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Bounded Rationality Strikes Again: The Impact of Cognitive Ability and Financial Planners on Roth IRA Adoption and Ownership

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Abstract

Roth IRAs were introduced in the late 1990s and provide another option for tax-sheltered retirement savings. Because determining the benefits of a Roth IRA is a complex decision, we hypothesize that cognitive ability and having a financial planner have significant impacts on the timing and likelihood of using a Roth IRA. Using data primarily from the 2004 and 2008 administrations of the National Longitudinal Survey of Youth (NLSY), we find that greater cognitive ability and having a financial planner are both positively related to Roth IRA ownership and earlier adoption. If individuals with higher cognitive ability and/or a financial planner are better able to recognize and implement beneficial tax strategies, then tax policy will yield unintended distributional consequences. The complexity of a tax policy also limits its ability to modify individual behavior in the ways envisioned by policymakers.

Keywords: cognitive ability, financial planner, Roth IRA, National Longitudinal Survey of Youth (NLSY)**JEL Classification:** D14, D83, H24[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID2434282_code1566881.pdf?abstractid=1968984&mirid=1\)](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1566881)[Open PDF in Browser \(Delivery.cfm/SSRN_ID2434282_code1566881.pdf?abstractid=1968984&mirid=1&type=2\)](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1566881)

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