

## WHAT'S INSIDE

- 2 IRAs Play an Increasingly Important Role in Saving for Retirement
- 4 Incidence of IRA Ownership Increases with Age and Income
- 6 IRA Owners Tend to Be Savers
- 11 Rollovers to Traditional IRAs Fuel Growth
- 14 Few Households Make Contributions to IRAs
- 15 Roth and Employer-Sponsored IRA Owners Are More Likely to Contribute
- 18 IRA Withdrawals Are Infrequent, Mostly Retirement Related
- 22 The Role of Traditional IRA Withdrawals in Retirement
- 24 Majority of Traditional IRA Owners Has a Planned Retirement Strategy
- 26 Expected Role of IRA Withdrawals in Retirement
- 27 Additional Reading
- 27 Glossary
- 29 Notes
- 31 References

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

*Suggested citation:* Holden, Sarah, and Daniel Schrass. 2011. "The Role of IRAs in U.S. Households' Saving for Retirement, 2011." *ICI Research Perspective* 17, no 8 (November). Available at [www.ici.org/pdf/per17-08.pdf](http://www.ici.org/pdf/per17-08.pdf).

## The Role of IRAs in U.S. Households' Saving for Retirement, 2011

### KEY FINDINGS

- » **Nearly four out of 10 U.S. households owned IRAs in 2011.** Nearly eight in 10 IRA-owning households also had employer-sponsored retirement plan accumulations or had defined benefit plan coverage. All told, 69 percent of all U.S. households had retirement plans through work or IRAs.
- » **About one-third of U.S. households owned traditional IRAs in 2011.** 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, 83 percent indicated they had rolled over the entire retirement account balance in their most recent rollover. More than half also had made contributions to their traditional IRAs at some point.
- » **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 2010, and very few eligible households made "catch-up" contributions to traditional IRAs 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 2010, up from 15 percent in tax year 2009. Some of the increase in withdrawal activity resulted from the return of required minimum distributions in tax year 2010, which had been suspended in 2009.
- » **The majority of traditional IRA withdrawals were made by retirees.** Seventy-seven percent of households that made traditional IRA withdrawals were retired. Only 8 percent of traditional IRA-owning households in 2011 headed by individuals younger than 59 took withdrawals.

- » **Traditional IRA-owning households not making withdrawals generally indicated they do not plan to tap their IRAs until age 70½.** Sixty-three percent of traditional IRA-owning households not making withdrawals in tax year 2010 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 62 percent of traditional IRA-owning households without withdrawals indicated a possible future use of the monies would be to cover emergencies.

---

## IRAs Play an Increasingly Important Role in Saving for Retirement

With \$4.9 trillion in assets at the end of the second quarter of 2011, individual retirement accounts (IRAs) represented more than one-quarter of U.S. total retirement market assets, compared with 17 percent two decades ago.<sup>1</sup> IRAs also have risen in importance on household balance sheets. In June 2011, IRA assets were 10 percent of all household financial assets, up from 5 percent of assets two decades ago.<sup>2</sup> In May 2011, 46.1 million, or 39 percent of,

U.S. households reported owning IRAs (Figure 1).<sup>3</sup> Among all IRA-owning households in May 2011, 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 30 percent of U.S. households reported employer-sponsored retirement plan coverage, but no IRAs. All told, 69 percent of all U.S. households had some type of formal, tax-advantaged retirement savings.

### *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 2011 and was based on a sample of 4,216 U.S. households selected by random digit dialing, of which 1,636 households, or 38.8 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 2011 sample of households is ± 1.5 percentage points at the 95 percent confidence level.

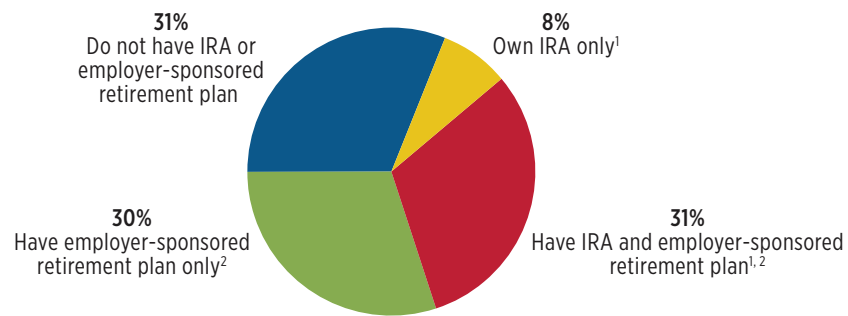
### *About the IRA Owners Survey*

ICI 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 2011 and was based on a sample of 2,300 randomly selected, representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE 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 ± 2.0 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called Education IRAs).

FIGURE 1

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

Percentage of U.S. households, 2011



Total number of U.S. households: 118.7 million

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

<sup>2</sup> 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, <sup>1</sup> 2011	Percentage of U.S. households with type of IRA, <sup>1</sup> 2011
<b>Traditional IRA</b>	1974 (Employee Retirement Income Security Act)	37.0 million	31.2%
<b>SEP IRA<sup>2</sup></b>	1978 (Revenue Act)	8.9 million	7.5%
<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	15.7%
<b>Any IRA<sup>1</sup></b>		46.1 million	38.8%

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

<sup>2</sup> SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs are employer-sponsored IRAs.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

Traditional IRAs are the oldest and most common type of IRA. In 2011, 37.0 million, or 31 percent of, U.S. households owned traditional IRAs (Figure 2). In addition to being a repository for contributions, 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, or nearly 16 percent of, U.S. households. Income limits restrict many U.S. households' ability to invest in Roth IRAs.<sup>5</sup> Almost 8 percent of U.S. households owned employer-sponsored IRAs, which include SEP IRAs, SAR-SEP IRAs, and SIMPLE 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 effects on 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

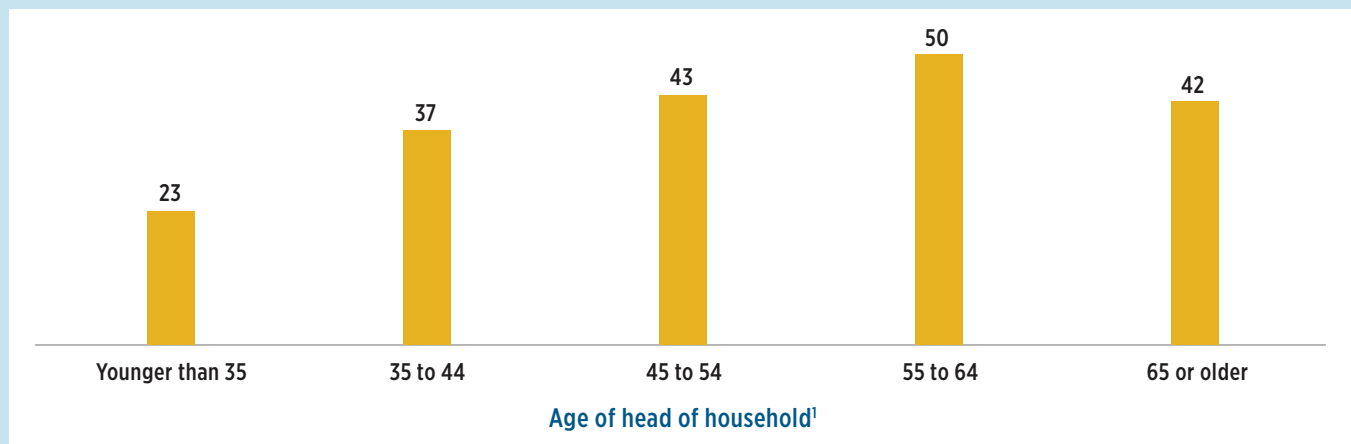
house when younger).<sup>6</sup> Also, many traditional IRA owners became owners as a result of rollovers from employer-sponsored plans, which occur after at least some years in the workforce.<sup>7</sup> In 2011, 43 percent of households headed by an individual aged 45 to 54 owned IRAs, and half of households headed by an individual aged 55 to 64 owned IRAs (Figure 3). As a result, seven in 10 IRA-owning households were headed by individuals aged 45 or older (Figure 4). Among all U.S. households, by comparison, six in 10 were headed by individuals in this age group.

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,<sup>8</sup> generally exhibit less tendency to save for retirement.<sup>9</sup> Fifty-six 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 (Figure 5). More than two-thirds of households with incomes of \$100,000 or more owned IRAs in 2011. As a result, 16 percent of households owning

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> 2011



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

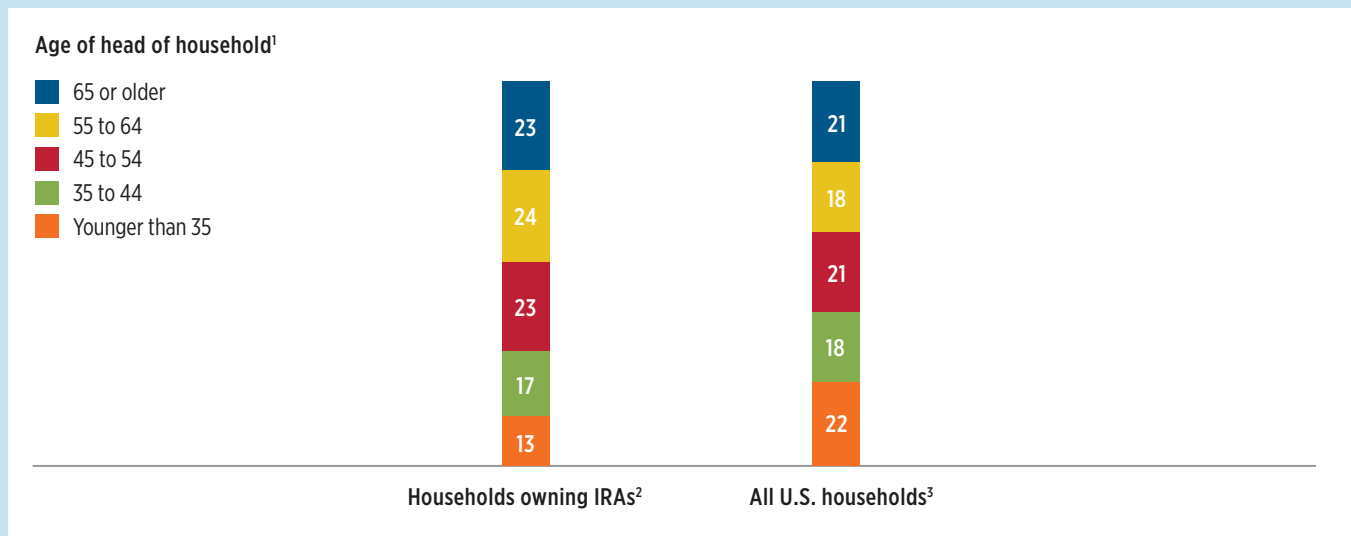
<sup>2</sup> IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

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,<sup>1</sup> 2011



<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 (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

