Statement Before

The U.S. Senate Committee on Finance

Hearing on

Individual Retirement Accounts

Testimony of Dallas L. Salisbury
President, Employee Benefit Research Institute (EBRI)
Chair, American Savings Education Council (ASEC)
Member, National Commission on Retirement Policy (CSIS)

Washington, DC

March 6, 1997

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Suite 600 2121 K Street, NW Washington, DC 20037-1896 Testimony of Dallas L. Salisbury
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Mr. Chairman and members of the Committee, my name is Dallas Salisbury. It is a pleasure to be here this morning to discuss issues related to retirement income programs in general and individual retirement accounts (IRAs) in particular. I ask that my full submission be made a part of the record of the hearing.

The mission of EBRI is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions for or against legislative proposals. ASEC's goal is to make saving and planning a vital concern of Americans and recognized by employers as being in their economic interests. The National Commission on Retirement Policy is a newly formed group that will assess the state of our retirement system and recommend adjustments to strengthen retirement income security prospects.

I was asked to comment this morning on the relative role of IRAs in our retirement income system. I have responded to the three questions I was given with a number of charts and tables, and have provided information on four additional questions of relevance to the overall hearing.

1. What is the relative efficiency of tax expenditures for IRAs and for employerprovided retirement benefits?

The government publishes tax expenditure numbers (current revenue not collected due to tax deferral on contributions and earnings) on different programs, including IRAs. How does this number compare for IRAs relative to employment-based defined benefit and defined contribution plans? The tax expenditure for employer pension plans in 1995 was: \$29.8 billion for federal, state, and local plans (these plans had about 23 million total participants, and 16 million active participants); \$14.8 billion for private industry plans (these plans had 78 million total participants and 57 million active participants); and \$7.5 billion for military plans. The IRA tax expenditure was \$7.7 billion (there are an estimated 60 million IRAs, with about 4.3 million with new contributions in 1994), and \$3.3 billion was attributed to Keogh plans (in 1994, about 1 million self-employed individuals made a contribution to a Keogh plan).

2. It would be helpful if you compared participation rates for IRAs with employer-provided plans.

Do individuals participate in IRAs as readily as they participate in employer-offered plans? IRA participation rates have been low relative to employment-based plans. Table 1 shows relative participation rates among all pension plans (43.7 percent), 401(k) plans (64.9 percent), and IRAs (8.1 percent). Internal Revenue Service (IRS) data

also show that participation rates among those not covered by an employer pension plan are lower (6.3 percent) than for those with a plan (9.2 percent).

3. In addition, please provide information concerning the extent to which funds currently held in IRAs consist of amounts "rolled-over" from employer-provided retirement plans upon a change of employment status.

How much money is now in IRAs? Table 2 shows IRA and Keogh assets for 1985 to 1995. Total assets at the end of 1995 were \$1.220 trillion.

How much of this is from direct contributions as opposed to rollovers from employers qualified plans? Table 3 shows data from 1987–1990, the most recent years for which the IRS has made these data available. For these years, 76 percent of all new contributions to IRAs was from rollovers. Our best estimate is that more than 80 percent of all IRA assets are from rollovers and the earnings on rollovers, as compared with pure IRA contributions and earnings.

4. How big a source of retirement income do IRAs represent today?

Retirees depend primarily on Social Security. Pensions play a large role for the top 20 percent of retirees by income. Chart 1 shows sources of income for current retirees. Income from IRAs is reported here with income from pensions, if it is still coming from an IRA. Many retirees take money from an IRA or a lump—sum distribution from an employer plan, move it into personal assets, and then report this income as asset

income. Thus, this chart may understate the contribution to retirees' income of assets built up in pension plans and IRAs.

5. Is all income that might be attributable to assets that were once in an IRA reported as IRA income?

IRA assets frequently turn into asset income during retirement, with the result that the income is not reported as coming from an IRA. Table 4 provides a more explicit breakout for income sources and their amounts. It shows that 1 percent of today's retirees report income from an IRA/Keogh or 401(k). Chart 2 is intended to put this number in perspective as it shows the high proportion (46 percent) of total benefit payments now in the form of lump-sum distributions. Chart 3 shows that 54 percent of lump-sum distributions are rolled over into IRAs and shows a rollover action by 30 percent of those who get a lump-sum distribution.

