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## The Role of IRAs in U.S. Households' Saving for Retirement, 2012

### KEY FINDINGS

- » **Four out of 10 U.S. households owned IRAs in 2012.** Eight in 10 IRA-owning households also had employer-sponsored retirement plan accumulations or had defined benefit plan coverage. All told, 68 percent of all U.S. households had retirement plans through work or IRAs.
- » **About one-third of U.S. households owned traditional IRAs in 2012.** 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, 80 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 16 percent of U.S. households contributed to any type of IRA in tax year 2011, and very few eligible households made "catch-up" contributions to traditional IRAs or Roth IRAs.
- » **IRA withdrawals were infrequent and mostly retirement related.** Twenty-one percent of traditional IRA-owning households took withdrawals in tax year 2011, nearly the same as in tax year 2010.
- » **The majority of traditional IRA withdrawals were made by retirees.** Seventy-six percent of households that made traditional IRA withdrawals were retired. Only 7 percent of traditional IRA-owning households in 2012 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-five percent of traditional IRA-owning households not making withdrawals in tax year 2011 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.

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

With \$5.1 trillion in assets at the end of the second quarter of 2012, 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 2012, IRA assets were 10 percent of all household financial assets, up from 5 percent of assets two decades ago.<sup>2</sup> In May 2012, 48.9 million, or 40 percent of, U.S.

households reported they owned IRAs (Figure 1).<sup>3</sup> Among all IRA-owning households in May 2012, 80 percent also had 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 28 percent of U.S. households reported employer-sponsored retirement plan coverage, but no IRAs. All told, 68 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 2012 and was based on a sample of 4,019 U.S. households selected by random digit dialing, of which 1,622 households, or 40.4 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 2012 sample of households is ± 1.6 percentage points at the 95 percent confidence level.

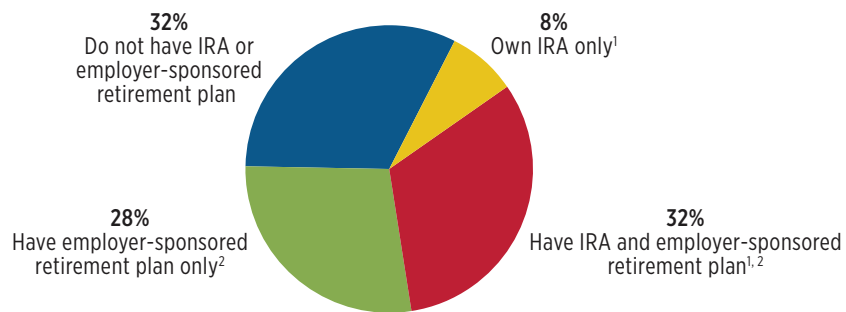
### *About the IRA Owners Survey*

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 2012 and was based on a sample of 2,801 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 ± 1.9 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, 2012



Total number of U.S. households: 121.1 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> 2012	Percentage of U.S. households with type of IRA, <sup>1</sup> 2012
<b>Traditional IRA</b>	1974 (Employee Retirement Income Security Act)	39.4 million	32.5%
<b>SEP IRA<sup>2</sup></b>	1978 (Revenue Act)	9.2 million	7.6%
<b>SAR-SEP IRA<sup>2</sup></b>	1986 (Tax Reform Act)		
<b>SIMPLE IRA<sup>2</sup></b>	1996 (Small Business Job Protection Act)		
<b>Roth IRA</b>	1997 (Taxpayer Relief Act)	20.3 million	16.8%
<b>Any IRA<sup>1</sup></b>		48.9 million	40.4%

<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 2012, 39.4 million, or 33 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 20.3 million, or nearly 17 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 working 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

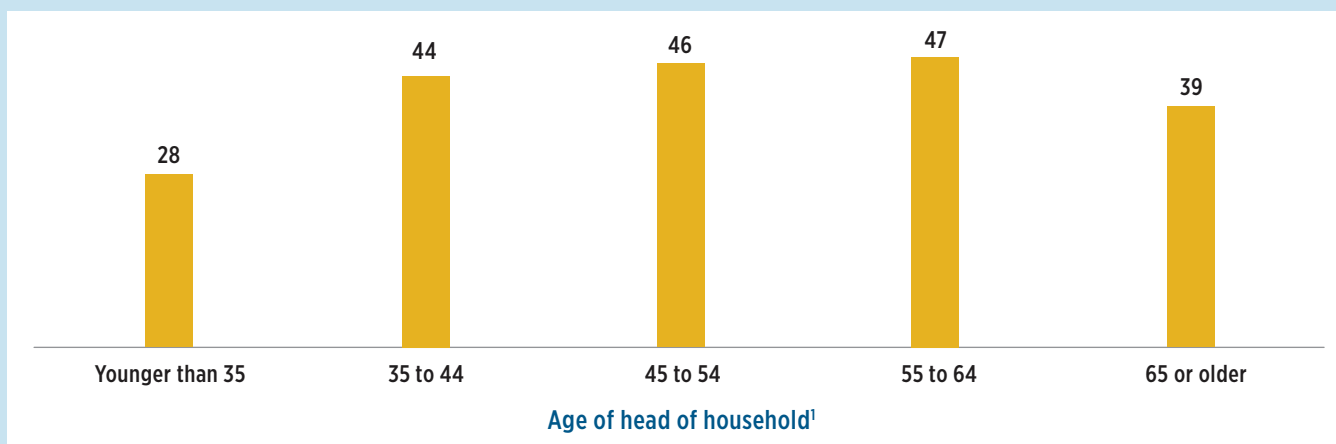
house when younger).<sup>6</sup> Also, many traditional IRA owners became owners as a result of rollovers from employer-sponsored plans, which occur after at least some years in the workforce.<sup>7</sup> In 2012, 46 percent of households headed by an individual aged 45 to 54 owned IRAs, and 47 percent of households headed by an individual aged 55 to 64 owned IRAs (Figure 3). As a result, 66 percent of IRA-owning households were headed by individuals aged 45 or older (Figure 4). Among all U.S. households, by comparison, 61 percent 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-eight percent of households with incomes of \$50,000 or more owned IRAs, compared with 23 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 2012. As a result, 15 percent of households owning

FIGURE 3

#### Incidence of IRA Ownership Greatest Among 35- to 64-Year-Olds

Percentage of U.S. households within each age group that own IRAs,<sup>1,2</sup> 2012



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

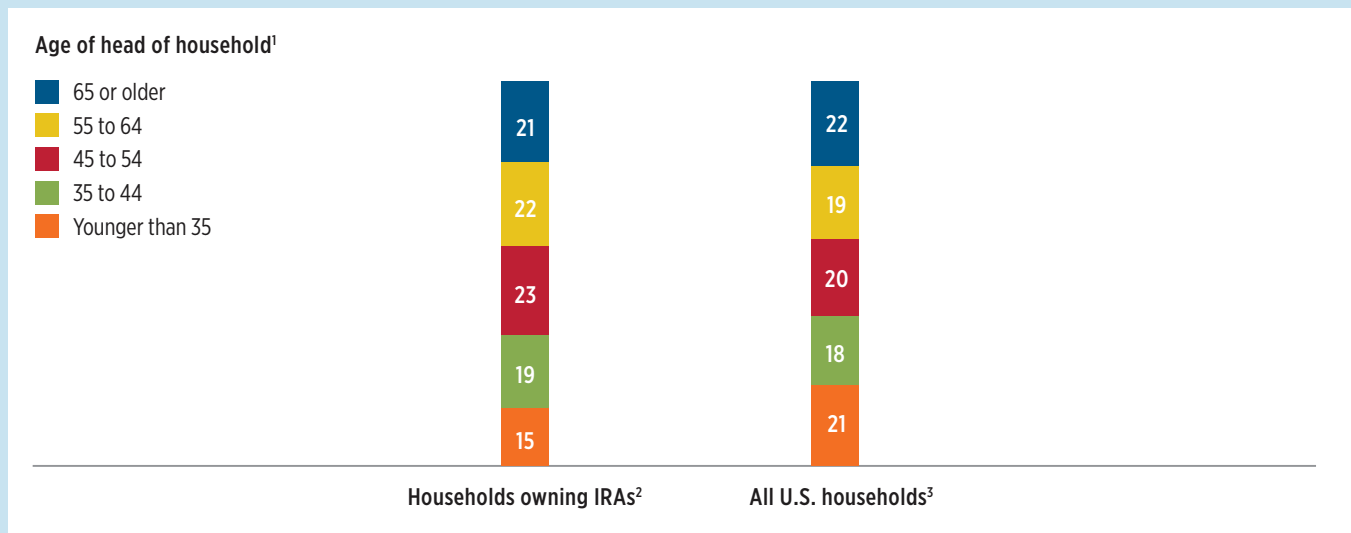
<sup>2</sup> IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

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>1,2</sup> 2012



<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).

