

## The Role of IRAs in U.S. Households' Saving for Retirement, 2008

### KEY FINDINGS

- **Four out of 10 U.S. households owned IRAs in 2008.** More than three-quarters of IRA-owning households also had employer-sponsored retirement plan accumulations or had defined benefit plan coverage. All told, 70 percent of all U.S. households had retirement plans through work or IRAs.
- **Nearly one-third of U.S. households had traditional IRAs in 2008.** 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 contain rollovers from an employer-sponsored retirement plan. Among households with rollovers in their traditional IRAs, 85 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 14 percent of U.S. households contributed to any type of IRA in tax-year 2007, and very few eligible households made “catch-up” contributions to traditional or Roth IRAs.
- **IRA withdrawals were infrequent and mostly retirement related.** Twenty-two percent of traditional IRA-owning households took a withdrawal in tax-year 2007. Eighty-two percent of households that made a traditional IRA withdrawal were retired. Only 5 percent of traditional IRA-owning households in 2008 headed by individuals aged 59 or younger took withdrawals, compared with a 4 percent withdrawal rate among such traditional IRA-owning households in 2007.
- **Traditional IRA-owning households not making withdrawals generally indicate they do not plan to tap their IRAs until age 70½.** Sixty-one percent of traditional IRA-owning households not making withdrawals in tax-year 2007 indicated it was unlikely they would withdraw from their IRAs before age 70½. The most commonly cited planned future use of traditional IRA withdrawals was to pay for living expenses, although 53 percent of traditional IRA-owning households without withdrawals indicated a future use of the monies would be to cover an emergency, such as healthcare expenses.

### IRAS PLAY AN INCREASINGLY IMPORTANT ROLE IN SAVING FOR RETIREMENT

With \$4.5 trillion in assets in mid-2008, individual retirement accounts (IRAs) represented more than one-quarter of U.S. total retirement market assets, compared with 15 percent two decades ago.<sup>1</sup> IRAs

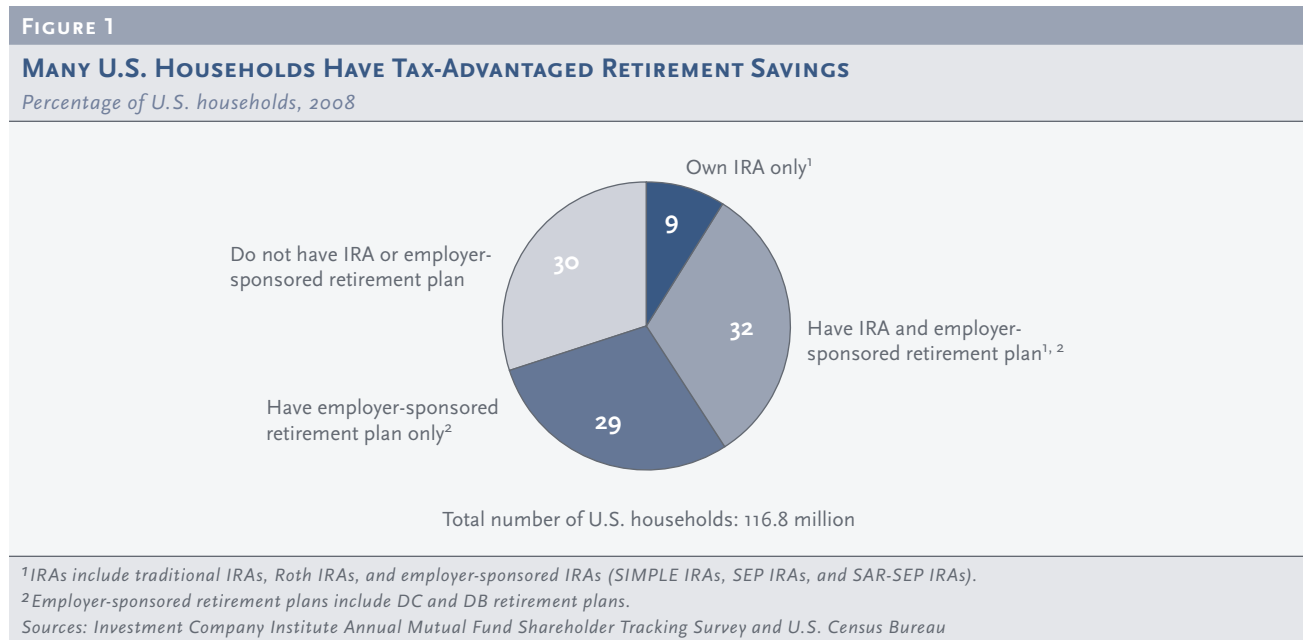
have also risen in importance on households' balance sheets. In June 2008, IRA assets were 10 percent of all household financial assets, up from 4 percent of assets two decades ago.<sup>2</sup> Forty-seven million, or 41 percent of, U.S. households reported owning IRAs in May

## KEY TERMS

- **Individual Retirement Account (IRA):** An account to which a person can make contributions up to a specified dollar limit. 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 change or retirement. The term IRA is also applied to individual retirement annuities, which receive similar tax treatment.
- **Traditional IRA:** The first type of IRA, created in 1974. Individuals may make tax-deductible and nondeductible contributions to these IRAs. Earnings on investments in the IRA are tax deferred. Taxable distributions may be taken without penalty starting at age 59½ and must be started once an individual reaches age 70½.
- **Roth IRA:** A Roth IRA is an individual retirement account that permits only after-tax contributions; earnings are not taxed while in the account, and qualified distributions of earnings and principal are generally tax free.
- **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 (see below), it provided that no new SAR-SEP IRAs could be created after 1996.
- **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.
- **401(k) plan:** An employer-sponsored retirement plan that enables employees to make tax-deferred contributions from their salaries to the plan.
- **Rollover:** The shifting 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.
- **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 2007, the annual employee contribution limit for 401(k) and similar employer-sponsored retirement plans was \$15,500; the annual limit for all traditional and Roth IRAs was \$4,000 and \$10,500 for SIMPLE IRAs. Individuals aged 50 or older can make additional “catch-up” contributions.
- **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.
- **Distribution:** Individuals may take distributions (that is, withdraw funds) from their IRA prior to retirement, but distributions may be subject to federal income tax and/or a penalty. Withdrawals from traditional IRAs before age 59½ 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. The 10 percent penalty does not apply to withdrawals for certain kinds of expenses, including a first home, certain educational expenses, and qualified medical expenses, among others.
- **Required minimum distribution (RMD):** Once an IRA owner turns age 70½, distributions from the IRA must begin. Failure to take the required distribution or take only a portion of the required amount will result in a tax penalty. Roth IRAs are not subject to required minimum distributions.