6. What is the average direct employee contribution to employer-sponsored 401(k) plans and how does this compare with the IRA \$2,000 limit?

Table 5 shows our most recent data, which is for 1993. The average employee contribution across all firms is \$2,681 per participant.

7. Do contributions to IRAs add to national savings?

The literature states that contributions to pensions and IRAs make a positive contribution to national savings. The debate is over how much, and there is no agreement on this point.

Real Annual Earnings Freelinge (Thousands) Freelinge (Thousands) Freelinge (Thousands) IRA Percentage (Thou		Civilian	Rates o	Table 1 Rates of Pension Participation, 401(k) Participation, and IRA Participation, Civilian Workers Aged 16 and Over, within Earnings Levels, May 1983, May 1988, and		Table 1 n, 401(k) Pa hin Earning	Table 1 irticipation, 401(k) Participation, and IRA Participation, Over, within Earnings Levels, May 1983, May 1988, and April 1993	, and IRA Iay 1983, N	Participati Aay 1988, a	on, ınd April	1993		
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98,964 113,720 117,874 42.0% 43.7% 38.3% 56.9% 64.9% 16.9% 12.5% 10,294 10,28 7,540 4.9 4.2 2.9 a 22.2 19.9 6.8 4.6 99 16,259 10,691 16.9 17.2 12.7 a 32.9 34.0 8.0 7.1 99 16,259 16,966 15,409 37.0 38.7 28.8 28.2 41.9 44.5 10.4 7.8 99 16,259 14,700 14,501 55.0 54.0 44.6 32.1 50.5 54.5 13.4 11.3 99 11,993 12,417 12,247 64.7 63.4 60.1 34.7 56.7 60.8 19.1 13.3 90 6,663 8,875 9,817 72.8 71.5 64.2 40.0 58.6 66.8 21.0 17.3 59.3 79.8 83.2 55.8 22.9	Real Annual Earnings	1983	1988	1993	1983	1988	1993	1983	1988	1993	1982	1987	1992
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13,257 13,502 10,691 16.9 17.2 12.7 a 32.9 34.0 8.0 7.1 99 16,259 16,966 15,409 37.0 38.7 28.8 28.2 41.9 44.5 10.4 7.8 99 14,052 14,700 14,501 55.0 54.0 44.6 32.1 50.5 54.5 11.3 99 11,993 12,417 12,247 64.7 63.4 60.1 34.7 56.7 60.8 19.1 13.3 99 6,663 8,875 9,817 72.8 71.5 64.2 40.0 58.6 66.8 21.0 17.3 99 11,600 14,377 19,977 73.5 75.4 75.0 47.6 67.0 72.3 32.8 18.0 2,948 4,133 8,639 73.3 76.9 79.3 79.8 83.2 55.8 22.9	\$1-\$4,999	10,294	10,.28	7,540	4.9	4.2	2.9	ਰ	22.2	19.9	8.9	4.6	2.4
99 16,259 16,966 15,409 37.0 38.7° 28.8 28.2 41.9 44.5 10.4 7.8 99 14,052 14,700 14,501 55.0 54.0 44.6 32.1 50.5 54.5 13.4 11.3 99 11,993 12,417 12,247 64.7 63.4 60.1 34.7 56.7 60.8 19.1 13.3 99 6,663 8,875 9,817 73.8 71.5 64.2 40.0 58.6 66.8 21.0 17.3 99 11,600 14,377 19,977 73.5 75.4 75.0 47.6 67.0 72.3 32.8 18.0 2,948 4,133 8,639 73.3 76.9 79.2 59.3 79.8 83.2 55.8 22.9	85,000-89,999	13,257	13,502	10,691	6.91	17.2	12.7	ત્વ	32.9	34.0	8.0	7.1	3.7
14,052 14,700 14,501 55.0 54.0 44.6 32.1 50.5 54.5 13.4 11.3 11,993 12,417 12,247 64.7 63.4 60.1 34.7 56.7 60.8 19.1 13.3 6,663 8,875 9,817 72.8 71.5 64.2 40.0 58.6 66.8 21.0 17.3 11,600 14,377 19,977 73.5 75.4 75.0 47.6 67.0 72.3 32.8 18.0 2,948 4,133 8,639 73.3 76.9 79.2 59.3 79.8 83.2 55.8 22.9	\$10,000-\$14,999	16,259	16,966	15,409	37.0	38.7	28.8	28.2	41.9	44.5	10.4	7.8	4.6
11,993 12,417 12,247 64.7 63.4 60.1 34.7 56.7 60.8 19.1 13.3 6,663 8,875 9,817 72.8 71.5 64.2 40.0 58.6 66.8 21.0 17.3 11,600 14,377 19,977 73.5 75.4 75.0 47.6 67.0 72.3 32.8 18.0 2,948 4,133 8,639 73.3 76.9 79.2 59.3 79.8 83.2 55.8 22.9	\$15,000-\$19,999	14,052	14,700	14,501	55.0	54.0	44.6	32.1	50.5	54.5	13.4	11.3	5.4
6,663 8,875 9,817 72.8 71.5 64.2 40.0 58.6 66.8 21.0 17.3 11,600 14,377 19,977 73.5 75.4 75.0 47.6 67.0 72.3 32.8 18.0 2,948 4,133 8,639 73.3 76.9 79.2 59.3 79.8 83.2 55.8 22.9	\$20,000-\$24,999	11,993	12,417	12,247	64.7	63.4	60.1	34.7	56.7	8.09	19.1	13.3	7.5
11,600 14,377 19,977 73.5 75.4 75.0 47.6 67.0 72.3 32.8 18.0 2,948 4,133 8,639 73.3 76.9 79.2 59.3 79.8 83.2 55.8 22.9	\$25,000-\$29,999	6,663	8,875	9,817	72.8	71.5	64.2	40.0	58.6	8.99	21.0	17.3	8.2
2,948 4,133 8,639 73.3 76.9 79.2 59.3 79.8 83.2 55.8 22.9	\$30,000-\$49,999	11,600	14,377	19,977	73.5	75.4	75.0	47.6	67.0	72.3	32.8	18.0	10.6
	\$50,000+	2,948	4,133	8,639	73.3	76.9	79.2	59.3	79.8	83.2	55.8	22.9	14.5
	^a Sample too small	to be statistic	sally reliable.										
^a Sample too small to be statistically reliable.								-					
^a Sample too small to be statistically reliable.								-			}		

