. 21, 2005; Investment Company Institute; Employee Benefit Research Institute.

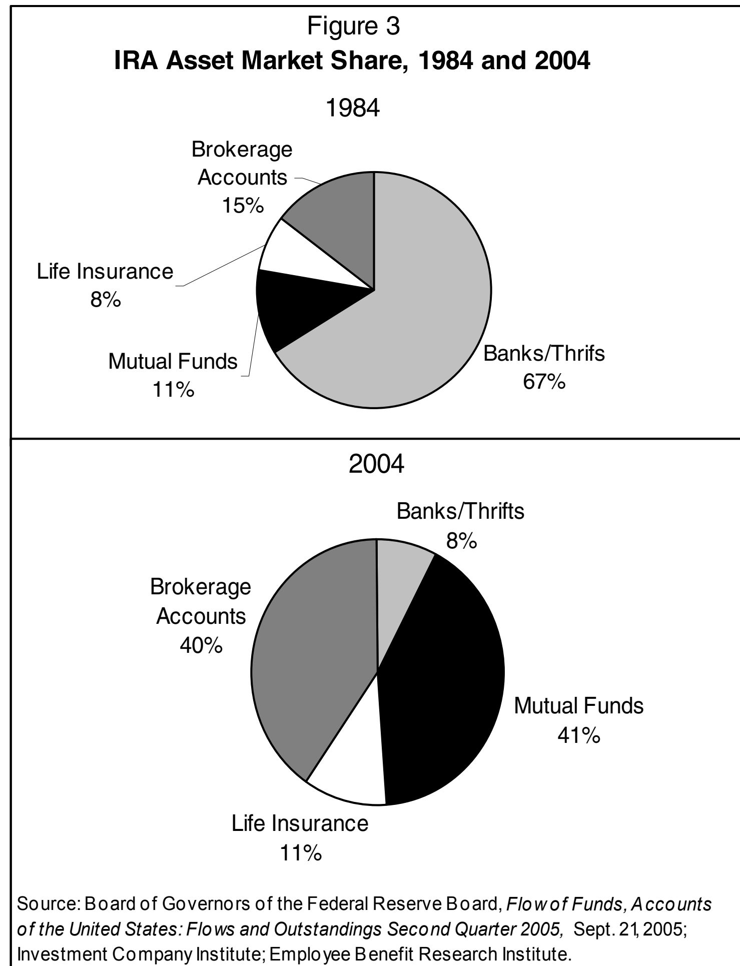
[a] These asset level include Keogh account assets.

Characteristics of IRA Owners

While the IRS data provide aggregate contributions, they do not provide information (other than income) about the individuals who make the contributions. To examine this issue, data from the 1996 and 2001 Survey of Income and Program Participation (SIPP) and the April 1993 Current Population Survey (CPS) Employee Benefit Supplement, conducted by the U.S. Census Bureau, are used to determine the characteristics of individuals owning an IRA and/or a Keogh plan as well as making tax-deductible contributions to them.[8] These data show that the percentage of all American workers age 16 or older who own an IRA decreased from 18.8 percent in 1992 to 16.6 percent in 1998, and remained essentially unchanged at

16.7 percent in 2002 (Figure 6). Ownership increased with family income and age through those 55–64 years old, and was also higher for those who were white or male. Ownership of either an IRA or a Keogh plan remained unchanged from 1997 to 2003 at 16.9 percent of these workers.

From CPS and SIPP, the percentage of all American workers age 16 or older who made a tax-deductible contribution to IRA decreased from 6.5 percent in 1992 to 4.7 percent in 1998, and flattened out at 4.5 percent in 2002.[9] Just as ownership is different across demographic characteristics, the likelihood of a contributing to IRA is different across these characteristics. The likelihood of contributing increased with family income, and age through those 61–64 years old. Furthermore, those who were white or male were more likely to have contributed to an IRA. These results were consistent across the three years. The percentage of American workers who made a tax-deductible contribution to either an IRA or a Keogh plan showed a downward trend from 5.0 percent in 1997 to 4.6 percent in 2002. Again, relative differences between the demographic characteristics were the same for contributions to both of these plans.



Source: Board of Governors of the Federal Reserve Board, *Flow of Funds, Accounts of the United States: Flows and Outstandings Second Quarter 2005,* Sept. 21, 2005; Investment Company Institute; Employee Benefit Research Institute.

