ATLANTA FED SURVEY

The Evolution of IRA Competition

Nearly a year after depository institutions were authorized to introduce individual retirement accounts, southeastern institutions are offering a broader range of plans and smaller banks are offering a more competititve selection of IRAs. An Atlanta Fed survey of the IRA experience in the Southeast provides insight into how banks and S&Ls will compete against each other—and against nondepository competitors—in a deregulated environment of the future.

New individual retirement account regulations that became effective in January 1982 allowed virtually unregulated competition for IRA funds among depository institutions, insurance companies and securities dealers. This type of unregulated competition has spread with the lifting of interest rate limits on certificates of deposit with maturities of 3 1/2 years or more in May 1982, and on certificates with 7-to-31 day maturities in January 1983 and the introduction of money market deposit accounts and super NOW accounts in late 1982 and early 1983. It will spread further as the Depository Institutions Deregulation Committee (DIDC) moves to remove interest rate limits before authority for such limits expires in March 1986. Developing IRA competition, thus, provides an opportunity to study the way institutions have reacted to opportunities for new unregulated competition. That, in turn, should indicate how they may react as deregulation progresses.

In January 1982 the Federal Reserve Bank of Atlanta surveyed 121 financial institutions operating in the Sixth Federal Reserve District about their original pricing of IRAs and the features of their accounts.[1] In order to track the evolution of IRA competition, we surveyed the same commercial banks, savings and loan associations (S&Ls), credit unions, insurance companies and securities dealers in mid-November of 1982 with questions similar to those we asked the previous January.

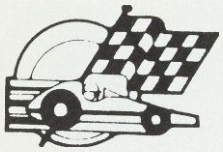
Their responses indicate that compared to January 1982:

1. More small institutions have begun to offer IRA plans.
2. Most institutions now offer a greater variety of plans.
3. Most of the larger institutions (and a few of the smaller ones) now offer payroll-deduction IRA plans.
4. Rates paid on accounts of the same maturity are more nearly equal among institutions of the same type and among different types of institutions.

They also indicate that:

1. Most institutions continue to offer rates that generally are competitive with those on alternative instruments.
2. Larger institutions offer slightly higher rates and a wider variety of plans than smaller ones.
3. S&Ls continue to offer somewhat higher rates than other institutions.
4. Securities firms continue to offer much greater flexibility in their IRA accounts.
5. Maintenance and service charges on IRAs are still common among insurance and securities firms but quite uncommon at depository institutions.

[1] "IRAs in the Southeast: A Laboratory for Deregulation" **Economic Review**, Federal Reserve Bank of Atlanta, Vol. 67 (May 1982), pp. 4-12.



"National securities firms generally at least matched large banks in the number of plans offered and outstripped them in the variety of investment choice within each plan ...."

Background for IRA Competition

The new IRA competition in January 1982 was fueled by the expansion of both the number of people eligible to hold IRAs and the amount of income that could be sheltered from federal income taxes in an IRA. The DIDC's decision not to require a rate ceiling on IRAs also stimulated the competition.

The expansion of both eligible population and the maximum shelterable income was authorized by the Economic Recovery Tax Act of 1981. Until 1982 only individuals not covered by a qualified private or government pension plan were eligible to establish IRAs. The maximum amount of income that an individual could shelter from federal income taxes in an IRA in one year was $1,500 or 15 percent of earned income, whichever was less. A couple could shelter $3,000 or 15 percent of earned income if both were employed, or $1,750 or 15 percent of income if only one spouse was employed. Beginning in January 1982, eligibility was expanded to include anyone with earned income. Maximum sheltered income was raised to the lesser of 100 percent of earned income or $2,000 for an individual, 100 percent of earned income or $4,000 for a couple who both earn income and 100 percent of earned income or $2,250 for a couple with only one person earning income.

According to Treasury Department estimates, these changes expanded the number of people eligible to invest in IRAs from 35 million to 75 - to - 85 million. If each additional eligible person were to invest the $2,000 limit, in just one year it would create an additional pool of IRA funds worth $80 to $100 billion. Such a pool provides the makings for an attractive market, particularly when price competition is unlimited.