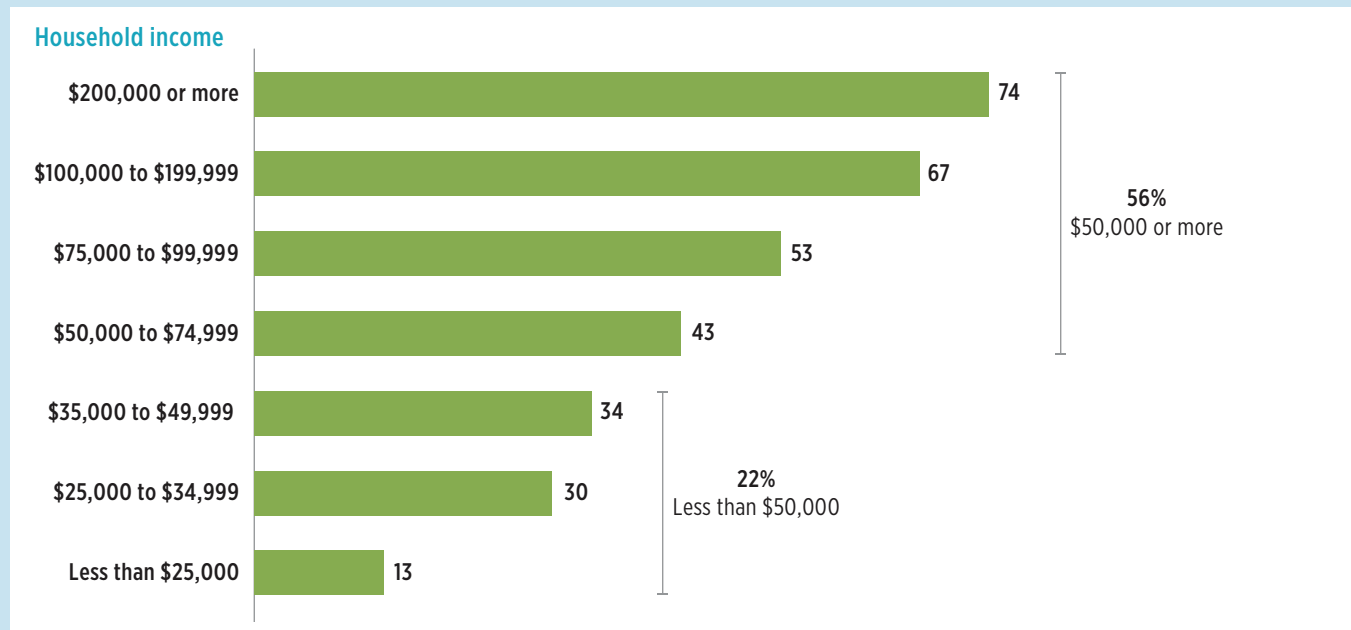
<sup>3</sup> The percentage of all households in each age group is based on ICI survey data and is weighted to match the U.S. Census Bureau's Current Population Survey.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

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> 2011



<sup>1</sup> Total reported is household income before taxes in 2010.

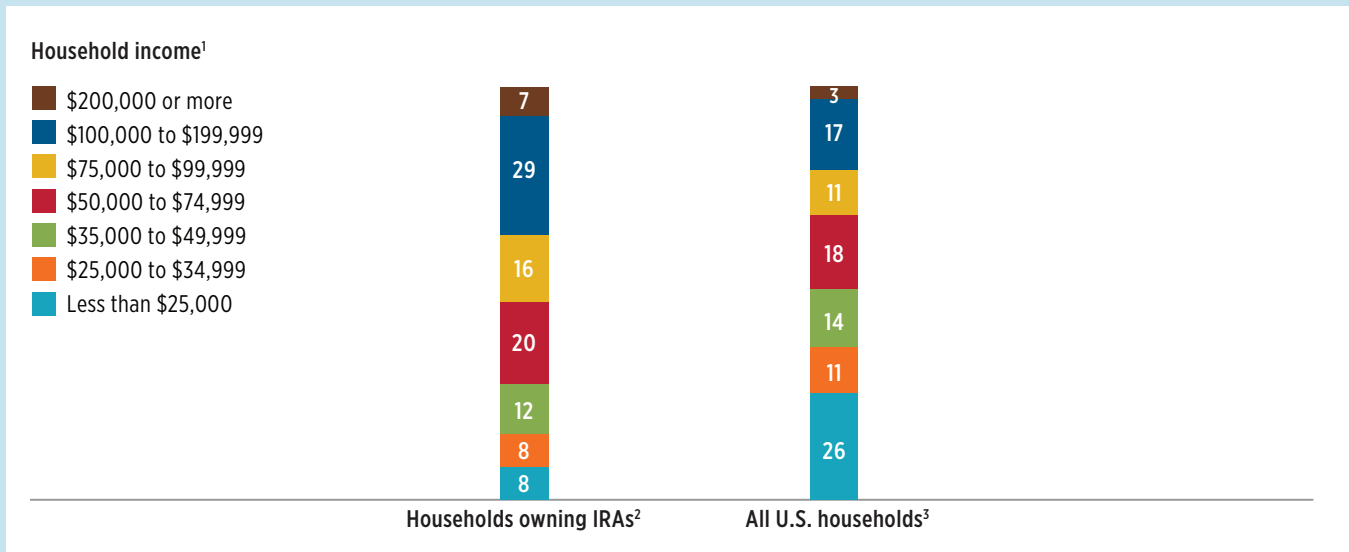
<sup>2</sup> IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

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,<sup>1</sup> 2011



<sup>1</sup> Total reported is household income before taxes in 2010.

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

IRAs earned less than \$35,000, compared with 37 percent of all U.S. households (Figure 6). Forty-eight percent of households owning IRAs in 2011 had incomes between \$35,000 and \$99,999, compared with 43 percent of all U.S. households.

### IRA Owners Tend to Be Savers

IRA owners build substantial financial assets. The median financial assets of IRA-owning households was eight 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 that tend to correlate with a greater propensity 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.<sup>10</sup>

Like other investing households, the majority of IRA-owning households were willing to take some financial risk for financial gain. Willingness to take risk edged up in 2011 among IRA-owning households. In 2011, 30 percent of IRA-owning households were willing to take substantial or above-average financial risk for similar levels of financial gain, compared with 27 percent in 2010 (Figure 8).<sup>11</sup>

FIGURE 7

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

Characteristics of U.S. households by ownership of IRAs,<sup>1</sup> 2011

	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	53 years	47 years
Household income <sup>2</sup>	\$75,000	\$35,000
Household financial assets <sup>3</sup>	\$200,000	\$25,000
Household financial assets in IRAs	\$42,500	N/A
Share of household financial assets in IRAs	30%	N/A
<b>Percentage of households</b>		
Household sole or co-decisionmaker for saving and investing:		
Married or living with a partner	73	57
College or postgraduate degree	45	22
Employed full- or part-time	64	53
Retired from lifetime occupation	32	29
Household has DC account or DB plan coverage (total)	81	49
DC retirement plan account	70	40
DB plan coverage	49	22

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

<sup>2</sup> Total reported is household income before taxes in 2010.

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

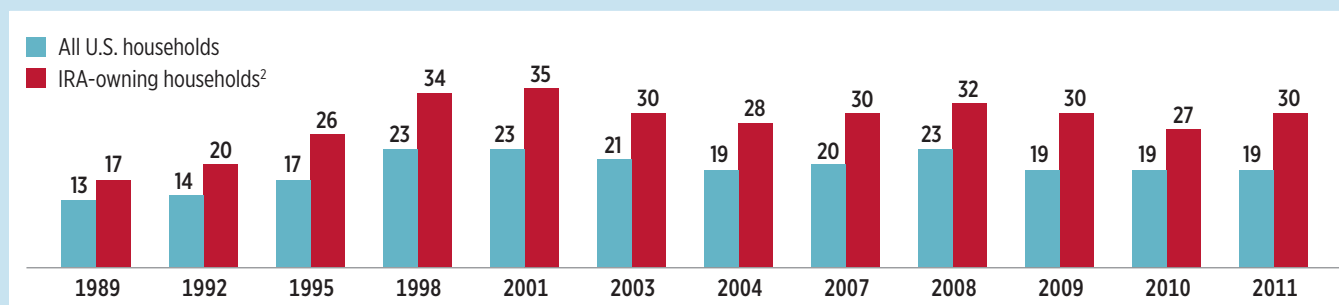
N/A = not applicable

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

FIGURE 8

### Willingness to Take Investment Risk Varies over Time

Percentage of U.S. households by ownership of IRAs; willingness to take above-average or substantial investment risk,<sup>1</sup> selected years



<sup>1</sup> The question had three other responses which included average risk for average gain, below-average risk for below-average gain, and unwilling to take any risk.

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

Sources: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances, Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey, and Investment Company Institute IRA Owners Survey

In 2011, while 30 percent of IRA-owning households were willing to take substantial or above-average risk, the largest percentage of households owning IRAs, 45 percent, were willing to take average risk for average gain (Figure 9). Twenty-five 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 generally decreases with age.<sup>12</sup> Thirteen percent of IRA-owning households aged 65 or older reported that they were willing to take substantial or above-average financial risk for similar levels of financial gain. For IRA-owning households aged 35 to 44, 40 percent were

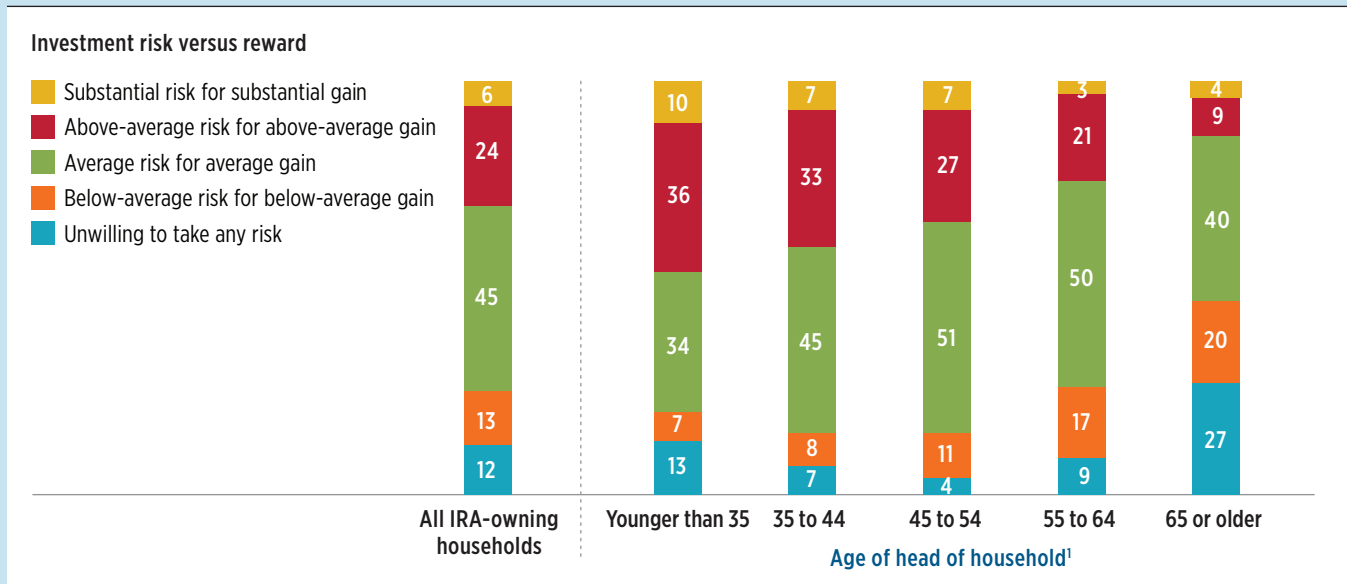
willing to take substantial or above-average financial risk for similar levels of financial gain.<sup>13</sup>

Between 2010 and 2011, willingness to take investment risk remained about the same except among the younger than 44 age groups, who increased their willingness to take risk. For example, 40 percent of IRA-owning households aged 35 to 44 reported that they were willing to take substantial or above-average financial risk for similar levels of financial gain in 2011, compared with 36 percent in 2010 (Figure 10). Willingness to take risk stayed about the same in 2011 for IRA-owning households aged 45 or older.

