



EBRI News

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New Research from EBRI:

401(k)-Type Plans, Participants Grow at Slower Pace

WASHINGTON—Growth in the number of 401(k)-type plans and the number of participants in those plans, which increased sharply in the 1990s, has slowed in recent years, according to a study released today by the nonpartisan Employee Benefit Research Institute (EBRI).

The study, in the May 2008 *EBRI Notes*, also shows that ownership and assets in both 401(k)-type plans and individual retirement accounts (IRAs) have risen, that the growth of IRA assets is due to rollovers from other tax-qualified retirement plans, and that most new IRA contributions are going into tax-free-on-withdrawal (nondeductible) Roth IRAs.

“IRAs and defined contribution plans held \$7.5 trillion in assets at the end of the year 2006,” writes Craig Copeland, EBRI senior research associate and author of the May *Notes* study. “Although Americans have amassed a substantial amount of total wealth in these plans, the data also show that a majority of Americans still do not have a retirement plan.”

The study, available at www.ebri.org, includes the following highlights:

Number of 401(k)-type plans: The number of these plans in the private sector increased from 29,869 in 1985 to 436,207 in 2005. While the number of overall defined contribution plans (of which 401(k)-type plans are a subset) has also grown substantially, it has leveled off and even declined slightly in recent years. The number of defined contribution plans was 207,748 in 1975, reached 686,878 by 2000, and declined to 631,481 in 2005.

Active participants in 401(k)-type plans: The number of active participants in private-sector 401(k)-type plans increased from 10.3 million in 1985 to 44.4 million in 2004. The number of active participants in overall defined contribution plans increased from 11.2 million in 1975 to 52.9 million in 2002 and then leveled off to 52.2 million in 2004.

Assets in 401(k)-type plans: Assets in these plans did not show the same trend as the number of plans and number of active participants from 1985–2004. Assets grew sharply, from \$144 billion in 1985 to \$1.79 trillion in 1999, before falling (along with the stock market) until 2002, reaching \$1.57 trillion. The level subsequently increased, reaching \$2.40 trillion in 2005.

IRA ownership: Twenty-three percent of workers ages 21–64 owned an IRA at the end of 2005. This was an increase from 15.9 percent at the end of 1996. The percentage of workers ages 21–64 who owned either an IRA, a 401(k)-type plan, or both types of plans, increased from 34.1 percent in 1996 to 43.8 percent in 2005. Almost all of this increase was due to the increased likelihood of workers owning both types of plans.

The study also found that the proportion of workers ages 21–64 participating in a 401(k)-type plan increased from 24.1 percent in 1996 to 33.1 percent in 2005. The proportion of eligible taxpayers who contributed to IRAs was near 10 percent for each year from 2000–2002, ranging from 9.5 percent to 10.6 percent.

The percentage of workers ages 21–64 making a contribution to a 401(k)-type plan at the maximum dollar amount allowed by the Internal Revenue Service rose from 3.2 percent in 1996 to 8.9 percent in 2005. About 27 percent of IRA owners contributed the maximum amount allowed by law in 2005, less than half the rate of 1996, when the contribution limit was half as much as it was in 2005.

The EBRI report also presents current data on IRAs, which have not changed from prior publications:

- **Assets in IRAs:** Of the \$2.5 trillion in individual retirement accounts in 2002, \$2.3 trillion was in traditional IRAs, representing more than 90 percent of all IRA assets. Roth IRAs amounted to \$77.6 billion, and other IRAs held \$133.4 billion in 2002. Thus, Roth IRAs accounted for just over 3 percent of all IRA assets in 2002, while other IRAs accounted for more than 5 percent.
- **Contributions to IRAs:** Of the \$42.3 billion in IRA contributions in 2002, only \$12.4 billion went to traditional IRAs, both deductible and nondeductible. This accounts for 29.3 percent of all IRA contributions. Roth contributions represented 31.2 percent of contributions, while the share of other IRA contributions was 39.5 percent.
- **Rollovers:** Rollovers from other tax-preferred plans continue to drive the asset growth of IRAs compared with other types of IRAs. In 2002, rollovers to traditional IRAs amounted to \$204.4 billion, following rollover amounts of \$225.6 billion in 2000 and \$187.8 billion in 2001. This compares with only \$42.3 billion in 2002 IRA contributions, meaning that rollovers amounted to almost five times the amount of new contributions.

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