This expanded market was opened to rate competition from depository institutions when the DIDC authorized commercial banks and thrift institutions to offer IRAs without interest rate, minimum deposit or service charge limitations. The major limitation imposed on these institutions was a minimum 18-month maturity. The DIDC allowed depository institutions to engage in rate competition among themselves and with the insurance companies and securities dealers that also entered the IRA market enthusiastically.

In 1982 depository financial institutions moved aggressively to offer IRAs but the potential pool of IRA funds was, in reality, not totally allocated to those accounts. The number of offering commercial banks increased from 5,077 on December 31, 1981 to 9,645 on January 31, 1982. By June 30, 1982, fully 11,547 banks were offering fixed-rate IRAs and 8,240 banks were offering variable-rate IRAs. Similar increases were recorded by mutual savings banks. Funds in no-ceiling IRA accounts at commercial and mutual savings banks and S&Ls increased from $600 million at the end of December 1981 to $22.2 billion as of December 1982 (Table 1). Commercial banks attracted 50 percent of the increase, savings and loans got 42 percent and mutual savings banks the remaining 8 percent.

The IRA market is potentially large, and IRA accounts seem likely to stay in individual institutions where they are opened. The market is thus an attractive one for institutions that can offer the accounts. Our original survey of January 1982 provided evidence on the original offering rates and characteristics of IRAs in the expanded market created by the 1981 tax act. In our resurvey we sought to determine how rates and service charges had changed in the face of both generally falling interest rates and local competition, how other IRA characteristics had changed, how the variety of accounts had changed and whether more institutions had been drawn into the competition.

To develop evidence on these points we went back to the same 121 banks, savings and loan associations, credit unions, insurance companies and securities dealers that we had surveyed before. This group was chosen to represent the largest depository institutions of each type as well as smaller institutions in the states comprising the Sixth District—an area that covers all or part of Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee. The survey also includes 41

Table 1. IRA/Keough Accounts Outstanding at Depository Institutions (billions $)

End of Period	All Institutions		Commercial Banks		Mutual Savings Banks		Savings & Loan Associations	
	Total	No Ceiling	Total	No Ceiling	Total	No Ceiling	Total	No Ceiling
1981 December	25.4e	.6	7.4e	.2	4.8e	.03	13.2e	.4
1982 March	33.1	7.9	11.7	3.9	5.4	.5	16.1	3.5
1982 June	N.A.	14.6	14.9	7.8	5.8	1.1	N.A.	5.8
1982 September	41.1	17.9	16.2	9.2	6.1	1.4	18.8	7.5
1982 December	N.A.	22.2	18.1	11.2	6.3	1.7	N.A.	9.3

e - estimated on the basis of incomplete data
N.A. - not available
Sources: Commercial and Mutual Savings Banks—Federal Reserve Board, "Money Stock Measures and Liquid Assets"
Savings and Loan Associations—Federal Home Loan Bank Board, **Journal** and staff, (total outstanding), "Savings and Loan Activity," (no ceiling accounts outstanding).

nondepository institutions—including both national and regional insurance companies and securities dealers.

Number of Institutions Offering IRAs

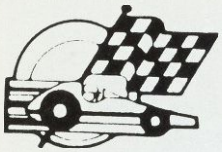
As was the case in January 1982, all large banks, S&Ls, national insurance companies and securities firms that we surveyed offered at least one IRA in November. The only large credit union not offering IRAs previously had instituted a plan by November. Most large institutions offered several plans. The median number of plans for large banks was four, and for large S&Ls it was three. The larger credit unions and national insurance companies generally offered fewer plans; national securities firms generally at least matched large banks in the number of plans offered and outstripped them in the variety of investment choice within each plan and the ability to move balances among plans. In January 1982, most larger institutions had offered fewer plans. For example the commercial bank with the most plans (12) in November had offered only six plans the previous January. Several larger banks and S&Ls surveyed in November also mentioned that customers might use other, non-IRA accounts, as IRAs in special situations—an option not uncovered in the earlier survey.

