ICI RESEARCH REPORT

The IRA Investor Profile

TRADITIONAL IRA INVESTORS' ACTIVITY, 2010–2020

MARCH 2024

INVESTMENT COMPANY INSTITUTE®

The IRA Investor Database™

The Investment Company Institute maintains an account-level database on millions of individual retirement account (IRA) investors. The aim of this database is to increase public understanding of this important segment of the US retirement market by expanding on the existing household surveys and Internal Revenue Service (IRS) tax data on IRA investors. By tapping account-level records, research drawn from the database can provide important insights into IRA investor demographics, activities, and asset allocation decisions. The database is designed to shed light on key determinants of IRA contribution, conversion, rollover, and withdrawal activity and the types of assets that investors hold in these accounts.

For all reports drawing on this database, visit www.ici.org/research/retirement/ira-investor-database.

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A complete set of data tables containing the figures discussed in this report is located in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-traditional-data.xlxs.

The IRA Investor Profile: Traditional IRA Investors' Activity, 2010–2020

Contents

The IRA Investor Profile: Traditional IRA Investors' Activity, 2010–2020

Daniel Schrass, ICI Economist, and Sarah Holden, ICI Senior Director of Retirement and Investor Research, prepared this report.

Executive Summary

With $10.1 trillion in assets at year-end 2022, traditional individual retirement accounts (IRAs) are a key component of the US retirement system. Traditional IRAs were created by Congress to provide a contributory retirement savings vehicle (originally for individuals not covered by retirement plans at work) and as a place to roll over accumulations from employer-sponsored retirement plans. Traditional IRAs are managed by individuals, and policymakers are interested in understanding how traditional IRA investors manage their IRAs over time.

By analyzing the contribution, rollover, withdrawal, and asset allocation activity of 2.9 million consistent traditional IRA investors—those with accounts in every year between 2010 and 2020—it is possible to determine how consistent traditional IRA investors fared in the wake of the global financial crisis of 2007–2009 as well as their actions shortly after the beginning of the COVID-19 pandemic. In addition, analysis of a snapshot of 6.6 million traditional IRA investors in 2020 can provide more detailed insight into how individuals manage their traditional IRAs.

Traditional IRA Investors Largely Stayed the Course

Contributions, Rollovers, and Withdrawals. During the economic recovery immediately following the global financial crisis of 2007–2009, stock values generally increased and unemployment rates decreased. Traditional IRA investors with accounts from year-end 2010 through year-end 2020 largely stayed the course in terms of contribution and rollover activity. Although relatively few traditional IRA investors contribute to their traditional IRAs in any given year, those that do contribute tend to do so in multiple years; this tendency persisted from 2011 to 2020. Withdrawal rates rose slightly between 2011 and 2020, but still only a small fraction of younger traditional IRA investors took money out of their traditional IRAs.

Asset Allocation. Traditional IRA investors' allocation to equity holdings edged down, on average, between 2010 and 2011 before rebounding, although some of the change merely reflects market movement rather than investors' rebalancing. For example, among consistent traditional IRA investors aged 28 to 59 in 2020, about 76 percent of their traditional IRA assets were invested in equity holdings—which includes equities, equity funds, and the equity portion of balanced funds—at year-end 2010, and nearly 75 percent of their traditional IRA assets were invested in equity holdings at year-end 2011. The share of traditional IRA assets invested in equities for consistent investors aged 28 to 59 was 79 percent at year-end 2020. Between year-end 2010 and year-end 2020, few traditional IRA investors changed to or from equity concentrations of zero or 100 percent of their traditional IRA balances. A significant minority of consistent traditional IRA investors had all of their traditional IRA balances invested in equity holdings; only slight net movement away from that full concentration occurred between year-end 2010 and year-end 2020.

Account Balances. The movement of traditional IRA balances reflected the impact of investment returns; investors' contribution, rollover, and withdrawal activity; and the rules governing traditional IRAs. The average traditional IRA balance for traditional IRA investors in all age groups with account balances in all years between 2010 and 2020 was higher at year-end 2020 than at year-end 2010. Beginning at age 70½, individuals were no longer eligible to make contributions to traditional IRAs and typically were required to begin to take withdrawals, putting downward pressure on account balances among older traditional IRA investors.[1] Increased Roth conversion activity in 2010 also may have put downward pressure on average traditional IRA balances.

Snapshot of Traditional IRA Investors at Year-End 2020 Provides Additional Insight into Traditional IRA Investors' Activities

It also is possible to analyze a snapshot of all traditional IRA investors present in the database in any given year. This report primarily focuses on traditional IRA investors in 2020.

Few Traditional IRA Investors Make Contributions

In any given year, few traditional IRA investors make contributions to their traditional IRAs. Several factors likely explain this tendency, including meeting savings needs through employer-sponsored retirement plans, rules limiting the ability to make deductible contributions, making Roth contributions instead, and confusion about IRA rules. In tax year 2020, 10.6 percent of traditional IRA investors contributed to their traditional IRAs, and about half of traditional IRA investors who did so contributed at the legal limit. Traditional IRA investors who make contributions tend to do so persistently.

New Traditional IRAs Often Are Created by Rollovers

Rollovers are the predominant way investors open traditional IRAs. In 2020, about 53 percent of new traditional IRAs received rollovers. Because rollovers generally occur after job change or retirement, which is a sporadic event for most people, in any given year only about one in 10 traditional IRA investors made rollovers. In the aggregate, the data for rollover activity indicate that about 53 percent of traditional IRA investors have had a rollover at some point. Traditional IRAs with recent rollovers tend to have larger balances than those without rollovers, particularly among older traditional IRA investors.

Withdrawal Activity Is Concentrated Among the Oldest Traditional IRA Investors

Withdrawal activity is rare among younger traditional IRA investors, and overall, about one-fifth of traditional IRA investors took withdrawals in 2020. Of these, more than eight in 10 were taken by traditional IRA investors aged 60 or older who can take penalty-free distributions, and more than six in 10 were taken by investors aged 70 or older for whom annual distributions generally are required.[2] Withdrawal activity tends to edge up as more traditional IRA investors age into required minimum distribution (RMD) status. Many traditional IRA investors aged 70 or older use RMD rules to determine how much to withdraw from their accounts.

Equity Holdings Figure Prominently in Traditional IRAs

IRAs hold a range of investments, and the largest share of traditional IRA assets is invested in equities and equity funds, both in aggregate and across investor age groups. The pattern of investment holdings in traditional IRAs tended to vary with investor age, typically as expected across the life cycle. For the most part, younger traditional IRA investors tended to have a higher proportion of their accounts invested in equity holdings—equities, equity funds, and the equity portion of balanced funds—compared with older investors. Equity holdings typically decline as investors age; investors younger than 30—who were more concentrated in money market holdings and less concentrated in equity holdings than expected—were the exception. This result may be driven in part by the large number of small accounts among this age group. Such small accounts may represent automatic rollovers from employer-sponsored plans and may be invested in default money market and cash investments.

Introduction

The Role of IRAs in US Retirement Planning

The Employee Retirement Income Security Act of 1974 (ERISA) created IRAs—tax-deferred accounts for retirement savings.[3] Fifty years later, IRAs have become a significant component of US households' retirement assets. All told, 55.5 million, or 42.2 percent, of US households owned one or more types of IRAs in mid-2023.[4] Households held $12.0 trillion in IRAs at year-end 2022, accounting for 35 percent of the $34.3 trillion in total US retirement assets and for about 11 percent of US households' total financial assets (Figure A.1).[5] Traditional IRAs, the first type of IRA created, are the most common type.[6] IRAs play two roles in household retirement planning: (1) as a contributory savings vehicle and (2) to preserve and consolidate retirement accumulations from employer-sponsored plans through rollovers. Because of the important role that IRAs play in US retirement planning, policymakers and researchers seek to understand how individuals use IRAs. Whether funded by contributions, rollovers, or both, IRAs are managed by individuals, and asset allocation plays an important role in the returns and variation in returns that IRA investors experience. Thus, policymakers and researchers also are interested in understanding the asset allocation of IRA balances across investors. In addition, policymakers want to know how people manage these accounts, including whether there is significant withdrawal of assets prior to retirement and how individuals tap their IRAs throughout retirement.[7]

Sources of IRA Data

Researchers have relied primarily on household surveys and Internal Revenue Service (IRS) tax data to examine policy questions about IRAs. Several household surveys for analyzing households' retirement savings are publicly available;[8] in addition, ICI conducts two annual household surveys that provide information on IRA-owning households.[9, 10] Though household surveys provide a comprehensive picture of households' finances and activities and can provide insights into the reasoning behind decisions, they can suffer from data problems due to inaccurate respondent recall, which often limits the level of detail that can be obtained on specific financial assets or activities. The IRS collects a rich array of information about IRAs such as contributions, assets, rollovers into IRAs, conversions, and withdrawals from a variety of tax returns (e.g., Form 1040) and information returns (e.g., Form 5498 and Form 1099-R). The Statistics of Income Division of the IRS publishes tabulations of these data and research reports.[11] The tax data, however, do not have information about the types of assets that investors hold in their IRAs.

