



Highlights of [GAO-08-590](#), a report to the Committee on Ways and Means, House of Representatives

## Why GAO Did This Study

Congress created individual retirement accounts (IRAs) with two goals: (1) to provide a retirement savings vehicle for workers without employer-sponsored retirement plans, and (2) to preserve individuals' savings in employer-sponsored retirement plans. However, questions remain about IRAs' effectiveness in facilitating new, or additional, retirement savings. GAO was asked to report on (1) how IRA assets compare to assets in other retirement plans, (2) what barriers may discourage small employers from offering IRAs to employees, and (3) the adequacy of the Internal Revenue Service's (IRS) and the Department of Labor's (Labor) oversight of and information on IRAs. GAO reviewed reports from government and financial industry sources and interviewed experts and federal agency officials.

## What GAO Recommends

GAO believes Congress should consider whether payroll-deduction IRAs should have some direct oversight in response to Labor's comments that it does not have jurisdiction over these IRAs. GAO also recommends Labor examine ways to encourage employer sponsorship of IRAs, and evaluate ways to determine whether employers offering IRAs are in compliance with the law, and ways to collect additional information on IRAs. GAO recommends IRS routinely publish and give Labor data on IRAs. Neither IRS nor Labor agreed or disagreed with the recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-590](#). For more information, contact Barbara Bovbjerg at (202) 512-7215 or [bovbjergb@gao.gov](mailto:bovbjergb@gao.gov).

# INDIVIDUAL RETIREMENT ACCOUNTS

## Government Actions Could Encourage More Employers to Offer IRAs to Employees

### What GAO Found

Individual retirement accounts, or IRAs, hold more assets than any other type of retirement vehicle. In 2004, IRAs held about \$3.5 trillion in assets compared to \$2.6 trillion in defined contribution (DC) plans, including 401(k) plans, and \$1.9 trillion in defined benefit (DB), or pension plans. Similar percentages of households own IRAs and participate in 401(k) plans, and IRA ownership is associated with higher educational and income levels. Congress created IRAs to provide a way for individuals without employer plans to save for retirement, and to give retiring workers or those changing jobs a way to preserve retirement assets by rolling over, or transferring, plan balances into IRAs. Rollovers into IRAs significantly outpace IRA contributions and account for most assets flowing into IRAs. Given the total assets held in IRAs, they may appear to be comparable to 401(k) plans. However, 401(k) plans are employer-sponsored while most households with IRAs own traditional IRAs established outside the workplace.

Several barriers may discourage employers from establishing employer-sponsored IRAs and offering payroll-deduction IRAs to their employees. Although employer-sponsored IRAs were designed with fewer reporting requirements to encourage participation by small employers and payroll-deduction IRAs have none, millions of employees of small firms lack access to a workplace retirement plan. Retirement and savings experts and others told GAO that barriers discouraging employers from offering these IRAs include costs that small businesses may incur for managing IRA plans, a lack of flexibility for employers seeking to promote payroll-deduction IRAs to their employees, and certain contribution requirements of some IRAs. Information is lacking, however, on what the actual costs to employers may be for providing payroll-deduction IRAs and questions remain on the effect that expanded access to these IRAs may have on employees. Experts noted that several proposals exist to encourage employers to offer and employees to participate in employer-sponsored and payroll-deduction IRAs, however limited government actions have been taken.

The Internal Revenue Service and Labor share oversight for all types of IRAs, but gaps exist within Labor's area of responsibility. IRS is responsible for tax rules on establishing and maintaining IRAs, while Labor is responsible for oversight of fiduciary standards for employer-sponsored IRAs and provides certain guidance on payroll-deduction IRAs, although Labor does not have jurisdiction. Oversight ensures the interests of the employee participants are protected, that their retirement savings are properly handled, and any applicable guidance and laws are being followed. Because there are very limited reporting requirements for employer-sponsored IRAs and none for payroll-deduction IRAs, Labor does not have processes in place to identify all employers offering IRAs, numbers of employees participating, and employers not in compliance with the law. Obtaining information about employer-sponsored and payroll-deduction IRAs is also important to determine whether these vehicles help workers without DC or DB plans build retirement savings. Although IRS collects and publishes some data on IRAs, IRS has not consistently produced reports on IRAs nor shared such information with other agencies, such as Labor. Labor's Bureau of Labor Statistics National Compensation Survey surveys employer-sponsored benefit plans but collects limited information on employer-sponsored IRAs and no information on payroll-deduction IRAs. Since IRS is the only agency that has data on all IRA participants, consistent reporting of these data could give Labor and others valuable information on IRAs.