

# Ten Important Facts About Roth IRAs

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# Ten Important Facts About Roth IRAs

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## ***Individual Retirement Accounts (IRAs)***

Individual retirement accounts (IRAs), created in 1974 by the Employee Retirement Income Security Act (ERISA), have helped millions of US households save for retirement. Congress originally designed traditional IRAs to give individuals not covered by retirement plans at work a tax-advantaged savings plan, and to play a complementary role to the employer-sponsored retirement system by preserving rollover assets at job change or retirement. Since then, policymakers have changed rules surrounding IRAs and introduced new types of IRAs, such as the Roth IRA, which was created by the Taxpayer Relief Act of 1997.

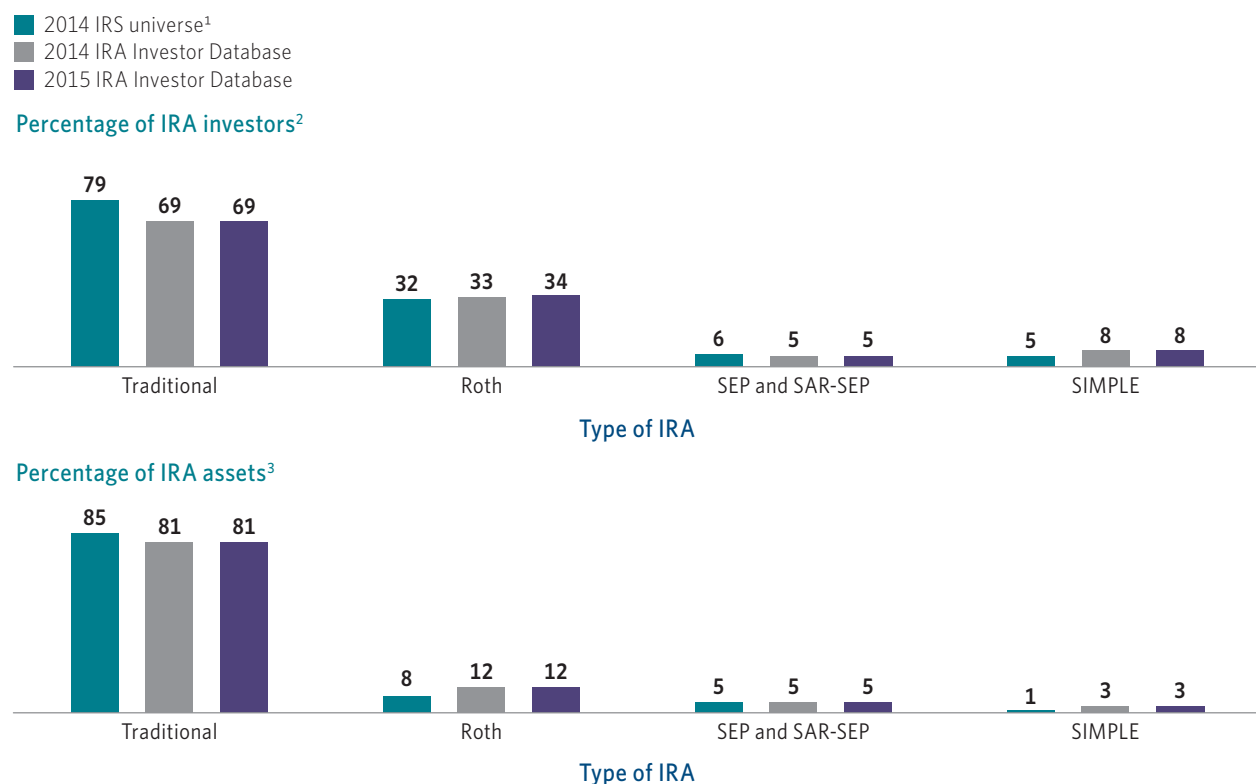
# 1. About one-third of IRA investors have Roth IRAs.

Americans held \$7.9 trillion in individual retirement accounts (IRAs) at year-end 2016, with Roth IRAs accounting for \$660 billion of that total. Forty-seven percent of IRA assets, or \$3.7 trillion, were invested in mutual funds. The most common type of IRA is the traditional IRA, which was created by the Employee Retirement Income Security Act of 1974 (ERISA). The second most common type is the Roth IRA, created by the Taxpayer Relief Act of 1997. Forty percent of Roth IRA-owning households in 2016 indicated their Roth IRA was the first type of IRA they opened. Households often invest in both traditional and Roth IRAs—64 percent of Roth IRA-owning households in 2016 also owned traditional IRAs. Sixty-nine percent of IRA investors in 2015 owned traditional IRAs and 34 percent owned Roth IRAs. About 13 percent of IRA investors had employer-sponsored IRAs.

