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WHAT'S INSIDE

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The Role of IRAs in US Households' Saving for Retirement, 2016

KEY FINDINGS

» **More than one-third of US households owned IRAs in 2016.** More than eight in 10 IRA-owning households also had employer-sponsored retirement plan accumulations or had defined benefit plan coverage. All told, more than six in 10 US households had retirement plans through work or IRAs.

» **More than one-quarter of US households owned traditional IRAs in 2016.** 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, 82 percent indicated they had rolled over the entire retirement account balance in their most recent rollover; nearly half also had made contributions to their traditional IRAs at some point.

» **Traditional IRA–owning households with rollovers cite multiple reasons for rolling over their retirement plan assets into traditional IRAs.** The two most common primary reasons for rolling over were not wanting to leave assets behind at the former employer (26 percent of traditional IRA–owning households with rollovers) and wanting to preserve the tax treatment of the savings (19 percent of traditional IRA–owning households with rollovers). Another 15 percent of traditional IRA–owning households with rollovers indicated their primary reason for rolling over was to consolidate assets.

» **Although most US households were eligible to make IRA contributions, few did so.** Only 11 percent of US households contributed to traditional or Roth IRAs in tax year 2015, and very few eligible households made catch-up contributions to traditional IRAs or Roth IRAs.

- **IRA withdrawals were infrequent and mostly retirement related.** Twenty-five percent of traditional IRA–owning households took withdrawals in tax year 2015, compared with 22 percent in tax year 2014.
- **The majority of traditional IRA withdrawals were made by retirees.** Eighty-eight percent of households that made traditional IRA withdrawals were retired. Indeed, only 5 percent of traditional IRA–owning households in mid-2016 headed by individuals younger than 59 took withdrawals. Seventy-one percent of withdrawals were calculated using the required minimum distribution (RMD)—this was the most common amount withdrawn.

IRAs Play an Increasingly Important Role in Saving for Retirement

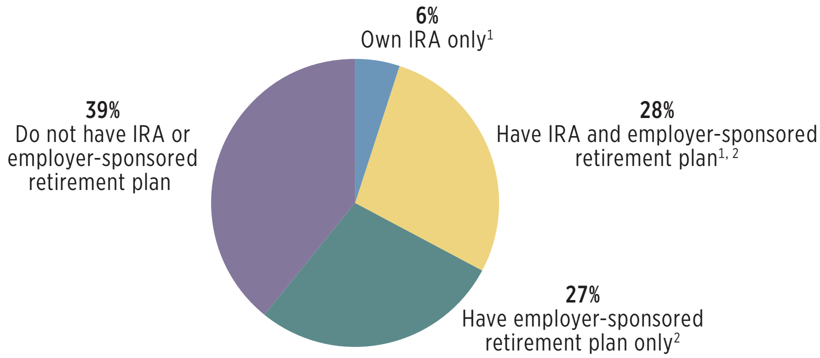
With $7.5 trillion in assets at the end of the second quarter of 2016, individual retirement accounts (IRAs) represented 31 percent of US total retirement market assets, compared with 19 percent two decades ago.[1] IRAs also have risen in importance on household balance sheets. In June 2016, IRA assets were 10 percent of all household financial assets, up from 6 percent of assets two decades ago.[2] In mid-2016, 42.5 million, or 34 percent of, US households reported they owned IRAs (Figure 1).[3] Among all IRA-owning households in mid-2016, more than eight in 10 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 27 percent of US households reported employer-sponsored retirement plan coverage, but no IRAs. All told, nearly 77 million, or 61 percent of, US households had some type of formal, tax-advantaged retirement savings.

Traditional IRAs are the oldest and most common type of IRA. In mid-2016, 32.1 million, or 25.5 percent of, US households owned traditional IRAs (Figure 2).[4] 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 US households with traditional IRAs indicated their IRAs contained rollover assets.[5] Roth IRAs, which were first available in 1998, are the second most frequently owned type of IRA, held by 21.9 million, or 17.4 percent of, US households.[6] In mid-2016, 5.7 percent of US households owned employer-sponsored IRAs, which include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

FIGURE 1

Many US Households Have Tax-Advantaged Retirement Savings

Percentage of US households, 2016



Total number of US households: 125.8 million

[1] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

[2] Employer-sponsored retirement plans include DC and DB retirement plans.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and US Census Bureau

FIGURE 2

Millions of US Households Own IRAs

	Year created	Number of US households with type of IRA,[1] 2016	Percentage of US households with type of IRA,[1] 2016
Traditional IRA	1974 (Employee Retirement Income Security Act)	32.1 million	25.5%
SEP IRA[2]	1978 (Revenue Act)	7.2 million	5.7%
SAR-SEP IRA[2]	1986 (Tax Reform Act)		
SIMPLE IRA[2]	1996 (Small Business Job Protection Act)		
Roth IRA	1997 (Taxpayer Relief Act)	21.9 million	17.4%
Any IRA[1]		42.5 million	33.8%

[1] Households may own more than one type of IRA.

[2] SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs are employer-sponsored IRAs.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and US Census Bureau

About the Annual Mutual Fund Shareholder Tracking Survey

ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each year to gather information on the demographic and financial characteristics of mutual fund–owning households in the United States. The most recent survey was conducted from May to July 2016 and was based on a dual frame telephone sample of 5,500 US households. Of these, 2,750 households were from a landline random digit dial (RDD) frame and 2,750 households were from a cell phone RDD frame. All interviews were conducted over the telephone with the member of the household who was either the sole or the co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2016 sample of households is ±1.3 percentage points at the 95 percent confidence level.

Revisions to ICI's Annual Mutual Fund Shareholder Tracking Survey

In the usual course of household survey work, researchers periodically reexamine sampling and weighting methods to ensure that the results published are representative of the underlying population of interest. ICI reexamined its Annual Mutual Fund Shareholder Tracking Survey in 2014, and the figures on incidence of IRA ownership presented in this paper for the 2016 survey reflect the revised sampling and weighting methodology that was adopted in 2014. In order to achieve a representative sample of US households, the 2014, 2015, and 2016 Annual Mutual Fund Shareholder Tracking Survey is based on a dual frame sample of landline and cell phone numbers. The combined sample includes about 50 percent of households reached on a landline and about 50 percent of households reached on a cell phone. In previous years, the Annual Mutual Fund Shareholder Tracking Survey was based on a sample of landline phone numbers only. The change to a combined sample of cell and landline phone numbers improves the representativeness of the sample. For a detailed description of the survey methodology, see "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2016," *ICI Research Perspective* 22, no. 6 (October), available at www.ici.org/pdf/per22-06.pdf.

About the IRA Owners Survey

ICI conducts the IRA Owners Survey each year to gather information on the characteristics and activities of IRA-owning households in the United States. The most recent survey was conducted in June 2016 using the KnowledgePanel®, a probability-based online panel designed to be representative of the US population. The KnowledgePanel® was designed and administered by GfK, an online consumer research company. The 2016 sample of IRA owners included 3,205 representative US households owning traditional IRAs or Roth IRAs. All surveys were conducted online with the member of the household aged 18 or older who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the total sample is ±1.7 percentage points at the 95 percent confidence level. In 2016, households owning traditional or Roth IRAs were surveyed, and thus households only owning employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) or Coverdell Education Savings Accounts (formerly called education IRAs) are not included.

Revisions to ICI's IRA Owners Survey

Starting in 2016, the ICI IRA Owners Survey was changed from a dual frame RDD telephone survey to a self-administered online survey on the KnowledgePanel®, a probability-based online panel administered by GfK. The KnowledgePanel® includes more than 50,000 individuals from randomly sampled households. Initially, participants are chosen scientifically by a random selection of telephone numbers and residential addresses. Persons in selected households are then invited by telephone or by mail to participate in the web-enabled KnowledgePanel®. For those who agree to participate, but do not already have Internet access, GfK provides a laptop and ISP connection at no cost. People who already have computers and Internet service are permitted to participate using their own equipment.

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Panelists then receive unique log-in information for accessing surveys online, and are sent emails throughout each month inviting them to participate in research.

In addition to the change in the survey mode for the ICI IRA Owners Survey in 2016, the questionnaire also was revised to only collect demographic and financial characteristics of households owning traditional IRAs or Roth IRAs. In previous years, the survey collected information on households owning employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). These survey changes were implemented in 2016 in order to reduce the cost of data collection, improve the representativeness of the sample, and to reduce the burden on survey respondents.

Because the methodology for the IRA Owners Survey was changed to an online survey in 2016, it was necessary to adjust the weighting methodology for the survey. For the 2016 data, the weighting included the standard raking to control totals based on census region, householder age, household income, and educational attainment of US households owning traditional or Roth IRAs.

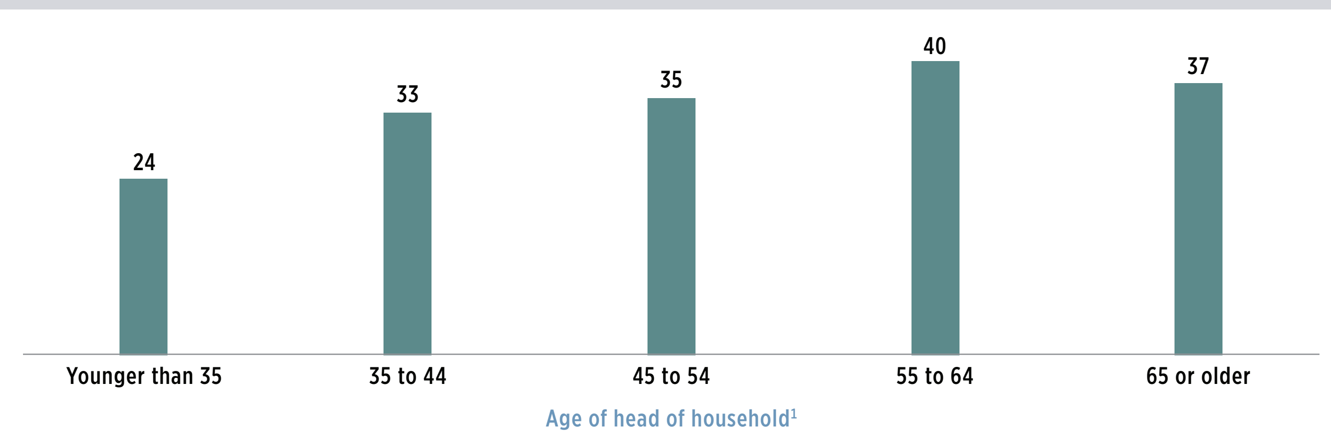
Incidence of IRA Ownership Increases with Age and Income

People of all ages own IRAs, but ownership is greatest among the older groups of working-age individuals. This reflects the life-cycle effects on saving; that is, 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).[7] 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.[8] In mid-2016, 35 percent of households headed by an individual aged 45 to 54 owned IRAs, and 40 percent of households headed by an individual aged 55 to 64 owned IRAs (Figure 3). As a result, 69 percent of IRA-owning households were headed by individuals aged 45 or older (Figure 4). Among all US households, by comparison, 62 percent were headed by individuals in this age group.

FIGURE 3

Ownership of IRAs Increases with Age

Percentage of US households within each age group that own IRAs,[1, 2] 2016



[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.

