The IRA Investor Profile

TRADITIONAL IRA INVESTORS' ROLLOVER ACTIVITY, 2007 AND 2008

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The IRA Investor Database™

The Investment Company Institute and the Securities Industry and Financial Markets Association collected account-level data in The IRA Investor Database for more than 10 million IRA investors.

Individual retirement accounts (IRAs) are an important segment of the U.S. retirement market. This database aims to increase public understanding in this area of retirement savings by expanding on the existing household surveys and IRS tax data about IRA investors.

By tapping account-level records, research drawn from this database can provide new and important insights into IRA investor demographics, activities, and asset allocation decisions. The database is designed to shed light on key determinants of IRA contributions, rollover and withdrawal activity, and the types of assets that investors hold in these accounts.

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Key Findings

- **In aggregate, rollovers are an important source of growth in traditional IRA assets.** In 2007, preliminary estimates indicate that rollovers accounted for $323.1 billion in gross inflows to traditional IRAs, while contributions were $14.4 billion.

- **Rollovers from employer-sponsored retirement plans are a key to understanding how many individuals become traditional IRA investors.** In 2007, close to two-thirds of traditional IRA investors with rollovers appeared to have opened their traditional IRAs with the rollovers. Younger traditional IRA investors with rollovers were more likely to be opening the traditional IRA compared with older traditional IRA investors. Indeed, the data suggest that 85.8 percent of the youngest traditional IRA investors with rollovers in 2007 opened the account with the rollover.

- **It is largely a different group of traditional IRA investors that make rollovers year-to-year.** In The IRA Investor Database, 12.3 percent of traditional IRA investors had rollovers in 2007 and 11.3 percent of traditional IRA investors had rollovers in 2008. But because the presence of rollovers tends to build over time, household survey data show that more than half of households owning traditional IRAs report having made rollovers at some point in time, and 20.8 percent of traditional IRA investors in 2008 had made rollovers in either 2007 or 2008 (with only 1.1 percent making rollovers in both years).

- **Rollover activity was widely distributed across all age groups in 2007 and 2008, reflecting incentives and penalties in the U.S. retirement system which effectively steer workers toward preserving accumulated assets at job changes, not just retirement.** Each five-year age band—from 30 to 34 up to 60 to 64—accounts for 10 percent to 13 percent of the total number of rollover occurrences. This relatively equal distribution by age reflects the fact that rollovers associated with job separation are not simply a phenomenon for retiring workers.

- **Rollover amounts tend to be higher for older workers because they have had more time to accumulate balances in their employer-sponsored retirement plans.** In 2007, almost 40 percent of rollovers among traditional IRA investors aged 60 to 64 were $100,000 or more, and their median rollover amount was more than $63,000. The median rollover amount for mid-career workers aged 45 to 49 was $25,000 in 2007, but still, nearly 20 percent of them had rollovers in excess of $100,000. Reflecting the broader range of work experiences, the range of rollover amounts tended to increase with age. Similar patterns are observed in the rollover amounts in 2008.

- **Rollover activity also was widely distributed across all income groups in 2007 and 2008.** Patterns of rollover incidence and rollover amounts varied with income much in the same way they varied with age. Lower-income traditional IRA investors with rollovers were more likely to be opening traditional IRAs with their rollovers compared with higher-income traditional IRA investors, who were more likely already to have existing accounts.

Introduction

Role of IRAs in U.S. Retirement Planning

The Employee Retirement Income Security Act (ERISA) in 1974 created individual retirement accounts (IRAs).[1] Thirty-five years later, IRAs have grown to be a significant component of U.S. households' retirement assets. At year-end 2009, IRAs held $4.3 trillion, or more than one-quarter of the $16.1 trillion in total U.S. retirement assets,[2] and were nearly 10 percent of U.S. households' total financial assets (Figure 1). All told, 48.6 million, or 41.4 percent of, U.S. households owned one or more types of IRAs in mid-2010.[3] Traditional IRAs, the first type of IRA created, are the most common type of IRA.

Because of the important role that IRAs play in U.S. retirement planning, policymakers and researchers seek to understand how individuals use IRAs. One policy question is how Americans contribute to these accounts. Individuals also use IRAs to preserve and consolidate retirement accumulations from employer-sponsored plans through rollovers, and policymakers want to know how people manage these accounts, including whether there is significant withdrawal of assets prior to retirement ("leakage").

Sources of IRA Data

Researchers have relied primarily on household surveys and Internal Revenue Service (IRS) tax data to examine policy questions about IRAs. There are several publicly available household surveys that researchers use to analyze households' retirement savings,[4] and the Investment Company Institute (ICI) conducts two annual household surveys that provide information on IRA-owning households.[5, 6] While household surveys provide a comprehensive picture of households' finances and activities, 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.

IRS tax data provide a rich array of information from a variety of sources, including Form 1040 (U.S. Individual Income Tax Return), Form 5498 (IRA Contribution Information), and Form 1099-R (Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.).[7] These tabulations provide benchmarks of aggregate IRA-related activity, such as contributions, assets, rollovers into IRAs, conversions, and withdrawals. 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, ICI and the Securities Industry and Financial Markets Association (SIFMA)[8] created The IRA Investor Database to examine administrative, or recordkept, data on IRAs.

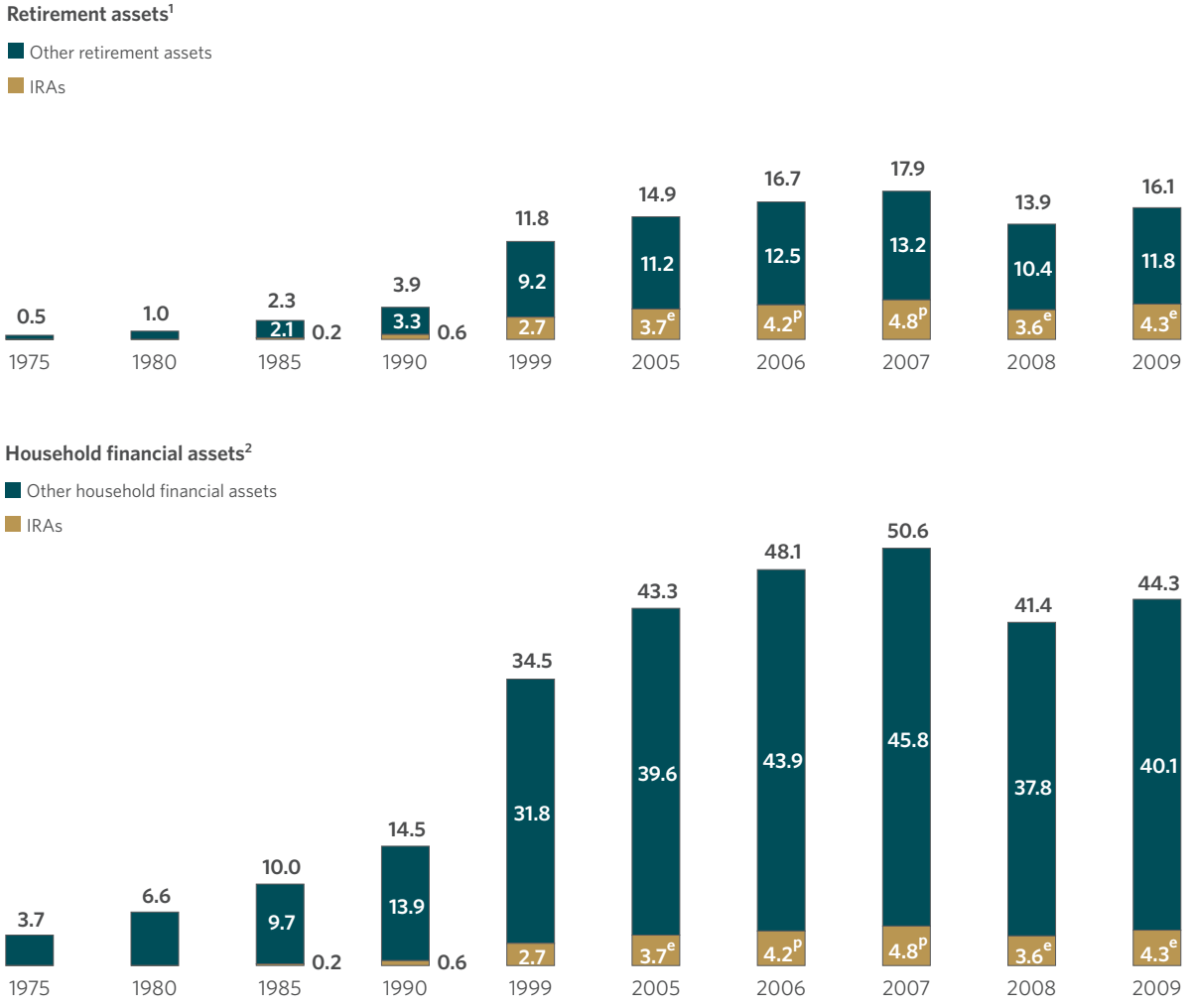
The IRA Investor Database contains account-level information from a wide range of mutual fund and insurance companies, which provided data for more than 10 million IRA investors in 2007 and 2008.[9] Participating data providers encrypted individual records to protect the identities of individuals, but provided each investor's year of birth; gender; zip code; and IRA assets, contributions, withdrawals, and rollovers. Because IRA recordkeeper systems contain the actual account data, the data provide precise dollar amounts and do not suffer from errors in respondent recall. Throughout this report, the term "IRA investor" refers to a unique IRA investor at a given data provider.[10]

This collection effort brings additional detail to IRA activity—particularly about the incidence and magnitude of contributions, rollovers, and withdrawals across IRA investors. In addition, the collection provides detailed insight into individual asset allocations.

FIGURE 1

IRA Assets Represent a Growing Share of Retirement Assets and Household Financial Assets

Trillions of dollars, year-end, selected years



[1]Retirement assets include IRAs, annuities, and employer-sponsored DB and DC plans.
[2]Household financial assets include deposits, fixed-income securities, stocks, retirement savings, mutual funds, equity in noncorporate business, and other financial assets. Financial assets of nonprofit organizations are also included. Household financial assets do not include the household's primary residence.
[e]Data are estimated.
[p]Data are preliminary.
Note: Components may not add to the total because of rounding.
Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

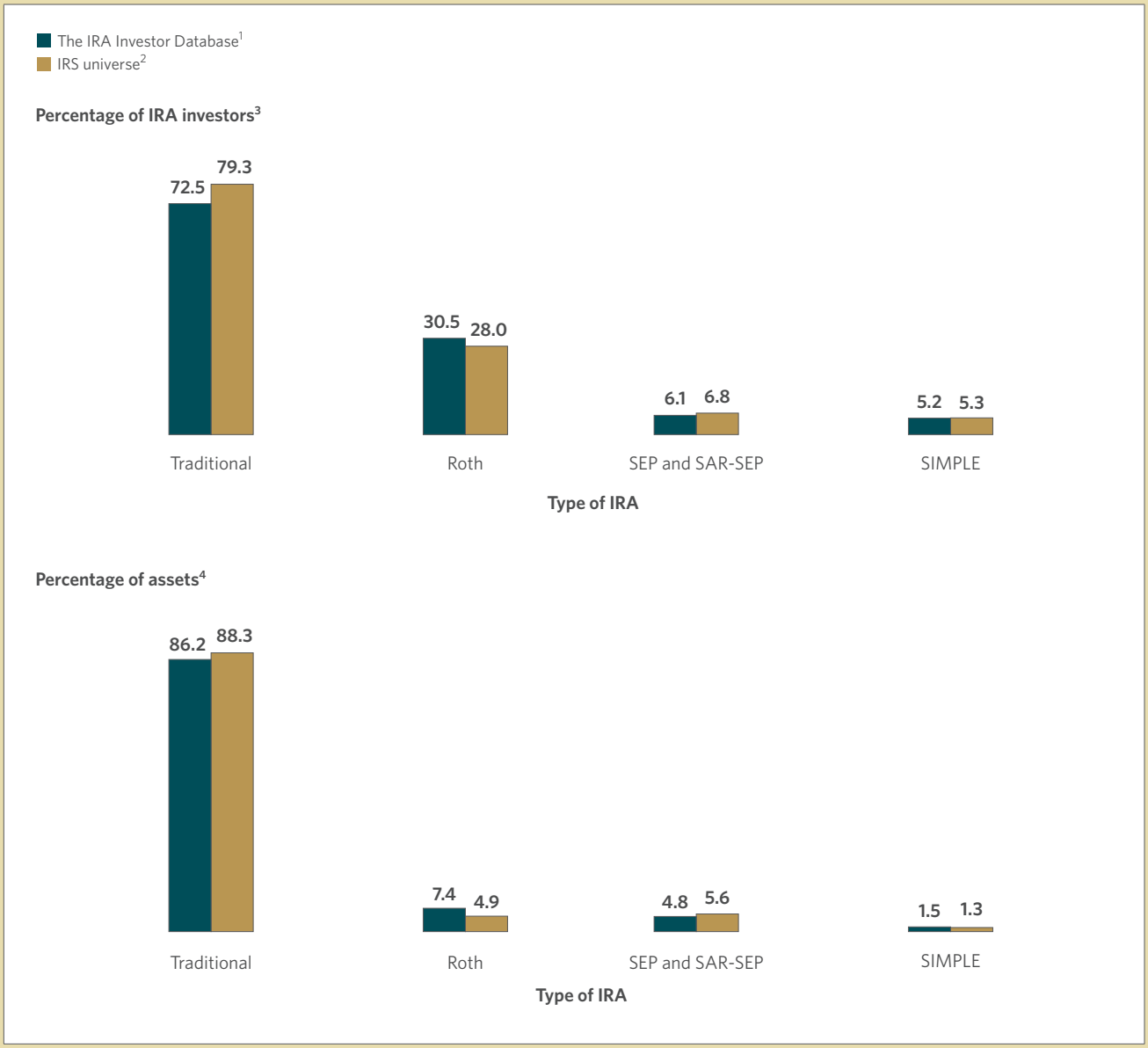
Database Contains a Comprehensive Cross-Section of IRA Investors

The IRA Investor Database contains a comprehensive and representative sample of IRA investors, which provides important insights into many IRA investor activities (Figure 2).[11] The bulk (72.5 percent) of the IRA investors in the database held traditional IRAs, and 86.2 percent of all IRA assets were in traditional IRAs. More than 3 million Roth IRA investors (30.5 percent of the total) held 7.4 percent of all IRA assets.[12] Employer-sponsored IRAs (SEP, SAR-SEP, and SIMPLE IRAs) represented the remainder.[13] The distribution of IRA investors and IRA assets by type of IRA in the database is similar to the universe of IRAs tabulated by the IRS Statistics of Income Division.

FIGURE 2

The IRA Investor Database™ Covers All IRA Types

Distribution of IRA investors and assets, 2007



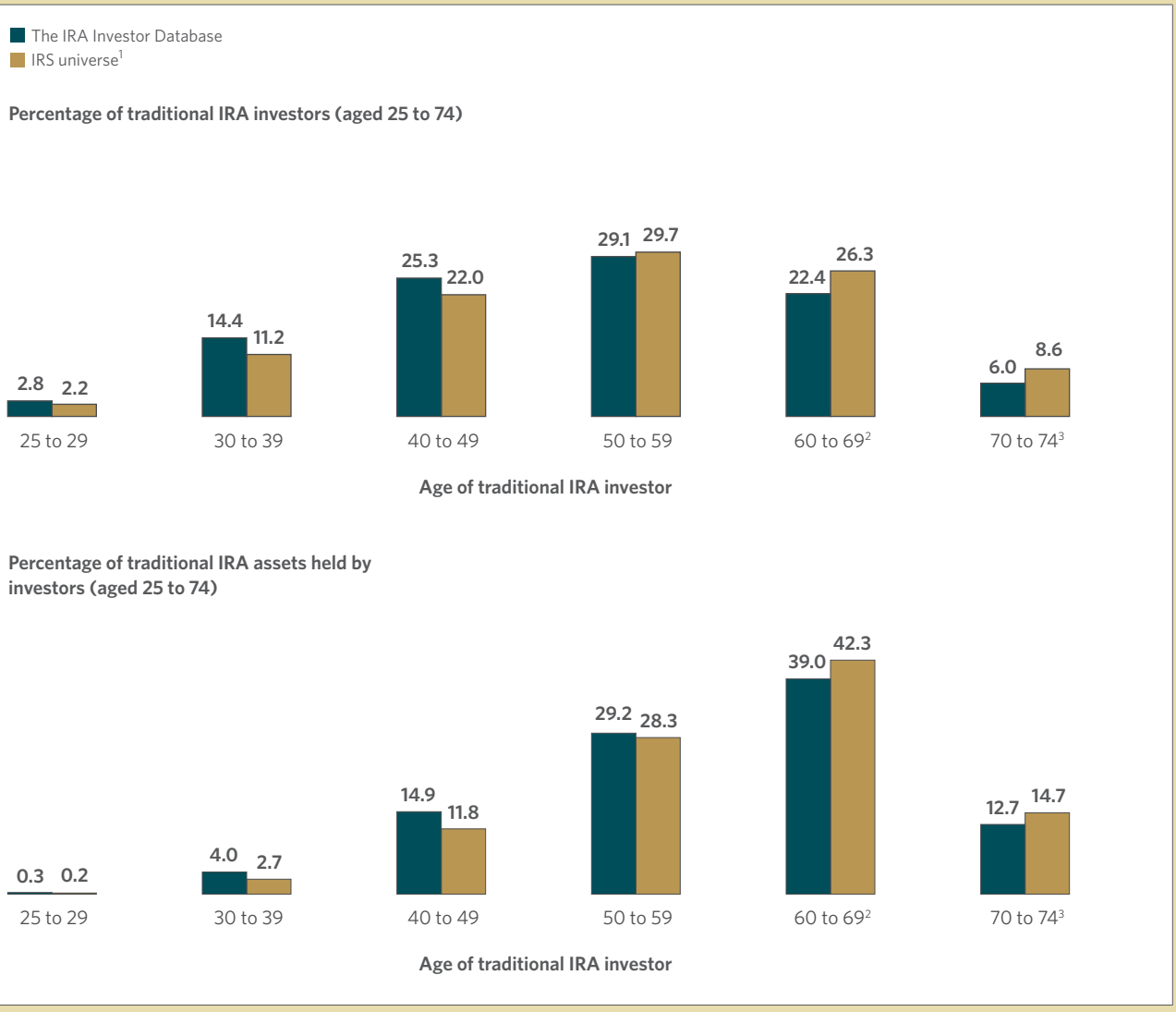
[1]Data are revised.
[2]IRS Statistics of Income data for 2007 are preliminary.
[3]These percentages add to more than 100 percent because investors may own more than one type of IRA.
[4]These percentages do not add to 100 percent because of rounding.
Note: Figure A.1 in the appendix provides additional detail.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

The IRA Investor Database contains investors from a wide range of ages (Figure 3).[14] The analysis of rollover activity in this report focuses on IRA investors in the working-aged and newly-retired population—25 to 74 years of age. This is the group of most concern to policymakers focused on Americans' accumulation of retirement assets. The bulk of investors who own traditional IRAs ("traditional IRA investors") in the database are in their peak earning and saving years. At year-end 2007, 54.4 percent of these traditional IRA investors were between the ages of 40 and 59. Another 22.4 percent were 60 to 69, and the remaining 23.2 percent were 25 to 39 or 70 to 74. The age distribution of traditional IRA investors in the database in 2007 is similar to the age distribution seen in the IRS Statistics of Income universe estimates.