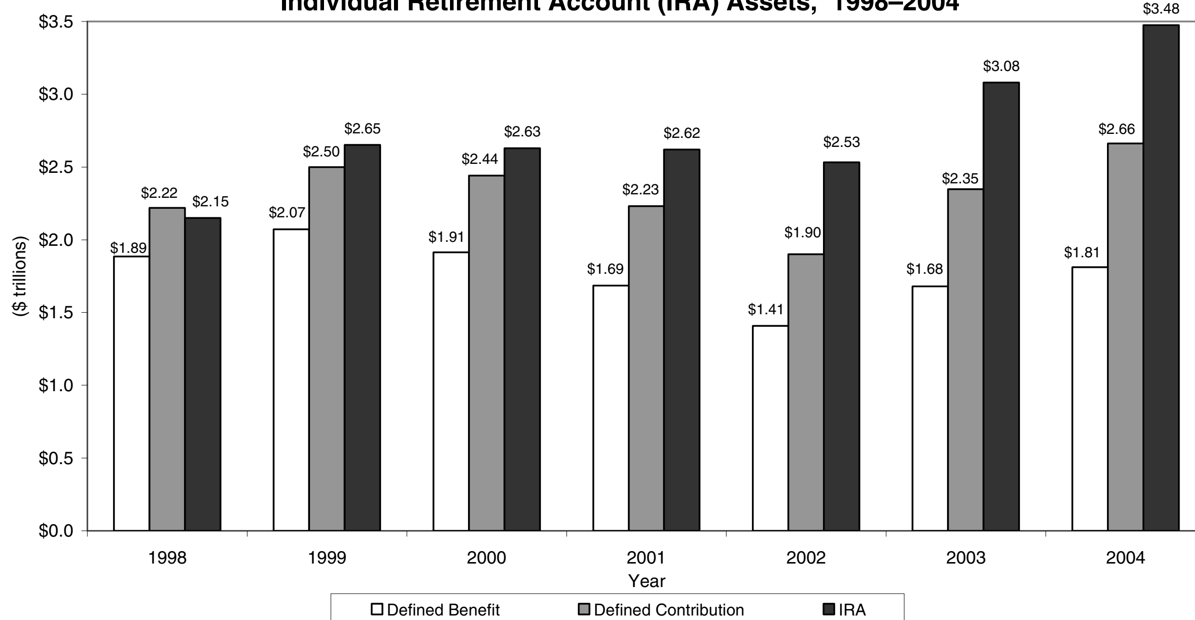
Conclusions

After three years of declines in the level of total IRA assets, 2003 and 2004 saw the return of double-digit increases, with a 21.6 percent rate of growth in 2003 and 12.8 percent in 2004. IRA assets attained a record high of nearly $3.48 trillion in 2004. Furthermore, the relative level of IRA assets compared with private-sector defined contribution plans increased over this two years, indicating that IRAs are and will continue to be a major source of retirement income for retirees. In fact, IRAs appear likely to be the largest source of non-Social Security income in retirement for many in the next generation of retirees (baby boomers and beyond).

The percentage of American workers owning an IRAs remained flat from 1997 to 2002. Furthermore, the percentage of individuals in a given year making a tax-deductible contribution has not changed statistically; as noted earlier, this could be due to the availability of Roth IRAs, which cannot be measured from this data. In contrast, the higher dollar limits for contributions enacted under EGTRRA are associated with a significant increase in the amounts that are being contributed to tax-deductible IRAs, according to IRS data. Thus, given both likely inflows from the potential rollovers from increasing defined contribution assets and the increased dollar amount of contributions, any positive returns in the stock market are likely to lead to continual significant growth in IRA assets until at least the first wave of the baby boom generation retires.[10] Conversely, any significant negative returns in the stock market could lower IRA asset levels.

The accumulation of these assets in individual accounts brings forth important questions for the distribution of these assets. Will retirees be able to manage these assets in a manner so as not to outlive them? Do individuals understand that life expectancy is an *average,* and not a definite number on when

Figure 4
Private Employment-Based Retirement Plan and Individual Retirement Account (IRA) Assets,[a] 1998–2004



Source: Board of Governors of the Federal Reserve, *Flow of Funds Accounts of the United States: Flows and Outstandings Second Quarter 2005,* Sept. 21, 2005; Investment Company Institute.

[a] The asset level of IRAs for depositories include Keogh accounts held there.

Figure 5
Individual Retirement Accounts (IRAs) and Keogh/Self-Employment Deductible Contributions, 1990–2003

	IRAs		Keogh	
Year	No. of Returns	Amount	No. of Returns	Amount
	(in thousands)	(in billions)	(in thousands)	(in billions)
1990	5,224	$9.858	824	$6.778
1991	4,666	9.030	840	6.913
1992	4,478	8.696	919	7.592
1993	4,385	8.527	948	8.160
1994	4,319	8.389	996	8.195
1995	4,301	8.338	1,032	8.734
1996	4,374	8.628	1,079	8.979
1997	4,069	8.663	1,190	10.238
1998	3,868	8.188	1,177	11.040
1999	3,687	7.883	1,264	11.928
2000	3,505	7.477	1,288	12.475
2001	3,448	7.407	1,290	13.114
2002	3,287	9.462	1,187	16.350
2003	3,418	10.007	1,209	17.796

Source: Internal Revenue Service, *SOI Bulletin*. Historical Tables, various years.

Figure 6

Percentage of All Workers Ages 16 or Older Who Have an IRA or Keogh Plan in Their Own Name and Who Contributed to these Plans, by Various Characteristics, 1992, 1997, and 2002

	1992			1997					2002				
	Number of Workers	Has IRA in Own Name	Made Tax-Deductible Contribution to IRA in 1992	Number of Workers	Has IRA in Own Name	Has IRA or Keogh in Own Name	Made Tax-Deductible Contribution to IRA in 1997	Made Tax-Deductible Contribution to IRA in Keogh in 1997	Number of Workers	Has IRA in Own Name	Has IRA or Keogh in Own Name	Made Tax-Deductible Contribution to IRA in 2002	Made tax-deductible contribution to IRA or Keogh in 2002
	(thousands)			(thousands)					(thousands)				
Total	117,874	18.8%	6.5%	131,079	16.6%	16.9%	4.7%	5.0%	137,921	16.7%	16.9%	4.5%	4.6%
Age													
16–20	6,918	0.8	0.5	8,474	0.6	0.6	0.2	0.2	7,776	0.8	0.8	0.1	0.1
21–30	28,099	5.7	2.8	28,231	5.5	5.6	1.9	1.9	28,184	6.7	6.7	1.8	1.8
31–40	34,361	16.9	6.0	35,171	14.0	14.3	4.0	4.1	33,168	15.2	15.4	4.3	4.4
41–50	26,504	25.8	8.3	32,599	22.0	22.4	6.5	6.9	35,499	18.9	19.2	5.5	5.6
51–60	15,327	35.6	11.6	18,626	28.8	29.5	8.4	8.9	23,800	27.0	27.5	7.2	7.6
61–64	3,382	40.6	14.7	3,588	34.3	34.9	9.8	10.5	4,518	30.6	31.1	7.4	7.7
65 or older	3,283	32.5	8.8	4,390	31.7	32.2	5.3	5.6	4,975	29.5	30.2	4.5	5.3
Annual Earnings													
No Income/unrptd.	18,753	25.0	10.2	6,862	17.7	18.1	4.8	5.1	5,675	20.6	20.7	5.5	5.7
$1–$4,999	7,540	7.2	1.8	10,837	9.0	9.3	2.5	2.6	8,999	10.2	10.3	2.4	2.5
$5,000–$9,999	10,691	7.2	2.9	14,941	8.8	8.9	2.5	2.6	12,295	9.2	9.2	1.6	1.6
$10,000–$14,999	15,409	9.2	3.4	18,606	9.2	9.3	2.9	3.0	15,946	9.1	9.4	2.5	2.7
$15,000–$19,999	14,501	11.9	4.3	16,148	11.2	11.6	3.6	3.8	15,831	10.7	10.8	2.7	2.8
$20,000–$24,999	12,547	14.7	6.1	14,244	15.0	15.2	4.4	4.4	15,301	13.2	13.3	3.8	3.9
$25,000–$29,999	9,817	19.6	6.7	12,026	17.7	17.9	5.0	5.2	12,992	15.0	15.2	4.6	4.7
$30,000–$49,999	19,977	27.5	8.6	24,007	22.6	23.1	6.4	6.8	29,309	20.3	20.7	5.3	5.5
$50,000 or more	8,639	44.0	12.0	13,407	37.3	38.3	10.1	11.1	21,573	31.1	31.6	8.6	9.1
Gender													
Male	63,872	20.3	7.0	69,847	16.7	17.2	4.8	5.2	73,159	17.0	17.3	4.7	4.9
Female	54,002	17.1	6.0	61,232	16.4	16.6	4.7	4.8	64,762	16.3	16.5	4.2	4.4
Race													
White	101,702	20.5	7.0	99,374	19.8	20.1	5.6	5.9	100,754	20.3	20.6	5.3	5.5
Black	12,200	5.6	1.9	13,450	5.7	5.9	1.8	1.8	13,924	5.4	5.6	2.0	2.0
Hispanic				12,826	4.7	4.9	1.6	1.7	16,772	4.8	4.9	1.3	1.3
Other	3,972	17.0	7.2	5,429	13.2	13.3	4.6	4.8	6,470	14.6	14.6	4.7	4.8

