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Betsy Jaffe
Director, Marketing and Public Relations
Employee Benefit Research Institute
press-media@ebri.org
202.775.6347

Average IRA Balance Grew More Than 22 Percent From 2013 Through 2017, but Data Raise Concerns Around Extreme Allocations

Washington, D.C. – September 17, 2020 — According to new research from the Employee Benefit Research Institute (EBRI), the average individual retirement account (IRA) balance increased from \$93,441 in 2013 to \$114,383 in 2017, an increase of 22.4 percent. The average contribution to a Traditional or Roth IRA slightly increased from \$3,880 in 2013 to \$3,913 in 2017.

The *Issue Brief*, “EBRI IRA Database: IRA Balances, Contributions, Rollovers, Withdrawals, and Asset Allocation, 2017 Update,” is the ninth annual cross-sectional analysis of the EBRI IRA Database. It includes results on the distribution of IRA types and account balances, contributions, rollovers, withdrawals, and asset allocation in IRAs for 2017, the latest data available.

Despite the account growth, there is room for concern. EBRI also found that 24.4 percent of IRAs had less than 10 percent in equities, representing so-called “extreme allocations.” Furthermore, 16.4 percent of IRAs had more than 90 percent of their assets in bonds and money. In particular, there was high money concentration in accounts with balances of less than \$5,000, of which many were a result of automatic rollovers from 401(k) plans that are defaulted into money — the result of the safe harbor provisions for the forced cashouts of 401(k) plans with balances of \$1,000 up to \$5,000. As prior EBRI research has shown, the assets typically stay where they are initially allocated. Consequently, the allocations in these IRAs end up staying in money, as a result of the default investment and not the result of the actions of the account owners.

Importantly, assets from rollovers to IRAs in 2017 greatly outpaced total contributions, regardless of the source. The average and median rollovers to a Traditional IRA in 2017 were \$94,879 and \$14,454, respectively, while the average contribution to a Traditional IRA in 2017 was \$4,163. Overall, just over 12 percent of all accounts in the database received a contribution in 2017, averaging \$3,913. Roth IRAs were more likely to receive a contribution than Traditional IRAs (26.6 percent vs. 5.7 percent). EBRI will be producing additional research addressing this topic in the coming months.

The study also assessed withdrawal activity. Just over 21 percent of individuals owning a Traditional or Roth IRA took a withdrawal in 2017. However, only 3.3 percent of individuals with a Roth took a withdrawal and 25.6 percent of individuals with a Traditional IRA took a withdrawal. Upon closer examination, EBRI finds that the overall IRA withdrawal percentage was largely driven by required minimum distribution (RMD) rules. As with the force-out safe harbor, RMDs appear to drive behavior in IRAs, with only one-quarter of IRA owners ages 71 or older found to have withdrawn an amount from their Traditional IRA in excess of their RMD.

“This study demonstrates the power of defaults and signaling in influencing behavior in IRAs,” said Craig Copeland, Senior Research Associate at EBRI and author of the report. “The asset allocation in accounts with balances less than \$5,000 seem to be largely driven by the default investment of forced cashouts. Furthermore, individuals who don’t know how much to withdraw from their IRA in many instances are simply defaulting to the RMD, assuming that is the ‘correct’ amount to withdraw.”

The EBRI IRA Database is an ongoing project of the Employee Benefit Research Institute (EBRI) that collects data from IRA-plan administrators across the nation. For year-end 2017, it contains usable data on 11.3 million accounts owned by 9.2 million individuals, with total assets of \$1.30 trillion. For accounts in the database, the IRA type, account balance, contributions made, rollovers transferred, and withdrawals taken during the year (if any), the asset allocation, and certain demographic characteristics of the account owner, are included (among other items).

This update uniquely shows the importance of being able to measure not only unique IRA account balances, but also the combination of all IRAs an individual owns to determine the potential total IRA savings the individual has by aggregating their multiple IRAs. The overall, cumulative IRA average balance *per individual* is 23 percent larger than the IRA balance *per account*.

“Individual Retirement Accounts: How Balances of Older Account Owners Change Over Time”, is available online at www.ebri.org.

About EBRI:

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