More small institutions offered IRAs in November than the previous January, and smaller institutions generally increased the number of accounts offered. The number of smaller commercial banks offering IRAs rose from 11 to 17, small S&Ls from 16 to 17 and small credit unions from one to three. An additional regional insurance company began offering an IRA, but three small regional securities firms dropped the instrument. (Table 2 shows the number of firms offering IRAs and the number of accounts offered).

Principal Features of The Plans

In November 1982 the 18-month variable-rate IRA was still the most-offered account for banks and S&Ls. This account was offered by 74 percent of the institutions that offered an IRA. Eighteen and 30-month fixed-rate accounts also were offered by almost as great a proportion of these institutions. Variable and fixed-rate accounts with longer maturities were less popular, with frequency of offerings declining with maturity.

Indexes used in determining rates on the variable-rate plans were still somewhat varied. The most common indexes were: 1) current rates on the offering institutions' six-month money market certificate, or 2) its 30-month small savers certificate, 3) rates on one or another short-term Treasury security, or 4) a management decision, based on short-term market rates. Rates on



"Our study indicates that S&Ls continue to offer somewhat higher interest rates than banks."

Treasury securities were the index used most often.

Early variation in rates offered by institutions has diminished considerably, as we predicted in our earlier report. The rate differential between large and small institutions was not as great as in our previous survey. Although larger institutions generally offered more plans, they offered only slightly higher rates than smaller institutions on IRAs with the same maturities (Table 3). For example, the median rate paid by large banks on the 18-month variable-rate IRA was .15 percentage points higher than that paid by smaller banks in November as compared with .28 points in January 1982. The large banks' median rate on 18-month fixed-rate IRAs was only .06 percentage points higher than that offered by smaller banks versus 1.13 percentage points difference earlier.

Rate variance had declined among S&Ls also. The median rate offered by larger S&Ls on the 18-month variable-rate plan was .11 percentage points above that offered by smaller ones. Large S&Ls' median rate on 18-month fixed-rate IRAs was only .03 percentage points higher than that paid by smaller S&Ls. Rate differences had been much greater in January 1982. Rate variance was also smaller between S&Ls and commercial banks. Median rates paid by large and small S&Ls on 18-month variable-rate plans were .13 and .18 percentage points higher than those paid by large and small commercial banks, respectively. Comparison of median rates paid on 18-month fixed-rate plans produced the greatest rate differences between S&Ls and banks. Large S&Ls' median was .29 percentage points above that of large banks. The median rate offered by smaller S&Ls was .38 percentage points higher than that offered by smaller banks; still these differences were much less than those found previously.

Our study indicates that S&Ls continue to offer somewhat higher interest rates than banks. In larger institutions, the highest median differential between large S&Ls and large banks was on the 18-month fixed-rate IRA, at .29 percent. This

Table 2. Institutions Offering IRAs

Type of Institution	Number Surveyed	Number Offering November	Number Offering January	Number of Plans For Institutions Offering IRAs Median	November High	November Low	January Median
Commercial							
Large	16	16	16	4	12	1	3
Small	18	17	11	2	5	1	2
S&Ls							
Large	16	16	16	3	10	2	2
Small	18	17	16	2	4	1	1
Credit Unions							
Large	6	6	5	2	4	1	2
Small	6	3	1	1	3	1	3
Insurance Co.							
National	9	9	9	2	6	1	1
Regional	12	6	5	2	2	1	1
Securities Firms							
National	8	8	8	4	5	2	3
Regional	12	6	9	3	5	1	1

Table 3. Interest Rates Paid on IRAs
18 Month Maturity
January and November 1982

	Variable Rate Median Rate		Fixed Rate Median Rate	
	November	January	November	January
Small Commercial Banks	9.11	13.07	10.00	12.75
Large Commercial Banks	9.26	13.35	10.06	13.88
Small Savings and Loans	9.29	12.72	10.38	14.00
Large Savings and Loans	9.39	13.54	10.35	14.45

differential is still close to the .25 percentage point differential commonly found in deposit rate regulation. On other accounts, the differential also was near .25 percentage points.

Rate variation also generally declined within size and institution categories. To measure variation we divided the standard deviation of rates in each category of institution by mean rate for the category for both types of 18-month accounts. These statistics—called coefficients of variation—are shown in Table 4 and illustrate the decline in variation. The coefficient increased only for the variable-rate IRAs offered by small banks. In the other categories it declined by as much as 35 percent.