FIGURE 3

Traditional IRA Investors Represent a Wide Cross-Section of Age Groups

Distribution of traditional IRA investors (aged 25 to 74) and their assets, 2007



[1]IRS Statistics of Income data for 2007 are preliminary.
[2]In the IRS universe, individuals aged 60 to under 70½ are included in this category.
[3]In the IRS universe, individuals aged 70½ to 74 are included in this category.
Note: Percentages may not add to 100 percent because of rounding. The samples are 6.8 million traditional IRA investors (aged 25 to 74) in The IRA Investor Database™ and 38.5 million traditional IRA taxpayers (aged 25 to 74) from the IRS universe.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

Older traditional IRA investors tend to have accumulated more traditional IRA assets compared with younger traditional IRA investors. For example, the average account balance among traditional IRA investors in their sixties was $150,958 at year-end 2007, compared with $51,393 among traditional IRA investors in their forties and $8,199 among those in their late twenties (Figure 4). The average traditional IRA balance by age group in the database is very similar to the IRS Statistics of Income universe estimates for traditional IRA taxpayers.

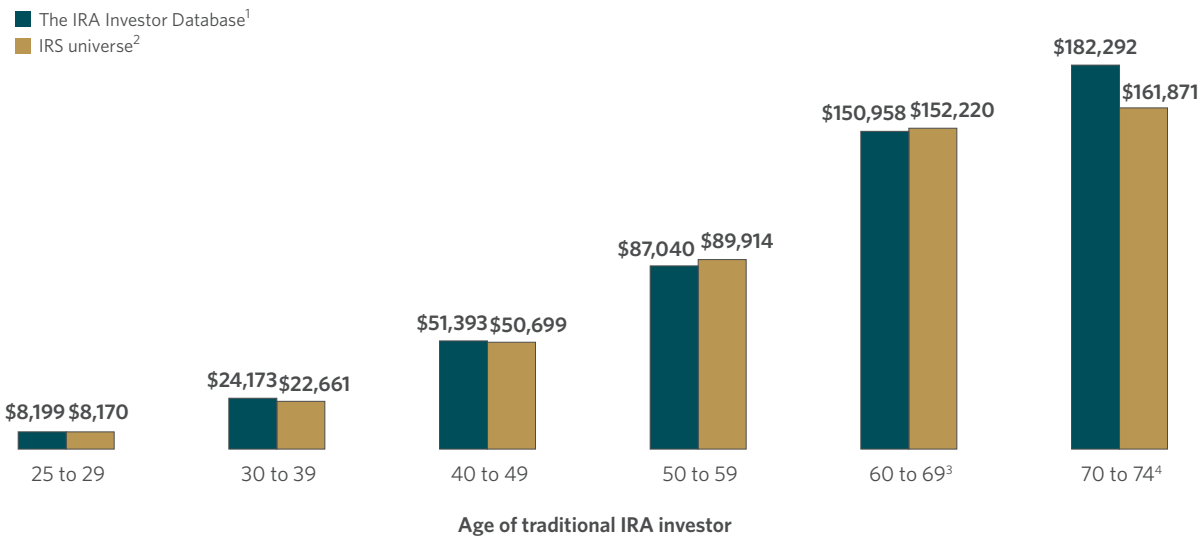
The IRA Investor Database also has information on investor gender. In the 2007 database, 38.5 percent of traditional IRA investors aged 25 to 74 are female and 45.0 percent are male. Gender information is unavailable for the remaining 16.5 percent of traditional IRA investors in the database. The age composition within the two genders is broadly similar.[15]

Traditional IRA investors in the database live in areas that represent a wide range of income groups. Income for each IRA investor is proxied by the average income per tax return for taxpayers living in that investor's zip code.[16] In 2007, 23.5 percent of traditional IRA investors aged 25 to 74 lived in zip codes with average incomes of less than $45,000; another 35.2 percent had average incomes of $45,000 to less than $70,000; another 22.0 percent had average incomes of $70,000 to less than $100,000; and the remaining 19.3 percent lived in zip codes with average incomes of $100,000 or more.[17]

FIGURE 4

Average Traditional IRA Balance by Age of Traditional IRA Investor

Dollars, year-end 2007



[1]Data are revised.
[2]IRS Statistics of Income data for 2007 are preliminary.
[3]In the IRS universe, individuals aged 60 to under 70½ are included in this category.
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Note: The samples are 6.8 million traditional IRA investors (aged 25 to 74) in The IRA Investor Database™ and 38.5 million traditional IRA taxpayers (aged 25 to 74) from the IRS universe.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

The IRA Investor Profile Research Agenda

This research project aims to gain insight into how individuals use IRAs in the process of planning for retirement. The most commonly held IRAs, traditional IRAs, are analyzed first in this series of reports. Research questions regarding traditional IRA investors will be addressed in the typical order in which IRA investors experience traditional IRAs: opening an IRA with contributions or rollovers, managing the asset allocation, and taking withdrawals.

Contribution activity. As a first step in *The IRA Investor Profile* research project, ICI published in July 2010 a report that analyzed contribution activity of the largest pool of IRA investors: working-aged (aged 25 to 69) traditional IRA investors.[18] That report focused on traditional IRA investor characteristics (age, income, and gender) and activities (rollovers and withdrawals) that impact contribution activity.

Rollover activity. This report describes rollover activity among traditional IRA investors aged 25 to 74. Inflows into traditional IRAs from rollovers have outpaced contributions by a significant margin for many years.[19] Indeed, rollovers fuel IRA ownership and growth across age, income, and gender groups, and thus rollovers are a key to understanding how participants in employer-sponsored retirement plans accumulate and preserve their retirement wealth.

Asset allocation. IRA investors select the investments for their accounts and determine how to allocate their IRA balances across asset classes. Analysis will shed light on the range of IRA investors' individual asset allocations and on how asset allocation across broad investment types may vary with investor age, income, or gender.[20] Policymakers are interested in learning how investors' portfolios change as they get close to retirement.

Withdrawal activity. Because retirement savers decide on the use of their retirement accumulations, another report will analyze traditional IRA withdrawal activity. Although loans are not permitted from IRAs, withdrawals are. Withdrawals from traditional IRAs made before the IRA investor is 59½ typically are subject to a penalty in addition to income taxes.[21] Withdrawals made after the IRA investor is 59½ typically are penalty-free but still generally subject to income tax. Traditional IRA investors aged 70½ or older are required to take distributions at a minimum level based on remaining life expectancy. This analysis will explore individuals' decisions on when to take distributions from their traditional IRAs, as well as the range of distribution amounts.

Roth IRA investor activity. Future reports will apply a similar analysis to Roth IRA investors. Roth IRAs were first available in 1998. Although relatively newer and smaller compared with traditional IRA aggregates, Roth IRAs typically have had higher aggregate contribution inflows than traditional IRAs.[22]

Research Agenda for This Report

Focusing on rollovers among traditional IRA investors, this report seeks to promote better understanding of the factors that are associated with rollover activity. The IRA Investor Database allows analysis of how rollover activity varies by investor characteristics (age, income, and gender). First, this report uses the IRA recordkeeper data to examine the incidence of rollover activity across traditional IRA investors. Next, the research sheds light on the range of individual traditional IRA rollover amounts. These analyses use the 2007 and 2008 snapshots (cross-sections) of traditional IRA investors aged 25 to 74. Because rollovers typically are associated with job changes or retirement, which do not happen every year, the cumulative rollover activity for the 2008 sample is analyzed. Finally, the report explores the pathways to traditional IRA ownership by analyzing the traditional IRA investors who are new to the database in 2008.

Background on Rollovers

Policymakers designed the traditional IRA with two goals in mind: (1) to create a contributory retirement account for workers without access to plans at work, and (2) to provide a rollover vehicle to preserve assets accumulated in employer-sponsored retirement plans—both defined benefit (DB) and defined contribution (DC) plans.[23] Retirement plan design and tax incentives and penalties encourage workers to accumulate retirement savings through employer-sponsored retirement plans and to preserve those assets after they separate from their employers. At job change or retirement, many individuals decide to transfer—i.e., roll over—employer-sponsored plan accumulations into traditional IRAs.

The aggregate data on traditional IRA flows highlight the importance of rollovers in the retirement saving process. Contributions to traditional IRAs in 2007 were $14.4 billion, while rollovers were $323.1 billion (Figure 5). Aggregate rollover flows to traditional IRAs have grown over time, driven by many factors including market returns, maturing of the DC plan system, and changes in private-sector pension plan design.[24] Accumulations in participant-directed accounts often are invested in equity investments,[25] and thus, growth in the stock market has tended to increase rollover amounts.

Another factor contributing to the growth in rollover amounts is increased exposure for successive cohorts of workers to a lifetime of retirement savings through DC plans.[26] Furthermore, workers in DB plans increasingly have been offered the option to receive their DB plan benefits as a lump sum,[27] which can then be rolled over into an IRA. In addition, regulations aim to encourage preservation of retirement accumulations through a combination of preferential tax treatment for those amounts preserved and tax penalties for those amounts prematurely spent.[28]

FIGURE 5

Rollovers Generate a Significant Portion of Flows into Traditional IRAs

Billions of dollars, 1996–2009

	Traditional IRAs			
	Contributions[1]	Rollovers[2]	Withdrawals[3]	Total assets[4] *Year-end*
1996	$14.1	$114.0	$45.5	N/A
1997	15.0	121.5	55.2	$1,642[e]
1998	11.9	160.0	74.1	1,974
1999	10.3	199.9	87.1	2,423
2000	10.0	225.6	99.0	2,407
2001	9.2	187.8	94.3	2,395
2002	12.4	204.4	88.2	2,322
2003	12.3[e]	205.0[e]	88.3	2,719[e]
2004	12.6	214.9	101.7	2,957
2005	13.6[e]	246.5[e]	112.3	3,259[e]
2006	14.4[p]	282.1[p]	124.7	3,722[p]
2007	14.4[p]	323.1[p]	148.0	4,223[p]
2008	N/A	N/A	162.2	3,173[e]
2009	N/A	N/A	N/A	3,743[e]

[1]Contributions include both deductible and nondeductible contributions to traditional IRAs.
[2]Rollovers are primarily from employer-sponsored retirement plans.
[3]Withdrawals consist of taxable IRA distributions reported on Form 1040, which have been primarily from traditional IRAs.
[4]Total assets are the fair market value of assets at year-end.
[e]Data are estimated.
[p]Data are preliminary.
N/A = not available
Sources: Investment Company Institute and Internal Revenue Service Statistics of Income Division

Rules Encourage Asset Preservation, Discourage Cash-Outs

Since the creation of IRAs by ERISA in 1974, rollovers from employer-sponsored retirement plans to IRAs have been tax and penalty free, providing the primary incentive for employees to roll over plan accounts when they change jobs or retire (Figure 6). Workers of all ages and incomes have been allowed access to rollovers. Since 1974, Congress has enacted a number of changes to encourage rollovers further. For example, separating plan participants can now choose to roll over any part or all of their employer-sponsored account balances into IRAs.[29]

Furthermore, regulatory changes improved plan participants' awareness of rollovers and facilitated the rollover process. As part of the Retirement Equity Act of 1984, Congress required employer-sponsored retirement plans to provide a notice to participants explaining that distributions from plans are eligible for rollover.[30] As part of the Unemployment Compensation Amendments of 1992, Congress required plans to offer participants direct rollovers—meaning the plan transfers the distribution directly to the receiving IRA. To encourage the use of direct rollovers, Congress imposed mandatory 20 percent withholding for distributions eligible for rollover that are instead paid to participants (Figure 6).

In addition, policymakers changed default rules to encourage the preservation of small account balances.[31] Plans are allowed to cash out participants who leave employment with small balances (the current limit is $5,000).[32] As part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), Congress required plans that have this cash-out feature to automatically roll over mandatory cash-outs greater than $1,000 to an IRA, unless the participant affirmatively elects otherwise. Thus, in these plans, the default distribution for balances of more than $1,000 but less than or equal to $5,000 is a rollover to an IRA, unless the participant indicates otherwise (Figure 6).

Over the years Congress also has put in place a number of rules that encourage rollovers from employer-sponsored plans to IRAs by discouraging the cash-out of distributions. One of the most important rules is the 10 percent penalty imposed on any withdrawal from an employer-sponsored retirement plan before age 59½ (age 55 if the worker separates from the employer).[33] As noted above, tax rules require a 20 percent withholding to cover possible income taxes owed on amounts distributed to the participant rather than directly rolled over (Figure 6).

FIGURE 6

Traditional IRA Rollover Rules

What is a rollover?
A rollover is a tax-free distribution of cash or other assets from one retirement plan into another retirement plan. For example, individuals may roll over assets from 401(k), 403(b), 457, and other defined contribution plans as well as lump-sum distributions from defined benefit plans into traditional IRAs. Special circumstance: There are default rules for plans that force distributions of account balances of more than $1,000 but less than or equal to $5,000. The employer must transfer the distribution directly to an IRA if the individual does not choose otherwise. (The employer may cash out account balances of $1,000 or less and distribute the monies to the individual.)
Are there age or income restrictions on rollovers?
Although individuals aged 70½ or older may not contribute to traditional IRAs, they may make rollovers (other than amounts that are required minimum distributions). There are no income limit restrictions on individuals making rollovers.
How do rollovers get transferred?
The retirement plan may make a direct transfer of the rollover amount into the new retirement plan or IRA (trustee to trustee transfer). The retirement plan may distribute the account as a check to the individual (typically, 20 percent tax withholding must occur in this instance). The individual typically must roll over the amount within 60 days or face applicable income taxes and perhaps a 10 percent penalty.

Note: This figure presents a broad summary of IRA rollover rules. This figure is not intended to provide legal or tax advice. For additional detail, see the Internal Revenue Service's website (www.irs.gov).
Source: ICI summary of IRS rules (see IRS, Publication 590 *and* Retirement Topics: Rollovers of Retirement Plan Distributions*)*

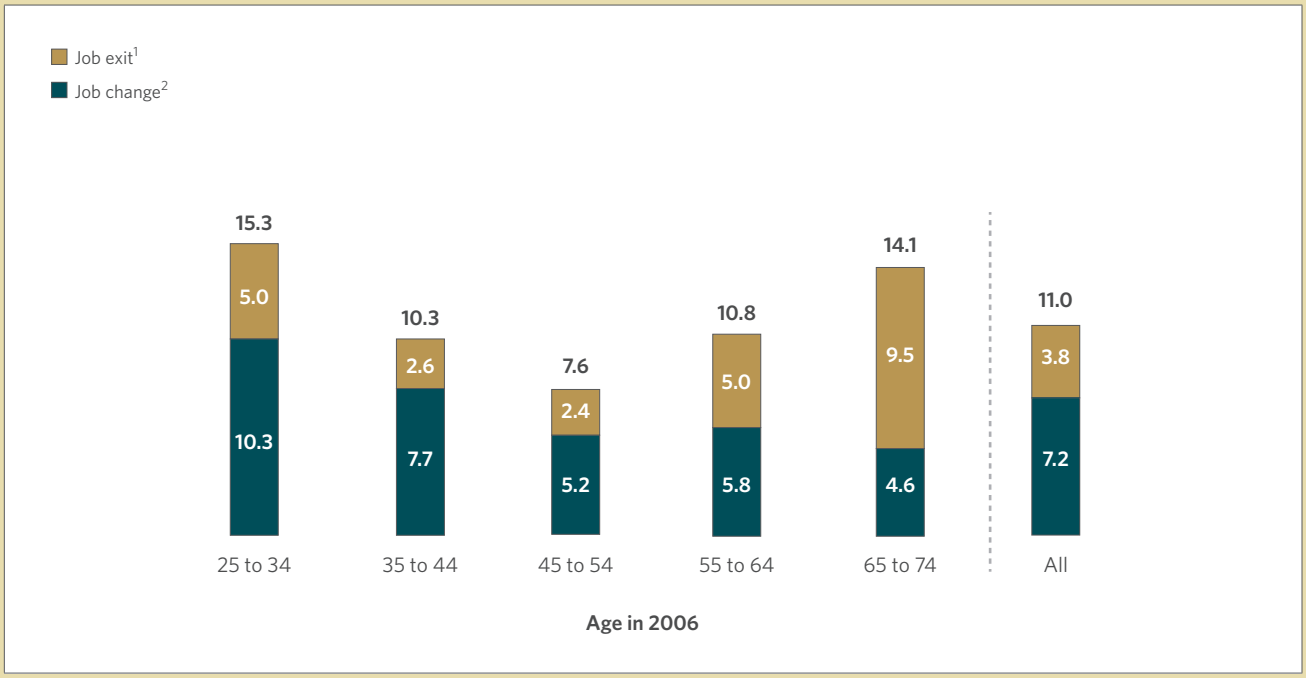
Rollovers Are Important to the Mobile U.S. Workforce

The institutional arrangements for accumulating and rolling over retirement savings are crucial features of the U.S. retirement saving landscape because of extensive job mobility (Figure 7). For the entire population aged 25 to 74 in 2006, 11.0 percent left a job and possibly triggered a rollover by either moving to a new employer or by exiting the labor force. Job-to-job transitions tend to fall with age; 10.3 percent of individuals aged 25 to 34 reported that they changed jobs between 2006 and 2007, while only 4.6 percent of individuals aged 65 to 74 reported job change. The overall pattern of job-leaving is U-shaped in age because older workers are more likely to transition into retirement. Indeed, the rate of job leaving was similar between the youngest group (15.3 percent) and the oldest group (14.1 percent), but the reasons for job leaving were very different. Exit from the labor force tended to rise with age; only 5.0 percent of individuals aged 25 to 34 reported exiting the labor force between 2006 and 2007, while 9.5 percent of individuals aged 65 to 74 reported job exit. About two-thirds of the youngest job leavers were changing jobs, while two-thirds of the oldest job-leavers were exiting the labor force (and likely retiring).

FIGURE 7

Reasons for Job Separation Vary over the Life Cycle

Percentage of individuals who worked in 2006 and either changed jobs or stopped working in 2007



[1]*Individuals exited their job in 2007 if they were employed at the end of 2006 and reported not being employed in 2007.*
[2]*Individuals changed jobs if they reported working in 2006 and 2007 and reported starting a new job in 2007.*
Note: Sample includes individuals aged 25 to 74 who were employed in 2006.
Source: ICI tabulations of the Survey of Income and Program Participation, 2004 panel

For a variety of reasons, not every worker who separates from an employer receives a rollover. Some workers are not covered by a pension; some are covered by a pension that does not offer lump-sum distributions; some may not have been at the employer long enough to earn a pension benefit; some may cash out the benefit; and some may make distribution decisions regarding their accumulations at a later date. In the case of DC plans administered by one large DC plan recordkeeper, 48 percent of separating workers in 2009 left their accumulated balances in their employer's plan at the time of separation from employment.[34] Rules for managing retirement plan distributions are in place to help minimize cash-outs and encourage rollovers at all ages by typically allowing accumulations to remain at previous employers and encouraging direct rollovers to IRAs.

Traditional IRAs, whether holding contributions or rollovers, are but one component of U.S. households' retirement savings. The complementary and interrelated nature of employer-sponsored retirement plans and traditional IRAs is clearly observed in household survey data (Figure 8).[35] Median household financial assets for traditional IRA–owning households in 2008 were $250,000, but median traditional IRA balances owned by this broad group were $46,000. Some of the other wealth was held in employer-sponsored retirement plans; 79 percent of traditional IRA–owning households are covered by such plans. The household survey data show that more than half of traditional IRA–owning households in 2008 reported having received a rollover at some point in time.