FIGURE 9

### Willingness to Take Investment Risk Falls with Age

Percentage of U.S. households owning IRAs by age,<sup>1</sup> 2011



<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 (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

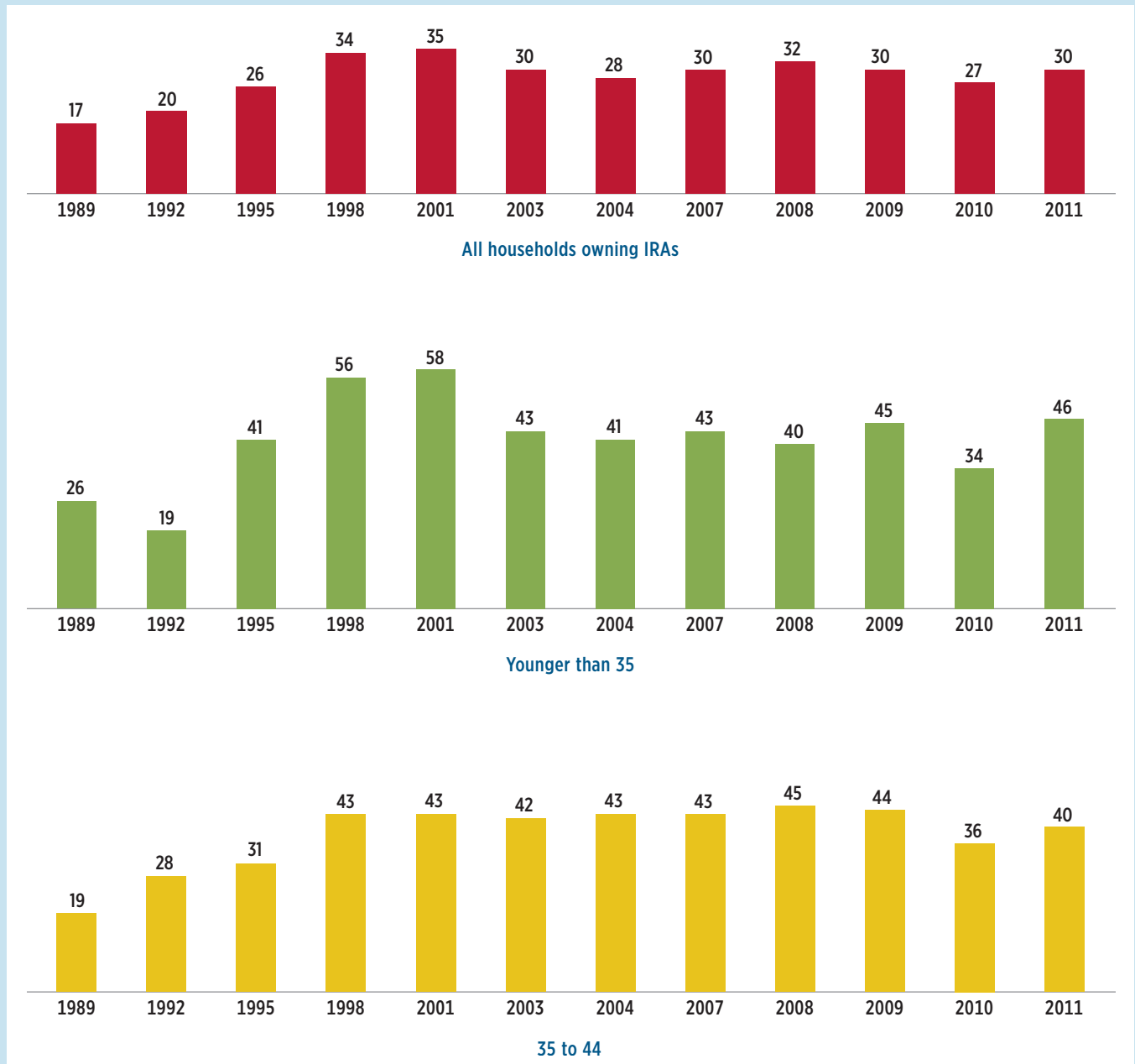
Source: Investment Company Institute IRA Owners Survey



FIGURE 10

### Willingness to Take Investment Risk by Age for Households That Own IRAs

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

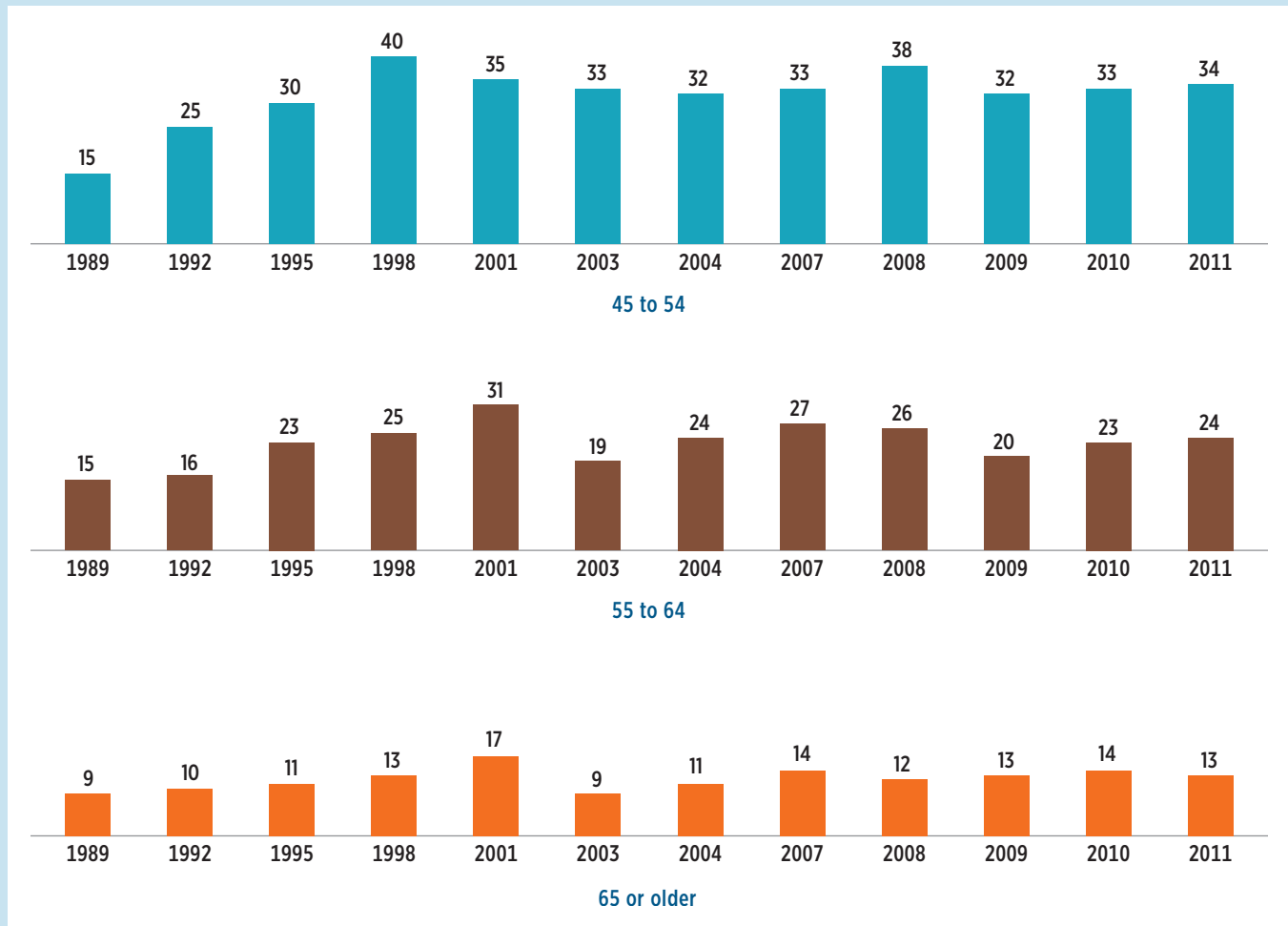


Continued on the next page

FIGURE 10 CONTINUED

**Willingness to Take Investment Risk by Age for Households That Own IRAs**

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



Note: The question had three other responses which included average risk for average gain, below-average risk for below-average gain, and unwilling to take any risk.

Sources: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances, 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>14</sup> IRA balances tend to rise with length of ownership. In 2011, 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 \$100,000 (Figure 11). Mean IRA holdings, while considerably higher than the median values, display a similar pattern.

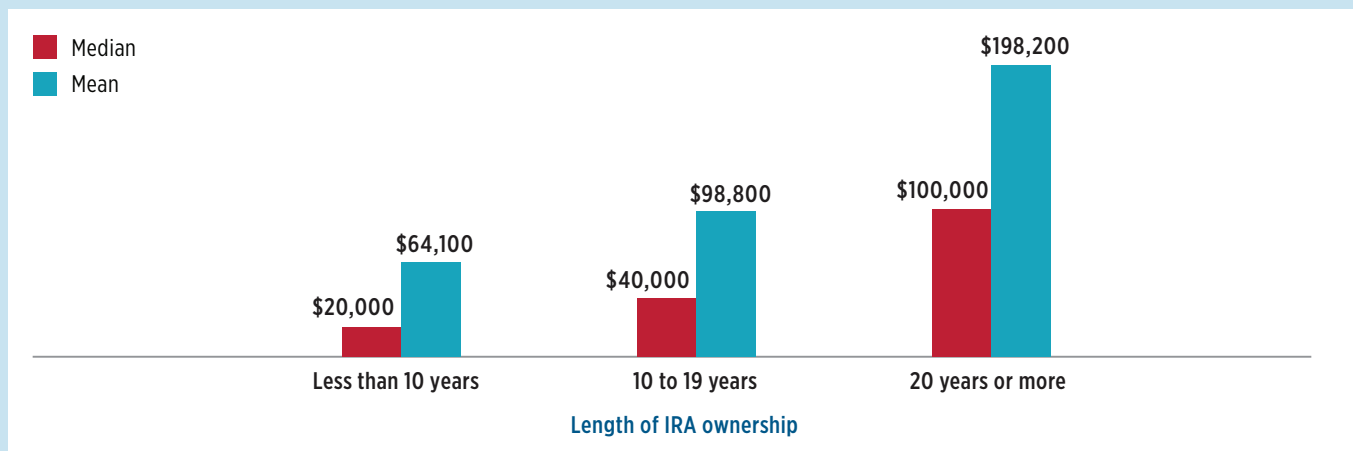
## Rollovers to Traditional IRAs Fuel Growth

In 1974, Congress created traditional IRAs with a dual purpose.<sup>15</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 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.<sup>16, 17</sup>

FIGURE 11

### IRA Assets Increase with Length of IRA Ownership

Median and mean household financial assets in IRAs\* by length of ownership, 2011



\*IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE 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.<sup>18</sup> In 2011, 20 million U.S. households (or 55 percent of all U.S. households owning traditional IRAs) had traditional IRAs

that included rollover assets (Figure 12).<sup>19</sup> With their most recent rollovers, the vast majority of these households (83 percent) transferred the entire retirement plan account balance into the traditional IRA (Figure 13).<sup>20</sup> More than three-quarters of traditional IRA-owning households with rollovers made their most recent rollover in 2000 or later, including 55 percent whose most recent rollover was within

FIGURE 12

### Rollovers Are Often a Source of Assets for Traditional IRAs

#### Households with traditional IRAs that include rollovers

*Percentage of households owning traditional IRAs, 2011*

Traditional IRA includes rollover	55
Traditional IRA does not include rollover	45

#### Traditional IRA rollover activity

*Percentage of households owning traditional IRAs that include rollovers, 2011*

##### **Traditional IRA rollover(s) due to:\***

Job change, layoff, or termination	65
Retirement	33
Other	14

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

Have made contribution other than rollover	56
Have never made contribution in addition to rollover	44

##### **Percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans:**

Less than 25 percent	17
25 to 49 percent	14
50 to 74 percent	21
75 percent or more	48
Median percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans	70

\*Multiple responses are included.

