

New IRA Investor Research Project Taps Account-Level Data for Additional Insight into IRA Use

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First Report Using New Database Examines IRA Contributions

Washington, DC, July 27, 2010 - A new database that collects account-level data of more than 10 million individual retirement accounts (IRAs) is providing unique, new insights into IRA investor demographics and activities.

The IRA Investor Database™—a joint project by the Investment Company Institute (ICI) and the Securities Industry and Financial Markets Association (SIFMA)—is designed to shed light on key determinants of IRA contributions, rollover and withdrawal activity, and the types of assets that investors hold in these accounts. The new database supplements existing household surveys and IRS tax data about IRA investors and is designed to increase public understanding in this critical area of retirement savings.

“All of us—lawmakers, regulators, employers, financial services firms, and American workers—share a deep interest in helping Americans achieve retirement security and IRAs play a key role in the equation,” said ICI president and CEO Paul Schott Stevens. “The IRA Investor Database, which uses a comprehensive sample of account-level data, provides new understanding of the demographics, activities, and decisions of IRA investors. We built this database to provide a deeper look into IRA use and will use the database on an ongoing basis to learn more about one of the most important components of Americans’ retirement savings.”

IRA investments, which totaled \$4.2 trillion at year-end 2009, represent more than one-quarter of total U.S. retirement market assets and almost 10 percent of U.S. households’ total financial assets.

First Report from New Database Examines Contribution Activity

The first report using the database focuses on contribution activity by investors owning traditional IRAs in 2007 and 2008. *The IRA Investor Profile: Traditional IRA Investors’ Contribution Activity, 2007 and 2008* finds that while IRA contributions appear modest when compared to other tax-preferred saving vehicles, those who do contribute show persistence and are likely to make the maximum contributions allowed by law.

The analysis shows that 63 percent of traditional IRA investors who contributed to their accounts in 2007 made repeat contributions in 2008—a high level of persistence. Those who contribute also tend to max out: 60 percent of those who contributed in 2007 made the largest contribution allowed by law. Among those who maxed out in 2007, more than half increased their contributions in 2008 to the new, higher legal limits.

“The new account-level data have given us a detailed view into the various factors that play a role in IRA contributions, including commitment among the group of traditional IRA contributors,” said Sarah Holden, ICI senior director of retirement and investor research. “Investors who don’t have a savings plan through work or want to supplement their savings might consider IRAs, which are a powerful tax-advantaged savings vehicle.”

IRA Investors’ Contribution Behavior

The report finds that traditional IRA investors save in other ways, including also saving through Roth IRAs. The contribution rate in 2007 rises from 11.2 percent to 16.6 percent among investors owning traditional IRAs when contributions to their Roth IRAs at the same financial institution are included. Other key findings about investors’ use of IRAs include:

- A small share of individuals contribute to traditional IRAs in any given year, whether looking at taxpayers or traditional IRA investors. In 2007, 11.2 percent of traditional IRA investors made contributions to their traditional IRAs. In 2008, 9.4 percent contributed.

- A number of factors may account for individuals' low contribution rate. Individuals may save for retirement through employer-sponsored plans. For lower-income households, Social Security replaces a much higher fraction of pre-retirement earnings, which may reduce some individuals' need for additional retirement savings. Confusion about IRA rules may prevent some individuals from contributing.
- Many IRA owners made contributions at the legal limit. Limits on traditional IRA contributions increased in 2008, and more than half who contributed at the legal limits in 2007 increased their contributions to the new legal limit in 2008.

Investor Demographics Can Affect Contributions

- Traditional IRA contribution rates rise with income, even after controlling for other factors like age and gender. This is a consistent pattern also observed in participation rates for employer-sponsored retirement plans and other savings vehicles. The positive relationship between contribution rates and income can be explained by many factors, but the role that Social Security plays for lower-income households is probably the most important.
- Female traditional IRA investors are more likely to contribute to their traditional IRAs than their male counterparts in most age groups. Overall, 11.9 percent of women with traditional IRAs contributed in 2007, while only 10.7 percent of men contributed.

Contributions Are Affected by Investor Actions

- Traditional IRA investors who make rollovers into their traditional IRAs are less likely to make contributions in the same year. The negative impact of rollovers on contribution activity was larger for younger traditional IRA investors compared with older ones.
- Traditional IRA investors who take withdrawals from their traditional IRAs are less likely to contribute in that year, but different patterns among age groups may reflect different approaches to IRA saving. Across traditional IRA investors taking withdrawals, older traditional IRA investors are less likely to contribute while simultaneously taking withdrawals compared with younger age groups.

The IRA Investor Profile report series will follow a lifecycle approach to investing, with the next three reports examining rollovers from other retirement plans into IRAs, IRA investors' asset allocations, and IRA withdrawals.

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