FIGURE 8

Traditional IRA–Owning Households Rely on a Variety of Savings

Characteristics of U.S. households owning traditional IRAs; percentage of U.S. households owning traditional IRAs, 2008

Household financial assets[1]	
Less than $50,000	14
$50,000 to $99,999	13
$100,000 to $249,999	22
$250,000 to $499,999	18
$500,000 or more	33
Median[1]	**$250,000**
Household financial assets in traditional IRAs	
Less than $50,000	50
$50,000 to $99,999	18
$100,000 to $249,999	18
$250,000 to $499,999	7
$500,000 or more	7
Median	**$46,000**
Share of household financial assets in traditional IRAs (median)	**22 percent**
Household retirement plan coverage	
Household has DC account or DB plan coverage (total)	79
DC retirement plan account[2]	71
DB plan coverage[3]	41
Traditional IRA includes rollover	52

[1]Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.
[2]DC retirement plan accounts include 401(k); 403(b); and state, local, or federal plan accounts. The account(s) may be held at current or previous employers.
[3]DB plan coverage includes households where any household member was receiving or expecting to receive regular income from a DB plan.
Source: Investment Company Institute IRA Owners Survey

Traditional IRA Investors' Rollover Activity in 2007

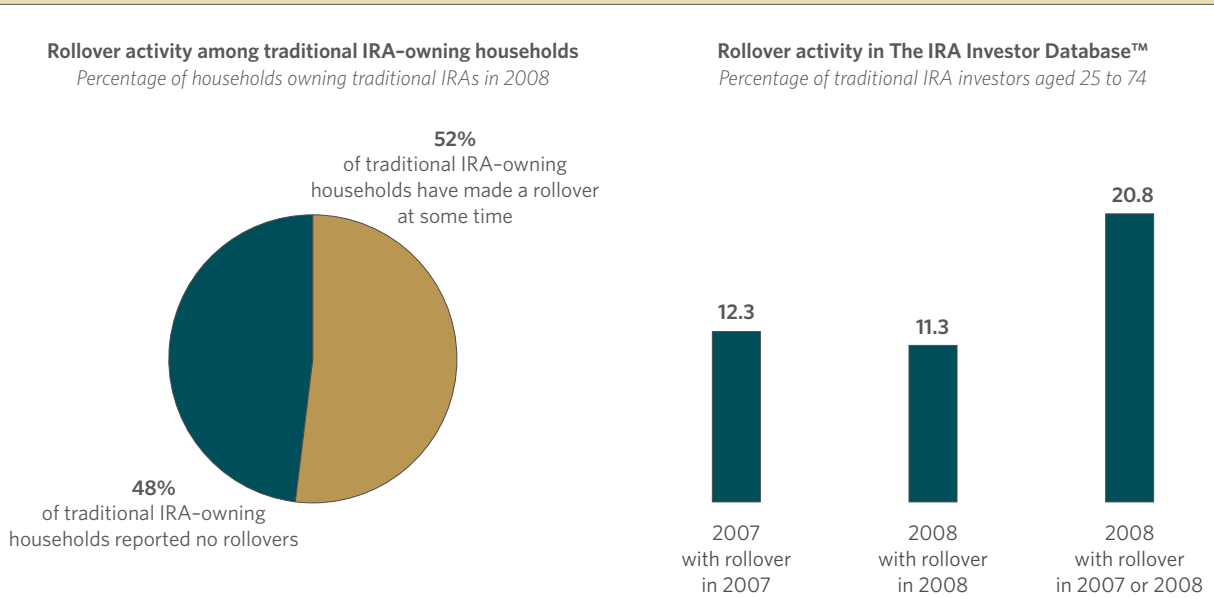
Rollover Activity Was Widely Distributed in 2007

This section explores rollover activity from employer-sponsored retirement plans across traditional IRA investors of different age, income, and gender groups. Rollovers occurred for workers at all ages, not just retirement, because separation from one's employer can involve transferring accumulated assets from the employer's plan to a traditional IRA at any time during an individual's career.[36] Rollovers also are widely distributed across income and gender groups.

The interrelated nature of job change and traditional IRA accumulation over the life cycle generates a number of predictions about rollovers that are confirmed by the data. First, in the two years analyzed, it is largely a different group of traditional IRA investors that made rollovers in each year. In 2007, 12.3 percent of traditional IRA investors had rollovers in 2007. In 2008, 11.3 percent of traditional IRA investors had rollovers in 2008 (Figure 9). However, the data indicate that 20.8 percent of traditional IRA investors in 2008 had a rollover in either year, and only 1.1 percent had made rollovers in both years. Furthermore, household survey data confirm the cumulative nature of rollover activity: more than half of traditional IRA–owning households in 2008 reported they had made rollovers at some point in time.[37]

FIGURE 9

Rollovers Are Often a Source of Assets for Traditional IRA Investors



Note: Figures A.6, A.11, and A.14 in the appendix provide additional detail by age, income, and gender.
Source: Investment Company Institute IRA Owners Survey and The IRA Investor Database™

This pattern of occasional rollover activity year-to-year stands in contrast to the persistence in contribution activity among traditional IRA investors, documented in the previous report in *The IRA Investor Profile* series. Contributions tend to be highly persistent over time, meaning that traditional IRA investors who make a contribution in one year tend to make a contribution in the next year as well.[38] This difference between rollovers and contributions reinforces the dual role that Congress intended for traditional IRAs. That is, traditional IRAs can serve as a contributory vehicle for some workers, as well as a repository for accounts originating in the employer-sponsored retirement benefit system. Those workers using traditional IRAs as a contributory vehicle tend to use IRAs regularly to meet their savings goals. Rollover activity, on the other hand, tends to be sporadic, usually occuring after individuals change jobs or retire. Workers across all age, income, and gender groups change jobs from time to time, and when they do, they may roll their accumulated balances into IRAs.

Investors Across All Age Groups Made Rollovers in 2007

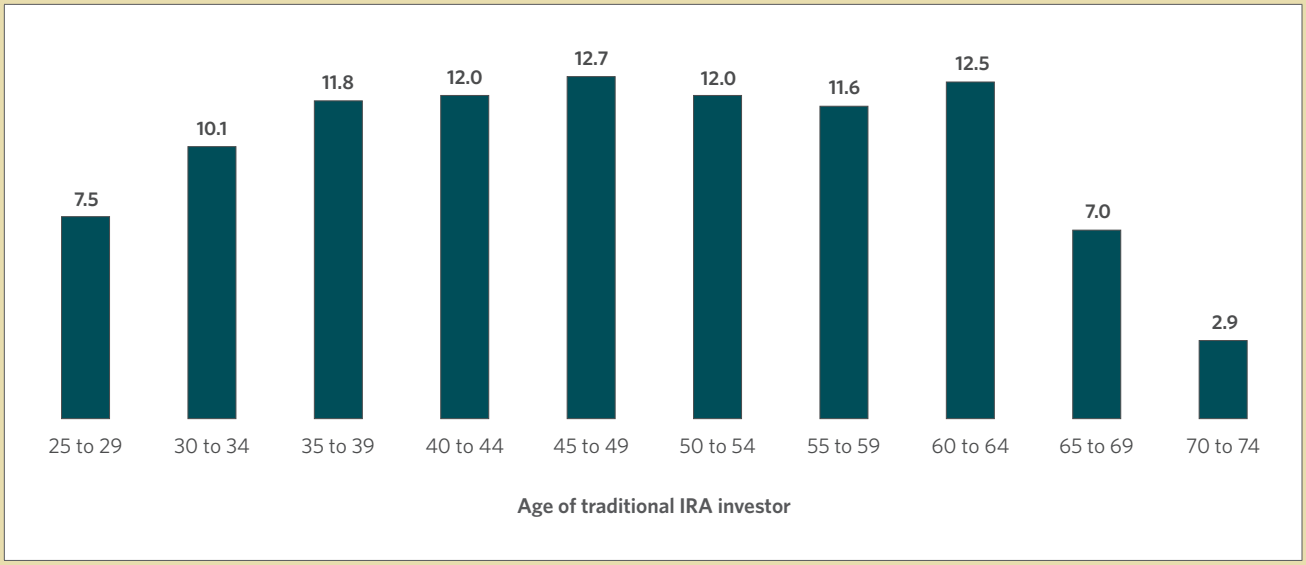
In any given year, the demographic composition of the group of traditional IRA investors with rollovers is roughly equally distributed across age groups. Each age group between 30 to 34 and 60 to 64 accounted for a nearly equal proportion of traditional IRA investors with rollovers in 2007, with a share of 10.1 percent to 12.7 percent of individuals with rollovers falling into each five-year age group (Figure 10). The 25 to 29 and 65 to 69 age groups each also accounted for about 7 percent of individuals with rollovers, and even the 70 to 74 age group accounted for about 3 percent of rollover activity.

The data highlight two predictable lifecycle patterns in rollover outcomes. First, a rollover is often the event that causes a person to open a traditional IRA, so the percentage of younger or lower-income traditional IRA investors with rollovers in 2007 is higher than the percentage of older or higher-income traditional IRA investors with rollovers in 2007. The second lifecycle pattern that emerges is that rollover amounts tend to rise with investor age or income.

FIGURE 10

Investors Across All Age Groups Made Rollovers in 2007

Among traditional IRA investors with rollovers,* share by age, 2007



**Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2007.*
Note: Percentages do not add to 100 percent because of rounding.
Source: The IRA Investor Database™

Rollovers Were Often the Reason That Traditional IRAs Were Opened in 2007

Younger traditional IRA investors with rollovers were more likely to be opening the traditional IRA at the given financial services firm compared with older traditional IRA investors.[39] The data suggest that the traditional IRA was a new account for 85.8 percent of traditional IRA investors aged 25 to 29 with rollovers in 2007 (Figure 11). The traditional IRA represented a new account for 63.5 percent of traditional IRA investors aged 45 to 49 with rollovers in 2007, and for 45.6 percent of those aged 70 to 74. Interestingly, the fraction of rollovers that create new accounts falls steadily with investor age but is still nearly 50 percent for those aged 65 to 74.[40]

Although the distribution of rollover activity in a given year was roughly equal across the prime working-aged population, the incidence of rollover activity among traditional IRA investors actually fell with age in 2007 (Figure 11). Overall, 12.3 percent of traditional IRA investors in 2007 had rollovers in 2007, but that ranged from 32.9 percent of traditional IRA investors aged 25 to 29 down to 5.9 percent of those aged 70 to 74. The decline in rollover incidence occurs largely between the age groups 25 to 29 and 45 to 49, after which incidence is fairly stable through the 60 to 64 age group. This lifecycle pattern suggests many workers who make rollovers at various stages of their careers have probably received at least one of those rollovers and thus already have opened a traditional IRA prior to reaching age 50. Rollover activity was lowest in the pool of older traditional IRA investors, in large part because many of them already had traditional IRAs (perhaps the result of earlier rollovers) and because a smaller share of them were opening the traditional IRAs with their rollovers in 2007. Fewer younger investors already had existing traditional IRAs at the service provider, and thus the incidence of rollover activity among them was higher than among older traditional IRA investors.

FIGURE 11

Rollover Activity of Traditional IRA Investors by Age in 2007

Number of traditional IRA investors and traditional IRA investors with rollovers[1] by age, 2007

	Traditional IRA investors		Traditional IRA investors with rollovers[1]		Memo: percentage of traditional IRA investors who had rollovers[1]	Percentage of rollovers that created new accounts[2]
	Number *Thousands*	Share[3] *Percent*	Number *Thousands*	Share[3] *Percent*		
Age						
25 to 29	192.2	2.8%	63.2	7.5%	32.9%	85.8%
30 to 34	377.2	5.5	84.7	10.1	22.4	75.8
35 to 39	601.1	8.8	98.8	11.8	16.4	69.8
40 to 44	767.8	11.3	100.5	12.0	13.1	66.6
45 to 49	953.1	14.0	106.6	12.7	11.2	63.5
50 to 54	1,014.4	14.9	100.7	12.0	9.9	60.5
55 to 59	969.0	14.2	97.1	11.6	10.0	57.9
60 to 64	884.2	13.0	104.5	12.5	11.8	56.7
65 to 69	644.5	9.5	59.1	7.0	9.2	50.1
70 to 74	411.7	6.0	24.1	2.9	5.9	45.6
All	6,815.2	100.0	839.2	100.0	12.3	64.2

[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2007.
[2]An account was determined to be "new" in 2007 if the rollover amount represented at least 90 percent of the traditional IRA balance at year-end 2007 (with any withdrawals added back into the account).
[3]Share is the percentage of the total.
Note: Figure A.5 in the appendix provides additional detail by gender. Components may not add to the total because of rounding.
Source: The IRA Investor Database™

Rollovers Were Widely Distributed Across Income Groups in 2007

The distribution and incidence of rollovers across income groups generally exhibited the same sorts of patterns as rollovers by age, and the underlying determinants are similar.[41] In particular, the distribution of rollovers across income groups shows no strong correlation between income and rollover activity, with observed rollovers widely distributed across all of the income groups. However, the observed incidence of rollovers falls somewhat with income as it does with age, even after controlling for age. Just as the rollover itself is more likely to lead to the opening of a traditional IRA for younger traditional IRA investors, the rollover is also more likely to be the basis for new accounts among lower-income traditional IRA investors.

Rollover activity was widely distributed across all income groups in 2007.[42] In 2007, 35.1 percent of traditional IRA investors with rollovers had annual incomes of less than $50,000; 36.6 percent earned $50,000 to less than $80,000; and 28.4 percent earned $80,000 or more (Figure 12). The share of each income group with rollovers is roughly proportional to the share of the traditional IRA investor population in that income group, which is another way of saying that the income composition of all traditional IRA investors is similar to the income composition of those with rollovers.

Nevertheless, there is some variation in rollover incidence across the income groups, and the incidence of rollovers edges down systematically as income rises. The percentage of traditional IRA investors with rollovers falls from 15.8 percent among those with annual incomes below $35,000, to 12.1 percent among those with incomes of $55,000 to less than $65,000, to 10.0 percent among traditional IRA investors with incomes of $140,000 or more (Figure 12). Much of the decline occurs because higher-income traditional IRA investors were more likely to have traditional IRAs in place before the rollovers in 2007 occurred. Indeed, among traditional IRA investors with incomes below $35,000, 78.7 percent of those with rollovers appear to have opened that account with the rollover (that is, the rollover represented at least 90 percent of the year-end balance).[43] At the other end of the income range—traditional IRA investors with incomes of $140,000 or more—the fraction of rollover activity that represented new accounts was 48.5 percent.

2007 IRS Income by Zip Code

The IRA Investor Database contains income information only for a subset of IRA investors. Thus, to carry out an analysis using income, one must develop a proxy for income. The IRA Investor Database contains five-digit zip codes, which were used to assign each IRA investor the average income per tax return for the investor's zip code. This income information came from the Internal Revenue Service, *IRS Statistics of Income (SOI) Individual Tax Statistics Zip Code Data* for 2007. Discussion in the text of "IRA investor income" refers to the average income of tax returns in the zip code area in which the investor lives.

For additional discussion, see the appendix.

FIGURE 12

Rollover Activity of Traditional IRA Investors by Income in 2007

Number of traditional IRA investors and traditional IRA investors with rollovers[1] by income,[2] 2007

	Traditional IRA investors		Traditional IRA investors with rollovers[1]		Memo: percentage of traditional IRA investors who had rollovers[1]	Percentage of rollovers that created new accounts[3]
	Number *Thousands*	Share[4] *Percent*	Number *Thousands*	Share[4] *Percent*		
Income[2]						
Less than $35,000	518.1	7.6%	81.7	9.7%	15.8%	78.7%
$35,000 to <$45,000	1,085.3	15.9	145.9	17.4	13.4	72.3
$45,000 to <$50,000	516.8	7.6	66.9	8.0	12.9	68.9
$50,000 to <$55,000	514.4	7.5	65.3	7.8	12.7	66.7
$55,000 to <$65,000	951.1	14.0	115.5	13.8	12.1	64.0
$65,000 to <$70,000	419.5	6.2	50.5	6.0	12.0	61.4
$70,000 to <$80,000	641.3	9.4	75.7	9.0	11.8	59.4
$80,000 to <$100,000	854.7	12.5	98.1	11.7	11.5	56.5
$100,000 to <$140,000	648.3	9.5	72.7	8.7	11.2	53.4
$140,000 or more	665.8	9.8	66.9	8.0	10.0	48.5
All	6,815.2	100.0	839.2	100.0	12.3	63.9

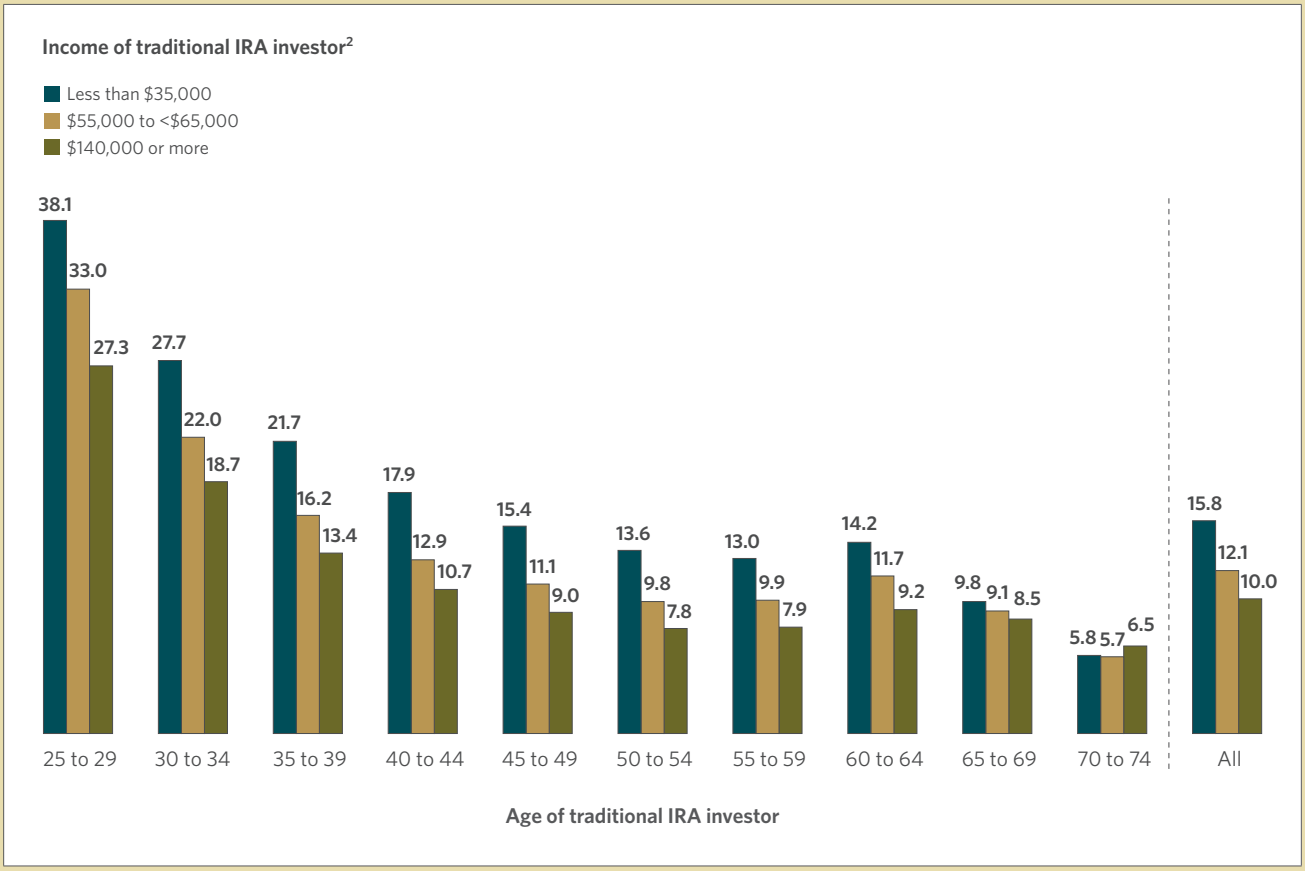
[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2007.
[2]Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.
[3]An account was determined to be "new" in 2007 if the rollover amount represented at least 90 percent of the traditional IRA balance at year-end 2007 (with any withdrawals added back into the account).
[4]Share is the percentage of the total.
Note: Figure A.6 in the appendix provides additional detail by gender. Components may not add to the total because of rounding.
Source: The IRA Investor Database™

It is possible that the negative correlation between rollover incidence and income is just a by-product of the positive relationship between age and income,[44] but the data show that incidence of rollovers within any given age group also tends to fall with income. For example, in 2007, among the youngest group of traditional IRA investors (aged 25 to 29), rollover incidence falls from 38.1 percent for the less than $35,000 income group to 27.3 percent for those with incomes of $140,000 or more (Figure 13). The same pattern holds within each age group through age 69, though the differential between the lowest and highest income groups narrows somewhat the older the traditional IRA investor is. Just as the younger investors were more likely to be opening a traditional IRA when they made a rollover, within a given age group, the lower-income investors were more likely to be opening traditional IRAs with rollovers than the higher-income investors in the same age group.