2008 (Figure 1).<sup>3</sup> Among all IRA-owning households, 78 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, 70 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 2008, 37.5 million, or 32 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.<sup>4</sup> Roth IRAs, which were first available in 1998, are the second most frequently owned type of IRA, owned by 18.6 million,



**FIGURE 2**  
**MILLIONS OF U.S. HOUSEHOLDS OWN IRAs**

	Year created	Number of U.S. households with type of IRA, <sup>1</sup> 2008	Percentage of U.S. households with type of IRA, <sup>1</sup> 2008
<b>Traditional IRA</b>	1974 (Employee Retirement Income Security Act)	37.5 million	32.1%
<b>SEP IRA<sup>2</sup></b>	1978 (Revenue Act)	10.0 million	8.6%
<b>SAR-SEP IRA<sup>2</sup></b>	1986 (Tax Reform Act)		
<b>SIMPLE IRA<sup>2</sup></b>	1996 (Small Business Job Protection Act)		
<b>Roth IRA</b>	1997 (Taxpayer Relief Act)	18.6 million	15.9%
<b>Any IRA<sup>1</sup></b>		47.3 million	40.5%

<sup>1</sup> Households may own more than one type of IRA.  
<sup>2</sup> 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

or 16 percent of, U.S. households. Nearly 9 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

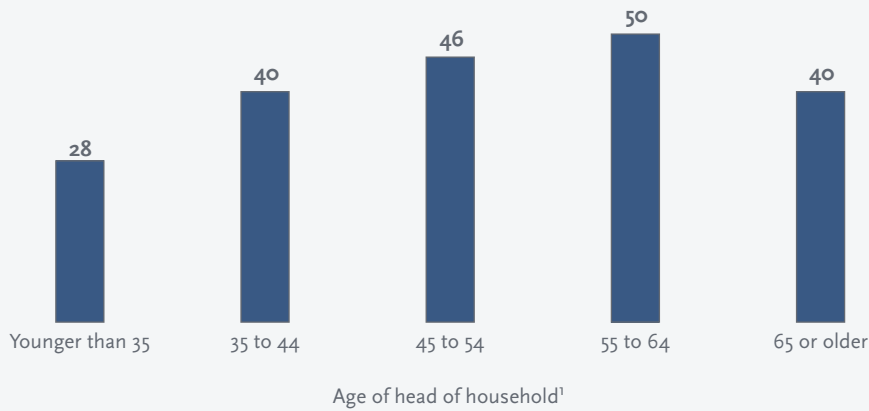
People of all ages own IRAs, but ownership is greatest among the older age groups. This reflects the life-cycle approach to saving, which highlights that households tend to focus on retirement-related saving as they get older (and save for other goals such as education or

buying a house when younger).<sup>5</sup> 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. In 2008, 46 percent of households headed by an individual aged 45 to 54 owned IRAs, and 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 that own IRAs,<sup>1, 2</sup> 2008



<sup>1</sup>Age is based on the age of the sole or co-decisionmaker for household saving and investing.

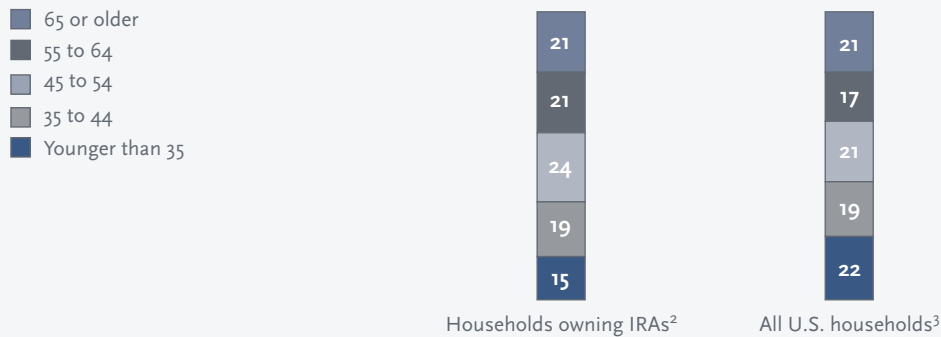
<sup>2</sup>IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

FIGURE 4

#### MOST IRA-OWNING HOUSEHOLDS ARE BETWEEN AGES 35 AND 64

Percentage distribution of households owning IRAs and all U.S. households by age,<sup>1</sup> 2008



<sup>1</sup>Age is based on the age of the sole or co-decisionmaker for household saving and investing.

<sup>2</sup>IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).

<sup>3</sup>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

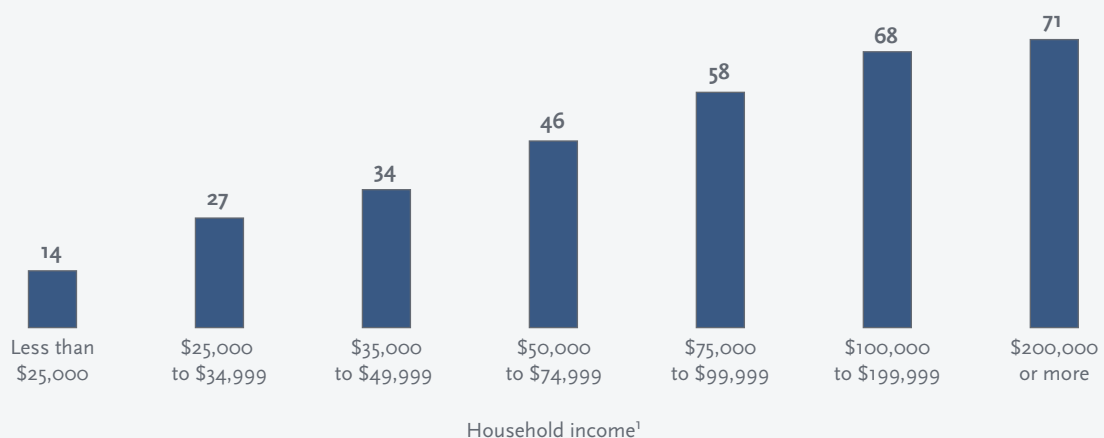
IRA ownership also increases with household income—a pattern that is consistent with the fact that lower-income households, which tend to be focused on near-term spending needs and get a higher replacement benefit through Social Security, generally exhibit less tendency to save for retirement.<sup>6</sup> Fifty-eight percent of households with incomes of \$50,000 or more owned IRAs, compared with 22 percent of households with incomes of less than

