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The Role of IRAs in U.S. Households' Saving for Retirement, 2009

Key Findings

- **Nearly four out of 10 U.S. households owned IRAs in 2009.** More than three-quarters of IRA-owning households also had employer-sponsored retirement plan accumulations or had defined benefit plan coverage. All told, 68 percent of all U.S. households had retirement plans through work or IRAs.
- **About one-third of U.S. households owned traditional IRAs in 2009.** Traditional IRAs were the most common type of IRA owned, followed by Roth IRAs and employer-sponsored IRAs.
- **Rollovers from employer-sponsored retirement plans have fueled the growth in IRAs.** More than half of traditional IRA–owning households indicated their IRAs contained rollovers from employer-sponsored retirement plans. Among households with rollovers in their traditional IRAs, 89 percent indicated they had rolled over all their retirement plan assets in their most recent rollover.
- **Although most U.S. households were eligible to make contributions, few did so.** Only 15 percent of U.S. households contributed to any type of IRA in tax year 2008, as was the case in tax year 2007. In addition, very few eligible households made "catch-up" contributions to traditional or Roth IRAs.
- **IRA withdrawals were infrequent and mostly retirement related.** Nineteen percent of traditional IRA–owning households took a withdrawal in tax year 2008. Eighty-four percent of households that made traditional IRA withdrawals were retired. Only 5 percent of traditional IRA–owning households in 2009 headed by individuals younger than 59 took withdrawals, similar to a 6 percent withdrawal rate among such traditional IRA–owning households in 2008.
- **Traditional IRA–owning households not making withdrawals generally indicated they do not plan to tap their IRAs until age 70½.** Sixty-four percent of traditional IRA–owning households not making withdrawals in tax year 2008 indicated it was unlikely they would withdraw from their IRAs before age 70½. The most commonly cited planned future use of IRA withdrawals was to pay for living expenses, although 67 percent of traditional IRA–owning households without withdrawals indicated a future use of the monies would be to cover an emergency.

IRAs Play an Increasingly Important Role in Saving for Retirement

With $3.7 trillion in assets in mid-2009, individual retirement accounts (IRAs) represented about one-quarter of U.S. total retirement market assets, compared with 15 percent two decades ago.[1] IRAs have also risen in importance on household balance sheets. In June 2009, IRA assets were 9 percent of all household financial assets, up from 4 percent of assets two decades ago.[2] In May 2009, 46.1 million, or 39 percent of, U.S. households reported owning IRAs (Figure 1).[3]

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

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About the Annual Mutual Fund Shareholder Tracking Survey

ICI conducts the Mutual Fund Shareholder Tracking Survey each spring to gather information on the demographic and financial characteristics of U.S. households. The most recent survey was conducted in May 2009 and was based on a sample of 4,201 U.S. households selected by random digit dialing, of which 1,651 households, or 39.3 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.

About the IRA Owners Survey

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 most recent survey was conducted in May 2009 and was based on a sample of 1,000 randomly selected, representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP 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 ± 3.1 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called Education IRAs).

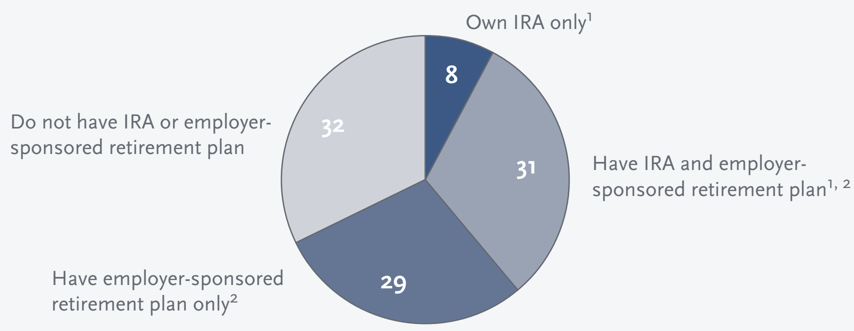
Among all IRA-owning households, 79 percent also participated in employer-sponsored retirement plans; that is, they had defined contribution (DC) plan balances, current defined benefit (DB) plan payments, or expected future DB plan payments. Another 29 percent of U.S. households reported employer-sponsored retirement plan coverage, but no IRAs. All told, 68 percent of all U.S. households had some type of formal, tax-advantaged retirement savings.

Traditional IRAs are the oldest and most common type of IRA. In 2009, 36.6 million, or 31 percent of, U.S. households owned traditional IRAs (Figure 2). The traditional IRA is a vehicle for rollovers from employer-sponsored retirement plans. Indeed, more than half of U.S. households with traditional IRAs indicated their IRAs contained rollover assets.[4] Roth IRAs, which were first available in 1998, are the second most frequently owned type of IRA, owned by 17.0 million, or 15 percent

Figure 1

Many U.S. Households Have Tax-Advantaged Retirement Savings

Percentage of U.S. households, 2009



[1] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).
[2] Employer-sponsored retirement plans include DC and DB retirement plans.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

Figure 2

Millions of U.S. Households Own IRAs

	Year created	Number of U.S. households with type of IRA,[1] 2009	Percentage of U.S. households with type of IRA,[1] 2009
Traditional IRA	1974 (Employee Retirement Income Security Act)	36.6 million	31.2%
SEP IRA[2]	1978 (Revenue Act)	9.6 million	8.2%
SAR-SEP IRA[2]	1986 (Tax Reform Act)		
SIMPLE IRA[2]	1996 (Small Business Job Protection Act)		
Roth IRA	1997 (Taxpayer Relief Act)	17.0 million	14.5%
Any IRA[1]		46.1 million	39.3%

[1] Households may own more than one type of IRA.
[2] SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs are employer-sponsored IRAs.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

of, U.S. households. Income limits restrict many U.S. households' ability to invest in Roth IRAs. Eight percent of U.S. households owned employer-sponsored IRAs, which include SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs.

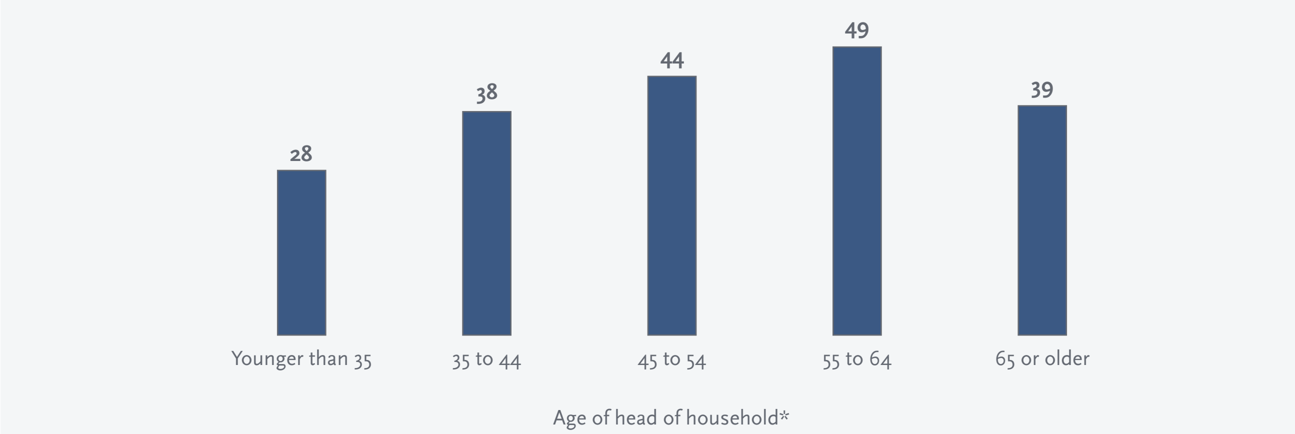
Incidence of IRA Ownership Increases with Age and Income

People of all ages own IRAs, but ownership is greatest among the older age groups. This reflects the life-cycle approach to saving, which finds that households tend to focus on retirement-related saving as they get older (and save for other goals such as education or buying a house when younger).[5] Also, many traditional IRA owners became owners as a result of rollovers from employer-sponsored plans, which occur after at least some years in the workforce.[6] In 2009, 44 percent of households headed by an individual aged 45 to 54 owned IRAs, and nearly half of households headed by an individual aged 55 to 64 owned IRAs (Figure 3). As a result, two-thirds of IRA-owning households were headed by individuals aged 45 or older (Figure 4). Among all U.S. households, by comparison, 59 percent were headed by individuals in this age group.