A third factor other than rate and maturity possibly affecting the attractiveness of a particular variable-rate IRA is the frequency of rate changes. In early January a year ago, most institutions were setting their rates at monthly or longer intervals. In our November resurvey, we found few institutions setting rates at greater than monthly intervals and a larger proportion setting rates weekly. Smaller S&Ls and larger banks most often chose weekly intervals (see Table 5).

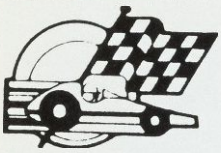
Fixed-rate instruments other than the 18-month account were offered by many institutions that we resurveyed. More institutions were offering the six-month money market certificate and the 30-month small saver certificate as IRAs than when we first questioned them. In addition to most large institutions, well over half of the small institutions were offering both of these fixed-rate plans.

Rates paid on the IRA money market certificate were still tied closely to those paid on regular money market certificates. The rates varied only slightly, with offering institutions paying a rate of around 8.569 percent, the highest allowed at the time of the survey.

The 30-month fixed-rate IRA was offered more often by banks than by S&Ls. Well over half of the banks offered this account compared to only 29 percent of the S&Ls. For both groups, the median rates were tied even more closely to the maximum legal rate set for small savers certificates than in the earlier survey. Fewer institutions than previously were paying rates that fell significantly below the Treasury note rate (Chart 1), indicating that IRA rates may have become somewhat more competitive with taxable alternatives.

In addition to the four plans discussed above, some institutions offered multi-year or open-maturity IRAs, the latter of which could be used to accumulate sufficient funds to invest in fixed-maturity time certificates. Over half of all institutions resurveyed allowed at least some of their regular certificates, such as a 91-day certificate, to be designated as an IRA. Over a quarter of the larger institutions were even more flexible, allowing customers to open any of their regular certificates as an IRA account.

Nearly all banks and S&Ls continued to shun establishment or service fees, although a few mentioned that they might begin charging in the future. One small S&L that had reported a set-up charge in the first survey has continued the practice. Only 6 percent of all surveyed banks' and S&Ls' IRA plans carried maintenance fees.



"Almost all of the larger banks and S&Ls...offered [payroll deduction] plans to employers."

Minimum initial deposits remained low for banks and S&Ls; more than half kept their deposit requirement at $100 or less. For all plan types combined, a greater percentage of larger institutions had minimum deposit requirements of $100 or less than did the smaller institutions. Minimum deposits were generally higher on fixed-rate accounts. For example, the all-institution median requirement for the 30-month fixed-rate plan remained at $500; that for the popular 18-month variable rate plan was $100. One large S&L, however, required a $2,000 minimum on a second, higher yield 30-month IRA. This higher minimum IRA was offered in addition to the S&L's $500 minimum 30-month plan. The account with the higher minimum yielded only slightly more. One small S&L had a similar arrangement with its 18-month fixed-rate IRA. This account with the higher minimum also paid more.

Payroll deduction plans allow financial institutions to tap workers' savings at the source and allow workers to put away retirement funds automatically. We found in November that almost all of the larger banks and S&Ls that we surveyed offered these plans to employers. This is a considerable gain since January 1982 when most large banks but only half of the large S&Ls had such plans available. Small institutions continued to lag behind on these plans, showing little gain since the previous survey (Table 6). The large institutions' nearly unanimous adoption of payroll deduction plans may be a reaction to similar plans being offered widely by national insurance and securities firms.