\$50,000. More than two-thirds of households with income of \$100,000 or more owned IRAs in 2008 (Figure 5). As a result, 16 percent of households owning IRAs earned less than \$35,000, compared with 36 percent of all U.S. households (Figure 6). Nevertheless, the majority of IRA-owning households had moderate incomes. About half of households owning IRAs in 2008 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 that own IRAs,<sup>1, 2</sup> 2008



<sup>1</sup>Total reported is household income before taxes in 2007.

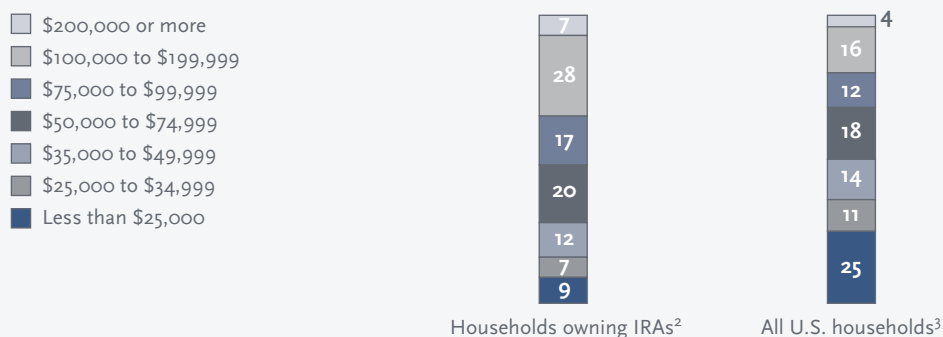
<sup>2</sup>IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

FIGURE 6

### MOST IRA-OWNING HOUSEHOLDS HAVE MODERATE INCOMES

Percentage distribution of households owning IRAs and all U.S. households by household income,<sup>1</sup> 2008



<sup>1</sup>Total reported is household income before taxes in 2007.

<sup>2</sup>IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).

<sup>3</sup>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 more than six times greater than the median financial assets of households that did not own IRAs (Figure 7). Those assets included DC retirement plan accounts; 70 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.<sup>7</sup>

**FIGURE 7**

### IRA OWNERS ARE TYPICALLY MIDDLE-AGED, MARRIED, AND EMPLOYED

*Characteristics of U.S. households by ownership of IRAs,<sup>1</sup> 2008*

	Households owning IRAs <sup>1</sup>	Households not owning IRAs
<b>Median per household</b>		
Age of household sole or co-decisionmaker for saving and investing	51 years	47 years
Household income <sup>2</sup>	\$75,000	\$35,000
Household financial assets <sup>3</sup>	\$200,000	\$32,000
Household financial assets in IRAs	\$55,000	N/A
Share of household financial assets in IRAs	31%	N/A
<b>Percentage of households</b>		
Household sole or co-decisionmaker for saving and investing:		
Married or living with a partner	74	54
College or postgraduate degree	44	20
Employed full- or part-time	71	58
Retired from lifetime occupation	27	25
Household has DC account or DB plan coverage (total)		
DC retirement plan account	70	40
DB plan coverage	44	24

*N/A = not applicable*

<sup>1</sup>IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).

<sup>2</sup>Total reported is household income before taxes in 2007.

<sup>3</sup>Household financial assets include assets in employer-sponsored retirement plans, but exclude the household's primary residence.

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

Just as 401(k) balances tend to be higher the longer a worker's job tenure,<sup>8</sup> IRA balances tend to rise with length of ownership. In 2008, households owning IRAs for less than 10 years had median IRA holdings of \$20,000, while households owning IRAs for 20 years or more had median IRA holdings of \$112,500 (Figure 8). Mean IRA holdings, while considerably higher than the median values, display a similar pattern.

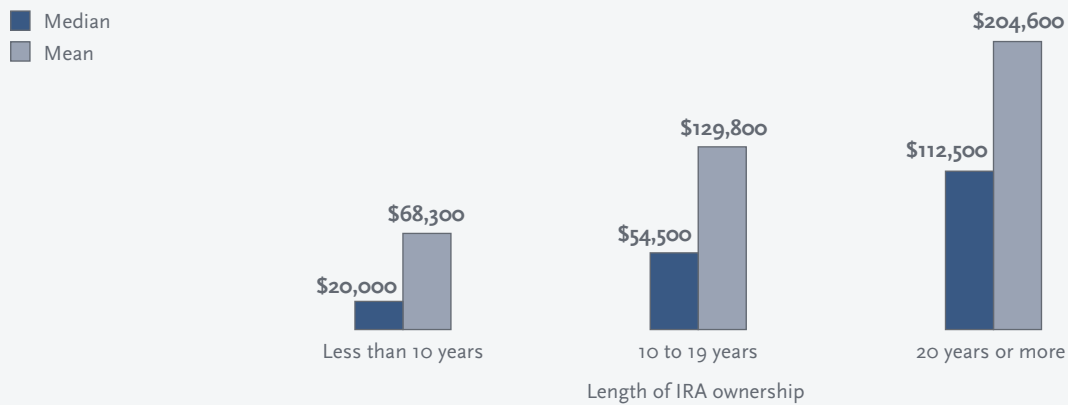
## ROLLOVERS TO TRADITIONAL IRAS FUEL GROWTH