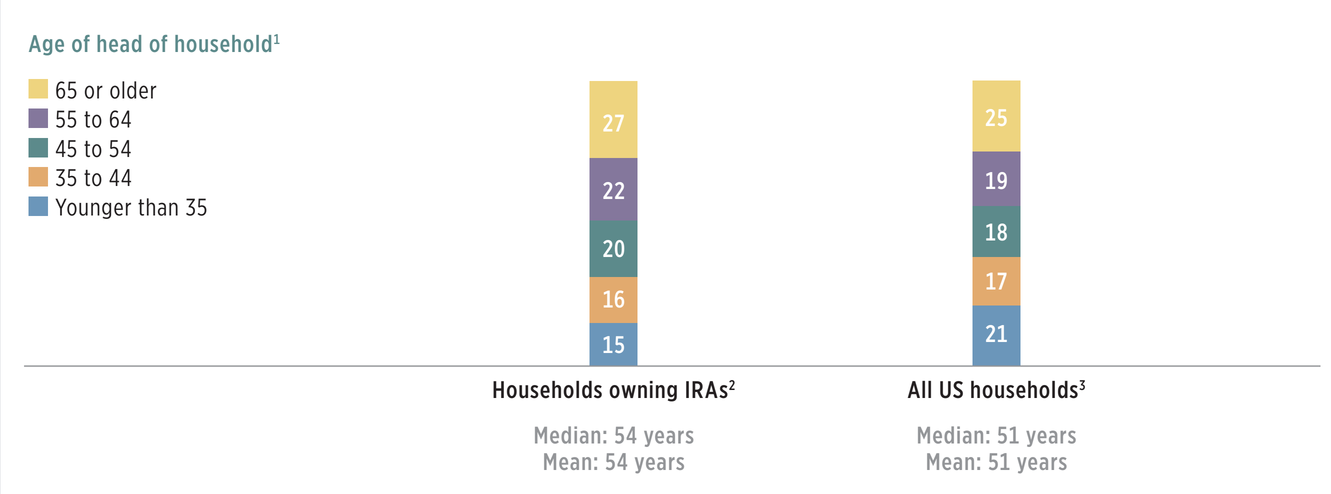
[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

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 US households by age,[1, 2] 2016



[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.

[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

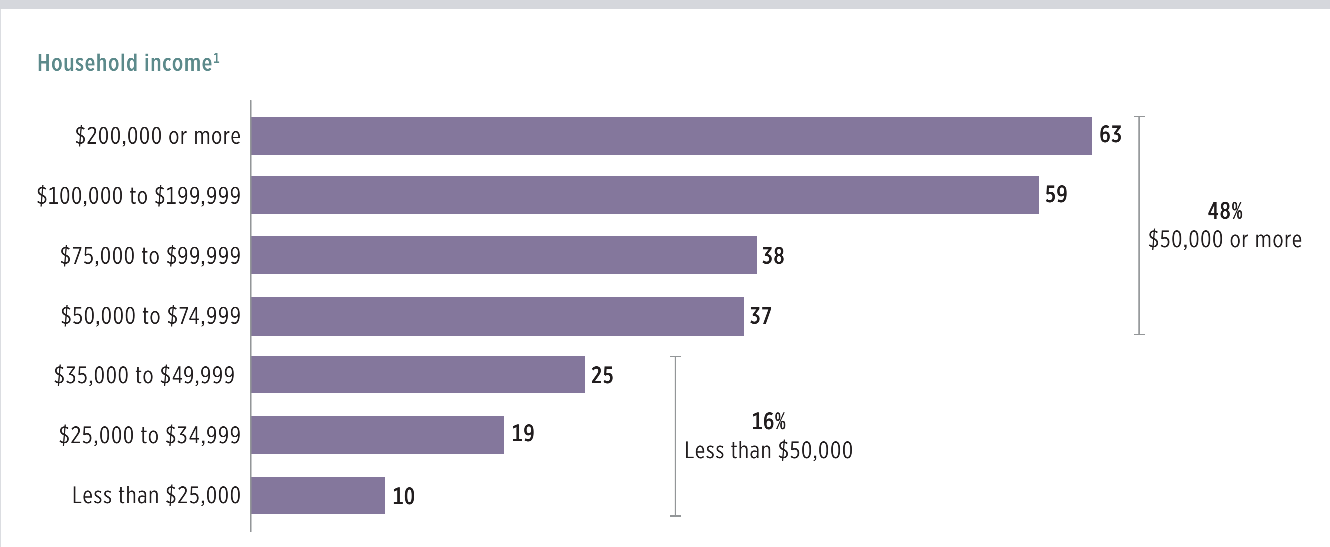
[3] The percentage of all households in each age group is based on ICI survey data and is weighted to match the US Census Bureau's Current Population Survey (CPS).

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and US Census Bureau

FIGURE 5

Incidence of IRA Ownership Increases with Household Income

Percentage of US households within each income group that own IRAs,[1, 2] 2016



[1] Total reported is household income before taxes in 2015.

[2] 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

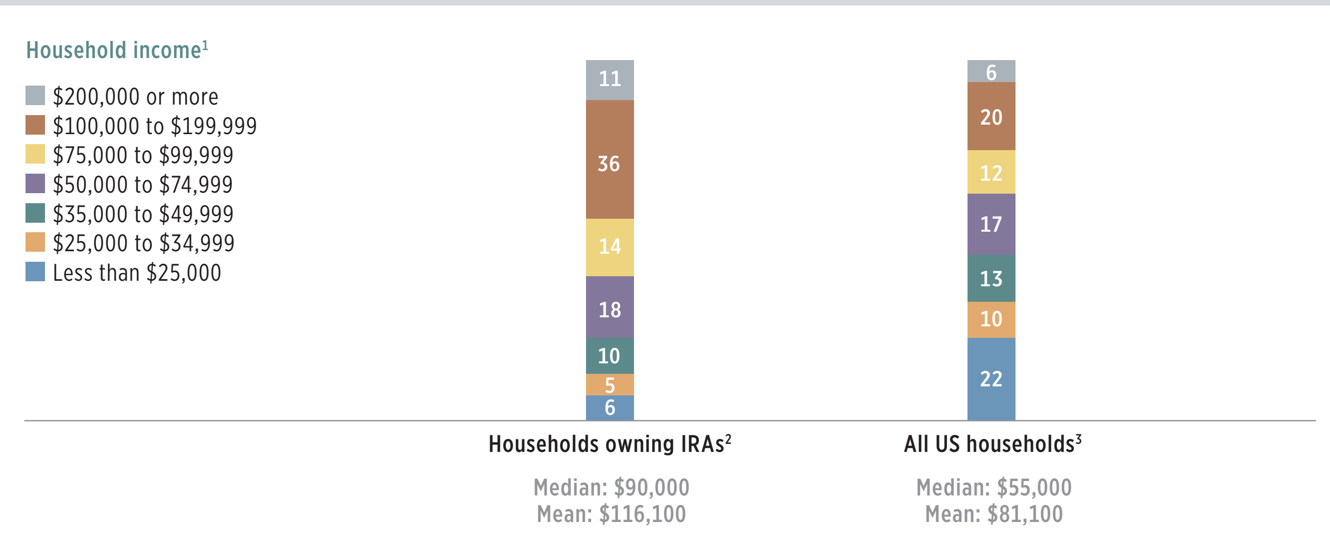
Although the majority of IRA-owning households had moderate or lower incomes, IRA ownership tends to increase with household income. This pattern is consistent with the fact that lower-income households, which tend to be focused on near-term spending needs, and which receive a higher replacement benefit through Social Security,[9] generally have a lower propensity to save for retirement.[10] Forty-eight percent of households with incomes of $50,000 or more owned IRAs, compared with 16 percent of households with incomes of less than $50,000 (Figure 5). Sixty percent of households with incomes of $100,000 or more owned IRAs in mid-2016.

As a result, 11 percent of households owning IRAs earned less than $35,000, compared with 32 percent of all US households (Figure 6). Forty-two percent of households owning IRAs in mid-2016 had incomes between $35,000 and $99,999, the same percentage as all US households.

FIGURE 6

Most IRA-Owning Households Have Moderate Incomes

Percent distribution of households owning IRAs and all US households by household income,[1, 2] 2016



[1] Total reported is household income before taxes in 2015.

[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

[3] The percentage of all households in each income group is based on ICI survey data and is weighted to match the US Census Bureau's Current Population Survey (CPS). For 2015, the estimated median and mean income for all US households from the CPS is $56,516 and $79,263, respectively.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and US Census Bureau

IRA Owners Tend to Be Savers

IRA owners build substantial financial assets. The median financial assets of IRA-owning households were more than six times greater than the median financial assets of households that did not own IRAs (Figure 7). Those assets included DC retirement plan accounts—76 percent of households that owned IRAs also owned such accounts. IRA owners typically exhibit the characteristics that 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.[11]

Like other investing households, the majority of IRA-owning households were willing to take some investment risk for financial gain. Willingness to take investment risk remained about the same among IRA-owning households overall between 2011 and 2016. In mid-2016, 30 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 2015, 29 percent in 2014, 28 percent in 2013 and 2012, and 30 percent in 2011 (Figure 8).[12, 13]

FIGURE 7

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

Characteristics of US households by ownership of IRAs,[1] 2016

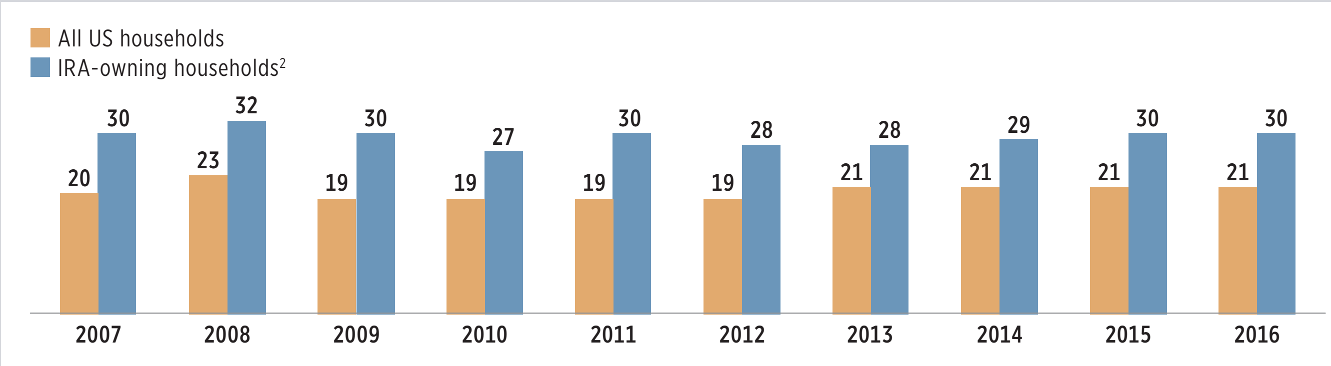
	Households owning IRAs[1]	Households not owning IRAs
Median per household		
Age of household sole or co-decisionmaker for saving and investing	54 years	49 years
Household income[2]	$90,000	$40,000
Household financial assets[3]	$250,000	$40,000
Household financial assets in traditional or Roth IRAs	$70,000	N/A
Share of household financial assets in traditional or Roth IRAs (percent)	33%	N/A
Percentage of households		
Household sole or co-decisionmaker for saving and investing		
Married or living with a partner	72%	51%
College or postgraduate degree	50	26
Employed full- or part-time	70	58
Retired from lifetime occupation	30	27
Household has DC account or DB plan coverage (total)	84	42
DC retirement plan account	76	33
DB plan coverage	40	19

[1] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
[2] Total reported is household income before taxes in 2015.
[3] 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 US households by ownership of IRAs; willingness to take above-average or substantial investment risk,[1] 2007–2016



[1] 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.