Figure 3

Incidence of IRA Ownership Greatest Among 55- to 64-Year-Olds

Percentage of U.S. households within each age group, 2009*

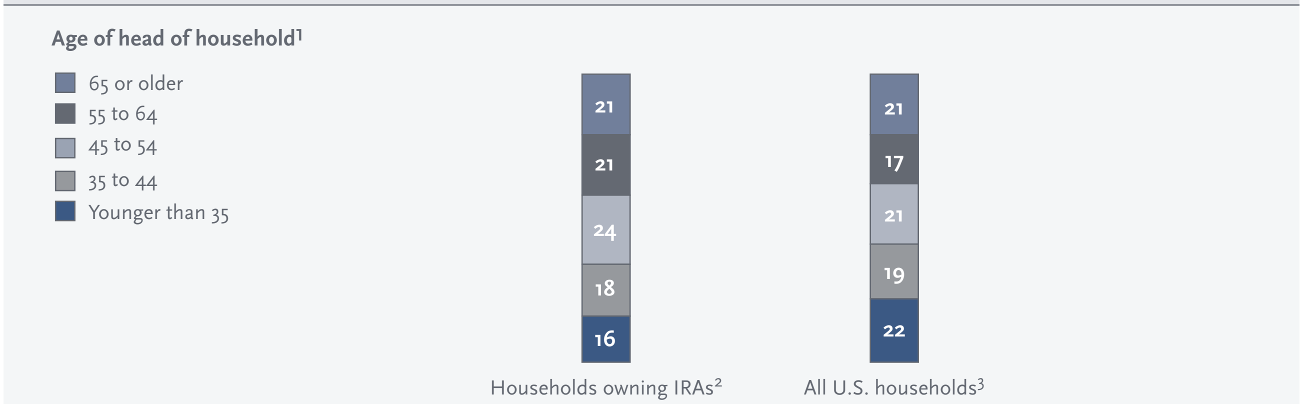


**Age is based on the age of the sole or co-decisionmaker for household saving and investing.*
Note: IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).
Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

Figure 4

Most IRA-Owning Households Are Between Ages 35 and 64

Percent distribution of households owning IRAs and all U.S. households by age,[1] 2009



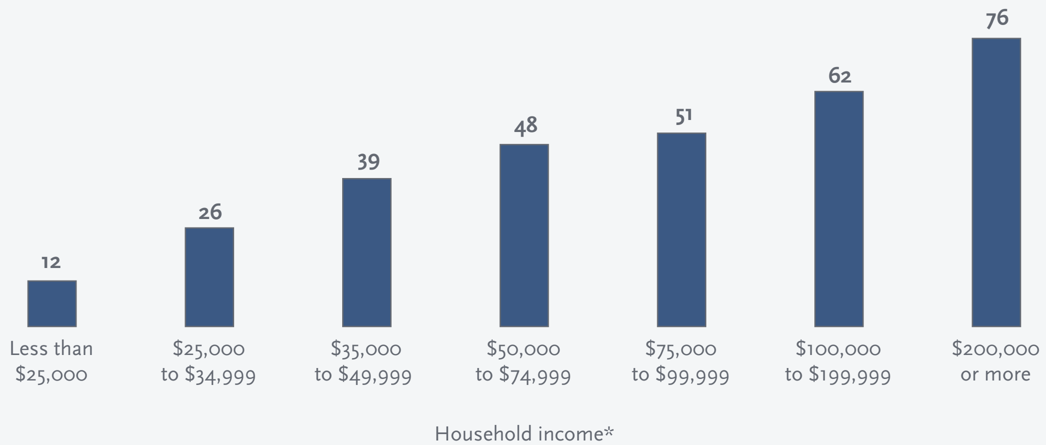
[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.
[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).
[3] The percentage of all households in each age group is based on ICI survey data and is weighted to match the U.S. Census Bureau's Current Population Survey.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

Although the majority of IRA-owning households had moderate incomes, IRA ownership tends to increase with household income. This pattern is consistent with the fact that lower-income households, which tend to be focused on near-term spending needs and get a higher replacement benefit through Social Security, generally exhibit less tendency to save for retirement.[7] Fifty-six percent of households with incomes of $50,000 or more owned IRAs, compared with 23 percent of households with incomes of less than $50,000. Nearly two-thirds of households with income of $100,000 or more owned IRAs in 2009 (Figure 5). As a result, 14 percent of households owning IRAs earned less than $35,000, compared with 36 percent of all U.S. households (Figure 6). More than half of households owning IRAs in 2009 had incomes between $35,000 and $99,999.

Figure 5

IRA Ownership Incidence Increases with Household Income

Percentage of U.S. households within each income group, 2009*

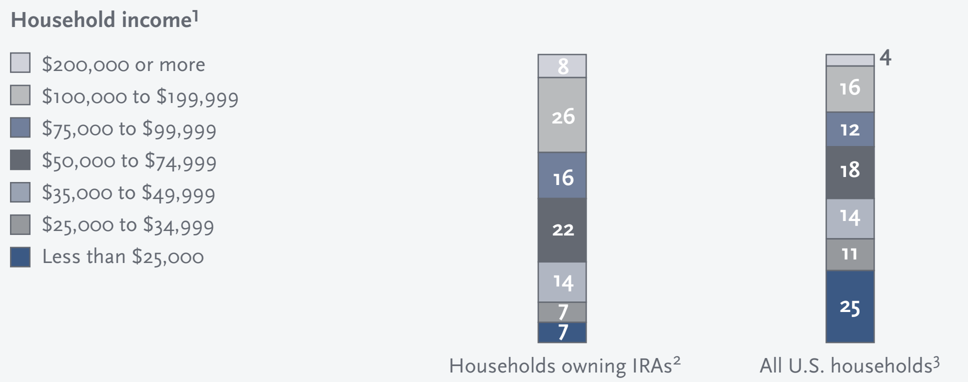


**Total reported is household income before taxes in 2008.*
Note: IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).
Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

Figure 6

Most IRA-Owning Households Have Moderate Incomes

Percent distribution of households owning IRAs and all U.S. households by household income,[1] 2009



[1]Total reported is household income before taxes in 2008.
[2]IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).
[3]The percentage of all households in each income group is based on ICI survey data and is weighted to match the U.S. Census Bureau's Current Population Survey.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

IRA Owners Tend to Be Savers

IRA owners build substantial financial assets. The median financial assets of IRA-owning households was six times greater than the median financial assets of households that did not own IRAs (Figure 7). Those assets included DC retirement plan accounts; 69 percent of IRA-owning households also had such accounts. IRA owners typically exhibit the characteristics of individuals who are most likely to save. The financial decisionmakers of households with IRAs tend to be older and are more likely to be married, employed, and have college or postgraduate degrees than households that do not own IRAs. These are all factors that tend to correlate with a greater propensity to save.[8]

Like other investing households, the majority of IRA-owning households were willing to take some financial risk for financial gain. Thirty percent were willing to take substantial or above-average financial risk for similar levels of financial gain (Figure 8). The largest percentage of households owning IRAs, 43 percent, were willing to take average risk for average gain. Twenty-seven percent were willing to take below-average risk for below-average gain or were unwilling to take any financial risk. Willingness to take risk among households owning IRAs decreases with age.[9] Fifty-two percent of IRA-owning households aged 65 or older reported that they were willing to take below-average risk for below average gain or were unwilling to take any financial risk. For households aged 35 to 44, only 9 percent were willing to take below-average risk for below-average gain or were unwilling to take any financial risk.