FIGURE 1

## About One-Third of IRA Investors Have Roth IRAs

Distribution of IRA investors and assets, percentage of total, year-end 2014 and year-end 2015



<sup>1</sup> In the IRS universe, data are for IRA investors of all ages.

<sup>2</sup> These percentages add to more than 100 percent because investors may own more than one type of IRA.

<sup>3</sup> These percentages do not add to 100 percent because of rounding.

Note: The 2014 IRS universe includes 57.3 million IRA investors with \$7,292 billion in assets at year-end 2014. The 2014 IRA Investor Database includes 16.3 million IRA investors with \$1,543 billion in assets at year-end 2014. The 2015 IRA Investor Database includes 16.9 million IRA investors with \$1,591 billion in assets at year-end 2015.

Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division; see Figure A.2 in “The IRA Investor Profile: Roth IRA Investors’ Activity, 2007–2015,” *ICI Research Report* (June 2017)

## 2. More than three in 10 Roth IRA investors are younger than 40.

People of all ages own IRAs, but Roth IRA investors tend to be younger than traditional IRA investors. At year-end 2015, 31 percent of Roth IRA investors were younger than 40, compared with only 16 percent of traditional IRA investors. Twenty-five percent of Roth IRA investors were 60 or older, compared with 40 percent of traditional IRA investors. This age pattern reflects the different key role of Roth IRAs, which tend to be opened by contributions, versus traditional IRAs, which tend to be opened with rollovers—an activity that tends to occur later in one’s career or at retirement.

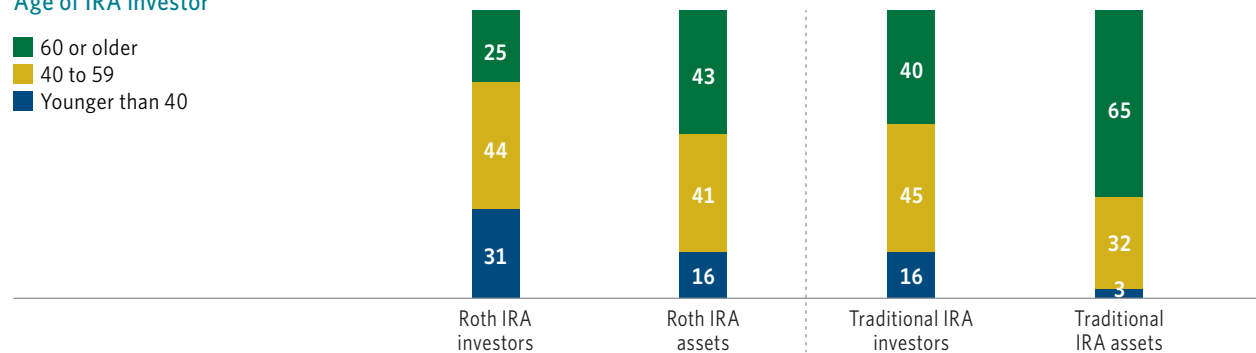
FIGURE 2

### More Than Three in 10 Roth IRA Investors Are Younger Than 40

Percentage of total, year-end 2015

#### Age of IRA investor

- 60 or older
- 40 to 59
- Younger than 40



Note: The sample is 5.7 million Roth IRA investors aged 18 or older holding \$236.8 billion in Roth IRA assets at year-end 2015 and 11.5 million traditional IRA investors aged 18 or older holding \$1,492 billion in traditional IRA assets at year-end 2015. Components may not add to 100 percent because of rounding.

