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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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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 employer-provided 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.

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 April 1993

Real Annual Earnings	Number of Workers (thousands)			Pension Participation (Thousands)			401(k) Participation Percentage of Workers Offered a Plan			IRA Participation (Percentage)	
	1983	1988	1993	1983	1988	1993	1983	1988	1993	1987	1992
All Workers	98,964	113,720	117,874	42.0%	42.0%	43.7%	38.3%	56.9%	64.9%	12.5%	8.1%
\$1-\$4,999	10,294	10,228	7,540	4.9	4.2	2.9	a	22.2	19.9	4.6	2.4
\$5,000-\$9,999	13,257	13,502	10,691	16.9	17.2	12.7	a	32.9	34.0	7.1	3.7
\$10,000-\$14,999	16,259	16,966	15,409	37.0	38.7	28.8	28.2	41.9	44.5	7.8	4.6
\$15,000-\$19,999	14,052	14,700	14,501	55.0	54.0	44.6	32.1	50.5	54.5	11.3	5.4
\$20,000-\$24,999	11,993	12,417	12,247	64.7	63.4	60.1	34.7	56.7	60.8	13.3	7.5
\$25,000-\$29,999	6,663	8,875	9,817	72.8	71.5	64.2	40.0	58.6	66.8	17.3	8.2
\$30,000-\$49,999	11,600	14,377	19,977	73.5	75.4	75.0	47.6	67.0	72.3	18.0	10.6
\$50,000+	2,948	4,133	8,639	73.3	76.9	79.2	59.3	79.8	83.2	22.9	14.5

Source: Employee Benefit Research Institute estimates of the April 1993 Current Population Survey.

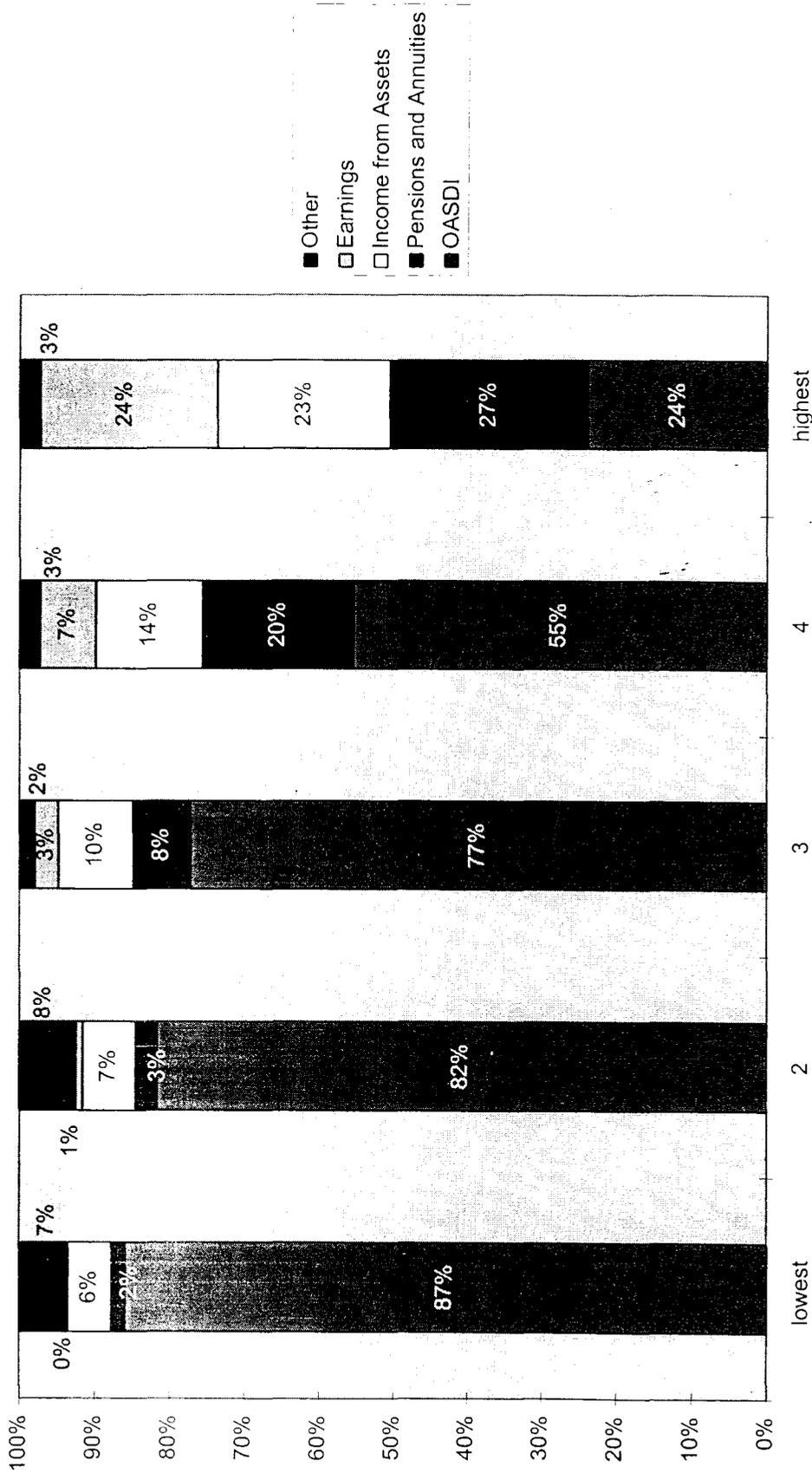
^aSample too small to be statistically reliable.