In 1974, Congress created traditional IRAs with a dual purpose.<sup>9</sup> 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 workers changing jobs or retirees a way to preserve the tax-advantaged status of employer-sponsored retirement plan accumulations by allowing transfers, or "rollovers," of plan balances into IRAs.<sup>10, 11</sup>

**FIGURE 8**

### IRA ASSETS INCREASE WITH LENGTH OF OWNERSHIP

Median and mean household financial assets in IRAs<sup>1</sup> by length of ownership, 2008



<sup>1</sup>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 \$200 billion from employer-sponsored retirement plans to IRAs in 2004.<sup>12</sup> In 2008, nearly 20 million U.S. households, or 52 percent of all U.S. households owning traditional IRAs, had traditional IRAs that included rollover assets (Figure 9).<sup>13</sup> With their most recent rollovers, the vast majority of these households (85 percent) transferred their entire retirement plan balances into traditional IRAs.<sup>14</sup> Among households with rollovers in their traditional IRAs, 43 percent 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 \$75,000 in 2008, compared with median traditional IRA holdings of \$40,000 for balances that did not include rollovers (Figure 10).

## FEW HOUSEHOLDS MAKE CONTRIBUTIONS TO IRAS

Although IRAs can help Americans build their retirement savings, the majority of U.S. households does not contribute to them. In tax-year 2007, only 14 percent of all U.S. households made contributions to an IRA (Figure 11). Among households making contributions to IRAs in tax-year 2007, more than half (52 percent) contributed to traditional IRAs, with 42 percent only contributing to traditional IRAs.<sup>15</sup> Thirty-six percent of households making IRA contributions in tax-year 2007 made Roth contributions, with 30 percent only contributing to a Roth IRA.<sup>16</sup> Twenty-four percent contributed to employer-sponsored IRAs in tax-year 2007, with 17 percent only contributing to employer-sponsored IRAs.<sup>17</sup>

FIGURE 9

### 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, 2008)

Traditional IRA includes rollover	52
Traditional IRA does not include rollover	48

#### Traditional IRA rollover activity

(percentage of U.S. households owning traditional IRAs that include rollovers, 2008)

Traditional IRA rollover(s) due to: <sup>1</sup>	
Job change, layoff, or termination	67
Retirement	32
Other	11

#### Amount of most recent traditional IRA rollover:

All assets in employer-sponsored retirement plan were rolled over	85
Some assets in employer-sponsored retirement plan were rolled over	15

#### Contributions to traditional IRA other than rollover:

Have made contribution other than rollover	57
Have never made contribution in addition to rollover	43

<sup>1</sup> Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

**FIGURE 10**

**TRADITIONAL IRAS PRESERVE ASSETS FROM EMPLOYER-SPONSORED RETIREMENT PLANS**

*Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2008*

	Traditional IRA includes rollover from employer-sponsored retirement plan <sup>1</sup>	Traditional IRA does not include rollover from employer-sponsored retirement plan <sup>2</sup>
<b>Traditional IRA assets</b>		
Mean	\$170,300	\$99,400
Median	\$75,000	\$40,000
<b>Household financial assets<sup>3</sup></b>		
Mean	\$419,500	\$382,400
Median	\$300,000	\$270,000

<sup>1</sup>Fifty-two percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans.

<sup>2</sup>Forty-eight percent of households owning traditional IRAs have traditional IRAs that do not include rollovers from employer-sponsored retirement plans.

<sup>3</sup>Household financial assets include assets in employer-sponsored retirement plans, but exclude the household's primary residence.

Source: Investment Company Institute IRA Owners Survey

**FIGURE 11**

**FEW HOUSEHOLDS CONTRIBUTE TO IRAS**

**Contributions to IRAs in tax-year 2007**  
*(percentage of all U.S. households, 2008)*



**Type of IRA to which household contributed in tax-year 2007**  
*(percentage of U.S. households contributing to IRAs)*



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

## ROTH AND EMPLOYER-SPONSORED IRA OWNERS MORE LIKELY TO CONTRIBUTE

Traditional IRA owners were less likely than owners of other types of IRAs to have made contributions. Thirty-one percent of households owning Roth IRAs in 2008 made contributions in tax-year 2007 (Figure 12). Half of all households owning employer-sponsored IRAs in 2008 made contributions in tax-year 2007. In contrast, only 21 percent of traditional IRA-owning households in 2008 contributed to their traditional IRAs in tax-year 2007. The lower contribution rate to traditional IRAs is likely due to restrictions on the tax deductibility of contributions, which must be

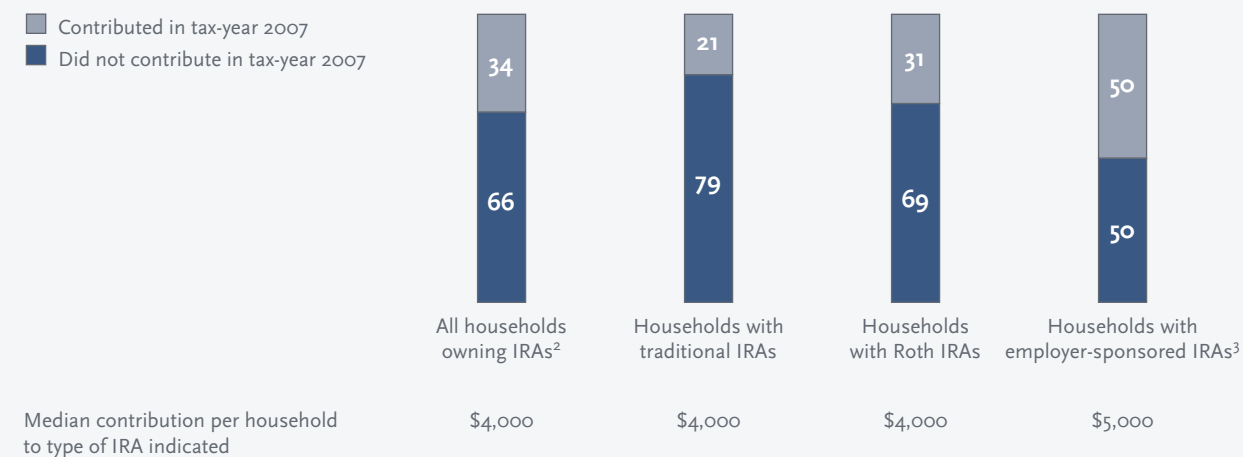
considered by the 80 percent of traditional IRA-owning households that have retirement plan coverage at work.<sup>18</sup> In addition, 18 percent of traditional IRA-owning households were headed by individuals aged 70 or older and may not have been eligible to contribute due to IRS regulations.