Source: Employee Benefit Research Institute estimates of the 1996 and 2001 Survey of Income and Program Participation Topical Module 7, and the April 1993 Current Population Survey, Employee Benefit Supplement.

people when die? Are individuals aware of and/or do they understand products such as annuities that insure against longevity risk? The answers to these questions, as well as others, will determine if the build-up of these assets will ultimately be successful in providing Americans security in retirement. It is not just the *accumulation* of assets but also the appropriate *spending* of the assets that will determine whether Americans with IRAs and other retirement plans will be able to afford to maintain a comfortable retirement.

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] These IRA asset levels include Keogh assets held in bank and thrift institutions. Furthermore, the asset levels include the assets in all types of IRAs. However, the data do not break these assets into the various types of assets. See Craig Copeland, "IRA and Keogh Assets," *EBRI Notes* no. 2 (Employee Benefit Research Institute, February 2004): 1–7 for a breakdown of these assets by IRA type as well as a description of the various IRA types. Copeland (2004) also provides a breakdown of the relative asset levels of IRAs compared with Keoghs. See also Peter Sailer and Sarah Holden. "Use of Individual Retirement Arrangements to Save for Retirement—Results from a Matched File of Tax Returns and Information Documents for Tax Year 2001," *Presented at the 2004 American Statistical Association Meetings*, 2004 for the latest breaks in IRA types from the Internal Revenue Service. These results show that over 90 percent of the total IRA assets were in traditional IRAs.

[3] The Investment Company Institute (ICI) also provides estimates of the assets in IRAs. However, they categorize some of the life insurance assets differently from the Federal Reserve. See Investment Company Institute. "Mutual Funds and the U.S. Retirement Market in 2004," *Fundamentals: Investment Company Institute Research in Brief* (Investment Company Institute, August 2005) available at www.ici.org/stats/latest/fm-v14n4.pdf (last viewed Nov. 22, 2005) for their results on IRA assets. See also Sarah Holden, Kathy Ireland, Vicky Leonard-Chambers, and Michael Bogdan, "The Individual Retirement Account at Age 30: A Retrospective," *Investment Company Institute Perspective* (Investment Company Institute, February 2005) available at www.ici.org/pdf/per11-01.pdf (last viewed Nov. 23, 2005) for a comprehensive review of IRAs.

[4] The assets in private-sector employment-based retirement plans (defined contribution and defined benefit) reported here are only those held in trust, thus those assets held with insurance companies are not included. See Employee Benefit Research Institute, *Pension Investment Report* 1st Quarter 2005 (Employee Benefit Research Institute, August 2005) for asset levels through 2003 that include those held by insurance companies.

[5] This contribution data only include tax-deductible contributions, not nondeductible contributions to traditional IRAs or Roth IRAs. The tabulations of nondeductible IRA contributions (traditional and Roth) by the Internal Revenue Service have been complied at a later date than those of the deductible contributions. Sailer and Holden (2004) show Roth IRA contributions of $11.116 billion in 2001 and nondeductible traditional IRA contributions of $2.418 billion. Peter J. Sailer and Sarah E. Nutter. "Accumulation and Distribution of Individual Account Arrangements, 2000," *SOI Bulletin* (Internal Revenue Service, Statistics of Income Division, Spring 2004): 121–134 shows Roth contributions to be $11.558 billion and nondeductible traditional IRA contributions of $2.564 billion in 2000.

[6] EGTRRA increased the contribution limit to $3,000 for 2002 from the $2,000 limit allowed in 2001. Furthermore, individuals age 50 and older were also allowed to make an additional $500 contribution in 2002. For 2003, the contribution limit remained at $3,000 before increasing in 2005 to $4,000. The additional $500 contribution allowance for those ages 50 or older remained in effect through 2005.

[7] See Peter Sailer and Sarah Holden (2004).