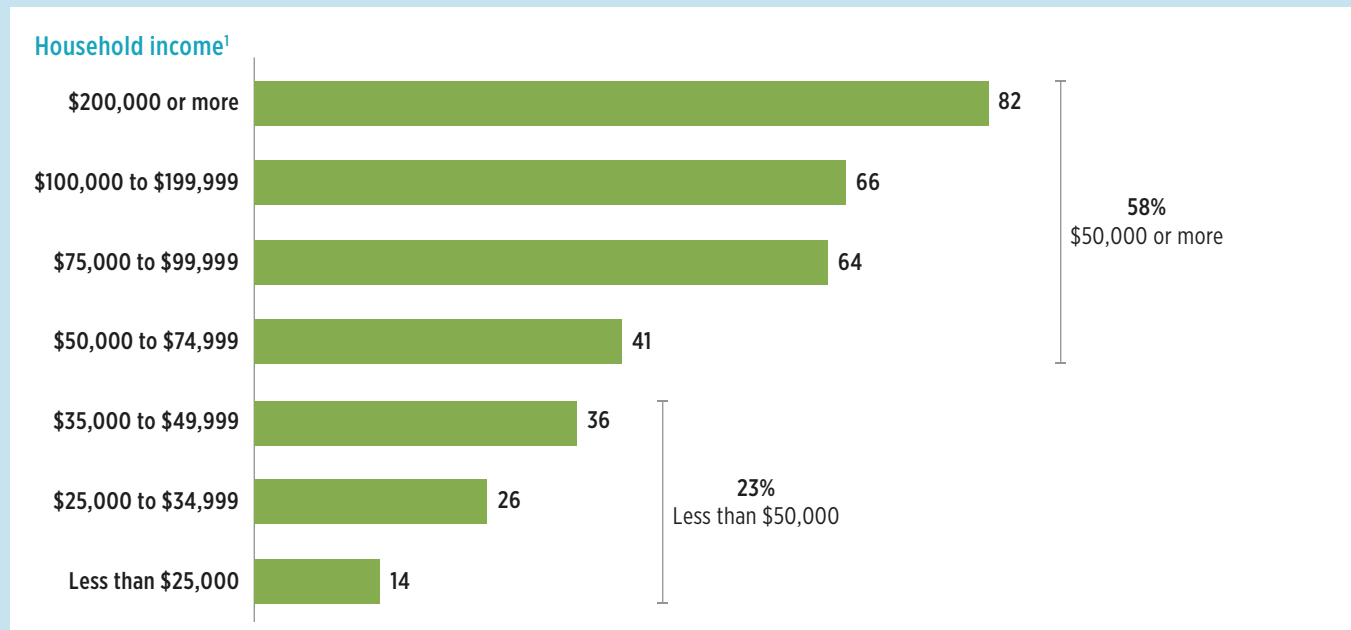
<sup>3</sup> The percentage of all households in each age group is based on ICI survey data and is weighted to match the U.S. Census Bureau's Current Population Survey.

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> 2012



<sup>1</sup> Total reported is household income before taxes in 2011.

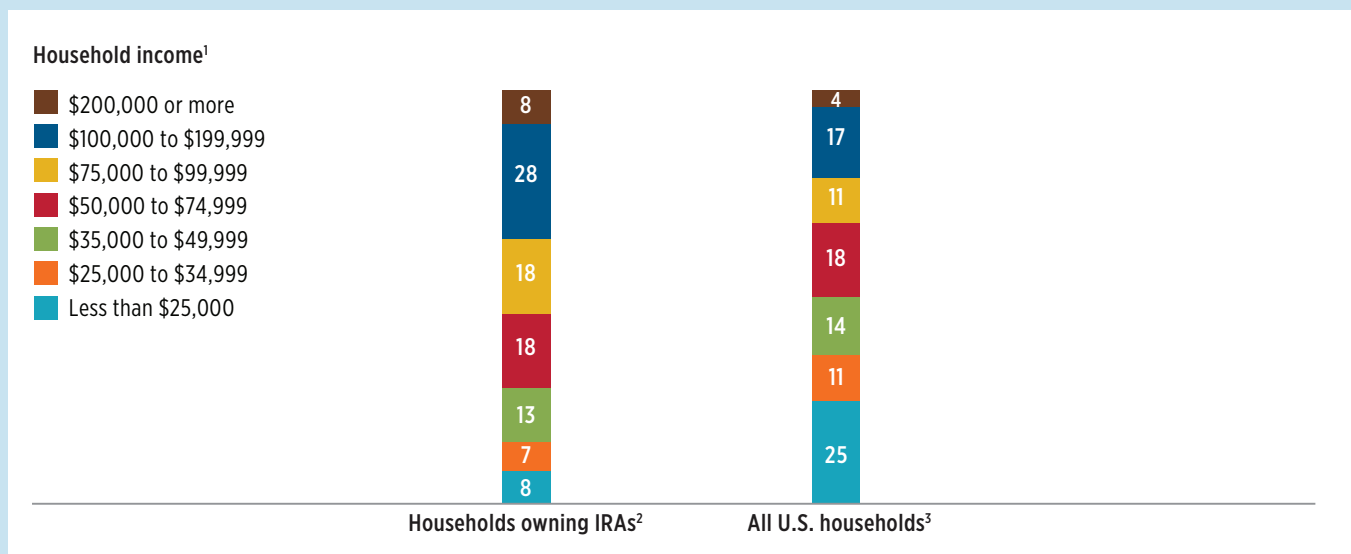
<sup>2</sup> IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

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, 2</sup> 2012



<sup>1</sup> Total reported is household income before taxes in 2011.

<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 36 percent of all U.S. households (Figure 6). Forty-nine percent of households owning IRAs in 2012 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 were eight times greater than the median financial assets of households that did not own IRAs (Figure 7). Those assets included DC retirement plan accounts; 73 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 investment risk for financial gain. However, willingness to take risk edged down in 2012 among IRA-owning households. In 2012, 28 percent of IRA-owning households were willing to take substantial or above-average investment risk for similar levels of financial gain, compared with 30 percent in 2011 (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> 2012

	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	52 years	49 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	\$45,000	N/A
Share of household financial assets in IRAs (percent)	34%	N/A
<b>Percentage of households</b>		
Household sole or co-decisionmaker for saving and investing:		
Married or living with a partner	73	52
College or postgraduate degree	47	21
Employed full- or part-time	67	52
Retired from lifetime occupation	28	31
Household has DC account or DB plan coverage (total)	83	47
DC retirement plan account	73	38
DB plan coverage	46	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 2011.

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

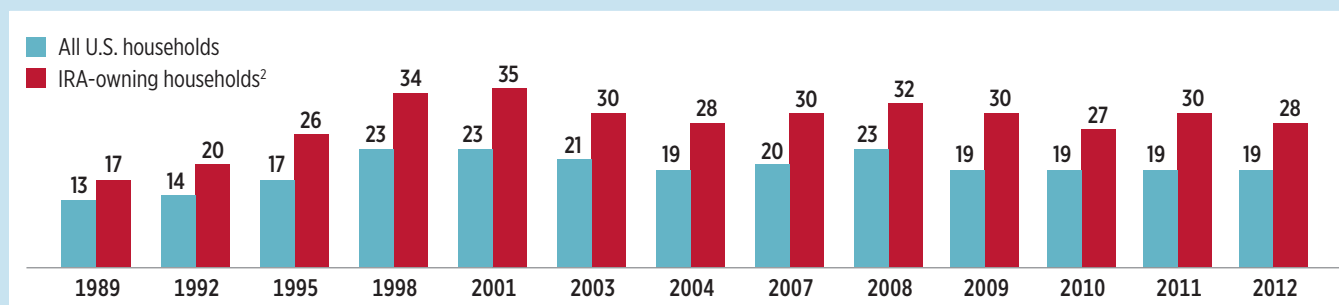
N/A = not applicable

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 possible responses: 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

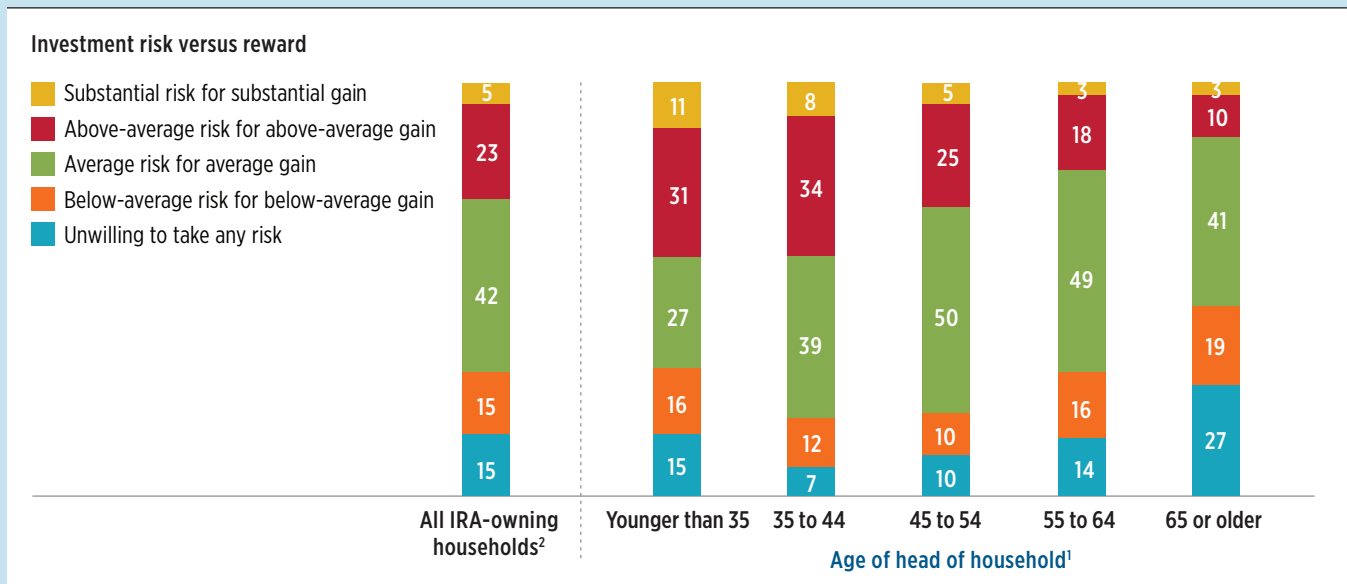
In 2012, while 28 percent of IRA-owning households were willing to take substantial or above-average risk, the largest percentage of households owning IRAs, 42 percent, were willing to take average risk for average gain (Figure 9). Thirty percent were willing to take below-average risk for below-average gain or were unwilling to take any investment risk. Willingness to take investment 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 investment risk for similar levels of gain. Forty-two percent of IRA-owning households aged 35 to 44 were willing to take substantial or above-average investment risk for similar levels of gain.<sup>13</sup>

Between 2011 and 2012, willingness to take investment risk edged down or remained the same for all age groups of IRA-owning households except the 35 to 44 age group, who slightly increased their willingness to take risk. For example, 42 percent of IRA-owning households younger than 35 reported that they were willing to take substantial or above-average investment risk for similar levels of gain in 2012, compared with 46 percent in 2011 (Figure 10). Forty-two percent of IRA-owning households aged 35 to 44 reported that they were willing to take substantial or above-average investment risk for similar levels of gain in 2012, compared with 40 percent in 2011. Willingness to take risk decreased in 2012 for IRA-owning households aged 45 to 64 and stayed the same for IRA-owning households 65 or older.

FIGURE 9

### Willingness to Take Investment Risk Falls with Age

Percentage of U.S. households owning IRAs by age,<sup>1,2</sup> 2012



<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).

