IRAs in the Retirement Accumulation Process

IRA Research and Policy Summit
May 11, 2011
Washington, DC

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Overview

• Sources of Data on IRAs
• IRAs in the U.S. Retirement Market
  ▪ Traditional IRAs, the Most Common Type of IRA
• Contribution Activity of Traditional IRA Investors
• Rollover Activity of Traditional IRA Investors
• Reaction of IRA-Owning Households to the Financial Crisis
• References
Sources of Data on IRAs

• Asset and Flow Information
  ▪ IRS Statistics of Income Tabulations
  ▪ Financial Services Firms’ Information

• Household Surveys
  ▪ Survey of Consumer Finances (Federal Reserve Board)
  ▪ Health and Retirement Study (University of Michigan)
  ▪ Current Population Survey (Census and BLS)
  ▪ ICI Annual Mutual Fund Shareholder Tracking Survey
  ▪ ICI IRA Owners Survey

• Administrative/Recordkeeper Data
  ▪ The IRA Investor Database™
  ▪ EBRI IRA Database™
IRAs in the U.S. Retirement Market
70% of U.S. Households Have IRAs and/or Employer-Sponsored Retirement Plans

Percentage of U.S. households, May 2010

- 30% Do not have IRA or employer-sponsored retirement plan
- 29% Have employer sponsored retirement plan only
- 8% Own IRA only
- 33% Have IRA and employer-sponsored retirement plan

Total number of U.S. households: 117.5 million

Note: IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs. Employer-sponsored retirement plans include DC and DB retirement plans.

Source: ICI Annual Mutual Shareholder Tracking Survey and U.S. Census Bureau (See Holden and Schrass, “The Role of IRAs in U.S. Households’ Saving for Retirement, 2010” ICI Fundamentals (December 2010))
IRAs Are More Than ¼ of U.S. Retirement Assets

Trillions of dollars, year-end

1 Other plans include private-sector DB plans; federal, state, and local pension plans; and all fixed and variable annuity reserves at life insurance companies less annuities held by IRAs, 403(b) plans, 457 plans, and private pension funds. Federal pension plans include U.S. Treasury security holdings of the civil service retirement and disability fund, the military retirement fund, the judicial retirement funds, the Railroad Retirement Board, and the foreign service retirement and disability fund. These plans also include securities held in the National Railroad Retirement Investment Trust and Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP).

2 DC plans include 403(b) plans, 457 plans, and private-sector employer-sponsored DC plans (including 401(k) plans).

e Data are estimated.

p Data are preliminary.

Note: Components may not add to the total because of rounding.

IRAs Have Grown in Importance on the Household Balance Sheet

Total household financial assets, trillions of dollars, selected years

<table>
<thead>
<tr>
<th>Year</th>
<th>IRAs</th>
<th>Other household financial assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>9.9</td>
<td>0.2</td>
</tr>
<tr>
<td>1990</td>
<td>14.5</td>
<td>2%</td>
</tr>
<tr>
<td>1995</td>
<td>21.5</td>
<td>1.3</td>
</tr>
<tr>
<td>2000</td>
<td>33.3</td>
<td>2.6</td>
</tr>
<tr>
<td>2002</td>
<td>30.2</td>
<td>-8%</td>
</tr>
<tr>
<td>2004</td>
<td>39.1</td>
<td>2.5</td>
</tr>
<tr>
<td>2006</td>
<td>48.0</td>
<td>3.3</td>
</tr>
<tr>
<td>2007</td>
<td>50.6</td>
<td>4.2</td>
</tr>
<tr>
<td>2008</td>
<td>41.2</td>
<td>4.8</td>
</tr>
<tr>
<td>2009</td>
<td>44.1</td>
<td>3.6</td>
</tr>
<tr>
<td>2010</td>
<td>47.6</td>
<td>4.3</td>
</tr>
</tbody>
</table>

* Data are estimated.
* Data are preliminary.