[8] For more information about the Survey of Income and Program Participation (SIPP), see www.sipp.census.gov/sipp/ (last accessed Nov. 22, 2005). Both the 1996 Panel and the 2001 Panel are used for this analysis. SIPP interviews respondents every four months (a wave) on a rotating basis, and the topical modules, which are a set of more specific questions on various topics, are asked of the reference month of the survey, which is the last month of each four-month cycle (wave). The survey participants are divided into four groups, so each group has a different reference month. In this analysis, this only affects the results of the ownership of an IRA, not the contributions or earnings within an IRA, as those are specifically about the same year for each group (1997 and 2002) of the analysis. The 1993 April Current Population Survey was administered differently with all interviews occurring in the month of April and asked about ownership and contributions in the prior year. See Employee Benefit Research Institute, "Employment-Based Retirement Income Benefits: Analysis of the April 1993 Current

Population Survey," *EBRI Issue Brief,* no. 153 (Employee Benefit Research Institute, September 1994) for a further discussion of this survey and results.

[9] This percentage is not of those eligible to make a tax-deductible contribution but of all American workers ages 16 or older. The data do not reveal whether the individual was eligible to participate in an employment-based retirement plan, which depending upon the individual's earnings, is necessary to determine if one is eligible to make a tax-deductible contribution to an IRA. Furthermore, these data are only for individuals making a tax-deductible contribution, so they do not include nondeductible contributions to either traditional or Roth IRAs.

[10] See John Sabelhaus, "Projecting IRA Balances and Withdrawals," *EBRI Notes,* no. 5 (Employee Benefit Research Institute, May 1999): 1–4, where market returns were shown to be the primary driver of the increase in IRA assets during 1998. According to Sailer and Holden (2004), the two categories with the largest impact on total IRA asset levels in 2001 were rollovers and changes in market value.

■ Income of the Elderly Population, Age 65 and Over, 2004

by Ken McDonnell, EBRI

The U.S. retirement income system—including employment-based retirement plans, Social Security, individual saving, and post-retirement employment—can be assessed in part by examining the income of the current elderly population (age 65 and older). This article reviews the latest available data on the older population's income (from the U.S. Census Bureau's March 2005 Current Population Survey) and how it has changed over time, as well as how the elderly's reliance on these sources varies across various demographic characteristics.

Income Sources

In 2004, Social Security was the largest source of income for those currently age 65 and older, accounting for 41.8 percent of their income on average (Figure 1). Pension and retirement plan income was 20.8 percent, income from assets 12.8 percent, and earnings 22.7 percent.

Nearly all individuals age 65 and over were receiving income from Social Security, 91.3 percent in 2004. While 57.3 percent received income from assets, 35.4 percent received income from pensions and annuities, and 18.0 percent received income from earnings.

Income Levels

The median income level (the midpoint, 50 percent above and below) of the elderly population increased from $11,679 (in constant 2004 dollar) in 1974 to $15,407 (in 2004 dollars) in 1999 (Figure 2). By 2004 the median income of the elderly had declined to $15,043. The average income of the elderly followed a similar pattern over this period except for a decline from 1989 to 1994.

Income Composition

Income Group—Income composition varies significantly across income groups. In 2004, the lowest income quintile received 91.8 percent of its income from Social Security, and the highest income quintile received 19.6 percent of its income from Social Security (Figures 3). The other three main sources of the elderly's income (pensions and annuities, income from assets, and earnings) all increase in importance for the higher-income quintiles. In 2004, the lowest-income quintile received 1.9 percent of its income from pensions and annuities, 3.0 percent from assets, and 0.5 percent from earnings. By comparison, the highest-income quintile received 25.5 percent from pensions and annuities, 17.5 percent from income from assets, and 35.7 percent from earnings.

Age—The oldest age group of the elderly, those age 85 and over, receive a greater percentage of their total income from Social Security than those in the younger age groups. In 2004, among those elderly age 85 and over, 59.1 percent of their income is derived from Social Security compared with 31.6 percent for those ages 65–69 (Figures 3 and 4). Younger age groups derive a greater share of their total income from

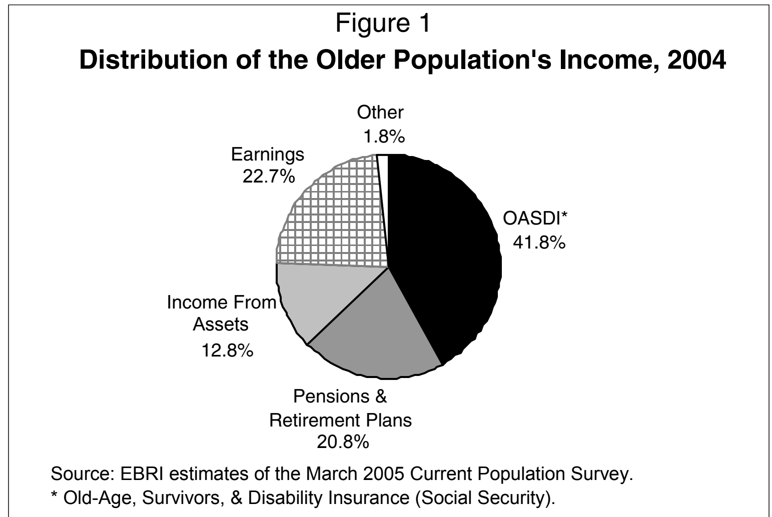


Figure 1
Distribution of the Older Population's Income, 2004

Source: EBRI estimates of the March 2005 Current Population Survey.
* Old-Age, Survivors, & Disability Insurance (Social Security).