The median contribution among households contributing to employer-sponsored IRAs was \$5,000 in tax-year 2007, while the median contribution to traditional and Roth IRAs was \$4,000 per household (Figure 12). In 2007, the traditional and Roth IRA contribution limit was \$4,000 for individuals under the age of 50 (Figure 13).<sup>19</sup>

FIGURE 12

### CONTRIBUTION ACTIVITY TO ROTH, EMPLOYER-SPONSORED IRAS OUTPACES CONTRIBUTION ACTIVITY TO TRADITIONAL IRAS IN TAX-YEAR 2007

Percentage of U.S. households owning each type of IRA<sup>1</sup> by contribution status in tax-year 2007



<sup>1</sup>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.

<sup>2</sup>IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).

<sup>3</sup>Employer-sponsored IRAs include SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs.

Source: Investment Company Institute IRA Owners Survey

FIGURE 13

INTERNAL REVENUE CODE TRADITIONAL AND ROTH IRA CONTRIBUTION LIMITS, 2001–2009



<sup>1</sup>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

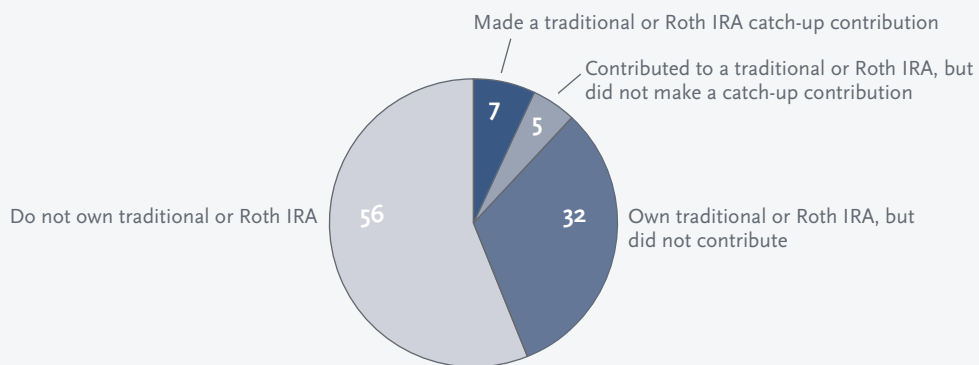
Since tax-year 2002, individuals aged 50 or older are eligible to make “catch-up” contributions to their IRAs (Figure 13).<sup>20</sup> Among households aged 50 or older, 44 percent owned traditional or Roth IRAs in 2008 (Figure 14). Among these IRA-owning households, 27 percent made contributions to traditional or Roth

IRAs; 58 percent of these contributing households made catch-up contributions. Nevertheless, all told catch-up contributions are not prevalent with only 7 percent of all U.S. households aged 50 or older reporting catch-up contributions.<sup>21</sup>

FIGURE 14

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 2007



Note: Catch-up contribution activity is identified if an individual's contribution is greater than the \$4,000 limit in tax-year 2007.  
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and Investment Company Institute IRA Owners Survey

## IRA WITHDRAWALS INFREQUENT, MOSTLY RETIREMENT RELATED

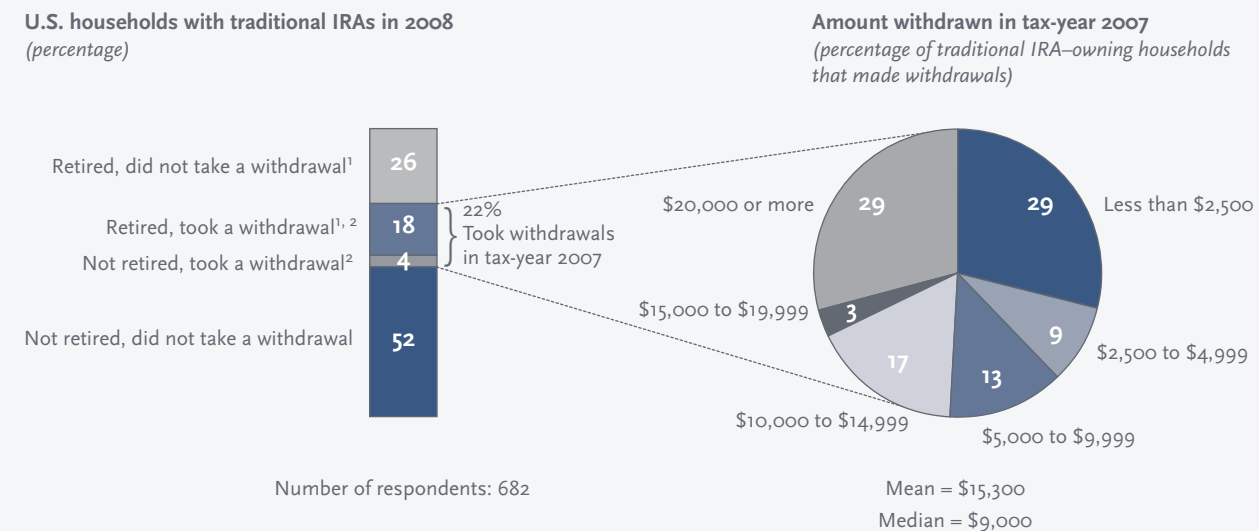
Few households withdraw money from their IRAs in any given year, and most withdrawals are retirement related. Twenty-two percent of households still owning traditional IRAs in 2008 reported taking withdrawals from these IRAs in tax-year 2007 (Figure 15).<sup>22</sup> Among households taking traditional IRA withdrawals, 82 percent reported someone in the household was retired from their lifetime occupation. Nevertheless, among retired households owning traditional IRAs in 2008, nearly three out of five did not take a withdrawal in tax-year 2007.