[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

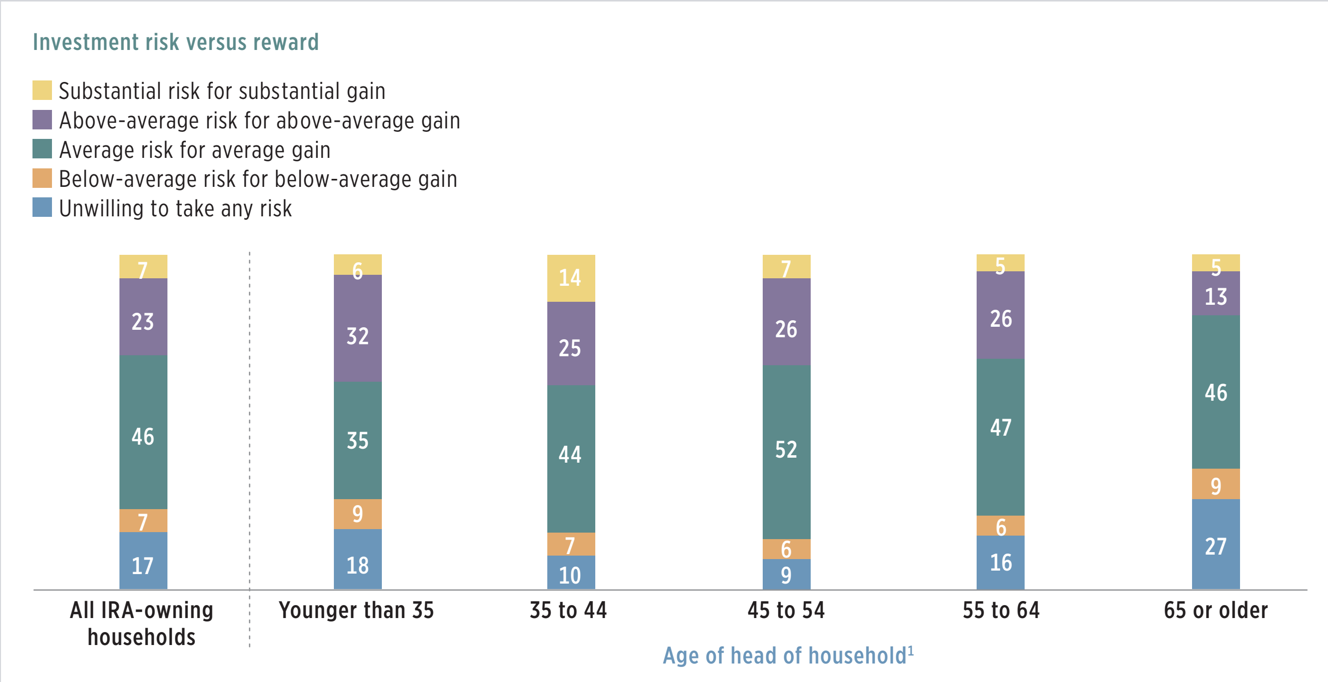
Sources: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances, Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey, and Investment Company Institute IRA Owners Survey

In mid-2016, while 30 percent of IRA-owning households were willing to take substantial or above-average risk, the largest percentage of households owning IRAs, 46 percent, were willing to take average risk for average gain (Figure 9). Twenty-four 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.[14] Eighteen 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, compared with 38 percent of IRA-owning households younger than 35 and 39 percent aged 35 to 44 willing to take substantial or above-average investment risk for similar levels of gain.[15]

FIGURE 9

Willingness to Take Investment Risk Falls with Age

Percentage of US households owning IRAs by age,[1, 2] 2016



[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.

[2] 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

Between mid-2015 and mid-2016, willingness to take investment risk increased or stayed about the same for every age group of IRA-owning households except for those aged 35 to 44. For example, 38 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 mid-2016, compared with 39 percent in 2015 (Figure 10).[16] Thirty-nine 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 mid-2016, compared with 44 percent in 2015. Thirty-three percent of IRA-owning households aged 45 to 54 reported that they were willing to take substantial or above-average investment risk for similar levels of gain in mid-2016, compared with 31 percent in 2015. Willingness to take investment risk increased substantially in mid-2016 for IRA-owning households aged 55 to 64. Thirty-one percent of IRA-owning households aged 55 to 64 reported that they were willing to take substantial or above-average investment risk for similar levels of gain in mid-2016, compared with 24 percent in 2015. In mid-2016, 18 percent of IRA-owning households aged 65 or older were willing to take substantial or above-average investment risk for similar levels of gain, the same share as in 2015.

FIGURE 10

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

Percentage of US households owning IRAs by age of head of household; willingness to take above-average or substantial investment risk; 2007–2016

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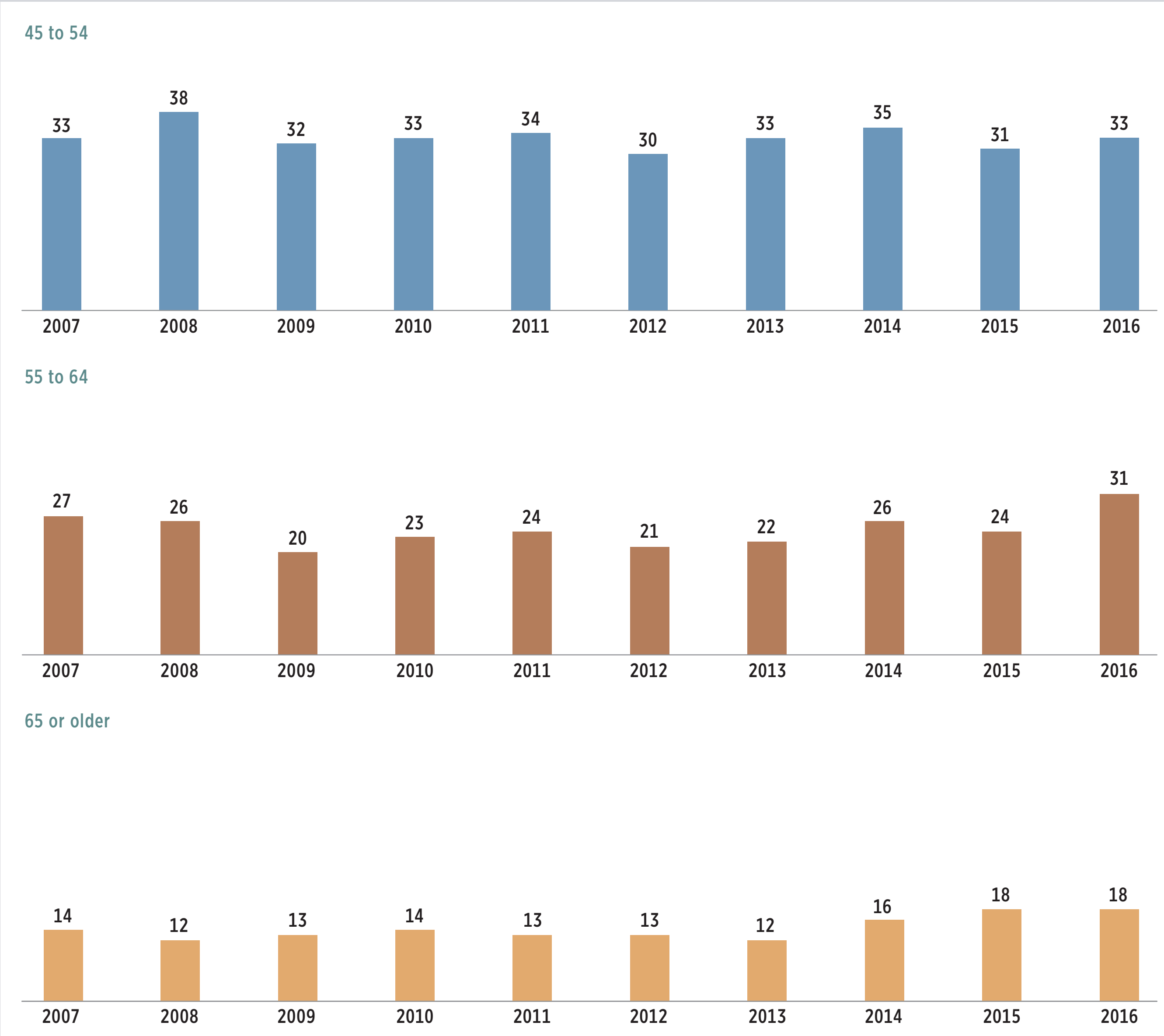
FIGURE 10 CONTINUED

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

Percentage of US households owning IRAs by age of head of household; willingness to take above-average or substantial investment risk; 2007–2016



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.

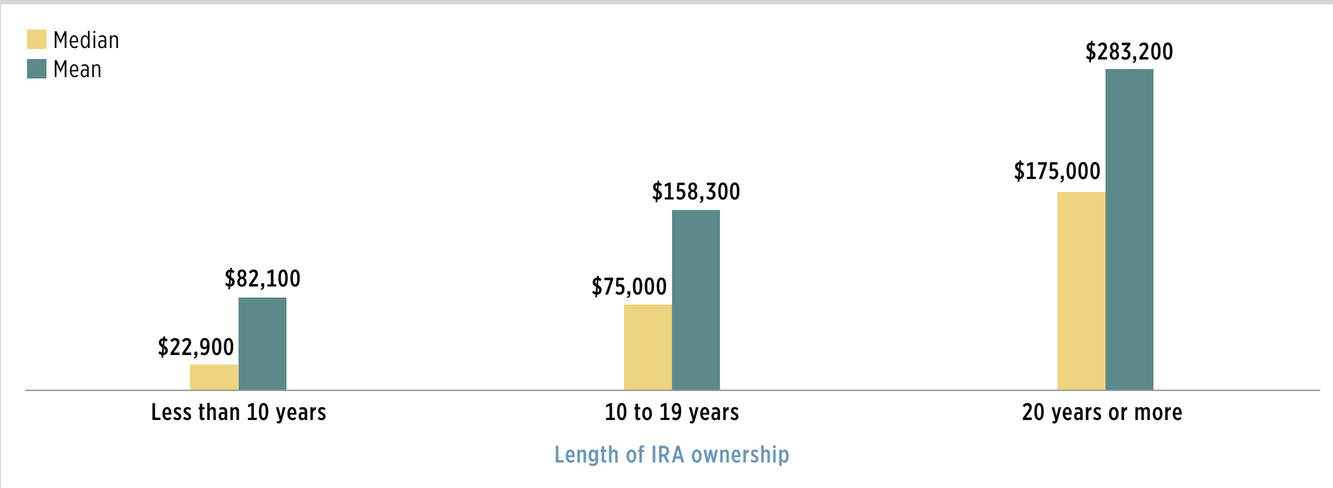
Sources: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances, Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey, and Investment Company Institute IRA Owners Survey

Just as 401(k) balances tend to be higher the longer a worker's job tenure,[17] IRA balances tend to rise with length of ownership. In mid-2016, households owning traditional or Roth IRAs for less than 10 years had median IRA holdings of $22,900, while households owning traditional or Roth IRAs for 20 years or more had median traditional and Roth IRA holdings of $175,000 (Figure 11). Mean traditional and Roth IRA holdings, though considerably higher than the median values, display a similar pattern.

FIGURE 11

IRA Assets Increase with Length of IRA Ownership

Median and mean household financial assets in IRAs by length of ownership, 2016



Note: IRAs include traditional IRAs or Roth IRAs.

Source: Investment Company Institute IRA Owners Survey

Rollovers to Traditional IRAs Fuel Growth

From their inception, traditional IRAs have been designed so that investors could accumulate retirement assets either through contributions[18] or by rolling over balances from employer-sponsored retirement plans (to help workers consolidate and preserve these assets).[19, 20] Rollover activity, which helps many Americans preserve their retirement savings, has fueled recent IRA growth. The most recent available data show that households transferred $424 billion from employer-sponsored retirement plans to traditional IRAs in 2014.[21] In mid-2016, about 19 million US households (or 59 percent of all US households owning traditional IRAs) had traditional IRAs that included rollover assets (Figure 12).[22] With their most recent rollovers, the vast majority of these households (82 percent) transferred the entire retirement plan account balance into the traditional IRA (Figure 13, top panel).[23] Nearly nine in 10 traditional IRA–owning households with rollovers made their most recent rollover in 2000 or later, including 74 percent whose most recent rollover was within the past 11 years (Figure 13, lower panel). Among households with rollovers in their traditional IRAs, 52 percent only had rollover IRAs (having never made traditional IRA contributions) (Figure 12).