The IRA Investor Database™

To augment the existing survey information and tax data for IRAs, the Investment Company Institute (ICI) embarked on a data collection effort—the IRA Investor Database—to examine administrative, or recordkept, data on IRAs. To date, this collection effort has gathered data on IRAs from 2007 through 2020. The IRA Investor Database contains account-level information from a wide range of mutual fund and insurance companies, which provided data for more than 11 million IRA investors in 2020. The database, which contains information about IRA asset levels, investments, contributions, rollovers, conversions, and withdrawals, provides a more complete picture of account-level holdings and activity for IRA investors. Throughout this report, the term "IRA investor" refers to a unique IRA investor at a given data provider.[12] For year-end 2020, the IRA Investor Database has 11.4 million IRA investors.

Research Agenda for This Report

This report provides insight into how traditional IRA investors fared after the global financial crisis of 2007–2009 by analyzing data drawn from the IRA Investor Database for year-end 2010 through year-end 2020. Chapter 1 analyzes the contribution, rollover, and withdrawal activity among 2.9 million consistent traditional IRA investors (those with accounts at the end of each year from 2010 through 2020). In addition, this chapter explores changes in asset allocation and account balances among consistent traditional IRA investors. The remaining chapters of the report primarily focus on a snapshot of traditional IRA investors at year-end 2020. Chapter 2 discusses how contribution activity varied by investor age in 2020, exploring which traditional IRA investors had contributions and how many of them contributed at the limit. Chapter 3 notes that the vast majority of new traditional IRAs opened in 2020 were opened with rollovers, and examines rollover activity by investor age. Chapter 4 explores withdrawal activity, which varies significantly with investor age, including in reaction to rules governing withdrawals. Few traditional IRA investors younger than 60 take withdrawals; traditional IRA investors taking withdrawals tend to be older and often take out the RMD amount. Chapter 5 reports variation in traditional IRA balances by investor age. Chapter 6 compares snapshots of the asset allocation of traditional IRA balances among cross sections of traditional IRA investors at year-end 2010 and year-end 2020. Because some of the variation in asset allocation appears to be related to traditional IRA balance size, the asset allocation of balances of $5,000 or less are compared with the asset allocation of balances of more than $5,000. Smaller balances often have high allocations to money market funds or other cash instruments, which in part may reflect default investment rules for certain rollovers.

Figures referenced in this report are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-traditional-data.xlxs.

CHAPTER 1

Following Traditional IRA Investors over Time

The IRA Investor Database contains data on millions of IRA investors from year-end 2007 through year-end 2020, which makes it possible to analyze snapshots, or cross sections, of IRA investors in any given year. In addition, one of the advantages of the IRA Investor Database is the ability to explore activity for the same investors from year to year to see whether activities and behaviors are persistent or changing.

Figures for this chapter feature such an analysis, focusing on the group of 2.9 million traditional IRA investors who had accounts at the same financial services provider at the end of each year from 2010 through 2020. These traditional IRA investors, who will be referred to as consistent traditional IRA investors, were 18 or older at year-end 2010 and 28 or older at year-end 2020. Figures for this chapter examine how consistent traditional IRA investors fared in the wake of the financial crisis. Specifically, patterns of contribution (Figures A.2 and A.3), rollover (Figure A.2), and withdrawal activities (Figures A.2 and A.4) are explored, as well as changes in asset allocation (Figures A.5 to A.8). Finally, the movement of their traditional IRA balances from year-end 2010 to year-end 2020 is analyzed (Figure A.9).

Figures referenced in this chapter are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-traditional-data.xlxs.

CHAPTER 2

Traditional IRA Investors' Contribution Activity in 2020

From their inception, traditional IRAs were designed so that investors could accumulate retirement assets either by rolling over balances from employer-sponsored retirement plans (to help workers consolidate and preserve these assets) or through contributions.[13] In the early and mid-1980s, after Congress eased the restrictions on contributions to IRAs, many more individuals made contributions.[14] However, since 1986, after Congress tightened the tax rules for making IRA contributions, many fewer IRA investors have contributed to these accounts. This chapter analyzes the contribution activity of traditional IRA investors, primarily focusing on variation in contribution activity in tax year 2020 by investor age.

Figures referenced in this chapter are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-traditional-data.xlxs.