Traditional IRA-owning households who made withdrawals generally took modest-sized amounts. Twenty-nine percent of traditional IRA-owning households making withdrawals in tax-year 2007 took less than \$2,500 from their IRAs (Figure 15). Although some withdrawals in dollar amounts appear large, a median of 6 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

FIGURE 15

### WITHDRAWALS FROM TRADITIONAL IRAS ARE INFREQUENT



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

<sup>2</sup>Households that made a withdrawal exclude those that closed and no longer owned traditional IRAs.

Source: Investment Company Institute IRA Owners Survey

income tax that may be due).<sup>23</sup> 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 line with these incentives and disincentives, younger households were much less likely to have withdrawals than older households. Among traditional IRA-owning

households in 2008 headed by individuals younger than 59, only 5 percent took a withdrawal in tax-year 2007 (Figure 16).<sup>24</sup> Twenty-two 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: three-quarters of these traditional IRA-owning households took withdrawals in tax-year 2007.<sup>25</sup>

**FIGURE 16**

**MOST TRADITIONAL IRA-OWNING HOUSEHOLDS THAT TAKE WITHDRAWALS ARE HEADED BY INDIVIDUALS AGED 70 OR OLDER**

*Percentage of traditional IRA-owning households*

	Traditional IRA-owning households	
	2007	2008
<b>Age of head of household<sup>1</sup></b> <i>(percentage of U.S. households owning traditional IRAs)</i>		
Younger than 59	59	54
59 to 69	26	28
70 or older	15	18
<b>Traditional IRA withdrawal activity by age<sup>1</sup></b> <i>(percentage of U.S. households owning traditional IRAs)</i>		
Younger than 59, did not take a withdrawal	57	51
Younger than 59, took a withdrawal	2	3
Aged 59 to 69, did not take a withdrawal	19	22
Aged 59 to 69, took a withdrawal	7	6
Aged 70 or older, did not take a withdrawal	5	5
Aged 70 or older, took a withdrawal	10	13
<b>Memo:</b>		
Percentage of traditional IRA-owning households with withdrawals	19	22
<b>Incidence of withdrawal activity by age<sup>1</sup></b> <i>(percentage of traditional IRA-owning households by age<sup>1</sup>)</i>		
Younger than 59	4	5
59 to 69	25	22
70 or older	66	75
<b>Age composition of households with withdrawals</b> <i>(percentage of traditional IRA-owning households with withdrawals)</i>		
Younger than 59	11	13
59 to 69	34	27
70 or older	55	60

<sup>1</sup>Age is based on the age of the sole or co-decisionmaker for household saving and investing.

Note: For traditional IRA-owning households in 2007, figure reports tax-year 2006 withdrawal activity. For traditional IRA-owning households in 2008, figure reports tax-year 2007 withdrawal activity.

Source: Investment Company Institute IRA Owners Survey, 2007 and 2008

Typically, withdrawals from traditional IRAs were taken to fulfill RMDs. Sixty-four percent of households owning traditional IRAs in 2008 and making withdrawals in tax-year 2007 calculated their withdrawal amount to satisfy this requirement (Figure 17).<sup>26</sup> Another 18 percent of traditional IRA-owning households taking withdrawals reported they withdrew lump sums based on needs. Seven percent reported a scheduled withdrawal amount, either a percentage of the account or a fixed dollar amount. Households headed by individuals aged 70 or older

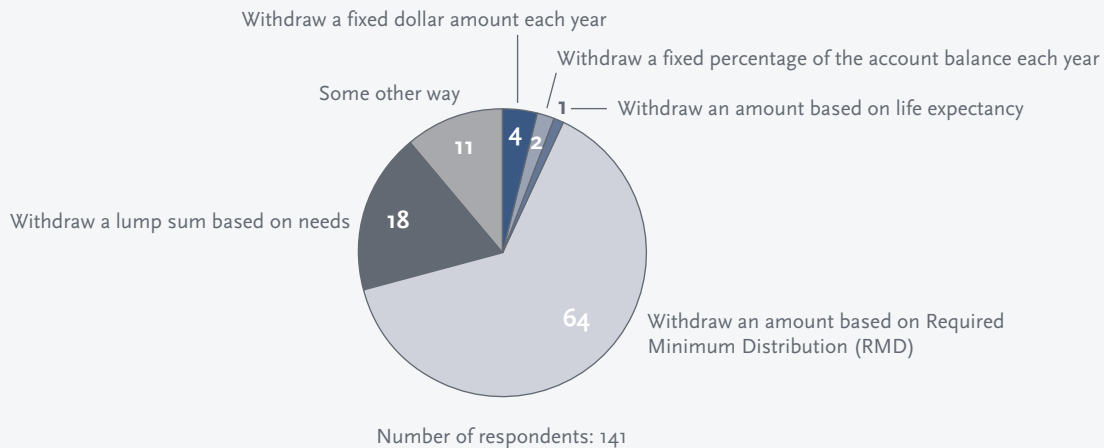
were much more likely to cite RMDs as a reason for withdrawal, while younger households were much more likely to take a lump-sum withdrawal based on needs.<sup>27</sup>

Traditional IRA-owning households that took a withdrawal in tax-year 2007 usually consulted an outside source to determine the amount of the withdrawal. Nearly six in 10 consulted a professional financial adviser to determine the amount to withdraw in tax-year 2007 (Figure 18). One-third consulted IRS rules or publications.