FIGURE 12

Rollovers Are Often a Source of Assets for Traditional IRAs

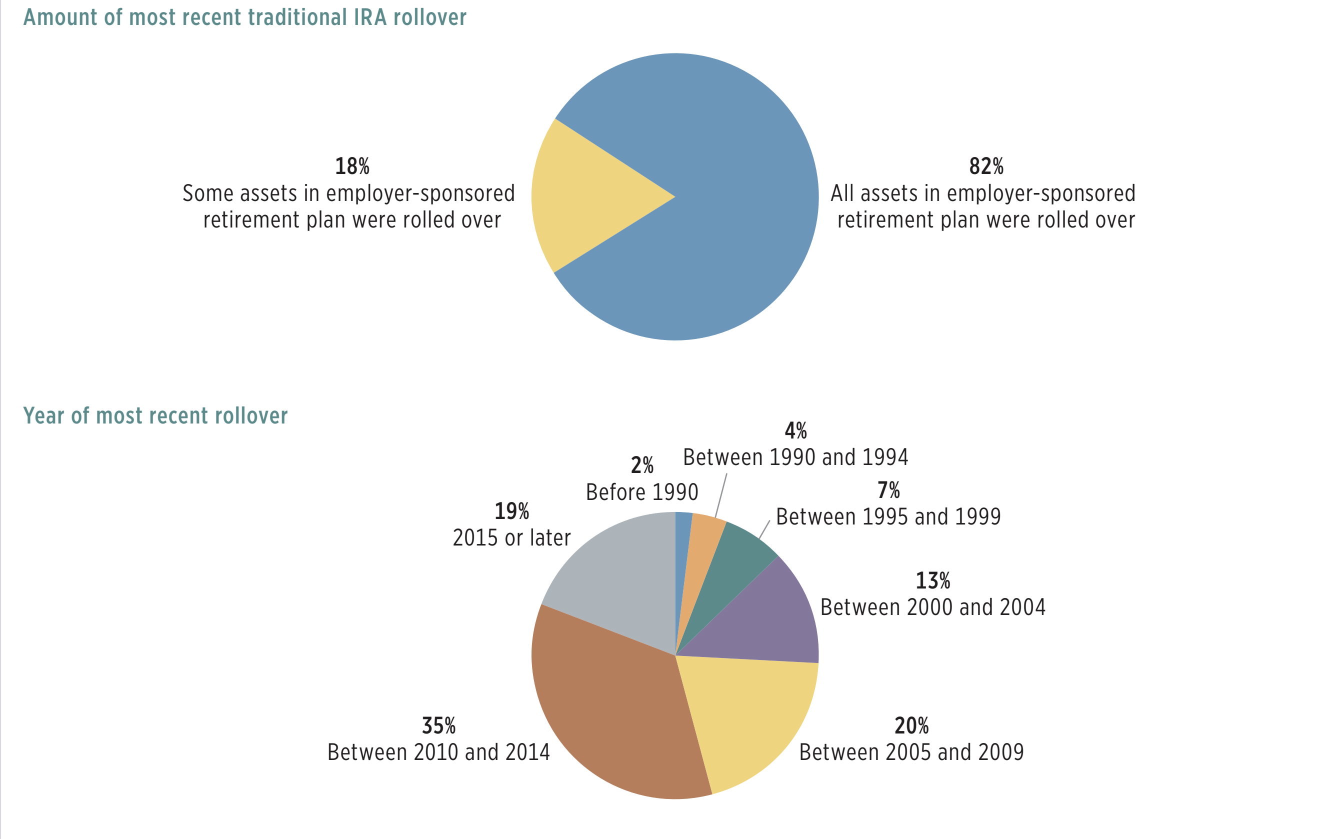
Households with traditional IRAs that include rollovers *Percentage of households owning traditional IRAs, 2016*	
Traditional IRA includes rollover	59
Traditional IRA does not include rollover	41
Traditional IRA rollover activity *Percentage of households owning traditional IRAs that include rollovers, 2016*	
Reason for traditional IRA rollover(s):*	
Job change, layoff, or termination	69
Retirement	36
Other	9
Contributions to traditional IRA other than rollover:	
Have made contribution other than rollover	48
Have never made contribution in addition to rollover	52
Percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans:	
Less than 25 percent	12
25 to 49 percent	13
50 to 74 percent	16
75 percent or more	59
Median percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans	80

* Multiple responses are included.
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, 2016



Note: Fifty-nine percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans (see Figure 12).

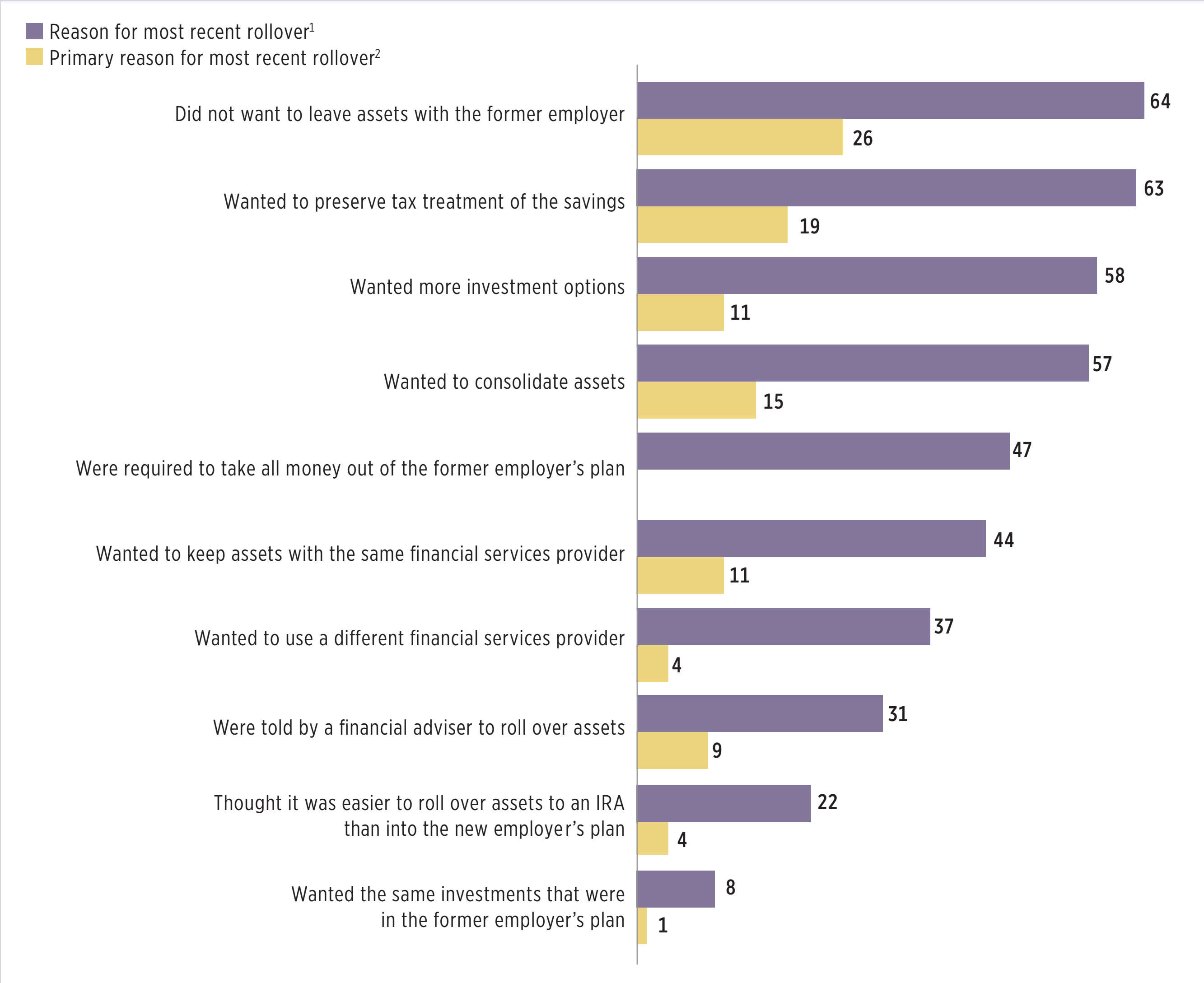
Source: Investment Company Institute IRA Owners Survey

Most traditional IRA–owning households with rollovers had multiple reasons for rolling over the accumulations from their employer-sponsored retirement plans to traditional IRAs (Figure 14).[24] For example, 64 percent did not want to leave assets with their former employer and 63 percent said they wanted to preserve the tax treatment of the savings. Fifty-eight percent rolled over to get more investment options. Fifty-seven percent of traditional IRA–owning households with rollovers indicated that consolidating assets was one of the reasons for the rollover. Forty-four percent kept their assets with the same financial services provider when they rolled over assets, and 37 percent rolled over to change financial services providers. Twenty-two percent thought it was easier to roll over to an IRA than into their new employer's plan. Forty-seven percent indicated they were required to take all of their money out of their former employer's plan.

FIGURE 14

Reasons for Most Recent Rollover

Percentage of households owning traditional IRAs that include rollovers, 2016



[1] Multiple responses are included for all responses except for respondents who were required to take the money out of their former employer's plan.

[2] Figure does not include the households owning traditional IRAs that include rollovers that were required to take the money out of their former employer's plan.

Source: Investment Company Institute IRA Owners Survey

When traditional IRA–owning households that chose to roll over were asked to identify the primary reason for the rollover, 26 percent said they did not want to leave the assets with their former employer and 19 percent wanted to preserve the tax treatment of the savings (Figure 14). Fifteen percent rolled over primarily to consolidate assets and 11 percent said they wanted more investment options. Four percent said the primary reason they rolled over was to use a different financial services firm, and 11 percent said the primary reason they rolled over was to use the same financial services firm. Nine percent indicated the primary reason they rolled the money over was that a professional financial adviser recommended it. Four percent indicated the primary reason they rolled their retirement plan accumulations over to a traditional IRA was because it was easier to roll over to an IRA than to their new employer's plan.

Traditional IRA–owning households generally researched the decision to roll over money from their former employer's retirement plan into a traditional IRA. Sixty-seven percent consulted multiple sources of information—the most common source of information was professional financial advisers, who were consulted by 60 percent of traditional IRA–owning households with rollovers (Figure 15, first panel). Thirty-five percent of traditional IRA–owning households with rollovers relied on information provided by their employers, with 29 percent of traditional IRA–owning households with rollovers using printed materials from their employers as a source of information. Forty-six percent of traditional IRA–owning households with rollovers relied on information provided by financial services firms, with 28 percent using printed materials provided by financial services firms. Twenty-four percent indicated they used online materials from financial services firms.

When asked to identify their primary source of information on the rollover decision, half of traditional IRA–owning households with rollovers indicated they primarily relied on professional financial advisers; older households were more likely to consult professional financial advisers than younger households (Figure 15, second panel). Nineteen percent of traditional IRA–owning households with rollovers indicated their primary source of information on the rollover decision was financial services firms. Seven percent of traditional IRA–owning households with rollovers indicated their primary source of information was online materials from these firms, with younger households more likely to rely on online resources than older households.

FIGURE 15

Sources of Information Consulted for Rollover Decision

Percentage of traditional IRA–owning households with rollovers, 2016

		Age of head of household[1]			
	All	Younger than 50	50 to 59	60 to 69	70 or older
Sources of information[2]					
Your spouse or partner	38	37	37	39	37
Coworker, friend, or family member	18	30	15	16	12
Your employer (printed or online materials, seminars, workshops)	35	37	33	36	35
Seminar or workshop sponsored by your employer	9	4	4	13	14
Printed materials provided by your employer	29	29	30	29	28
Online materials from your employer	17	19	14	21	11
Financial services firms (printed or online materials, seminars, workshops, phone representative)	46	46	44	47	49
Seminar or workshop sponsored by financial services firms	9	2	5	12	17
Printed materials provided by financial services firms	28	21	27	30	34
Online materials from financial services firms	24	29	25	23	16
Phone representative from a financial services firm	19	24	15	19	17
IRS rules or publications	29	23	29	30	35
Professional financial adviser	60	44	59	70	69
Other[3]	3	2	3	5	3

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FIGURE 15 CONTINUED

Sources of Information Consulted for Rollover Decision

Percentage of traditional IRA–owning households with rollovers, 2016

		Age of head of household[1]			
	All	Younger than 50	50 to 59	60 to 69	70 or older
Primary source of information					
Your spouse or partner	6	6	5	8	5
Coworker, friend, or family member	6	11	5	4	3
Your employer (printed or online materials, seminars, workshops)	10	13	9	11	8
Seminar or workshop sponsored by your employer	2	1	1	3	3
Printed materials provided by your employer	7	10	7	6	5
Online materials from your employer	1	2	1	2	(*)
Financial services firms (printed or online materials, seminars, workshops, phone representative)	19	25	20	13	13
Seminar or workshop sponsored by financial services firms	1	(*)	(*)	1	2
Printed materials provided by financial services firms	4	4	6	2	4
Online materials from financial services firms	7	13	6	5	2
Phone representative from a financial services firm	7	8	8	5	5
IRS rules or publications	6	6	9	4	9
Professional financial adviser	50	37	49	55	59
Other[3]	3	2	3	5	3
Number of respondents	*1,357*	*347*	*343*	*408*	*259*

[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.

