Ten Important Facts About Roth IRAs

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1. One-third of IRA investors have Roth IRAs.
2. Nearly one-third of Roth IRA investors are younger than 40.
3. Roth IRAs are most commonly opened with contributions.
4. Roth IRA investors display persistence in their contribution activity.
5. Roth IRA rollover activity is rare.
6. Roth IRAs are held at a variety of financial services firms.
7. Equity holdings figure prominently in Roth IRA investments.
8. Roth IRA–owning households’ retirement planning strategies have many components.
9. Most Roth IRA owners consult a financial professional when creating a retirement strategy.
10. Fewer than one in 25 Roth IRA investors take withdrawals.

Individual Retirement Accounts (IRAs)

In 1974, the Employee Retirement Income Security Act (ERISA) created individual retirement accounts (IRAs). Congress designed traditional IRAs originally to have two roles: (1) to give individuals not covered by retirement plans at work a tax-advantaged savings plan, and (2) to play a complementary role to the employer-sponsored retirement system by preserving rollover assets at job change or retirement. Policymakers have changed rules surrounding IRAs and introduced new types of IRAs, such as the Roth IRA, which was created by the Taxpayer Relief Act of 1997. IRAs have helped millions of U.S. households save for retirement.
1. One-third of IRA investors have Roth IRAs.

Americans held $6.5 trillion in IRAs at year-end 2013, with Roth IRAs accounting for $505 billion of that total. Forty-five percent of IRA assets, or $3.0 trillion, were invested in mutual funds. The most common type of IRA is the traditional IRA created by the Employee Retirement Income Security Act of 1974 (ERISA). The second most common type of IRA is the Roth IRA created by the Taxpayer Relief Act of 1997. Four in 10 Roth IRA–owning households in 2013 indicated their Roth IRA was the first type of IRA they opened. Households often invest in both traditional and Roth IRAs—nearly two-thirds of Roth IRA–owning households in 2013 also owned traditional IRAs.

FIGURE 1
One-Third of IRA Investors Have Roth IRAs
Distribution of IRA investors and assets, percentage of total, year-end 2012

Percentage of IRA investors*

<table>
<thead>
<tr>
<th>Type of IRA</th>
<th>Percentage of IRA investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional</td>
<td>68%</td>
</tr>
<tr>
<td>Roth</td>
<td>33%</td>
</tr>
<tr>
<td>SEP and SAR-SEP</td>
<td>6%</td>
</tr>
<tr>
<td>SIMPLE</td>
<td>8%</td>
</tr>
</tbody>
</table>

Percentage of IRA assets

<table>
<thead>
<tr>
<th>Type of IRA</th>
<th>Percentage of IRA assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional</td>
<td>81%</td>
</tr>
<tr>
<td>Roth</td>
<td>11%</td>
</tr>
<tr>
<td>SEP and SAR-SEP</td>
<td>5%</td>
</tr>
<tr>
<td>SIMPLE</td>
<td>3%</td>
</tr>
</tbody>
</table>

* These percentages add to more than 100 percent because investors may own more than one type of IRA.

Note: The sample is 15.5 million IRA investors with $1,161 billion in assets at year-end 2012.
Source: The IRA Investor Database™
2. Nearly one-third of Roth IRA investors are younger than 40.

People of all ages own IRAs, but Roth IRA investors tend to be younger than traditional IRA investors. At year-end 2012, 31 percent of Roth IRA investors were younger than 40, compared with only about 14 percent of traditional IRA investors. Twenty-four percent of Roth IRA investors were 60 or older, compared with 38 percent of traditional IRA investors. This age pattern reflects the different key role of Roth IRAs, which tend to be opened by contributions, versus traditional IRAs, which tend to be opened with rollovers—an activity that tends to occur later in one’s career or at retirement.