Figure 7

IRA Owners Are Typically Middle-Aged, Married, and Employed

Characteristics of U.S. households by ownership of IRAs,[1] 2009

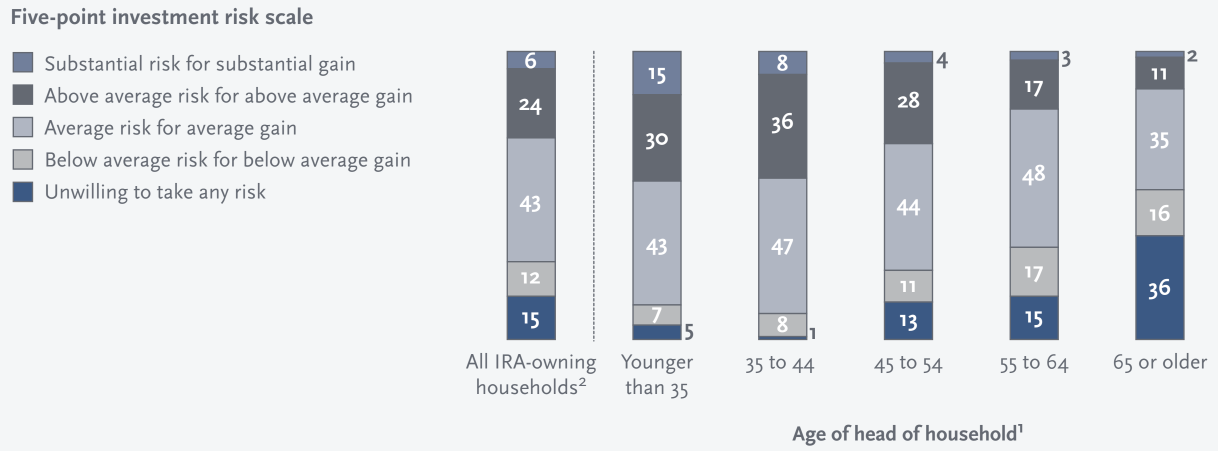
	Households owning IRAs[1]	Households not owning IRAs
Median per household		
Age of household sole or co-decisionmaker for saving and investing	52 years	47 years
Household income[2]	$75,000	$35,000
Household financial assets[3]	$150,000	$25,000
Household financial assets in IRAs	$30,000	N/A
Share of household financial assets in IRAs	33%	N/A
Percentage of households		
Household sole or co-decisionmaker for saving and investing:		
Married or living with a partner	72	57
College or postgraduate degree	45	20
Employed full- or part-time	69	55
Retired from lifetime occupation	28	27
Household has DC account or DB plan coverage (total)	80	47
DC retirement plan account	69	39
DB plan coverage	50	22

[1] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).
[2] Total reported is household income before taxes in 2008.
[3] Household financial assets include assets in employer-sponsored retirement plans, but exclude the household's primary residence.
N/A = not applicable
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and Investment Company Institute IRA Owners Survey

Figure 8

Willingness to Take Investment Risk Falls with Age

Percentage of U.S. households owning IRAs by age,[1] 2009



[1] *Age is based on the age of the sole or co-decisionmaker for household saving and investing.*
[2] *IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).*
Source: Investment Company Institute IRA Owners Survey

Just as 401(k) balances tend to be higher the longer a worker's job tenure,[10] IRA balances tend to rise with length of ownership. In 2009, households owning IRAs for less than 10 years had median IRA holdings of $15,000, while households owning IRAs for 20 years or more had median IRA holdings of $75,000 (Figure 9). Mean IRA holdings, while considerably higher than the median values, display a similar pattern.

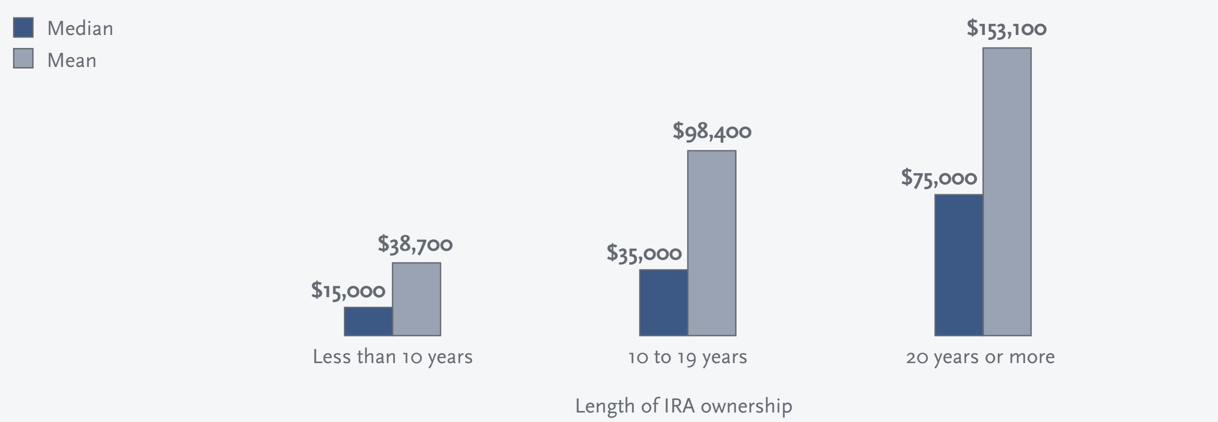
Rollovers to Traditional IRAs Fuel Growth

In 1974, Congress created traditional IRAs with a dual purpose.[11] First, traditional IRAs provide individuals not covered by retirement plans at work with a tax-deferred opportunity to save for retirement. Second, traditional IRAs also give retirees or workers who are changing jobs a way to preserve the tax-advantaged status of employer-sponsored retirement plan accumulations by allowing transfers, or "rollovers," of plan balances into IRAs.[12, 13]

Figure 9

IRA Assets Increase with Length of Ownership

Median and mean household financial assets in IRAs by length of ownership, 2009*



**IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).*
Source: Investment Company Institute IRA Owners Survey

Rollover activity has fueled recent IRA growth and helps many Americans preserve their retirement savings. The most recent available data show that households transferred more than $300 billion from employer-sponsored retirement plans to IRAs in 2007.[14] In 2009, nearly 20 million U.S. households (or 54 percent of all U.S. households owning traditional IRAs), had traditional IRAs that included rollover assets (Figure 10).[15] With their most recent rollovers, the vast majority of these households (89 percent) transferred their entire retirement plan balances into traditional IRAs.[16] Among households with rollovers in their traditional IRAs, half only had rollover IRAs (having never made traditional IRA contributions). Households with rollover assets in their IRAs tend to have higher IRA balances, compared with IRAs funded purely by individual contributions. Median traditional IRA holdings that include rollovers were $40,000 in 2009, compared with median traditional IRA holdings of $20,000 for balances that did not include rollovers (Figure 11).