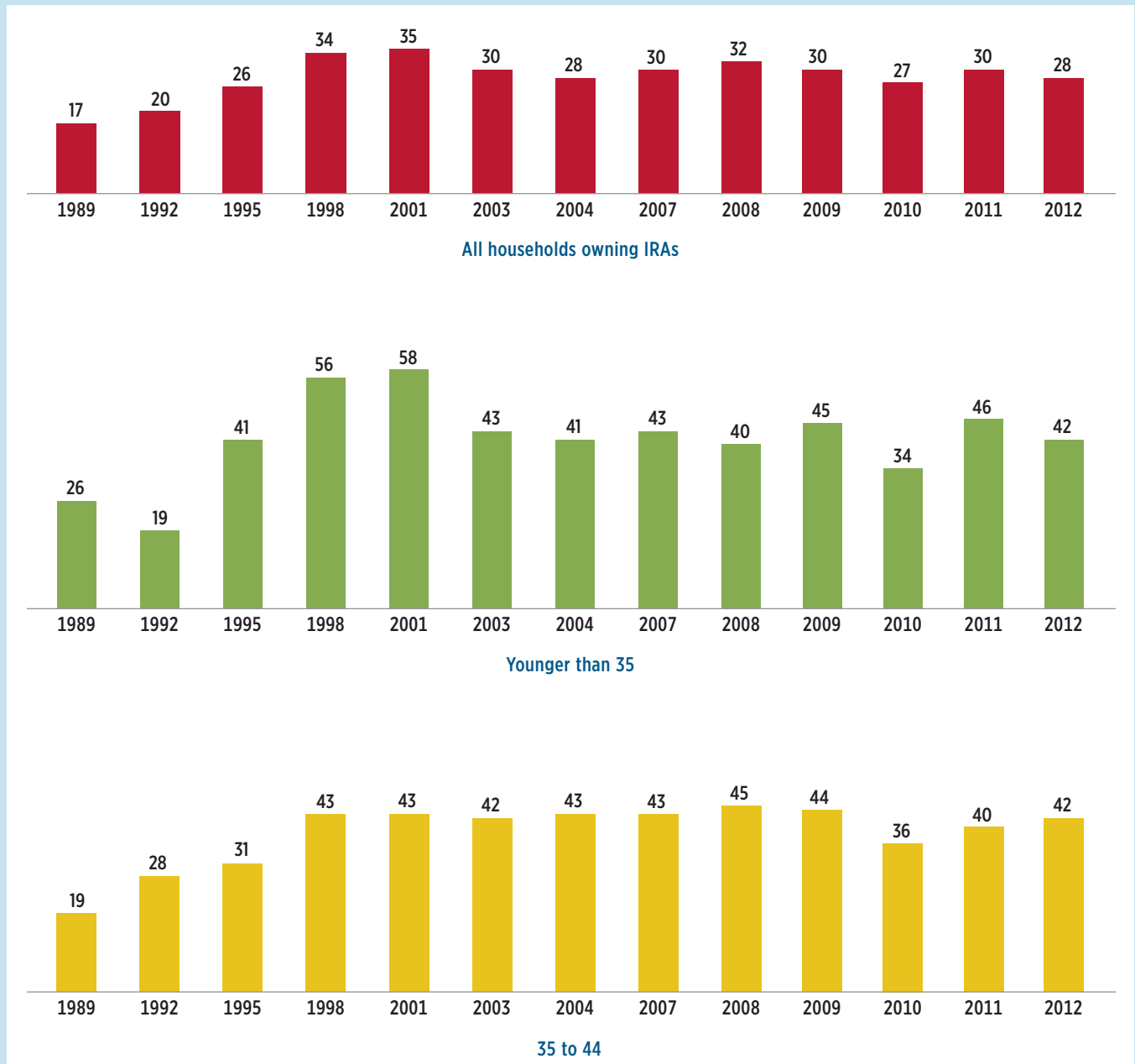
Source: Investment Company Institute IRA Owners Survey



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

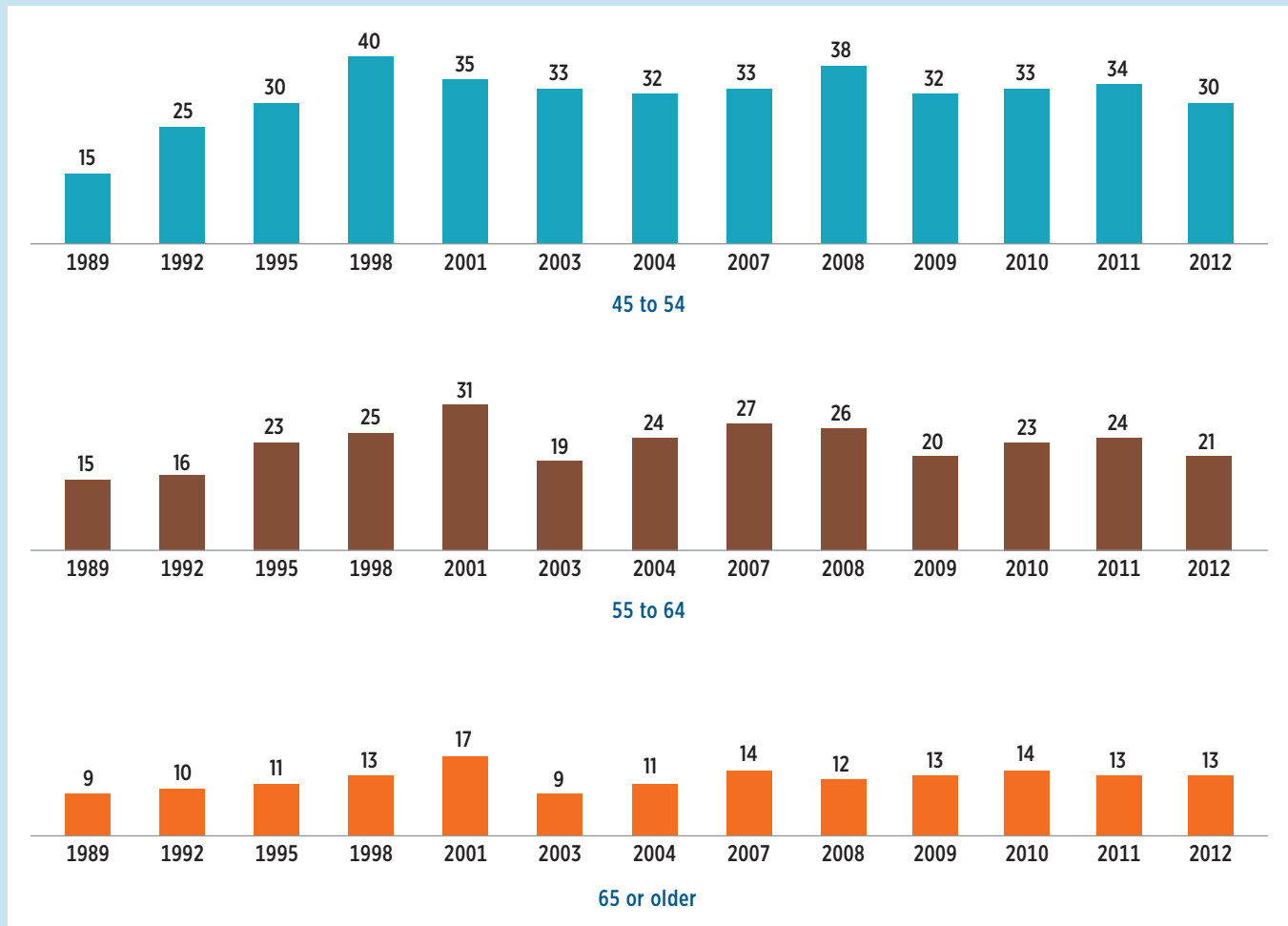


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FIGURE 10 CONTINUED

### 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 possible responses: average risk for average gain, below-average risk for below-average gain, and unwilling to take any risk. 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

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 2012, households owning IRAs for less than 10 years had median IRA holdings of \$25,500, 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.

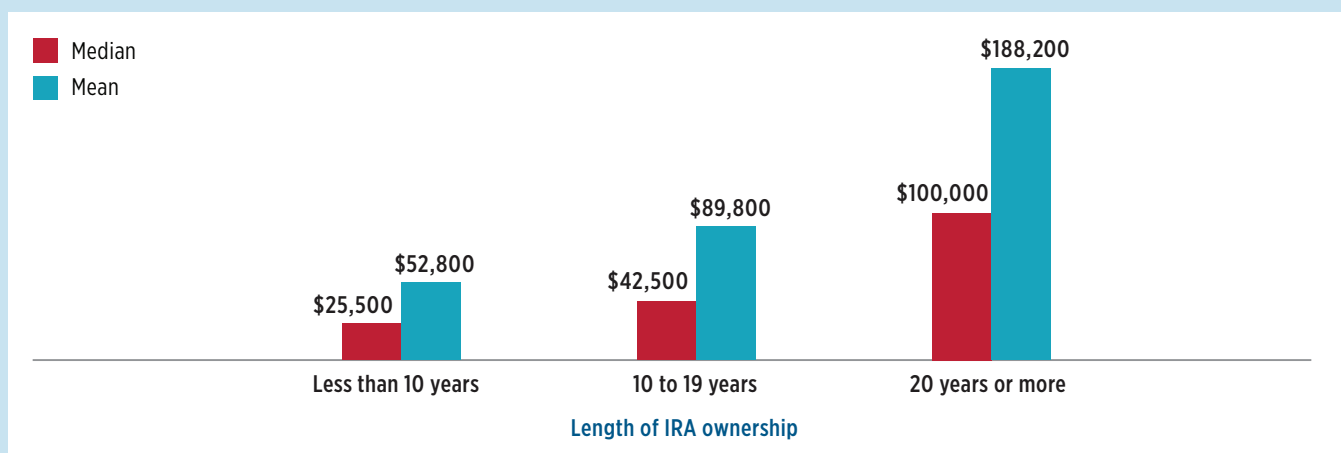
## Rollovers to Traditional IRAs Fuel Growth

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, 2012



Note: 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 \$272 billion from employer-sponsored retirement plans to IRAs in 2008.<sup>18</sup> In 2012, 20 million U.S. households (or 51 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 (80 percent) transferred the entire retirement plan account balance into the traditional IRA (Figure 13).<sup>20</sup> Nearly eight in 10 traditional IRA-owning households with rollovers made their most recent rollover in 2000 or later, including 60 percent whose most recent rollover was within the past seven years. Among households with rollovers in their traditional IRAs, 44 percent only had rollover IRAs (having never made traditional IRA contributions; Figure 12).