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

	1987	1988	1989	1990	1987-90 Total
number of contributions (millions)					
regular	12.8	10.9	10.1	9.3	43.1
rollover	2.6	2.6	2.9	3.1	11.2
total amounts contributed (\$ in billions)					
regular	19.7	17.1	16.0	15.6	68.4
rollover	39.3	45.9	63.0	71.4	219.6
avg. amounts contributed (\$ in thousands)					
regular	1.5	1.6	1.6	1.7	1.6
rollover	14.9	18.0	21.5	22.8	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.

Chart 2
Distribution of Pension Payments, 1990

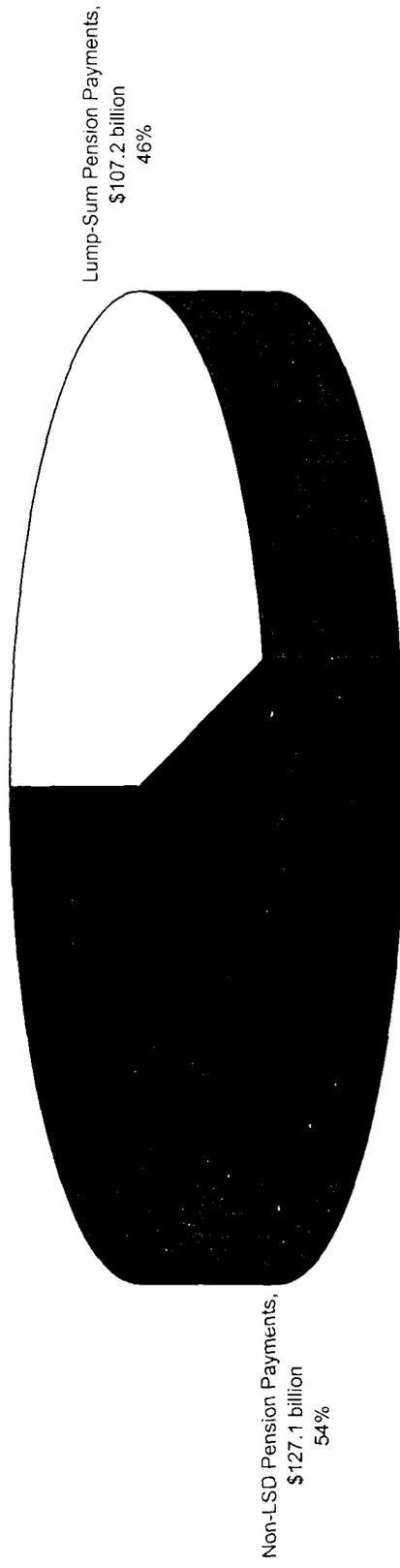
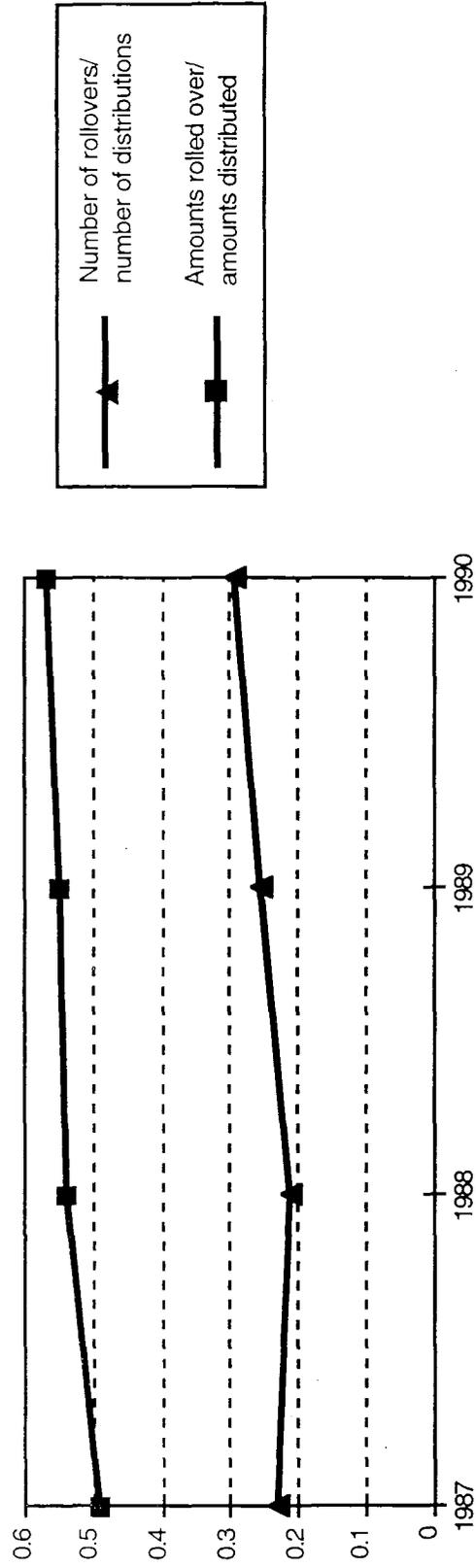


Chart 3

IRA Rollover Contributions as a Percentage of Lump-Sum Distributions, 1987-1990



Source: Employee Benefit Research Institute (EBRI)/Internal Revenue Service (IRS) tabulations of IRS Forms 1099-R, Statement for Recipients of Total Distributions From Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Insurance Contracts, Etc., 1987-90; EBRI/ IRS tabulations of IRS Forms 5498, Individual Retirement Arrangement Information, 1987-90.

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**

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

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