FIGURE 13

Rollover Activity of Traditional IRA Investors by Age and Income in 2007

Traditional IRA investors with rollovers[1] as a percentage of traditional IRA investors by age and income,[2] 2007



[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2007.
[2]Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.
Note: The sample is 6.8 million traditional IRA investors aged 25 to 74 in 2007. Figure A.6 in the appendix provides additional detail.
Source: The IRA Investor Database™

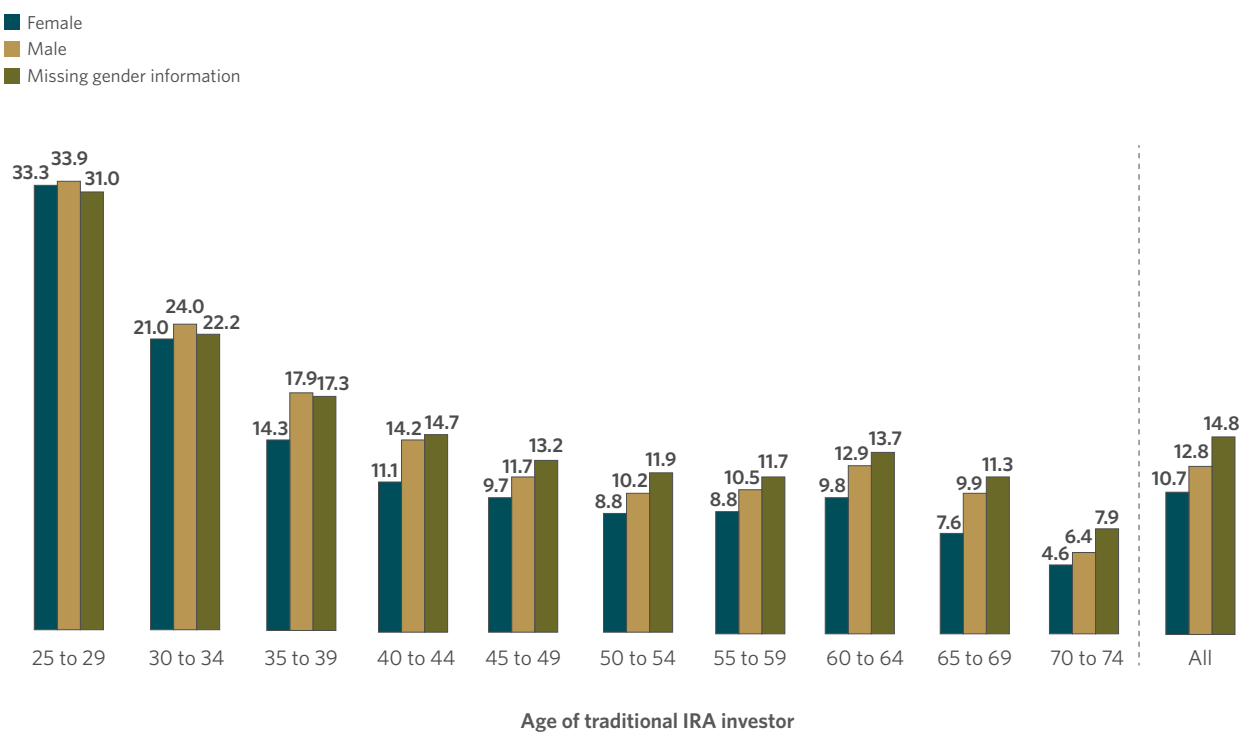
Male Traditional IRA Investors Tended to Be More Likely to Have Rollovers in 2007

Within any given age or income group, male traditional IRA investors tended to be more likely to have rollovers in 2007 compared with female traditional IRA investors in the same group. This analysis divides the sample of traditional IRA investors with rollovers into three categories: male, female, and those whose gender information is unavailable in the data. As a group, 12.8 percent of male traditional IRA investors had rollovers in 2007, compared with 10.7 percent of female traditional IRA investors (Figure 14). For each age group, male traditional IRA investors were more likely to have made a rollover in 2007 compared with female traditional IRA investors.

FIGURE 14

Male Investors Were More Likely to Have Rollovers into Their Traditional IRAs Than Females in 2007

Traditional IRA investors with rollovers* as a percentage of traditional IRA investors by age and gender, 2007



**Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2007.*
Note: The sample is 6.8 million traditional IRA investors aged 25 to 74 in 2007. Figure A.6 in the appendix provides additional detail.
Source: The IRA Investor Database™

Magnitude of Traditional IRA Rollovers in 2007

Rollovers are generally orders of magnitude greater than contributions to IRAs. Unlike contributions to traditional IRAs, there are no legal limits on rollover amounts, so the only binding constraints arise from limits on contributions in the employer-sponsored retirement plans from which the rollovers take place (or in DB plans, the limits on the maximum benefit).[45] The limits on employer and employee contributions in tax-qualified employer-sponsored retirement plans are much higher than the limits on traditional IRA contributions.[46] In addition, rollover amounts often include, in addition to cumulative contributions, investment returns over many years.[47] Nevertheless, some rollovers are relatively small, perhaps because the worker had not been at the job very long, or the worker contributed well below the legal maximum, or the worker cashed out some of the account at some point. While rollovers occurred with nearly equal frequency across age and income groups, there was a wide range of rollover amounts within any given age or income group in 2007. The range of rollover amounts tended to be wider among older traditional IRA investors, reflecting the broader range of life experiences possible among older workers.

Typical Rollover Amounts Increased with Investor Age in 2007

While rollover activity occurred with nearly equal frequency across the prime working-aged population, the distribution of rollover amounts was much more concentrated among older traditional IRA investors. In 2007, traditional IRA investors aged 60 to 64 accounted for 12.5 percent of rollover events (individuals with rollovers) but 24.0 percent of rollover dollars (Figure 15). Similarly, traditional IRA investors aged 65 to 69 accounted for 7.0 percent of rollover events but 13.9 percent of rollover dollars. Summing across the three oldest groups, traditional IRA investors aged 60 or older accounted for 22.4 percent of rollover events but 43.7 percent of the dollars rolled over. In contrast, traditional IRA investors younger than 35 with rollovers were 17.6 percent of the individuals with rollovers but accounted for only 3.7 percent of the dollars rolled over. The reconciliation between the steady share of rollover activity across individuals by age with the increasing share of rollover amounts by age is that typical rollover amounts tend to rise with age.

Although significant variation within age and income groups is the dominant impression one observes in the distribution of rollover amounts, there also are predictable differences in typical rollover amounts across both age and income groups. Typical rollover amounts tend to rise with age, likely reflecting a lifecycle effect. Older workers tend to have larger rollover amounts because of years of contributions and investment returns, or accrued benefits, accumulated over longer tenures with a given employer.[48] Furthermore, middle-aged and older workers are generally more likely to participate in employer-sponsored plans and tend to contribute more when they do participate.[49]

There are two statistics generally used to measure "typical" amounts, and although both confirm that rollovers increase with age, the difference between the two measures provides further information about the rollover activity of traditional IRA investors. The first measure of a typical rollover is the mean, or average, which is $77,130 for the entire population of traditional IRA investors (aged 25 to 74) who had rollovers in 2007 (Figure 15). The second measure of a typical rollover is the median, which is the value such that half of the rollover amounts are below that number and half are above. Among all traditional IRA investors who had rollovers in 2007, the median rollover amount was $23,040.

The differences between the mean and median rollover amounts are explored further below, but the general pattern that rollovers typically increase with age is the same for both measures. The mean rollover amount was $8,890 in 2007 for traditional IRA investors aged 25 to 29 and rose to $156,580 for traditional IRA investors aged 70 to 74 in 2007 (Figure 15). The median is below the mean in all age groups, but similarly tends to rise with age from $3,570 for the 25 to 29 age group to $63,160 for the 60 to 64 age group, then eases back a bit to $59,330 for traditional IRA investors aged 70 to 74.

FIGURE 15

Traditional IRA Rollovers by Age in 2007

Number and amount of rollovers[1] to traditional IRAs by age, 2007

	Traditional IRA rollovers[1]		Traditional IRA rollovers[1]		Traditional IRA rollover amount	
	Number *Thousands*	Share[2] *Percent*	Amount *Millions*	Share[2] *Percent*	Median	Mean
Age						
25 to 29	63.2	7.5%	$561.8	0.9%	$3,570	$8,890
30 to 34	84.7	10.1	1,806.8	2.8	8,920	21,340
35 to 39	98.8	11.8	3,411.2	5.3	15,770	34,540
40 to 44	100.5	12.0	4,889.2	7.6	21,780	48,640
45 to 49	106.6	12.7	6,634.7	10.3	25,000	62,250
50 to 54	100.7	12.0	8,122.8	12.5	29,520	80,690
55 to 59	97.1	11.6	11,021.2	17.0	40,440	113,490
60 to 64	104.5	12.5	15,531.9	24.0	63,160	148,650
65 to 69	59.1	7.0	8,975.3	13.9	62,800	151,850
70 to 74	24.1	2.9	3,773.3	5.8	59,330	156,580
All	839.2	100.0	64,728.2	100.0	23,040	77,130

[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2007.
[2]Share is the percentage of the total.
Note: Components may not add to the total because of rounding.
Source: The IRA Investor Database™

Range of Rollover Amounts Tended to Rise with Investor Age in 2007

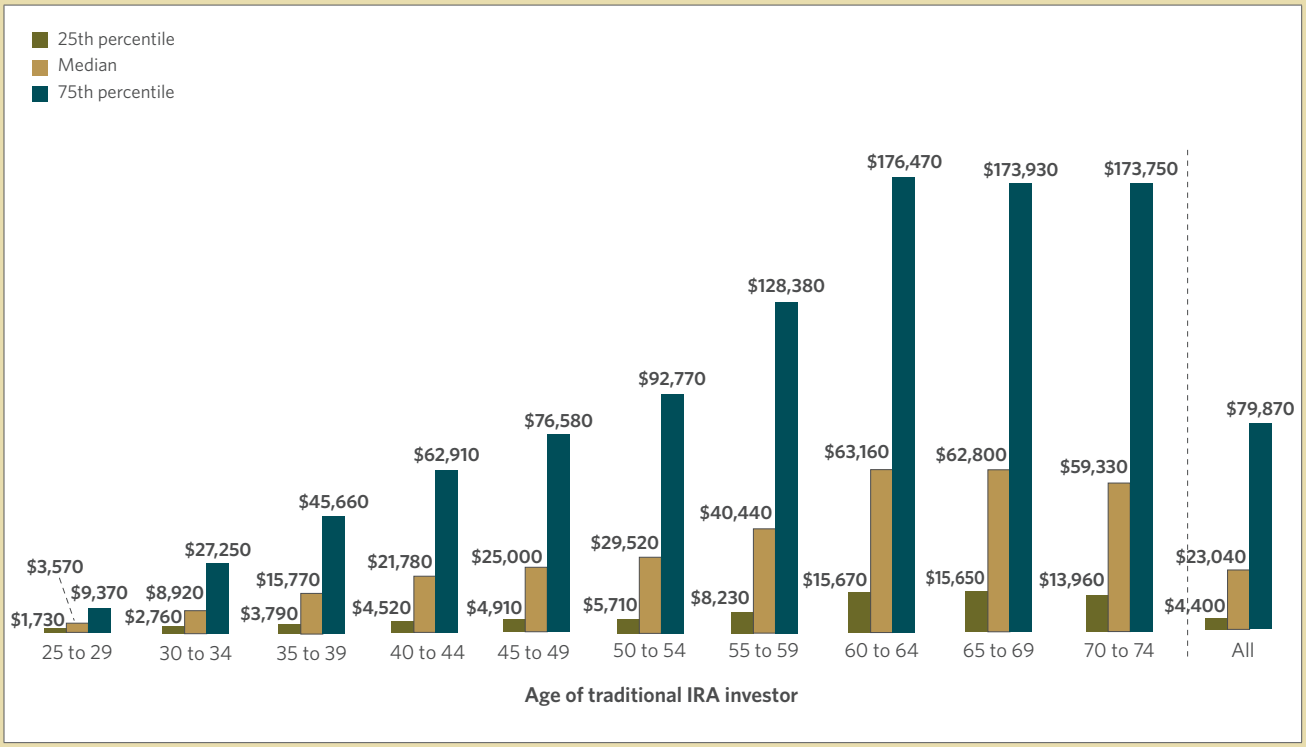
Within each age group, the average (or mean) rollover was typically much larger than the median. The 25th and 75th percentiles provide a more descriptive view of the range of rollover amounts and also help to clarify why the mean was larger than the median within every age group. For the entire population of traditional IRA investors with rollovers, the 25th percentile rollover amount was $4,400 in 2007, the 75th percentile rollover amount was $79,870, and the 50th percentile (median) rollover amount, as noted above, was $23,040 (Figure 16). The fact that the median was much closer to the 25th percentile than it was to the 75th percentile indicates there was a relatively small group of individuals with very large rollovers that increased the mean rollover amount relative to the median.

The range of rollover amounts tended to increase with age in 2007, reflecting the diversity of work experience, lifecycle, and lifetime income trends. The spread between the 25th and 75th percentile rollover amounts was $1,730 to $9,370 for the 25 to 29 age group, reflecting lower levels of job tenure and lower accumulations available for rollover (Figure 16). For the 70- to 74-year-old traditional IRA investors with rollovers, the 25th to 75th percentile range was $13,960 to $173,750. The widening differential reflects several forces. For example, older individuals have the possibility of a wider range of tenure experience, including very long job tenures. In addition, a higher percentage of older working-aged individuals tend to have higher incomes, which can increase dollar contribution amounts and account balances.

FIGURE 16

Rollovers into Traditional IRAs Tended to Increase with Age in 2007

Quartiles of traditional IRA rollover amounts by age, 2007



Note: The sample is 839,200 traditional IRA investors aged 25 to 74 with rollovers in 2007.
Source: The IRA Investor Database™

The combination of lifecycle and lifetime income effects on saving in employer-sponsored retirement plans together lead to a wide distribution of rollover amounts. Measures of "typical" rollovers like the mean, median, and even percentile measures do not completely capture how the distribution of rollover amounts varied with investor age. That shift in the distribution of rollover amounts is best captured by looking directly at the concentration of rollover amounts across size categories. For example, 13.7 percent of all rollovers among traditional IRA investors were less than $2,000 in 2007 (Figure 17). At the other extreme, 9.8 percent of rollovers were $200,000 or more.

Closer inspection of the rollover amount distributions shows that the wide dispersion for all rollovers across traditional IRA investors is the result of combining younger traditional IRA investors (who are much more likely to roll over lower amounts) with older traditional IRA investors (who are much more likely to roll over larger amounts). While more than 60 percent of 25- to 29-year-old traditional IRA investors with rollovers in 2007 had rollovers of less than $5,000, less than 15 percent of 70- to 74-year-old traditional IRA investors with rollovers had such rollover amounts (Figure 17). At the other end of the rollover size range, almost 40 percent of 70- to 74-year-old traditional IRA investors with rollovers in 2007 had rollover amounts of $100,000 or more (including more than one-fifth with rollovers of $200,000 or more), compared with a negligible number of the youngest individuals with rollovers in those ranges.

FIGURE 17

Older Traditional IRA Investors Tended to Have Larger Rollovers in 2007

Percentage of traditional IRA investors with rollovers* in specified ranges, 2007

	Amount of traditional IRA rollover								
	Less than $2,000	$2,000–<$5,000	$5,000–<$10,000	$10,000–<$20,000	$20,000–<$50,000	$50,000–<$75,000	$75,000–<$100,000	$100,000–<$200,000	$200,000 or more
Age									
25 to 29	29.9	32.4	14.0	12.1	9.1	1.7	0.5	0.3	(*)
30 to 34	18.5	21.2	12.7	15.7	19.3	6.3	2.9	3.1	0.2
35 to 39	14.7	15.7	10.2	14.6	21.9	9.0	5.1	7.5	1.4
40 to 44	13.2	13.4	8.7	12.8	21.3	9.6	6.0	10.7	4.3
45 to 49	12.8	12.5	8.2	11.7	20.2	9.2	6.1	12.1	7.3
50 to 54	12.5	11.1	7.9	11.0	19.0	9.0	6.1	12.6	10.8
55 to 59	11.0	9.4	6.8	9.9	17.2	8.7	6.2	14.4	16.5
60 to 64	8.3	6.0	5.3	8.5	16.4	9.3	6.8	17.1	22.3
65 to 69	8.9	5.0	5.5	8.6	16.7	9.4	7.0	16.8	22.1
70 to 74	9.5	5.3	6.0	9.1	16.2	8.9	6.8	16.4	21.8
All	13.7	13.3	8.6	11.6	18.3	8.3	5.4	11.0	9.8

**Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2007.*
(*) = less than 0.5 percent
Note: The sample is 839,200 traditional IRA investors aged 25 to 74 with rollovers in 2007. Row percentages may not add to 100 percent because of rounding.
Source: The IRA Investor Database™

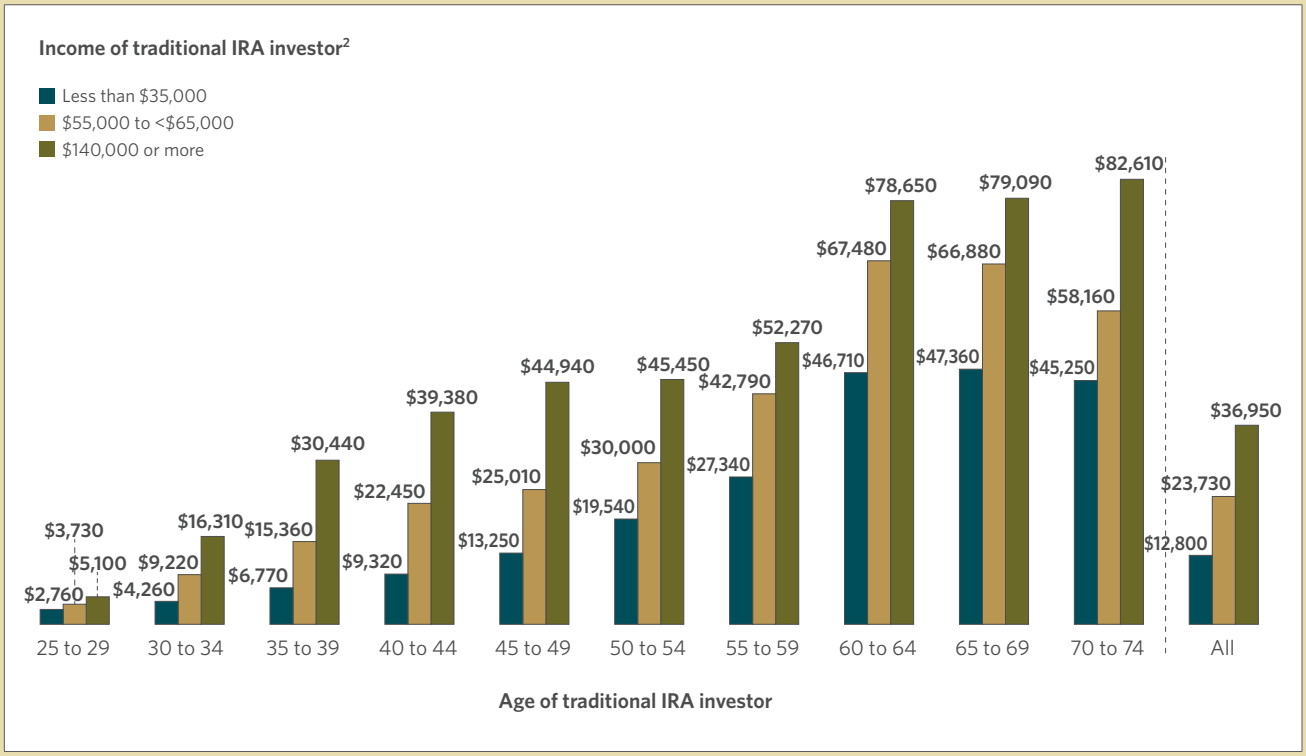
Typical Rollover Amounts Increased with Income in 2007

Given the positive relationship between age and typical rollover amounts, it should not be surprising that there is a positive relationship between income and rollovers because income and age tend to be positively related.[50] When considering rollovers by both age and income, however, the data show that there are two separate sets of forces at work because typical rollover amounts, measured here by the median, increased with income within any given age group in 2007 (Figure 18). Overall, median rollover amounts in 2007 for traditional IRA investors ranged from $12,800 (among the less than $35,000 income group) up to $36,950 (among the $140,000 or more income group). This pattern of rollover amounts increasing with income for all traditional IRA investors with rollovers occurs within each age group as well. For example, among traditional IRA investors aged 45 to 49 with rollovers, the median amount rolled over among those earning less than $35,000 was $13,250, compared with a median of $25,010 among those earning $55,000 to less than $65,000, and $44,940 among those earning $140,000 or more.

