

## Focus on Funds: 45 Years of Savings Success with Individual Retirement Accounts

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It's been 45 years since the American individual retirement account (IRA) was created, and the results for savers have been exceptional. In the December 20, 2019, edition of Focus on Funds, ICI Senior Director of Retirement and Investor Research Sarah Holden details the history of IRAs.

#### Transcript

**Stephanie Ortals-Tibbs, ICI director of media relations:** Happy birthday, individual retirement account. Yes, the IRA is 45. Sarah Holden, you've been studying these IRAs for a long time.

**Sarah Holden, senior director of retirement and investor research:** Not quite 45 years. But on September 2, 1974, the Employee Retirement Income Security Act [ERISA] was signed into law. And what that did was put protections around employer-sponsored plans, like defined contribution plans and defined benefit plans. But it also created this brand-new account: the individual retirement account. So we just celebrated its 45th birthday.

**Ortals-Tibbs:** So these days, IRAs have about \$9.7 trillion in assets. What's contributed to their size?

**Holden:** So IRAs represent really [about a third of the entire US retirement market](#), and several things have contributed to the growth in the IRA over time. First, from the very, very beginning, policymakers designed it to have two roles. It could be a contributory vehicle for folks who didn't have a plan at work, but it was always thought of as a place where you could consolidate and preserve your retirement accumulations. As you changed jobs, you could take that balance from your defined contribution plan or a lump sum from your defined benefit plan and roll it over into an IRA.

The other thing policymakers have done is they've expanded the type of IRAs over time, so there are actually IRAs that are geared towards employers, such as the SEP or the SIMPLE. And then they introduced in 1998, you could start contributing to what was called a Roth IRA, named after Senator [William] Roth, and that offered a different kind of tax treatment for people to choose from.

So Roth IRAs have proven actually quite popular; they have more than \$800 billion in assets now. And with the Roth, you pay taxes now, so the contribution is after tax. It still grows tax-free. So this is very appealing to, you know, younger workers who are at the start of their career. Their tax rates are low, and they'd like to kind of lock in having that account grow and then be able to take it out

in retirement without paying taxes at that point.

**Ortbals-Tibbs:** You mentioned rollovers. Can we talk about that process?

**Holden:** Rollovers are a large source of funding to the IRA market. More than \$400 billion a year leaves the employer-sponsored plans—so defined benefit plans, 401(k) plans, 403(b) plans—and gets moved into IRAs. And it's typically into a traditional IRA. So that's quite a bit of money that is moving into the individual retirement account, and we are able to ask those IRA-owning households, "Well, why did you move the money?"

And what we find is that [they typically research the process](#). So they often spoke with a financial adviser. They went online and they looked at financial services companies' websites to explore the offerings and what was there. Many of them got information from their employers. So I'm leaving the employer, and by law, the employer has to tell me what are the consequences of leaving my money in the plan versus taking it out? So they take that into consideration, and some of them even went on the IRS website to look up the rules.

So after all this research, we still find out that [more than half of traditional IRA-owning households have rollovers](#) in their traditional IRAs. And the reasons they did it were [that] they really just wanted to [keep track of the money](#). I mean if you think about it, Americans change jobs over their careers. You could have a trail of small accounts behind you, and that wouldn't really be efficient. You would lose track of them; you wouldn't be getting any economies of scale. So, let's consolidate it.

**Ortbals-Tibbs:** Do you think about just the history by now of these over 45 years. What are a couple of your conclusions about where you think these might go in the future?

**Holden:** So I think as we enter the 46th year here for the IRA, people will continue to use it for the tax treatment, the tax diversification, and as a way to keep those assets together for retirement.

## Additional Resources

- [10 Important Facts About IRAs](#)
- [The Role of IRAs in US households' Saving for Retirement, 2019](#)
- [Report: American Views on Defined Contribution Plan Saving, 2018](#)
- [Video: Who Invests in Mutual Funds, and Why?](#)
- [IRA Resource Center](#)