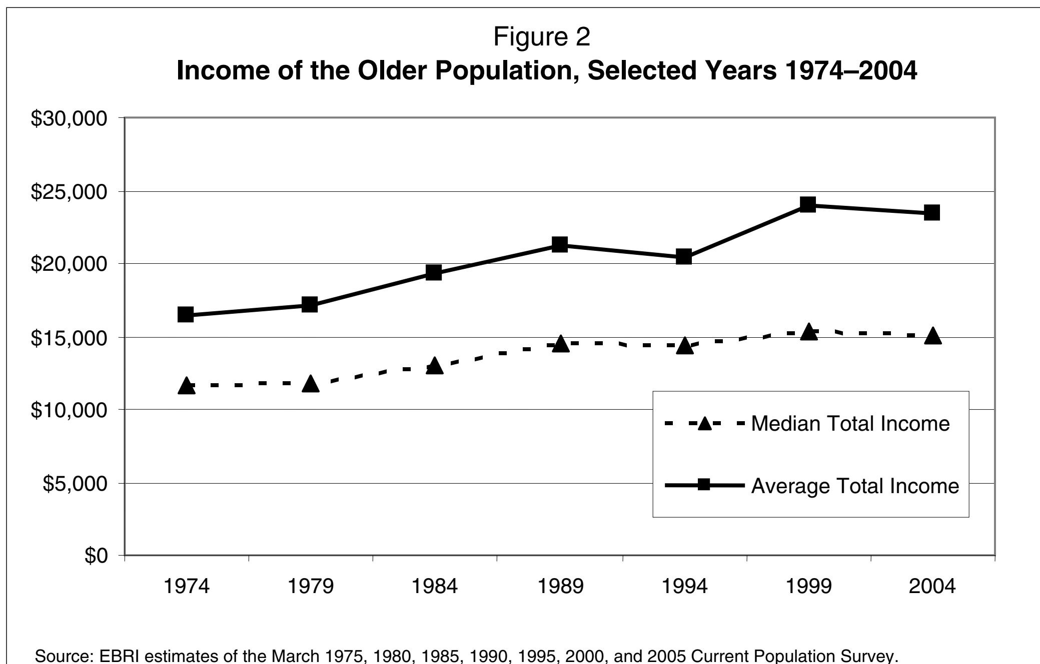


Figure 2
Income of the Older Population, Selected Years 1974–2004

Source: EBRI estimates of the March 1975, 1980, 1985, 1990, 1995, 2000, and 2005 Current Population Survey.

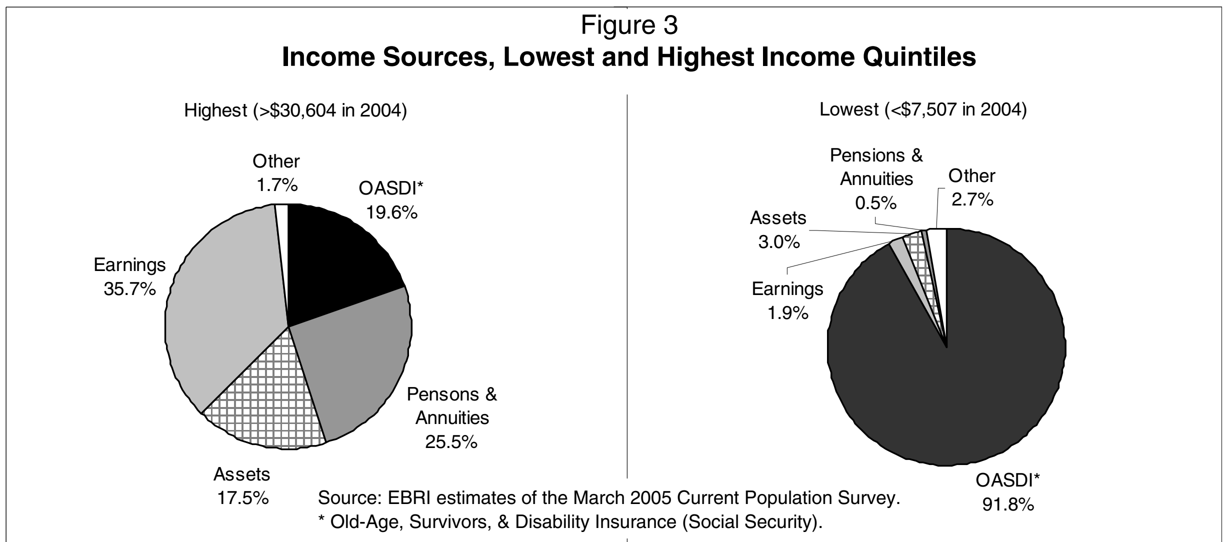


Figure 3
Income Sources, Lowest and Highest Income Quintiles

Source: EBRI estimates of the March 2005 Current Population Survey.
* Old-Age, Survivors, & Disability Insurance (Social Security).

Figure 4
Distribution of the Older Population's Average Annual Income, by Source and Age, 1987 and 2004

	1987		2004	
	Income	Percentage	Income	Percentage
65–69				
Total income	$13,576	100.00%	$28,082	100.00%
Social Security	4,415	32.5	8,872	31.6
Pensions and annuities	2,710	20	5,140	18.3
Income from assets	2,668	19.7	3,244	11.6
Earnings	3,492	25.7	10,374	36.9
Other[a]	292	2.2	452	1.6
70–74				
Total income	$12,782	100.00%	$23,597	100.00%
Social Security	5,435	42.5	9,568	40.5
Pensions and annuities	2,307	18	5,156	21.9
Income from assets	3,292	25.8	2,886	12.2
Earnings	1,532	12	5,579	23.6
Other[a]	216	1.7	408	1.7
75–79				
Total income	$11,016	100.00%	$20,278	100.00%
Social Security	5,261	47.8	9,772	48.2
Pensions and annuities	1,770	16.1	4,509	22.2
Income from assets	3,029	27.5	2,807	13.8
Earnings	798	7.2	2,874	14.2
Other[a]	159	1.4	316	1.6
80–84				
Total income	$10,478	100.00%	$19,118	100.00%
Social Security	5,145	49.1	9,923	51.9
Pensions and annuities	1,519	14.5	4,444	23.2
Income from assets	3,228	30.8	2,876	15
Earnings	383	3.7	1,361	7.1
Other[a]	203	1.9	515	2.7
85 and Over				
Total income	$9,104	100.00%	$17,325	100.00%
Social Security	4,747	52.1	10,234	59.1
Pensions and annuities	1,056	11.6	3,639	21
Income from assets	2,891	31.8	2,472	14.3
Earnings	220	2.4	585	3.4
Other[a]	190	2.1	386	2.2

Source: Employee Benefit Research Institute tabulations of data from the March 1988 and 2005 Current Population Survey.