FIGURE 18

Rollover Amounts of Traditional IRA Investors by Age and Income in 2007

Median traditional IRA rollover amount among traditional IRA investors with rollovers[1] by age and income,[2] 2007



[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2007.
[2]Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.
Note: The sample is 839,200 traditional IRA investors aged 25 to 74 with rollovers in 2007. Figure A.7 in the appendix provides additional detail.
Source: The IRA Investor Database™

The observed differences in median rollover amounts by income within age groups confirm that both lifecycle and lifetime income have important and reinforcing effects on accumulations in employer-sponsored retirement plans. Workers' average tenure[51] and desire to save for retirement[52] both tend to increase with age, so median rollover amounts increase with age across all income groups. At the same time, higher-income workers generally desire to save more at any given age.[53] One oft-cited reason is that Social Security replaces a much higher fraction of pre-retirement earnings for lower-income workers, and thus higher-income workers must save more on their own in order to achieve the same overall relative level of retirement well-being.[54]

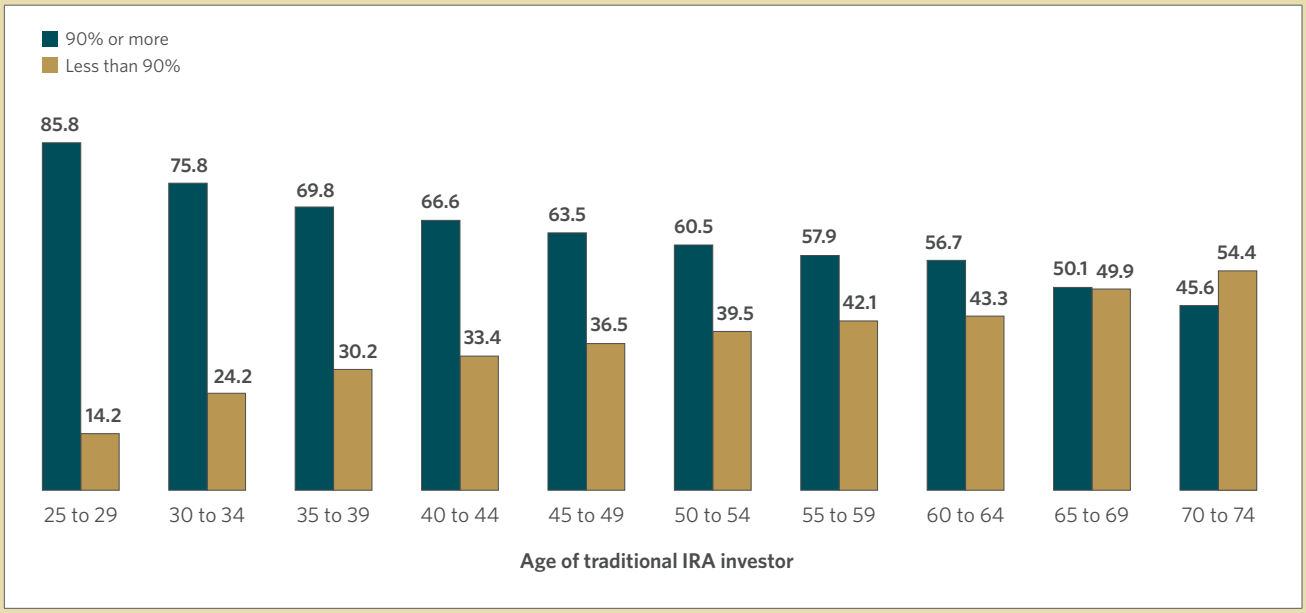
Rollovers Were a Larger Share of the Traditional IRA Balance for Younger Traditional IRA Investors in 2007

Although rollover amounts tended to rise with age for traditional IRA investors, the share of the traditional IRA balance accounted for by the rollover amount was much higher for younger investors and showed a declining pattern by age (Figure 19). This result relates to the observation earlier that the rollover event is what tends to precipitate the opening of a traditional IRA among younger traditional IRA investors. Among traditional IRA investors in the 25 to 29 age group, 85.8 percent of rollover events in 2007 occurred in situations where the rollover amount was at least 90 percent of the account balance, compared with less than half of traditional IRA investors aged 70 to 74 with rollovers. Older traditional IRA investors were much more likely already to have an account open when they make a rollover, so the rollover in 2007 tended to represent a smaller share of the traditional IRA balance.[55] These statistics should be interpreted with caution, however, because the rollovers that appear to open new traditional IRAs are opening new traditional IRAs at the given financial services firm, which may not be the first or only traditional IRA owned by the individual investor.

FIGURE 19

Rollovers Constituted a Larger Percentage of the Traditional IRA Balance for Younger Investors in 2007

Percentage of traditional IRA investors with rollovers as a percentage of account balance[1, 2] in the specified ranges, 2007



[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2007.
[2]The account balance is the sum of the end of 2007 traditional IRA balance and any withdrawals taken during 2007.
Note: The sample is 839,200 traditional IRA investors aged 25 to 74 with rollovers in 2007.
Source: The IRA Investor Database™

Although there was wide dispersion in the size of the rollover relative to the traditional IRA balance, two patterns emerged in the data. First, given that rollovers often appeared to open new traditional IRAs at the financial services firm, the bulk of investors had rollover amounts that accounted for 90 percent or more of balances (Figure 20). Second, the rollover amount in 2007 accounted for a smaller share of the balance among the older traditional IRA investors because older investors were more likely already to have traditional IRAs. Indeed, the rollover amount in 2007 accounted for less than 10 percent of the balance for 20.3 percent of traditional IRA investors aged 70 to 74 with rollovers.

FIGURE 20

Distribution of Rollover Amounts by Age in 2007

Percentage of traditional IRA investors with rollovers as a percentage of account balance[1, 2] in the specified ranges, 2007

	Rollovers as a percentage of account balance[1, 2]										
	0–9%	10–19%	20–29%	30–39%	40–49%	50–59%	60–69%	70–79%	80–89%	90–99%	100% or more
Age											
25 to 29	2.3	1.5	1.3	1.3	1.4	1.3	1.2	1.5	2.5	52.7	33.1
30 to 34	4.3	2.7	2.4	2.3	2.1	2.0	2.0	2.3	4.0	46.2	29.5
35 to 39	6.3	3.6	3.1	2.6	2.5	2.4	2.4	2.8	4.4	42.7	27.1
40 to 44	8.3	4.3	3.4	2.9	2.7	2.4	2.5	2.7	4.3	40.7	25.8
45 to 49	10.5	4.8	3.6	3.1	2.9	2.4	2.4	2.6	4.1	39.1	24.4
50 to 54	12.7	5.1	3.8	3.1	2.9	2.6	2.5	2.7	4.2	37.9	22.6
55 to 59	13.5	5.2	3.8	3.3	3.2	2.8	2.8	3.1	4.5	37.1	20.8
60 to 64	13.6	5.2	4.0	3.3	3.1	3.0	3.0	3.3	4.9	37.5	19.2
65 to 69	16.8	6.0	4.4	3.8	3.8	3.3	3.4	3.6	4.8	33.4	16.7
70 to 74	20.3	6.3	4.7	4.1	3.9	3.6	3.2	3.5	4.8	30.1	15.5
All	10.2	4.4	3.4	2.9	2.8	2.5	2.5	2.8	4.3	40.2	24.0

[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2007.
[2]The account balance is the sum of the end of 2007 traditional IRA balance and any withdrawals taken during 2007.
Note: The sample is 839,200 traditional IRA investors aged 25 to 74 with rollovers in 2007. Row percentages may not add to 100 percent because of rounding.
Source: The IRA Investor Database™

Traditional IRA Investors' Rollover Activity in 2008

This report analyzes traditional IRA rollover activity over time in two ways. First, this section examines the rollover activity among a snapshot (cross-section) of traditional IRA investors present in 2008 and compares those outcomes to the results for traditional IRA investors in 2007 that were presented in the previous section. Second, the next section examines the dynamic relationship between rollovers and traditional IRA ownership using the two years of data pooled together. As years of data accumulate, it is possible to track individuals' cumulative rollover activity. With two years of data, one can discern whether a new traditional IRA is opened through a rollover, contribution, or transfer from some other account.

Incidence of Traditional IRA Rollovers in 2008

In late 2007, the U.S. economy entered a period that has since become known as the "Great Recession."[56, 57] The underlying weakness in the economy associated with the Great Recession was reflected in higher unemployment rates and declining stock market values, both of which could have affected the occurrence and size distribution of rollovers, especially in 2008.[58]

The effects of high unemployment in 2008 could have mixed effects on rollover activity. On the one hand, the rate at which workers voluntarily leave jobs tends to drop during economic downturns, but that could be somewhat offset because increased job separations due to layoffs[59, 60] may have led to an increase in the number of workers leaving jobs and possibly making rollovers. Another factor to consider is that some of those affected workers may have decided to access their employer-sponsored retirement accounts to cover basic spending needs, rather than make rollovers, which would tend to reduce rollover activity. Overall, the rate at which rollovers occurred for traditional IRA investors fell only slightly in 2008.

Investors Across All Age Groups Made Rollovers in 2008

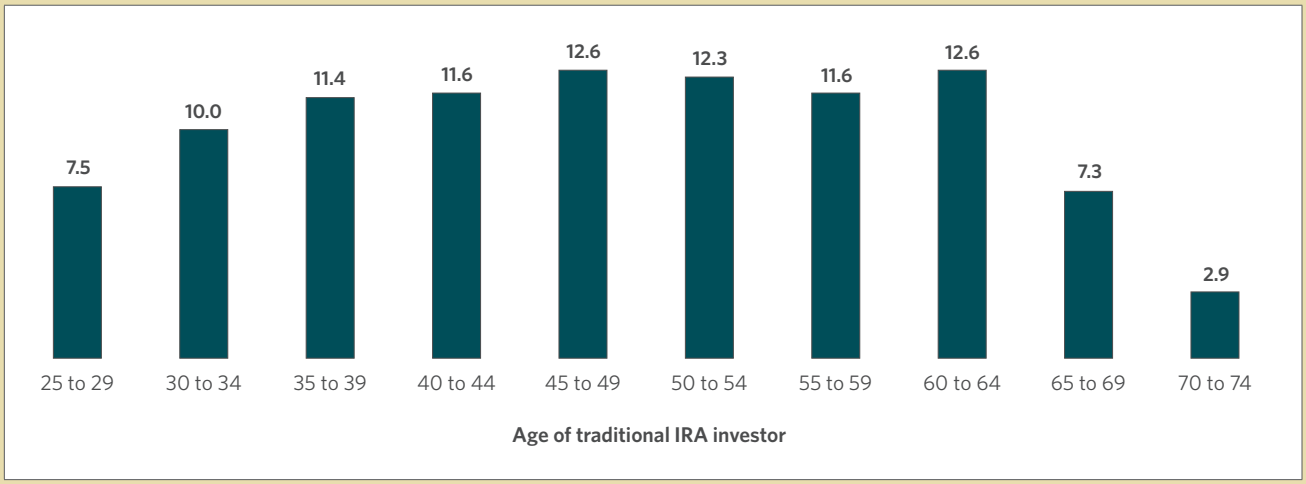
The top-line impression about the distribution of rollover events across age groups was the same in 2007 and 2008. Dividing the population of traditional IRA investors into five-year age bands, one sees there is a remarkable balance of rollover events in the age ranges from 30 to 34 through 60 to 64, with each group accounting for just over 10 percent of rollover events (Figure 21). The youngest age group (25 to 29) and the 65 to 69 age group each account for just over 7 percent of rollover events, with the small residual of 2.9 percent of rollover activity carried out by the 70 to 74 age group.

Although the distribution of rollover events by age in 2008 was nearly identical to 2007, there was a small but noticeable drop in the overall rate of rollover activity in the IRA Investor Database. The number of traditional IRA investors with rollovers in 2008 was 820,700 (Figure 22), down slightly from the 839,200 in 2007 (Figure 11). The fraction of traditional IRA investors with rollovers fell from 12.3 percent in 2007 (Figure 11) to 11.3 percent in 2008 (Figure 22).

FIGURE 21

Investors Across All Age Groups Made Rollovers in 2008

Among traditional IRA investors with rollovers,* share by age, 2008



**Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2008.*
Note: Percentages do not add to 100 percent because of rounding.
Source: The IRA Investor Database™

The pattern of rollover events across age groups in 2008 was similar to 2007, however. For example, the extent to which rollovers led to the opening of traditional IRAs and how that varied systematically with age were virtually identical. In general, the similarity with 2007 suggests that, to the extent the dramatic economic events of 2008 affected the incidence of rollovers at all, the various forces must have been largely offsetting. For example, if some incremental group of workers had rollovers because they lost their jobs, that was more than offset because other workers who might have changed employers or retired in a more typical year chose to stay in their jobs. Alternatively, individuals losing their jobs might be less likely to roll over than workers voluntarily changing jobs.

The rollover activity in 2008 highlights two predictable lifecycle patterns in rollover outcomes. First, a rollover often was the event that caused an individual to open a traditional IRA, so the percentage of younger or lower-income traditional IRA investors with rollovers was higher than the percentage of older or higher-income traditional IRA investors with rollovers. The second lifecycle pattern is that rollover amounts tended to rise with investor age or income.

Rollovers Were Often the Reason That Traditional IRAs Were Opened in 2008

Younger traditional IRA investors with rollovers were more likely to be opening the traditional IRA at the given financial services firm compared with older traditional IRA investors. The traditional IRA was a new account for 89.2 percent of traditional IRA investors aged 25 to 29 with rollovers in 2008 (Figure 22).[61] The traditional IRA represented a new account for 66.0 percent of traditional IRA investors aged 45 to 49 with rollovers in 2008, and for 46.9 percent of those aged 70 to 74.[62]

FIGURE 22

Rollover Activity of Traditional IRA Investors by Age in 2008

Number of traditional IRA investors and traditional IRA investors with rollovers[1] by age, 2008

	Traditional IRA investors		Traditional IRA investors with rollovers[1]		Memo: percentage of traditional IRA investors who had rollovers[1]	Percentage of rollovers that created new accounts[2]
	Number *Thousands*	Share[3] *Percent*	Number *Thousands*	Share[3] *Percent*		
Age						
25 to 29	213.4	2.9%	61.7	7.5%	28.9%	89.2%
30 to 34	416.2	5.7	81.8	10.0	19.7	79.3
35 to 39	637.1	8.8	93.9	11.4	14.7	72.7
40 to 44	797.8	11.0	95.1	11.6	11.9	68.7
45 to 49	1,001.7	13.8	103.7	12.6	10.4	66.0
50 to 54	1,077.2	14.8	101.3	12.3	9.4	63.4
55 to 59	1,025.6	14.1	95.4	11.6	9.3	60.7
60 to 64	943.2	13.0	103.8	12.6	11.0	58.2
65 to 69	704.3	9.7	60.1	7.3	8.5	51.7
70 to 74	441.8	6.1	23.9	2.9	5.4	46.9
All	7,258.2	100.0	820.7	100.0	11.3	66.6

[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2008.
[2]An account was determined to be "new" in 2008 if the account did not exist in 2007 at the same provider.
[3]Share is the percentage of the total.
Note: Figure A.10 in the appendix provides additional detail by gender. Components may not add to the total because of rounding.
Source: The IRA Investor Database™

Although the distribution of rollover activity in 2008 was roughly equal across the prime working-aged population, the incidence of rollover activity among traditional IRA investors actually fell with age in 2008 (Figure 22). Overall, 11.3 percent of traditional IRA investors in 2008 had rollovers in 2008, but that ranged from 28.9 percent of traditional IRA investors aged 25 to 29 down to 5.4 percent of those aged 70 to 74. The decline in rollover incidence occurs largely between the age groups 25 to 29 and 45 to 49, after which incidence is fairly stable through the 60 to 64 age group. This lifecycle pattern suggests many workers who will make rollovers at various stages of their careers have probably received at least one of those rollovers, and thus already have opened a traditional IRA prior to reaching age 50. Rollover incidence was lowest in the pool of older traditional IRA investors, in large part because many of them already had traditional IRAs (perhaps the result of earlier rollovers) and because a smaller share of them were opening the traditional IRA with their rollover in 2008. Fewer younger investors already had existing traditional IRAs at the service provider, and thus, the incidence of rollover activity among them was higher than among older traditional IRA investors.

Slight Decline in 2008 Rollover Activity Was More Noticeable for Younger or Lower-Income Traditional IRA Investors

The overall modest decline in rollover events between 2007 and 2008 generally occurred across all age and income groups, but the drop is somewhat more noticeable for younger traditional IRA investors or those with lower incomes. It is possible that the larger declines in rollover incidence among younger or lower-income groups are related to the recession, because those groups may have lower levels of economic resources with which to weather the recession. Rollover incidence in the youngest age group (25 to 29) fell from 32.9 percent in 2007 to 28.9 percent in 2008, while the incidence rate for the oldest age group (70 to 74) fell from 5.9 percent in 2007 to 5.4 percent in 2008 (Figures 11 and 22). Rollover incidence in the group with incomes less than $35,000 fell from 15.8 percent in 2007 to 13.7 percent in 2008, while the rate for those with incomes of $140,000 or more fell from 10.0 percent in 2007 to 9.7 percent in 2008 (Figures 12 and 23). Overall, the extent of the decrease in rollover incidence tended to be lower for the older or higher-income groups.