Table 4. Variation in Interest Rates Paid on IRAs
18-Month Maturity
November and January 1982

	Variable Coefficient of Variation		Fixed Coefficient of Variation	
	November	January	November	January
Small Banks	.0992	.0560	.0532	.0814
Large Banks	.0704	.0881	.0736	.0837
Small S&Ls	.0670	.0711	.0838	.0909
Large S&Ls	.0749	.1024	.0387	.0461

Table 5. Frequency of Rate Changes for 18-Month Variable Rate IRA Plans

	Daily	Weekly	2 Weeks	Monthly	Quarterly	No Set Schedule
Small Commercial Banks	0	20%	0	50%	30%	0
Large Commercial Banks	0	53%	0	40%	6%	0
Small S&Ls	0	56%	0	33%	0	11%
Large S&Ls	7%	33%	17%	40%	0	0

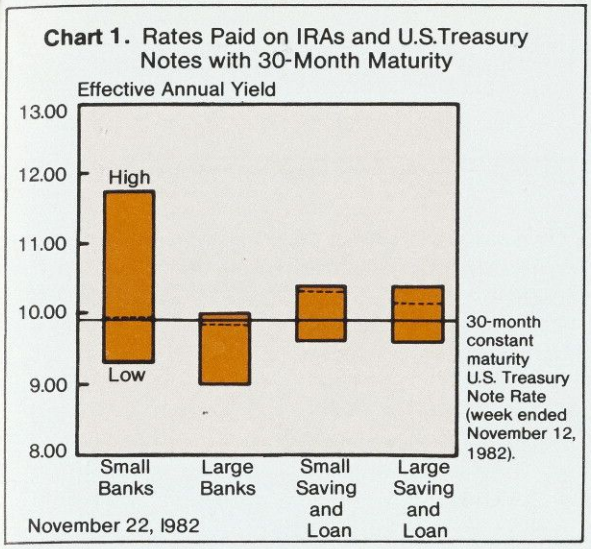


Table 6. Institutions Offering Payroll Deduction IRAs

Type of Institution	Number Surveyed	Number Offering Payroll Deduction IRAs Nov.	Jan.
Commercial Banks			
Large	16	15	11
Small	18	3	3
S&Ls			
Large	16	13	8
Small	18	5	1
Credit Unions			
Large	6	3	3
Small	6	3	1
Insurance Co.			
National	9	8	3
Regional	12	6	1
Securities Firms			
National	8	7	6
Regional	12	1	0

Credit Unions

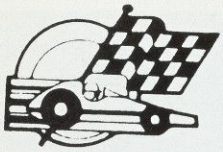
All six large credit unions resurveyed in November offered at least one IRA plan; only five had offered an IRA earlier. The average number of plans offered per large credit union was two. Only one large credit union was offering a variable-rate plan, its only plan. Three institutions offered two fixed-rate plans and one offered four.

The fixed-rate plans ranged in maturity from 12 months to an open maturity. The two 12-month plans had effective yields of 10.9 percent and 9.01 percent, respectively; the rate of return on the 18-month variable-rate plan was 10.42 percent. The median rate on the three 18-month fixed-rate plans was 8.84 percent; that on the three 30-month fixed-rate plans was 8.9 percent. The median rate of return on the three open-maturity, fixed-rate plans was 8.3 percent. The median minimum denomination for all plans was $500, quite similar to banks' minimum on fixed-rate accounts. Three of the six large credit unions offered payroll-deduction IRA plans.

Of the six small credit unions resurveyed, three were offering IRAs (a gain of two since January). One offered a fixed-rate plan only; while one offered three fixed-rate plans. One offered a variable-rate plan and a six-month money market certificate. The rate of return on the only variable rate plan offered was 10.98 percent. This plan had an open maturity and no minimum denomination. Two of the four fixed-rate plans also had open maturities: one had a minimum denomination of $5, the other had no minimum denomination. These plans offered 12.55 percent and 9 percent, respectively. The other two fixed-rate plans, offered by the same institution, had 18-month maturities. One had a minimum denomination of $500 and a rate of return equal to 12.13 percent, the other a minimum denomination of $2,000 and a return equal to 12.68 percent. Each of the three smaller credit unions offering IRAs offered payroll deduction plans.

Securities Firms

Increasing flexibility and variety in depository institutions' IRA offerings brings them closer to their nondepository competitors, the securities and insurance firms. In November, however, these firms paid rates on their IRAs more similar to those paid by depository institutions than they had been previously. We surveyed eight national and 12 regional securities firms and found more of the national firms offering each general type of



"Half of the regional insurance companies re-surveyed still were not offering IRAs."

securities plan in November than in January 1982.