Asset Allocation of IRA Assets

Percentage of IRA assets, year-end 2010

- 36% Other investments
- 47% Mutual funds
- 10% Bank & thrift deposits
- 7% Annuities

Percentage of mutual fund assets

- 9% Money market funds
- 17% Bond funds
- 17% Hybrid/Balanced funds
- 57% Equity funds

### Millions of U.S. Households Own IRAs

<table>
<thead>
<tr>
<th>Year created</th>
<th>Number of U.S. households with type of IRA, May 2010</th>
<th>Assets at year-end 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional IRA</td>
<td>38.5 million (32.8%)</td>
<td>$3,743</td>
</tr>
<tr>
<td>SEP IRA</td>
<td>9.4 million (8.0%)</td>
<td>$293</td>
</tr>
<tr>
<td>SAR-SEP IRA</td>
<td>19.5 million (16.6%)</td>
<td>$215</td>
</tr>
<tr>
<td>SIMPLE IRA</td>
<td>48.6 million (41.4%)</td>
<td>$4,251</td>
</tr>
</tbody>
</table>

*Note: Households may own more than one type of IRA.*

Where Households Hold Traditional IRAs

Percentage of traditional IRA–owning households, May 2010

- **28%** Direct sources
- **78%** Professional financial advisers

- **3%** Discount brokerage firm that is only online
- **6%** Discount brokerage firm with walk-in offices
- **24%** Mutual fund company
- **9%** Insurance company
- **30%** Bank or savings institution
- **23%** Independent financial planning firm
- **34%** Full-service brokerage

Note: Multiple responses are included.
Source: ICI IRA Owners Survey (See Holden and Schrass, “The Role of IRAs in U.S. Households’ Saving for Retirement, 2010” ICI Fundamentals (December 2010))
Rollovers Generate a Significant Portion of the Flows into Traditional IRAs

_Billions of dollars, selected years_

<table>
<thead>
<tr>
<th></th>
<th>Contributions¹</th>
<th>Rollovers²</th>
<th>Withdrawals³</th>
<th>Total assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>$14.1</td>
<td>$114.0</td>
<td>$45.5</td>
<td>N/A</td>
</tr>
<tr>
<td>2000</td>
<td>10.0</td>
<td>225.6</td>
<td>99.0</td>
<td>$2,407</td>
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<tr>
<td>2005</td>
<td>13.6ᵉ</td>
<td>246.5ᵉ</td>
<td>112.3</td>
<td>3,259ᵉ</td>
</tr>
<tr>
<td>2006</td>
<td>14.4ᵖ</td>
<td>282.1ᵖ</td>
<td>124.7</td>
<td>3,722ᵖ</td>
</tr>
<tr>
<td>2007</td>
<td>14.4ᵖ</td>
<td>323.1ᵖ</td>
<td>148.0</td>
<td>4,223ᵖ</td>
</tr>
<tr>
<td>2008</td>
<td>N/A</td>
<td>N/A</td>
<td>162.2</td>
<td>3,173ᵉ</td>
</tr>
<tr>
<td>2009</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>3,743ᵉ</td>
</tr>
<tr>
<td>2010</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>4,121ᵉ</td>
</tr>
</tbody>
</table>

e = estimated  
ぺ = preliminary  
N/A = not available  
¹ Contributions include both deductible and nondeductible contributions to traditional IRAs.  
² Rollovers are primarily from employer-sponsored retirement plans (both DB and DC).  
³ Withdrawals consist of taxable IRA distributions reported on Form 1040, which have been primarily from traditional IRAs.  
Sources of New Traditional IRAs in 2008

Percentage of new traditional IRAs, 2008

- **31%** Changed financial services firm
- **59%** Only rollover
- **8%** Only contribution
- **2%** Both rollover and contribution

Total number of new accounts: 0.9 million

Note: New traditional IRAs are accounts that exist in The IRA Investor Database in 2008 but did not exist in the database in 2007.
Contribution Activity of Traditional IRA Investors
Few Households Contribute to IRAs

Percentage of U.S. households, 2010

- 59% Do not own IRA
- 15% Contributed to IRA in tax year 2009
- 26% Own IRA, but did not contribute

Percentage of U.S. households contributing to IRAs in tax year 2009

- 15% More than one type of IRA
- 14% Employer-sponsored IRA contribution only
- 31% Roth IRA contribution only
- 40% Traditional IRA contribution only

The IRA Investor Database™: Traditional IRA Investors’ Contribution Activity

- Contribution activity analysis of working-age (aged 25 to 69) traditional IRA investors (6.4 million investors in 2007; 6.8 million in 2008)
- Only about one out of 10 traditional IRA investors contribute in any given year.
- It is largely the same group of traditional IRA investors that contribute year-to-year.
- Contribution activity was widely distributed across all income and age groups.
- Many traditional IRA investors with contributions contributed at the limit.