Note: Number of respondents varies.

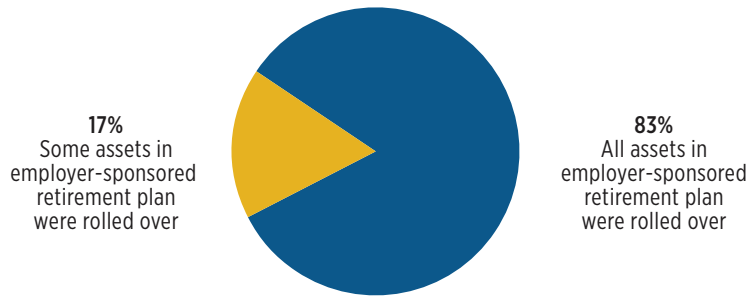
Source: Investment Company Institute IRA Owners Survey

FIGURE 13

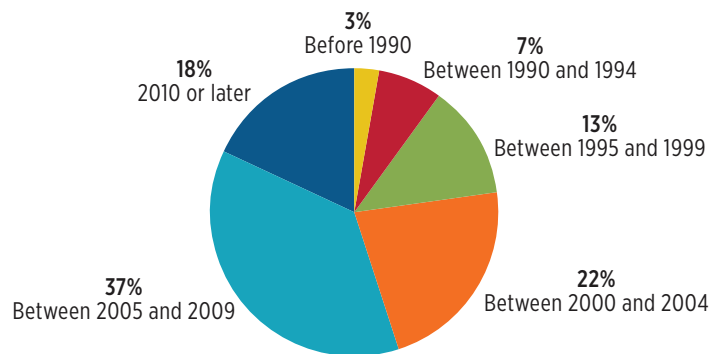
### Amount and Timing of Most Recent Traditional IRA Rollover

Percentage of traditional IRA-owning households with rollovers, 2011

#### Amount of most recent traditional IRA rollover



#### Traditional IRA-owning households' year of most recent rollover



Note: Fifty-five percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans.

Source: Investment Company Institute IRA Owners Survey

the past six years. Among households with rollovers in their traditional IRAs, 44 percent only had rollover IRAs (having never made traditional IRA contributions; Figure 12). 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 \$62,500 in 2011, compared with median traditional IRA holdings of \$25,000 for balances that did not include rollovers (Figure 14).<sup>21</sup>

## 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 2010, only 14 percent of all U.S. households made contributions to IRAs, compared with 15 percent in tax year 2009 (Figure 15). Among households owning IRAs in 2011, 36 percent made contributions in tax year 2010, compared with 37 percent in tax year 2009

FIGURE 14

### Traditional IRAs Preserve Assets from Employer-Sponsored Retirement Plans

*Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2011*

	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	\$149,500	\$83,300
Median	\$62,500	\$25,000
<b>Household financial assets<sup>3</sup></b>		
Mean	\$364,900	\$330,200
Median	\$275,000	\$200,000

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

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

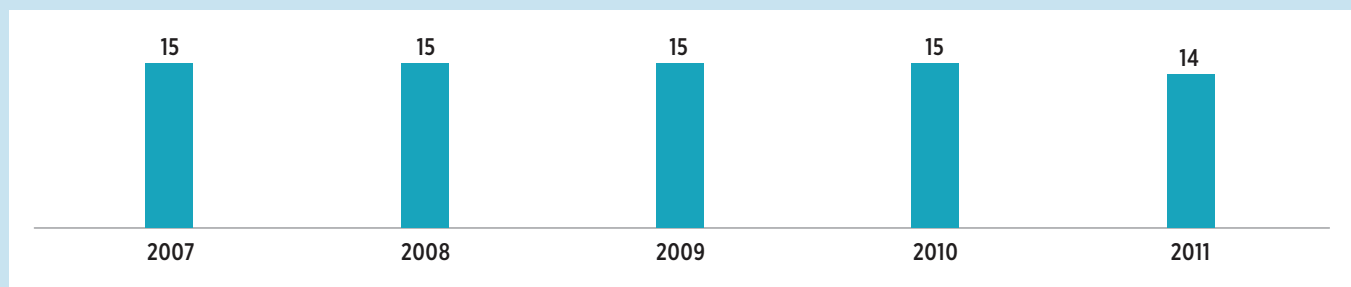
<sup>3</sup> Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.

Source: Investment Company Institute IRA Owners Survey

FIGURE 15

### Few Households Contribute to IRAs

*Percentage of all U.S. households that contributed to IRAs in the previous tax year, 2007–2011*



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

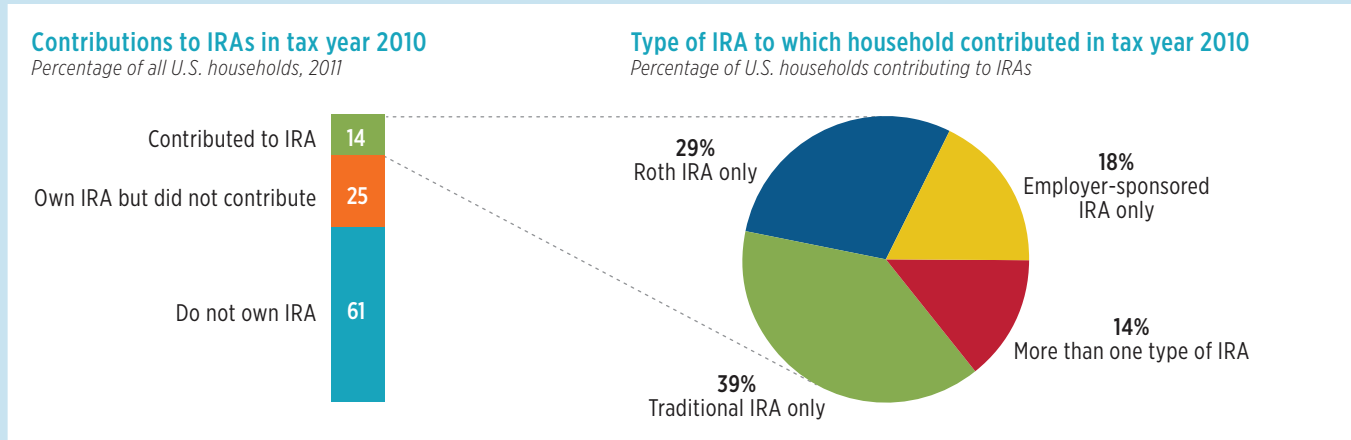
(Figure 16). Among households making contributions to IRAs in tax year 2010, more than half contributed to traditional IRAs, with 39 percent only contributing to traditional IRAs.<sup>22</sup> Thirty-eight percent of households making IRA contributions in tax year 2010 made Roth contributions, with 29 percent only contributing to Roth IRAs.<sup>23</sup> Twenty-six percent contributed to employer-sponsored IRAs in tax year 2010, with 18 percent only contributing to employer-sponsored IRAs.<sup>24</sup>

## 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. Thirty-four percent of households owning Roth IRAs in 2011 made contributions in tax year 2010 (Figure 17). Forty-seven percent of all households owning employer-sponsored IRAs in 2011 made contributions in tax year

FIGURE 16

### IRA Contribution Activity in Tax Year 2010



Note: Employer-sponsored IRAs include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

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

2010. In contrast, only 23 percent of traditional IRA-owning households in 2011 contributed to their traditional IRAs in tax year 2010. The lower contribution rate to traditional IRAs is likely due to restrictions on the tax deductibility of contributions, which must be considered by the 82 percent of traditional IRA-owning households that have retirement plan coverage at work.<sup>25</sup> It is also likely that IRA-owning households with employer-sponsored retirement plans are currently saving through these plans.<sup>26</sup> In addition, 19 percent of traditional IRA-owning households were headed by individuals aged 70 or older and may not have been eligible to contribute because of IRS regulations.<sup>27</sup>

The median contribution among households contributing to employer-sponsored IRAs was \$3,800 in tax year 2010, while the median contribution to traditional IRAs was

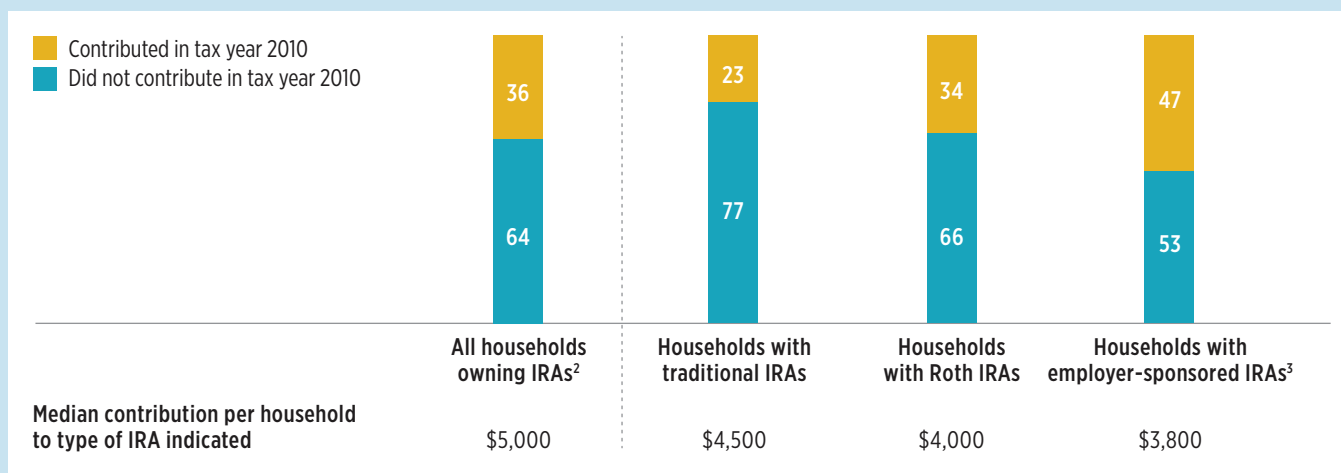
\$4,500 per household (Figure 17). The median contribution to Roth IRAs was \$4,000 per household. In 2010, the traditional and Roth IRA contribution limit was \$5,000 for individuals under the age of 50 (Figure 18).<sup>28</sup>

Since tax year 2002, individuals aged 50 or older are eligible to make “catch-up” contributions to their IRAs (Figure 18).<sup>29</sup> Among households aged 50 or older, 43 percent owned traditional or Roth IRAs in 2011 (Figure 19). Among these IRA-owning households, 28 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<sup>30</sup> reporting catch-up contributions.