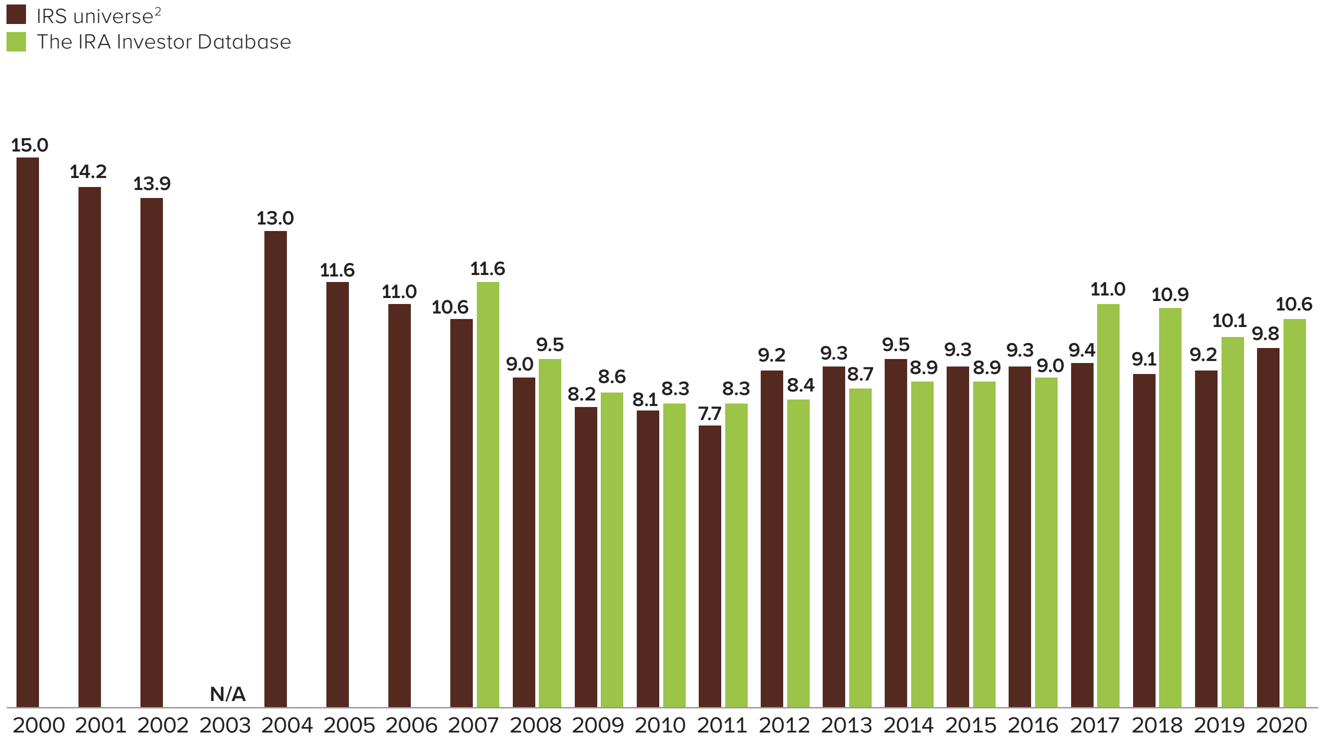
Contributions to Traditional IRAs

Over the past decade, about one in 10 traditional IRA investors made contributions in any given year. For example, 8.3 percent of traditional IRA investors made contributions in tax year 2010, and in tax year 2020, 10.6 percent of traditional IRA investors contributed to their traditional IRAs (Figure 2.1). This low level of activity likely results from several factors. Some traditional IRA investors may find that saving through their employer-sponsored retirement plans meets their savings needs. In addition, for some traditional IRA investors, the availability of employer-sponsored retirement plans may curtail their ability to make deductible contributions to their traditional IRAs.[15] As more people make rollovers into traditional IRAs, it becomes increasingly likely that the availability of employer-sponsored plans is curbing IRA contribution activity. Some other traditional IRA investors may prefer to direct savings into their Roth IRAs.[16] In addition, some evidence shows that confusion about IRA rules may prevent some individuals from contributing to IRAs.[17] Difficulty in determining eligibility for a tax-deductible contribution may deter some individuals from making any contribution. For other individuals, the primary focus of current household saving may not be for retirement. Households may be focused on saving for other more immediate goals, such as saving for emergencies, education, or housing.[18]

FIGURE 2.1

Traditional IRA Contribution Rates

Percentage of traditional IRA investors aged 18 to 69 with contributions[1]



[1] This group is traditional IRA investors (aged 18 to 69) who made contributions to their traditional IRAs in the tax year indicated.

[2] In the IRS universe, data are for traditional IRA investors of all ages.

N/A = not available

Note: Contributions include both deductible and nondeductible traditional IRA contribution amounts.

Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

Younger traditional IRA investors were somewhat more likely to contribute to their traditional IRAs than were older investors (Figure A.10). In part, the lower incidence of contribution activity among older investors results from a higher percentage of older investors having traditional IRAs, and the fact that many of these investors created the traditional IRAs to hold rollovers. Smaller percentages of younger investors have traditional IRAs, and younger investors are somewhat more likely to create them with a contribution. The highest level of contribution activity in tax year 2020, 13.6 percent, was observed among traditional IRA investors aged 30 to 39. Nevertheless, more than 10 percent of traditional IRA investors in their forties and fifties contributed to their traditional IRAs. The lowest incidences of contribution activity were seen among traditional IRA investors aged 65 or older, who are more likely to be approaching or in retirement and focusing on drawing down their assets.

Traditional IRA Contribution Amounts in 2020 by Investor Age

Even though older IRA investors are less likely to make contributions, they tend to make larger contributions than do younger investors. Among traditional IRA contributors aged 25 to 29, the median contribution amount was $3,300 in tax year 2020 (Figure A.11). For contributors aged 35 to 49, the median contribution amount was $6,000, the full amount allowed by law for individuals younger than 50. Among contributors aged 60 to 69, the median contribution amount was $7,000, the full amount allowed by law, including catch-up contributions.

Although about half of traditional IRA contributors contributed the maximum amount in tax year 2020, the amounts investors contributed varied widely. For example, while 26.1 percent of contributors contributed less than $2,000, another 25.5 percent contributed $6,000 (the 2020 contribution limit), and 27.7 percent made at least some portion of a catch-up contribution—contributing more than $6,000, up to the maximum of $7,000 (Figure A.12). Overall, 49.6 percent of all traditional IRA contributors contributed the maximum amount allowed by law, including catch-up contributions for traditional IRA investors aged 50 or older. In fact, 49.5 percent of traditional IRA investors aged 50 to 69 made the full age-allowed contribution of $7,000 in tax year 2020. These estimates are the lower bounds on the percentage of traditional IRA contributors at the limit with respect to deductible contributions. Some individuals may have been constrained in their deductible contribution amount and may not have elected to make a total contribution that would reach the limit. It is not possible to determine how many such individuals are in the database.

Older Traditional IRA Contributors Were More Likely to Contribute at the Limit in 2020

About half of all traditional IRA contributors contributed at the limit in tax year 2020, but older traditional IRA contributors were more likely to do so. For example, 39.6 percent of traditional IRA contributors aged 25 to 29 and 48.3 percent of traditional IRA contributors aged 30 to 34 contributed at the $6,000 limit in tax year 2020 (Figure A.13). Among contributors in their fifties and sixties, about half contributed the full $7,000 limit, including catch-up contributions. If investors who contributed at least $6,000 are considered, then nearly six in 10 contributors aged 50 to 69 reached the limit. Overall, 53.2 percent of traditional IRA contributors in tax year 2020 contributed at least $6,000 to their traditional IRAs.

Persistence in Contribution Activity Among Traditional IRA Investors from 2019 to 2020

In the IRA Investor Database for 2020, there are 4.7 million traditional IRA investors aged 19 to 69 who also had traditional IRAs at the same financial services firm in the 2019 database. The tracking of the same IRA investors over time makes it possible to analyze persistence in contribution activity. The persistence in both the decision to contribute at all and the decision to contribute at the age-allowed limit is very high. This reinforces a key insight about IRA contributors that emerges from the earlier analysis: for traditional IRA investors who make contributions in a given year, the IRA is likely a key saving vehicle. The overall persistence in traditional IRA contribution activity between 2019 and 2020 is 78 percent, which means that more than nearly eight in 10 traditional IRA investors who contributed in tax year 2019 also contributed in tax year 2020 (Figure A.14).

Contributions at the Limit Tend to Persist

A majority of traditional IRA investors who contributed at the full legal limit in 2019 continued to contribute in 2020 and again did so at the limit. Among traditional IRA investors aged 18 to 69 in 2019 with account balances in both 2019 and 2020, 10.3 percent contributed to their traditional IRAs in 2019, with 4.6 percent reaching the limit (Figure A.14). Among those contributing at the limit in 2019, nearly 80 percent contributed again in 2020, with 72.1 percent continuing to contribute at the limit. Among those contributing less than the limit in 2019, nearly 80 percent contributed again in 2020, with 67.6 percent continuing to contribute less than the limit and 9.8 percent increasing their contributions up to the full limit. This includes IRA investors turning 50 who would have to recognize their eligibility for catch-up contributions in moving to the limit in 2020.

CHAPTER 3

Traditional IRA Investors' Rollover Activity in 2020

Congress created traditional IRAs to provide eligible workers with: (1) a contributory retirement account, originally for those without employer-sponsored pension plans; and (2) a rollover vehicle to preserve pension assets at job change or retirement.[19] Although contribution activity expanded between 1982 and 1986, when there were no income limits restricting traditional IRA contributions,[20] in more recent years rollovers have been the key inflows into traditional IRAs (Figure A.34). This chapter analyzes the rollover activity of traditional IRA investors, primarily focusing on variation in rollover activity in 2020 by investor age. Rollovers can provide a significant boost to traditional IRA balances, given the higher contribution limits into employer-sponsored plans and the ability of workers to accumulate significant balances over their careers. This chapter also explores the variation in traditional IRA balances in 2020 by the presence of recent rollovers.

Figures referenced in this chapter are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-traditional-data.xlxs.