Source: The IRA Investor Database™; see Figure A.3 in “The IRA Investor Profile: Roth IRA Investors’ Activity, 2007-2015,” *ICI Research Report* (June 2017)

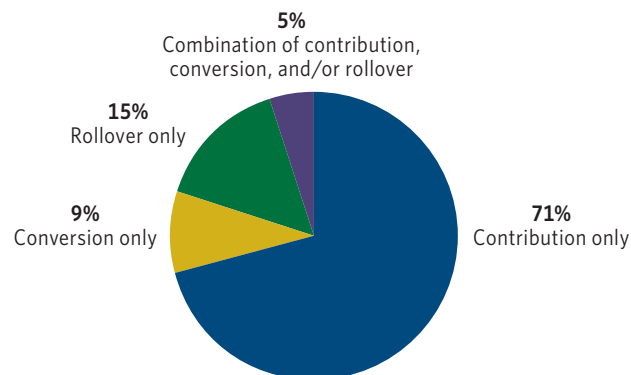
### 3. Roth IRAs are most commonly opened with contributions.

Roth IRAs can be opened with contributions (subject to income limits), conversions (subject to income limits before 2010), or rollovers (allowed directly from non-Roth employer-sponsored retirement plan accounts since 2008, although subject to income limits before 2010; and allowed directly from designated Roth accounts in employer-sponsored retirement plans since 2006, the first year they were available). In a typical year, the most common path to Roth IRA ownership is through contributions. In tax year 2015, 71 percent of new Roth IRAs were opened only with contributions. In contrast, 9 percent were opened only with conversions, and 15 percent were opened only with rollovers.

FIGURE 3

#### Roth IRAs Are Most Commonly Opened with Contributions

Percentage of new Roth IRAs, 2015



Note: New Roth IRAs are accounts that did not exist in The IRA Investor Database in 2014 and were opened in 2015 by one of the paths indicated. The calculation excludes Roth IRAs that changed financial services firms. The sample is 0.4 million new Roth IRA investors aged 18 or older at year-end 2015.

Source: The IRA Investor Database™; see Figure E.2 in "The IRA Investor Profile: Roth IRA Investors' Activity, 2007-2015," *ICI Research Report* (June 2017)

## 4. Roth IRA investors display persistence in their contribution activity.

The contribution activity of Roth IRA investors with accounts at year-end 2014 and year-end 2015 sheds light on the persistence of contributions. In tax year 2014, 32 percent of these Roth IRA investors made contributions to their Roth IRAs, and 39 percent of those contributing did so at the limit. In addition, individuals using Roth IRAs as a contributory savings vehicle tend to contribute from year to year. For example, 67 percent of Roth IRA investors contributing at the limit in tax year 2014 contributed at the limit in tax year 2015 as well.

FIGURE 4

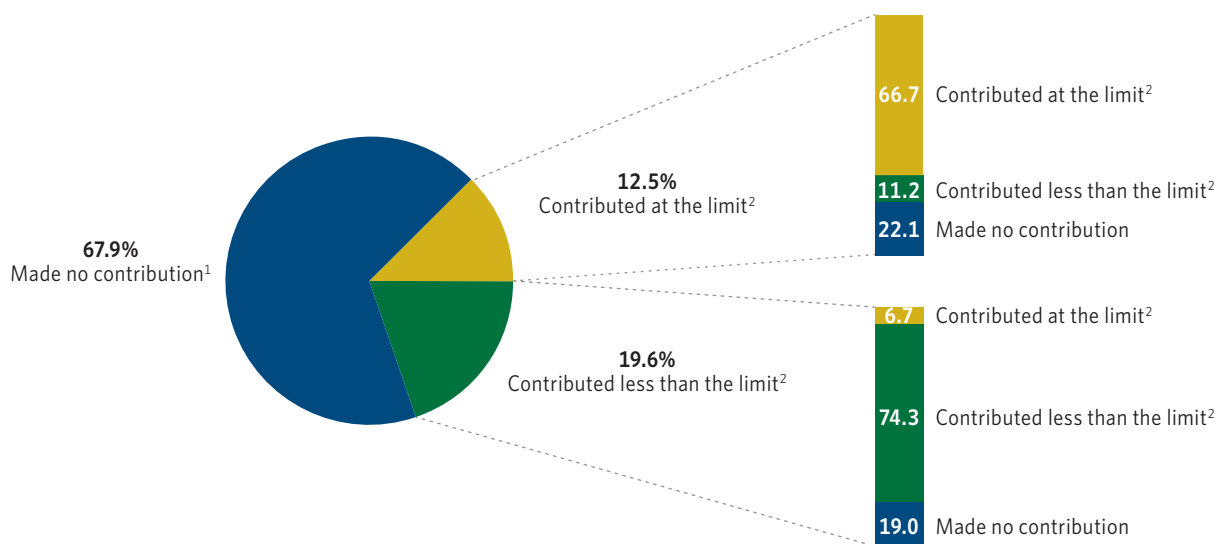
### Most Roth IRA Investors at the Limit in Tax Year 2014 Continued to Contribute at the Limit in Tax Year 2015

#### 2014 contribution amount

Percentage of Roth IRA investors present in both 2014 and 2015

#### 2015 contribution amount

Percentage of Roth IRA investors by 2014 contribution amount



<sup>1</sup> Among the 67.9 percent of Roth IRA investors who did not contribute in tax year 2014, 2.2 percent contributed at the limit in tax year 2015 and 2.8 percent contributed below the limit in tax year 2015.