[2] Multiple responses are included; 67 percent of traditional IRA–owning households with rollovers consulted multiple sources of information.

[3] Other responses given included: myself, other online information, bank, and books and magazines.

(*) = less than 0.5 percent

Source: Investment Company Institute IRA Owners Survey

In selecting the initial asset allocation of rollover assets in traditional IRAs, 19 percent of traditional IRA–owning households with rollovers indicated that their professional financial adviser selected the investments, and 41 percent indicated they worked together with a professional financial adviser to select the investments. Forty percent of traditional IRA–owning households with rollovers indicated that the household selected the investments without outside help.

Households with rollover assets in their traditional IRAs tend to have higher IRA balances, compared with IRAs funded purely by individual contributions. Median traditional IRA holdings that include rollovers were $100,000 in mid-2016, compared with median traditional IRA holdings of $30,000 for balances that did not include rollovers (Figure 16).[25]

FIGURE 16

Traditional IRAs Preserve Assets from Employer-Sponsored Retirement Plans

Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2016

	Traditional IRA includes rollover from employer-sponsored retirement plan[1]	Traditional IRA does not include rollover from employer-sponsored retirement plan[2]
Traditional IRA assets		
Mean	$217,900	$84,000
Median	$100,000	$30,000
Household financial assets[3]		
Mean	$484,700	$375,100
Median	$400,000	$260,000

[1] Fifty-nine percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans (see Figure 12).

[2] Forty-one percent of households owning traditional IRAs have traditional IRAs that do not include rollovers from employer-sponsored retirement plans (see Figure 12).

[3] Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.

Source: Investment Company Institute IRA Owners Survey

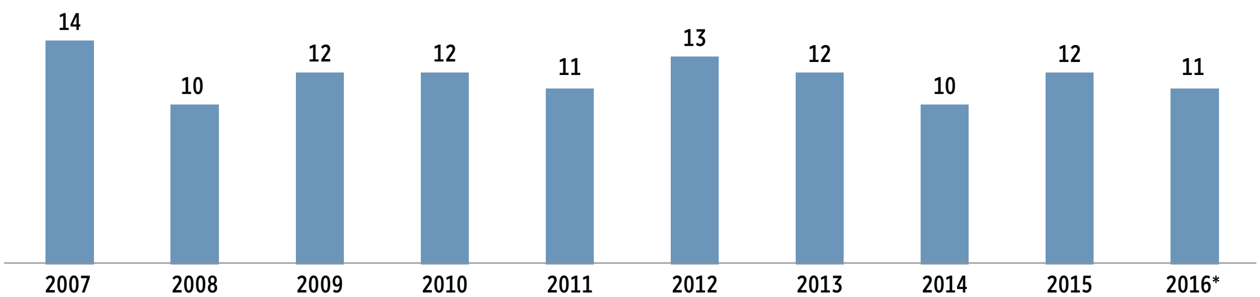
Few Households Make Contributions to IRAs

Although IRAs can help Americans build their retirement savings, the majority of US households do not contribute to them. In tax year 2015, only 11 percent of all US households made contributions to traditional IRAs or Roth IRAs, compared with 12 percent in tax year 2014 (Figure 17, top panel). Thirty-six percent of households owning traditional IRAs or Roth IRAs in mid-2016 made contributions in tax year 2015 (Figure 18), compared with 39 percent in tax year 2014 and 30 percent in tax year 2013.[26] Households may, depending on their eligibility, contribute to more than one type of IRA in each tax year. Among households making contributions to traditional IRAs or Roth IRAs in tax year 2015, 40 percent contributed to traditional IRAs only and half contributed to Roth IRAs only. The remaining 10 percent contributed to both traditional IRAs and Roth IRAs in tax year 2015 (Figure 17).

FIGURE 17

Few Households Contribute to Traditional or Roth IRAs

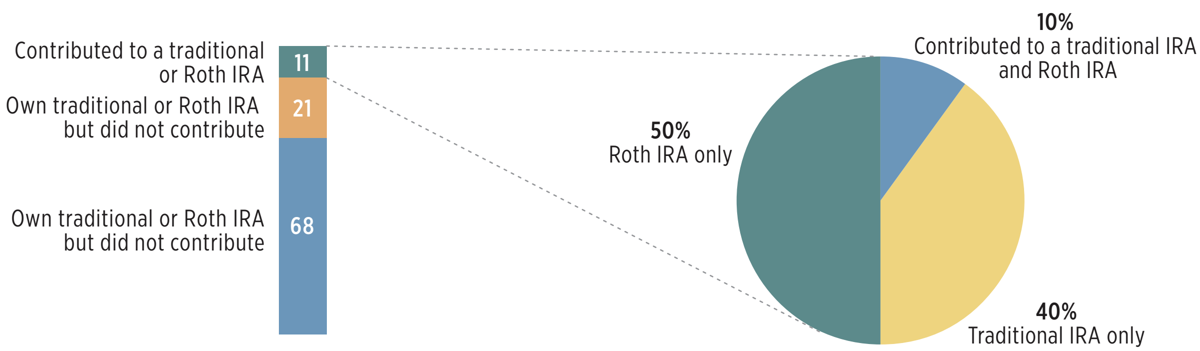
Percentage of all US households that contributed to traditional or Roth IRAs in the previous tax year, 2007–2016



Traditional or Roth IRA contribution activity in tax year 2015

Contributions to traditional or Roth IRAs in tax year 2015
Percentage of all US households, 2016

Type of IRA to which household contributed in tax year 2015
Percentage of US households contributing to traditional or Roth IRAs



* Starting in 2016, the ICI IRA Owners Survey was changed from a dual frame RDD telephone survey to a self-administered online survey on the KnowledgePanel®, a probability-based online panel administered by GfK. Please see the callout box on page 4 for a discussion of the revision to the survey methodology and the effect of that revision on the results.

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

Roth IRA Owners Are More Likely to Contribute

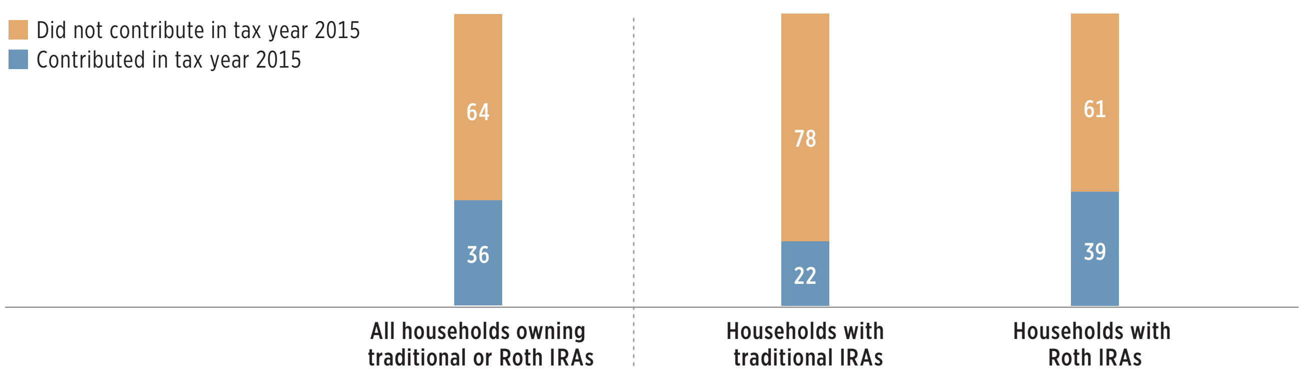
Traditional IRA owners were less likely than Roth IRA owners to have made contributions. Thirty-nine percent of households owning Roth IRAs in mid-2016 made contributions in tax year 2015 (Figure 18). In contrast, only 22 percent of traditional IRA–owning households in mid-2016 contributed to their traditional IRAs in tax year 2015.[27]

Several factors play a role in the lower contribution rate to traditional IRAs.[28] For example, restrictions on the tax deductibility of contributions[29] must be considered by traditional IRA–owning households that have retirement plan coverage at work.[30] In addition, 46 percent of traditional IRA–owning households in mid-2016 indicated that someone in the household was retired. Furthermore, some traditional IRA–owning households use traditional IRAs to preserve rollovers rather than as a contributory savings vehicle. And, some households may be able to meet their retirement savings needs through their retirement plans at work.[31] Nevertheless, other research finds that traditional IRA investors who make contributions tend to do so on a recurring basis.[32]

FIGURE 18

Contribution Activity to Roth IRAs Outpaces Contribution Activity to Traditional IRAs in Tax Year 2015

Percentage of US households owning each type of IRA in 2016 by contribution status in tax year 2015



	All households owning traditional or Roth IRAs	Households with traditional IRAs	Households with Roth IRAs
Median contribution per household to type of IRA indicated (among contributing households)	$5,000	$5,000	$4,800

Note: 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.

Source: Investment Company Institute IRA Owners Survey

In tax year 2015, the median household contribution to traditional IRAs was $5,000 (Figure 18), and the median household contribution to Roth IRAs was $4,800. In tax year 2015, the traditional and Roth IRA contribution limit was $5,500 for individuals younger than 50 (Figure 19).[33] Since tax year 2002, individuals aged 50 or older are eligible to make catch-up contributions to their IRAs.[34] Among households aged 50 or older, 36 percent owned traditional or Roth IRAs in mid-2016 (Figure 20). Of 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 5 percent of all US households aged 50 or older[35] reporting catch-up contributions to traditional or Roth IRAs.

FIGURE 19

Traditional and Roth IRA Contribution Limits Set by the Internal Revenue Code, 2001–2017

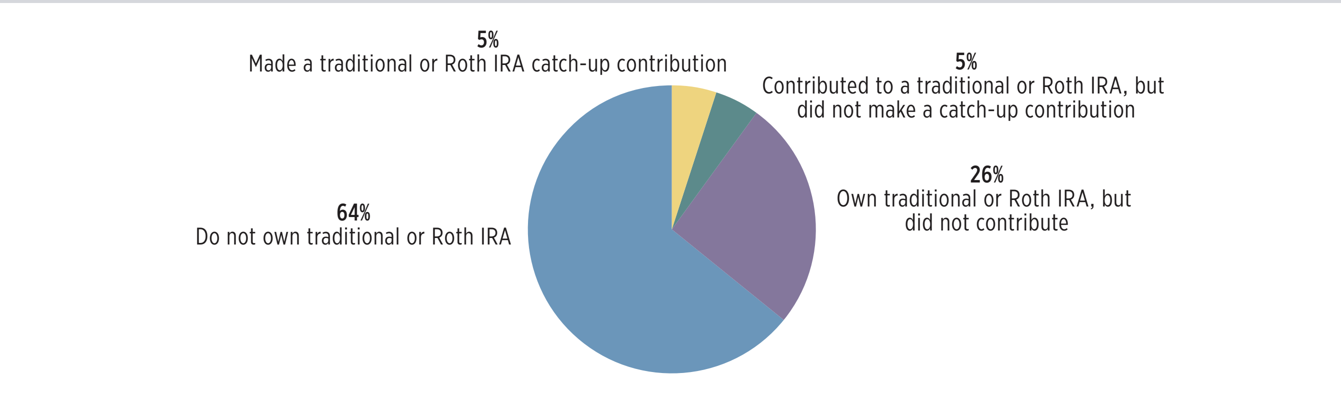
Note: After 2008, IRA contributions are indexed for inflation in $500 increments. IRA catch-up contributions are not indexed for inflation.

Source: ICI summary of US Internal Revenue Code

FIGURE 20

Traditional and Roth IRA Catch-Up Contributions Are Infrequent

Percentage of US households with individuals aged 50 or older in 2016 by contribution status in tax year 2015



Note: Catch-up contribution activity is identified if an individual's contribution is greater than the $5,500 limit in tax year 2015 or if they indicated their contribution included a catch-up contribution.

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 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).[36] 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). Households with inherited IRAs also generally are required to take distributions.

Twenty-five percent of households owning traditional IRAs in mid-2016 reported taking withdrawals from these IRAs in tax year 2015, compared with 22 percent in tax year 2014 (Figure 21).[37] In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009.[38] Withdrawal

FIGURE 21

Traditional IRA Withdrawal Activity

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

* Starting in 2016, the ICI IRA Owners Survey was changed from a dual frame RDD telephone survey to a self-administered online survey on the KnowledgePanel®, a probability-based online panel administered by GfK. Please see the callout box on page 4 for a discussion of the revision to the survey methodology and the effect of that revision on the results.