More Than Half of Traditional IRA Investors Have Made Rollovers at Some Time

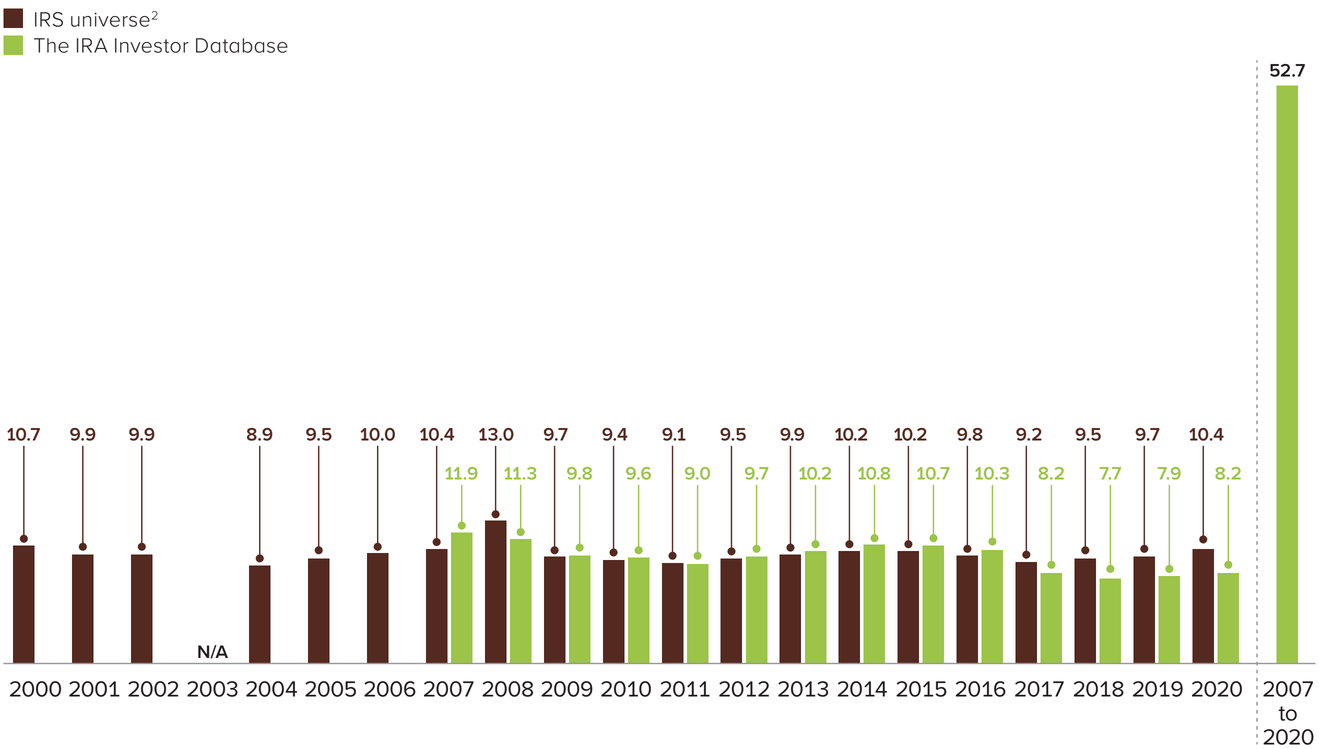
Like contribution activity, rollovers among traditional IRA investors are relatively infrequent in any given year. However, unlike contributions—where there appears to be some persistence among traditional IRA investors from year to year—different groups of people tend to have rollovers from year to year. About one in 10 traditional IRA investors aged 18 to 74 had a rollover in any year between 2007 and 2020 (Figure 3.1). However, among traditional IRA investors with an account balance at year-end 2020, more than half had a rollover at some point between 2007 and 2020.[21]

This increase in rollover incidence when expanding the period of observation is consistent with expectations based on labor market dynamics and the work life cycle. In any given year, a certain number of workers with employer-sponsored retirement plan coverage will separate from their employers, and when they do, it is possible that separation will generate a rollover event. Because separating from one's employer is not an annual event for most workers and not all workers roll over money from their employer plan into a traditional IRA after job separation, rollovers to traditional IRAs by a given individual will tend to be sporadic.

FIGURE 3.1

Many Traditional IRA Investors Have Made Rollovers

Percentage of traditional IRA investors aged 18 to 74 with rollovers[1]



[1] This group is traditional IRA investors (aged 18 to 74) who made contributions to their traditional IRAs in the tax year indicated.

[2] In the IRS universe, data are for traditional IRA investors of all ages.

N/A = not available

Note: Rollovers made prior to 2007, as well as rollovers made prior to a change in financial services providers, cannot be identified in the database.

Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

Rollovers Often Were the Source of New Traditional IRAs in 2020

Although traditional IRAs can be opened with either rollovers or contributions, rollovers tend to be the most common source for new traditional IRAs. In 2020, 49.3 percent of new traditional IRAs in the IRA Investor Database were opened only with a rollover (Figure A.15). Another 3.9 percent were opened with both a rollover and a contribution, and 13.5 percent were opened only with a contribution. The remaining new traditional IRAs were transfers from one financial services firm to another and thus were unlikely to represent new IRAs. If these transfer accounts are excluded, nearly three-quarters of new traditional IRAs in 2020 were opened exclusively with rollovers.

Traditional IRA Rollover Activity in 2020 by Investor Age

Although younger traditional IRA investors were more likely to have rollovers in 2020, rollovers were distributed across all age groups. Indeed, more than half of the rollovers in 2020 were made by investors aged 45 to 74 (Figure A.16). Younger investors were more likely to have rollovers, with 23.6 percent of traditional IRA investors aged 25 to 29 having rollovers in 2020, compared with 4.5 percent of traditional IRA investors aged 70 to 74. In fact, the only exception to the general pattern of declining rollover incidence as age increases is among investors aged 60 to 64. While 5.9 percent of traditional IRA investors aged 55 to 59 had rollovers in 2020, 6.8 percent of traditional IRA investors aged 60 to 64 had rollovers in 2020, likely due in part to investors in this age group retiring and making rollovers into IRAs.[22] Overall, 8.2 percent of traditional IRA investors aged 18 to 74 had rollovers in 2020.

For the bulk of younger investors with rollovers, the rollover event opened a new account. Indeed, for more than two-thirds of traditional IRA investors aged 18 to 29 with rollovers in 2020, the rollover opened a new traditional IRA (Figure A.16). Still, even among traditional IRA investors aged 70 to 74 with rollovers in 2020, 24.5 percent opened new accounts with those rollovers. This pattern also helps explain the higher rollover incidence among younger traditional IRA investors. Because the rollover is often the event that opens the IRA for younger investors, they are less likely to own an IRA if they did not have a rollover, whereas older investors are more likely to have already opened an IRA.

Rollover amounts tend to rise with investor age, reflecting the longer horizon older investors have had to build retirement plan accumulations.[23] The median rollover amount was $2,780 among traditional IRA investors aged 25 to 29 in 2020, $68,130 for those aged 65 to 69, and $32,380 for those aged 70 to 74 (Figure A.17). Although traditional IRA investors aged 45 to 74 accounted for more than half of rollovers, 89 percent of the money rolled over in 2020 came from this group. In fact, traditional IRA investors aged 60 to 64 accounted for more than one-quarter of all rollover money, reflecting their high average rollover amounts as well as the large number of rollovers that came from this age group.

Rollovers Tend to Have a Strong Positive Impact on Traditional IRA Balances

Because of the higher contribution limits for employer-sponsored retirement plans, and the steady buildup of assets that can occur in these plans over the course of a career, rollovers into traditional IRAs appear to have a substantial, positive impact on the size of account balances. The impact of recent rollovers can be seen most clearly among older traditional IRA investors. For example, among traditional IRA investors aged 70 to 74 with rollovers between 2007 and 2020, the median traditional IRA balance at year-end 2020 was $184,330, compared with $64,210 for those without rollovers, or more than two and a half times as much (Figure A.18). Household survey data also find a substantial positive effect of rollovers on traditional IRA balances.[24]

CHAPTER 4

Traditional IRA Investors' Withdrawal Activity in 2020

IRA investors can decide when and how to draw down the assets they hold inside their traditional IRAs, although IRS penalties, taxes, or distribution requirements may apply. This chapter first briefly reviews the distribution, or withdrawal, rules governing traditional IRAs. It also analyzes the withdrawal activity of traditional IRA investors, primarily focusing on variation in withdrawal activity in 2020 by investor age. Finally, withdrawal amounts are analyzed in the context of RMD rules.

Figures referenced in this chapter are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-traditional-data.xlxs.