Figure 10

Rollovers Are Often a Source of Assets for Traditional IRAs

Households with traditional IRAs that include rollovers *(percentage of U.S. households owning traditional IRAs, 2009)*	
Traditional IRA includes rollover	54
Traditional IRA does not include rollover	46
Traditional IRA rollover activity *(percentage of U.S. households owning traditional IRAs that include rollovers, 2009)*	
Traditional IRA rollover(s) due to:*	
Job change, layoff, or termination	69
Retirement	28
Other	13
Amount of most recent traditional IRA rollover:	
All assets in employer-sponsored retirement plan were rolled over	89
Some assets in employer-sponsored retirement plan were rolled over	11
Contributions to traditional IRA other than rollover:	
Have made contribution other than rollover	50
Have never made contribution in addition to rollover	50
Percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans:	
Less than 25 percent	15
25 to 49 percent	12
50 to 74 percent	18
75 percent or more	55
Memo:	
Median percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans	75

**Multiple responses are included.*
Source: Investment Company Institute IRA Owners Survey

Figure 11

Traditional IRAs Preserve Assets from Employer-Sponsored Retirement Plans

Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2009

	Traditional IRA includes rollover from employer-sponsored retirement plan[1]	Traditional IRA does not include rollover from employer-sponsored retirement plan[2]
Traditional IRA assets		
Mean	$109,400	$64,000
Median	$40,000	$20,000
Household financial assets[3]		
Mean	$301,700	$282,700
Median	$150,000	$200,000

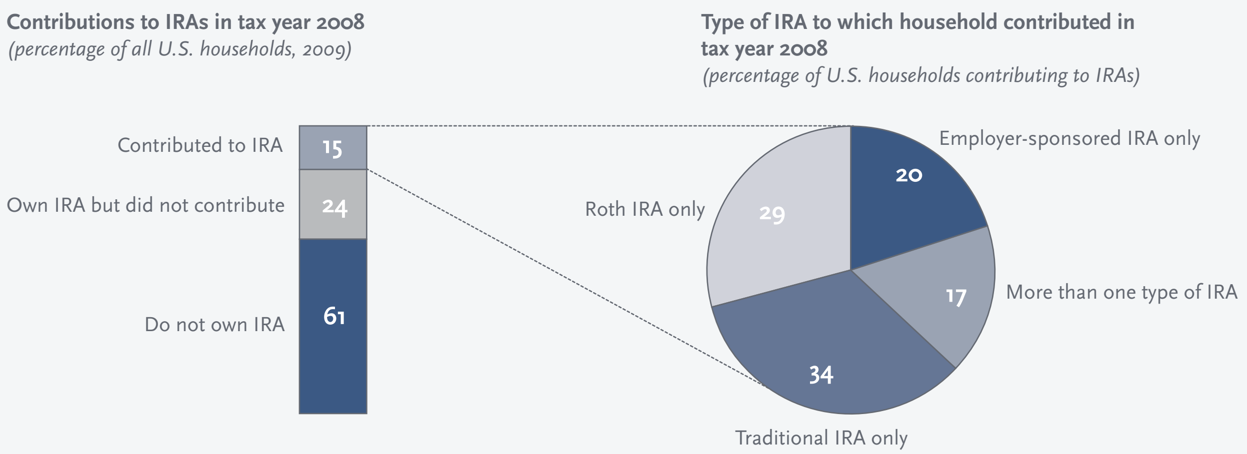
[1] Fifty-four percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans.
[2] Forty-six percent of households owning traditional IRAs have traditional IRAs that do not include rollovers from employer-sponsored retirement plans.
[3] Household financial assets include assets in employer-sponsored retirement plans, but exclude the household's primary residence.
Source: Investment Company Institute IRA Owners Survey

Few Households Make Contributions to IRAs

Although IRAs can help Americans build their retirement savings, the majority of U.S. households do not contribute to them. In tax year 2008, only 15 percent of all U.S. households made contributions to an IRA, as was the case in 2007 (Figure 12).[17] Among households owning IRAs, 39 percent made contributions in tax year 2008, compared with 37 percent in tax year 2007 (Figure 13). Among households making contributions to IRAs in tax year 2008, nearly half (49 percent) contributed to traditional IRAs, with 34 percent only contributing to traditional IRAs.[18] Forty percent of households making IRA contributions in tax year 2008 made Roth contributions, with 29 percent only contributing to Roth IRAs.[19] Twenty-nine percent contributed to employer-sponsored IRAs in tax year 2008, with 20 percent only contributing to employer-sponsored IRAs.[20]

Figure 12

Few Households Contribute to IRAs



Note: Employer-sponsored IRAs include SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and Investment Company Institute IRA Owners Survey

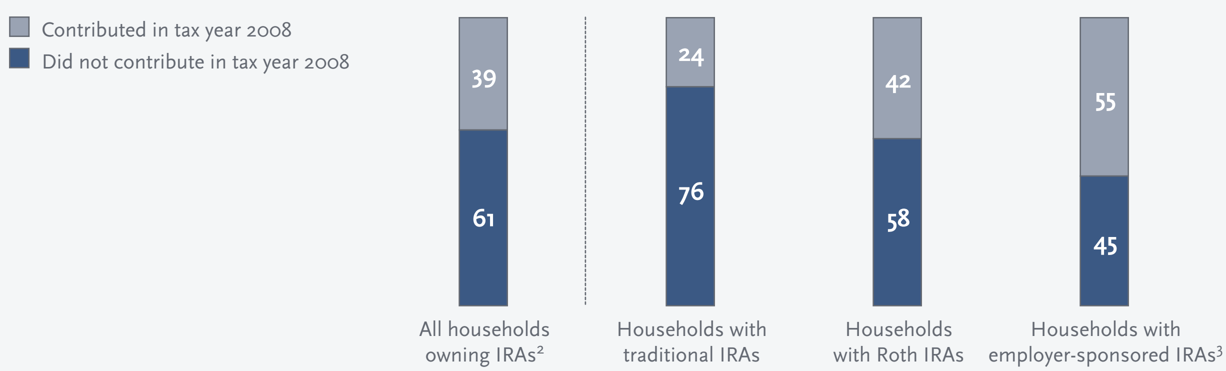
Roth and Employer-Sponsored IRA Owners Are More Likely to Contribute

Traditional IRA owners were less likely than owners of other types of IRAs to have made contributions. Forty-two percent of households owning Roth IRAs in 2009 made contributions in tax year 2008 (Figure 13). Fifty-five percent of all households owning employer-sponsored IRAs in 2009 made contributions in tax year 2008. In contrast, only 24 percent of traditional IRA–owning households in 2009 contributed to their traditional IRAs in tax year 2008. The lower contribution rate to traditional IRAs is likely due to restrictions on the tax deductibility of contributions, which must be considered by the 79 percent of traditional IRA–owning households that have retirement plan coverage at work.[21] In addition, 17 percent of traditional IRA–owning households were headed by individuals aged 70 or older and may not have been eligible to contribute due to IRS regulations.

Figure 13

Contribution Activity to Roth, Employer-Sponsored IRAs Outpaces Contribution Activity to Traditional IRAs in Tax Year 2008

Percentage of U.S. households owning each type of IRA[1] by contribution status in tax year 2008



	All households owning IRAs[2]	Households with traditional IRAs	Households with Roth IRAs	Households with employer-sponsored IRAs[3]
Median contribution per household to type of IRA indicated	$4,000	$3,300	$3,500	$4,000

[1] Households may hold more than one type of IRA. Contribution activity reported is for type of IRA indicated. Some of these households may have been ineligible to make contributions.

[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).

[3] Employer-sponsored IRAs include SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs.

Source: Investment Company Institute IRA Owners Survey

The median contribution among households contributing to employer-sponsored IRAs was $4,000 in tax year 2008, while the median contribution to traditional IRAs was $3,300 per household (Figure 13). The median contribution to Roth IRAs was $3,500 per household. In 2008, the traditional and Roth IRA contribution limit was $5,000 for individuals under the age of 50 (Figure 14).[22]

Since tax year 2002, individuals aged 50 or older are eligible to make "catch-up" contributions to their IRAs (Figure 14).[23] Among households aged 50 or older, 42 percent owned traditional or Roth IRAs in 2009 (Figure 15). Among these IRA-owning households, 29 percent made contributions to traditional or Roth IRAs; half of these contributing households made catch-up contributions. All told, catch-up contributions are not prevalent, with only 6 percent of all U.S. households aged 50 or older[24] reporting catch-up contributions.