The eight national securities firms resurveyed continued to offer more investment options and greater investment flexibility than depository institutions. Self-directed, custodial, and money-market fund programs remained the three major investment categories. Most firms offering more than one program also continued to allow customers the option of moving funds freely among programs, dividing funds between them, or concentrating all funds in one plan.

All eight national securities firms offered a self-directed investment plan—a gain of two since January 1982. One firm offered only this type of plan. Self-directed investment programs included whatever investments the firm can offer: stocks, bonds, options, certificates of deposit, annuities, zero-coupon securities, limited partnerships, mutual funds, and others. Five of the eight national firms acted as custodians for their self-directed plans; three used banks as outside custodians. All eight firms' self-directed programs contained a provision for earning interest on or "sweeping" idle cash balances. Provisions for sweeping accounts varied. All firms swept accounts daily. Of the five firms acting as their own custodian, one swept all balances into a money market fund, two swept balances greater than one dollar into a money market fund, and two swept balances over $250 into a money market fund. Of the three firms that used outside custodians, two swept all balances into a money market fund, one automatically swept all balances into a money market fund with a minimum balance of $1,000.

Establishment fees for self-directed plans fell between $20 - $30 for seven firms, while one firm charged $75. Annual maintenance fees for seven firms fell between $20 and $35 but were higher ($50) for one firm. Six firms specified no minimum-deposit requirement; one required $200, the other a minimum of $250. Seven of the eight firms did not require minimum additional deposits for their self-directed plans, but one required minimum additional deposits of $200. Three firms attached commission fees for moving funds among investments, while five required no such fee.

Seven firms also offered custodial plans in which the customer invests in one type of mutual fund or another. Five of the seven offered one account, one offered two accounts, the other offered 10. Of the five offering just one account, establishment fees ranged from a maximum of $15 to no fee at all. Maintenance fees for these five ranged from $5 to $15 per year. Minimum initial deposits for these same five ranged from no set amount to $500. The two firms offering more than one custodial account replied that establishment fees, maintenance fees, and initial deposits would depend on which mutual fund was selected. The three investment directions for these mutual funds—short-term investments, equity investments, and bond and other short-term debt securities—were generally unchanged since our earlier survey.

In November, seven of the firms offered money market mutual funds for IRA investment, up from four in January 1982. Establishment fees for these accounts ranged from zero to $25. Six firms required minimum initial investments ranging from $250 to $1,000. One firm required no minimum initial investment. Requirements for additional investment ranged from zero to $50. The median rate of return on these money market funds, for the third week of November, was 9.42 percent—somewhat above the rate paid by banks and S&Ls on 18-month variable-rate accounts at that time but below the median rate on 18-month fixed-rate accounts at these institutions.

Of the eight national firms resurveyed, seven offered payroll-deduction plans. Three made available only their custodial plan for payroll deduction; four made available all of their IRA plans. Of these last four, two firms said they would work directly with the company to set up the most suitable program.

Regional securities dealers continued to act as intermediaries between national brokerage houses and their customers. Of the six firms offering

IRAs, one offered access to a custodial account, one offered a custodial and self-directed account, the remaining four firms offered all three investment options.

Each of the five regional firms offering custodial accounts offered at least three custodial programs. Establishment charges, maintenance charges, and minimum denominations for each custodial account depended upon which mutual fund was selected. All money market funds offered by four of the regional firms had outside custodians. Only one of these firms offered a payroll-deduction IRA.

Insurance Companies

In January 1982, all of the national insurance companies surveyed were offering at least one version of an annuity plan to IRA customers. Indeed, these plans had been in place as IRAs for some time. Five of the 12 regional firms surveyed also offered such plans. By November another regional firm had begun to offer an IRA plan, and the variety of features offered in insurance firms' IRA annuities had increased.

Annuities varied in as many as three dimensions—type of investment and return, type of load, and type of premium. The first type of distinction, investment and return, had two basic options—the variable annuity and the fixed annuity. The variable annuity, usually self-directed, offered no guaranteed rate of return and offered as many as three investment choices: short-term investment, equity investment, and long-term bond and securities investment. Four companies offered variable annuity plans. None had establishment charges; their service charges varied from zero to $36 a year.