Traditional IRA Withdrawal Activity

Many complex distribution rules govern investors' access to traditional IRAs, involving the investor's age, the investor's spouse's age (if married), whether the IRA is inherited, and exceptions for certain distributions. For investors younger than 59½, distributions from traditional IRAs generally are subject to income tax as well as a 10 percent penalty. However, there are some exceptions to the penalty, including distributions for the purchase of a first home (up to $10,000) or certain qualified higher-education expenses.[25] In addition, individuals with inherited traditional IRAs may be required to take distributions and are able to take distributions without penalty. Given the possibility of penalty in most cases, there is little traditional IRA investor withdrawal activity prior to age 59½.[26] Taxpayers older than 59½ but younger than 72 may take withdrawals without penalty, but generally are not required to do so. Over the period analyzed, traditional IRA investors typically had to take RMDs from their IRAs once they reached a certain age (70½ for individuals born before July 1, 1949, or 72 for individuals born on July 1, 1949, or later).[27] It should be noted that policymakers can adjust these rules. For example, in response to declines in the stock market and related financial market volatility, policymakers suspended RMDs in 2009 and 2020.[28]

The percentage of traditional IRA investors taking distributions from their traditional IRAs in any given year has risen somewhat since 2007. Analysis of traditional IRA investors in 2007 and 2008 shows that about 18 percent of traditional IRA investors had distributions (Figure A.19). The percentage taking distributions dropped to 13.9 percent in 2009 (due at least in part to the suspension of RMDs), before rising to 25.1 percent in 2019. Some of this increase is attributable to the changing age composition of investors in the IRA Investor Database. As the population grows older and more investors move into their sixties and seventies, where withdrawal activity is not penalized and in many instances is required, the overall withdrawal rate is likely to increase. The percentage taking distributions fell to 20.3 percent in 2020, likely due, to some extent, to the suspension of RMDs from traditional IRAs.

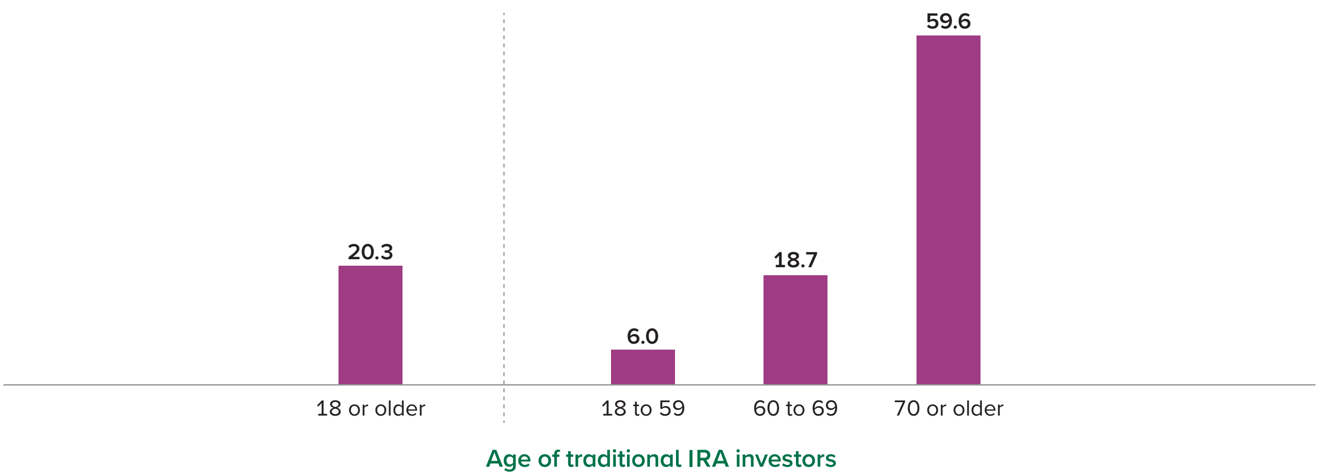
Withdrawal activity is highly concentrated among older traditional IRA investors. Investors aged 70 or older, who typically have RMDs, were much more likely to withdraw money than younger investors (Figure 4.1). Traditional IRA withdrawal activity is much lower among younger investors for whom penalties often apply. Nevertheless, a slight uptick in their low levels of withdrawal activity is apparent in the wake of the financial crisis. On average, about 7 percent of traditional IRA investors aged 18 to 59 took withdrawals in 2007, 2008, or 2009 (Figure A.19). Withdrawal activity for this age group ticked up to 8.5 percent in 2010 and was about 8 percent in each year between 2011 and 2016. Withdrawal activity then edged down to 6.5 percent in 2017 before increasing to 7.0 percent in 2018. Withdrawal activity then fell to 6.8 percent in 2019 and 6.0 percent in 2020. A similar pattern is discernable among traditional IRA investors aged 60 to 69, who may withdraw without penalty. In 2007 and 2008, about 18 percent of this age group took withdrawals; in each year between 2010 and 2019, it was about one in five. Withdrawal activity among traditional IRA investors aged 60 to 69 then edged down to 18.7 percent in 2020. The pattern of withdrawal activity for the traditional IRA investors aged 70 or older mainly reflects the suspension of RMDs in 2009 and 2020.[29]

Although traditional IRA investors across all age groups withdrew money from their traditional IRAs in 2020, withdrawal activity is concentrated among older traditional IRA investors. In the IRA Investor Database, 20.3 percent of traditional IRA investors took withdrawals from their traditional IRAs in 2020, and this varied considerably by age (Figure A.20). For example, 49.7 percent of traditional IRA investors aged 70 to 74 and 67.2 percent of investors aged 75 or older took withdrawals in 2020 (Figure A.20), compared with 18.7 percent of traditional IRA investors in their sixties and 6.0 percent of traditional IRA investors aged 18 to 59 (Figure A.19). In fact, the majority of traditional IRA withdrawals are taken by investors aged 60 or older, for whom penalties generally do not apply to the distributions and RMDs often apply. Indeed, while traditional IRA investors aged 60 or older only accounted for 45.5 percent of traditional IRA investors in the IRA Investor Database, they accounted for 83.8 percent of the traditional IRA investors with withdrawals in 2020 (Figure A.20).

FIGURE 4.1

Traditional IRA Withdrawal Rates

Percentage of traditional IRA investors with withdrawals, 2020



Note: The sample is 6.6 million traditional IRA investors aged 18 or older in 2020.
Source: The IRA Investor Database™

Traditional IRA withdrawal amounts varied with investor age and were largest for investors in their sixties, who can withdraw without penalty but generally are not required to take withdrawals. In 2020, the median distribution among traditional IRA investors aged 25 to 29 with withdrawals was $4,100. This number rose with age, peaking at $12,260 for investors aged 65 to 69 (Figure A.21). For investors aged 70 to 74 with withdrawals, the median withdrawal amount was $7,200; it was $5,930 for investors aged 75 or older.

Many Traditional IRA Investors Determine Withdrawal Amounts Using RMD Rules

According to household survey results, traditional IRA–owning households with withdrawals often indicate that they calculated the withdrawal amount to meet the RMD rule.[30] Traditional IRA investors in the IRA Investor Database also often use the RMD rule to determine their withdrawal amounts. It is possible to identify withdrawal amounts that fulfill the RMD by using the IRS distribution tables. Among investors who (1) had traditional IRAs at year-end 2019 and 2020, (2) were aged 70 or older at year-end 2020, and (3) took withdrawals in 2020, slightly less than half withdrew the RMD amount despite the suspension of RMDs in 2020. Specifically, 43.6 percent took exactly the RMD amount based on the Uniform Lifetime table published by the IRS (self RMD); 2.4 percent appear to have used the Joint and Last Survivor Expectancy table (joint RMD); and another 0.4 percent appear to be taking distributions from an inherited IRA (inherited RMD) (Figure A.22). Additionally, 35.7 percent of these older traditional IRA investors with withdrawals took more than the self RMD amount and 17.9 percent took less than that amount (likely in part due to the suspension of RMDs).

Traditional IRA withdrawal activity also varies with size of the traditional IRA balance. Traditional IRA investors with larger balances tend to be more likely to withdraw (Figure A.23), although they tend to withdraw a smaller portion of their balances (Figure A.24).

CHAPTER 5

Traditional IRA Investors' Balances at Year-End 2020

The amounts accumulated in traditional IRAs depend on contributions, rollovers, withdrawals, and investment returns, which are based on the asset allocation selected by the IRA investors.[31] Contribution, rollover, and withdrawal activities in traditional IRAs are governed by Internal Revenue Code regulations. Traditional IRA investors have access to a wide range of investment options in the retail financial services market.[32] This chapter analyzes the variation in traditional IRA balances in 2020 by balance size.