FIGURE 17

### Contribution Activity to Roth and Employer-Sponsored IRAs Outpaces Contribution Activity to Traditional IRAs in Tax Year 2010

Percentage of U.S. households owning each type of IRA<sup>1</sup> by contribution status in tax year 2010



<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 (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

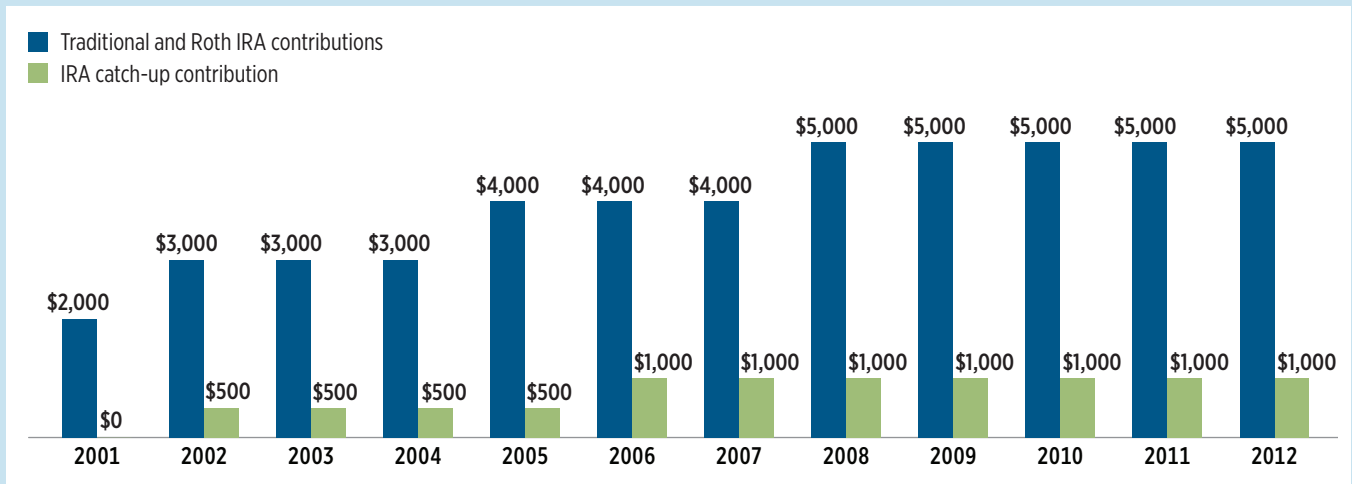
<sup>3</sup> Employer-sponsored IRAs include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

Source: Investment Company Institute IRA Owners Survey



FIGURE 18

### Traditional and Roth IRA Contribution Limits Set by the Internal Revenue Code, 2001–2012



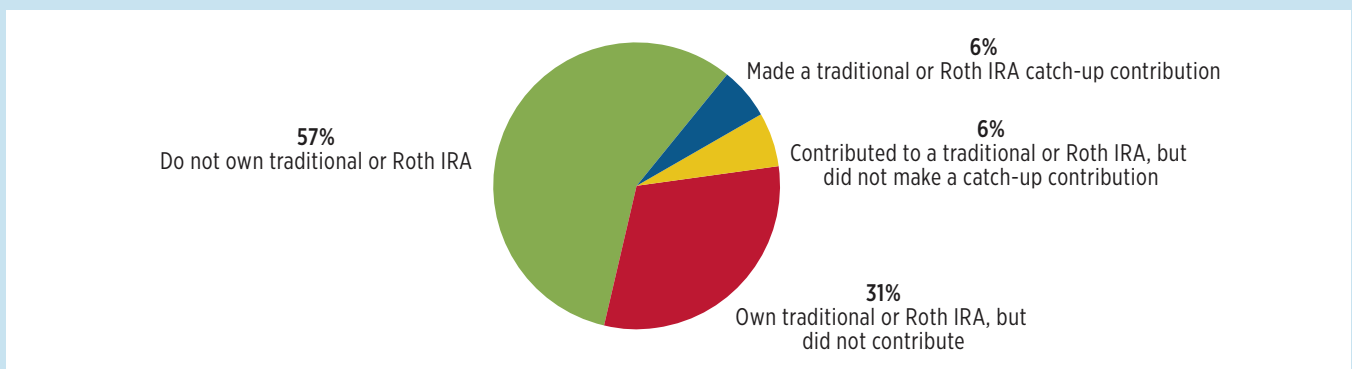
Note: After 2008, traditional IRA contributions are indexed for inflation in \$500 increments. IRA catch-up contributions are not indexed for inflation.

Source: ICI summary of U.S. Internal Revenue Code

FIGURE 19

### 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 2010



Note: Catch-up contribution activity is identified if an individual's contribution is greater than the \$5,000 limit in tax year 2010 or if they indicated their contribution included catch-up.

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

## IRA Withdrawals Are Infrequent, Mostly Retirement Related

Few households withdraw money from their IRAs in any given year, and most withdrawals are retirement related. A traditional IRA withdrawal 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).<sup>31</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

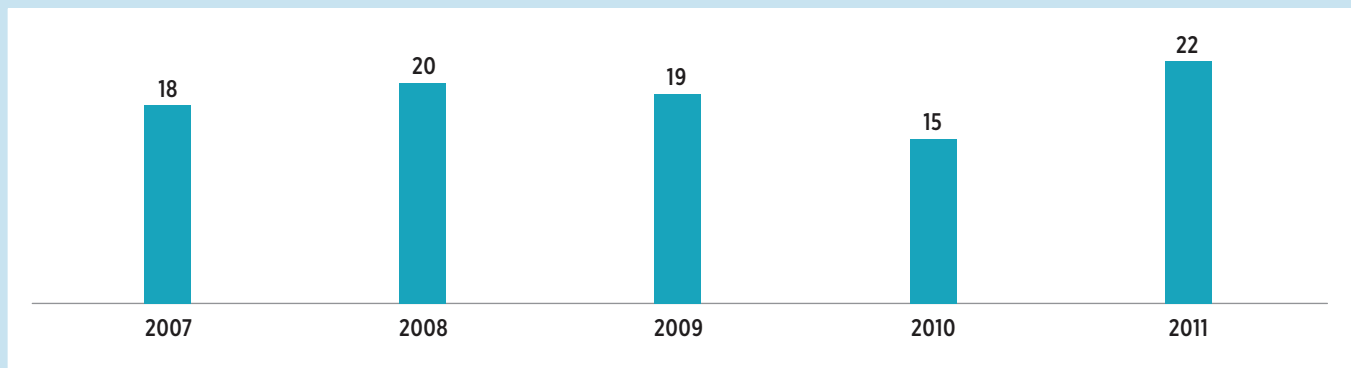
withdraw an annual amount based on life expectancy or pay a penalty for failing to do so; these withdrawals are called required minimum distributions (RMDs).

Twenty-two percent of households still owning traditional IRAs in 2011 reported taking withdrawals from these IRAs in tax year 2010, up from 15 percent in tax year 2009 (Figure 20).<sup>32</sup> In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009.<sup>33</sup> Withdrawal activity among traditional IRA-owning households fell to lower levels in tax year 2009, likely in part due to the

FIGURE 20

### Traditional IRA Withdrawal Activity

*Percentage of households owning traditional IRAs in the year indicated that took withdrawals in the prior year*



Note: Households were surveyed in May of the year indicated and asked about withdrawals in the prior year.

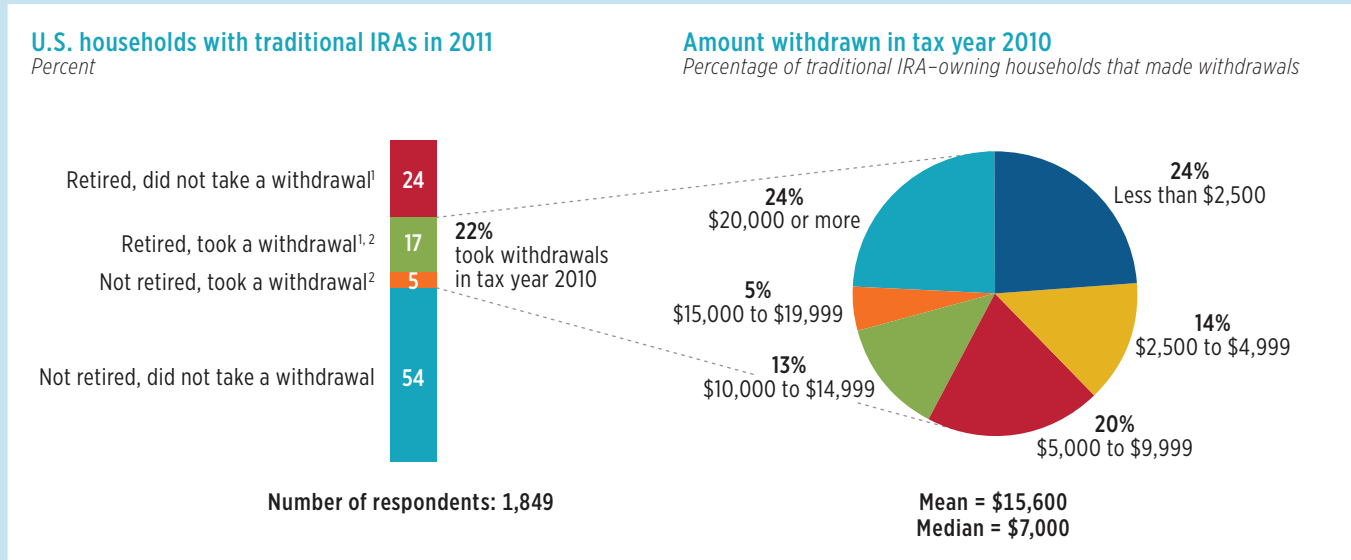
Source: Investment Company Institute IRA Owners Survey

suspension of RMDs from traditional IRAs. Some of the increase in withdrawal activity in tax year 2010 resulted from the return of RMDs. Among households taking traditional IRA withdrawals in tax year 2010, 77 percent reported someone in the household was retired from their lifetime occupation (Figure 21). Nevertheless, among retired households owning traditional IRAs in 2011, 59 percent did not take a withdrawal in tax year 2010.

Traditional IRA-owning households that made withdrawals generally took modest-sized amounts. Twenty-four percent of traditional IRA-owning households making withdrawals in tax year 2010 took less than \$2,500 from their IRAs, and another 14 percent took an amount between \$2,500 and \$4,999 (Figure 21). Although some withdrawals in dollar amounts appear large, a median of 9 percent of the account balance was typically withdrawn.