[a] Includes public assistance, Supplemental Security Income, unemployment compensation, workers' compensation, veterans' benefits, nonpension survivors' benefits, nonpension disability benefits, educational assistance, child support, alimony, regular financial assistance from friends or relatives not living in the individual's household, and other sources of income.

earnings through work. In 2004, elderly individuals ages 65–69 derived 36.9 percent of their income from earnings through work, compared with 3.4 percent of those age 85 and over.

Since 1987, among the elderly in the youngest age group, those age 65–69, an increasing share of their income is derived from earnings through work. In 1987, 25.7 percent of this group's income came from work. That percentage increased to 36.9 percent in 2004. The percentage of income derived from Social Security, pensions and annuities, and assets declined for this group from 1987 through 2004. Among those elderly individuals in the oldest age group (85 and over) Social Security and pensions and annuities increase as a percentage of total income from 1987 to 2004.

Marital Status—Nonmarried persons receive a larger share of their income from Social Security than married persons (49.4 percent vs. 37.2 percent), while nonmarried persons receive a noticeably smaller share from earnings (16.8 percent vs. 26.4 percent) (Figure 5). In addition, married persons receive a slightly larger share of their income from pensions and annuities.

Gender—Elderly women derived a greater share of their income from Social Security and assets than men in 2004. Social Security accounted for 51.4 percent of elderly women's income, compared with 35.2 percent of elderly men's income (Figure 6). Income from assets accounted for 14.3 percent of elderly women's income, compared with 11.8 percent of elderly men's.

By comparison, elderly men derived a larger share of their income from employment-based sources, including pensions and annuities and earnings, than elderly women. In 2004, pensions and annuities accounted for 24.0 percent of elderly men's income, compared with 16.1 percent of elderly women's. Income from earnings accounted for 26.9 percent of the elderly men's income, compared with 16.8 percent of elderly women's.

The percentage of elderly women's income coming from employment-based sources has increased over time, reflecting the growing presence of women in the work force. In 1987, pensions and annuities accounted for 11.7 percent of elderly women's income and earning accounted for 9.4 percent. By 2004, these percentages increased to 16.1 percent and 16.8 percent, respectively (Figure 6).

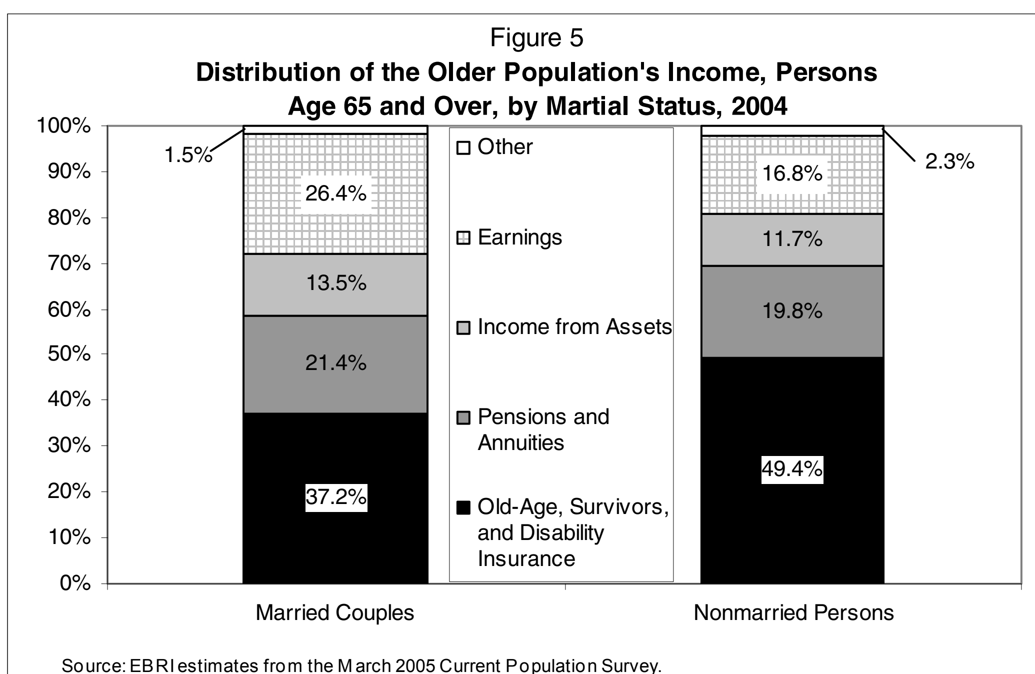


Figure 6
Distribution of the Older Population's Average Annual Income by Source and Gender, 1987 and 2004

	Males		Females	
	Income	Percentage	Income	Percentage
1987 Data				
Total income	$16,098	100.0%	$9,382	100.0%
Social Security	5,086	36.1	4,363	46.5
Pensions and annuities	3,648	22.7	1,099	11.7
Income from assets	3,130	19.4	2,884	30.7
Earnings	3,187	19.8	879	9.4
Other[a]	327	2.0	157	1.7
2004 Data				
Total income	31,371	100.0	16,329	100.0
Social Security	11,049	35.2	8,400	51.4
Pensions and annuities	7,520	24.0	2,636	16.1
Income from assets	3,707	11.8	2,335	14.3
Earnings	8,425	26.9	2,736	16.8
Other[a]	670	2.1	222	1.4

Source: Employee Benefit Research Institute tabulations of data from the March 1988 and 2005 Current Population Survey.
[a] Includes public assistance, Supplemental Security Income, unemployment compensation, workers' compensation, veterans' benefits, nonpension survivors' benefits, nonpension disability benefits, educational assistance, child support, alimony, regular financial assistance from friends or relatives not living in the individual's household, and other sources of income.

■ EBRI Annual Report

The Employee Benefit Research Institute turned 27 in 2005. Over those years, EBRI has become internationally recognized as the source for the facts on employee benefit issues. 2005 has been one of the busiest and most interesting years in the history of EBRI. All of the issues EBRI works on have been in play at the same time. Requests from government and media organizations have never been heavier. The environment has never provided more meaningful opportunities.