**FIGURE 17**

**HOW TRADITIONAL IRA WITHDRAWALS ARE DETERMINED**

*Percentage of traditional IRA-owning households with withdrawals in tax-year 2007*



Source: Investment Company Institute IRA Owners Survey

**FIGURE 18**

**THE MAJORITY OF HOUSEHOLDS CONSULTS WITH A PROFESSIONAL FINANCIAL ADVISER TO DETERMINE THE AMOUNT OF TRADITIONAL IRA WITHDRAWALS**

*Percentage of traditional IRA-owning households that made a withdrawal in tax-year 2007*



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, nearly half reported using traditional IRA withdrawals to pay for living expenses (Figure 19).<sup>28</sup> One-third of retired households that took a traditional IRA withdrawal in tax-year 2007 cited reinvesting or saving the withdrawal amount into another account.<sup>29</sup> Fifteen percent reported using the withdrawal for home purchase, repair, or remodeling, and 8 percent used the withdrawal for an emergency, such as 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 2007 were asked about their future withdrawal intentions. In 2008, six out of 10 of these traditional IRA-owning households say it is unlikely they will take withdrawals prior to age 70½ (Figure 20). Among traditional IRA-owning households in 2008 that did not take withdrawals in tax-year 2007, 34 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 19**

### TRADITIONAL IRA WITHDRAWALS OFTEN USED TO PAY FOR LIVING EXPENSES

*Percentage of traditional IRA-owning households<sup>1</sup> in which either the head of household or spouse is retired, 2008*

#### Purpose of traditional IRA withdrawal in retirement<sup>2</sup>

Took withdrawals to pay for living expenses	47
Spent it on a car, boat, or big-ticket item other than a home	5
Used it for an emergency, such as a healthcare expense	8
Used it for home purchase, repair, or remodeling	15
Reinvested or saved it in another account	33
Some other purpose	7
<i>Number of respondents</i>	122

<sup>1</sup>The base of respondents includes the 18 percent of traditional IRA-owning households who were retired and took withdrawals reported in Figure 15.

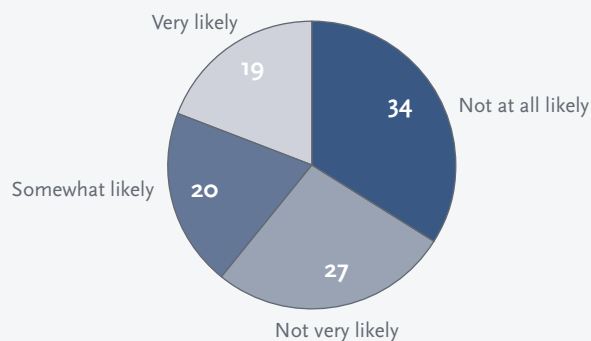
<sup>2</sup>Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

FIGURE 20

### LIKELIHOOD OF WITHDRAWING FROM TRADITIONAL IRA BEFORE AGE 70½

Percentage of traditional IRA-owning households that did not take a withdrawal in tax-year 2007



Number of respondents: 502

Source: Investment Company Institute IRA Owners Survey

Traditional IRA-owning households that were either not retired or retired but did not take a withdrawal in tax-year 2007, reported a similar pattern for the expected role of future traditional IRA withdrawals in retirement. Nearly two-thirds of these households reported they plan to use traditional IRA withdrawals to pay for living expenses in retirement (Figure 21). More than half (53 percent) reported they plan to use traditional IRA withdrawals for an emergency, such as a healthcare expense. When asked to select a primary role for future traditional IRA withdrawals in retirement, six in 10 expected the primary role of traditional IRA withdrawals will be to pay for living expenses in retirement.

### EXPECTED ROLE OF ROTH IRA WITHDRAWALS IN RETIREMENT

The 2008 ICI IRA Owners Survey asked Roth IRA owners for the first time their plans for future Roth IRA withdrawals in retirement. Most Roth IRA-owning households reported they plan on using Roth IRA withdrawals for the same purposes mentioned by traditional IRA-owning households for traditional IRA withdrawals. Two-thirds of Roth IRA-owning households that are not retired and did not make a withdrawal in tax-year 2007 plan on using Roth IRA withdrawals to pay for future living expenses in retirement (Figure 22).<sup>30</sup> Fifty-four percent plan on using Roth IRA withdrawals for an emergency, such as a healthcare expense, and 38 percent intend to reinvest or save their Roth IRA withdrawals in another account. When asked to think about the primary role for future Roth IRA withdrawals, two-thirds expected the primary role of Roth IRA withdrawals will be to pay for living expenses in retirement.

FIGURE 21

**EXPECTED ROLE OF TRADITIONAL IRA WITHDRAWALS IN RETIREMENT***Percentage of traditional IRA-owning households,<sup>1</sup> excluding retiree households with withdrawals, 2008***Plan for future traditional IRA withdrawals in retirement<sup>2</sup>**

Take withdrawals to pay for living expenses	66
To spend it on a car, boat, or big-ticket item other than a home	11
To use it for an emergency, such as a healthcare expense	53
To use it for home purchase, repair, or remodeling	19
To reinvest or save it in another account	46
Some other plan	12

**Primary plan for future traditional IRA withdrawals in retirement**

Take withdrawals to pay for living expenses	60
To spend it on a car, boat, or big-ticket item other than a home	2
To use it for an emergency, such as a healthcare expense	13
To use it for home purchase, repair, or remodeling	3
To reinvest or save it in another account	16
Some other plan	6

<i>Number of respondents</i>	559
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<sup>1</sup>The base of respondents includes the 26 percent of traditional IRA-owning households who were retired but did not take withdrawals (who were asked about their future plans), the 4 percent of nonretired households that took withdrawals, and the 52 percent of nonretired households that did not take withdrawals reported in Figure 15.

<sup>2</sup>Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

FIGURE 22

**EXPECTED PLANS FOR ROTH IRA WITHDRAWALS IN RETIREMENT***Percentage of Roth IRA-owning households,<sup>1</sup> 2008***Plan for future Roth IRA withdrawals in retirement<sup>2</sup>**

Take withdrawals to pay for living expenses	67
To spend it on a car, boat, or big-ticket item other than a home	9
To use it for an emergency, such as a healthcare expense	54
To use it for home purchase, repair, or remodeling	17
To reinvest or save it in another account	38
Some other plan	8

**Primary plan for future Roth IRA withdrawals in retirement**

Take withdrawals to pay for living expenses	67
To spend it on a car, boat, or big-ticket item other than a home	1
To use it for an emergency, such as a healthcare expense	13
To use it for home purchase, repair, or remodeling	3
To reinvest or save it in another account	11
Some other plan	5

<i>Number of respondents</i>	305
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<sup>1</sup>The base of respondents includes the 27 percent of Roth IRA-owning households who were retired but did not take withdrawals (who were asked about their future plans), the 2 percent of nonretired households that took withdrawals, and the 70 percent of nonretired households that did not take withdrawals.