IRA Withdrawals Infrequent, Mostly Retirement Related

Few households withdraw money from their IRAs in any given year, and most withdrawals are retirement related. Nineteen percent of households still owning traditional IRAs in 2009 reported taking withdrawals from these IRAs in tax year 2008 (Figure 16).[25] Among households taking traditional IRA withdrawals, 84 percent reported someone in the household was retired from their lifetime occupation. Nevertheless, among retired households owning traditional IRAs in 2009, nearly three out of five did not take a withdrawal in tax year 2008.

Figure 14

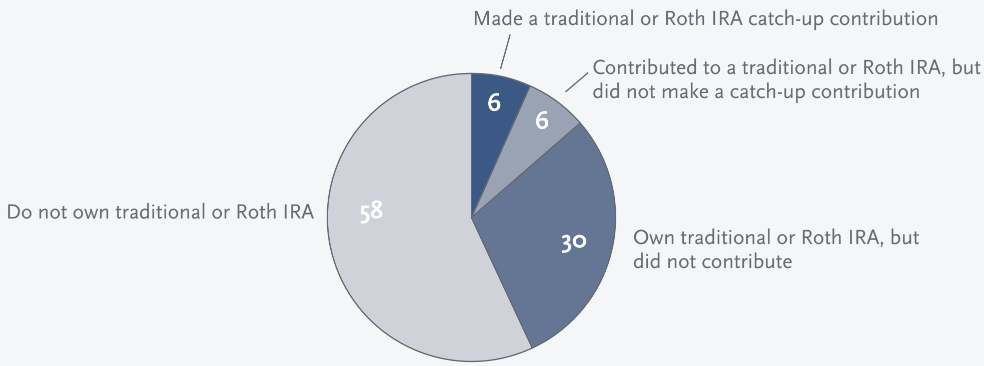
Internal Revenue Code Traditional and Roth IRA Contribution Limits, 2001–2010

**After 2008, traditional IRA contributions are indexed for inflation in $500 increments. IRA catch-up contributions are not indexed for inflation.*
Source: ICI summary of U.S. Internal Revenue Code

Figure 15

Traditional and Roth IRA Catch-Up Contributions Are Infrequent

Percentage of U.S. households with individuals aged 50 or older by contribution status in tax year 2008



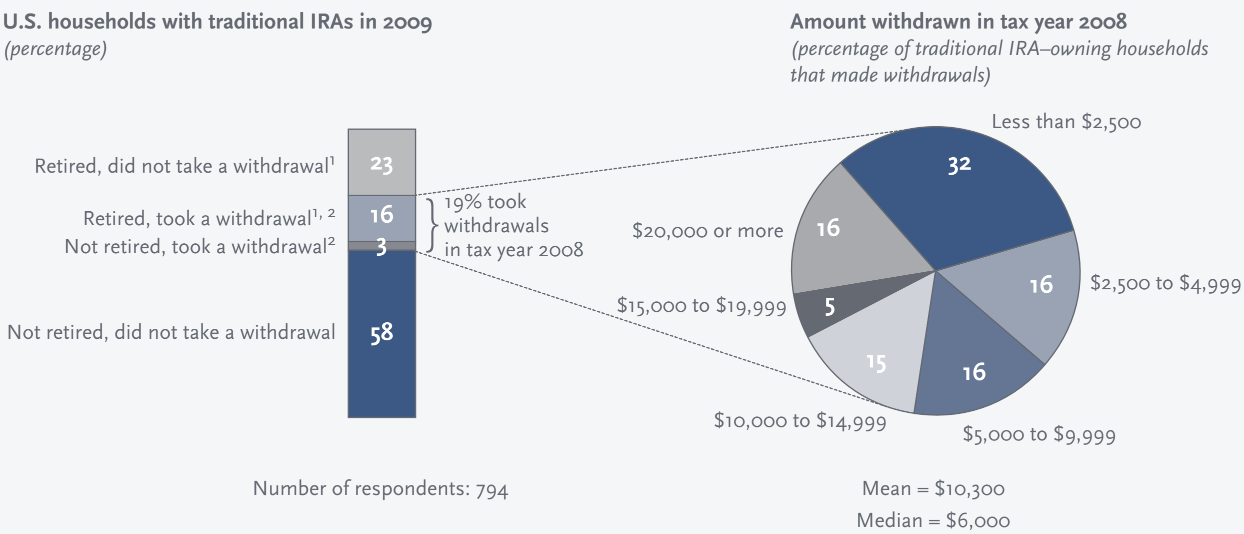
Note: Catch-up contribution activity is identified if an individual's contribution is greater than the $5,000 limit in tax year 2008 or if the individual indicated that the contribution included catch-up.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and Investment Company Institute IRA Owners Survey

Traditional IRA–owning households who made withdrawals generally took modest-sized amounts. Thirty-two percent of traditional IRA–owning households making withdrawals in tax year 2008 took less than $2,500 from their IRAs (Figure 16). Although some withdrawals in dollar amounts appear large, a median of 8 percent of the account balance was typically withdrawn. A traditional IRA withdrawal, if taken by an individual prior to age 59½, is generally subject to a 10 percent penalty on the taxable portion of the withdrawal (in addition to the federal, state, and local income tax that may be due).[26] Taxpayers older than 59½ but younger than 70½ may take withdrawals without penalty, but are generally not required to do so. Traditional IRA owners aged 70½ or older are required to withdraw an annual amount based on life expectancy or pay a penalty for failing to do so; these withdrawals are called required minimum distributions (RMDs). In

Figure 16

Withdrawals from Traditional IRAs Are Infrequent



[1] The household was considered retired if either the head of household or spouse responded affirmatively to "are you retired from your lifetime occupation?"

[2] Households that closed and no longer owned traditional IRAs were not included.

Source: Investment Company Institute IRA Owners Survey

line with these incentives and disincentives, younger households were much less likely to have withdrawals than older households. Among traditional IRA–owning households in 2009 headed by individuals younger than 59, only 5 percent took a withdrawal in tax year 2008 (Figure 17).[27] Nineteen percent of households owning traditional IRAs and headed by an individual aged 59 to 69 reported withdrawals. Withdrawal activity was highest among households headed by individuals aged 70 or older: 70 percent of these traditional IRA–owning households took withdrawals in tax year 2008.[28]

Figure 17

Most Traditional IRA–Owning Households That Take Withdrawals Are Headed by Individuals Aged 70 or Older

Percentage of traditional IRA–owning households, 2008 and 2009

	Traditional IRA–owning households	
	2008	**2009**
Age of head of household* *(percentage of U.S. households owning traditional IRAs)*		
Younger than 59	62	63
59 to 69	22	20
70 or older	16	17
Traditional IRA withdrawal activity by age* *(percentage of U.S. households owning traditional IRAs)*		
Younger than 59, did not take a withdrawal	59	60
Younger than 59, took a withdrawal	4	3
Aged 59 to 69, did not take a withdrawal	17	16
Aged 59 to 69, took a withdrawal	5	4
Aged 70 or older, did not take a withdrawal	4	5
Aged 70 or older, took a withdrawal	11	12
Memo: Percentage of traditional IRA–owning households with withdrawals	20	19
Incidence of withdrawal activity by age* *(percentage of traditional IRA–owning households by age*)*		
Younger than 59	6	5
59 to 69	24	19
70 or older	73	70
Age composition of households with withdrawals *(percentage of traditional IRA–owning households with withdrawals)*		
Younger than 59	18	16
59 to 69	26	20
70 or older	56	64

**Age is based on the age of the sole or co-decisionmaker for household saving and investing.*

Note: For traditional IRA–owning households in 2008, figure reports tax year 2007 withdrawal activity. For traditional IRA–owning households in 2009, figure reports tax year 2008 withdrawal activity.