FIGURE 2
Nearly One-Third of Roth IRA Investors Are Younger Than 40
Percentage of total, year-end 2012

![Bar chart showing the age distribution of Roth IRA and traditional IRA investors and assets in 2012.](chart)

Note: The sample is 5.1 million Roth IRA investors (aged 18 or older) holding $128.5 billion in Roth IRA assets in 2012 and 10.5 million traditional IRA investors (aged 18 or older) holding $933.2 billion in traditional IRA assets in 2012. Components do not add to 100 percent because of rounding.

Source: The IRA Investor Database™
3. **Roth IRAs are most commonly opened with contributions.**

Roth IRAs can be opened with contributions (subject to income limits), conversions (subject to income limits prior to 2010), or rollovers (allowed directly from non-Roth employer-sponsored retirement plan accounts since 2008, although subject to income limits prior to 2010; and allowed directly from designated Roth accounts in employer-sponsored retirement plans since 2006, the first year they were available). In a typical year, the most common path to Roth IRA ownership is through contributions. In tax year 2012, more than seven in 10 new Roth IRAs were opened only with contributions. To contrast this common path to ownership, a little more than one in 10 were opened only with conversions, and a little more than one in 10 were opened only with rollovers.

![Figure 3: Roth IRAs Are Most Commonly Opened with Contributions](image-url)

**Note:** New Roth IRAs are accounts that did not exist in The IRA Investor Database in 2011 and were opened in 2012 by one of the paths indicated. The calculation excludes Roth IRAs that changed financial services firms. The sample is 0.2 million new Roth IRA investors aged 18 or older at year-end 2012.

**Source:** The IRA Investor Database™
4. Roth IRA investors display persistence in their contribution activity.

The contribution activity of Roth IRA investors with accounts at year-end 2011 and year-end 2012 sheds light on the persistence of contributions. In tax year 2011, 31.1 percent of these Roth IRA investors made contributions to their Roth IRAs, and more than four in 10 of those contributing did so at the limit. In addition, individuals using Roth IRAs as a contributory savings vehicle tend to contribute year to year. For example, 69 percent of Roth IRA investors contributing at the limit in tax year 2011 contributed at the limit in tax year 2012 as well.

FIGURE 4
Most Roth IRA Investors Who Contributed at the Limit in Tax Year 2011 Continued to Contribute at the Limit in Tax Year 2012

1 Among the 68.9 percent of Roth IRA investors who did not contribute in tax year 2011, 2.6 percent contributed at the limit in tax year 2012 and 2.8 percent contributed below the limit in tax year 2012.

2 The contribution limit in tax year 2011 and 2012 was $5,000 for Roth IRA investors younger than 50 and $6,000 for Roth IRA investors aged 50 or older. Income limits may phase these amounts down for some taxpayers. Investors were considered at the limit if they contributed their full, age-allowed amount.

Note: The sample is 4.7 million Roth IRA investors aged 19 or older in 2012 with Roth IRA balances in both 2011 and 2012.

Source: The IRA Investor Database™
5. Roth IRA rollover activity is rare.

In contrast to traditional IRAs, which often are opened with rollovers, rollovers into Roth IRAs are relatively rare. Roth IRAs have always been permitted to accept rollovers from other Roth IRAs, and since 2006 they have been able to accept rollovers directly from designated Roth accounts in employer-sponsored retirement plans (which could be established starting in 2006). Direct rollovers of non-Roth qualified retirement plan accumulations into Roth IRAs have been permitted since 2008. In the data, rollovers between IRAs generally are not reported as rollovers, rather the database tends to capture rollovers from employer-sponsored retirement plans. In any given year, less than 2 percent of Roth IRA investors had rollovers into their Roth IRAs. Because rollovers tend not to be repeated year-to-year, it is important to cumulate rollover activity. Even then, only 4.4 percent of Roth IRA investors at year-end 2012 had made rollovers into their Roth IRAs between 2007 and 2012.

