IRA Insights

A tale of three birth years


Not surprisingly, the millennial cohort is the smallest, both in percentage of investors (19%) and average account balance ($16,896).

However, each year more millennials are opening IRAs.

As millennials move through their 20s, they become increasingly likely to open an IRA. Since 2006, the number of Vanguard IRA investors born in 1985 has risen more than 500%, compared with about 100% growth for the other two groups.

The growth in the millennial cohort boosted it from 7% of the sample in 2006 to the 19% it constituted in 2013.

Millennial IRA owners are also more likely to make a contribution.

Almost half the millennial group made an IRA contribution in 2013. This rate is more than double that of the older groups. This may indicate that newer accounts come with a higher level of enthusiasm for making contributions.
If average balance and cash-flow patterns continue, millennials are on pace to surpass prior generations.

Time and the power of compounding are on the side of younger investors. If the millennials keep up their pace, their projected IRA balances at age 65 would be 45% larger than those of their Generation X counterparts at the same age. Certainly these projections come with some caveats, including that IRAs are only one source of retirement savings. However, the future appears bright for millennial IRA investors.

![Graph showing projected IRA balances at age 65](image)

**Notes:** All results are in real (inflation-adjusted) dollars and are based on a portfolio invested in 60% U.S. stocks and 40% U.S. bonds. Balances are median projected balances using investment return and inflation scenarios generated by the Vanguard Capital Markets Model®. Average 2013 contributions that are assumed to continue going forward were $1,226 per year for the 1955 cohort, $1,140 for the 1970 cohort, and $2,052 for the 1985 cohort.

**IMPORTANT:** The projections or other information generated by the Vanguard Capital Markets Model regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. VCMM results will vary with each use and over time.

The VCMM projections are based on a statistical analysis of historical data. The asset-return distributions shown in this paper are drawn from 10,000 VCMM simulations based on market data and other information available as of December 31, 2013. Future returns may behave differently from the historical patterns captured in the VCMM. More important, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The Vanguard Capital Markets Model is a proprietary financial simulation tool developed and maintained by Vanguard’s primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the Vanguard Capital Markets Model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

**Source:** Vanguard.

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We recommend that you consult a tax or financial advisor about your individual situation.

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