FIGURE 21

### 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 which closed and no longer own traditional IRAs.

Source: Investment Company Institute IRA Owners Survey

FIGURE 22

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

Percentage of traditional IRA–owning households, 2007–2011

	Traditional IRA–owning households				
	2007	2008	2009	2010	2011
<b>Age of head of household*</b>					
<i>Percentage of U.S. households owning traditional IRAs</i>					
Younger than 59	64	62	63	62	58
59 to 69	20	22	20	22	25
70 or older	16	16	17	16	17
<b>Traditional IRA withdrawal activity by age*</b>					
<i>Percentage of U.S. households owning traditional IRAs</i>					
Younger than 59, did not take a withdrawal	61	59	60	59	54
Younger than 59, took a withdrawal	3	4	3	3	5
Aged 59 to 69, did not take a withdrawal	15	17	16	18	20
Aged 59 to 69, took a withdrawal	6	5	4	4	5
Aged 70 or older, did not take a withdrawal	6	4	5	7	5
Aged 70 or older, took a withdrawal	9	11	12	9	13
<b>Memo:</b>					
Percentage of traditional IRA–owning households with withdrawals	18	20	19	15	22
<b>Incidence of withdrawal activity by age*</b>					
<i>Percentage of traditional IRA–owning households by age</i>					
Younger than 59	4	6	5	5	8
59 to 69	27	24	19	17	19
70 or older	59	73	70	53	72
<b>Age composition of households with withdrawals</b>					
<i>Percentage of traditional IRA–owning households with withdrawals</i>					
Younger than 59	16	18	16	20	22
59 to 69	31	26	20	25	21
70 or older	53	56	64	55	57

\*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. For traditional IRA–owning households in 2009, figure reports tax year 2008 withdrawal activity. For traditional IRA–owning households in 2010, figure reports tax year 2009 withdrawal activity. For traditional IRA–owning households in 2011, figure reports tax year 2010 withdrawal activity.

Source: Investment Company Institute IRA Owners Survey

In line with the incentives and disincentives of the tax code, younger households were much less likely to have withdrawals than older households. Among traditional IRA-owning households in 2011 headed by individuals younger than 59, only 8 percent took a withdrawal in tax year 2010 (Figure 22).<sup>34</sup>

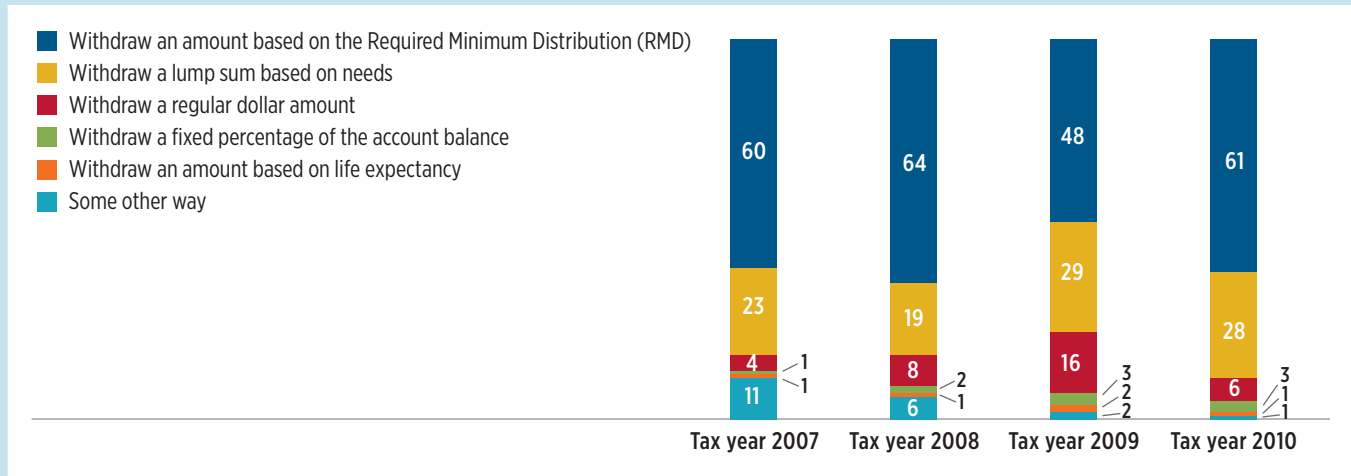
Nineteen percent of households owning traditional IRAs and headed by an individual aged 59 to 69 reported withdrawals (Figure 22). Withdrawal activity increased among households headed by individuals aged 70 or older, reflecting the return of RMDs in tax year 2010. Seventy-two percent of these traditional IRA-owning households took withdrawals in tax year 2010, compared with a withdrawal rate among these households of 53 percent in tax year 2009.<sup>35</sup>

Typically, withdrawals from traditional IRAs were taken to fulfill RMDs. Sixty-one percent of households owning traditional IRAs in 2011 and making withdrawals in tax year 2010 calculated their withdrawal amount based on the RMD, compared to 48 percent in tax year 2009 (Figure 23). Another 28 percent of traditional IRA-owning households taking withdrawals reported they withdrew lump sums based on needs in tax year 2010, compared with 29 percent in tax year 2009. In tax year 2010, 9 percent reported a scheduled withdrawal amount, either a percentage of the account or a regular dollar amount. In tax year 2009, 19 percent reported a scheduled withdrawal 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.<sup>36</sup>

FIGURE 23

### How Traditional IRA Withdrawals Are Determined

Percentage of traditional IRA-owning households with withdrawals in tax years 2007, 2008, 2009, and 2010



Source: Investment Company Institute IRA Owners Survey

Traditional IRA-owning households that took withdrawals in tax year 2010 usually consulted outside sources to determine the amount of the withdrawal. Fifty-two percent consulted a professional financial adviser to determine the amount to withdraw in tax year 2010 (Figure 24). Twenty-seven percent consulted IRS rules or publications. Twenty-seven percent consulted IRS rules or publications.

## 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, 39 percent reported using traditional IRA withdrawals to pay for living expenses (Figure 25). Thirty-three percent of retired households that took a traditional IRA withdrawal in tax year 2010 cited reinvesting or saving the withdrawal amount into another account.<sup>37</sup> Eighteen percent reported

using the withdrawal for home purchase, repair, or remodeling, and 6 percent used the withdrawal for an emergency. Ten 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 2010 were asked about their future withdrawal intentions. In 2011, 63 percent of these traditional IRA-owning households say it is unlikely they will take withdrawals prior to age 70½ (Figure 26). Among traditional IRA-owning households in 2011 that did not take withdrawals in tax year 2010, 34 percent indicate it is "not likely at all" that they would start IRA withdrawals before required. Another 29 percent report it is "not very likely" that they would take withdrawals prior to age 70½.

FIGURE 24

### 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 withdrawals in tax year 2010



Note: Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

FIGURE 25

### 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, 2011

Purpose of traditional IRA withdrawal in retirement <sup>2</sup>	
Took withdrawals to pay for living expenses	39
Spent it on a car, boat, or big-ticket item other than a home	7
Spent it on a healthcare expense	10
Used it for an emergency	6
Used it for home purchase, repair, or remodeling	18
Reinvested or saved it in another account	33
Paid for education	4
Some other purpose	12
<i>Number of respondents</i>	<i>318</i>

<sup>1</sup> The base of respondents includes the 17 percent of traditional IRA-owning households who were retired and took withdrawals reported in Figure 21.

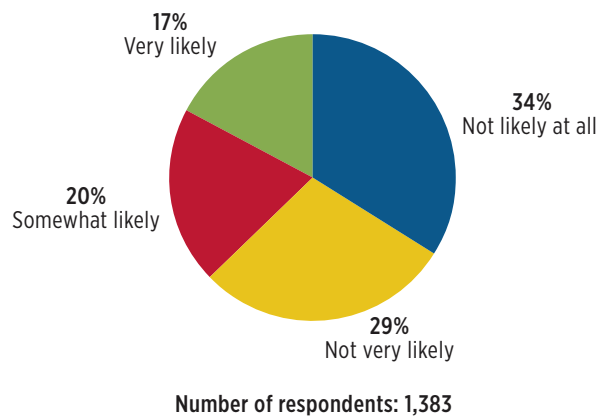
<sup>2</sup> Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

FIGURE 26

### Likelihood of Withdrawing from Traditional IRA Before Age 70½

Percentage of traditional IRA-owning households that did not take a withdrawal in tax year 2010



Source: Investment Company Institute IRA Owners Survey

## Majority of Traditional IRA Owners Has a Planned Retirement Strategy

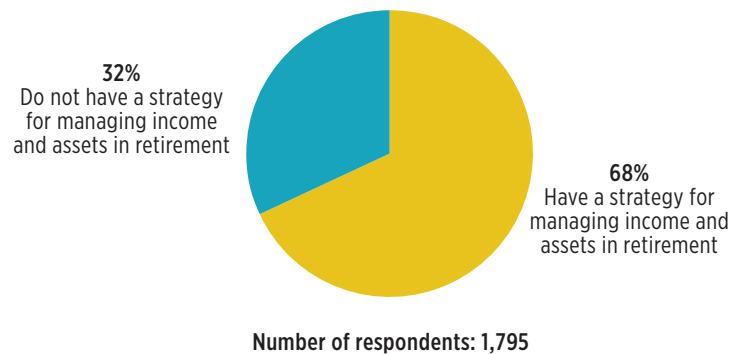
Sixty-eight percent of traditional IRA-owning households in 2011 say they have a strategy for managing income and assets in retirement (Figure 27). These households typically seek advice when building their retirement income strategy. Sixty-two percent of traditional IRA-owning households with a strategy consulted a professional financial adviser when creating the strategy (Figure 28). Twenty-five percent of households with a strategy consulted written materials (e.g., a book or article in a magazine or newspaper) and 30 percent consulted with friends or family. Eighteen percent used a website to help create their retirement income and asset management strategy.

In 2011, a new survey question asks households with a strategy for managing their income and assets in retirement about the components of their strategy. Seventy-one percent of these households indicated setting aside emergency funds as part of their strategy and 69 percent developed a retirement income plan (Figure 29). Sixty-five percent reviewed their insurance policies and 64 percent determined their retirement expenses. Slightly more than half determined when to take Social Security benefits, with households aged 50 or older more likely to have done so compared with households younger than 50. More than two-thirds of traditional IRA-owning households with a strategy took three or more of these steps in developing their strategy.