Figures referenced in this chapter are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-traditional-data.xlxs.

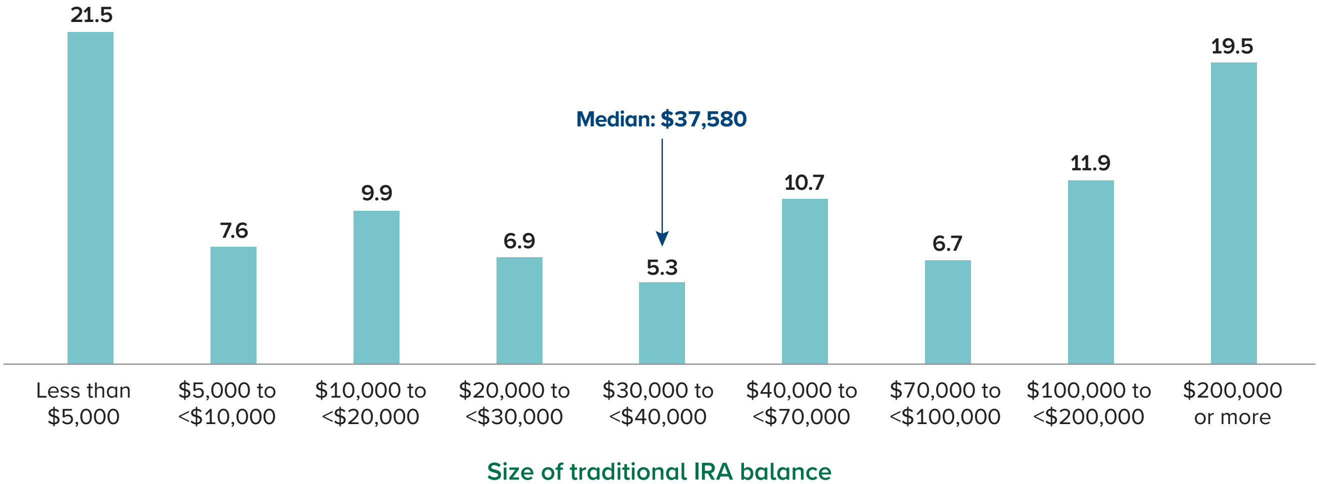
Distribution of Traditional IRA Balances by Size in 2020

Some of the variation in traditional IRA balances is explained by different job histories and participation in employer-sponsored retirement plans. Traditional IRA investors can accumulate assets inside their IRAs through contributions, rollovers, and asset appreciation. Although contributions and asset appreciation generally cause relatively small changes in traditional IRA balances in any given year, rollover events are often larger because they can contain many years of contributions to employer-sponsored retirement plans at higher legal limits than those for IRAs.[33] Because of this, as well as differing contribution and withdrawal activity and asset allocation, there is a wide distribution of the resulting traditional IRA balance amounts. While 21.5 percent of traditional IRA investors had balances of less than $5,000, 31.4 percent had account balances of $100,000 or more (Figure 5.1).

FIGURE 5.1

Distribution of Traditional IRA Balances by Size

Percentage of traditional IRA investors by size of traditional IRA balance, year-end 2020



Note: The sample is 6.6 million traditional IRA investors aged 18 or older in 2020.
Source: The IRA Investor Database™

The range of traditional IRA balances is most pronounced by age. Younger traditional IRA investors were more likely to have smaller balances than older traditional IRA investors in 2020 (Figures A.25 and A.26). For example, although 68.2 percent of traditional IRA investors aged 25 to 29 had balances of less than $5,000, that percentage fell for each successive age group, reaching a low of 5.2 percent for traditional IRA investors aged 75 or older (Figure A.25). On the other end, while a negligible number (1.2 percent) of traditional IRA investors aged 25 to 29 had balances of $100,000 or more, this percentage rose with age, reaching its peak at 50.9 percent of traditional IRA investors aged 70 to 74. The percentage of traditional IRA investors with balances of $100,000 or more fell to 48.6 percent for investors aged 75 or older, likely due in part to the cumulative effect of RMDs and the higher RMD percentages required for older investors.[34]

CHAPTER 6

Snapshots of Investments in Traditional IRAs at Year-End 2010 and Year-End 2020

IRA investors decide how to allocate their IRA assets to investments such as individual securities (e.g., stocks and bonds), mutual funds, exchange-traded funds (ETFs), closed-end funds, annuities, deposits, and other investments. This chapter analyzes the average dollar-weighted asset allocation of traditional IRA balances at year-end 2020 by investor age. Snapshots of traditional IRA asset allocations at year-end 2020 are compared with the asset allocation at year-end 2010. In addition, snapshots of individual traditional IRA investors' concentrations in equity holdings—that is, the percentage of individual traditional IRA balances invested in equities, equity funds, and the equity portion of balanced funds—between year-end 2010 and year-end 2020 are compared. Finally, this chapter analyzes the concentration of equity holdings in traditional IRAs with low balances ($5,000 or less) because account size appears to figure into traditional IRA investors' asset allocations.

Figures referenced in this chapter are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-traditional-data.xlxs.

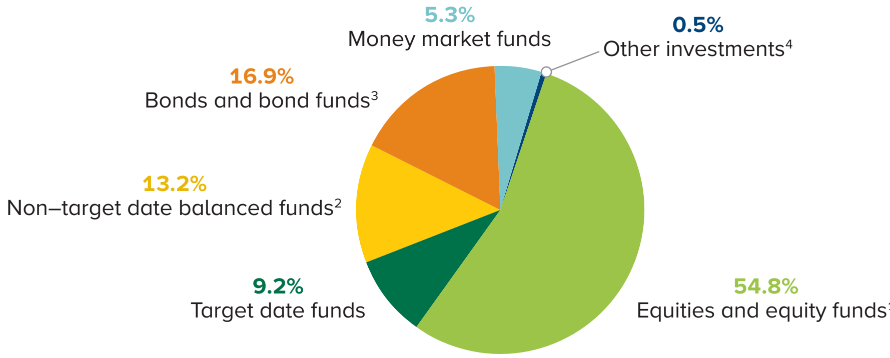
Investments in Traditional IRAs in 2020

On average, equities and equity funds represent the largest investment category among traditional IRA investors. At year-end 2020, on average, equities and equity funds were 54.8 percent of traditional IRA assets held by individuals aged 18 or older (Figure 6.1). Balanced (or hybrid) funds, which invest in a mix of equities and fixed-income securities and include target date funds,[35] were the next largest component, accounting for 22.4 percent of traditional IRA assets. Another 16.9 percent of traditional IRA assets were held in bonds and bond funds, and 5.3 percent were in money market funds.

FIGURE 6.1

Equity Holdings Figure Prominently in Traditional IRA Investments

Percentage of traditional IRA balances, year-end 2020



[1] Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

[2] Balanced funds invest in a mix of equities and fixed-income securities.

[3] Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.

[4] Other investments include certificates of deposit and unidentifiable assets.

Note: The sample is 6.6 million traditional IRA investors aged 18 or older in 2020. Percentages are dollar-weighted averages. Components do not add to 100 percent because of rounding.

Source: The IRA Investor Database™

At year-end 2020, 68.2 percent of traditional IRA assets were invested in equity holdings (equities, equity funds, and the equity portion of balanced funds) (Figures A.27 and A.28). With the exception of the youngest groups of traditional IRA investors, the age pattern of allocation to equity holdings was as expected by financial theory and other research: older investors tend to have lower shares in equity holdings. Younger traditional IRA investors generally had allocated more of their assets to target date funds, compared with older traditional IRA investors. At year-end 2020, 15.9 percent of the traditional IRA assets held by investors aged 18 to 29 were invested in target date funds, on average, rising to 23.7 percent of assets for investors aged 30 to 39. The percentage of traditional IRA assets invested in target date funds fell to a low of 5.1 percent of the assets held by those aged 70 or older. This pattern of target date fund use was expected because target date funds are relatively new investment products and younger investors are more likely to have been introduced to them either in 401(k) plans or recently opened IRAs.