1	Table 2 Distribution of IRA and Keogh Assets by Financial Institution, 1985–1995	ION OF IR	A AND KE	OGH ASSE	Table 2 ETS BY FIN	IANCIAL IN	ISTITUTIO	N, 1985-	-1995		
Financial Institution	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
					(\$ bii	(\$ billions)					
Total Assets	\$228.2	\$302.4	\$361.0	\$419.8	\$492.1	\$571.4	\$680.8	\$755.4	\$904.1	\$985.5	\$1,229.0
Commercial Banks	9.09	72.7	82.9	93.9	108.7	130.3	134.4	136.9	134.1	136.1	144.5
Thrifts	64.6	78.4	85.6	2.66	108.4	105.6	91.1	85.3	76.6	71.6	71.2
Mutual Funds	39.4	63.4	82.3	8.96	124.7	142.4	186.4	236.7	314.3	343.5	465.1
Credit Unions a	13.8	19.4	22.5	24.4	26.0	28.8	32.3	32.5	32.4	32.1	33.2
Life Insurance	18.9	23.6	28.8	37.0	42.3	47.2	55.4	61.9	75.7	84.7	100.0
Stock Brokerage											
Self-Directed Accounts ^{a,p}	31.7	44.9	58.9	0.89	82.0	117.1	157.2	202.1	271.0	317.5	415.0
				_	percentage o	(percentage of total assets)	5)				
Commercial Banks	26.6%	24.0%	23.0%	22.4%	22.1%	22.8%	19.7%	18.1%	14.8%	13.8%	11.8%
Thrifts	28.3	25.9	23.7	23.7	22.0	18.5	13.4	11.3	8.5	7.3	5.8
- Mutual Funds	17.3	21.0	22.8	23.1	25.3	24.9	27.4	31.3	34.8	34.9	37.8
Credit Unions a	0.9	6.4	6.2	5.8	5.3	5.0	4.7	4.3	3.6	3.3	2.7
Life Insurance	8.3	7.8	8.0	8.8	8.6	8.3	8.1	8.2	8.4	9.8	8.1
Stock Brokerage											
Self-Directed Accounts ^{a,b}	13.9	14.8	16.3	16.2	16.7	20.5	23.1	26.8	30.0	32.2	33.8
Percentage Increase in Assets from Previous Year		32.5	19.4	16.3	17.2	16.1	19.1	11.0	19.7	0.6	24.7