Source: Investment Company Institute IRA Owners Survey, 2008 and 2009

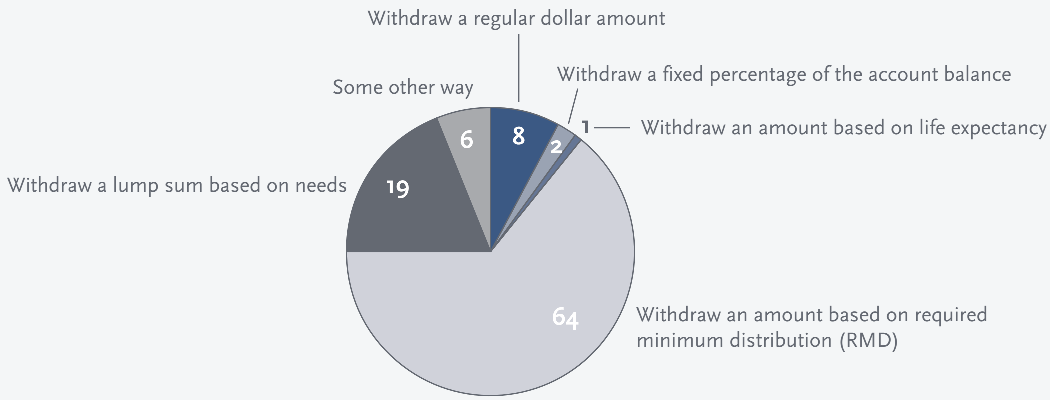
Typically, withdrawals from traditional IRAs were taken to fulfill RMDs. Sixty-four percent of households owning traditional IRAs in 2009 and making withdrawals in tax year 2008 calculated their withdrawal amount to satisfy this requirement (Figure 18). Another 19 percent of traditional IRA–owning households taking withdrawals reported they withdrew lump sums based on needs. Ten percent reported a scheduled withdrawal amount, either a percentage of the account or a regular dollar amount. Households headed by individuals aged 70 or older were much more likely to cite RMDs as a reason for withdrawal, while younger households were much more likely to take lump-sum withdrawals based on needs.[29]

Traditional IRA–owning households that took withdrawals in tax year 2008 usually consulted outside sources to determine the amount of the withdrawal. Seventy-two percent consulted a professional financial adviser to determine the amount to withdraw in tax year 2008 (Figure 19). Twenty-nine percent consulted IRS rules or publications.

Figure 18

How Traditional IRA Withdrawals Are Determined

Percentage of traditional IRA–owning households with withdrawals in tax year 2008



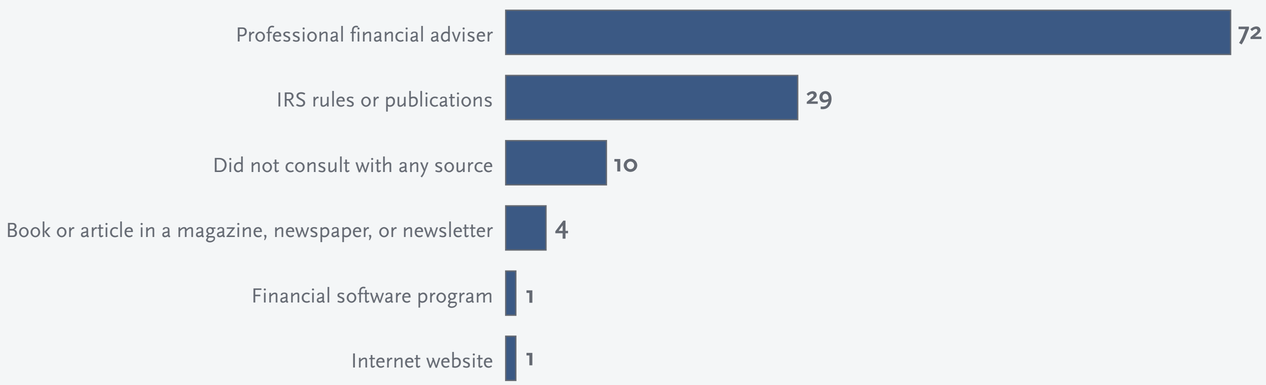
Number of respondents: 141

Source: Investment Company Institute IRA Owners Survey

Figure 19

The Majority of Households Consult with a Professional Financial Adviser to Determine the Amount of Traditional IRA Withdrawals

Percentage of traditional IRA–owning households that made withdrawals in tax year 2008



Number of respondents: 116

Note: Multiple responses are included.
Source: Investment Company Institute IRA Owners Survey

The Role of Traditional IRA Withdrawals in Retirement

Traditional IRA withdrawals can be used for a variety of purposes in retirement. Among households where either the head of household or spouse was retired, 44 percent reported using traditional IRA withdrawals to pay for living expenses (Figure 20). Nearly one-third of retired households that took a traditional IRA withdrawal in tax year 2008 cited reinvesting or saving the withdrawal amount into another account.[30] Fifteen percent reported using the withdrawal for home purchase, repair, or remodeling, and 14 percent used the withdrawal for an emergency. Nineteen percent reported using the withdrawal for a healthcare expense.

Because today's withdrawal activity may not be a good indicator of future withdrawal activity, traditional IRA–owning households that did not take withdrawals in tax year 2008 were asked about their future withdrawal intentions. In 2009, 64 percent of these traditional IRA–owning households say it is unlikely they will take withdrawals prior to age 70½ (Figure 21). Among traditional IRA–owning households in 2009 that did not take withdrawals in tax year 2008, 37 percent indicate it is "not at all likely" that they would start IRA withdrawals before required. Another 27 percent report it is "not very likely" that they would take withdrawals prior to age 70½.

Figure 20

Traditional IRA Withdrawals Often Used to Pay for Living Expenses

Percentage of traditional IRA–owning households[1] in which either the head of household or spouse is retired, 2009

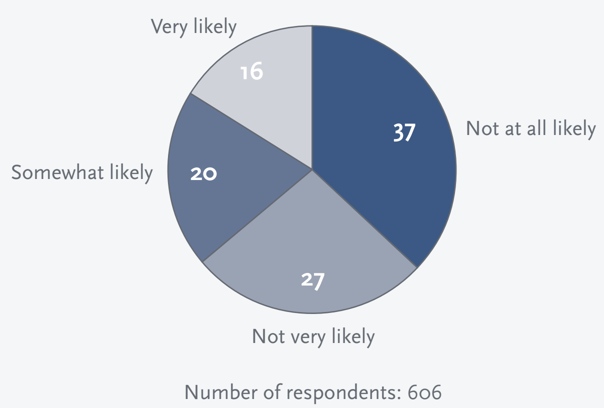
Purpose of traditional IRA withdrawal in retirement[2]	
Took withdrawals to pay for living expenses	44
Spent it on a car, boat, or big-ticket item other than a home	6
Spent it on a healthcare expense	19
Used it for an emergency	14
Used it for home purchase, repair, or remodeling	15
Reinvested or saved it in another account	31
Paid for education	3
Some other purpose	12
Number of respondents	*125*

[1] The base of respondents includes the 16 percent of traditional IRA–owning households who were retired and took withdrawals reported in Figure 16.
[2] Multiple responses are included.
Source: Investment Company Institute IRA Owners Survey

Figure 21

Likelihood of Withdrawing from Traditional IRA Before Age 70½

Percentage of traditional IRA–owning households that did not take a withdrawal in tax year 2008



Source: Investment Company Institute IRA Owners Survey

Traditional IRA–owning households that were either (1) not retired or (2) retired but did not take a withdrawal in tax year 2008, reported a similar pattern for the expected role of future IRA withdrawals in retirement. Nearly 70 percent of these households reported they plan to use IRA withdrawals to pay for living expenses in retirement (Figure 22). Two-thirds reported they plan to use IRA withdrawals for an emergency. When asked to select a primary role for future IRA withdrawals in retirement, 55 percent expected the primary role of IRA withdrawals will be to pay for living expenses in retirement.