Contribution Activity: Only About One Out of 10 Working-Age Traditional IRA Investors Contributed in Either Year

Traditional IRA contributors\(^1\), \(^2\) as a percentage of traditional IRA investors, 2007 and 2008

![Bar chart showing contribution activity trends for 2007 and 2008.]

- **2007**: 11.2%
- **2008**: 9.4%

**Notes:**

1. Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in the tax year indicated.
2. Contributions include both deductible and nondeductible traditional IRA contribution amounts.

Note: The samples are 6.4 million working-age traditional IRA investors in 2007 and 6.8 million working-age traditional IRA investors in 2008.

Possible Reasons for These Levels of Contribution Activity

- Many savings vehicles are available
  - Employer-sponsored plan, such as a 401(k) plan
    - May meet the individual’s savings needs
    - May limit the individual’s eligibility for deductible traditional IRA contributions
  - Other types of IRAs, e.g., Roth IRAs
- Individual may only have rollover monies, not have considered contributions
- Individual may be confused by the eligibility rules
- Individual may be focused on other savings goals
Older Working-Age Traditional IRA Contributors Tended to Make Higher Contributions in 2007

Percentile distribution of contributions\(^1\), \(^2\) to traditional IRAs by age, 2007

- **%**
  - 25 to 29: 63.2%
  - 30 to 39: 38.7%
  - 40 to 49: \$2,400 median
  - 50 to 59
  - 60 to 69

**Notes:**
\(^1\) Contributions include both deductible and nondeductible traditional IRA contribution amounts.
\(^2\) The contribution limit in tax year 2007 was $4,000 for traditional IRA investors younger than 50 and $5,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers.

Persistence in Contributions: 63% of Traditional IRA Investors Who Contributed in 2007 Contributed Again in 2008

Traditional IRA repeat contributors as a percentage of traditional IRA contributors in 2007¹, ² by age³

<table>
<thead>
<tr>
<th>Age of traditional IRA investor</th>
<th>25 to 29</th>
<th>30 to 34</th>
<th>35 to 39</th>
<th>40 to 44</th>
<th>45 to 49</th>
<th>50 to 54</th>
<th>55 to 59</th>
<th>60 to 64</th>
<th>65 to 69</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>57.6</td>
<td>63.2</td>
<td>66.3</td>
<td>67.3</td>
<td>66.6</td>
<td>64.4</td>
<td>61.9</td>
<td>58.1</td>
<td>54.4</td>
<td>63.1</td>
</tr>
</tbody>
</table>

¹ Traditional IRA contributors in 2007 are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.
² Contributions include both deductible and nondeductible traditional IRA contribution amounts.
³ Age is based on traditional IRA investor age at year-end 2008.

Note: The sample is 706,500 working-age traditional IRA contributors in 2007 who also had traditional IRA balances at year-end 2008.

More Than Half of Traditional IRA Investors Who Contributed, But Not at the Limit, in 2007 Also Contributed in 2008

2007 contribution amount
Percentage of traditional IRA investors present in both 2007 and 2008

- 88.3% Made no contribution
- 6.9% Contributed at the limit
- 4.8% Contributed less than the limit

2008 contribution amount
Percentage of traditional IRA investors by 2007 contribution amount

- 42.6% Made no contribution
- 52.1% Contributed less than the limit
- 5.3% Contributed at the limit

1 Contributions include both deductible and nondeductible traditional IRA contribution amounts.
2 Among the 88.3 percent of traditional IRA investors who did not contribute in 2007, 0.8 percent contributed at the limit in 2008 and 1.4 percent contributed below the limit in 2008.
3 The contribution limit in tax year 2007 was $4,000 for traditional IRA investors younger than 50 and $5,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers. Investors were considered at the limit if they contributed their full age-allowed amount.
4 The contribution limit in tax year 2008 was $5,000 for traditional IRA investors younger than 50 and $6,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers. Investors were considered at the limit if they contributed their full age-allowed amount.