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

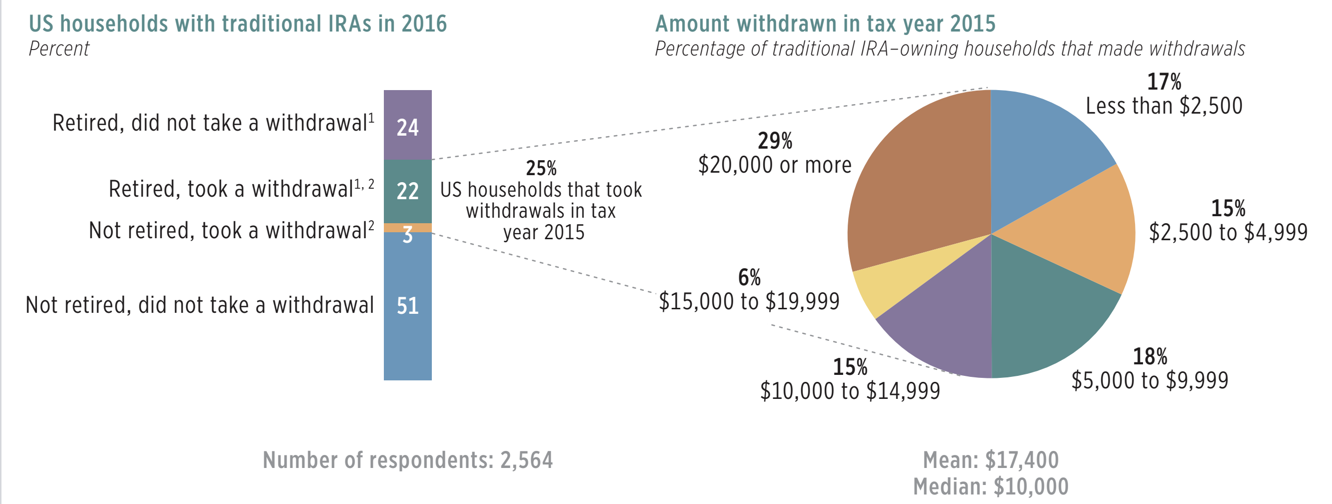
Source: Investment Company Institute IRA Owners Survey

activity among traditional IRA–owning households fell to lower levels in tax year 2009, likely due, to some extent, to the suspension of RMDs from traditional IRAs.[39] 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 2015, 88 percent reported that someone in the household was retired from their lifetime occupation (Figure 22). Nevertheless, 52 percent of retired households owning traditional IRAs in mid-2016 did not take withdrawals in tax year 2015.

Traditional IRA–owning households that made withdrawals generally took modest-sized amounts. Seventeen percent of traditional IRA–owning households making withdrawals in tax year 2015 took less than $2,500 from their IRAs, and another 15 percent withdrew between $2,500 and $4,999 (Figure 22). Although some withdrawals appear large in dollar amounts, a median of 6 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 make withdrawals than older households. Among traditional IRA–owning households in mid-2016 headed by individuals younger than 59, only 5 percent took withdrawals in tax year 2015 (Figure 23).[40] Twenty-one percent of households owning traditional IRAs and headed by an individual aged 59 to 69 in mid-2016 reported withdrawals in tax year 2015. Eighty-two percent of households owning traditional IRAs and headed by an individual aged 70 or older took withdrawals in tax year 2015.[41]

FIGURE 22

Withdrawals from Traditional IRAs Are Infrequent



[1] The household was considered retired if either the head of household or spouse responded affirmatively to the question: “Are you retired from your lifetime occupation?”

[2] Households that made a withdrawal exclude those that closed and no longer own traditional IRAs.

Source: Investment Company Institute IRA Owners Survey

FIGURE 23

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

Percentage of traditional IRA–owning households, 2007–2016

	Traditional IRA–owning households									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016[1]
Age of head of household[2] *Percentage of US households owning traditional IRAs*										
Younger than 59	64	62	63	62	58	61	61	60	54	51
59 to 69	20	22	20	22	25	23	22	23	27	29
70 or older	16	16	17	16	17	16	17	17	19	20
Traditional IRA withdrawal activity by age[2] *Percentage of US households owning traditional IRAs*										
Younger than 59, did not take a withdrawal	61	59	60	59	54	56	56	56	50	48
Younger than 59, took a withdrawal	3	4	3	3	5	5	5	4	5	3
Aged 59 to 69, did not take a withdrawal	15	17	16	18	20	19	18	18	22	23
Aged 59 to 69, took a withdrawal	6	5	4	4	5	4	4	5	5	6
Aged 70 or older, did not take a withdrawal	6	4	5	7	5	4	5	6	6	4
Aged 70 or older, took a withdrawal	9	11	12	9	13	12	12	11	12	16
Memo:										
Percentage of traditional IRA–owning households with withdrawals	18	20	19	15	22	21	21	20	22	25
Incidence of withdrawal activity by age[2] *Percentage of traditional IRA–owning households by age[2]*										
Younger than 59	4	6	5	5	8	7	8	7	9	5
59 to 69	27	24	19	17	19	17	19	20	18	21
70 or older	59	73	70	53	72	74	70	67	66	82
Age composition of households with withdrawals* *Percentage of traditional IRA–owning households with withdrawals*										
Younger than 59	16	18	16	20	22	22	22	20	22	11
59 to 69	31	26	20	25	21	19	21	23	22	24
70 or older	53	56	64	55	57	59	57	57	56	65

[1] Starting in 2016, the ICI IRA Owners Survey was changed from a dual frame RDD telephone survey to a self-administered online survey on the KnowledgePanel®, a probability-based online panel administered by GfK. Please see the callout box on page 4 for a discussion of the revision to the survey methodology and the effect of that revision on the results.

[2] 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 2016, the figure reports withdrawal activity for tax year 2015.

Source: Investment Company Institute IRA Owners Survey

Typically, withdrawals from traditional IRAs were taken to fulfill RMDs. Seventy-one percent of households owning traditional IRAs in mid-2016 and making withdrawals in tax year 2015 calculated their withdrawal amount based on the RMD, compared with 61 percent in tax year 2014 (Figure 24). Another 14 percent of traditional IRA–owning households taking withdrawals reported they withdrew lump sums based on needs in tax year 2015, compared with 24 percent in tax year 2014. In tax year 2015, 11 percent reported a scheduled withdrawal amount, either as a percentage of the account or a regular dollar amount, the same share that reported a scheduled withdrawal amount in tax year 2014.

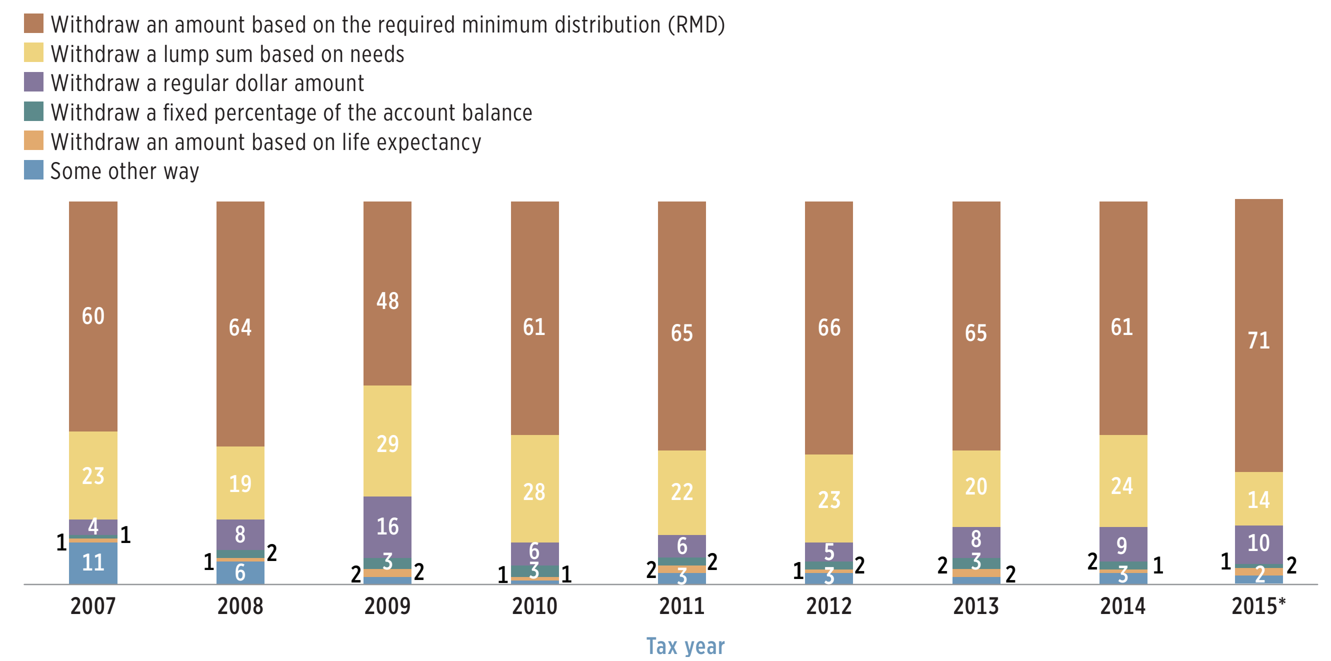
Reflecting the rules governing distributions from traditional IRAs, households headed by individuals aged 70 or older were much more likely to cite RMDs as the way they calculated their withdrawal amounts,[42] while younger households were much more likely to take lump-sum withdrawals based on needs. Among traditional IRA–owning households in mid-2016 with a head of household aged 70 or older and taking a withdrawal in tax year 2015, 91 percent indicated their withdrawal was based on the RMD rules—only 2 percent took lump sums based on needs (Figure 25). In contrast, among withdrawing households younger than age 70, 36 percent took lump sums based on needs.

Traditional IRA–owning households that took withdrawals in tax year 2015 usually consulted outside sources to determine the amount of the withdrawal. Sixty-six percent consulted a professional financial adviser to determine the amount to withdraw in tax year 2015 (Figure 26). Thirty-two percent consulted Internal Revenue Service (IRS) rules or publications.

FIGURE 24

How Traditional IRA Withdrawals Are Determined

Percentage of traditional IRA–owning households with withdrawals in tax years 2007–2015



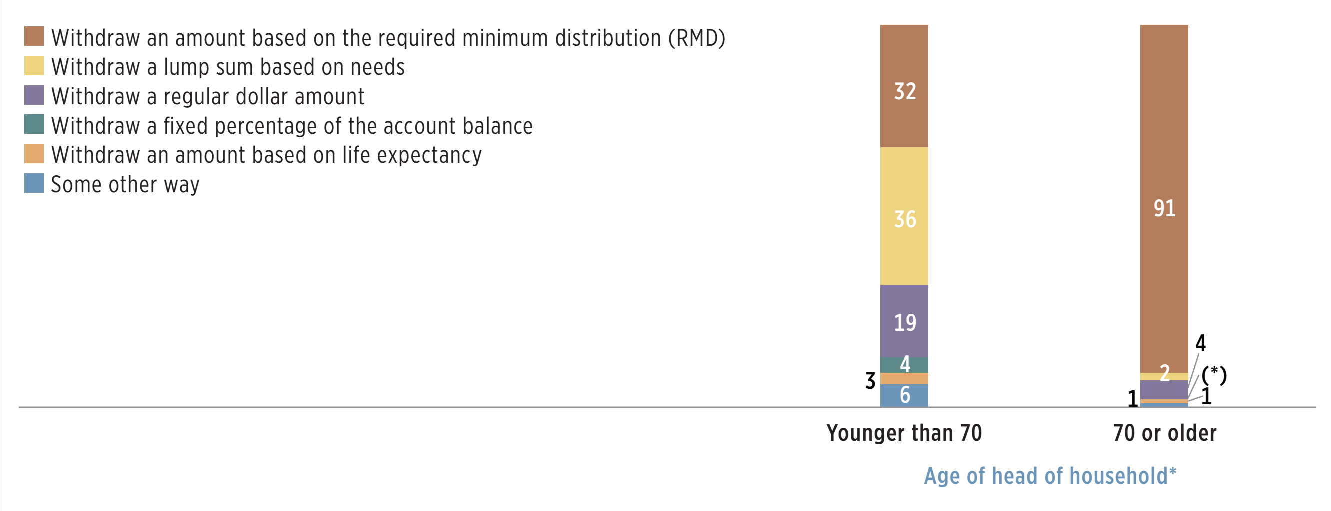
* Starting in 2016, the ICI IRA Owners Survey was changed from a dual frame RDD telephone survey to a self-administered online survey on the KnowledgePanel®, a probability-based online panel administered by GfK. Please see the callout box on page 4 for a discussion of the revision to the survey methodology and the effect of that revision on the results.