IRA Owners' Awareness of Recent IRA Tax Law Changes

The May 2009 ICI IRA Owners Survey asked traditional IRA owners about their awareness of recent changes in tax law regarding IRAs, specifically the 2009 RMD suspension and the 2010 Roth conversion rule change.

RMD Suspension in 2009

In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009.[31] When asked about their awareness of this change, 35 percent of traditional IRA–owning households reported that they were aware of the suspension of RMDs. Awareness of the change was higher among households already taking RMDs. Among households that made a traditional IRA withdrawal based on RMD in tax year 2008, 71 percent were aware of the rule change.

Roth Conversions in 2010

Traditional IRA owners also were asked about their awareness of the upcoming 2010 Roth conversion rule changes.[32] Beginning in 2010, households with income above $100,000 will be able to convert assets to a Roth IRA.[33] In addition, for 2010 only, any individual who converts assets to a Roth IRA may opt to pay the taxes over two years (2011 and 2012). Twenty-three percent of traditional IRA–owning households reported being aware of the 2010 Roth conversion rule changes. Among traditional IRA–owning households with $100,000 or more in household income, 32 percent were aware of the changes.[34]

Figure 22

Expected Role of IRA Withdrawals in Retirement

Percentage of traditional IRA–owning households,[1] excluding retiree households with withdrawals, 2009

Plan for future IRA withdrawals in retirement[2]	
Take withdrawals to pay for living expenses	69
To spend it on a car, boat, or big-ticket item other than a home	8
To spend it on a healthcare expense	33
To use it for an emergency	67
To use it for home purchase, repair, or remodeling	23
To reinvest or save it in another account	44
To pay for education	13
Some other plan	8
Primary plan for future IRA withdrawals in retirement	
Take withdrawals to pay for living expenses	55
To spend it on a car, boat, or big-ticket item other than a home	2
To spend it on a healthcare expense	4
To use it for an emergency	15
To use it for home purchase, repair, or remodeling	4
To reinvest or save it in another account	11
To pay for education	4
Some other plan	5
Number of respondents	*667*

[1]The base of respondents includes the 23 percent of traditional IRA–owning households who were retired but did not take withdrawals (who were asked about their future plans), the 3 percent of nonretired households that took withdrawals, and the 58 percent of nonretired households that did not take withdrawals.

[2]Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

Additional Reading

"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 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.

Glossary

catch-up contribution: Individuals aged 50 or older are permitted to make contributions to an IRA or employer-sponsored retirement savings plan in excess of the annual contribution limit. In 2009, the catch-up limit was $1,000 for IRAs, $2,500 for SIMPLE plans, and $5,500 for 401(k) plans.

contribution limit: Federal law establishes limits for the amount an individual may contribute to an IRA, 401(k), or other retirement savings plan in any given year. In 2009, the annual employee contribution limit for 401(k)s and similar employer-sponsored retirement plans was $16,500; the annual limit for traditional and Roth IRAs was $5,000; and the annual limit for SIMPLE IRAs was $11,500. The limit on the sum of employee and employer contributions for DC plans in 2009 was $49,000. Individuals aged 50 or older can make additional "catch-up" contributions. The contribution limits are unchanged for 2010.

conversion: The movement of assets in a traditional IRA to a Roth IRA, done either through a transfer of assets from a traditional IRA to a Roth IRA or by redesignating a traditional IRA as a Roth IRA. Assets in a 401(k) or other tax-advantaged employer-sponsored retirement plan may also be converted to a Roth IRA. Generally the assets converted are taxable in the year of the conversion to the Roth IRA.

distribution: Individuals may take distributions (that is, withdraw funds) from their IRAs prior to retirement, but distributions may be subject to federal income tax, a tax penalty, or both. Withdrawals from traditional IRAs before age 59½ are subject to income tax and may be subject to a 10 percent early withdrawal penalty. The earnings portion of withdrawals from Roth IRAs made within five years of contribution or made before age 59½ are generally subject to income tax and may be subject to the 10 percent penalty (along with the after-tax contribution portion in some circumstances). For both traditional IRAs and Roth IRAs, the 10 percent penalty does not apply to withdrawals made in cases of death or disability, or if used for certain medical expenses, first-time homebuyer expenses, qualified higher-education expenses, health insurance expenses of unemployed individuals, or as part of a series of substantially equal periodic payments made for the life or over the life expectancy of the individual. In addition, provided the five-year holding period is satisfied, the earnings portion of early withdrawals from a Roth IRA made in cases of death, disability, or first-time homebuyer expenses are not subject to income tax.

401(k) plan: A type of DC plan that allows employees to choose to contribute a portion of their salaries into the plan, which defers income taxes on the amounts contributed. Like a traditional IRA, no taxes are due until distributions are taken from the account. In 2006, plans could choose to allow employees to make Roth contributions to a 401(k) plan. These contributions are claimed as taxable income in the year of the contribution, but no taxes are due on qualified distributions. Most 401(k) plans also allow employees to choose how they wish to invest their accounts.

individual retirement account (IRA): A tax-deferred or tax-free retirement account that allows contributions of a limited yearly sum. Congress initially designed IRAs to have two roles: (1) to give individuals not covered by a retirement plan at work a tax-advantaged retirement savings plan, and (2) to play a complementary role to the employer-sponsored retirement system by preserving rollover assets at job separation or retirement. The term IRA is also applied to *individual retirement annuities*, which receive similar tax treatment.

required minimum distribution (RMD): Minimum distribution rules require that beginning at age 70½, the entire amount of a traditional IRA be distributed over the expected life of the individual (or the joint lives of the individual and designated beneficiary). Distributing less than the required amount will result in a tax penalty. Roth IRAs are not subject to required minimum distributions during the account holder's lifetime.

rollover: The transfer of an investor's assets from one qualified retirement plan or account (IRA, 401(k), or other tax-advantaged, employer-sponsored retirement plan) to another—due to changing jobs, for instance—without a tax penalty.

Roth IRA: An individual retirement account, first available in 1998, that permits only after-tax (nondeductible) contributions. Earnings on investments in this IRA are not taxed. Distributions of both principal and earnings are generally not subject to federal income tax if taken after age 59½. Distributions of principal before age 59½ are not subject to tax, but investment earnings are generally subject to tax and a 10 percent penalty if taken before age 59½. There are no required distributions during the account holder's lifetime.

SIMPLE IRA (Savings Incentive Match Plan for Employees): A tax-favored retirement plan, created in 1996, that small employers can set up for the benefit of their employees. Both employer and employee contributions are allowed in a SIMPLE IRA plan.

Simplified Employee Pension Plan (SEP) IRA: A retirement program in which an employer makes contributions to the IRAs on behalf of employees. A *Salary Reduction SEP* (or "*SAR-SEP*") IRA is a SEP IRA that allows employees to contribute their own compensation into the IRA. When Congress created the SIMPLE IRA in 1996, it provided that an employer could not establish a new SAR-SEP plan after 1996.

traditional IRA: The first type of IRA, created in 1974. Individuals may make tax-deductible and nondeductible contributions to these IRAs. Taxes on IRA investment earnings are deferred until they are distributed. Upon distribution, both principal and earnings are subject to federal income tax. Generally, distributions before age 59½ are subject to income tax and a 10 percent penalty.

