



## Younger Investors Cite Appeal of IRAs for Retirement Planning, But Misunderstand Some Differences Between Traditional and Roth IRAs, T. Rowe Price Study Finds

BALTIMORE, March 29, 2012 /PRNewswire/ -- New research from [T. Rowe Price](#) (NASDAQ-GS: TROW) shows that most investors between the ages of 21-50 are generally familiar with the tax advantages of Individual Retirement Accounts (IRAs) and have used them to save for retirement, but some appear to confuse the specific benefits of [Traditional IRAs and Roth IRAs](#), the two most commonly used types of IRAs.

This finding is highlighted in a T. Rowe Price survey about IRAs and the investing practices of Generation X (ages 35-50 for the purposes of this research) and Generation Y (ages 21-34). The study was conducted online in December 2011 by Harris Interactive on behalf of T. Rowe Price among 860 adults aged 21-50 who have at least one investment account.

When asked how familiar they were with IRAs, 70% described themselves as familiar or very familiar. Moreover, 79% said they have personally contributed to an IRA. Generally, investors seem to understand that IRAs may come with tax advantages such as tax-deferred earnings, tax deductibility, or tax-free withdrawals. But some investors do not appear to fully understand which benefits are associated with Traditional IRAs and which are associated with Roth IRAs.

For example, almost half (48%) of investors in the study correctly cited tax-deferred growth potential and the ability to reduce taxable income with tax-deductible contributions as features of [Traditional IRAs](#). But about one-fifth (21%) incorrectly cited the ability to withdraw savings without paying taxes after age 59 1/2 if the account has been open for at least five years as a benefit of Traditional IRAs when it is actually a benefit of [Roth IRAs](#).

Similarly, about half (51%) of these investors correctly cited tax-free growth potential as a benefit of Roth IRAs and almost one-third (31%) knew that [Roth IRAs](#) provide for tax-free withdrawals after age 59 1/2 if an account has been open for at least five years. But about one-fifth (21%) incorrectly believed that Roth IRAs allowed for tax-deductible contributions.

"It's encouraging that a majority of younger investors are familiar with IRAs, generally understand that the accounts offer tax advantages, and have used IRAs to save for retirement," said Christine Fahlund, CFP®, senior financial planner with T. Rowe Price. "But it appears that there's more that we can do to teach younger investors about the different types of IRAs so they can [make more informed choices](#). For investors without access to a [workplace retirement plan](#), IRAs are the only accounts available to save specifically for retirement. The challenge and responsibility of educating each new generation of young investors [while they still have decades to save](#) must be paramount for parents, educators, employers, and financial institutions."

IRAs were introduced in 1974, when the Employee Retirement Income Security Act became law. At first, tax-deductible contributions of up to \$1,500 per year were allowed, but only for taxpayers who weren't covered under a workplace retirement plan.

With the passage of the Economic Recovery Tax Act in 1981, the tax-deductible contribution limit was increased to \$2,000 and all taxpayers under age 70 1/2 with earned income were made eligible, regardless of any coverage under a workplace plan. Contributions of up to \$250 were introduced for spouses who did not have earned income.

The Tax Reform Act of 1986 reduced or eliminated the tax deduction for higher-earning workers who were covered under a workplace plan, though non-deductible contributions were still permitted. The Taxpayer Relief Act of 1997 created Roth IRAs but income limits were imposed, leaving many investors ineligible to contribute to them.

Over the years, the maximum contribution limit to IRAs was increased to its current level of \$5,000, which now also applies to non-working spouses. Since the 2002 tax year, those aged 50 or older have been able to make annual "catch-up" contributions of up to \$1,000 each year to an IRA.

"The history of IRAs is complex enough to make most anyone's head spin," said Ms. Fahlund. "As eligibility rules and contribution limits continued to change over the years, it appears that it became more difficult for many investors to understand the distinctions among different types of IRA accounts and to choose the most appropriate one for their circumstances."

Roth IRAs have been a big positive for investors and one of the most important developments in retirement savings in many

years, Ms. Fahlund said. "Roth IRAs have opened up an excellent after-tax savings opportunity, particularly for investors under age 50. Our job at financial institutions is to make sure that investors who are eligible to contribute to Roth IRAs don't miss out on their special long-term advantages."

Download a prospectus [here](#).

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Founded in 1937, Baltimore-based T. Rowe Price is a global investment management organization with \$489.5 billion in assets under management as of December 31, 2011. The organization provides a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. The company also offers a variety of sophisticated investment planning and guidance tools. T. Rowe Price's disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research.

#### About the Survey

The survey was conducted online within the United States by Harris Interactive on behalf of T. Rowe Price from December 1-12, 2011, among 860 adults aged 21-50 who have at least one investment account. This online survey is not based on a probability sample and therefore no estimate of theoretical sampling error can be calculated. For additional information about the survey, please contact Bill Benintende at [bill\\_benintende@troweprice.com](mailto:bill_benintende@troweprice.com).

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