Source: Employee Benefit Research Institute tabulations of data from the Federal Reserve Board Weekly Statistical Release, the Office of Thrift Supervision, the National Council of Savings Institutions, the Investment Company Institute, the Credit Union National Association, and the American Council of Life Insurance.

^aThis number excludes CDs at banks that are reported to the Federal Reserve Board and are included in the commercial bank category and mutual funds at banks and brokerages already reported in the mutual funds category.

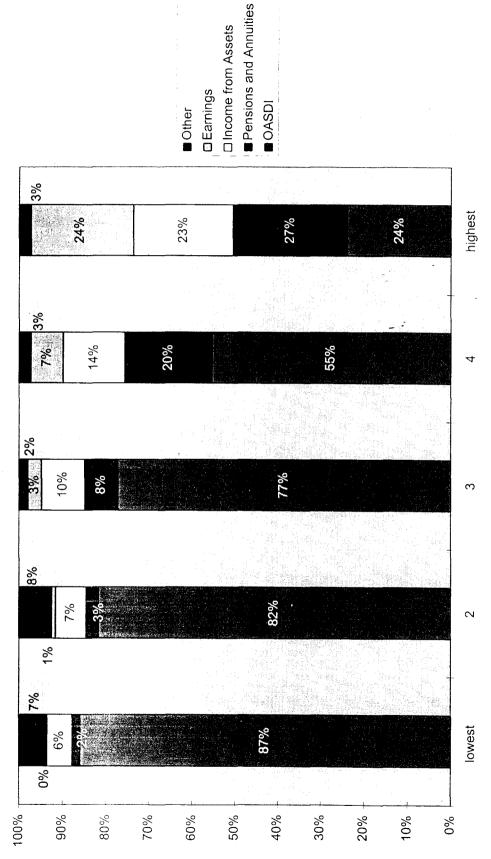
^bFigures represent individual retirement account assets only.

Table 3 Regular and Rollover Contributions to IRAs, 1987-90

	1987	1988	1989	1990	1987-90 Total
number of contributions (millions) regular rollover	12.5.8 2.5.8	10.9	10.1	9.3 3.1	+3.1 11.2
total amounts contributed (S in billions) regular	19.7	17.1	16.0	15.6	7.80
rollover	39.3	45.9	63.0	71.4	219.6
avg. amounts contributed (S in thousands) regular rollover	1.5	1.6	1.6	1.7	1.6 19.6

Source: EBRI/IRS tabulations of IRS Forms 5498, Individual Retirement Arrangement Information, 1987-90.

Chart 1: Sources of Income, Population Aged 65 and Over, by Income Quintiles, 1995



Source: Employee Benefit Research Institute tabulations of the March 1996 Current Population Survey.

Table 4 Sources of Income of the Older Population

Sources of Income of the U.S. Population Aged 55 and Over, Percentage Distribution of Population and Income by Income Source, Mean Income, and Median Income, by Age, 1995