FIGURE 5

Very Few Roth IRA Investors Have Rollovers

Percentage of Roth IRA investors aged 18 or older with rollovers,1 2007–2012

<table>
<thead>
<tr>
<th>Year</th>
<th>IRS universe2</th>
<th>The IRA Investor Database</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>N/A</td>
<td>0.5</td>
</tr>
<tr>
<td>2008</td>
<td>N/A</td>
<td>0.8</td>
</tr>
<tr>
<td>2009</td>
<td>1.4</td>
<td>0.9</td>
</tr>
<tr>
<td>2010</td>
<td>1.8</td>
<td>1.3</td>
</tr>
<tr>
<td>2011</td>
<td>N/A</td>
<td>1.1</td>
</tr>
<tr>
<td>2012</td>
<td>N/A</td>
<td>1.2</td>
</tr>
<tr>
<td>2007 to 2012</td>
<td>N/A</td>
<td>4.4</td>
</tr>
</tbody>
</table>

1 Roth IRA investors with rollovers are Roth IRA investors aged 18 or older who had rollovers into their Roth IRAs in the year or years indicated.

2 In the IRS universe, data are for Roth IRA investors of all ages.

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

N/A = not available

Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division
6. Roth IRAs are held at a variety of financial services firms.

In 2013, 75 percent of Roth IRA–owning households held their Roth IRAs through investment professionals and 30 percent had opened their Roth IRAs directly at a mutual fund company or discount brokerage. The most commonly used investment professionals were at full-service brokerage firms (35 percent of Roth IRA–owning households), followed by independent financial advisers (25 percent of Roth IRA–owning households). The most commonly used direct source was mutual fund companies, with 22 percent of Roth IRA–owning households indicating they held Roth IRAs directly at mutual fund companies.

FIGURE 6
Roth IRAs Are Held at a Variety of Financial Services Firms
Percentage of households owning Roth IRAs, 2013

Note: Multiple responses are included.
Source: Investment Company Institute IRA Owners Survey
7. Equity holdings figure prominently in Roth IRA investments.

Equities and equity funds were the largest component of Roth IRA investors’ accounts, on average, representing 62 percent of Roth IRA assets at year-end 2012. Investors also may hold equities through target date funds and non–target date balanced funds. At year-end 2012, 73 percent of Roth IRA assets were invested in equity holdings (equities, equity funds, and the equity portion of target date funds and non–target date balanced funds). Asset allocation in Roth IRAs varies with investor age, with the share of equity holdings tending to edge down the older the investor.

**FIGURE 7**

**Equity Holdings Figure Prominently in Roth IRA Investments**

_Percentage of Roth IRA balances, year-end 2012_

1 Equity funds include equity mutual funds, equity closed-end funds, and equity exchange-traded funds (ETFs).
2 Balanced funds invest in a mix of equities and fixed-income securities.
3 Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.
4 Other investments include certificates of deposit and unidentifiable assets.

Note: The sample is 5.1 million Roth IRA investors aged 18 or older at year-end 2012. Percentages are dollar-weighted averages.

Source: The IRA Investor Database™
8. **Roth IRA–owning households’ retirement planning strategies have many components.**

Seventy-six percent of Roth IRA–owning households in 2013 indicated they have a strategy for managing income and assets in retirement. These households reported that their strategy had multiple components. Seventy percent of these households developed a retirement income plan as part of their strategy and 69 percent set aside emergency funds. Sixty-three percent reviewed their insurance policies and 62 percent determined their retirement expenses. Less than half determined when to take Social Security benefits, with households aged 60 or older more likely to have done so compared with households younger than 60. Sixty-four percent of Roth IRA–owning households with a strategy took three or more steps in developing their strategy.

