Impact of IRAs on Saving: An Update

In an earlier *Quarterly Review* article, we argued that the expansion of the Individual Retirement Arrangement (IRA) program by the Economic Recovery Tax Act of 1981 (ERTA) would probably not produce much *new* saving by households—the main intent of the law[1] Instead, it seemed likely to result in large-scale reshuffling of *existing* assets to take advantage of the tax break. Although the amount of new saving generated by IRAs cannot be measured directly, we cited indirect evidence suggesting that most of the individuals newly eligible to open IRAs probably were in middle-to-high-income brackets and therefore had many assets that could be used to fund such investments.

Preliminary data on 1982 tax returns have recently become available, so it is now possible to see which individuals did in fact make most of the new IRA contributions. Because publicity surrounding the passage of ERTA may have helped boost contributions in 1981, we compare IRA contributions in 1982 with those in 1980 to get a sense of the legislation's full impact.

[1]See Robin C DeMagistris and Carl J Palash, "Impact of IRAs on Saving", this *Quarterly Review* (Winter 1982-83), pages 24-32

Most of the new IRA contributors belong to the upper-middle and high-income groups. The number of tax returns with income in excess of $20,000 (the top 40 percent of all returns) showing IRA contributions climbed by about eight million between 1980 and 1982 (table). For those with lower income, the gain was less than two million returns.

The distribution of IRA contributions bears out the larger role of higher-income individuals in the expanded program. Individuals in the top 20 percent of the income distribution were responsible for about two-thirds of the $25 billion increase between 1980 and 1982. About 90 percent of this overall gain came from the highest two income groups. It is not known whether these people boosted their saving to fund IRAs. But, as we showed in our earlier article, these individuals already had many assets, and therefore probably switched from these other assets into IRAs Chances are slim that they saved significantly more specifically in response to the availability of IRAs.

Most of the IRA contributions, then, may not constitute new private saving, but they have reduced tax revenue. We estimate that the tax loss from IRA contributions in 1982 may have been about $9 billion

Distribution of IRA Tax Returns and Contributions by Income Group
In recent years*

Income group† (annual income in dollars)	Tax returns with IRA contributions (thousands of returns) 1980	1981	1982	IRA contributions (millions of dollars) 1980	1981	1982
less than 6,000	16 4	42 9	147 5	13 3	37 2	296 3
above 6,000 and less than 11,000	99 2	180 2	503 6	78 0	150 3	786 7
above 11,000 and less than 20,000	310 9	419 7	1,348 7	321 7	489 0	2,388 5
above 20,000 and less than 30,000	643 8	857 7	2,978 7	799 0	1,122 9	6,068 5
30,000 and more	1,494 1	1,914 8	7,119 5	2,218 9	2,950 8	18,876 1
Total	2,564 4	3,415 1	12,098 0	3,430 9	4,750 2	28,416 0

*Columns may not add to totals because of rounding
†Each income group represents 20 percent of all tax returns filed The annual income cutoffs of the income groups are approximate
Source Internal Revenue Service, *Statistics of Income Individual Tax Returns* (1980-1982) The data for 1982 are preliminary

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