

# Robinhood to pay a 1% 'match' on customer contributions to retail individual retirement accounts

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## KEY POINTS

- Robinhood, a retail brokerage, will offer a 1% "match" to customers who contribute money to an individual retirement account via the Robinhood Retirement program.
- Experts think it's a way to get attention in a crowded market.



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Robinhood is bringing the concept of a 401(k)-style contribution match to its retail customers who may not have access to a retirement plan through the workplace.

The retail brokerage will pay a 1% "match" on contributions its customers make to a Robinhood individual retirement account, the firm said Tuesday.

The firm is billing it as the first-ever match paid to retail IRA customers (i.e., outside of a workplace retirement plan.) Robinhood has more than 12 million active monthly users and 23 million funded accounts, said Stephanie Guild, head of investment strategy.

It's rolling out its Robinhood Retirement service broadly in January. Customers may also sign up for a waitlist starting Tuesday and get access on a rolling basis in coming weeks.

A 401(k) match is a common retirement benefit offered by employers that sponsor a workplace retirement plan. It's a financial incentive for workers who save for retirement.

Some experts view Robinhood's IRA match as a benefit that may encourage and boost savings, particularly among gig workers, younger investors and people of color — groups more likely not to have access to retirement savings at work.

Others are skeptical whether the relatively small dollar amounts at stake will amount to a positive behavioral shift, and wonder if it's more a marketing effort to stand out amid ample competition.

“There is no free lunch, ever,” said Philip Chao, principal and chief investment officer at Experiential Wealth in Cabin John, Maryland. “You always need to ask the motivation of the entity or the individual giving you a free lunch.”

“Why are you buying me lunch?” he added. “I think that is the central question.”

## How the match works

A 401(k) match is generally structured as a share of employee contributions. Let's say a worker saves 6% of their annual salary in a 401(k); an employer might match 50% or 100% of that dollar total, up to a federal limit.

Robinhood's concept is similar. The firm will match 1% of new contributions in a pre-tax or Roth account, up to the annual IRA contribution limit. Some IRAs — like SIMPLE IRAs, which are offered through the workplace — allow employers to give a match to employees; the Robinhood match arrangement, however, is not tied to workplace savings.

But there are some key differences in how the match works. A typical 401(k) match is generally a percentage of a worker's compensation, while Robinhood's is a share of an investor's contribution.

There is also a lower annual cap: In 2023, savers can't contribute more than \$6,500 to an IRA, per federal rules. That total includes any match from Robinhood.

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— John Scott DIRECTOR OF RETIREMENT SAVINGS AT THE PEW CHARITABLE TRUSTS

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So, an investor who contributes \$6,435 in 2023 would get about \$64.35 in matching funds from Robinhood — for a total balance of almost \$6,500.

By comparison, the dollars at stake are much higher in a 401(k) plan. Savers can contribute up to \$22,500 to a 401(k) in 2023. Total contributions (including employee contributions and employer match, for example) are capped at \$66,000.

There aren't any contribution or account minimums to get the Robinhood match, and trades don't carry commissions. Savers can invest in the universe of stocks and investment funds available on Robinhood's platform, or opt to get a one-time asset-allocation recommendation that includes up to about 10 exchange-traded funds.

While investors would receive the match money right away, they must keep their Robinhood IRA account open for at least five years to permanently retain the matching funds — a concept that's similar to 401(k) vesting.

Rollovers from a 401(k) or IRA to a Robinhood Retirement account don't count toward the IRA match, the firm said in an e-mail, adding that it is “exploring a separate match option for rollovers in the future.”

## **Marketing gimmick or positive savings impact?**

Robinhood expects the money to add up over time. A long-term investor who gets a \$60 match each year and earns a 10% annual return would have an additional \$26,000 after 40 years, according to the firm's analysis.

“I think any sort of offset to [investment] fees or any sort of small addition [to savings], it all adds up over time,” said John Scott, director of retirement savings at The Pew Charitable Trusts.

“I think the big question will be, what's the behavioral effect?” Scott said.

In other words: To what extent will the financial incentive encourage people to save? Many employers have adopted automatic enrollment to combat relatively low 401(k) participation despite the availability of matching funds.

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— Neil Bathon FOUNDER AND PARTNER OF FUSE RESEARCH NETWORK

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To date, most policy initiatives to encourage savings have focused on the workplace. A lack of access to 401(k) plans at work is among the U.S. retirement system's primary shortfalls. States have passed legislation in recent years establishing automatic-enrollment IRAs for workers who don't have a retirement plan at work, for example.

"Maybe it's just a marketing gimmick, the 1%," Scott added. "But if it gets people in the habit of saving, that could be the big impact."

Retirement experts likened the match to banks that used to offer "free" toasters and other perks to customers who opened a certificate of deposit.

Here, Robinhood is likely aiming to grow its customer base — and then likely make money elsewhere by trying to sell them to other services, experts said.

Robinhood has seen growth reverse as a pandemic-era boom in retail trading lost steam. The firm has announced a few tranches of layoffs this year.

"It just keeps getting harder to get in front [of customers] and break through the clutter," said Neil Bathon, founder and partner of FUSE Research Network, an asset-management market researcher. "I can't imagine trying to build up an IRA business and not having a program like this to kind of fuel the prospecting efforts."

Robinhood alluded to meeting demand for current customers and expanding its footprint, but declined to offer a forecast for growth or total cost.

"We have heard from our existing customer base that they have a strong interest in Robinhood expanding into the Retirement space," the company said in an e-mail. "We want to provide great value for an expanded base of customers through a platform that supports investing for the long term, and Retirement is just the beginning."

It may be difficult to entice people to take the steps to open an account when the incentive might amount to \$50 or \$60 a year in dollar terms, Chao said.

"One percent sounds nice, but do you think that 1% will incentivize people to save anyway, when 3% doesn't get them to save in a 401(k)?" he said.

<https://www.cnbc.com/2022/12/06/robinhood-to-match-1percent-of-individual-retirement-account-contributions.html>