

IRAs by Far the Largest Component of Retirement System

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MarketWatch Blog by Alicia H. Munnell

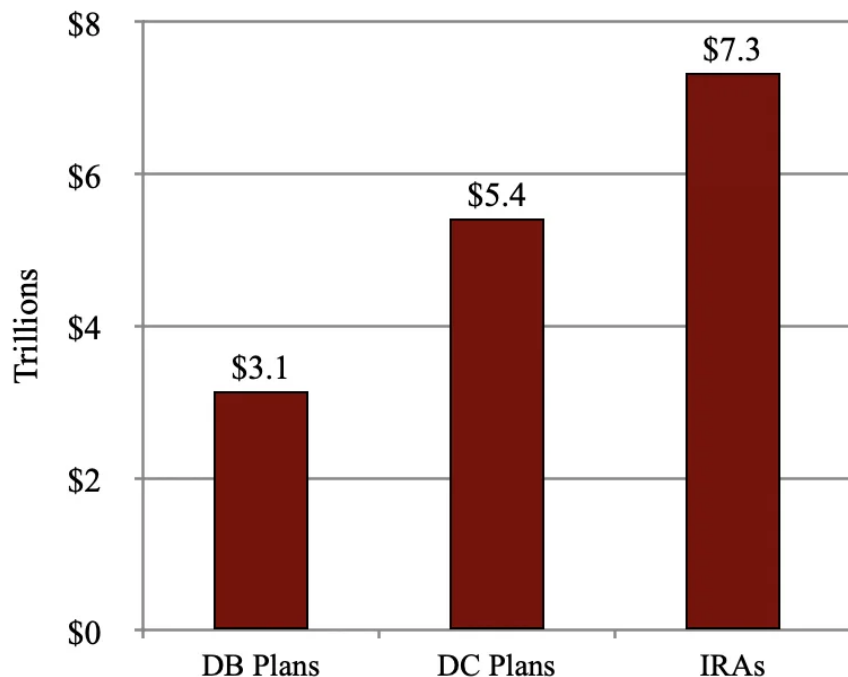


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401(k)s may be the gathering mechanism, but IRAs are where people put their money.

Given that private sector households now hold more money in individual retirement accounts (IRAs) than in defined contribution plans (see Figure 1), I am always looking for more info about IRAs.

Figure 1. *Total U.S. Private Retirement Assets, by Type of Plan, 2015*



Source: U.S. Board of Governors of the Federal Reserve System, [Financial Accounts of the United States](#). 2016.

The Investment Company Institute (ICI), an organization dedicated to promoting public understanding of mutual funds, puts out information on IRAs based on its *Annual Mutual Fund Shareholder Tracking Survey*. Three things seemed particularly interesting in the most recent publication.

First, 32 percent of all U.S. households own IRAs (see Table 1). Most hold traditional IRAs, but Roth IRAs are catching up fast.

Table 1. *Households Owning IRAs, 2015*

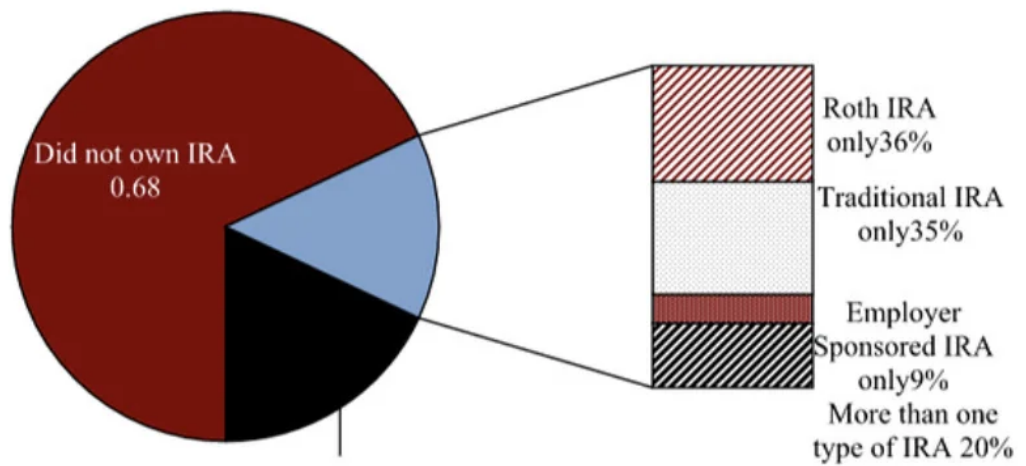
Type of IRA	Households with IRA	
	Number (millions)	Percentage of total
Traditional	30.4	24.4%
Roth	20.3	16.3
Employer-sponsored ^a	6.7	5.4
Any IRA	40.2	32.3

^aEmployer-sponsored IRAs include the SEP (introduced in 1978), the SAR-SEP (1986), and the SIMPLE (1996).

Source: Investment Company Institute. 2016. [“The Role of IRAs in U.S. Households’ Saving for Retirement, 2015.”](#)

Second, only 14 percent of all households made a contribution in 2014 (see Figure 2). Among those making contributions, the percentages contributing to a Roth IRA and a traditional IRA were about the same. ICI reports that rollovers from employer-sponsored plans have fueled the growth in IRAs.

Figure 2. Contributions to IRAs in Tax Year 2014



Source: Investment Company Institute (2016).

Finally, the lack of portability in the current system is a major reason for rollovers (see Table 2). Reasons # 1, 2, 5, 6, and 7 would all be eliminated if people could have 'one account' that followed them from job to job.

Table 2. *Primary Reason for Most Recent Rollover to IRA, 2015*

	Reason	Percent
1	Did not want to leave assets with former employer	19%
2	Wanted to consolidate assets	16
3	Wanted more investment options	21
4	Wanted same/different financial services provider	18
5	Wanted to preserve tax treatment	12
6	Was told by financial adviser to roll over	8
7	Easier than rolling over to new employer's plan	4
8	Wanted same investments as in former employer's plan	2

Source: Investment Company Institute (2016).

IRAs must be more profitable than 401(k)s to financial services providers, or else they would not engage in such extensive advertising urging people to roll over their balances. What's good for the financial services industry, however, is not likely to be good for the participant. We've got to make portability easier.