EBRI and its work were given recognition in both the U.S. House and the U.S. Senate, and EBRI provided executive branch agencies, congressional committees, the General Accountability Office (GAO) and the Congressional Budget Office with research assistance, briefings, and testimony on pension and health issues. In addition, EBRI made research and trend presentations across the nation to more than 150 audiences.

EBRI played a central role in organizing a GAO seminar on pension reform, and I moderated one of the three working groups at the meeting. EBRI also organized two White House Conference on Aging Mini-Conferences this year ("Employer Plans and Savings" and "Financial Literacy Throughout the Lifespan") and co-organized a joint US–UK Pension Policy Conference with the AARP. This was in addition to our two policy forums—one on retirement prospects for the baby-boom generation, the other on consumerism in health care—and our participation in more than 100 other educational meetings. December brought participation in the White House Conference on Aging in Washington, DC, where delegates endorsed the provision of financial and other economic incentives and policy changes to encourage and facilitate increased retirement savings, including financial literacy education.

EBRI worked with more reporters and gained more use of its work by Internet (www.EBRI.org), print, and video media than in any year since our 1978 founding. We were on all the major networks and cable station news programs, a number of special-purpose programs, and local radio and television venues around the nation. Paul Fronstin, Jack VanDerhei, and Craig Copeland have become relied-upon sources for data and insights on the full range of health, pension, savings, and human resources strategy questions for the nation's media and policymakers.

EBRI ends 2005 with good financial results and excellent prospects for 2006. With broad-based support, we were able to invest over $3 million in research and $1.5 million in education in 2005, and these numbers will increase in 2006 (see chart at end on sources and uses). EBRI and ERF did this while maintaining reserves equal to two years' operating expenses—implementing the explicit Board intent since 2000: put all annual revenue *into our work* and *not* to build additional reserves.

EBRI has continued to expand its work in aiding human resources strategic planning. Over the year, this effort has included special studies, data runs, and planning discussions that have then been folded into distributions to all our sponsors. One of these projects, *The EBRI/Commonwealth Fund Consumerism in Health Care Survey,* was released as the December *EBRI Issue Brief,* and will provide an annual benchmark on the nation's success in using IT, medical evidence, and quality measures to improve coverage, individuals' satisfaction, and quality. Funding for the survey and policy forum was provided by The Commonwealth Fund, IBM, Pfizer, and Procter & Gamble.

Two *Issue Briefs* were published in 2005 with special funding from the Investment Company Institute using data from the EBRI/ICI Participant-Directed Retirement Plan Database. At least two more *Issue Briefs* are expected from that program in 2006. EBRI now maintains the largest data base in the nation of defined contribution plan participant data, providing the national benchmark on contributions, investment allocation, account balances, and loans. EBRI models have provided the most comprehensive projections of financial security prospects of future retiree generations, along with analysis of the implications of the shift to defined contribution plans, the shift to single-sum distributions, and what current programs can deliver in their present form and the added savings that would be accomplished with auto-enrollment, default allocation to diversified portfolios, and alternative distribution options. That work has been at the center of congressional consideration of legislative proposals.

New reports are currently being written on the implications of Social Security reform for employers, with funding from the Ford Foundation, and on 21st century retirement, with funding from the HR Policy Association. Both of these reports will also be published as *Issue Briefs* in 2006.

The 2005 Retirement Confidence Survey was released in April—the 15th annual survey—and continues to be used as the only long-term trend line survey of worker and retiree attitudes. The 2005 Health Confidence Survey was released as the November *EBRI Notes* feature and has received widespread use for its data on attitudes toward new health designs and how health care consumers have reacted to higher costs and new options.

The Choose to Save® program was expanded in 2006 with a new Web site, new versions of the Ballpark E$timate® worksheet, two Emmy Awards, and new public service announcements for radio and television. Primary underwriting for this program has been provided by Fidelity Investments since 1997 ($8.5 million from 1997 through 2005 and a commitment of $0.5 million for 2006), with additional funding from the 20 organizations that underwrite our American Savings Education Council® program and significant in-kind contributions from AP Radio, the National Association of Broadcasters, Bonneville Corporation Radio, and WJLA/ABC-7 television in Washington, DC. All of these education programs have been given recognition by the Congressional Caucus on Financial Literacy, the

Congressional Caucus on Savings and Ownership, and the President's Commission on Financial Literacy and Education, and have been featured in a number of popular books, including books by Jane Bryant Quinn (her latest book includes the full Ballpark E$timate® worksheet) and Terry Savage. Special versions of the Ballpark E$timate® retirement planning worksheet (www.choosetosave.org) will soon be posted on the U.S. Government Web site incorporating the federal retirement and thrift savings plans and will be available to all federal employees.

Savings, retirement, and health issues will become increasingly dominant in the lives of individuals, employers, and public policymakers as the baby-boom generation moves into retirement and the proportion of the population over age 65 increases from about 13 percent to 20 percent. Building on a strong 2005, EBRI is uniquely positioned to help all three constituencies and the news media develop plans and strategies for creating opportunities and meeting challenges. We can expect a growing number of commissions and caucuses and single-firm-sponsored institutes to focus on these issues in the years ahead. EBRI has 27 years of research; many years of health, retirement, and value-of-benefit surveys; our health coverage and defined contribution plan databases; and a skilled team that will be invaluable to all of these efforts. EBRI will continue to urge others that do research on employee benefit programs to carefully label and communicate results—most of which are based upon non-statistically significant populations and cannot be generalized to the nation—so that the public, employers, policymakers, and the media are not misled on what is happening in the nation.