At year-end 2020, target date funds were 9.2 percent of traditional IRA assets (Figures 6.1, A.27, and A.28) and 14.6 percent of traditional IRA investors in the IRA Investor Database owned target date funds. [36] Among traditional IRA investors who owned target date funds, most owned one target date fund, and the bulk of the remainder owned two (Figure A.29).

Older traditional IRA investors had higher allocations to bonds and bond funds in their traditional IRAs than younger investors (Figures A.27 and A.28), which follows the typical age-based pattern of bond investing seen in other research.[37]

Snapshots of Allocation to Equity Holdings Between 2010 and 2020

At year-end 2020, the percentage of traditional IRA balances invested in equity holdings (equities, equity funds, and the equity portion of balanced funds) was higher than the level at year-end 2010. At year-end 2010, 61.5 percent of traditional IRA balances held by investors aged 18 or older were invested, on average, in equity holdings (Figure A.30). At year-end 2020, that share was 68.3 percent. Equity holdings increased among traditional IRA investors in all age groups. For example, 72.1 percent of traditional IRA balances for investors aged 30 to 39 were invested in equity holdings at year-end 2010. This share increased to 84.8 percent by year-end 2020. This increase among younger investors was most pronounced in the category of the equity portion of target date funds, with the share of traditional IRA balances allocated to the equity portion of target date funds for investors aged 30 to 39 increasing from 12.0 percent at year-end 2010 to 21.2 percent at year-end 2020. This analysis looks at dollar-weighted averages, and some of the change reflects the relative performance of equity holdings over the period.

In addition to observing how traditional IRA balances are invested in aggregate, another way to explore the changes in allocation to equity holdings is by looking at the distribution of the shares in equity holdings held by individual investors. Looking at the data this way shows that the increase in the share of balances invested in equity holdings is perhaps partly a move away from more diversified portfolios. For example, at year-end 2010, 20.4 percent of traditional IRA investors had no equity holdings, compared with 19.4 percent in 2020 (Figure A.31). In addition, at year-end 2010, 35.6 percent of traditional IRA investors had some equity holdings, but allocated no more than 80 percent of their account balances to equity holdings. This share fell to 33.8 percent by year-end 2020. Most of this decrease was balanced by an increase in 100 percent allocations to equity holdings. At year-end 2010, 24.2 percent of traditional IRA investors had a 100 percent allocation to equity holdings. That share rose to 27.2 percent by year-end 2020.

Default Rollover Rules Likely Affect Equity Exposure in Smaller Traditional IRAs

Many factors likely affected equity ownership inside traditional IRAs between 2010 and 2020, including the fluctuations in equity values over that period. The asset allocations in smaller traditional IRAs appear to have their own set of special forces at play. For example, default rules governing rollovers from employer-sponsored retirement plans appear to have had a noticeable impact. Since 2005, employer-sponsored retirement plans that cash out balances of $5,000 or less when the employee separates from employment generally are required to roll over any account that is more than $1,000, but no more than $5,000, into an IRA unless the plan participant affirmatively chooses otherwise.[38] The money must be invested in "an investment product designed to preserve principal and provide a reasonable rate of return." Typical examples include money market funds, certificates of deposit (CDs), and interest-bearing savings accounts. Small accounts also may be more likely to be invested in money market funds because of the economics of managing such small amounts. Furthermore, some younger traditional IRA investors may have shorter-term goals for the money (e.g., education or home purchase) and desire liquidity in their traditional IRA balances. Financial uncertainty shortly after the financial crisis may have increased some investors' demand for liquidity.[39]

Because of the special rules and forces that apply to smaller account balances, it is important to analyze traditional IRA asset allocation by age while controlling for the size of the account balance. The default rollover rules appear to affect the share allocated to equity holdings in traditional IRAs with balances of $5,000 or less. For example, although 19.4 percent of traditional IRA investors owned no equity holdings at year-end 2020 (Figure A.31), 61.7 percent of investors with account balances of $5,000 or less had no equity holdings (Figure A.32). In contrast, among investors with account balances of more than $5,000, only 7.8 percent owned no equity holdings at year-end 2020 (Figure A.33).

The share of smaller traditional IRAs with no exposure to equity holdings increased between 2010 and 2020, while the share of larger traditional IRAs with no equity exposure decreased slightly. At year-end 2010, 47.8 percent of traditional IRAs with balances of $5,000 or less owned no equity holdings (Figure A.32). By year-end 2020, that share had increased to 61.7 percent. For traditional IRAs with more than $5,000, the share with no equity holdings decreased, from 12.2 percent at year-end 2010 to 7.8 percent at year-end 2020 (Figure A.33).

Notes

1 In 2019, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) removed the age restriction for traditional IRA contributions starting in tax year 2020. In addition, the SECURE Act also increased the age for required minimum distributions (RMDs) from 70½ to 72 for individuals who did not reach age 70½ in 2019.

2 In 2019, the SECURE Act increased the age for RMDs from 70½ to 72 for individuals who did not reach age 70½ in 2019.

3 For a history of IRAs, see Holden et al. 2005. For a discussion of the changing role of IRAs, see Sabelhaus and Schrass 2009.

4 For additional discussion of IRA-owning households, see Holden and Schrass 2024.

5 ICI reports total IRA and total retirement market assets on a quarterly basis. For additional information on the US retirement market through 2023:Q3, see Investment Company Institute 2023. The Federal Reserve Board reports US households' financial assets on a quarterly basis (see US Federal Reserve Board 2023); at year-end 2022, household financial assets were $107.9 trillion.

6 See Holden and Schrass 2024 and Investment Company Institute 2023.

7 At retirement, defined contribution (DC) plan account owners often choose to roll over their balances to IRAs. See Sabelhaus, Bogdan, and Holden 2008 and Clark 2023.

8 One of the frequently analyzed household surveys is the Survey of Consumer Finances (SCF), which is administered by the Federal Reserve Board. The SCF is a triennial interview survey of US families sponsored by the Board of Governors of the Federal Reserve System and the US Department of Treasury. The sample design of the survey aims to measure a broad range of financial characteristics. The sample has two parts: (1) a standard geographically based random sample and (2) a specially constructed oversampling of wealthy families. Weights are used to combine the two samples to represent the full population of US families. The 2022 SCF interviewed 4,602 families, representing 131.3 million families. Data available on the Federal Reserve Board's website are altered to protect the privacy of individual respondents and include weights. For an overview of the 2022 SCF results, see Aladangady et al. 2023. For a full description of the SCF and recent SCF data, see www.federalreserve.gov/econres/scfindex.htm. For an overview of the 2019 SCF results, see Bhutta et al. 2020. For an overview of the 2016 SCF results, see Bricker et al. 2017. For an overview of the 2013 SCF results, see Bricker et al. 2014. For a special panel analysis that resurveyed households from the 2007 SCF in 2009, see Bricker et al. 2011. Researchers interested in the behavior of older households use another publicly available household survey, the Health and Retirement Study (HRS), which is administered by the University of Michigan. For an extensive bibliography of papers using HRS data, see https://hrs.isr.umich.edu/publications/biblio. The Survey of Income and Program Participation (SIPP), which is administered by the US Census Bureau, is another commonly used household survey. For a complete description, see www.census.gov/sipp.

[9] ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each year to gather information on the demographic and financial characteristics of US households. The most recent survey was conducted from May to June 2023 and was fielded on the KnowledgePanel®, a probability based online panel designed to be representative of the US population. The KnowledgePanel® is designed and administered by Ipsos. Ipsos is one of the largest market research and polling companies globally, operating in 90 markets and employing over 18,000 people. The Annual Mutual Fund Shareholder Tracking Survey sample for 2023 included 6,073 US households, of which 42.2 percent owned IRAs. The standard error for the 2023 sample of households is ± 1.3 percentage points at the 95 percent confidence level. For the 2023 survey results, see Holden, Schrass, and Bogdan 2023. For reporting of 2023 IRA incidence, see Holden and Schrass 2024.