FIGURE 27

### More Than Two-Thirds of Traditional IRA-Owning Households Have a Strategy for Managing Income and Assets in Retirement

*Percentage of traditional IRA-owning households, 2011*



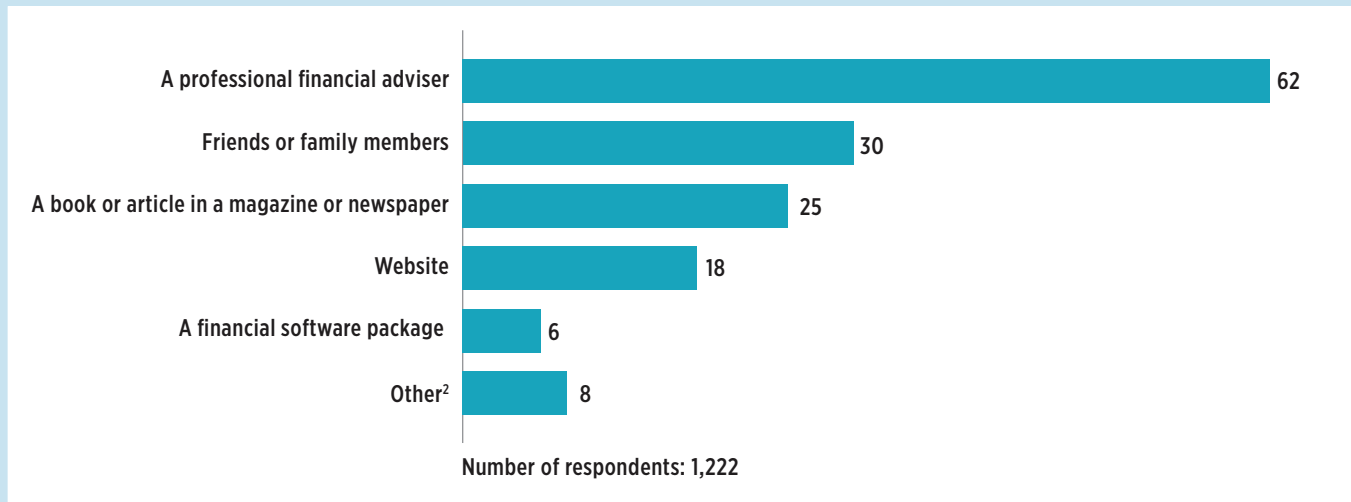
Source: Investment Company Institute IRA Owners Survey



FIGURE 28

### 62 Percent of IRA Owners Consult a Professional Financial Adviser When Creating Retirement Strategy

Percentage of traditional IRA-owning households that indicated they have a strategy for managing income and assets in retirement,<sup>1</sup> 2011



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

<sup>2</sup> Among respondents indicating “other,” 5 percent consulted themselves, 2 percent consulted their employer, and 1 percent used information seen on TV.

Source: Investment Company Institute IRA Owners Survey

FIGURE 29

### Components of Strategy for Managing Income and Assets in Retirement

Percentage of traditional IRA-owning households that indicated they have a strategy for managing income and assets in retirement, 2011

	All	Age of head of household*			
		Younger than 35	35 to 49	50 to 64	65 or older
Set aside emergency funds	71	59	79	74	65
Develop a retirement income plan	69	57	72	75	63
Review insurance policies	65	57	71	68	58
Determine retirement expenses	64	51	61	70	64
Determine when to take Social Security benefits	54	32	48	60	62
Other	6	13	4	5	7
<i>Number of respondents:</i>	<i>1,171</i>	<i>128</i>	<i>283</i>	<i>472</i>	<i>288</i>

\*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

## Expected Role of IRA Withdrawals in Retirement

Traditional IRA-owning households that were either (1) not retired or (2) retired but did not take withdrawals in tax year 2010, reported a pattern for the expected role of future IRA withdrawals in retirement that is consistent with the use of withdrawals among those who withdrew in tax year

2010. Sixty-three percent of these households reported they plan to use IRA withdrawals to pay for living expenses in retirement (Figure 30). Another 62 percent reported they plan to use IRA withdrawals for an emergency. When asked to select a primary role for future IRA withdrawals in retirement, 53 percent expected the primary role of IRA withdrawals will be to pay for living expenses in retirement.

FIGURE 30

### Expected Role of IRA Withdrawals in Retirement

Percentage of traditional IRA-owning households,<sup>1</sup> excluding retiree households with withdrawals, 2011

<b>Plan for future IRA withdrawals in retirement<sup>2</sup></b>	
Take withdrawals to pay for living expenses	63
Spend it on a car, boat, or big-ticket item other than a home	10
Spend it on a healthcare expense	32
Use it for an emergency	62
Use it for home purchase, repair, or remodeling	23
Reinvest or save it in another account	39
Pay for education	14
Some other plan	16
<b>Primary plan for future IRA withdrawals in retirement</b>	
Take withdrawals to pay for living expenses	53
Spend it on a car, boat, or big-ticket item other than a home	2
Spend it on a healthcare expense	3
Use it for an emergency	15
Use it for home purchase, repair, or remodeling	5
Reinvest or save it in another account	12
Pay for education	4
Some other plan	6
<i>Number of respondents</i>	<i>1,521</i>

<sup>1</sup> The base of respondents includes the 24 percent of traditional IRA-owning households that were retired but did not take withdrawals (who were asked about their future plans), the 5 percent of nonretired households that took withdrawals, and the 54 percent of nonretired households that did not take withdrawals.

<sup>2</sup> 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 research paper 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](http://www.ici.org/pdf/per15-03.pdf).

**“The Individual Retirement Account at Age 30: A Retrospective,”** *Investment Company Institute Perspective*. This research paper provides a summary of the growth and development of the IRA market. Available at [www.ici.org/pdf/per11-01.pdf](http://www.ici.org/pdf/per11-01.pdf).

### The IRA Investor Profile

*The IRA Investor Profile* is an ICI Research series that analyzes account-level data of more than 10 million IRAs, providing insights into IRA investor demographics and activities. The series draws from information collected in the IRA Investor Database™. ICI has published three reports using this database:

**“The IRA Investor Profile: Traditional IRA Investors’ Contribution Activity, 2007 and 2008.”** This report analyzes the contribution activity of working-age traditional IRA investors. Available at [www.ici.org/pdf/rpt\\_10\\_ira\\_contributions.pdf](http://www.ici.org/pdf/rpt_10_ira_contributions.pdf).

**“The IRA Investor Profile: Traditional IRA Investors’ Rollover Activity, 2007 and 2008.”** This report analyzes rollover activity among traditional IRA investors. Available at [www.ici.org/pdf/rpt\\_10\\_ira\\_rollovers.pdf](http://www.ici.org/pdf/rpt_10_ira_rollovers.pdf).

**“The IRA Investor Profile: Traditional IRA Investors’ Asset Allocation, 2007 and 2008.”** This report analyzes the factors that are associated with the types of assets held by individual traditional IRA investors. Available at [www.ici.org/pdf/rpt\\_11\\_ira\\_asset.pdf](http://www.ici.org/pdf/rpt_11_ira_asset.pdf).

**“The U.S. Retirement Market, Second Quarter 2011.”** Available at [www.ici.org/info/ret\\_11\\_q2\\_data.xls](http://www.ici.org/info/ret_11_q2_data.xls).

## 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 2011, 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 2011, 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 2011 was \$49,000. Individuals aged 50 or older can make additional “catch-up” contributions.

**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.

**defined benefit (DB) plan.** An employer-sponsored pension plan where the amount of future benefits an employee will receive from the plan is defined, typically by a formula based on salary history and years of service. The amount of contributions the employer is required to make will depend on the investment returns experienced by the plan and the benefits promised.

**defined contribution (DC) plan.** An employer-sponsored retirement plan, such as a 401(k) plan or a 403(b) plan, in which contributions are made to individual participant accounts. Depending on the type of DC plan, contributions may be made by the employee, the employer, or both. The employee’s benefits at retirement or termination of employment are based on the employee and employer contributions and earnings and losses on those contributions.

**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. 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 (SEPPs) 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 qualified 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. Starting 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. Distributions of both principal and earnings are generally not subject to federal income tax if taken after age 59½ (provided the five-year holding period is met). 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 (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 deductible contributions and earnings are subject to federal income tax. Generally, distributions before age 59½ are subject to income tax and a 10 percent penalty.

## Notes

- <sup>1</sup> See Investment Company Institute 2011. Key terms related to IRAs and retirement savings are presented in the glossary of this report (pages 27–28). For additional information and the rules governing IRAs, see Internal Revenue Service 2011.
- <sup>2</sup> Households' total financial assets were \$49.4 trillion as of June 2011 and \$16.1 trillion at year-end 1991. See Federal Reserve Board 2011.
- <sup>3</sup> Data in this *ICI Research Perspective* on the number and percentage of households owning IRAs are based on ICI's Annual Mutual Fund Shareholder Tracking Survey conducted in May 2011 of 4,216 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 Bogdan, Holden, and Schrass 2011a and 2011b.  
  
The demographic and financial characteristics of IRA owners are derived from a separate May 2011 IRA Owners Survey of 2,300 representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). The standard error for the total sample is  $\pm 2.0$  percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called Education IRAs).
- <sup>4</sup> See Figures 12–14 for additional information on rollover activities and Figure A15 in the appendix for additional information on traditional IRA owners with rollovers.
- <sup>5</sup> The ability to contribute to Roth IRAs is restricted based on household income. Prior to 2010, there were restrictions on conversions based on household income. In 2010, the income limits for Roth conversions were lifted. For additional detail, see Internal Revenue Service 2011.
- <sup>6</sup> See Brady and Bogdan 2011a for discussion of the life-cycle model and household survey results regarding savings goals.
- <sup>7</sup> See Sabelhaus and Schrass 2009.
- <sup>8</sup> For example, the first-year replacement rate (scheduled Social Security benefits as a percentage of average career earnings) for retired workers in the 1940–1949 birth cohort (individuals aged 61–70 in 2010) decreased as income increased. The median replacement rate for the lowest household lifetime earnings quintile was 71 percent; for the middle quintile, the median Social Security replacement rate was 43 percent; and for the highest quintile, it was 30 percent. See Congressional Budget Office 2011.
- <sup>9</sup> For discussion of retirement saving by different income groups, see Brady and Bogdan 2011b and Sabelhaus, Bogdan, and Schrass 2008.
- <sup>10</sup> 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 Bogdan 2011a and Sabelhaus, Bogdan, and Schrass 2008.
- <sup>11</sup> Willingness to take risk among IRA-owning households was similar to that among mutual fund-owning households. Among households owning mutual funds, 29 percent were willing to take substantial or above-average financial risk for similar levels of financial gain in 2011; see Bogdan, Holden, and Schrass 2011a.
- <sup>12</sup> This is a pattern of risk tolerance observed in other types of investors. For example, see Sabelhaus, Bogdan, and Schrass 2008 and Bogdan and Schrass 2012 (forthcoming).
- <sup>13</sup> Research finds that the asset allocation of traditional IRA investors varies over the life cycle. Older traditional IRA investors tended to have higher shares of their IRAs in fixed-income investments compared with younger traditional IRA investors. Younger traditional IRA investors tended to have higher allocations to equity investments compared with older traditional IRA investors. See Holden and Bass 2011.
- <sup>14</sup> See Holden, VanDerhei, and Alonso 2010.
- <sup>15</sup> 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.
- <sup>16</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 2011.
- <sup>17</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>18</sup> Rollover data for 2007 are preliminary from the IRS Statistics of Income Division. For historical data, see Investment Company Institute 2011 and Bryant 2008.
- <sup>19</sup> 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 traditional IRA-owning households in ICI's 2007 IRA Owners Survey. For a description of the Survey of Consumer Finances, see Bucks et al. 2009.
- <sup>20</sup> In the case of a DC plan, this amount is the account balance. In the case of DB plans, this amount is the lump-sum distribution based on accrued benefits. See Figure A15 in the appendix for additional information on traditional IRA owners with rollovers.