Note: The sample is 6.0 million working-age traditional IRA investors with traditional IRA balances in both 2007 and 2008.

More Than Half of Traditional IRA Investors Who Contributed at the Limit in 2007 Also Contributed at the Limit in 2008

2007 contribution amount\(^1\)

Percentage of traditional IRA investors present in both 2007 and 2008

- **88.3%** Made no contribution\(^2\)
- **6.9%** Contributed at the limit\(^3\)
- **4.8%** Contributed less than the limit

2008 contribution amount\(^1\)

Percentage of traditional IRA investors by 2007 contribution amount

- **33.0** Made no contribution
- **14.3** Contributed less than the limit\(^4\)
- **52.7** Contributed at the limit\(^4\)

\(^1\) Contributions include both deductible and nondeductible traditional IRA contribution amounts.

\(^2\) Among the 88.3 percent of traditional IRA investors who did not contribute in 2007, 0.8 percent contributed at the limit in 2008 and 1.4 percent contributed below the limit in 2008.

\(^3\) The contribution limit in tax year 2007 was $4,000 for traditional IRA investors younger than 50 and $5,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers. Investors were considered at the limit if they contributed their full age-allowed amount.

\(^4\) The contribution limit in tax year 2008 was $5,000 for traditional IRA investors younger than 50 and $6,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers. Investors were considered at the limit if they contributed their full age-allowed amount.

Note: The sample is 6.0 million working-age traditional IRA investors with traditional IRA balances in both 2007 and 2008.

Rollover Activity of Traditional IRA Investors
Rollover analysis of traditional IRA investors aged 25 to 74 (6.8 million investors in 2007; 7.3 million in 2008)

It is largely a different group of traditional IRA investors that make rollovers year-to-year.

Rollover activity was widely distributed across all income and age groups.

Rollovers are often how many individuals become traditional IRA investors.

Rollover amounts tend to be larger for older workers because they have had more time to accumulate balances.

More than One Out of 10 Traditional IRA Investors Had Rollovers in Either Year

Percentage of traditional IRA investors aged 25 to 74

2007 with rollover in 2007: 12.3%
2008 with rollover in 2008: 11.3%
2008 with rollover in 2007 or 2008: 20.8%

Rollover Activity over Time

Percentage of households owning traditional IRAs in May 2010

- **45%** Traditional IRA–owning households with no rollovers
- **55%** Traditional IRA–owning households that have made rollovers at some time

Date of most recent rollover:
- **47%** 2005 or later
- **29%** 2000 to 2004
- **11%** 1995 to 1999
- **8%** 1990 to 1994
- **5%** Before 1990

Source: ICI IRA Owners Survey (See Holden and Schrass, "The Role of IRAs in U.S. Households’ Saving for Retirement, 2010," ICI Fundamentals (December 2010))
Investors Across All Age Groups Made Rollovers in 2007

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

<table>
<thead>
<tr>
<th>Age of traditional IRA investor</th>
<th>25 to 29</th>
<th>30 to 34</th>
<th>35 to 39</th>
<th>40 to 44</th>
<th>45 to 49</th>
<th>50 to 54</th>
<th>55 to 59</th>
<th>60 to 64</th>
<th>65 to 69</th>
<th>70 to 74</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share (in %)</td>
<td>8%</td>
<td>10%</td>
<td>12%</td>
<td>12%</td>
<td>13%</td>
<td>12%</td>
<td>12%</td>
<td>13%</td>
<td>7%</td>
<td>3%</td>
</tr>
</tbody>
</table>

*Traditional IRA investors who had rollovers into their traditional IRAs in 2007.
**Percentages do not add to 100% because of rounding.