<sup>2</sup> The contribution limit in tax year 2014 was \$5,500 for Roth IRA investors younger than 50 and \$6,500 for Roth IRA investors aged 50 or older. The contribution limit in tax year 2015 was \$5,500 for Roth IRA investors younger than 50 and \$6,500 for Roth IRA investors aged 50 or older. Income limits may phase these amounts down for some taxpayers. Investors were considered at the limit if they contributed their full age-allowed amount.

Note: The sample is 5.2 million Roth IRA investors aged 19 or older in 2015 with Roth IRA balances in both 2014 and 2015.

Source: The IRA Investor Database™; see Figure 2.8 in "The IRA Investor Profile: Roth IRA Investors' Activity, 2007-2015," ICI Research Report (June 2017)

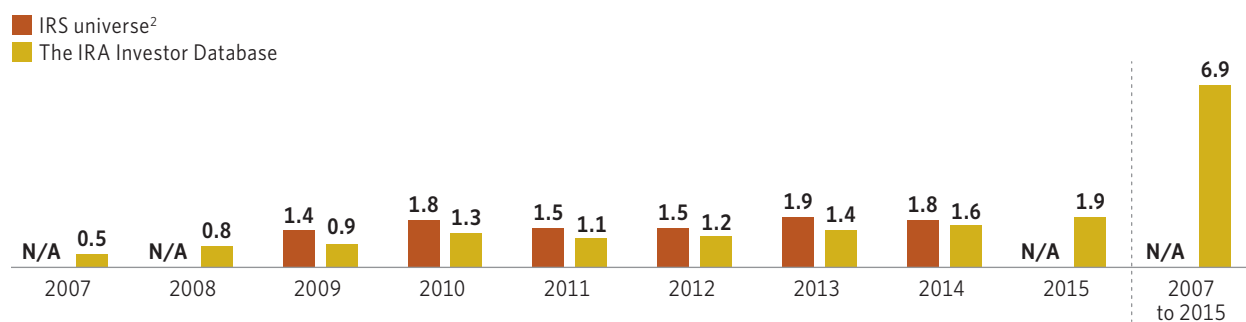
## 5. Roth IRA rollover activity is rare.

In contrast to traditional IRAs, which often are opened with rollovers, rollovers into Roth IRAs are relatively rare. Roth IRAs have always been permitted to accept rollovers from other Roth IRAs, and since 2006 they have been able to accept rollovers directly from other Roth IRAs, and since 2006 they have been able to accept rollovers directly from designated Roth accounts in employer-sponsored retirement plans (which could be established starting in 2006). Direct rollovers of non-Roth qualified retirement plan accumulations into Roth IRAs have been permitted since 2008. In the database, rollovers between IRAs generally are not reported as rollovers; rather, the database tends to capture rollovers from employer-sponsored retirement plans. In any given year, less than 2 percent of Roth IRA investors had rollovers into their Roth IRAs. This low number could be explained by the fact that rollovers tend not to be repeated from year to year—but even when rollover activity is aggregated from 2007 to 2015, only 6.9 percent of Roth IRA investors at year-end 2015 had made rollovers into their Roth IRAs.

FIGURE 5

### Very Few Roth IRA Investors Have Rollovers

Percentage of Roth IRA investors aged 18 or older with rollovers,<sup>1</sup> 2007-2015



<sup>1</sup> Roth IRA investors with rollovers are Roth IRA investors aged 18 or older who had rollovers into their Roth IRAs in the year or years indicated.

<sup>2</sup> In the IRS universe, data are for Roth IRA investors of all ages.

Note: Rollovers made prior to 2007, as well as rollovers made prior to a change in financial services providers, cannot be identified in the database.