- <sup>21</sup> For more information on rollovers among traditional IRA investors, see Holden, Sabelhaus, and Bass 2010b.
- <sup>22</sup> Among households making IRA contributions, the 52 percent contributing to traditional IRAs includes the 39 percent only contributing to traditional IRAs plus 91 percent of the 14 percent that contributed to more than one type of IRA (Figure 16).
- <sup>23</sup> Among households making IRA contributions, the 38 percent contributing to Roth IRAs includes the 29 percent only contributing to Roth IRAs plus 66 percent of the 14 percent that contributed to more than one type of IRA (Figure 16).
- <sup>24</sup> Among households making IRA contributions, the 26 percent contributing to employer-sponsored IRAs includes the 18 percent only contributing to employer-sponsored IRAs plus 54 percent of the 14 percent that contributed to more than one type of IRA (Figure 16).
- <sup>25</sup> See Figure A13 in the appendix.
- <sup>26</sup> See Holden, Sabelhaus, and Bass 2010a.
- <sup>27</sup> See Internal Revenue Service 2011.
- <sup>28</sup> See Internal Revenue Service 2011 for details on income restrictions and other qualifications for contribution eligibility.
- <sup>29</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 by the end of the year but younger than 70½ years old by the end of the year. See Internal Revenue Service 2011.
- <sup>30</sup> U.S. households aged 50 or older include households ineligible to make deductible contributions to traditional IRAs.
- <sup>31</sup> Over the years, Congress has created exceptions to the early withdrawal penalty, including qualified 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 and Internal Revenue Service 2011.
- <sup>32</sup> Data exclude households that closed and no longer owned traditional IRAs. For traditional IRA withdrawal activity in tax year 2007, see Holden and Schrass 2010a. For traditional IRA withdrawal activity in tax year 2008, see Holden and Schrass 2010b. For traditional IRA withdrawal activity in tax year 2009, see Holden and Schrass 2010c.
- <sup>33</sup> 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 2010.
- <sup>34</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>35</sup> In years before and after tax year 2009, 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. In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009 (see note 33).
- <sup>36</sup> Among traditional IRA-owning households in 2011 with a head of household aged 70 or older and taking a withdrawal in tax year 2010, 86 percent indicated their withdrawal was based on the RMD rules and only 10 percent took lump sums based on needs. In contrast, among withdrawing households younger than age 70, 61 percent took lump sums based on needs. Among traditional IRA-owning households in 2010 with a head of household aged 70 or older and taking a withdrawal in tax year 2009, 79 percent indicated their withdrawal was based on the RMD rules and only 9 percent took lump sums based on needs. In contrast, among withdrawing households younger than age 70, 59 percent took lump sums based on needs. In 2010 and 2011, some younger households indicated their withdrawals were RMDs, which likely reflects they owned inherited IRAs.
- <sup>37</sup> Among the 33 percent of households that reported reinvesting or saving the amount of the traditional IRA withdrawal into another account (Figure 25), 84 percent reported withdrawing the amount based on the RMD.



## References

- Bogdan, Michael, Sarah Holden, and Daniel Schrass. 2011a. "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2011." *ICI Research Perspective* 17, no. 5 (October). Available at [www.ici.org/pdf/per17-05.pdf](http://www.ici.org/pdf/per17-05.pdf).
- Bogdan, Michael, Sarah Holden, and Daniel Schrass. 2011b. "Characteristics of Mutual Fund Investors, 2011." *ICI Research Perspective* 17, no. 6 (October). Available at [www.ici.org/pdf/per17-06.pdf](http://www.ici.org/pdf/per17-06.pdf).
- Bogdan, Michael, and Daniel Schrass. 2012. "Profile of Mutual Fund Shareholders, 2011." *ICI Research Report* (forthcoming).
- Brady, Peter, and Michael Bogdan. 2011a. "Who Gets Retirement Plans and Why: An Update." *ICI Research Perspective* 17, no. 3 (March). Available at [www.ici.org/pdf/per17-03.pdf](http://www.ici.org/pdf/per17-03.pdf).
- Brady, Peter, and Michael Bogdan. 2011b. "Who Gets Retirement Plans and Why, 2010." *ICI Research Perspective* 17, no. 7 (October). Available at [www.ici.org/pdf/per17-07.pdf](http://www.ici.org/pdf/per17-07.pdf).
- Bryant, Victoria L. 2008. "Accumulation and Distribution of Individual Retirement Arrangements, 2004." *SOI Bulletin* (Spring): 90–101. Washington, DC: Internal Revenue Service, Statistics of Income Division. Available at [www.irs.gov/pub/irs-soi/04inretirebul.pdf](http://www.irs.gov/pub/irs-soi/04inretirebul.pdf).
- Bucks, Brian K., Arthur B. Kennickell, Traci L. Mach, and Kevin B. Moore. 2009. "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin* (February): A1–A55. Available at [www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf](http://www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf).
- Congressional Budget Office. 2011. *CBO's 2011 Long-Term Projections for Social Security: Additional Information* (August). Washington, DC: Congressional Budget Office. Available at [www.cbo.gov/ftpdocs/123xx/doc12375/08-05-Long-TermSocialSecurityProjections.pdf](http://www.cbo.gov/ftpdocs/123xx/doc12375/08-05-Long-TermSocialSecurityProjections.pdf).
- Federal Reserve Board. 2011. "Flow of Funds Accounts of the United States, Flows and Outstandings, Second Quarter 2011." Z.1 Release (September). Available at [www.federalreserve.gov/releases/z1](http://www.federalreserve.gov/releases/z1).
- Holden, Sarah, Kathy Ireland, Vicky Leonard-Chambers, and Michael Bogdan. 2005. "The Individual Retirement Account at Age 30: A Retrospective." *Investment Company Institute Perspective* 11, no. 1 (February). Available at [www.ici.org/pdf/per11-01.pdf](http://www.ici.org/pdf/per11-01.pdf).
- Holden, Sarah, and Steven Bass. 2011. *The IRA Investor Profile: Traditional IRA Investors' Asset Allocation, 2007 and 2008*. Washington, DC: Investment Company Institute (September). Available at [www.ici.org/pdf/rpt\\_11\\_ira\\_asset.pdf](http://www.ici.org/pdf/rpt_11_ira_asset.pdf).
- Holden, Sarah, and Brian Reid. 2008. "The Role of Individual Retirement Accounts in U.S. Retirement Planning." In *Recalibrating Retirement Spending and Saving*, ed. John Ameriks and Olivia S. Mitchell, 81–111. Oxford, UK: Oxford University Press for the Wharton School, University of Pennsylvania, Pension Research Council.
- Holden, Sarah, John Sabelhaus, and Steven Bass. 2010a. *The IRA Investor Profile: Traditional IRA Investors' Contribution Activity, 2007 and 2008*. Washington, DC: Investment Company Institute. Available at [www.ici.org/pdf/rpt\\_10\\_ira\\_contributions.pdf](http://www.ici.org/pdf/rpt_10_ira_contributions.pdf).
- Holden, Sarah, John Sabelhaus, and Steven Bass. 2010b. *The IRA Investor Profile: Traditional IRA Investors' Rollover Activity, 2007 and 2008*. Washington, DC: Investment Company Institute (December). Available at [www.ici.org/pdf/rpt\\_10\\_ira\\_rollovers\\_app.pdf](http://www.ici.org/pdf/rpt_10_ira_rollovers_app.pdf).
- Holden, Sarah, and Daniel Schrass. 2010a. "Revised: The Role of IRAs in U.S. Households' Saving for Retirement, 2008 and Appendix: Additional Data on IRA Ownership in 2008." *Investment Company Institute Fundamentals* (January). Available at [www.ici.org/pdf/fm-v18n1\\_data.pdf](http://www.ici.org/pdf/fm-v18n1_data.pdf).

Holden, Sarah, and Daniel Schrass. 2010b. "The Role of IRAs in U.S. Households' Saving for Retirement, 2009." *Investment Company Institute Fundamentals* 19, no. 1 (January). Available at [www.ici.org/pdf/fm-v19n1.pdf](http://www.ici.org/pdf/fm-v19n1.pdf).

Holden, Sarah, and Daniel Schrass. 2010c. "The Role of IRAs in U.S. Households' Saving for Retirement, 2010." *Investment Company Institute Fundamentals* 19, no. 8 (December). Available at [www.ici.org/pdf/fm-v19n8.pdf](http://www.ici.org/pdf/fm-v19n8.pdf).

Holden, Sarah, Jack VanDerhei, and Luis Alonso. 2010. "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009." *Investment Company Institute Perspective* 16, no. 3 and *EBRI Issue Brief*, no. 350 (November). Available at [www.ici.org/pdf/per16-03.pdf](http://www.ici.org/pdf/per16-03.pdf) and [www.ebri.org/pdf/briefspdf/EBRI\\_IB\\_10-2009\\_No335\\_K-Update.pdf](http://www.ebri.org/pdf/briefspdf/EBRI_IB_10-2009_No335_K-Update.pdf).

Internal Revenue Service. 2010. *Publication 590, Individual Retirement Arrangements (IRAs) For Use in Preparing 2009 Returns*. Available at [www.irs.gov/pub/irs-prior/p590--2009.pdf](http://www.irs.gov/pub/irs-prior/p590--2009.pdf).

Internal Revenue Service. 2011. *Publication 590, Individual Retirement Arrangements (IRAs) For Use in Preparing 2010 Returns*. Available at [www.irs.gov/pub/irs-pdf/p590.pdf](http://www.irs.gov/pub/irs-pdf/p590.pdf).

Investment Company Institute. 2011. "The U.S. Retirement Market, Second Quarter 2011" (September). Available at [www.ici.org/info/ret\\_11\\_q2\\_data.xls](http://www.ici.org/info/ret_11_q2_data.xls).

Sabelhaus, John, Michael Bogdan, and Sarah Holden. 2008. *Defined Contribution Plan Distribution Choices at Retirement: A Survey of Employees Retiring Between 2002 and 2007*. Washington, DC: Investment Company Institute. Available at [www.ici.org/pdf/rpt\\_08\\_dcdd.pdf](http://www.ici.org/pdf/rpt_08_dcdd.pdf).

Sabelhaus, John, Michael Bogdan, and Daniel Schrass. 2008. *Equity and Bond Ownership in America, 2008*. Washington, DC: Investment Company Institute and New York, NY: Securities Industry and Financial Markets Association. Available at [www.ici.org/pdf/rpt\\_08\\_equity\\_owners.pdf](http://www.ici.org/pdf/rpt_08_equity_owners.pdf).

Sabelhaus, John and Daniel Schrass. 2009. "The Evolving Role of IRAs in U.S. Retirement Planning." *Investment Company Institute Perspective* 15, no. 3 (November). Available at [www.ici.org/pdf/per15-03.pdf](http://www.ici.org/pdf/per15-03.pdf).

U.S. Census Bureau. 2011. "Income, Poverty, and Health Insurance Coverage in the United States: 2010." *Current Population Reports, P60-239* (September). Washington, DC: U.S. Government Printing Office. Available at [www.census.gov/prod/2011pubs/p60-239.pdf](http://www.census.gov/prod/2011pubs/p60-239.pdf).



1401 H Street, NW  
Washington, DC 20005  
202/326-5800  
[www.ici.org](http://www.ici.org)

Copyright © 2011 by the Investment Company Institute

The Investment Company Institute (ICI) is the national association of U.S. investment companies. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.