[10] ICI conducts the IRA Owners Survey each year to gather information on the characteristics and activities of IRA-owning households in the United States. The most recent survey was conducted in June 2023 using the KnowledgePanel®, a probability-based online panel designed to be representative of the US population. The KnowledgePanel® was designed and administered by Ipsos, an online consumer research company. The 2023 sample of IRA owners included 3,255 representative US households owning traditional IRAs or Roth IRAs. All surveys were conducted online with the member of the household aged 18 or older who was the sole or co-decisionmaker most knowledgeable about the household’s savings and investments. The standard error for the total sample is ± 1.7 percentage points at the 95 percent confidence level. In 2023, households owning traditional or Roth IRAs were surveyed, and thus households only owning employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) or Coverdell education savings accounts (formerly called education IRAs) are not included. For results from the 2023 survey, see Holden and Schrass 2024.

[11] For the latest tabulations, see Internal Revenue Service, Statistics of Income Division 2024.

[12] It is possible to track the same individuals over time within the same data provider, but not to link individuals across providers. Therefore, some IRA investors may be counted more than once if they own IRAs across multiple service providers. For additional detail on the variables collected and the data collection methodology, see Holden and Bass 2012.

[13] For a history of IRA contribution activity, see Holden et al. 2005.

[14] Ibid.

[15] See Internal Revenue Service 2023a for the rules governing IRA contribution eligibility. In 2019, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) removed the age restriction for traditional IRA contributions starting in tax year 2020.

[16] For example, in 2020, contribution rates among traditional IRA investors aged 18 to 69 increased from 10.6 percent to 16.5 percent if contributions to Roth IRAs at the same financial services firm were included.

[17] See discussion and references in Holden et al. 2005.

[18] Analysis of Survey of Consumer Finances data shows that younger and lower-income households were less likely to cite retirement as the primary reason they save. These households were more likely to be focused primarily on saving to fund education, to purchase a house, to fund other purchases, or to have cash on hand for an unexpected need. The tendency of younger workers to focus less on retirement savings is consistent with economic models of life-cycle consumption, which predict that most workers will delay saving for retirement until later in their working careers. For more information, see Brady and Bass 2021.

[19] See Holden et al. 2005 and Sabelhaus and Schrass 2009.

[20] See Holden et al. 2005.

[21] This statistic undercounts the percentage of traditional IRA investors in 2020 with rollovers in their traditional IRAs because some will have rolled over money prior to 2007 and those rollovers cannot be identified in the database. In addition, rollovers made at a prior financial services firm cannot be identified in the database.

[22] In 2023, 43 percent of households owning traditional IRAs that included rollovers responded that retirement was one of the reasons they chose to roll over the money (see Holden and Schrass 2024).

[23] The EBRI/ICI 401(k) database finds that 401(k) balances tend to rise with investor age and job tenure. See Holden, Bass, and Copeland 2022.

[24] See Holden and Schrass 2024.

[25] For more information, see Internal Revenue Service 2023b. Distributions also can result from recharacterization of contributions, but historically, these amounts have been negligible.

[26] For analysis of withdrawal activity among traditional IRA–owning households, see Holden and Schrass 2024. Regression analysis in Holden and Reid 2008 suggests that the additional 10 percent tax puts a damper on withdrawal activity.

[27] For tax years prior to 2020, the IRS rules indicated that a traditional IRA investor must commence RMDs by April 1 following the calendar year in which the investor turns 70½. For tax year 2020, the SECURE Act of 2019 raised the RMD age to 72 for individuals reaching age 70½ after December 31, 2019. For additional details, see Internal Revenue Service 2021b.

[28] In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009. In 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2020. For more information, see Joint Committee on Taxation 2009 and Internal Revenue Service 2021b.

[29] There is evidence that some IRA investors taking withdrawals do not need the money for current consumption. Holden and Schrass 2024 finds that 47 percent of retired traditional IRA–owning households taking distributions reinvested the money into another account. Among the 47 percent that reported reinvesting or saving the amount of the traditional IRA withdrawal into another account, 91 percent reported withdrawing the amount based on the RMD. Other research based on a survey of affluent retiree households finds that about 78 percent of wealthier retiree households made a withdrawal from their financial accounts, yet only seven in 10 households used withdrawals for spending (see Madamba and Utkus 2016).

[30] For more information, see Holden and Schrass 2024. For information on retirement plan participants' reactions to the RMD suspension of 2009, see Brown, Poterba, and Richardson 2014. For a discussion of how RMD rules affect traditional IRA withdrawals, see Mortenson, Schramm, and Whitten 2016.

[31] Conversion activity also can affect traditional IRA balances. Generally, there are low levels of conversions, although lifting the income limits on Roth conversion activity in 2010 with special tax treatment in that year increased conversion activity. See Bryant and Gober 2013 and Investment Company Institute 2023.

[32] See Internal Revenue Service 2023a for investment restrictions. Traditional IRA investors can generally select from the full range of mutual funds, exchange-traded funds (ETFs), closed-end funds, stocks, bonds, and bank products.

[33] The ICI IRA Owners Survey finds that households with rollovers in their traditional IRAs tend to have higher balances, on average, than those without rollovers. For additional detail, see Holden and Schrass 2024. The IRA Investor Database also finds this result (Figure A.18).

[34] Because RMD amounts are based on average life expectancy, older RMD-aged traditional IRA investors generally must withdraw a larger percentage of their account balances than younger RMD-aged investors. For example, while unmarried 70-year-old traditional IRA investors would have been required to withdraw 3.6 percent of their balances in 2018, that number was 5.3 percent for 80-year-olds, and 8.8 percent for 90-year-olds. For more information, see Internal Revenue Service 2023b.

[35] A target date fund pursues a long-term investment strategy, using a mix of asset classes, or asset allocation, that the fund provider adjusts to become less focused on growth and more focused on income as the fund approaches and passes the target date, which is usually mentioned in the fund's name. The asset allocation path that the target date fund follows to shift its focus from growth to income is typically referred to as the glide path. Because discussions of asset allocation usually focus on the percentage of the portfolio invested in equities, the glide path generally reflects the declining percentage of equities in the portfolio as it approaches and passes the target date. The target date generally is the date at which the typical investor for whom that fund is designed would reach retirement age and stop making new investments in the fund. For additional information on target date funds, see ICI's Target Retirement Date Funds Resource Center at www.ici.org/trdf.

[36] For the pattern of use of target date funds in Roth IRAs, see Schrass and Holden, forthcoming. For the pattern of use of target date funds in 401(k) plans, see Holden, Bass, and Copeland 2022.

[37] For discussion of how US households' investments change over the life cycle, see Sabelhaus, Bogdan, and Schrass 2008. For the pattern of equity versus bond investing across Roth IRA investors by age, see Schrass and Holden, forthcoming. For the pattern of equity versus bond investing across 401(k) participants by age, see Holden, Bass, and Copeland 2022.

[38] For more information on the rules governing automatic rollovers, see US Department of Labor 2004.

[39] Household survey results from this period indicate that households' willingness to take financial risk declined in the wake of the financial crisis. See Holden, Schrass, and Bogdan 2022.

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Sarah Holden

Sarah Holden, ICI senior director of retirement and investor research, leads the Institute's research efforts on investor demographics and behavior and retirement and tax policy. Holden, who joined ICI in 1999, heads efforts to track trends in household retirement saving activity and ownership of funds as well as other investments inside and outside retirement accounts. She is responsible for analysis of 401(k) plan participant activity using data collected in a collaborative effort with the Employee Benefit Research Institute (EBRI), known as the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. In addition, she oversees the IRA Investor Database™, which contains data on millions of IRA investors and allows analysis of IRA investors' contribution, rollover, conversion, and withdrawal activity, and asset allocation. Before joining ICI, Holden served as an economist at the Federal Reserve Board of Governors. She has a PhD in economics from the University of Michigan and a BA in mathematics and economics, *cum laude*, from Smith College.

Daniel Schrass

Daniel Schrass is an economist in the retirement and investor research division at ICI. He focuses on investor demographics and behavior, as well as trends in household retirement saving activity. His detailed research includes analysis of IRA-owning households and individual IRA investors in the IRA Investor Database™, which includes data on millions of IRA investors. He also conducts research with government surveys such as the Survey of Consumer Finances, the Current Population Survey, and the Survey of Household Economics and Decisionmaking. Before joining ICI in October 2007, he served as an economist at the US Bureau of Labor Statistics. He has an MA in applied economics from the Johns Hopkins University and a BS in economics from the Pennsylvania State University.