In a new survey question this year, traditional IRA-owning households with rollovers were asked the reasons why they rolled over the accumulations from their employer-sponsored retirement plans into traditional IRAs.<sup>21</sup> Most of these households had multiple reasons for rolling over the assets (Figure 14, top panel). When asked to identify the primary reason for the rollover, one-fifth said they did not want to leave the assets with their former employer and another one-fifth said they were required to take the money out of the former employer’s plan (Figure 14, lower panel). Nineteen percent rolled over primarily to consolidate assets and 14 percent said they primarily wanted more investment options. Eleven percent indicated the primary reason they rolled the money over was because a professional financial adviser told them to do the rollover. In selecting the asset allocation of the rollovers, 8 percent of traditional

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, 2012*

Traditional IRA includes rollover	51
Traditional IRA does not include rollover	49

**Traditional IRA rollover activity**

*Percentage of households owning traditional IRAs that include rollovers, 2012*

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

Job change, layoff, or termination	72
Retirement	27
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	20
25 to 49 percent	13
50 to 74 percent	20
75 percent or more	47
Median percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans	66

\*Multiple responses are included.

Note: Number of respondents varies.

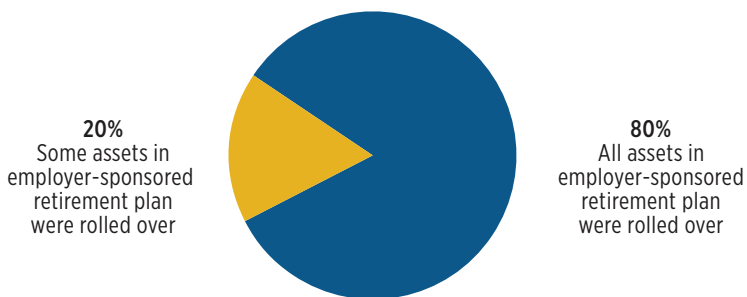
Source: Investment Company Institute IRA Owners Survey

FIGURE 13

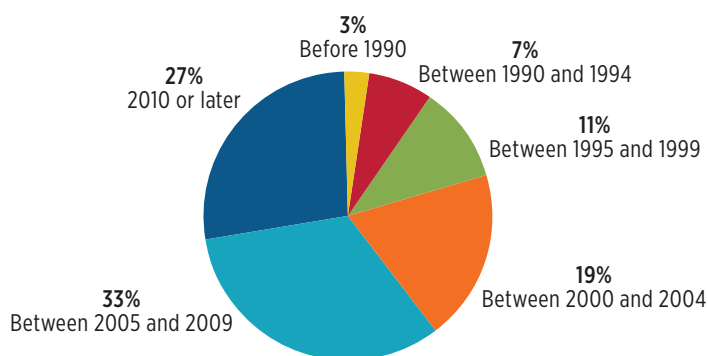
### Amount and Timing of Most Recent Traditional IRA Rollover

Percentage of traditional IRA-owning households with rollovers, 2012

#### Amount of most recent traditional IRA rollover



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



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

Source: Investment Company Institute IRA Owners Survey

IRA-owning households with rollovers indicated that their professional financial adviser selected the investments, and 44 percent indicated they worked together with a professional financial adviser to select the investments (Figure 15). Forty-six percent of traditional IRA-owning households with rollovers indicated the household selected the investments on its own (Figure 15).

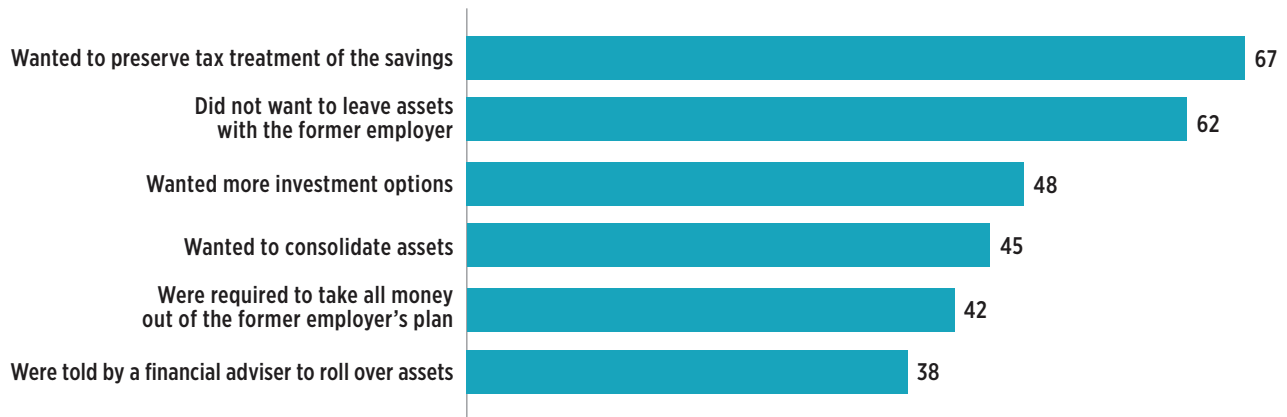
Households with rollover assets in their IRAs tend to have higher IRA balances, compared with IRAs funded purely by individual contributions. Median traditional IRA holdings that include rollovers were \$62,500 in 2012, compared with median traditional IRA holdings of \$30,000 for balances that did not include rollovers (Figure 16).<sup>22</sup>

FIGURE 14

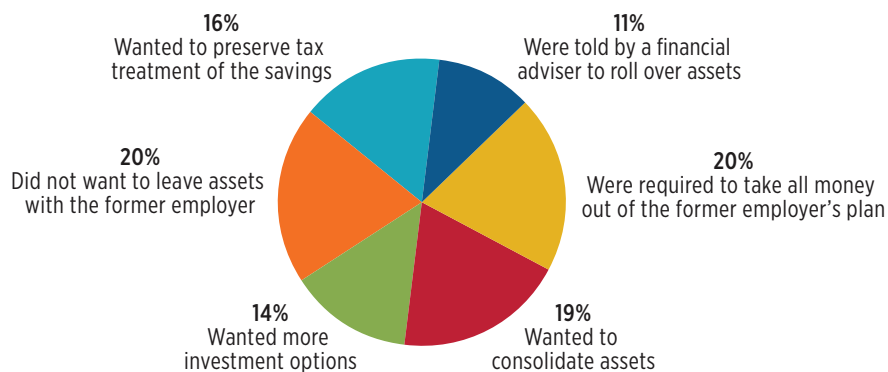
### Reasons for Most Recent Rollover

Percentage of households owning traditional IRAs that include rollovers, 2012

#### Reasons for most recent rollover\*



#### Primary reason for most recent rollover



Number of respondents: 1,151

\*Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

### Few Households Make Contributions to IRAs

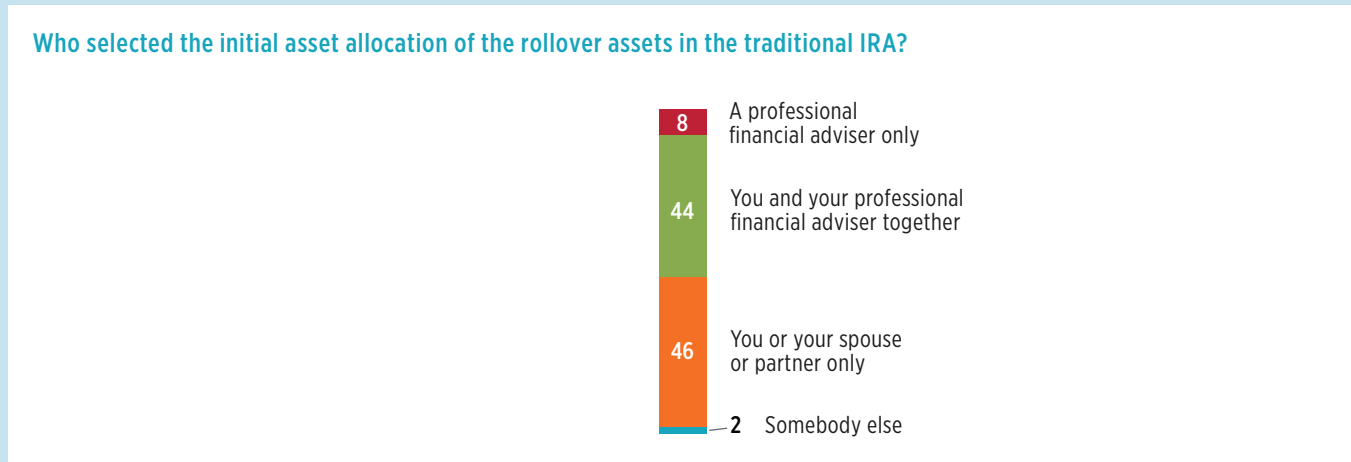
Although IRAs can help Americans build their retirement savings, the majority of U.S. households do not contribute to them. In tax year 2011, only 16 percent of all U.S. households made contributions to IRAs, compared with 14 percent in tax year 2010 (Figure 17). Thirty-nine percent of households owning IRAs in 2012 made contributions in tax year 2011 (Figure 18), compared with 36 percent in tax

year 2010.<sup>23</sup> Among households making contributions to IRAs in tax year 2011, 57 percent contributed to traditional IRAs, with 40 percent only contributing to traditional IRAs.<sup>24</sup> Thirty-nine percent of households making IRA contributions in tax year 2011 made Roth contributions, with 24 percent only contributing to Roth IRAs.<sup>25</sup> Twenty-six percent contributed to employer-sponsored IRAs in tax year 2011, with 16 percent only contributing to employer-sponsored IRAs.<sup>26</sup>

FIGURE 15

### More than Half of Traditional IRA–Owning Households Used a Professional Financial Adviser to Select the Asset Allocation of Rollover Assets

