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FOR IMMEDIATE RELEASE: **May 4, 2006**
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New Research from EBRI:

Individual Accounts Becoming More Important As a Key Source of Retirement Wealth

WASHINGTON—Individual account retirement plans continue to grow as a source of wealth for future retirees, and are likely to become even more important as Social Security encounters financial troubles in the future and as private employers shift away from "traditional" pension plans, according to an analysis released today by the nonpartisan Employee Benefit Research Institute (EBRI).

"The wealth that workers are able to accumulate during their working years in these individual account plans will be, for many workers, the determining factor in their ability to maintain a comfortable standard of living in retirement," the analysis says.

The analysis is based on recent data from the Federal Reserve's Survey of Consumer Finances, and finds that participation in employment-based retirement plans and individual retirement accounts (IRAs) fell from 2001–2004. Results are published in the May 2006 *EBRI Issue Brief*, available at www.ebri.org. The analysis makes these key points:

- In 2004, 40 percent of all families had a participant in an employment-based retirement plan—either a defined benefit (pension) or defined contribution plan—from a current job, down from nearly 42 percent in 2001.
- Among families with an employment-based plan, those with *only* a defined benefit pension plan decreased from 40 percent in 1992 to 24 percent in 2004. But families with *only* a defined contribution plan shot up from nearly 38 percent in 1992 to nearly 52 percent in 2004. And families with a 401(k)-type plan reached nearly 74 percent in 2004, up from 32 percent in 1992 and nearly 67 percent in 2001.
- Among all families with a defined contribution plan in 2004, the median (midpoint) plan balance was $25,000, up 30 percent from 2001.
- In 2004, 29 percent of all families owned either an individual retirement account (IRA) or a Keogh plan, down from 31 percent in 2001. The median balance among families with an IRA/Keogh plan was $30,000 in 2004, a 4 percent increase from 2001.
- The median increase in families' net worth was only 1.5 percent from 2001–2004. This compares to a 10 percent increase from 1998–2001 and a nearly 18 percent increase from 1995–1998.

Participation in an employment-based retirement plan is strongly linked to key demographic factors, the analysis says. Thus, higher-income, better-educated, white, non-Hispanic heads of families tended to be significantly more likely to have a retirement plan—and higher balances—than their counterparts.

In addition, the analysis notes that, in 2004, defined contribution plan assets comprised 56 percent of total financial assets for the median family that participated in such a plan. Among families with defined contribution and/or IRA/Keogh plans in 2004, these assets comprised a median of nearly 63 percent of their total assets. Both figures are a significant increase from 2001.

The most commonly owned IRA, the analysis says, was the regular IRA: 45 percent of the family heads who owned an IRA owned only a regular IRA. That was followed by the rollover IRA (18 percent) and the Roth IRA (nearly 16 percent). The regular IRA-only type held 33 percent of all family financial assets, followed by regular and rollover IRAs combined (27 percent), rollover-only IRAs (24 percent), and Roth IRAs (4 percent). Overall, regular IRAs account for 46 percent of all IRA assets, compared with 46 percent for rollover IRAs, and 8 percent for Roth IRAs.

The analysis includes more than a dozen tables that show historic as well as demographic trends for individual account retirement plans.

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PR #736