<sup>2</sup>Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

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## NOTES

- <sup>1</sup> See Investment Company Institute 2008.
- <sup>2</sup> Households' total financial assets were \$47.4 trillion as of June 2008 and \$12.9 trillion at year-end 1988. See U.S. Federal Reserve Board 2008.
- <sup>3</sup> 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 2008 of 4,100 randomly selected, representative U.S. households. The standard error for the total sample is  $\pm 1.5$  percentage points at the 95 percent confidence level. For further discussion and additional results from this survey, see Holden, Bogdan, and Bass 2008.  
  
The demographic and financial characteristics of IRA owners are derived from a separate May 2008 IRA Owners Survey of 800 randomly selected, 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  $\pm 3.5$  percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called Education IRAs).  
  
Key terms related to IRAs and retirement savings are presented on page 2 of this report. For additional information and the rules governing IRAs, see Internal Revenue Service 2007.
- <sup>4</sup> See Figure 9 for additional information on rollover activities and Figure A15 in the Appendix for additional information on traditional IRA owners with rollovers.
- <sup>5</sup> See Brady and Sigrist 2008 for discussion of the life-cycle model and household survey results regarding savings goals.
- <sup>6</sup> For discussion of retirement saving by different income groups, see Brady and Sigrist 2008 and Sabelhaus, Bogdan, and Schrass 2008.
- <sup>7</sup> See Holden, Ireland, Leonard-Chambers, and Bogdan 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.
- <sup>8</sup> See Holden, VanDerhei, Alonso, and Copeland 2008.
- <sup>9</sup> For a brief history of IRAs and a discussion of the various features of different IRA types, see Holden, Ireland, Leonard-Chambers, and Bogdan 2005.

- <sup>10</sup> 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 2007.
- <sup>11</sup> 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.
- <sup>12</sup> See Brady and Holden 2008 and Bryant 2008.
- <sup>13</sup> Tabulations of the Federal Reserve Board's 2004 Survey of Consumer Finances data find that 37 percent of traditional IRA-owning households had rollovers in their IRAs in 2004, compared with 46 percent of IRA-owning households in ICI's 2004 IRA Owners Survey (see Investment Company Institute 2005). For a description of the Survey of Consumer Finances, see Bucks, Kennickell, and Moore 2006.
- <sup>14</sup> See Figure A15 in the Appendix for additional information on traditional IRA owners with rollovers.
- <sup>15</sup> Among households making IRA contributions, the 52 percent contributing to traditional IRAs includes the 42 percent only contributing to traditional IRAs plus 91 percent of the 11 percent that contributed to more than one type of IRA (Figure 11).
- <sup>16</sup> Among households making IRA contributions, the 36 percent contributing to Roth IRAs includes the 30 percent only contributing to Roth IRAs plus 49 percent of the 11 percent that contributed to more than one type of IRA (Figure 11).
- <sup>17</sup> Among households making IRA contributions, the 24 percent contributing to employer-sponsored IRAs includes the 17 percent only contributing to employer-sponsored IRAs plus 64 percent of the 11 percent that contributed to more than one type of IRA (Figure 11).
- <sup>18</sup> See Figure A13 in the Appendix.
- <sup>19</sup> See Internal Revenue Service 2007 for details on income restrictions and other qualifications for contribution eligibility.
- <sup>20</sup> 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 but younger than 70 years old. See Internal Revenue Service 2007.

- <sup>21</sup> This group may include households ineligible to make deductible contributions to traditional IRAs.
- <sup>22</sup> Data exclude households that closed and no longer owned traditional IRAs. For discussion of withdrawal activity over a longer time frame (1999 through 2007), which also includes households whose withdrawals closed their IRAs, see discussion in the Appendix and Figure A20.
- <sup>23</sup> 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.
- <sup>24</sup> 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.
- <sup>25</sup> 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.
- <sup>26</sup> This figure is not directly comparable to Figure 13 in Holden and Bogdan 2008a because of a questionnaire change, which occurred as part of the ongoing process of reviewing surveys. Unlike the 2007 IRA Owners Survey, in the 2008 IRA Owners Survey, the respondents were asked about Required Minimum Distributions (RMDs) directly as a separate distinct question. In addition, the respondents were given a detailed description of the RMD rules.
- <sup>27</sup> Among traditional IRA-owning households in 2008 with a head of household aged 70 or older and taking a withdrawal, 93 percent indicated their withdrawal was based on the RMD rules and only 5 percent took lump sums based on needs. In contrast, among withdrawing households younger than age 70, 45 percent took lump sums based on needs. Some younger households indicated their withdrawals were RMDs, which likely reflects they owned inherited IRAs.
- <sup>28</sup> This figure is not directly comparable to Figure A17 in Holden and Bogdan 2008b because of a questionnaire change. Unlike the 2007 IRA Owners Survey, in the 2008 IRA Owners Survey, the respondents were asked about RMDs directly as a separate distinct question. Households taking withdrawal amounts based on RMDs were then also asked to provide at least one use of the distribution in the 2008 survey, while in the 2007 survey, they could indicate RMD as the "use" of the withdrawal. In addition, Figure 19 examines use of withdrawals among retired households.
- <sup>29</sup> Among the 33 percent of households that reported reinvesting or saving the amount of the traditional IRA withdrawal into another account, 87 percent reported withdrawing the amount based on RMD.
- <sup>30</sup> Among Roth IRA-owning households, 27 percent of households were retired and did not take a withdrawal in tax-year 2007; 1 percent were retired and took a withdrawal in tax-year 2007; 2 percent were not retired and took a withdrawal in tax-year 2007; and 70 percent were not retired and did not take a withdrawal in tax-year 2007. All told, 3 percent of Roth IRA-owning households took a Roth IRA withdrawal in tax-year 2007. Bryant 2008 finds that 4.5 percent of taxpayers owning Roth IRAs took a Roth IRA withdrawal in 2004.

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