Source: Investment Company Institute IRA Owners Survey

FIGURE 25

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

Percentage of traditional IRA–owning households with withdrawals in tax year 2015

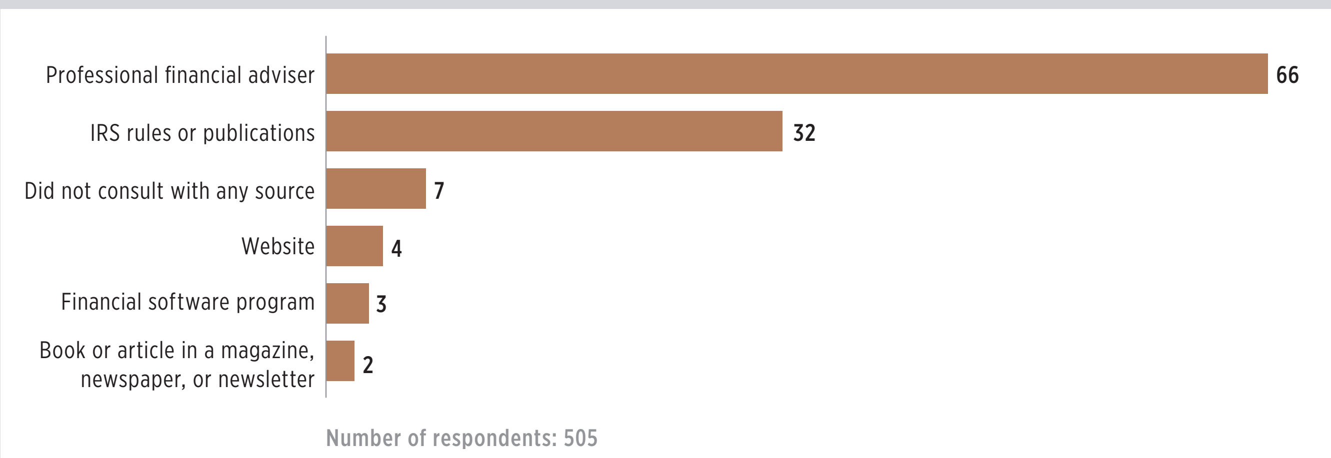


* Age is based on the age of the sole or co-decisionmaker for household saving and investing.
(*) = less than 0.5 percent
Source: Investment Company Institute IRA Owners Survey

FIGURE 26

Most Households Consult a Professional Financial Adviser to Determine the Amount of Traditional IRA Withdrawals

Percentage of traditional IRA–owning households that made withdrawals in tax year 2015



Note: Multiple responses are included.
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 in which either the head of household or spouse was retired, 45 percent reported using traditional IRA withdrawals to pay for living expenses (Figure 27). Forty-two percent of retired households that took traditional IRA withdrawals in tax year 2015 reinvested or saved the withdrawal amount into another account.[43] Sixteen percent reported using their withdrawals for home purchase, repair, or remodeling, and 9 percent reported using their withdrawals for healthcare expenses. Six percent used their withdrawals for emergencies.

FIGURE 27

Traditional IRA Withdrawals Often Are Used to Pay for Living Expenses

Percentage of withdrawing traditional IRA–owning households[1] in which either the head of household or spouse is retired,[2] 2016

Purpose of traditional IRA withdrawal in retirement[3]	
Took withdrawals to pay for living expenses	45
Spent it on a car, boat, or big-ticket item other than a home	6
Spent it on a healthcare expense	9
Used it for an emergency	6
Used it for home purchase, repair, or remodeling	16
Reinvested or saved it in another account	42
Paid for education	1
Some other purpose	10
Number of respondents	*535*

[1] The base of respondents includes the 22 percent of traditional IRA–owning households that were retired and took withdrawals reported in Figure 22.

[2] The household was considered retired if either the head of household or spouse responded affirmatively to the question: "Are you retired from your lifetime occupation?"

[3] Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

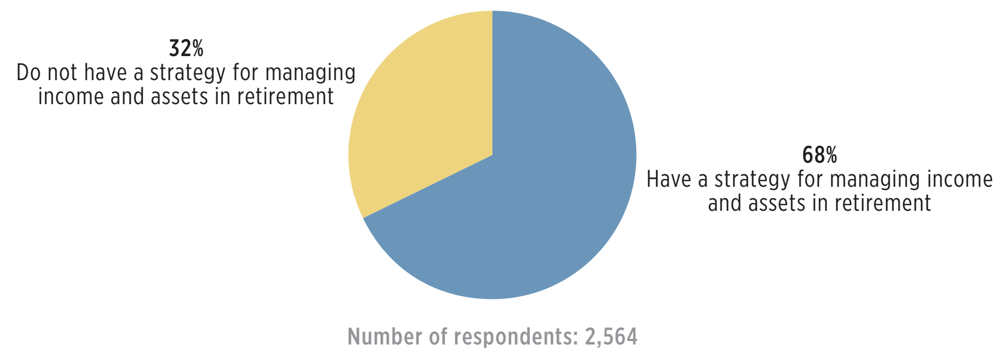
Most Traditional IRA Owners Have a Planned Retirement Strategy

Sixty-eight percent of traditional IRA–owning households in mid-2016 said they have a strategy for managing income and assets in retirement (Figure 28). These households typically seek advice when building their retirement income strategy. Seventy-six percent of traditional IRA–owning households with a strategy consulted a professional financial adviser when creating the strategy (Figure 29). Twenty-six percent used a website to help create their retirement income and asset management strategy, and 24 percent consulted with friends or family. Twenty-three percent consulted written materials (e.g., a book or article in a magazine or newspaper). Ten percent of households with a strategy used a financial software package to build their retirement income and asset management strategy.

FIGURE 28

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

Percentage of traditional IRA–owning households, 2016

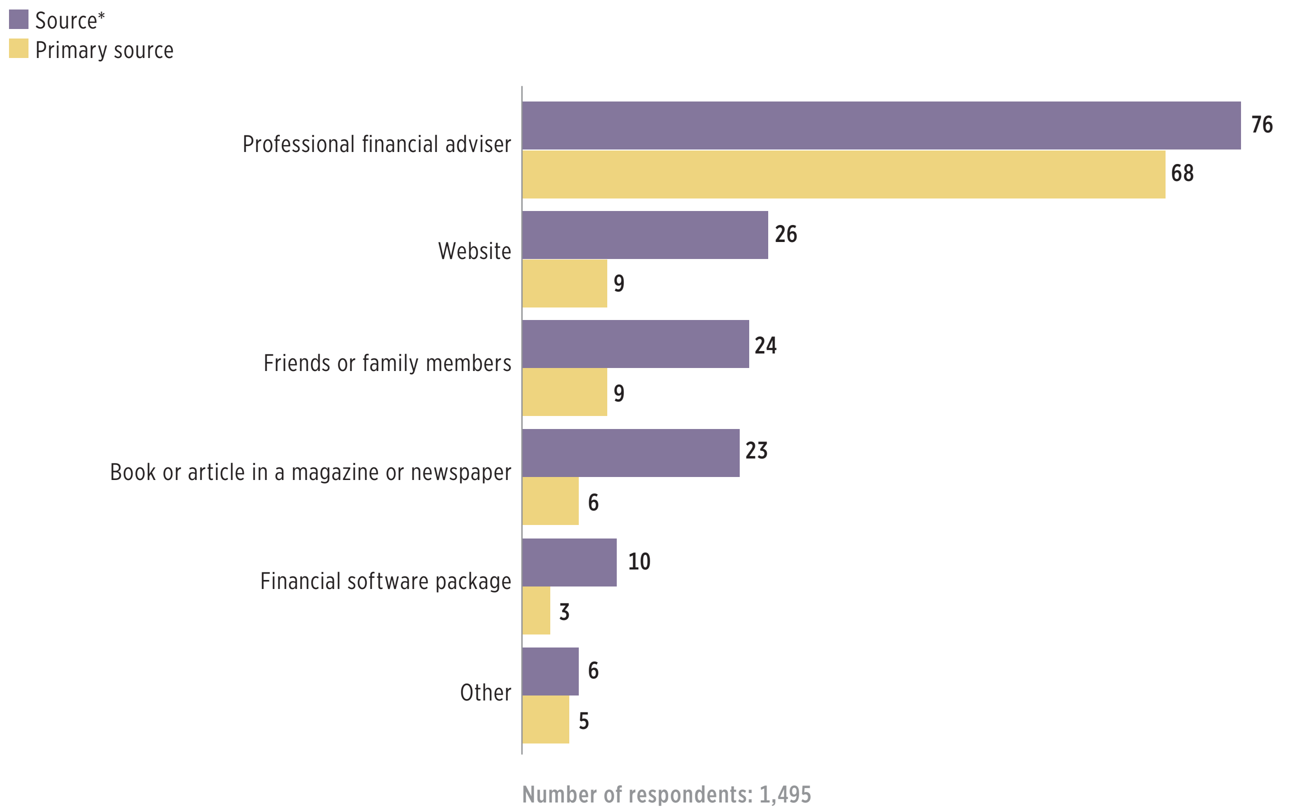


Source: Investment Company Institute IRA Owners Survey

FIGURE 29

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, 2016



* Multiple responses are included.
Source: Investment Company Institute IRA Owners Survey

Traditional IRA–owning households with a strategy for managing their income and assets in retirement reported that their strategy had multiple components. Seventy-one percent of these households reviewed their asset allocation and 68 percent developed a retirement income plan as part of their strategy (Figure 30). Sixty-seven percent of households with a strategy for managing their income and assets in retirement determined their retirement expenses. Fifty-seven percent set aside emergency funds, and half reviewed their insurance policies. Fifty-six percent 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. Sixty-one percent of traditional IRA–owning households with a strategy took three or more steps in developing their strategy.

FIGURE 30

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, 2016

		Age of head of household*			
	All	Younger than 35	35 to 49	50 to 64	65 or older
Review asset allocation	71	68	71	74	69
Develop a retirement income plan	68	58	68	73	64
Determine your retirement expenses	67	62	57	71	67
Set aside emergency funds	57	61	58	62	50
Determine when to take Social Security benefits	56	34	43	66	56
Review your insurance policies	50	51	54	55	43
Other	3	2	1	3	4
Number of respondents	*1,616*	*104*	*290*	*634*	*588*

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

Note: Multiple responses are included; 61 percent of traditional IRA–owning households that indicated they have a strategy for managing income and assets in retirement took three or more steps in developing their strategy.

Source: Investment Company Institute IRA Owners Survey

Additional Reading

- **"The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2014,"** *ICI Research Report*. This report uses information collected in The IRA Investor Database™ to provide insight into contributions, rollovers, withdrawals, asset allocation, and account balances of more than 11 million traditional IRA investors in 2014. Available at www.ici.org/pdf/rpt_16_ira_traditional.pdf.
- **"The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2014,"** *ICI Research Report*. Information collected in The IRA Investor Database™ enables this report to analyze the contributions, conversions, rollovers, withdrawals, asset allocation, and account balances of more than 5 million Roth IRA investors in 2014. Available at www.ici.org/pdf/rpt_16_ira_roth.pdf.
- **"The Evolving Role of IRAs in US 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 US households and highlights the significant role that IRAs play in retirement and retirement planning. Available at www.idc.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.
- **"The US Retirement Market, Third Quarter 2016."** This quarterly release updates aggregate assets in retirement plans, IRAs, and annuities. Available at www.ici.org/info/ret_16_q3_data.xls.
- **Individual Retirement Account Resource Center**. Available at www.ici.org/iraresource.