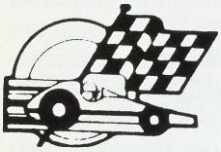
Fixed annuity plans, on the other hand, offered a contractual rate of return, were not self-directed, and did not offer the investment flexibility of the variable annuity plans. Eight of the nine insurance companies offered at least one of these plans. Current rates of return ranged from 9.5 percent to 15 percent (on a slow changing variable rate plan) with a median rate of 11.50 percent. None of these plans had establishment charges. Their service charges varied from zero on half of the plans (generally those with lower yields) to $36.

Three national insurance companies also described their plans according to the annuity's type of premium. These companies designated their plans as flexible-premium and single-premium annuities. Flexible-premium annuities required small, monthly or annual payments. Single-premium annuities required one large lump-sum investment, usually rolled over from another IRA account. Of these three companies, one offered a flexible-premium, fixed-annuity plan only, the other two offered both a flexible-premium and single-premium plan. Of the two companies offering both, one offered the same rate of return on both plans (9.5 percent); the other company offered a higher return on its single-premium annuity than it did on its flexible-premium plan, 11.5 percent and 10.75 percent, respectively.

Two of the insurance companies also offered a custodial IRA account, similar to those offered by securities firms. Each offered customers four different mutual funds.

All nine of the national insurance companies resurveyed offered payroll-deduction plans. Four of the companies used the same plans as they did for their regular IRAs. Five used only some of their regular plans or had developed special payroll-deduction plans. Of these five companies, two offered both single-premium and flexible-premium annuities; both used their flexible-premium plans for payroll-deduction IRAs. Another company had a payroll-deduction plan with a higher rate of return than that earned by its regular IRA annuity; the other two companies had several, special plans for their payroll-deduction IRAs. These special plans used the general investment types previously mentioned: short-term investment, capital investments, and long-term bond and securities investments. With these special plans, employers invested annual, lump-sum amounts determined by a contract made between the employer and the insurance company. The insurance company charged a flat fee for maintenance of the annuities.

Half of the regional insurance companies resurveyed still were not offering IRAs. Three of the six that did were offering two annuity plans, the other three only one. All three firms offering two plans offered a single-premium, fixed annuity, and a flexible-premium, fixed annuity. One of the three companies paid a higher rate of return on its single-premium plan (13.25 percent) than it did on its flexible-premium plan (12 percent). The other two companies offered the same rates on both types of premiums. Of the three companies offering only one annuity, two plans were variable annuities with withdrawal fees, the other was a fixed annuity with both establishment and



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withdrawal fees. Rates of return on these three plans were between 12 and 13 percent. Two of the companies were using their flexible-premium plans for payroll-deduction IRAs.

Summary and Conclusions

When we previously surveyed financial firms that were allowed to offer IRAs, we found that nearly all large firms were offering at least one plan and most offered several. We found fewer small institutions offering the plans, and those offering the plans paying lower rates of return than the larger institutions. Rates offered on IRAs varied considerably among individual institutions, types of institutions and sizes of institutions. National securities and insurance firms provided greater flexibility in their plans, but generally offered lower returns and assessed transactions charges not levied by depository institutions.

Evolving IRA competition seen in our November resurvey of the same 121 institutions brought changes that made the surveyed institutions more alike in the types, characteristics and rates paid on IRAs. More small institutions were offering IRAs and most depository institutions had increased the variety of plans offered so that they more nearly mirrored securities dealers. More banks and S&Ls offered payroll-deduction IRA plans, again moving closer to their securities and insurance competitors.

Rates offered on IRAs were considerably more similar in November than the previous January. By almost any comparison among institutions, the rates have converged. The rates being offered in November had generally fallen since January, but no more than market rates.

The IRA experiment in unregulated competition may suggest the evolution we can expect as other deposit rate ceilings are lifted. If so, we may expect (1) institutions that hold back at first to be drawn into competition, (2) competitors to structure a variety of accounts to accommodate customer needs and mirror competitors' offerings and (3) rates offered by offering institutions to converge around market rates on alternative instruments.

—B. Frank King and Kathryn Hart