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Individual Account Retirement Plans: An Analysis of the 2007 Survey of Consumer Finances, with Market Adjustments to June 2009

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Abstract

This paper assesses the current status of Americans' savings for retirement by examining the incidence of individual account plans among families, as well as the average amount of assets accumulated in these accounts. The 2007 Survey of Consumer Finances (SCF), the Federal Reserve Board's triennial survey of wealth, is the basis for this study, as it is a leading source of data on Americans' wealth, provides detailed information on retirement plan incidence and account balances among families, and is the latest available. While 2007 SCF is the most comprehensive and current survey of Americans' finances, its timing was unfortunate due to the significant downturn in the economy in 2008 just after the survey was released. To account for that change, this analysis provides estimates of the changes in asset values from the end of 2007 to mid-June 2009 for individual account plan balances. The account balances of the defined contribution plans and IRAs are adjusted based on the asset allocation reported within the plans by using equity market returns and bond market returns from January 1, 2008, to June 19, 2009. Among all families with a defined contribution plan in 2007, the median (mid-point) plan balance was \$31,800, up 16 percent from 2004. According to EBRI estimates, this dropped 16.4 percent (to \$26,578) from year-end 2007 to mid-June 2009. Losses were higher for families with more than \$100,000 a year in income (down 22 percent) or having a net worth in the top 10 percent (down 28 percent). Among all families with an IRA/Keogh plan, the median value of their plan was \$34,000 in 2007, up 3 percent from 2004. EBRI estimates this median value dropped 15 percent (to \$28,955) from year-end 2007 to mid-June 2009.

In 2007, 40.6 percent of families included a participant in an employment-based retirement plan (either a defined benefit or defined contribution plan) from a current job. This was up from 38.8 percent in 1992, but virtually unchanged from 40.3 percent in 2004. A significant shift in the plan type occurred from 1992 to 2007, with the percentage of families with a plan having only a defined benefit plan decreasing from 40.0 percent to 17.4 percent. In 2007, 66.2 percent of families had a participant in a current or previous employer's retirement plan or an IRA/Keogh, up slightly from 2004 (65.4 percent). The percentage of families that owned either an individual retirement account or a Keogh plan increased in 2007 to 30.6 percent from 29.1 percent in 2004. While regular IRAs account for the largest percentage of IRA ownership, rollover IRAs had a larger share of assets than regular IRAs in 2007. The increase in IRA wealth is expected to continue in the future, as more workers will be in defined contribution plans and will be in them for a longer period of their working lives.

Keywords: 401(k) plans, Employment-based benefits, Individual Retirement Accounts (IRAs), Keogh plans, Pension plan assets, Pension plan coverage, Pension plan participation, Retirement plans, Wealth

JEL Classification: D31, J1, J26

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