	Mean income	\$17,128	3,044	10,509	1,539	1,425 114	1,556	142	9 K	28	3,057 2,039	999	352	116	72	228	4	84
+0	Median ^a income	\$11,553	000'6	8,917	4,428	4,593 3,000	10,176	7,560	1, c	5,960	1,216 726	1,000	1,200	2,350 5,000	5,496	3,119	919	2,290
Total Aged 65+	Percentage receiving income by source	100.0%	16	96 93	24	21 3	12	20 -			69 64	20	-	₽←	-	4	Ф	-
F	Percentage distribution of income by source	100.0%	18	61 42	o ·	∞ ←	တထ) ← で	י כ	סיס	12	4	2	75	σ	-	, o	ס
	Mean income	\$21,091	9,691	7,876	1,382	1,292 90	1,409	105	3 4	4 45	2,891	630	413	25 108	117	227	41	91
+	Median ^a income	\$13,453	18,000	8,864	4,945	5,160 3,180	11,916 12 108	7,560	7677	5,437	1,000	805	1,015	2,500 5,124	5,904	3,000	1,764	1,998
Total Aged 55+	Percentage receiving income by source	100.0%	36	72	18	16 2	00) -	- τ	· 5 	69	21	12	70	~	5	~	2
ř	Percentage distribution of income by source	100%	46	37	7	or co	7 9	סכ	דכ	סנ	46	လ	2	, D-L	-	←	р	q
	<u>a</u> <u>a</u> <u>a</u>	Total	Earnings	Retirement Income OASDI ^b	Private pensions ^c	tormer worker survivor	Public pensions ^c former worker	Survivor IRA/Keoch/401(k)	Appriities ⁶	Other refirement	Inome from Assets Interest	Dividends Rent royalties	estates and trusts	Financial Assistance ^{fg} Nonpension Survivors Benefits	Disability Unemployment compensation,	workers Compensation, and Veterans Benefits	Public Assistance/SSI ^h	Other ⁱ

Source: Employee Benefit Research Institute tabulations of the March 1996 Current Population Survey. Footnotes: See the EBRI Databook on Employee Benefits (Washington, DC: Employee Benefit Research Institute, 1995).

Lump-Sum Pension Payments, \$107.2 billion 46% Non-LSD Pension Payments, \$127.1 billion %4%

Chart 2 Distribution of Pension Payments, 1990

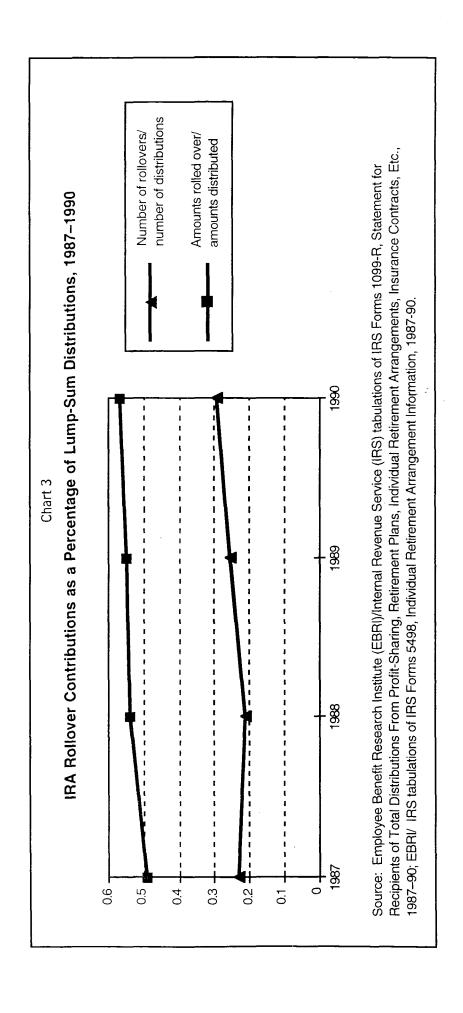


Table 5

Average Annual Dollar Contributions Among Civilian Nonagricultural
Wage and Salary Workers, Aged 16 and Older, Who Participate in a Salary
Reduction Plan, by Firm Size 1988, 1993

Average Contribution (1993 \$)	1993	\$2,681		1,667	2,608	2,368	2,480	2,461	2,780	2,609	2,615	2,816
Average (1988	\$2,443		3,147	2,406	2,311	2,157	2,177	2,501	es.	m	ത
Total Participants (thousands)	1993	25,148		536	714	850	1,292	1,944	18,889	1,780	1,671	15,438
T. Partic (thou	1988	15,586		303	462	530	613	666	11,973	ď	a	ø
		Total	Firm Size	Less than 10	10-24	25-49	50-99	100-249	250 or more	250-249	500-999	1,000 or more

Source: EBRI tabulations of the May 1988 and April 1993 Current Population Survey employee benefit supplements. **AData not available.