**FIGURE 8**

**Components of Roth IRA–Owning Households’ Strategy for Managing Income and Assets in Retirement**

*Percentage of Roth IRA–owning households that indicated they have a strategy for managing income and assets in retirement, 2013*

<table>
<thead>
<tr>
<th>Age of head of household*</th>
<th>All</th>
<th>Younger than 40</th>
<th>40 to 59</th>
<th>60 or older</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set aside emergency funds</td>
<td>69</td>
<td>64</td>
<td>69</td>
<td>75</td>
</tr>
<tr>
<td>Develop a retirement income plan</td>
<td>70</td>
<td>71</td>
<td>67</td>
<td>74</td>
</tr>
<tr>
<td>Review insurance policies</td>
<td>63</td>
<td>62</td>
<td>63</td>
<td>66</td>
</tr>
<tr>
<td>Determine retirement expenses</td>
<td>62</td>
<td>55</td>
<td>60</td>
<td>76</td>
</tr>
<tr>
<td>Determine when to take Social Security benefits</td>
<td>45</td>
<td>35</td>
<td>41</td>
<td>66</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>5</td>
<td>9</td>
<td>8</td>
</tr>
</tbody>
</table>

*Age is based on the age of the sole or co-decisionmaker for household saving and investing. Note: Multiple responses are included. Source: Investment Company Institute IRA Owners Survey*
9. Most Roth IRA owners consult a financial professional when creating a retirement strategy.

More than three-quarters of Roth IRA–owning households reported that they have a strategy for managing income and assets in retirement, and creating their strategies often involved multiple steps (see Fact No. 8). These households typically seek help when building their retirement income and asset management strategy. Specifically, 65 percent of Roth IRA–owning households with a strategy consulted a financial professional when creating the strategy, and 59 percent indicated that a financial professional was the primary source for their strategy. Thirty-five percent consulted with friends or family members, 32 percent consulted a book or article in a magazine or newspaper, and 26 percent consulted a website. Half of Roth IRA–owning households with a strategy consulted multiple sources of information to build that strategy.

**FIGURE 9**

Roth IRA–Owning Households Often Consult a Financial Professional to Create a Retirement Strategy

Percentage of Roth IRA–owning households that indicated they have a strategy for managing income and assets in retirement, 2013

- A professional financial adviser: 65% was a source, 59% was the primary source
- Friends or family members: 35% was a source, 14% was the primary source
- A book or article in a magazine or newspaper: 32% was a source, 10% was the primary source
- Website: 26% was a source, 9% was the primary source
- A financial software package: 8% was a source, 2% was the primary source
- Other: 8% was a source, 6% was the primary source

* Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey
10. Fewer than one in 25 Roth IRA investors take withdrawals.

Very few Roth IRA investors take withdrawals from their Roth IRAs in any given year. In contrast to traditional IRAs, which require investors aged 70½ or older to take required minimum distributions (RMDs), Roth IRAs do not have RMDs (unless they are inherited). As a result, withdrawal activity is much lower among Roth IRA investors. In 2012, while only 4 percent of Roth IRA investors aged 25 or older had withdrawals, 22 percent of traditional IRA investors had withdrawals. Early withdrawal penalties can apply to both Roth and traditional IRA investors 59½ or younger, and withdrawal activity is lower among those younger than 60 compared with older investors, although the variation across Roth IRA investors is very small. Three percent of Roth IRA investors aged 25 to 59 took withdrawals, compared with about 5 percent of Roth IRA investors aged 60 or older. Withdrawal activity of the oldest Roth IRA investors varied little from the others, because RMDs generally do not apply.

FIGURE 10
Roth IRA Investors Rarely Take Withdrawals, Traditional IRA Investors Heavily Impacted by RMDs
Percentage of IRA investors by type of IRA and investor age, 2012

Note: The samples are 4.9 million Roth IRA investors aged 25 or older at year-end 2012 and 10.4 million traditional IRA investors aged 25 or older at year-end 2012.
Source: The IRA Investor Database™
Additional Reading

» The IRA Investor Profile
   Available at www.ici.org/research/retirement/retirement_security/ira_database.

» The Role of IRAs in U.S. Households’ Saving for Retirement, 2013

» Ten Important Facts About IRAs
   Available at www.ici.org/pdf/ten_facts_iras.pdf.

» The Evolving Role of IRAs in U.S. Retirement Planning
   Available at www.ici.org/pdf/per15-03.pdf.

» Individual Retirement Account Resource Center
   Available at www.ici.org/iraresource.