N/A = not available

Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division; see Figure 3.4 in “The IRA Investor Profile: Roth IRA Investors’ Activity, 2007-2015,” *ICI Research Report* (June 2017)



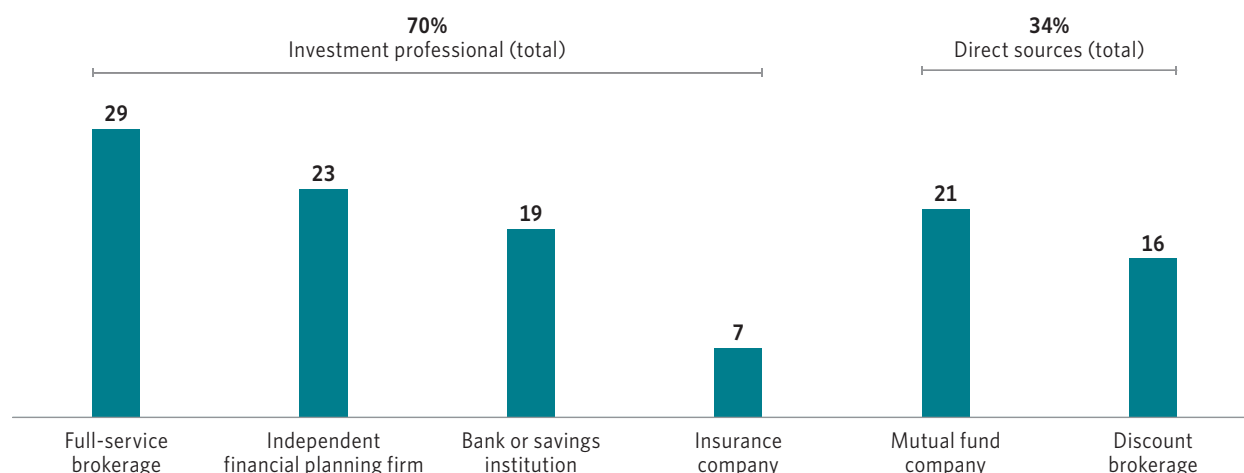
## 6. Roth IRAs are held at a variety of financial services firms.

In 2016, 70 percent of Roth IRA-owning households held their Roth IRAs through investment professionals and 34 percent had opened their Roth IRAs directly at a mutual fund company or discount brokerage. The investment professionals most commonly used by Roth IRA-owning households were full-service brokerage firms (29 percent) and independent financial planning firms (23 percent). The most commonly used direct source was mutual fund companies, with 21 percent of Roth IRA-owning households indicating they held Roth IRAs directly at mutual fund companies.

FIGURE 6

### Roth IRAs Are Held at a Variety of Financial Services Firms

Percentage of households owning Roth IRAs, 2016



Note: Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey; see Figure A17 in "Appendix: Additional Data on IRA Ownership in 2016," *ICI Research Perspective* (January 2017)

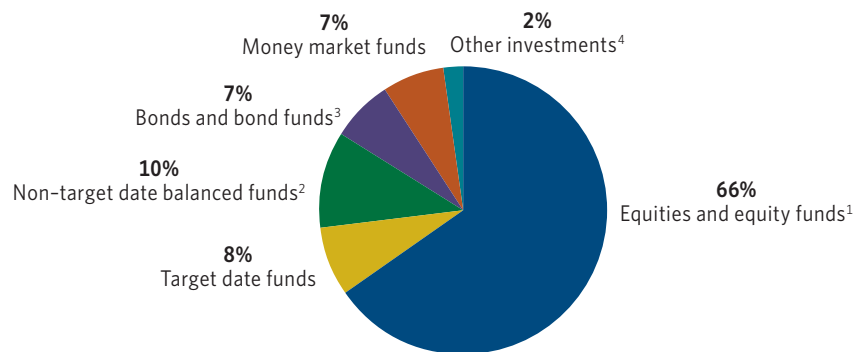
## 7. Equity holdings figure prominently in Roth IRA investments.

Equities and equity funds were the largest components of Roth IRA investors' accounts, on average, representing 66 percent of Roth IRA assets at year-end 2015. Investors also may hold equities through target date funds and non-target date balanced funds. At year-end 2015, 79 percent of Roth IRA assets were invested in equity holdings (equities, equity funds, and the equity portion of target date funds and non-target date balanced funds). Asset allocation in Roth IRAs varies with investor age, with older investors tending to have lower concentrations of equity holdings.