Percentage of households owning traditional IRAs that include rollovers, 2012



Source: Investment Company Institute IRA Owners Survey

FIGURE 16

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

Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2012

	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	\$141,700	\$72,700
Median	\$62,500	\$30,000
<b>Household financial assets<sup>3</sup></b>		
Mean	\$344,700	\$327,700
Median	\$220,000	\$200,000

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

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

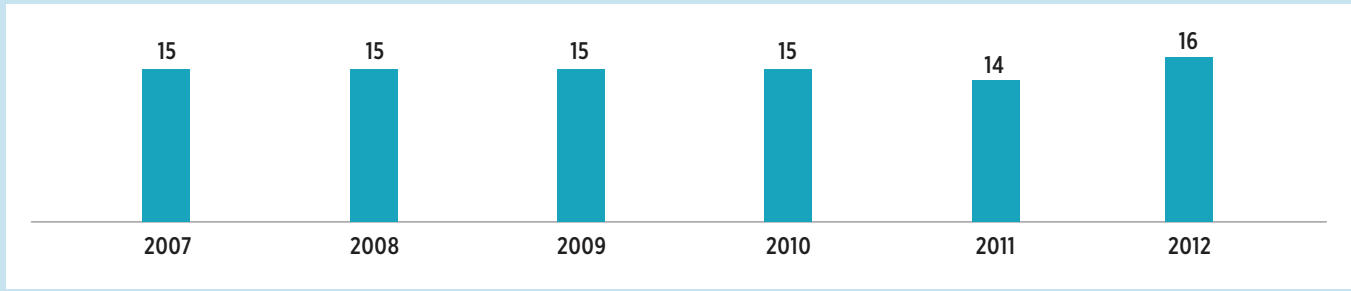
<sup>3</sup> Household financial assets include assets in employer-sponsored retirement plans but exclude the household’s primary residence.

Source: Investment Company Institute IRA Owners Survey

FIGURE 17

### Few Households Contribute to IRAs

Percentage of all U.S. households that contributed to IRAs in the previous tax year, 2007–2012



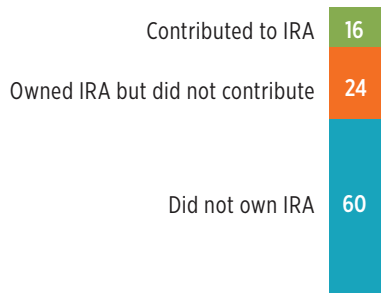
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and the Investment Company Institute IRA Owners Survey

FIGURE 18

### IRA Contribution Activity in Tax Year 2011

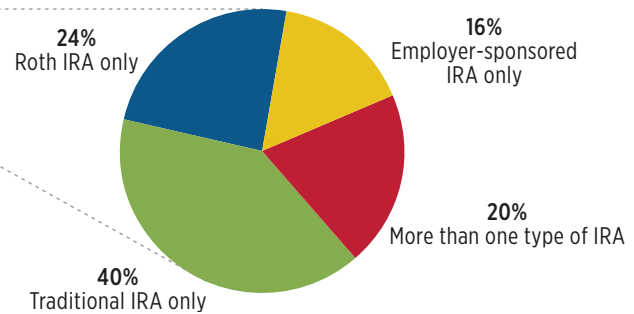
#### Contributions to IRAs in tax year 2011

Percentage of all U.S. households, 2012



#### Type of IRA to which household contributed in tax year 2011

Percentage of U.S. households contributing to IRAs



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



## Roth and Employer-Sponsored IRA Owners Are More Likely to Contribute

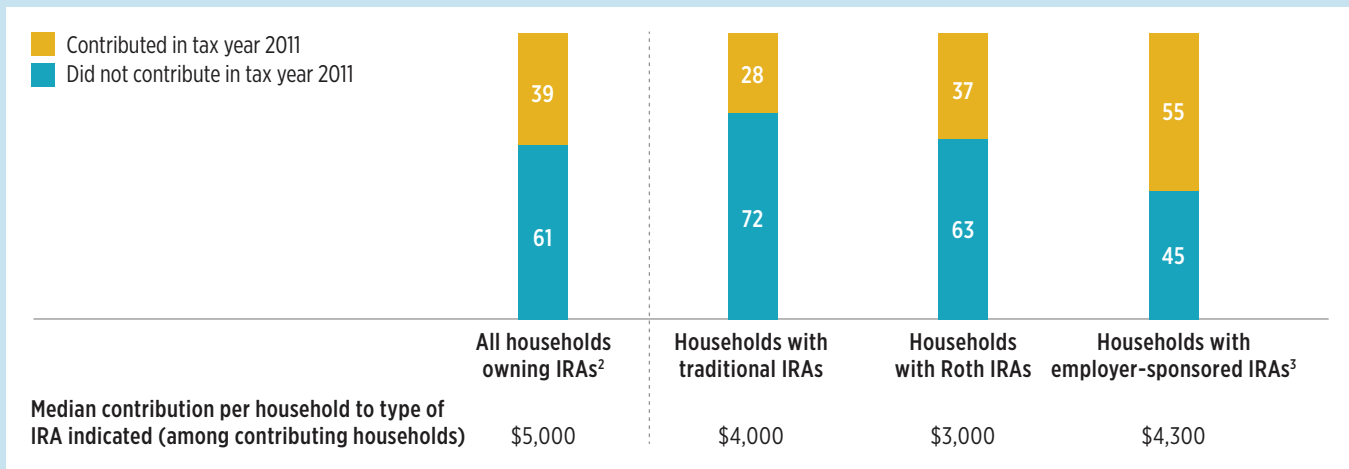
Traditional IRA owners were less likely than owners of other types of IRAs to have made contributions. Thirty-seven percent of households owning Roth IRAs in 2012 made contributions in tax year 2011 (Figure 19). Fifty-five percent of all households owning employer-sponsored IRAs in 2012 made contributions in tax year 2011. In contrast, only 28 percent of traditional IRA-owning households in 2012 contributed to their traditional IRAs in tax year 2011. 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>27</sup> It is also likely that IRA-owning households with employer-sponsored retirement plans are currently saving through these plans.<sup>28</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 Internal Revenue Service (IRS) regulations.<sup>29</sup> Some traditional IRA-owning households use traditional IRAs to preserve rollovers rather than as a contributory savings vehicle. Other research finds that traditional IRA investors who make contributions tend to do so on a recurring basis.<sup>30</sup>

FIGURE 19

### Contribution Activity to Roth and Employer-Sponsored IRAs Outpaces Contribution Activity to Traditional IRAs in Tax Year 2011

Percentage of U.S. households owning each type of IRA<sup>1</sup> by contribution status in tax year 2011



<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 20

### Traditional and Roth IRA Contribution Limits Set by the Internal Revenue Code, 2001–2013



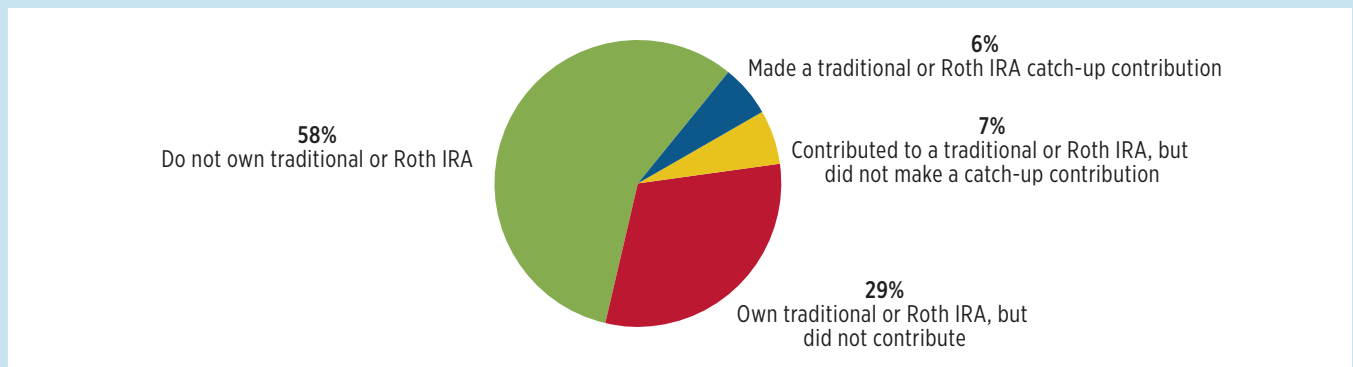
Note: After 2008, traditional IRA contributions are indexed for inflation in \$500 increments. IRA catch-up contributions are not indexed for inflation.

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

FIGURE 21

### 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 2011



Note: Catch-up contribution activity is identified if an individual's contribution is greater than the \$5,000 limit in tax year 2011 or if respondents indicated their contributions included a catch-up contribution.

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

The median contribution among households contributing to employer-sponsored IRAs was \$4,300 in tax year 2011, while the median contribution to traditional IRAs was \$4,000 per household (Figure 19). The median contribution to Roth IRAs was \$3,000 per household. In 2011, the traditional and Roth IRA contribution limit was \$5,000 for individuals under the age of 50 (Figure 20).<sup>31</sup> Since tax year 2002, individuals aged 50 or older are eligible to make “catch-up” contributions to their IRAs (Figure 20).<sup>32</sup> Among households aged 50 or older, 42 percent owned traditional or Roth IRAs in 2012 (Figure 21). Among these IRA-owning households, 31 percent made contributions to traditional or Roth IRAs; nearly 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>33</sup> reporting catch-up contributions to traditional or Roth IRAs.