FIGURE 23

Rollover Activity of Traditional IRA Investors by Income in 2008

Number of traditional IRA investors and traditional IRA investors with rollovers[1] by income,[2] 2008

	Traditional IRA investors		Traditional IRA investors with rollovers[1]		Memo: percentage of traditional IRA investors who had rollovers[1]	Percentage of rollovers that created new accounts[3]
	Number *Thousands*	Share[4] *Percent*	Number *Thousands*	Share[4] *Percent*		
Income[2]						
Less than $35,000	566.0	7.8%	77.7	9.5%	13.7%	79.4%
$35,000 to <$45,000	1,169.0	16.1	141.9	17.3	12.1	74.5
$45,000 to <$50,000	553.5	7.6	64.4	7.8	11.6	71.2
$50,000 to <$55,000	550.5	7.6	63.7	7.8	11.6	69.7
$55,000 to <$65,000	1,012.1	13.9	113.5	13.8	11.2	66.9
$65,000 to <$70,000	446.2	6.1	49.3	6.0	11.0	64.9
$70,000 to <$80,000	681.1	9.4	74.6	9.1	11.0	63.2
$80,000 to <$100,000	904.2	12.5	96.8	11.8	10.7	59.9
$100,000 to <$140,000	683.3	9.4	71.7	8.7	10.5	57.5
$140,000 or more	692.3	9.5	67.0	8.2	9.7	52.0
All	7,258.2	100.0	820.7	100.0	11.3	66.6

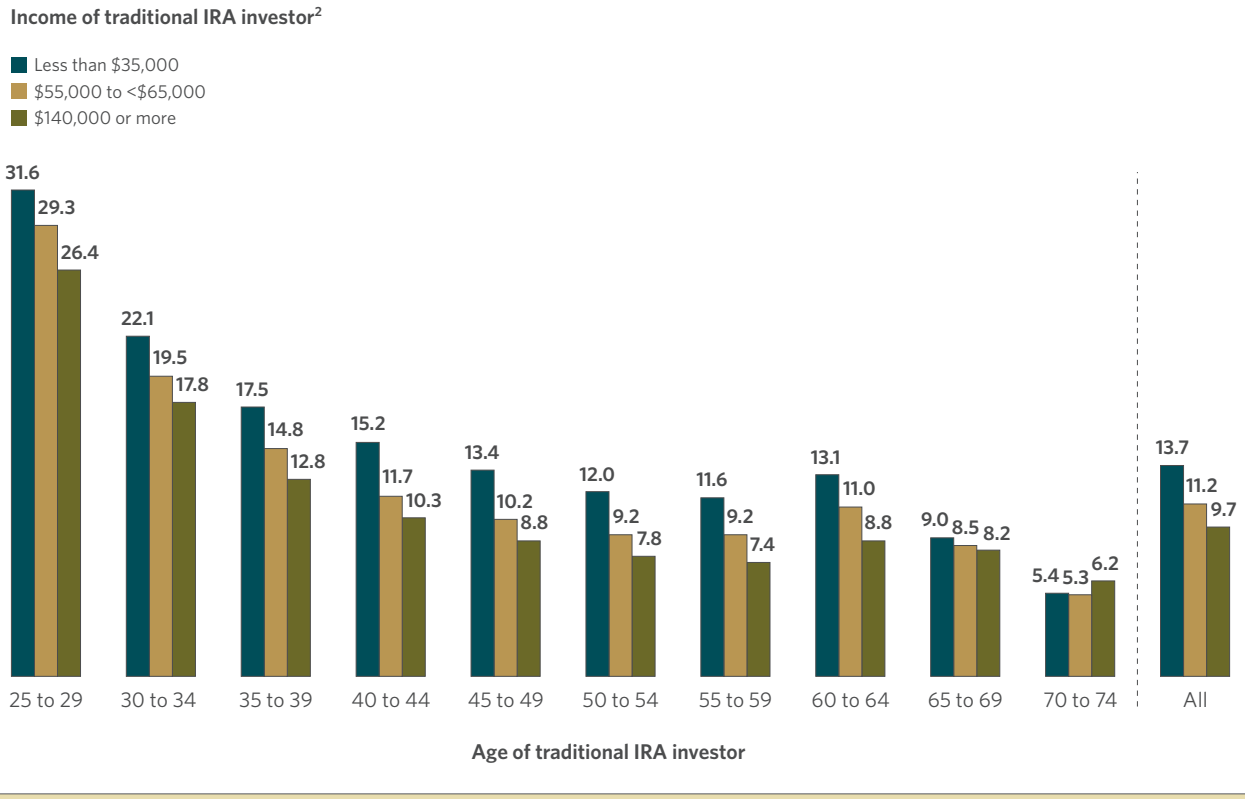
[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2008.
[2]Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.
[3]An account was determined to be "new" in 2008 if the account did not exist in 2007 at the same provider.
[4]Share is the percentage of the total.
Note: Figure A.11 in the appendix provides additional detail by gender. Components may not add to the total because of rounding.
Source: The IRA Investor Database™

The differential decline in rollover incidence across income groups is even more noticeable after controlling for age (Figure 24). The largest decreases in rollover incidence were for the youngest and lowest income groups, while the smallest changes were for the older and higher-income groups. Among traditional IRA investors aged 25 to 29 with incomes below $35,000, rollover incidence fell from 38.1 percent in 2007 (Figure 13) to 31.6 percent in 2008 (Figure 24). Among traditional IRA investors aged 70 to 74 with incomes above $140,000 the decline was only from 6.5 percent in 2007 to 6.2 percent in 2008.

FIGURE 24

Rollover Activity of Traditional IRA Investors by Age and Income in 2008

Traditional IRA investors with rollovers[1] as a percentage of traditional IRA investors by age and income,[2] 2008



[1]*Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2008.*
[2]*Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.*
Note: The sample is 7.3 million traditional IRA investors aged 25 to 74 in 2008. Figure A.11 in the appendix provides additional detail.
Source: The IRA Investor Database™

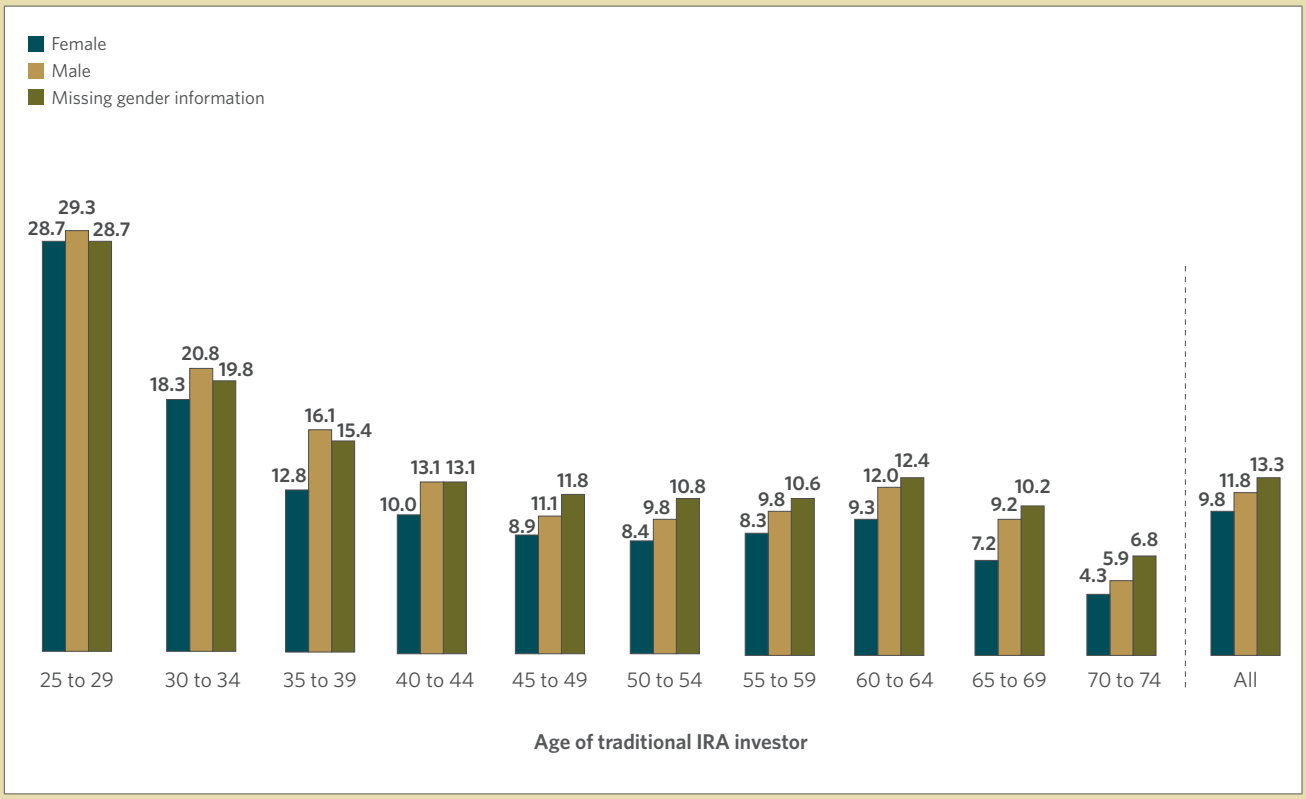
Male Traditional IRA Investors Tended to Be More Likely to Have Rollovers in 2008

Within any given age or income group, male traditional IRA investors tended to be more likely to have rollovers in 2008 compared with female traditional IRA investors in the same group. This analysis divides the sample of traditional IRA investors with rollovers into three categories: male, female, and those whose gender information is unavailable in the data. As a group, 11.8 percent of male traditional IRA investors had rollovers in 2008, compared with 9.8 percent of female traditional IRA investors (Figure 25). For each age group, male traditional IRA investors were more likely to have made a rollover in 2008 compared with female traditional IRA investors. Rollover activity in 2008 among male and female traditional IRA investors exhibited the same pattern as 2007 rollover activity, but at slightly lower levels than in 2007 (Figures 14 and 25).

FIGURE 25

Male Investors Were More Likely to Have Rollovers into Their Traditional IRAs Than Females in 2008

Traditional IRA investors with rollovers* as a percentage of traditional IRA investors by age and gender, 2008



**Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2008.*
Note: The sample is 7.3 million traditional IRA investors aged 25 to 74 in 2008. Figure A.11 in the appendix provides additional detail.
Source: The IRA Investor Database™

Magnitude of Traditional IRA Rollovers in 2008

Although the impact of the economic turbulence on the incidence of traditional IRA rollovers in 2008 was modest, it appears to have reduced rollover amounts. The stock market started falling in October 2007 and continued to decline throughout 2008, so it is not surprising that typical rollover amounts fell between 2007 and 2008. In addition, if more individuals found themselves changing jobs sooner than they typically might have, rollover amounts might be expected to fall, reflecting their shorter-than-typical tenures. Alternatively, it is possible that individuals may have withdrawn from their accounts during the financial stress, which also would tend to reduce their rollover amounts. Rollover amounts tended to be about 10 percent smaller, on average, in 2008 compared with 2007. However, it is notable that the decline in average rollover amounts is basically uniform across age and income groups.

Typical Rollover Amounts Shifted Down Across All Age Groups Between 2007 and 2008

As with the modest decline in the incidence of rollovers for traditional IRA investors between 2007 and 2008, the top-line story about rollover amounts is a widespread and nearly uniform decrease in rollover amounts across all age groups (Figure 26). The share of rollover amounts going to each age group was little changed between 2007 and 2008, and the declines in both mean and median rollover amounts were roughly similar by age. Overall, the median rollover fell by just under 10 percent between 2007 and 2008, from $23,040 to $20,750 (Figures 15 and 26). The overall mean rollover amount fell from $77,130 in 2007 to $70,530, which was approximately a 9 percent drop. The decline in typical rollover amounts across age groups fell very much in line with the overall total.

Typical Rollover Amounts Increased with Investor Age in 2008

While rollover activity occurred with nearly equal frequency across the prime working-aged population, the distribution of rollover amounts was much more concentrated among older traditional IRA investors. In 2008, summing across traditional IRA investors aged 60 or older, those with rollovers accounted for 22.8 percent of rollover events (individuals with rollovers) but accounted for 44.7 percent of the dollars rolled over (Figure 26). In contrast, traditional IRA investors younger than 35 with rollovers were 17.5 percent of rollover events but accounted for only 3.4 percent of the dollars rolled over. The reconciliation between the steady share of rollover

FIGURE 26

Traditional IRA Rollovers by Age in 2008

Number and amount of rollovers[1] to traditional IRAs by age, 2008

	Traditional IRA rollovers[1]		Traditional IRA rollovers[1]		Traditional IRA rollover amount	
	Number *Thousands*	Share[2] *Percent*	Amount *Millions*	Share[2] *Percent*	Median	Mean
Age						
25 to 29	61.7	7.5%	$468.5	0.8%	$3,210	$7,590
30 to 34	81.8	10.0	1,523.1	2.6	7,510	18,620
35 to 39	93.9	11.4	2,859.6	4.9	13,720	30,450
40 to 44	95.1	11.6	4,074.2	7.0	18,900	42,840
45 to 49	103.7	12.6	5,854.6	10.1	23,300	56,460
50 to 54	101.3	12.3	7,409.5	12.8	27,710	73,110
55 to 59	95.4	11.6	9,841.1	17.0	37,450	103,150
60 to 64	103.8	12.6	14,242.3	24.6	58,470	137,260
65 to 69	60.1	7.3	8,336.9	14.4	57,120	138,690
70 to 74	23.9	2.9	3,277.3	5.7	53,200	137,350
All	820.7	100.0	57,887.0	100.0	20,750	70,530

[1]*Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2008.*
[2]*Share is the percentage of the total.*
Note: Components may not add to the total because of rounding.
Source: The IRA Investor Database™

activity across individuals by age with the increasing share of rollover amounts by age is that typical rollover amounts tended to rise with age.

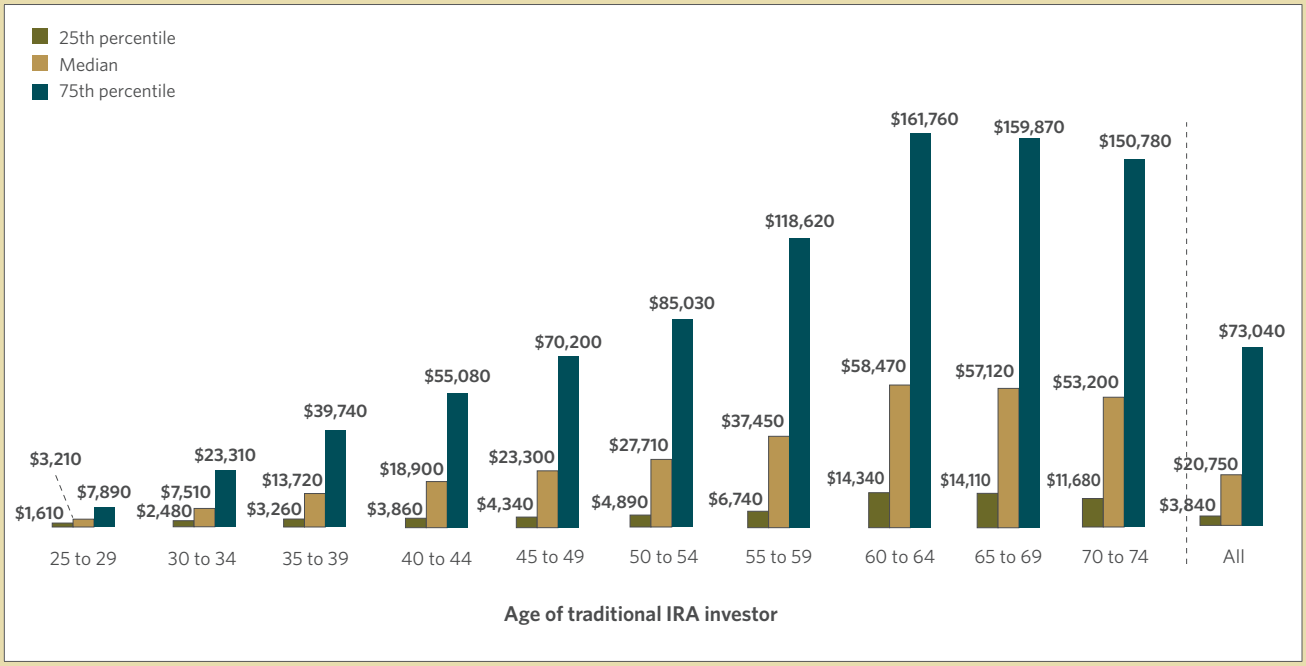
Although there is significant variation of rollover amounts within age and income groups, typical rollover amounts tended to rise with age, likely reflecting a lifecycle effect. The mean rollover amount was $7,590 in 2008 for traditional IRA investors aged 25 to 29, rose to $138,690 among those aged 65 to 69, then decreased slightly to $137,350 for traditional IRA investors aged 70 to 74 (Figure 26). The median was below the mean in all age groups, but similarly tended to rise with age from $3,210 for the 25 to 29 age group to $58,470 for the 60 to 64 age group, then eased back a bit to $53,200 for traditional IRA investors aged 70 to 74.

The 25th and 75th percentiles provide a more descriptive view of the range of rollover amounts and help to clarify why the mean was larger than the median within every age group. For the entire population of traditional IRA investors with rollovers, the 25th percentile rollover amount was $3,840 in 2008; the 75th percentile rollover amount was $73,040; and the 50th percentile (median) rollover amount, as noted above, was $20,750 (Figure 27). The fact that the median was much closer to the 25th percentile than it was to the 75th percentile indicates there was a relatively small group of individuals with very large rollovers that increased the mean rollover amount relative to the median.

FIGURE 27

Rollovers into Traditional IRAs Tended to Increase with Age in 2008

Quartiles of traditional IRA rollover amounts by age, 2008



Note: The sample is 820,700 traditional IRA investors aged 25 to 74 with rollovers in 2008.
Source: The IRA Investor Database™

Range of Rollover Amounts Tended to Rise with Investor Age in 2008

The range of rollover amounts tended to increase with age in 2008, reflecting the diversity of work experience, lifecycle, and lifetime income trends. The spread between the 25th and 75th percentile rollover amounts was $1,610 to $7,890 for the 25 to 29 age group, reflecting their lower levels of job tenure and lower accumulations available for rollover (Figure 27). For the 70- to 74-year-old traditional IRA investors with rollovers, the 25th to 75th percentile range was $11,680 to $150,780. The widening differential reflects several forces. For example, older individuals have the possibility of a broader range of tenure experience, including very long job tenure. In addition, a higher percentage of older working-aged individuals tend to have higher incomes, which can increase dollar contribution amounts and account balances.

A wide range of rollover amounts was observed in 2008. For example, 15.5 percent of all rollovers among traditional IRA investors were less than $2,000 in 2008 (Figure 28). At the other extreme, 8.7 percent of rollovers were $200,000 or more. Closer inspection of the rollover amount distributions shows that the wide dispersion for all rollovers across traditional IRA investors is the result of combining younger traditional IRA investors who were much more likely to roll over lower amounts with older traditional IRA investors who were much more likely to roll over larger amounts. While two-thirds of 25- to 29-year-old traditional IRA investors with rollovers had rollovers of less than $5,000 in 2008, less than 20 percent of 70- to 74-year-old traditional IRA investors with rollovers had such rollover amounts (Figure 28). At the other end of the rollover size range, about 36 percent of 70- to 74-year-old traditional IRA investors with rollovers had rollover amounts of $100,000 or more (including almost one-fifth with rollovers of $200,000 or more), compared with a negligible number of the youngest individuals with rollovers.