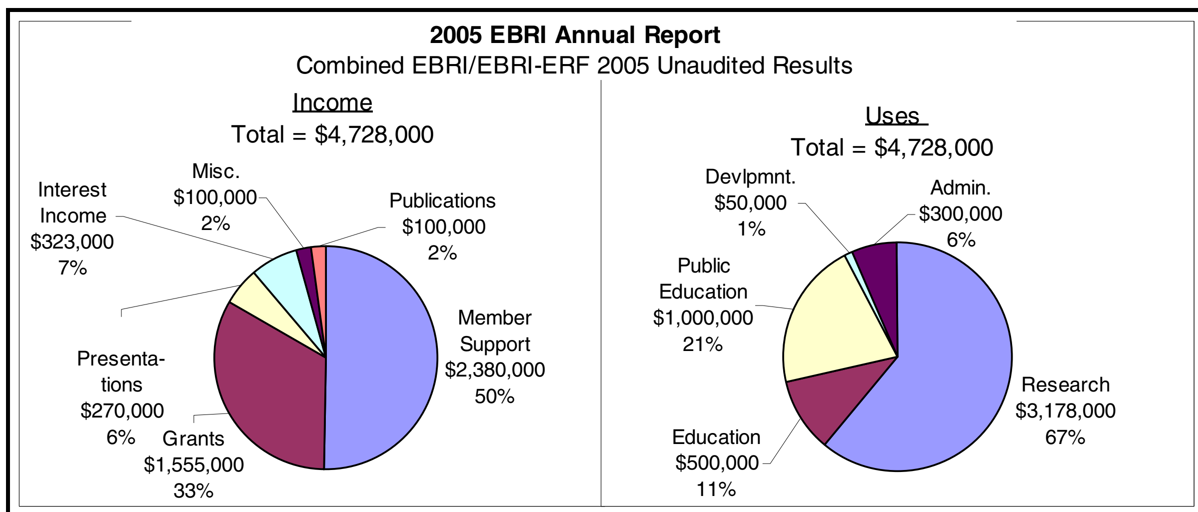
The Founders' vision of EBRI as a nonprofit, nonpartisan organization designed to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education has been embraced by all of our funding constituencies. The support and input of EBRI Members and grantors make our work possible.

Moving into 2006, we have added nine new Sustaining Members and continue to add new organizations that endorse our mission. We invite the membership of all organizations, regardless of sector or belief, as we are researchers and educators, not advocates or lobbyists. We believe that all decisions can benefit from reliable research.

I thank all the organizations that supported us in 2005. I invite all others to begin that support in 2006. EBRI is needed now more than ever, as is broad-based support and involvement.

Happy New Year!

Dallas L. Salisbury
President and CEO



New Publications and Internet Sites

Aging

Wise, David A. *Analyses in the Economics of Aging*. $85. University of Chicago Press, Order Dept., 11030 S. Langley Ave., Chicago, IL, 60628-2215, (800) 621-2736, fax: (800) 621-8476.

Employee Benefits

Employment Policy Foundation. *The American Workplace 2005: The Changing Nature of Employee Benefits*. $20 + S&H. [EPF members receive a 20% discount.] Employment Policy Foundation, 1015 Fifteenth St., NW, Suite 1200, Washington, DC 20005, (202) 789-8685, fax: (202) 789-8684, e-mail: info@epf.org, Web site: www.epf.org

Gertner, Marc. *Trustees Handbook: A Practical Guide to Labor-Management Employee Benefit Plans*. Sixth Edition. IFEBP members, $55; nonmembers, $75. International Foundation of Employee Benefit Plans, Publications Department, P.O. Box 68-9953, Milwaukee, WI 53268-9953, (888) 334-3327, option 4; fax: (262) 786-8780, e-mail: books@ifebp.org.

Health Care

Atlantic Information Services. *Managed Care Facts, Trends and Data: 2005-2006*. Tenth Edition. $297. AIS, 1100 17th St., NW, Suite 300, Washington, DC 20036-4631, (800) 521-4323, fax: (202) 331-9542, e-mail: customerserv@aispub.com.

Buck Consultants. *14th National Health Care Trend Survey*. $100. Buck Consultants, Attn: Benefits Survey Department, 500 Plaza Dr., Secaucus, NJ 07096-1533, (201) 553-6400.

Pension Plans/Retirement

Carlson, Robert C. *The New Rules of Retirement: Strategies for a Secure Future*. $24.95. John Wiley & Sons, Customer Care Center - Consumer Accounts, 10475 Crosspoint Blvd., Indianapolis, IN 46256, (877) 762-2974, fax: (800) 597-3299.

Organization for Economic Co-operation and Development. *Pensions at a Glance: Public Policies Across OECD Countries*. $29. OECD Distribution Center, Turpin, 143 West St., New Milford, CT 06776, (800) 456-6323, fax: (860) 350-0039, www.oecdbookshop.org.

Reference

Omnigraphics, Inc. *Headquarters USA: A Directory of Contact Information for Headquarters and Other Central Offices of Major Businesses & Organizations in the United States and in Canada*. 2006 Edition. $212. Omnigraphics Customer Service, PO Box 625, Holmes, PA 19043, (800) 234-1340, fax: (800) 875-1340, www.omnigraphics.com

Fiduciary Responsibility Sites

ADP Retirement Services
www.adp401k.com/_resources/ft_story1.asp

American Institute of Certified Public Accounts
www.pfp.aicpa.org/Resources/Fiduciary+Responsibility/

Social Investment Forum
www.socialinvest.org/

U.S. Department of Labor Employee Benefits Security Administration
www.dol.gov/ebsa/fiduciaryeducation.html

U.S. Securities and Exchange Commission
www.sec.gov/investor/pubs/sponsortips.htm

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EBRI's work advances knowledge and understanding of employee benefits and their importance to the nation's economy among policymakers, the news media, and the public. It does this by conducting and publishing policy research, analysis, and special reports on employee benefits issues; holding educational briefings for EBRI members, congressional and federal agency staff, and the news media; and sponsoring public opinion surveys on employee benefit issues. **EBRI's Education and Research Fund** (EBRI-ERF) performs the charitable, educational, and scientific functions of the Institute. EBRI-ERF is a tax-exempt organization supported by contributions and grants.

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