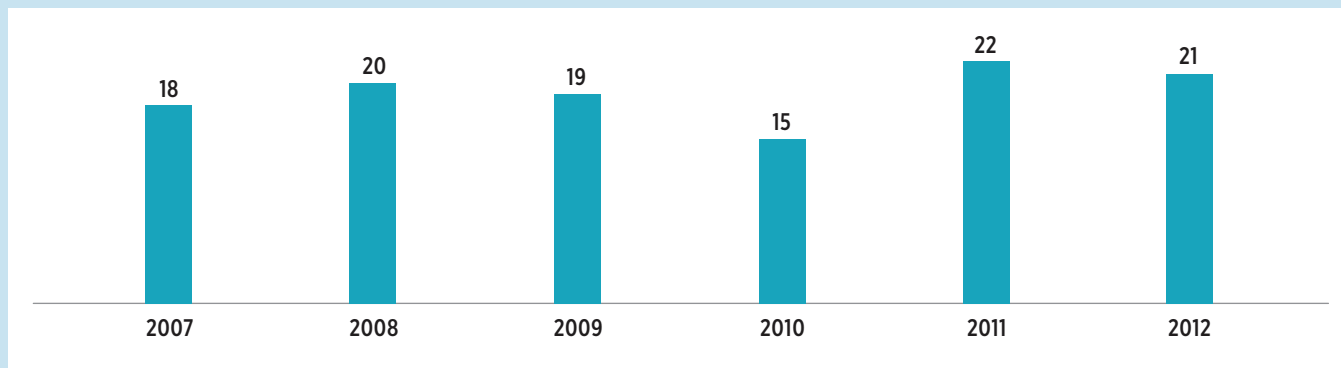
## IRA Withdrawals Are Infrequent, Mostly Retirement Related

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 generally is 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>34</sup> Taxpayers older than 59½ but younger than 70½ may take withdrawals without penalty, but generally are 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).

FIGURE 22

### 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.

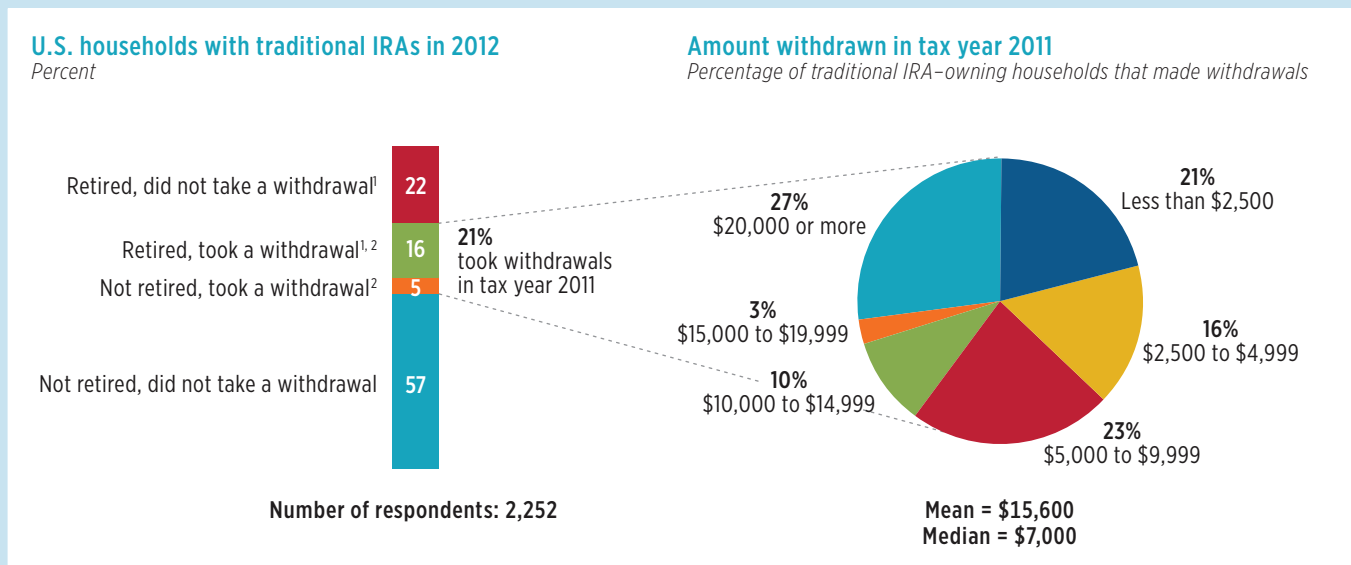
Source: Investment Company Institute IRA Owners Survey

Twenty-one percent of households owning traditional IRAs in 2012 reported taking withdrawals from these IRAs in tax year 2011, compared with 22 percent in tax year 2010 (Figure 22).<sup>35</sup> In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009.<sup>36</sup> Withdrawal activity among traditional IRA-owning households fell to lower levels in tax year 2009, likely in part due to the suspension of RMDs from traditional IRAs. Some of the increase in withdrawal activity in tax year 2010 and tax year 2011 resulted from the return of RMDs. Among households taking traditional IRA withdrawals in tax year 2011, 76 percent reported someone in the household was retired from their lifetime occupation (Figure 23). Nevertheless, 58 percent of retired households owning traditional IRAs in 2012 did not take a withdrawal in tax year 2011.

Traditional IRA-owning households that made withdrawals generally took modest-sized amounts. Twenty-one percent of traditional IRA-owning households making withdrawals in tax year 2011 took less than \$2,500 from their IRAs, and another 16 percent took an amount between \$2,500 and \$4,999 (Figure 23). Although some withdrawals in dollar amounts appear large, a median of 8 percent of the account balance was typically withdrawn. 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 2012 headed by individuals younger than 59, only 7 percent took withdrawals in tax year 2011 (Figure 24).<sup>37</sup> Seventeen percent of households owning traditional IRAs and headed by an individual aged 59 to 69 in 2012 reported withdrawals in tax year 2011. Seventy-four percent of households owning traditional IRAs and headed by an individual aged 70 or older took withdrawals in tax year 2011.<sup>38</sup>

FIGURE 23

### Withdrawals from Traditional IRAs Are Infrequent



Source: Investment Company Institute IRA Owners Survey

FIGURE 24

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

Percentage of traditional IRA–owning households, 2007–2012

	Traditional IRA–owning households					
	2007	2008	2009	2010	2011	2012
<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	61
59 to 69	20	22	20	22	25	23
70 or older	16	16	17	16	17	16
<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	56
Younger than 59, took a withdrawal	3	4	3	3	5	5
Aged 59 to 69, did not take a withdrawal	15	17	16	18	20	19
Aged 59 to 69, took a withdrawal	6	5	4	4	5	4
Aged 70 or older, did not take a withdrawal	6	4	5	7	5	4
Aged 70 or older, took a withdrawal	9	11	12	9	13	12
<b>Memo:</b>						
Percentage of traditional IRA–owning households with withdrawals	18	20	19	15	22	21
<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	7
59 to 69	27	24	19	17	19	17
70 or older	59	73	70	53	72	74
<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	22
59 to 69	31	26	20	25	21	19
70 or older	53	56	64	55	57	59

\*Age is based on the age of the sole or co-decisionmaker for household saving and investing.

Note: The figure reports traditional IRA withdrawal activity for the prior year. For example, for traditional IRA–owning households in 2012, the figure reports tax year 2011 withdrawal activity.

Source: Investment Company Institute IRA Owners Survey

Typically, withdrawals from traditional IRAs were taken to fulfill RMDs. Sixty-five percent of households owning traditional IRAs in 2012 and making withdrawals in tax year 2011 calculated their withdrawal amount based on the RMD, compared to 61 percent in tax year 2010 (Figure 25). Another 22 percent of traditional IRA-owning households taking withdrawals reported they withdrew lump sums based on needs in tax year 2011, compared with 28 percent in tax year 2010. In tax year 2011, 8 percent reported a scheduled withdrawal amount, either as a percentage of the account or a regular dollar amount, compared to 9 percent that reported a scheduled withdrawal amount in tax year 2010.

Reflecting the rules governing distributions from traditional IRAs, households headed by individuals aged 70 or older were much more likely to cite RMDs as the way they calculated their withdrawal amounts, while younger

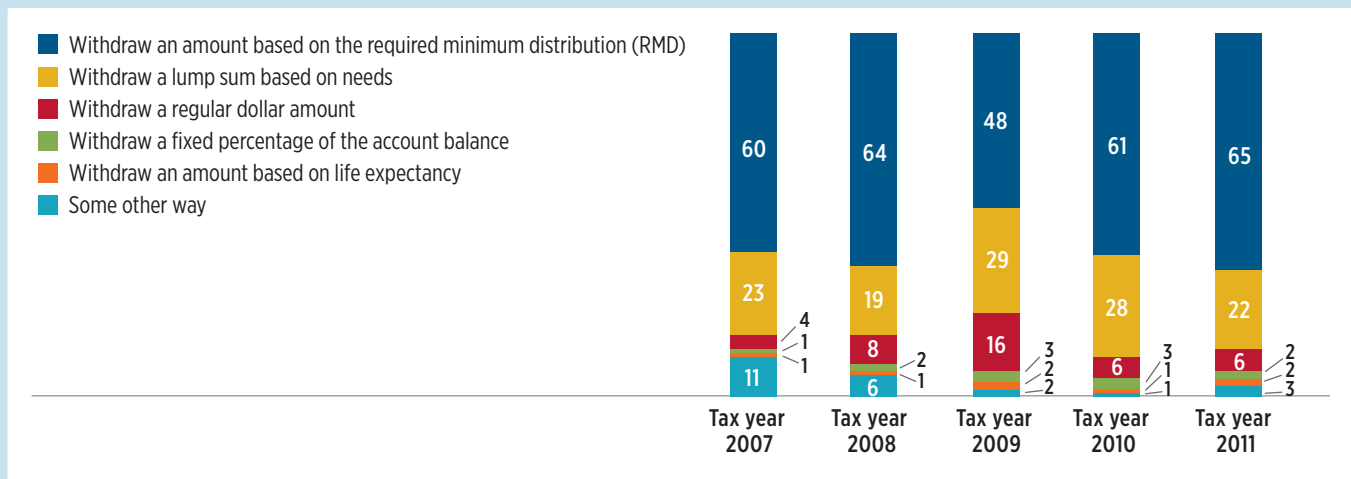
households were much more likely to take lump-sum withdrawals based on needs. Among traditional IRA-owning households in 2012 with a head of household aged 70 or older and taking a withdrawal in tax year 2011, 92 percent indicated their withdrawal was based on the RMD rules and only 3 percent took lump sums based on needs (Figure 26). In contrast, among withdrawing households younger than age 70, 62 percent took lump sums based on needs. Some households headed by an individual younger than 70 with withdrawals (9 percent) indicated their withdrawals were RMDs, in some cases reflecting an older spouse or partner, or also likely reflecting ownership of inherited IRAs.

Traditional IRA-owning households that took withdrawals in tax year 2011 usually consulted outside sources to determine the amount of the withdrawal. Fifty-eight percent consulted a professional financial adviser to determine the amount to withdraw in tax year 2011 (Figure 27). Thirty-six percent consulted IRS rules or publications.