FIGURE 28

Older Traditional IRA Investors Tended to Have Larger Rollovers in 2008

Percentage of traditional IRA investors with rollovers* in specified ranges, 2008

	Amount of traditional IRA rollover								
	Less than $2,000	$2,000–<$5,000	$5,000–<$10,000	$10,000–<$20,000	$20,000–<$50,000	$50,000–<$75,000	$75,000–<$100,000	$100,000–<$200,000	$200,000 or more
Age									
25 to 29	32.7	34.2	12.1	11.8	7.6	1.1	0.3	0.2	(*)
30 to 34	20.3	23.3	11.4	16.5	18.4	5.1	2.5	2.2	0.1
35 to 39	16.6	17.5	9.3	15.1	21.8	8.0	4.6	6.2	1.0
40 to 44	15.1	14.7	8.0	13.5	21.5	8.9	5.6	9.6	3.2
45 to 49	14.3	12.9	7.4	12.1	20.3	9.3	6.1	11.3	6.1
50 to 54	13.8	11.4	6.9	11.3	19.7	9.2	6.0	12.2	9.4
55 to 59	12.8	9.5	6.3	9.8	17.5	8.7	6.3	14.3	14.7
60 to 64	9.7	6.1	5.1	8.6	16.8	9.5	7.0	17.0	20.2
65 to 69	10.4	5.0	5.4	8.9	17.1	9.3	6.8	17.0	20.1
70 to 74	12.1	5.2	5.8	8.5	16.8	9.3	6.9	16.5	19.1
All	15.5	14.0	7.8	11.9	18.3	8.0	5.3	10.5	8.7

**Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2008.*
(*) = less than 0.5 percent
Note: The sample is 820,700 traditional IRA investors with rollovers in 2008. Row percentages may not add to 100 percent because of rounding.
Source: The IRA Investor Database™

Typical Rollover Amounts Increased with Income in 2008

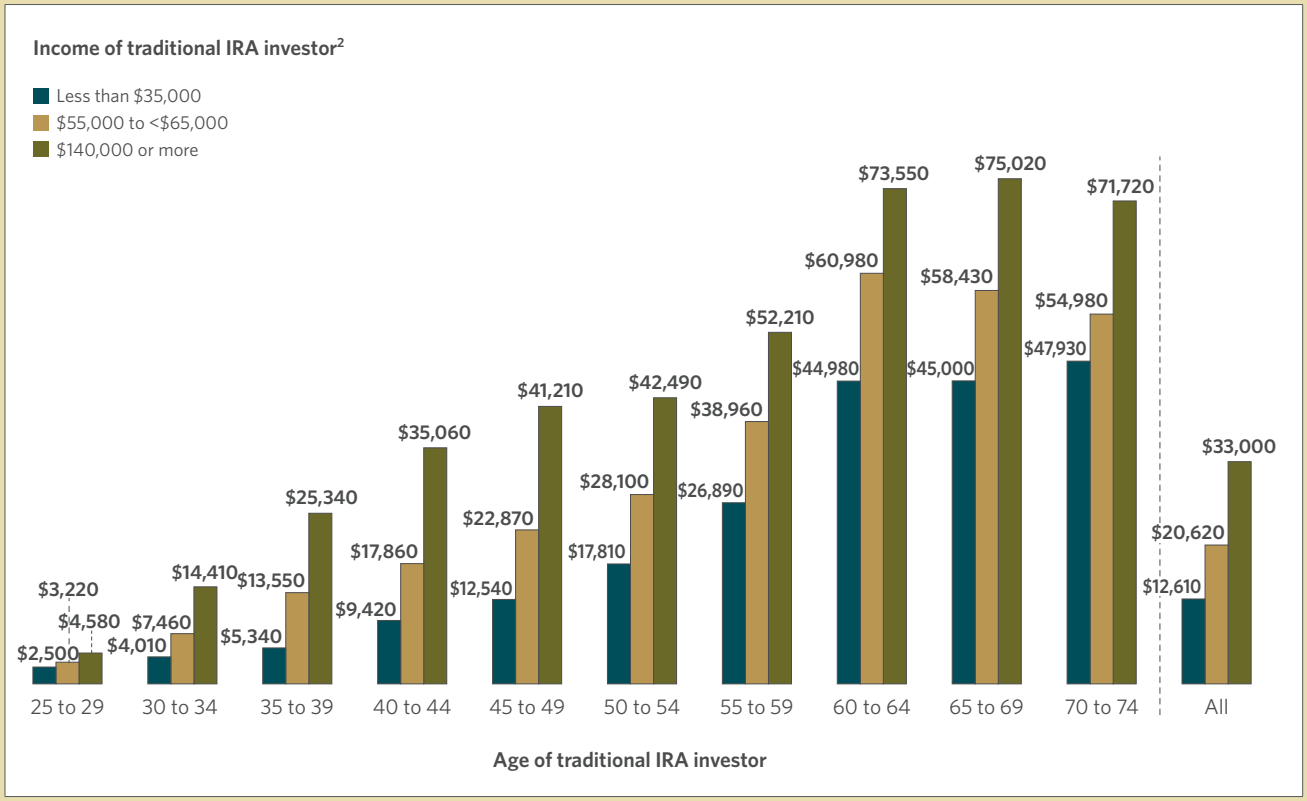
Given the positive relationship between age and typical rollover amounts, it is not surprising that there is a positive relationship between income and rollovers because income and age tend to be positively related.[63] However, considering rollovers by both age and income shows that there are two separate sets of forces at work, because typical rollover amounts, measured here by the median, increased with income within any given age group in 2008, reflecting a "career-path" or lifetime-earnings effect (Figure 29).

Overall, median rollover amounts in 2008 for traditional IRA investors ranged from $12,610 in the less than $35,000 income group to $33,000 in the $140,000 or more income group (Figure 29). This pattern of rollover amounts increasing with income for all traditional IRA investors with rollovers occurs within each age group as well. For example, among traditional IRA investors aged 45 to 49 with rollovers, the median amount rolled over among those earning less than $35,000 was $12,540, compared with a median of $22,870 among those earning $55,000 to less than $65,000 and $41,210 among those earning $140,000 or more.

FIGURE 29

Rollover Amounts of Traditional IRA Investors by Age and Income in 2008

Median traditional IRA rollover amount among traditional IRA investors with rollovers[1] by age and income,[2] 2008



[1]*Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2008.*
[2]*Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.*
Note: The sample is 820,700 traditional IRA investors aged 25 to 74 with rollovers in 2008. Figure A.12 in the appendix provides additional detail.
Source: The IRA Investor Database™

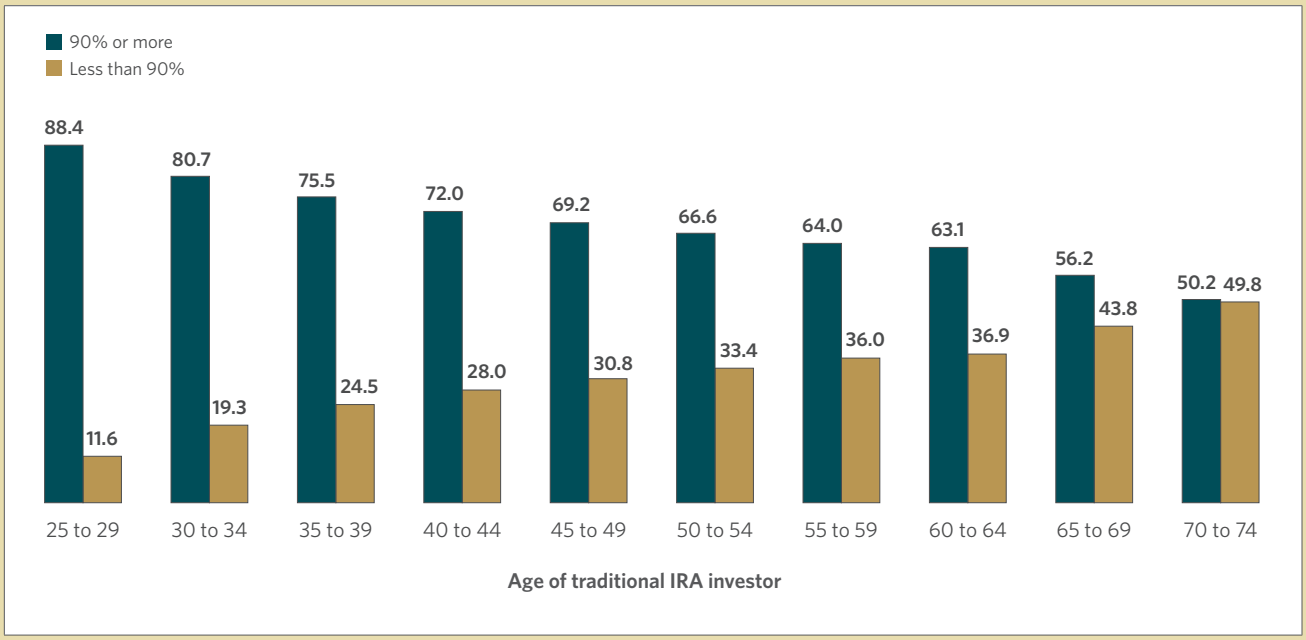
Rollovers Were a Larger Share of the Traditional IRA Balance for Younger Traditional IRA Investors in 2008

Although rollover amounts tended to rise with age for traditional IRA investors, the share of the traditional IRA balance accounted for by the rollover amount was much higher for younger investors and showed a declining pattern by age (Figure 30). This result relates to the observation earlier that the rollover event is what tends to precipitate the opening of a traditional IRA among younger traditional IRA investors. Older traditional IRA investors were much more likely already to have an account open, so the rollover in 2008 tended to represent a smaller share of the traditional IRA balance. Even among traditional IRA investors who had existing accounts in 2008, the rollover was generally a smaller share of the account balance for older traditional IRA investors because they are more likely to have opened a traditional IRA in earlier years and have generally enjoyed account build-up through accumulated investment returns over time.

FIGURE 30

Rollovers Constituted a Larger Percentage of the Traditional IRA Balance for Younger Investors in 2008

Percentage of traditional IRA investors with rollovers as a percentage of account balance[1, 2] in the specified ranges, 2008



[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2008.
[2]The account balance is the sum of the end of 2008 traditional IRA balance and any withdrawals taken during 2008.
Note: The sample is 820,700 traditional IRA investors aged 25 to 74 with rollovers in 2008.
Source: The IRA Investor Database™

Among traditional IRA investors in the 25 to 29 age group, 88.4 percent of rollover events in 2008 occurred in situations where the rollover amount was at least 90 percent of the account balance (Figure 30). That fraction declines systematically with age, and the rollover amount was at least 90 percent of the account balance for about half of traditional IRA investors aged 70 to 74 with rollovers in 2008. This suggests that older traditional IRA investors typically had opened traditional IRAs prior to the rollover event in 2008, which reflected the possible accumulation of rollovers or contributions with age.[64] This statistic should be interpreted with caution, however, because the new traditional IRAs opened by rollovers at the given financial services firm may not be the first or only traditional IRAs owned by the individual investors.

Although there was wide dispersion in the size of the rollover relative to the traditional IRA balance, two patterns emerge in the data. First, given that rollovers often appeared to open new traditional IRAs at the financial services firm, the bulk of investors had rollover amounts that accounted for 90 percent or more of balances (Figure 31). Second, the rollover amount in 2008 accounted for a smaller share of the balance among the older traditional IRA investors because older investors were more likely already to have traditional IRAs. Indeed, the rollover amount in 2008 accounted for less than 10 percent of the balance for 20.6 percent of traditional IRA investors aged 70 to 74 with rollovers.

The IRA Investor Database contains the amount of the rollovers as well as the end-of-year traditional IRA account balance. Because account balances are not recorded at the same time as rollovers, the calculated size of the rollovers as a percentage of the end-of-year account balance (even with withdrawals added back in) may be affected by subsequent market events. Stock markets experienced substantial declines at the end of 2008, and this could help explain the large increase in the group of rollovers that were greater than or equal to the size of the end-of-year account balance, since the stock market decline would affect the reported account balance but not the amount of the rollover (Figures 20 and 31).

FIGURE 31

Distribution of Rollover Amounts by Age in 2008

Percentage of traditional IRA investors with rollovers as a percentage of account balance[1, 2] in the specified ranges, 2008

	Rollovers as a percentage of account balance[1, 2]										
	0–9%	10–19%	20–29%	30–39%	40–49%	50–59%	60–69%	70–79%	80–89%	90–99%	100% or more
Age											
25 to 29	2.0	1.2	1.2	1.1	1.2	1.1	1.1	1.1	1.5	29.4	59.0
30 to 34	4.0	2.3	2.0	1.9	1.9	1.8	1.7	1.7	2.2	24.2	56.5
35 to 39	6.1	3.0	2.6	2.3	2.1	2.1	1.9	2.0	2.4	21.7	53.9
40 to 44	7.8	3.6	2.9	2.6	2.3	2.1	2.0	2.1	2.5	20.8	51.2
45 to 49	9.9	3.9	3.0	2.7	2.4	2.3	2.1	2.1	2.6	20.0	49.2
50 to 54	11.6	4.2	3.3	2.8	2.5	2.3	2.1	2.1	2.6	19.7	46.8
55 to 59	12.9	4.3	3.4	2.9	2.7	2.4	2.3	2.3	2.9	19.6	44.4
60 to 64	12.8	4.4	3.4	2.8	2.8	2.6	2.5	2.5	3.1	19.2	44.0
65 to 69	16.6	5.2	3.9	3.2	3.2	3.0	2.7	2.9	3.2	18.3	37.9
70 to 74	20.6	5.3	4.3	3.7	3.5	3.2	2.9	2.9	3.4	17.4	32.8
All	9.8	3.7	2.9	2.6	2.4	2.2	2.1	2.1	2.6	21.0	48.6

[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in 2008.
[2]The account balance is the sum of the end of 2008 traditional IRA balance and any withdrawals taken during 2008.
Note: The sample is 820,700 traditional IRA investors aged 25 to 74 with rollovers in 2008. Row percentages may not add to 100 percent because of rounding.
Source: The IRA Investor Database™

Traditional IRA Investors' Rollover Activity over Time

Pathways to Traditional IRA Ownership

One of the fundamental design elements of The IRA Investor Database is tracking of individuals over time. This feature makes it possible to go beyond the cross-sectional analysis above for 2007 and 2008 separately to begin addressing questions about individual outcomes over time—so-called "longitudinal" analysis. The analysis in earlier sections of this report shows that, in any given year, relatively few traditional IRA investors have rollovers. However, the key to understanding the widespread impact of rollovers on retirement preparedness is the longitudinal observation that the group of traditional IRA investors with rollovers in any given year is generally different from the group of traditional IRA investors with rollovers in the adjacent year. This longitudinal observation about rollover activity stands in stark contrast to previously published findings from The IRA Investor Database on traditional IRA contribution activity. Unlike rollovers, contributions are persistent and concentrated in a relatively small group of traditional IRA investors.[65]

Rollover Activity in 2007 or 2008 Among Traditional IRA Investors in 2008

There are two distinct ways to use the longitudinal feature of the data when studying rollover activity. The first approach is to simultaneously consider rollover activity among traditional IRA investors in either 2007 or 2008, building directly on the single-year analysis above for 2007 and 2008 separately. That approach provides direct evidence about the lack of persistence in rollovers. In 2007, 12.3 percent of traditional IRA investors had rollovers, and in 2008 the fraction with rollovers was 11.3 percent (Figure 9). The fraction of traditional IRA investors in 2008 with rollovers in either 2007 or 2008 was 20.8 percent (Figure 32), and only 1.1 percent had rollovers in both years.

The near doubling of rollover incidence when expanding the window over which activity is observed from one to two years is consistent with expectations based on labor market dynamics. In any given year a certain fraction of workers with employer-sponsored coverage are going to separate from their employers (Figure 7), 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, rollovers to traditional IRAs by a given individual will tend to be sporadic.

FIGURE 32

Rollover Activity in 2007 or 2008 Among Traditional IRA Investors in 2008

Number of traditional IRA investors and traditional IRA investors with rollovers[1] in 2007 or 2008 by age

	Traditional IRA investors		Traditional IRA investors with rollovers[1]		Memo: percentage of traditional IRA investors who had rollovers[1]
	Number *Thousands*	Share[2] *Percent*	Number *Thousands*	Share[2] *Percent*	
Age					
25 to 29	213.4	2.9%	107.1	7.1%	50.2%
30 to 34	416.2	5.7	149.2	9.9	35.8
35 to 39	637.1	8.8	173.9	11.5	27.3
40 to 44	797.8	11.0	176.3	11.7	22.1
45 to 49	1,001.7	13.8	191.5	12.7	19.1
50 to 54	1,077.2	14.8	185.9	12.3	17.3
55 to 59	1,025.6	14.1	173.0	11.5	16.9
60 to 64	943.2	13.0	189.1	12.5	20.0
65 to 69	704.3	9.7	114.5	7.6	16.3
70 to 74	441.8	6.1	48.3	3.2	10.9
All	7,258.2	100.0	1,508.8	100.0	20.8

[1]Traditional IRA investors with rollovers are traditional IRA investors (aged 25 to 74) who had rollovers into their traditional IRAs in either 2007 or 2008 and had a traditional IRA balance at year-end 2008.
[2]Share is the percentage of the total.
Note: Figure A.14 in the appendix provides additional detail by gender. Components may not add to the total because of rounding.
Source: The IRA Investor Database™

Analysis of Traditional IRAs New to the 2008 Database

The second approach is to use longitudinal data to identify traditional IRAs that are new to the financial services firms in the database in 2008.[66] This approach provides evidence that rollovers often were the basis for opening traditional IRAs. In 2008, 58.8 percent of new accounts in The IRA Investor Database were attributable to just rollovers, 2.0 percent to a combination of rollovers and contributions, and 8.0 percent were opened with just contributions (Figure 33). The remaining 31.1 percent of new accounts were attributable to shifting of assets from one financial service provider to another, which was inferred based on the lack of either rollover or contribution activity for that traditional IRA investor.

FIGURE 33

Sources of New Traditional IRAs by Investor Age in 2008

Traditional IRA activity of new traditional IRAs,[1] 2008

	New traditional IRAs[1]		Source of new account[1, 2]			
	Number[3] *Thousands*	Share[4] *Percent*	Only rollover *Percent*	Both rollover and contribution *Percent*	Only contribution *Percent*	Changed financial services firm[5] *Percent*
Age						
25 to 29	72.1	8.0%	73.1%	3.3%	9.5%	14.2%
30 to 34	97.5	10.9	63.7	2.9	10.3	23.2
35 to 39	110.8	12.3	59.3	2.3	9.3	29.0
40 to 44	110.2	12.3	57.3	2.0	8.6	32.2
45 to 49	119.7	13.3	55.4	1.7	8.1	34.8
50 to 54	116.1	12.9	53.7	1.7	8.2	36.4
55 to 59	103.5	11.5	54.1	1.8	7.8	36.2
60 to 64	94.9	10.6	62.0	1.7	5.5	30.8
65 to 69	52.2	5.8	58.0	1.4	4.5	36.1
70 to 74	21.4	2.4	52.1	0.3	1.0	46.6
All	898.5	100.0	58.8	2.0	8.0	31.1

[1]New traditional IRAs are accounts that exist in The IRA Investor Database™ in 2008 but did not exist in The IRA Investor Database™ in 2007.
[2]Percentages may not add to 100 percent because of rounding.
[3]Components do not add to the total because of rounding.
[4]Share is the percentage of the total.
[5]These accounts are often asset transfers to a new provider and thus are unlikely to represent a new traditional IRA investor.
Source: The IRA Investor Database™

The reasons for opening traditional IRAs varied across the life cycle. For example, the fraction of new accounts created by a transfer between financial services providers varied across age groups. The share of new accounts due to balance transfers between providers more than tripled between the youngest and oldest traditional IRA investor age groups in 2008 (Figure 33). Older investors were much more likely to open a new account because they were shifting between providers, perhaps consolidating accumulated balances in existing accounts.

Setting aside the transfer of account balances across financial service providers, the longitudinal analysis of new account creation highlights that most new traditional IRAs were opened because of rollovers. In 2008, 85.4 percent of the new accounts due to either rollovers or contributions were attributable to only rollovers, and another 2.9 percent were due to a combination of rollovers and contributions (Figure 34). The remaining 11.6 percent of new traditional IRAs were opened by new contributions only. There was little variation in the fraction of new accounts attributable to rollovers across age groups, except for the 70 to 74 age group who are generally prohibited from making new contributions to IRAs.

