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Younger Investors Reluctant to Make New IRA Contributions, T. Rowe Price Survey Finds

While needing growth for long term, many younger investors to opt for money market securities over stocks this tax season

BALTIMORE, Feb. 9, 2012 /PRNewswire/ -- New research from T. Rowe Price (NASDAQ-GS: TROW) shows that despite compelling evidence that younger investors are well-positioned to benefit from long-term retirement savings, less than half (45%) plan to contribute to an Individual Retirement Account (IRA) for the 2011 tax year. Most (55%) said they do not plan to fund an IRA or are unsure whether they will do so this tax filing season, which ends on April 17. By comparison, 71% of these investors made an IRA contribution for the 2010 tax year.

According to the new T. Rowe Price survey about IRAs and the investing practices of investors from Generations X and Y (defined as ages 35-50 and 21-34, respectively, for the purposes of this study), the decline in commitment to IRAs is being driven by several factors:

- A belief that current participation in a 401(k) plan is adequate for now (42%).
- A feeling that they can't afford it (32%).
- Economic uncertainty (23%).
- Market volatility (14%).
- Job uncertainty (12%).

When asked what they would do with an extra $5,000, most investors (56%) said they would pay off existing debt or add to a "rainy day" fund; only 16% said they would contribute to an IRA.

"Given their economic fears, it is understandable why many younger investors might be unable or unwilling to fund all of their tax-advantaged accounts and are focusing primarily on their 401(k) during this tax season," said Stuart L. Ritter, CFP®, senior financial planner for T. Rowe Price.

"However, younger investors must remember that their investments may need to cover 30 years or more of living in retirement," Mr. Ritter added. "They need to save consistently. There will always be some level of uncertainty and competing financial demands. The longer people wait, the more they will need to save later. Even if present circumstances cause an interruption in a retirement savings program, it's important to re-start as soon as possible."

Many younger investors, having experienced the subpar returns of equity markets over the past decade, may have lost some faith in stocks. T. Rowe Price's new study found that only 22% of Generation X and Generation Y investors feel confident about the financial markets heading into 2012. And among investors who plan to fund an IRA this tax season, 28% said they will direct their contributions to relatively stable investments such as money market funds, despite the historically low current yields offered by these vehicles and their lack of suitability as long-term retirement investments.

"Younger investors need to invest for growth," Mr. Ritter said. "They shouldn't focus on what the market did last year or what it might do this year. They are investing for decades and need to have an appropriate mix of stocks in their portfolios to have hope of achieving their long-term financial goals."

To underscore the point, Mr. Ritter cited past research from T. Rowe Price which showed that young investors who started investing in stocks for their retirement during difficult markets have done much better over the long term than their counterparts who started investing during thriving markets. Such downturns have provided a substantial advantage for investors who are decades away from retirement because they allow investors to accumulate more shares at relatively low prices through consistent contributions and benefit from the rebounds that have historically followed periods of market declines, he said.

T. Rowe Price's research into IRAs and the investing practices of Generation X and Generation Y investors was conducted online from December 1 to 12, 2011, by Harris Interactive among a national sample of 860 adults aged 21-50 who currently have one or more investment accounts.

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