Notes

1 See Investment Company Institute 2009.

Key terms related to IRAs and retirement savings are presented in the glossary of this report. For additional information and the rules governing IRAs, see Internal Revenue Service 2009.

2 Households' total financial assets were $42.1 trillion as of June 2009 and $14.2 trillion at year-end 1989. See U.S. Federal Reserve Board 2009.

3 Data in this issue of *Fundamentals* on the number and percentage of households owning IRAs are based on ICI's Annual Mutual Fund Shareholder Tracking Survey conducted in May 2009 of 4,201 randomly selected, representative U.S. households. The standard error for the total sample is ± 1.5 percentage points at the 95 percent confidence level. For further discussion and additional results from this survey, see Sabelhaus, Bogdan, and Bass 2009.

The demographic and financial characteristics of IRA owners are derived from a separate May 2009 IRA Owners Survey of 1,000 representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs). The standard error for the total sample is ± 3.1 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called Education IRAs). Estimates for 2009 are calculated using a revised estimation procedure. As is usual in the course of household survey work, researchers periodically re-examine the procedures used to ensure that the results published are representative of the population of interest. ICI engaged in such a process this year and the figures presented reflect a new weighting procedure. The new weighting methodology matches the census region, age distribution, income distribution, and educational attainment of U.S. households owning IRAs. Data from the 2008 ICI IRA Owners Survey have been reweighted and are available at www.ici.org/pdf/fm-v18n1_data.pdf (forthcoming).

4 See Figure 10 for additional information on rollover activities and Figure A15 in the appendix for additional information on traditional IRA owners with rollovers.

5 See Brady and Sigrist 2008 for discussion of the life-cycle model and household survey results regarding savings goals.

6 See Sabelhaus and Schrass 2009.

7 For discussion of retirement saving by different income groups, see Brady and Sigrist 2008 and Sabelhaus, Bogdan, and Schrass 2008.

8 See Holden et al. 2005 for a discussion of the relationship between demographic characteristics and the propensity to save. For additional discussion, see also Brady and Sigrist 2008 and Sabelhaus, Bogdan, and Schrass 2008.

[9] This is a pattern of risk tolerance observed in other types of investors. For example, see Sabelhaus, Bogdan, and Schrass 2008 and Schrass and Bass 2009.

[10] See Holden, VanDerhei, and Alonso 2009.

[11] For a brief history of IRAs and a discussion of the various features of different IRA types, see Holden et al. 2005. For a discussion of the evolving role of IRAs in U.S. retirement planning, see Sabelhaus and Schrass 2009.

[12] 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 2009.

[13] Rollovers are possible from both DC plans and DB plans. For research on DC plan participants' distribution decisions at retirement, see Sabelhaus, Bogdan, and Holden 2008.

[14] Rollover data for 2007 are preliminary from IRS Statistics of Income Division. For historical data, see Brady, Holden, and Short 2009 and Bryant 2008.

[15] Tabulations of the Federal Reserve Board's 2007 Survey of Consumer Finances data find that 41 percent of traditional IRA–owning households had rollovers in their IRAs in 2007, compared with 56 percent of IRA-owning households in ICI's 2007 IRA Owners Survey. For a description of the Survey of Consumer Finances, see Bucks et al. 2009.

[16] See Figure A15 in the appendix for additional information on traditional IRA owners with rollovers.

[17] In tax year 2007, only 15 percent (revised) of U.S. households made contributions to an IRA. Data from the 2008 ICI IRA Owners Survey have also been reweighted and are available at http://www.ici.org/pdf/fm-v18n1_data.pdf (forthcoming).

[18] Among households making IRA contributions, the 49 percent contributing to traditional IRAs includes the 34 percent only contributing to traditional IRAs plus 88 percent of the 17 percent that contributed to more than one type of IRA (Figure 12).

[19] Among households making IRA contributions, the 40 percent contributing to Roth IRAs includes the 29 percent only contributing to Roth IRAs plus 65 percent of the 17 percent that contributed to more than one type of IRA (Figure 12).

[20] Among households making IRA contributions, the 29 percent contributing to employer-sponsored IRAs includes the 20 percent only contributing to employer-sponsored IRAs plus 53 percent of the 17 percent that contributed to more than one type of IRA (Figure 12).

[21] See Figure A13 in the appendix.

[22] See Internal Revenue Service 2009 for details on income restrictions and other qualifications for contribution eligibility.

[23] The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) created catch-up contributions, which permit individuals aged 50 or older to make additional contributions to qualified retirement plans and IRAs above the annual deferral limits. Households that may make catch-up contributions to Roth IRAs are those with incomes within the limits to contribute to a Roth IRA and in which a household member is aged 50 or older. Households that may make catch-up contributions to traditional IRAs are those in which a household member is at least 50 years old by the end of the year but younger than 70½ years old by the end of the year. See Internal Revenue Service 2009.

[24] This group may include households ineligible to make deductible contributions to traditional IRAs.

[25] Data exclude households that closed and no longer owned traditional IRAs. Revised data indicate 20 percent of households still owning traditional IRAs in 2008 reported taking withdrawals in tax year 2007. The reweighted data from the 2008 IRA Owners Survey are available at www.ici.org/pdf/fm-v18n1_data.pdf (forthcoming).

[26] Over the years, Congress has created exceptions to the early withdrawal penalty, including first-time home purchase, certain medical expenses, certain educational expenses, and if the withdrawals are made as substantially equal periodic payments (SEPPs) based on a life expectancy calculation. For additional discussion of IRA withdrawal rules and activity, see Holden and Reid 2008.

[27] The withdrawal activity observed in ICI's IRA Owners Surveys shows similar results compared with data reported by the IRS based on tabulations of individual taxpayers' information returns. Data reported in Bryant 2008 indicate that among all IRA-owning taxpayers in 2004, 24 percent took a withdrawal. Incidence of withdrawal activity indicated that 10 percent of IRA-owning taxpayers younger than 60 took withdrawals in 2004; 23 percent of IRA-owning taxpayers aged 60 to 69 took withdrawals; and 93 percent of IRA-owning taxpayers aged 70 or older took withdrawals.

[28] Withdrawal activity among households with a head of household aged 70 or older is not 100 percent because it may be the case that the traditional IRA owner is a younger spouse or partner who is not yet required to make withdrawals.

[29] Among traditional IRA–owning households in 2009 with a head of household aged 70 or older and taking a withdrawal, 92 percent indicated their withdrawal was based on the RMD rules and only 3 percent took lump sums based on needs. In contrast, among withdrawing households younger than age 70, 54 percent took lump sums based on needs. Some younger households indicated their withdrawals were RMDs, which likely reflects they owned inherited IRAs.

[30] Among the 31 percent of households that reported reinvesting or saving the amount of the traditional IRA withdrawal into another account, 84 percent reported withdrawing the amount based on RMD.

[31] See section 201 of the Worker, Retiree, and Employer Recovery Act of 2008. For additional information on the suspension of RMDs, see Internal Revenue Service 2009.

[32] Although not effective until 2010, this change was enacted in 2006 as section 512 of the Tax Increase Prevention and Reconciliation Act of 2005.

[33] Prior to 2010, besides the income restrictions, individuals whose filing status is married filing separately also could not convert assets to a Roth IRA. This restriction is removed beginning in 2010.

[34] In the ICI IRA Owners Survey, only traditional IRA owners were asked about awareness of these changes. Households not currently owning traditional IRAs may also take advantage of changes to the Roth conversion rules by opening traditional IRAs in 2010 and immediately converting them to Roth IRAs. In addition, some DC plan balances may be eligible for conversion.

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