FIGURE 7

### Equity Holdings Figure Prominently in Roth IRA Investments

Percentage of Roth IRA balances, year-end 2015



<sup>1</sup> Equity funds include equity mutual funds, equity closed-end funds, and equity exchange-traded funds (ETFs).

<sup>2</sup> Balanced funds invest in a mix of equities and fixed-income securities.

<sup>3</sup> Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.

<sup>4</sup> Other investments include certificates of deposit and unidentifiable assets.

Note: The sample is 5.7 million Roth IRA investors aged 18 or older at year-end 2015. Percentages are dollar-weighted averages.

Source: The IRA Investor Database™; see Figure 6.1 in "The IRA Investor Profile: Roth IRA Investors' Activity, 2007-2015," *ICI Research Report* (June 2017)

## 8. Roth IRA-owning households' retirement planning strategies have many components.

Sixty-eight percent of Roth IRA-owning households in 2016 indicated they have a strategy for managing income and assets in retirement. These households often reported that their strategy had multiple components. Sixty-two percent of these households set aside emergency funds as part of their strategy and 75 percent reviewed their asset allocation. Sixty-nine percent of these households developed a retirement income plan and 54 percent reviewed their insurance policies. Sixty-seven percent determined their retirement expenses. Half determined when to take Social Security benefits, with households aged 60 or older more likely to have done so compared with households younger than 60. Seventy-four percent of Roth IRA-owning households with a strategy took three or more steps in developing their strategy.

FIGURE 8

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

Percentage of Roth IRA-owning households that indicated they have a strategy for managing income and assets in retirement, 2016

	All	Age of head of household*		
		Younger than 40	40 to 59	60 or older
Set aside emergency funds	62	67	66	55
Develop a retirement income plan	69	61	74	68
Review asset allocation	75	62	81	74
Determine retirement expenses	67	57	68	71
Review insurance policies	54	52	62	45
Determine when to take Social Security benefits	50	28	53	61
Other	3	(*)	3	4

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

Note: Multiple responses are included.

(\*) = less than 0.5 percent

Source: Investment Company Institute IRA Owners Survey

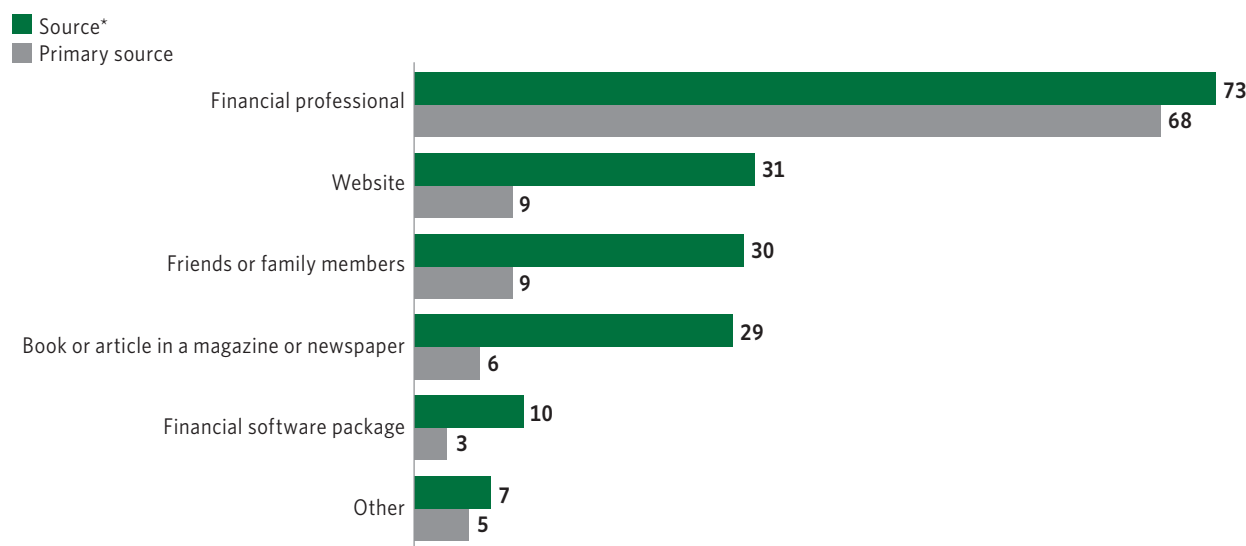
## 9. Most Roth IRA owners consult a financial professional when creating a retirement strategy.

