

Balances in Defined Contribution Plans and IRAs

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Over the past three decades, the private pension system has shifted toward defined contribution (DC) plans. Despite this shift, most households have little in DC and IRA assets. The table below shows the value of defined contribution and IRA assets for households headed by someone aged 55 to 59, and thus approaching retirement age.

The typical household nearing retirement age has relatively low levels of DC and IRA assets. In 2001, the median value of those assets was only \$10,400. Excluding the 36 percent of households who have no IRA or DC pension, the median balance for this age group is \$50,000.

The likelihood of having a DC account or IRA increases markedly as income increases. Only 25 percent of households in the bottom 20 percent of the income distribution have any defined contribution or IRA assets. In the top 10 percent of the income distribution, 92

percent have at least some assets held in those accounts. The bottom 40 percent of the income distribution accounts for only 5 percent of total DC/IRA assets among households aged 55-59 because they are less likely to have these accounts and their balances are much smaller when they have them. The top 10 percent accounts for more than half of total DC/IRA assets.

In evaluating the median account balances shown below, it may be useful to examine the immediate lifetime annuity (that is, a payment that lasts as long as the beneficiary and/or spouse is alive) that could be purchased at retirement. A 65-year-old male living in Washington, D.C., could currently purchase an annuity of slightly under \$8,000 per year for \$100,000. The annuity payment would be smaller if some form of payment to a beneficiary (such as a surviving spouse) were desired. But even with no payments to a beneficiary, the \$50,000 median account balance for households with DC pensions or IRAs who are nearing retirement would purchase an annuity of less than \$4,000 per year. The \$299,000 median account balance for account holders in the top 10 percent of the population would purchase an annuity of less than \$24,000 per year.

Ownership of Defined Contribution or IRA Assets, for Households Aged 55-59, 2001

Percentiles of Income	Percent of Households With DC/IRA Retirement Assets	Median DC/IRA Assets	Median DC/IRA Assets Among Those With an Account	Share of Aggregate DC/IRA Assets
Less than 20	25.0%	\$0	\$8,000	1.1%
20-39.9	49.6%	\$0	\$12,000	4.2%
40-59.9	61.6%	\$7,200	\$28,000	8.6%
60-79.9	91.0%	\$50,000	\$54,000	16.7%
80-89.9	95.4%	\$148,000	\$190,000	18.8%
90-100	92.1%	\$215,000	\$299,000	50.6%
Total	63.6%	\$10,400	\$50,000	100.0%



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