FIGURE 25

### How Traditional IRA Withdrawals Are Determined

Percentage of traditional IRA-owning households with withdrawals in tax years 2007–2011

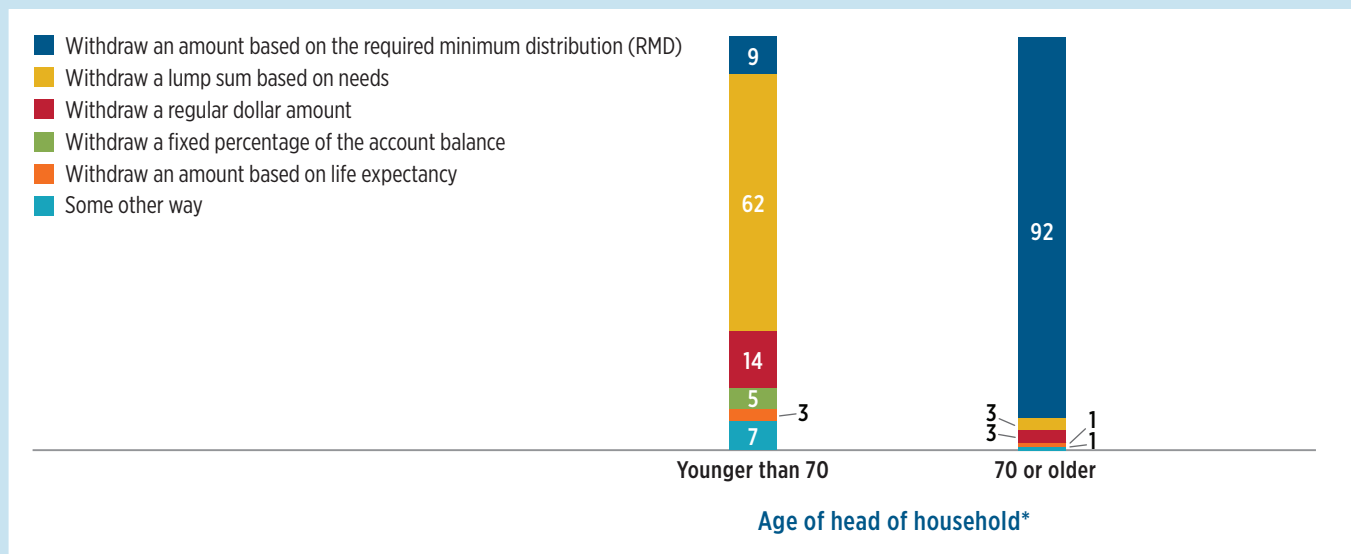


Source: Investment Company Institute IRA Owners Survey

FIGURE 26

### Older Traditional IRA–Owning Households Use RMD Rules When Taking Withdrawals

Percentage of traditional IRA-owning households with withdrawals in tax year 2011



\*Age is based on the age of the sole or co-decisionmaker for household saving and investing.

Source: Investment Company Institute IRA Owners Survey

## The Role of Traditional IRA Withdrawals in Retirement

Traditional IRA withdrawals can be used for a variety of purposes in retirement. Among households where either the head of household or spouse was retired, 35 percent reported using traditional IRA withdrawals to pay for living expenses (Figure 28). Thirty-two percent of retired households that took traditional IRA withdrawals in tax year 2011 reinvested or saved the withdrawal amount into another account.<sup>39</sup> Sixteen percent reported using their withdrawals for home purchase, repair, or remodeling, and 7 percent used their withdrawals for emergencies. Fifteen percent reported using their withdrawals for

healthcare expenses. 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 2011 were asked about their future withdrawal intentions. In 2012, 65 percent of these traditional IRA-owning households say it is unlikely they will take withdrawals prior to age 70½ (Figure 29). Among traditional IRA-owning households in 2012 that did not take withdrawals in tax year 2011, 38 percent indicate it is "not likely at all" that they would start traditional IRA withdrawals before required. Another 27 percent report it is "not very likely" that they would take withdrawals prior to age 70½.

FIGURE 27

### Most Households Consult 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 2011*



Note: Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey



FIGURE 28

### Traditional IRA Withdrawals Often Are Used to Pay for Living Expenses

Percentage of withdrawing traditional IRA-owning households<sup>1</sup> in which either the head of household or spouse is retired, 2012

Purpose of traditional IRA withdrawal in retirement <sup>2</sup>	
Took withdrawals to pay for living expenses	35
Spent it on a car, boat, or big-ticket item other than a home	9
Spent it on a healthcare expense	15
Used it for an emergency	7
Used it for home purchase, repair, or remodeling	16
Reinvested or saved it in another account	32
Paid for education	4
Some other purpose	16
<i>Number of respondents</i>	349

<sup>1</sup> The base of respondents includes the 16 percent of traditional IRA-owning households who were retired and took withdrawals reported in Figure 23.

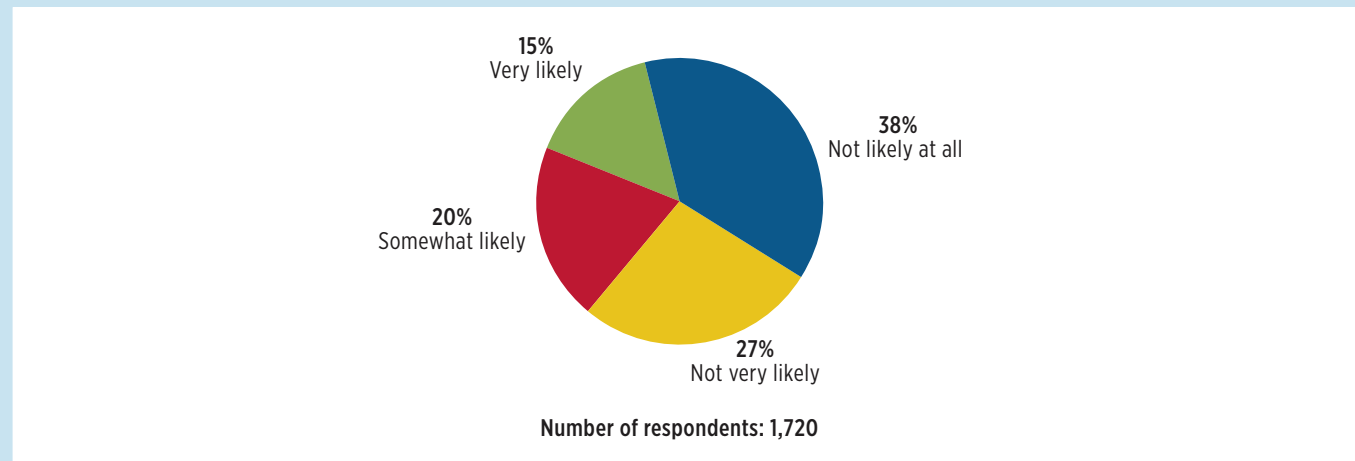
<sup>2</sup> Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

FIGURE 29

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

Percentage of traditional IRA-owning households that did not take withdrawals in tax year 2011



Source: Investment Company Institute IRA Owners Survey

## Most Traditional IRA Owners Have a Planned Retirement Strategy

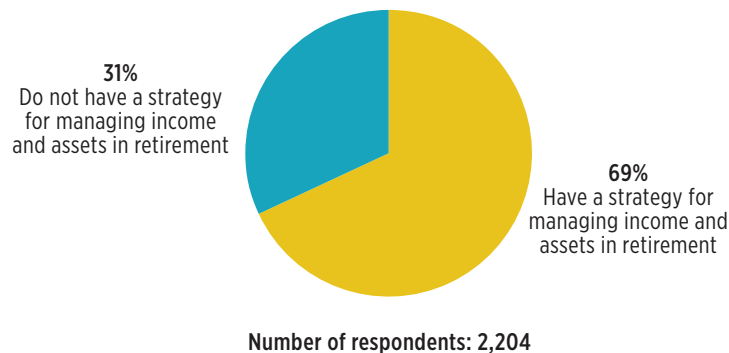
Sixty-nine percent of traditional IRA-owning households in 2012 say they have a strategy for managing income and assets in retirement (Figure 30). These households typically seek advice when building their retirement income strategy. Sixty-one percent of traditional IRA-owning households with a strategy consulted a professional financial adviser when creating the strategy (Figure 31). Twenty-eight percent of households with a strategy consulted with friends or family and 26 percent consulted written materials (e.g., a book or article in a magazine or newspaper). Eighteen percent used a website to help create their retirement income and asset management strategy.

Traditional IRA-owning households with a strategy for managing their income and assets in retirement reported numerous components as part of their strategy. Seventy-six percent of these households indicated setting aside emergency funds as part of their strategy and 67 percent developed a retirement income plan (Figure 32). Sixty-four percent reviewed their insurance policies and 64 percent determined their retirement expenses. 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. Nearly three-quarters of traditional IRA-owning households with a strategy took three or more steps in developing their strategy.

