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New Research from EBRI:

Individual Account Retirement Plans Show Continued Growth

But Sharp Increase in Defined Contribution Plans, Participants Has Topped Out

WASHINGTON—Individual account retirement plans, such as 401(k) plans and individual retirement accounts (IRAs), have continued to increase their share of retirement assets, and this share is projected to grow further, particularly for private-sector workers, according to an study published today by the nonpartisan Employee Benefit Research Institute (EBRI). The most recent data show that as of 2006, about $7.5 trillion in assets were held in IRAs and private-sector defined contribution plans such as 401(k)s, up from about $4.8 trillion in 2000.

The study, in the October 2007 *EBRI Notes*, also reports that the growth of defined contribution (DC) plans has topped out. The sharp increase in the number of DC plans and the number of participants in those plans, which had grown steadily through the 1990s, had leveled off by 2004. The number of DC *plans* hit almost 687,000 in 2000, and was down to less than 636,000 in 2004. The number of DC *participants* reached 52.9 million in 2002 and was down to 52.2 million in 2004. (There are several types of DC retirement plans, which include the 401(k).) The full study is available at www.ebri.org

The study makes these additional points:

- The percentage of workers owning a 401(k)-type plan or an IRA has risen significantly. Just over 40 percent of workers ages 21–64 owned a 401(k)-type plan or an IRA in 2004, up from 34 percent in 1996.
- In 2004, about 38 percent of IRA owners contributed the maximum amount allowed by law, almost half the rate in 1996. Most new IRA contributions are going to nondeductible Roth IRAs (generally tax-free at withdrawal), not traditional IRAs. The major source of IRA growth continues to be rollovers from other tax-qualified retirement plans, not from new contributions. Contributions to individual account retirement plans are strongly influenced by demographic factors, chiefly income, education, and race.

Although many workers have amassed a substantial amount of wealth in individual account plans, a majority of Americans still do not have a retirement plan, the study says. Not just *accumulating* but also *managing* these retirement assets is a new challenge for new and future retirees, unlike many older retirees whose working careers spanned the time when employer-financed defined benefit pension plans (with annuity payments) were the norm.

"Retirees using these individual account plans are being handed two difficult assignments—accumulation and orderly divesture—for financing a comfortable retirement," said EBRI's Craig Copeland, the author of the study.

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