FIGURE 34

Paths to Traditional IRA Ownership in 2008

Traditional IRA activity of new traditional IRA investors,[1] 2008

	New traditional IRA investors[1]		Source of new account[1, 2]		
	Number *Thousands*	Share[2, 3] *Percent*	Only rollover *Percent*	Both rollover and contribution *Percent*	Only contribution *Percent*
Age					
25 to 29	61.9	10.0%	85.1%	3.8%	11.1%
30 to 34	74.9	12.1	82.9	3.7	13.4
35 to 39	78.6	12.7	83.6	3.2	13.1
40 to 44	74.8	12.1	84.5	2.9	12.7
45 to 49	78.1	12.6	84.9	2.7	12.4
50 to 54	73.8	11.9	84.4	2.7	12.9
55 to 59	66.1	10.7	84.8	2.9	12.3
60 to 64	65.6	10.6	89.6	2.4	8.0
65 to 69	33.4	5.4	90.7	2.2	7.0
70 to 74	11.4	1.8	97.6	0.6	1.8
All	618.6	100.0	85.4	2.9	11.6

[1]New traditional IRA investors are traditional IRA investors in The IRA Investor Database™ in 2008 who had a rollover or contribution in 2008 but did not exist in The IRA Investor Database™ in 2007.
[2]Percentages may not add to 100 percent because of rounding.
[3]Share is the percentage of the total.
Source: The IRA Investor Database™

Conclusion

The IRA Investor Database covers a comprehensive and representative sample of IRA investors across all types of IRAs and a range of individual investor characteristics. This report, which is the second in a series, focused on the rollover activity of traditional IRA investors aged 25 to 74. The analysis found that the fraction of traditional IRA investors making rollovers in 2007 and 2008 was modest, as job change or retirement and transfer of retirement assets tend to be an occasional rather than persistent activity.

Traditional IRAs are an important repository for rollovers from other types of qualified accounts. One out of five traditional IRA investors observed in the database at the end of 2008 had made a rollover in either 2007 or 2008. Household survey information indicates that more than half of traditional IRA–owning households had made rollovers to their traditional IRAs at some point. In any given year, rollover activity is widely distributed across age and income groups. Nevertheless, a lifecycle pattern of rollover activity emerges in the incidence of rollover activity. Younger or lower-income traditional IRA investors were more likely to have rollovers in 2007 or 2008, and those rollovers often opened their traditional IRAs. Older or higher-income traditional IRA investors were more likely to have existing accounts and less likely to have rollovers in 2007 or 2008. Rollover amounts varied in size, but were generally higher for older or higher-income traditional IRA investors. Reflecting their broader array of life experiences, older traditional IRA investors tended to have wider ranges of rollover amounts.

Additional Reading

"**The Individual Retirement Account at Age 30: A Retrospective**," *Investment Company Institute Perspective*. This report provides a summary of the growth and development of the IRA market. Available at www.ici.org/pdf/per11-01.pdf.

"**The Evolving Role of IRAs in U.S. Retirement Planning**," *Investment Company Institute Perspective*. This report describes how the evolution of employer-sponsored retirement plans has elevated the importance of IRAs for many U.S. households and highlights the significant role that IRAs play in retirement and retirement planning. Available at www.ici.org/pdf/per15-03.pdf.

"**The Role of IRAs in U.S. Households' Saving for Retirement, 2010**," *Investment Company Institute Fundamentals*. This study reports information from two ICI household surveys. Available at www.ici.org/pdf/fm-v19n8.pdf.

"**Frequently Asked Questions About Individual Retirement Accounts**," Investment Company Institute. Available at www.ici.org/faqs/faqs_iras.

Notes

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

[2] ICI reports total IRA and total retirement market assets on a quarterly basis. For additional information on the U.S. retirement market, see Brady, Holden, and Short 2010. The Federal Reserve Board reports U.S. households' financial assets on a quarterly basis (see Federal Reserve Board 2010).

[3] For additional discussion of IRA-owning households, see Holden and Schrass 2010c and 2010d.

[4] 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 U.S. families sponsored by the Board of Governors of the Federal Reserve System and the U.S. 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 U.S. families. The 2007 SCF interviewed 4,422 families, which represent 116.1 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 2007 SCF results, see Bucks et al. 2009. For a full description of the SCF and recent SCF data, see www.federalreserve.gov/pubs/oss/oss2/scfindex.html.

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 www.umich.edu/~hrswww/pubs/biblio.html.

Another household survey that is often used is the Survey of Income and Program Participation (SIPP), which is administered by the U.S. Census Bureau. For a complete description, see www.census.gov/sipp/intro.html.

[5] ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each spring to gather information on the demographic and financial characteristics of U.S. households. The May 2010 survey was based on a sample of 4,200 U.S. households selected by random digit dialing, of which 1,738 households, or 41.4 percent, owned IRAs. All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2009 sample of households is ± 1.5 percentage points at the 95 percent confidence level. For the 2010 survey results, see Bogdan, Sabelhaus, and Schrass 2010. For reporting of 2010 IRA incidence, see Holden and Schrass 2010c and 2010d.

[6] ICI typically conducts the IRA Owners Survey each spring to gather information on characteristics and activities of IRA-owning households in the United States. The May 2010 survey was based on a sample of 1,800 randomly selected, representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the total sample is ± 2.3 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell education savings accounts (formerly called education IRAs). For results from the 2010 survey, see Holden and Schrass 2010c and 2010d.

[7] For the most recent tabulations of individual income tax return data, see Internal Revenue Service 2010b. For the most recent tabulations of the IRA data from Forms 5498 and 1099-R, see the results for tax year 2004 presented in Bryant 2008. For earlier years and explanation of the IRS methodology for the IRA data, see Sailer, Weber, and Gurka 2003; Sailer and Nutter 2004; and Bryant and Sailer 2006.

[8] The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks, and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation, and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, DC, is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

[9] See Figure A.1 in the appendix.

[10] While it is possible to track the same individuals over time within the same data provider, it is not possible to link individuals across providers. Therefore, it is possible that some

IRA investors will 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 the appendix.

[11] For the most recent published IRS Statistics of Income data (tax year 2004), see Bryant 2008. For the 2010 ICI IRA Owners Survey results, see Holden and Schrass 2010c and 2010d.

[12] Roth IRAs were first made available in 1998 under the Taxpayer Relief Act of 1997. For additional information on Roth IRAs, see Brady, Holden, and Short 2010 and Holden and Schrass 2010c and 2010d.

[13] The simplified employee pension (SEP) IRA was created under the Revenue Act of 1978. The salary reduction (SAR)-SEP IRA was created under the Tax Reform Act of 1986. The Small Business Job Protection Act of 1996 prohibited the formation of new SAR-SEP IRAs after December 31, 1996, but introduced the savings incentive match plan for employees (SIMPLE) IRAs, which were first available in 1997. For additional information on employer-sponsored IRAs, see Brady, Holden, and Short 2010 and Holden and Schrass 2010c and 2010d.

[14] See Figure A.2 in the appendix for a comparison of the full set of traditional IRA data for 2007 in The IRA Investor Database with the 2007 IRS Statistics of Income traditional IRA data ("IRA universe").

[15] See Figure A.4 in the appendix.

[16] Individual IRA investor income is proxied by the average income per tax return for the traditional IRA investor based on his or her five-digit zip code. The income averages are taken from the IRS Statistics of Income (SOI) Individual Tax Statistics Zip Code data file, available at www.irs.gov/taxstats/indtaxstats/article/0,,id=96947,00.html. Traditional IRA investors are grouped into approximate deciles of income and analyzed on the basis of that grouping. See additional discussion on page 18 and the appendix. Zip-code level income data have been useful in a variety of research studies. For example, see Price and Novak 1999, DeLia 2003, Skinner and Zhou 2006, Currie and Moretti 2007, and Mian and Sufi 2009.

[17] See Figure A.5 in the appendix for the distribution of traditional IRA investors aged 25 to 74 across the income groups.

[18] See Holden, Sabelhaus, and Bass 2010.

[19] See Brady, Holden, and Short 2010.

[20] Asset allocation varies across 401(k) participants by participant age. See Holden, VanDerhei, and Alonso 2010.

[21] The 10 percent penalty applies to the taxable portion of the withdrawal. There are some exemptions to the 10 percent penalty. For example, distributions used to pay for first time home purchase (up to $10,000), higher education expenses, or health insurance if unemployed. In addition, exemption from the penalty has been granted to individuals affected by hurricanes or military service. Furthermore, amounts taken out as substantially equal periodic payments (SEPPs) are also exempt. For additional details, see Internal Revenue Service, *Publication 590*.

[22] See Brady, Holden, and Short 2010, which reports a history of IRS Statistics of Income tabulations.

[23] For a more complete discussion of the history of IRA rules, see Holden et al. 2005.

[24] For a discussion of changes in private-sector DB plan design over time, see Brady and Bogdan 2010.

[25] For the asset allocation of 401(k) plan participants' accounts, see Holden, VanDerhei, and Alonso 2010.

[26] For further discussion, see Sabelhaus and Schrass 2009.

[27] A decade ago, 76 percent of DB plans offered by medium and large business establishments distributed plan proceeds at retirement only in an annuity (see U.S. Department of Labor, Bureau of Labor Statistics 1999). By 2005, more than half of DB plans offered a full or partial lump-sum distribution option (see U.S. Department of Labor, Bureau of Labor Statistics 2007).

[28] In addition, by law, DC plans must permit the direct rollover of balances to another qualified plan or IRA. See 26 C.F.R. §1.401 (a)(31)-1, Q&A-11.

[29] Under ERISA, a participant could roll over all or a portion of a lump-sum distribution into an IRA. (The original ERISA language required all of the distribution to be rolled over [except after-tax money], but a 1978 revenue act retroactively allowed partial rollovers.) In the eighties, the rules were relaxed to allow distributions of at least 50 percent of the account balance to be rolled over, and this limitation was repealed in 1992. Under ERISA, tax-free rollovers between IRAs were permitted only once every three years. This limitation was changed to once per year in 1978, and this limitation does not apply to direct trustee-to-trustee transfers.

[30] The IRS offers a model notice commonly used by plans that explains the tax consequences of failing to roll over a distribution (see Internal Revenue Service 2009b). For additional information provided by the IRS, see Internal Revenue Service 2010c.

[31] Policymakers also increased portability of retirement accumulations in general with EGTRRA. For example, EGTRRA also allowed for the first time rollover of after-tax contributions. In addition, changes in EGTRRA made rollovers more attractive because it increased portability of accounts among various savings vehicles, including 401(k), 403(b), and 457(b) plans, and IRAs. Prior to EGTRRA, only the portion of an IRA that originated as a rollover from an employer plan—often called a conduit IRA—could be rolled back into a subsequent employer's plan.

[32] In other words, plans must obtain consent for a distribution from an employee who leaves employment prior to retirement age if the value of the account is greater than $5,000. Congress has raised this limit from time to time.

[33] There are some exceptions to the 10 percent penalty; for examples, see section 72(t) of the Internal Revenue Code.

[34] Analysis of all terminated participants with access to plan savings in a given year (whether they separated employment in that year or an earlier year) found even higher rates of asset preservation within the plan. In 2009, 67 percent of terminated participants with access to plan savings remained in the plan. See The Vanguard Group 2010.

[35] For results from the 2008 ICI IRA Owners Survey, see Investment Company Institute 2010. For results from the 2009 ICI IRA Owners Survey, see Holden and Schrass 2010a and 2010b. For results from the 2010 ICI IRA Owners Survey, see Holden and Schrass 2010c and 2010d.

[36] Prior to 2008, Roth IRAs generally were not eligible for direct rollovers from employer-sponsored retirement plan accounts. The Pension Protection Act of 2006 (PPA) allows direct rollovers from employer-sponsored plans to Roth IRAs starting in 2008. For a complete discussion of the specific rules and the change, see Internal Revenue Service 2009a and 2009b.

[37] For results from the 2008 ICI IRA Owners Survey, see Investment Company Institute 2010. In 2008, 52 percent of traditional IRA–owning households reported their traditional IRAs contained rollovers. For results from the 2009 ICI IRA Owners Survey, see Holden and Schrass 2010a and 2010b. In 2009, 54 percent of traditional IRA–owning households reported their traditional IRAs contained rollovers. For results from the 2010 ICI IRA Owners Survey, see Holden and Schrass 2010c and 2010d. In 2010, 55 percent of traditional IRA–owning households reported their traditional IRAs contained rollovers.

[38] Among traditional IRA investors who contributed to their traditional IRAs in 2007, 63 percent also contributed in 2008. See Holden, Sabelhaus, and Bass 2010.

[39] With just one year of data, it is impossible to tell for sure whether or not the traditional IRA was opened when the rollover occurred, but the inference used here is based on whether or not the observed rollover amount in 2007 is 90 percent or more of the account balance at the end of 2007. Specifically, the calculation underlying the last column of Figure 11 involves dividing the rollover amount in 2007 by the account balance at year-end 2007 with any withdrawals in 2007 added back into the account. The calculation was repeated using 2008 data and tested favorably against known new account openings in 2008.

[40] A confounding factor, which may help explain the 50 percent or so new account rate for the older age groups, is that the traditional IRA investor may have one or more other IRA accounts at some other financial services provider. Thus, this rollover may result in a "new" account at the given provider, but the investor may not necessarily be new to traditional IRAs generally.

[41] Individual IRA investor income is proxied by the average income per tax return for the traditional IRA investor based on his or her five-digit zip code. See note 16.

[42] For purposes of studying the relationship between income and rollovers, the population of traditional IRA investors is divided into groups in a way that balances easy-to-see income breaks and rough proportionality (see Figure 12).

[43] For additional discussion of the estimation methodology, see note 39.

[44] For a discussion of how typical earnings vary over the lifecycle, see Congressional Budget Office 2006.

[45] In DB plans, the annual benefit—expressed as single life annuity—may not exceed the lesser of $195,000 (in 2010) or 100 percent of the individual's average compensation over the highest paid three years. Thus, the maximum rollover that could be made from a DB plan is a lump sum that is actuarially equivalent to that maximum annuity amount. For a discussion of the limits on contributions in DC plans and benefits in DB plans, see Joint Committee on Taxation 2003.

[46] For example, in 2010, the employee before-tax contribution limit for 401(k) plans was $16,500 for individuals younger than 50, and $22,000 for individuals 50 or older (including catch-up contributions). The total contribution allowed by both the employer and the employee combined was $49,000 per participant in the plan. There are no limits on the account balance in DC plans. In contrast, in 2010, the traditional IRA contribution limit was $5,000 for individuals younger than 50, and $6,000 for individuals 50 or older (including catch-up). There also are no limits on the account balance in traditional IRAs. (In DB plans, limits relate to the maximum benefit [see note 45].) See Internal Revenue Service 2010a.

[47] Research from the EBRI/ICI 401(k) Database found that the average 401(k) account balances tend to rise with job tenure. See Holden, VanDerhei, and Alonso 2010.

[48] For example, among employed wage and salary workers aged 20 to 24 in January 2010, nearly six out of 10 had less than two years of job tenure at their current jobs. In contrast, among those aged 65 or older, only about one out of 10 had less than two years of job tenure at their current jobs, and 28.0 percent of these older workers had 20 years of tenure or more. See U.S. Department of Labor, Bureau of Labor Statistics 2010.

[49] For example, see The Vanguard Group 2010.

[50] For a discussion of how typical earnings vary over the lifecycle, see Congressional Budget Office 2006.

[51] For example, in January 2010, the median tenure among employed wage and salary workers was 3.1 years among those aged 25 to 34, compared with 10.0 years among those aged 55 to 64 and 9.9 years among those 65 or older. See U.S. Department of Labor, Bureau of Labor Statistics 2010.

[52] See Brady and Sigrist 2008a and 2008b.

[53] Rollovers also tend to rise with income, reflecting a "career-path" or lifetime-earnings effect. A younger individual with a given income level is likely to be on a higher-earnings career path compared with an older individual in the same year with the same income. For a discussion of the persistence of earnings over the lifecycle, see Congressional Budget Office 2006.

[54] For example, the first-year replacement rate (scheduled Social Security benefits as a percentage of average career earnings) for retired workers in the 1940–1949 birth cohort (individuals aged 60 to 69 in 2009) decreased as income increased. The median replacement rate for the lowest household lifetime earnings quintile was 71 percent; for the middle quintile, the median Social Security replacement rate was 43 percent; and for the highest quintile, it was 31 percent. See Congressional Budget Office 2010.

[55] Even among traditional IRA investors who had existing accounts, the rollover was generally a smaller share of the account balance for older traditional IRA investors because they were more likely to have opened a traditional IRA in earlier years and to have generally enjoyed account build-up through accumulated investment returns over time. For a discussion of the lifecycle effect of working, changing jobs, and rolling over assets on traditional IRA formation, see Sabelhaus and Schrass 2009.

[56] The National Bureau of Economic Research, which publishes its assessment of U.S. business cycles, indicated that the recession began in December 2007 and ended in June 2009. See National Bureau of Economic Research 2010.

[57] For example of discussion of the "Great Recession," see Warner 2010.

[58] The unemployment rate in the United States rose to 7.4 percent in 2008, compared with 5.0 percent in 2007 (see U.S. Department of Labor, Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey). The Standard & Poor's 500 total return index fell 37.0 percent in 2008, after rising 5.5 percent in 2007 (see discussion of market returns in Brady, Holden, and Short 2010).

[59] For a discussion of the cyclicality in voluntary and involuntary separations, see Davis, Faberman, and Haltiwanger 2006.

[60] Analysis of unemployment rates by age highlights that younger individuals tend to have higher rates of unemployment compared with older individuals. Unemployment status by income is not available, but unemployment rates by education level indicate that those with lower levels of education (who tend also to have lower incomes) have higher unemployment rates. Between 2007 and 2008, unemployment rates increased across the reported age and education groups, and the change in unemployment rates (percentage point difference) was higher among younger or less educated individuals. For example, the unemployment rate among those with less than a high school education rose 3.4 percentage points between December 2007 and December 2008, while the increase was 1.6 percentage points for those with a bachelor's degree or more.

Unemployment Rates
2007–2009

	2007	2008	2009
All	5.0%	7.4%	10.0%
Age			
16 to 24	11.8	14.9	18.9
25 to 34	5.0	7.7	10.2
35 to 44	3.8	6.0	8.8
45 to 54	3.5	5.6	7.9
Education			
Less than high school	7.8	11.2	15.3
High school diploma	4.7	7.8	10.5
Some college or associate's degree	3.9	5.9	9.0
Bachelor's degree or more	2.1	3.7	5.0
Gender			
Men	5.1	8.1	11.0
Women	4.9	6.6	8.8

Note: The unemployment rate is the percentage of the civilian, noninstitutional labor force which is unemployed in December of the year indicated.
Source: Bureau of Labor Statistics Current Population Survey

For additional discussion, see Şahin, Song, and Hobijn 2010.

[61] With two years of data, it is possible to determine which traditional IRA accounts were new to the financial services firm in 2008. For 2007, new traditional IRA accounts were inferred by determining that the rollover represented 90 percent or more of the traditional IRA balance (see note 39).

[62] As discussed above (see note 40), these older investors may have existing IRAs at other financial services providers. Thus, this rollover may result in a "new" account at the given provider, but the investor may not necessarily be new to traditional IRAs generally.

[63] For a discussion of how typical earnings vary over the lifecycle, see Congressional Budget Office 2006.

[64] For a discussion of the lifecycle effect of working, changing jobs, and rolling over assets on traditional IRA formation, see Sabelhaus and Schrass 2009.

[65] See Holden, Sabelhaus, and Bass 2010.

[66] The cross-sectional analysis of rollovers in 2007 included an estimate of the fraction of traditional IRAs that had been opened by the rollover event. That analysis was based on comparing the account balance with the rollover, and inferring that the account was new if the rollover was at least 90 percent of the end of year balance (with any withdrawals added back into the account; see note 39).

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