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 2016, the catch-up limit was $1,000 for IRAs, $3,000 for SIMPLE plans, and $6,000 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 2016, the annual employee contribution limit for 401(k)s and similar employer-sponsored retirement plans was $18,000; the annual limit for traditional and Roth IRAs was $5,500; and the annual limit for SIMPLE IRAs was $12,500. The limit on the sum of employee and employer contributions for DC plans in 2016 was $53,000. Individuals aged 50 or older may make additional catch-up contributions.

conversion. The movement of assets in a traditional IRA to a Roth IRA, 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 also may 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 in which 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, as well as earnings and losses on those contributions.

distribution. Individuals may take distributions (that is, withdraw funds) from their IRAs before 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 is 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 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 complement the employer-sponsored retirement system by preserving rollover assets at job separation or retirement. The acronym *IRA* also refers 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. First available in 1998, this type of individual retirement account only permits after-tax (nondeductible) contributions. Distributions of both principal and earnings generally are 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. Distributions are not required during the account holder's lifetime.

SEP IRA (simplified employee pension). A retirement program in which an employer makes contributions to 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 an IRA. When Congress created the SIMPLE IRA in 1996, it provided that an employer could not establish a new SAR-SEP plan after 1996.

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.

traditional IRA. The first type of IRA, which was 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

[1] See Investment Company Institute 2016. Key terms related to IRAs and retirement savings are presented in the glossary of this report (pages 33–34). For additional information and the rules governing IRAs, see Internal Revenue Service 2016a and 2016b.

[2] Households' total financial assets were $72.0 trillion as of June 2016 and $24.3 trillion at year-end 1996. See US Federal Reserve Board 2016b.

[3] 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 from May to July 2016. This survey was based on a dual frame random digit dial (RDD) telephone sample and included 5,500 representative US households. The standard error for the total sample is ±1.3 percentage points at the 95 percent confidence level. For further discussion and additional results from this survey, see Holden, Schrass, and Bogdan 2016a and 2016b.

The demographic and financial characteristics of IRA owners are derived from a separate IRA Owners Survey of 3,205 representative US households owning traditional IRAs or Roth IRAs. The 2016 IRA Owners Survey was conducted using the KnowledgePanel®, a probability-based online panel designed to be representative of the US population. The Federal Reserve also has used the KnowledgePanel®; see US Federal Reserve Board 2016a. The standard error for the total sample is ±1.7 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) or Coverdell Education Savings Accounts (formerly called education IRAs).

The incidence of IRA ownership is calculated from the ICI Annual Mutual Fund Shareholder Tracking Survey, which collects information on retirement and other investment account ownership among US households headed by individuals aged 18 or older. Starting in 2013, the order of the account type choices in the question regarding ownership of retirement and other savings accounts was changed. This change was made to avoid confusion between individual accounts in 401(k) and other employer-sponsored DC plan accounts versus IRAs. Beginning in 2013, respondents were asked if they own a 401(k) and other employer-sponsored DC retirement plans, then if they own a traditional IRA or a Roth IRA, then if they own an employer-sponsored IRA, and finally, if they own a 529 plan or Coverdell Education Savings Account (ESA). In prior years, respondents were asked first if they own a traditional IRA or Roth IRA, then if they own a Coverdell ESA, then if they own an employer-sponsored IRA, and finally, if they own a 401(k) or other employer-sponsored plan account (529 plan ownership was a separate question). In 2014, 2015, and 2016, the incidence of IRA ownership is lower than in previous years, possibly due to the reordering of questions regarding retirement and other savings accounts in the questionnaire (introduced in 2013), as well as a sampling and weighting methodology change introduced in 2014. See Figure A1 in the appendix for the complete time series on IRA incidence. See Holden, Schrass, and Bogdan 2016a for details on the changes to the ICI Annual Mutual Fund Shareholder Tracking Survey.

[4] See note 3 for a discussion of changes in IRA incidence in ICI's surveys. The ICI Annual Mutual Fund Shareholder Tracking Survey results in higher incidence of IRA ownership than the Federal Reserve Board's Survey of Consumer Finances. For example, ICI tabulations of the 2013 Survey of Consumer Finances indicate that 22.2 percent of US households owned traditional IRAs and 10.5 percent of US households owned Roth IRAs. The ICI Annual Mutual Fund Shareholder Tracking Survey finds that 29.4 percent of US households in 2013, 25.3 percent in 2014, 24.4 percent in 2015, and 25.5 percent in 2016 owned traditional IRAs; in addition, 15.6 percent of US households in 2013, 15.6 percent in 2014, 16.3 percent in 2015, and 17.4 percent in 2016 owned Roth IRAs (see Figure A1 in the appendix). For a description of the Survey of Consumer Finances, see Bricker et al. 2014.

[5] See Figures 12–16 for additional information on rollover activities and Figure A15 in the appendix for additional information on traditional IRA–owning households with rollovers.

[6] The ability to contribute to Roth IRAs is restricted based on household income. Before 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 2016a. It is possible that Roth IRA ownership is not more widespread because income limits restrict the ability of many US households to invest in Roth IRAs.

[7] See Brady and Bogdan 2014 and Brady, Burham, and Holden 2012 for discussion of the life-cycle model and household survey results regardåing savings goals.

[8] See Sabelhaus and Schrass 2009.

[9] For example, the first-year replacement rate (mean scheduled Social Security first-year benefits as a percentage of average inflation-indexed career earnings for retired workers in the 1960–1969 birth cohort [individuals aged 47 to 56 in 2016]) decreased as income increased. The mean replacement rate for the lowest lifetime household earnings quintile was 83 percent; for the middle quintile, the mean Social Security replacement rate was 54 percent; and for the highest quintile, it was 34 percent. See Congressional Budget Office 2016a and 2016b. For additional discussion, see Brady and Bogdan 2014 and Brady, Burham, and Holden 2012.

[10] For discussion of retirement saving by different income groups, see Brady and Bogdan 2014; Holden, Schrass, and Bogdan 2016a; and Sabelhaus, Bogdan, and Schrass 2008.

[11] 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 2014; Brady, Burham, and Holden 2012; and Sabelhaus, Bogdan, and Schrass 2008.

[12] Willingness to take investment risk among IRA-owning households was similar to that among mutual fund–owning households. Among households owning mutual funds, 33 percent were willing to take substantial or above-average investment risk for similar levels of gain in 2016; see Holden, Schrass, and Bogdan 2016a.

[13] For earlier years of data ranging from 1989 through 2004, see Figure 8 in Holden and Schrass 2013.

[14] This is a pattern of risk tolerance observed in other types of investors. For example, see Sabelhaus, Bogdan, and Schrass 2008 and Schrass and Bogdan 2017, forthcoming.

[15] 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. With the exception of the youngest traditional IRA investors (who tend to have small accounts), younger traditional IRA investors tended to have higher allocations to equity investments compared with older traditional IRA investors. See Holden and Bass 2011 and 2016.

[16] For earlier years of data ranging from 1989 through 2004, see Figure 10 in Holden and Schrass 2013.

[17] See Holden et al. 2016a and 2016b.

[18] 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 US retirement planning, see Sabelhaus and Schrass 2009.

[19] Before 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 2016a.

[20] 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. For distribution activity from DC plans administered by The Vanguard Group, see Utkus and Young 2016.

[21] See Internal Revenue Service, Statistics of Income Division 2016. For historical data, see Investment Company Institute 2016.

[22] Tabulations of the Federal Reserve Board's 2013 Survey of Consumer Finances data find that 46 percent of traditional IRA–owning households had rollovers in their IRAs in 2013, compared with 49 percent of traditional IRA–owning households in ICI's 2013 IRA Owners Survey (see Holden and Schrass 2013). For a description of the Survey of Consumer Finances, see Bricker et al. 2014.

[23] In the case of a DC plan, this amount is the account balance. For 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.

[24] 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 the relevant information to IRA owners at the outset and on an ongoing basis. 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 and Holden and Chism 2014.

[25] For more information on rollovers among traditional IRA investors, see Holden, Sabelhaus, and Bass 2010b and Holden and Bass 2016.

[26] These results are from the 2014 and 2015 ICI IRA Owners Surveys.

[27] Although it is difficult to compare household-level data and individual-level data, the IRA Owners Survey finds higher rates of contribution activity than The IRA Investor Database finds among individual IRA investors. Analysis of 9.3 million traditional IRA investors aged 25 to 69 in 2014 finds that 8.9 percent of them contributed to their traditional IRAs in tax year 2014 (see Holden and Bass 2016). Contribution activity in Roth IRAs was also higher in the IRA Owners Survey. The IRA Investor Database finds that among 5.4 million Roth IRA investors aged 18 or older in 2014, 31.8 percent contributed to their Roth IRAs in tax year 2014 (see Holden and Schrass 2016).

[28] ICI's 2013 IRA Owners Survey asked traditional IRA–owning households without contributions the reasons why they did not contribute. See Figure 19 in Holden and Schrass 2013 for those results.

[29] For traditional IRA contribution eligibility rules, see Internal Revenue Service 2016a.

[30] For ownership of DC accounts and access to DB plans among traditional IRA–owning households, see Figure A13 in the appendix.

[31] Among traditional IRA–owning households in 2013 that did not make contributions to their traditional IRAs in tax year 2012, 37 percent indicated they were able to save enough in their retirement plans at work. See Holden and Schrass 2013.

[32] For an analysis of the persistence of traditional IRA contribution activity, see Holden, Sabelhaus, and Bass 2010a and Holden and Bass 2016.

[33] See Internal Revenue Service 2016a for details on income restrictions and other qualifications for contribution eligibility.

[34] 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 may make catch-up contributions to Roth IRAs if their incomes are within the limits to contribute to a Roth IRA and if a household member is aged 50 or older. Households may make catch-up contributions to traditional IRAs if 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 2016a.

[35] US households aged 50 or older include households ineligible to make deductible contributions to traditional IRAs.

[36] 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 Internal Revenue Service 2016b; Mortenson, Schramm, and Whitten 2016; Poterba, Venti, and Wise 2013; and Holden and Reid 2008.

[37] Data exclude households that closed and no longer owned traditional IRAs.

[38] 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.

[39] For analysis of withdrawal activity from 2008 through 2014 among a consistent group of 4.9 million traditional IRA investors (those with accounts between year-end 2007 and year-end 2014), see Holden and Bass 2016.

[40] The withdrawal activity observed in ICI's IRA Owners Survey shows similar results compared with data reported by the IRS based on tabulations of individual taxpayers' information returns. Data reported in Bryant and Gober 2013 indicate that among all IRA-owning taxpayers in 2010, 25 percent took a withdrawal. Incidence of withdrawal activity indicated that 10 percent of IRA-owning taxpayers aged 25 to 59 took withdrawals in 2010; 24 percent of IRA-owning taxpayers aged 60 to 69 took withdrawals; and 84 percent of IRA-owning taxpayers aged 70 or older took withdrawals. The withdrawal activity observed in ICI's IRA Owners Survey shows similar results compared with data reported in The IRA Investor Database. In 2014, 9.2 percent of traditional IRA investors younger than 60 had withdrawals in 2014, 21.5 percent of traditional IRA investors aged 60 to 69 had withdrawals, and 80.2 percent of traditional IRA investors aged 70 or older had withdrawals (see Holden and Bass 2016).

[41] Withdrawal activity among households with a head of household aged 70 or older is not 100 percent because the traditional IRA owner may be a younger spouse or partner who is not yet required to make withdrawals. The IRA Investor Database finds that among 1.7 million traditional IRA investors aged 70 or older in 2014, 80.2 percent of them took a withdrawal from their traditional IRAs in tax year 2014 (see Holden and Bass 2016). In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009 (see note 38).

[42] Analysis of 0.9 million traditional IRA investors aged 70 or older who took withdrawals in 2014 in The IRA Investor Database finds that 56.6 percent took the RMD required for the individual, 1.2 percent took a joint RMD, and 0.2 percent took the inherited RMD amount. See Holden and Bass 2016.

[43] Among the 42 percent of households that reported reinvesting or saving the amount of the traditional IRA withdrawal into another account (Figure 27), 92 percent reported withdrawing the amount based on the RMD.

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