FIGURE 30

### Most Traditional IRA-Owning Households Have a Strategy for Managing Income and Assets in Retirement

Percentage of traditional IRA-owning households, 2012

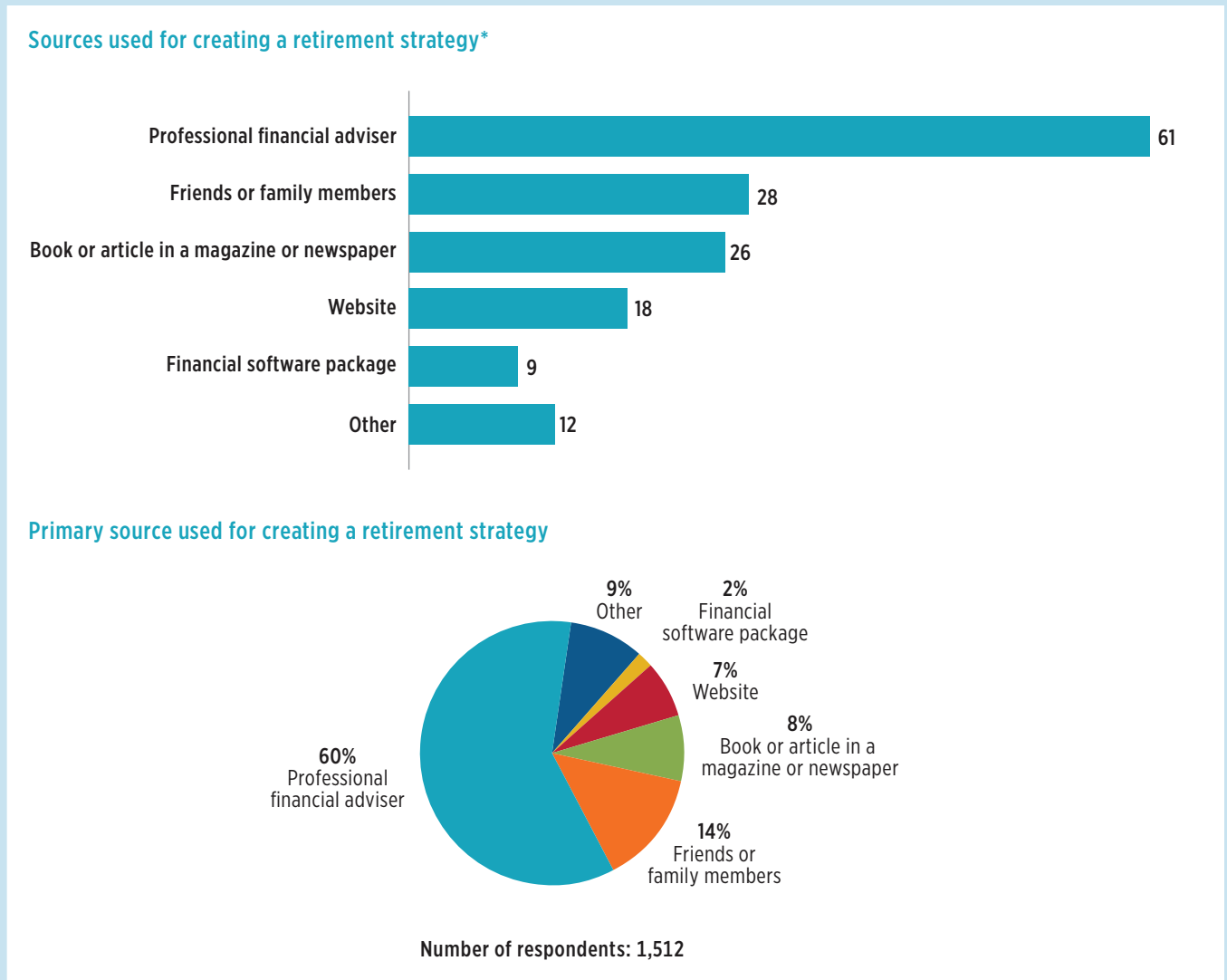


Source: Investment Company Institute IRA Owners Survey

FIGURE 31

### Most IRA Owners Consult a Professional Financial Adviser When Creating a Retirement Strategy

Percentage of traditional IRA-owning households that indicated they have a strategy for managing income and assets in retirement, 2012



\*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 2011 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 2011. Sixty-three percent of these households reported they plan to use IRA withdrawals to pay for living expenses in retirement (Figure 33). 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, 55 percent expected the primary role of IRA withdrawals will be to pay for living expenses in retirement.

FIGURE 32

### 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, 2012

	All	Age of head of household*			
		Younger than 35	35 to 49	50 to 64	65 or older
Set aside emergency funds	76	73	77	78	75
Develop a retirement income plan	67	64	63	71	66
Review your insurance policies	64	56	65	67	64
Determine your retirement expenses	64	45	60	69	71
Determine when to take Social Security benefits	56	39	38	60	75
Other	3	5	1	4	3
<i>Number of respondents:</i>	1,509	179	391	558	381

\*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

FIGURE 33

### Expected Role of IRA Withdrawals in Retirement

Percentage of traditional IRA-owning households,<sup>1</sup> excluding retiree households with withdrawals, 2012

<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	9
Spend it on a healthcare expense	31
Use it for an emergency	62
Use it for home purchase, repair, or remodeling	27
Reinvest or save it in another account	41
Pay for education	14
Some other plan	18
<b>Primary plan for future IRA withdrawals in retirement</b>	
Take withdrawals to pay for living expenses	55
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	16
Use it for home purchase, repair, or remodeling	5
Reinvest or save it in another account	11
Pay for education	5
Some other plan	3
<i>Number of respondents</i>	<i>1,892</i>

<sup>1</sup> The base of respondents includes the 22 percent of traditional IRA-owning households who were retired but did not take withdrawals and were asked about their future plans, the 5 percent of nonretired households that took withdrawals, and the 57 percent of nonretired households that did not take withdrawals (Figure 23).

<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 four 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 IRA Investor Profile: Traditional IRA Investors’ Withdrawal Activity, 2007 and 2008.”** This report analyzes withdrawal activity among traditional IRA investors. Available at [www.ici.org/pdf/rpt\\_12\\_ira\\_withdrawals.pdf](http://www.ici.org/pdf/rpt_12_ira_withdrawals.pdf).

**“The U.S. Retirement Market, Second Quarter 2012.”** Available at [www.ici.org/info/ret\\_12\\_q2\\_data.xls](http://www.ici.org/info/ret_12_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 2012, 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 2012, the annual employee contribution limit for 401(k)s and similar employer-sponsored retirement plans was \$17,000; 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 2012 was \$50,000. 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’s and employer’s contributions and earnings and losses on those contributions.



## Notes

- <sup>1</sup> See Investment Company Institute 2012. Key terms related to IRAs and retirement savings are presented in the glossary of this report (pages 30–31). For additional information and the rules governing IRAs, see Internal Revenue Service 2011.
- <sup>2</sup> Households' total financial assets were \$52.3 trillion as of June 2012 and \$17.1 trillion at year-end 1992. See U.S. Federal Reserve Board 2012.
- <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 2012 of 4,019 randomly selected, representative U.S. households. The standard error for the total sample is  $\pm 1.6$  percentage points at the 95 percent confidence level. For further discussion and additional results from this survey, see Schrass, Bogdan, and Holden 2012a and 2012b. The demographic and financial characteristics of IRA owners are derived from a separate May 2012 IRA Owners Survey of 2,801 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  $\pm 1.9$  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 12–16 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 2012 and Brady, Burham, and Holden 2012, 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 70 percent; for the middle quintile, the median Social Security replacement rate was 42 percent; and for the highest quintile, it was 29 percent. See Congressional Budget Office 2012.
- <sup>9</sup> For discussion of retirement saving by different income groups, see Brady and Bogdan 2012 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 2012 and Sabelhaus, Bogdan, and Schrass 2008.
- <sup>11</sup> Willingness to take investment risk among IRA-owning households was similar to that among mutual fund-owning households. Among households owning mutual funds, 28 percent were willing to take substantial or above-average investment risk for similar levels of gain in 2012; see Schrass, Bogdan, and Holden 2012a.
- <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 2013 (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 et al. 2011.
- <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> See Bryant 2012. For historical data, see Investment Company Institute 2012.
- <sup>19</sup> Tabulations of the Federal Reserve Board's 2010 Survey of Consumer Finances data find that 44 percent of traditional IRA-owning households had rollovers in their IRAs in 2010, compared with 55 percent of traditional IRA-owning households in ICI's 2010 IRA Owners Survey. For a description of the Survey of Consumer Finances, see Bricker et al. 2012.
- <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> The Internal Revenue Code sets out a comprehensive disclosure regime covering both plan sponsors and IRA providers with regard to information provided for distribution and rollover decisions. Plan sponsors must inform departing employees of information relevant to their distribution decision. IRA providers must disclose at the outset and on an ongoing basis the relevant information to IRA owners. In addition, financial planners, advisers or brokers may have fiduciary obligations or be subject to other rules of practice with regard to advice to clients on distribution and rollover decisions. For additional discussion, see Holden 2009.
- <sup>22</sup> For more information on rollovers among traditional IRA investors, see Holden, Sabelhaus, and Bass 2010b.
- <sup>23</sup> See Holden and Schrass 2011.
- <sup>24</sup> Among households making IRA contributions, the 57 percent contributing to traditional IRAs includes the 40 percent only contributing to traditional IRAs plus 86 percent of the 20 percent that contributed to more than one type of IRA (Figure 18).
- <sup>25</sup> Among households making IRA contributions, the 39 percent contributing to Roth IRAs includes the 24 percent only contributing to Roth IRAs plus 74 percent of the 20 percent that contributed to more than one type of IRA (Figure 18).
- <sup>26</sup> Among households making IRA contributions, the 26 percent contributing to employer-sponsored IRAs includes the 16 percent only contributing to employer-sponsored IRAs plus 50 percent of the 20 percent that contributed to more than one type of IRA (Figure 18).
- <sup>27</sup> See Figure A13 in the appendix.
- <sup>28</sup> See Holden, Sabelhaus, and Bass 2010a.
- <sup>29</sup> See Internal Revenue Service 2011.
- <sup>30</sup> For an analysis of the persistence of traditional IRA contribution activity, see Holden, Sabelhaus, and Bass 2010a.
- <sup>31</sup> See Internal Revenue Service 2011 for details on income restrictions and other qualifications for contribution eligibility.
- <sup>32</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>33</sup> U.S. households aged 50 or older include households ineligible to make deductible contributions to traditional IRAs.
- <sup>34</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 withdrawals 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>35</sup> Data exclude households that closed and no longer owned traditional IRAs.
- <sup>36</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>37</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 2012 indicate that among all IRA-owning taxpayers in 2008, 28 percent took a withdrawal. Incidence of withdrawal activity indicated that 12 percent of IRA-owning taxpayers younger than 60 took withdrawals in 2008; 28 percent of IRA-owning taxpayers aged 60 to 69 took withdrawals; and 95 percent of IRA-owning taxpayers aged 70 or older took withdrawals.
- <sup>38</sup> Withdrawal activity among households with a head of household aged 70 or older is not 100 percent because it may be the case that the traditional IRA owner is a younger spouse or partner who is not yet required to make withdrawals. In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009 (see note 36).
- <sup>39</sup> Among the 32 percent of households that reported reinvesting or saving the amount of the traditional IRA withdrawal into another account (Figure 28), 84 percent reported withdrawing the amount based on the RMD.

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