Incidence of Rollover Activity Among Traditional IRA Investors Falls with Age

Percentage of traditional IRA investors in 2007 who had rollovers in 2007

<table>
<thead>
<tr>
<th>Age of traditional IRA investor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 to 29</td>
<td>33%</td>
</tr>
<tr>
<td>30 to 34</td>
<td>22%</td>
</tr>
<tr>
<td>35 to 39</td>
<td>16%</td>
</tr>
<tr>
<td>40 to 44</td>
<td>13%</td>
</tr>
<tr>
<td>45 to 49</td>
<td>11%</td>
</tr>
<tr>
<td>50 to 54</td>
<td>10%</td>
</tr>
<tr>
<td>55 to 59</td>
<td>10%</td>
</tr>
<tr>
<td>60 to 64</td>
<td>12%</td>
</tr>
<tr>
<td>65 to 69</td>
<td>9%</td>
</tr>
<tr>
<td>70 to 74</td>
<td>6%</td>
</tr>
</tbody>
</table>

Rollovers Were Often the Reason That Traditional IRAs Were Opened

Percentage of traditional IRA rollover events that created new accounts by age, 2007

- Age of traditional IRA investor:
  - 25 to 29: 86%
  - 30 to 34: 76%
  - 35 to 39: 70%
  - 40 to 44: 67%
  - 45 to 49: 64%
  - 50 to 54: 61%
  - 55 to 59: 58%
  - 60 to 64: 57%
  - 65 to 69: 50%
  - 70 to 74: 46%

Older Traditional IRA Investors Tend to Have Larger Rollovers

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

- **Less than $5,000**
- **$5,000 to <$20,000**
- **$20,000 to <$50,000**
- **$50,000 to <$100,000**
- **$100,000 or more**

<table>
<thead>
<tr>
<th>Age of traditional IRA investor</th>
<th>Less than $5,000</th>
<th>$5,000 to &lt;$20,000</th>
<th>$20,000 to &lt;$50,000</th>
<th>$50,000 to &lt;$100,000</th>
<th>$100,000 or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 to 34</td>
<td>40%</td>
<td>28%</td>
<td>19%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>50 to 54</td>
<td>24%</td>
<td>19%</td>
<td>19%</td>
<td>15%</td>
<td>23%</td>
</tr>
<tr>
<td>70 to 74</td>
<td>15%</td>
<td>19%</td>
<td>15%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>All</td>
<td>38%</td>
<td>27%</td>
<td>20%</td>
<td>18%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Note: Percentages may not add to 100% because of rounding.
Reaction of IRA-Owning Households to the Financial Crisis
Domestic Stock Market Index

S&P 500 total return index; day-end level, * December 2006–December 2010

*The S&P 500 index consists of 500 stocks chosen for market size, liquidity, and industry group representation.
Sources: Investment Company Institute, Bloomberg, and Standard & Poor’s
Stock Market Performance

Distribution of U.S. stock market yearly index performance (% change) 1825 to 2010

Source: Value Square Management, Yale University and Ibbotson
Willingness to Take Investment Risk by Age For Households Owning IRAs or DC Plans

Percentage of U.S. households owning IRAs or DC plans by age of head of household; willingness to take above-average or substantial investment risk

Sources: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances and Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey
IRA-Owning Households Became More Financially Conservative

Over the past three years, 62% of IRA-owning households made at least one of these moves:

- Increased regular saving;
- Shifted investments away from stocks (to be more conservative); or
- Delayed retirement or increased retirement age.

Note: Activity plotted is among the sample of 999 households with IRAs.
Source: ICI tabulation of GfK OmniTel survey data (November and December 2010)
Summary

- IRAs’ share of U.S. retirement assets and households’ financial assets has risen.
- There is a small but dedicated group of individuals using traditional IRAs as a contributory savings vehicle.
- Rollovers have fueled growth in IRAs and often introduce individuals to IRAs.
- IRA investors often own IRAs through financial advisers or consult financial advisers.
- In the wake of the financial market crisis, households’ tolerance for risk has decreased and many IRA-owning households moved to be more financially conservative.
References