Sixty-eight percent of Roth IRA-owning households reported that they have a strategy for managing income and assets in retirement, and creating their strategies often involved multiple steps (see Figure 8). These households typically seek help when building their retirement income and asset management strategy. Specifically, 73 percent of Roth IRA-owning households with a strategy consulted a financial professional when creating the strategy, and 68 percent indicated that a financial professional was the primary source consulted when developing their strategy. Thirty-one percent consulted a website, 30 percent consulted with friends or family members, and 29 percent consulted a book or article in a magazine or newspaper. Half of Roth IRA-owning households with a strategy consulted multiple sources of information to build that strategy.

FIGURE 9

### Roth IRA-Owning Households Often Consult a Financial Professional to Create a Retirement Strategy

Percentage of Roth 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

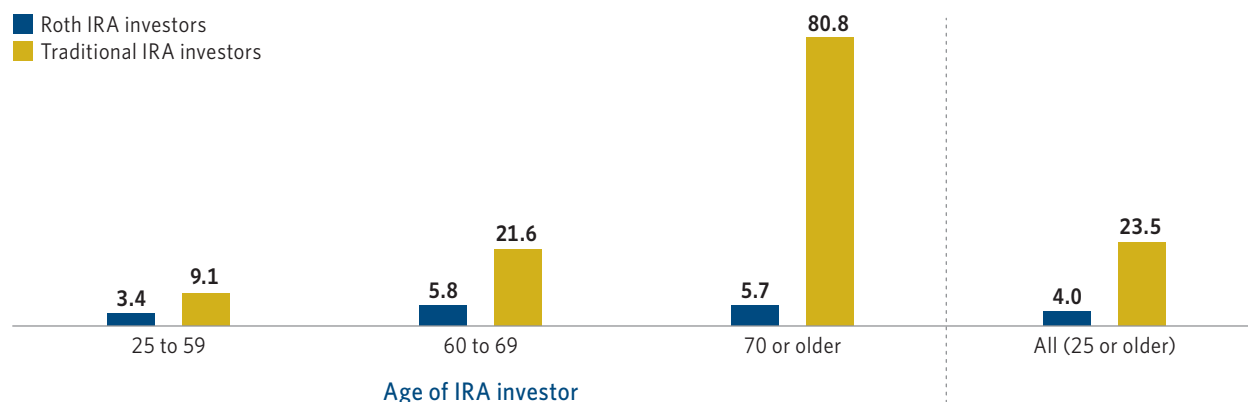
## 10. Few Roth IRA investors take withdrawals.

Very few Roth IRA investors take withdrawals from their Roth IRAs in any given year. In contrast to traditional IRAs, which require investors aged 70½ or older to take required minimum distributions (RMDs), Roth IRAs do not have RMDs (unless they are inherited). As a result, withdrawal activity is much lower among Roth IRA investors. In 2015, while only 4.0 percent of Roth IRA investors aged 25 or older had withdrawals, 23.5 percent of traditional IRA investors had withdrawals. Early withdrawal penalties can apply to both Roth and traditional IRA investors 59½ or younger, and withdrawal activity is lower among those younger than 60 compared with older investors, although the variation across Roth IRA investors is very small. In 2015, 3.4 percent of Roth IRA investors aged 25 to 59 took withdrawals, compared with 5.8 percent of Roth IRA investors aged 60 or older. Withdrawal activity of the oldest Roth IRA investors varied little from the others, because RMDs generally do not apply.

FIGURE 10

### Roth IRA Investors Rarely Take Withdrawals; Traditional IRA Investors Are Heavily Affected by RMDs

Withdrawal activity; percentage of IRA investors by type of IRA and investor age, 2015



Note: The samples are 5.5 million Roth IRA investors aged 25 or older at year-end 2015 and 11.5 million traditional IRA investors aged 25 or older at year-end 2015.

Source: The IRA Investor Database™; see Figure E.3 in "The IRA Investor Profile: Roth IRA Investors' Activity, 2007-2015," *ICI Research Report* (June 2017)

### *Additional Reading*

- » **The IRA Investor Profile**  
[www.ici.org/research/retirement/retirement\\_security/ira\\_database](http://www.ici.org/research/retirement/retirement_security/ira_database)
- » **The Role of IRAs in US Households' Saving for Retirement, 2016**  
[www.ici.org/pdf/per23-01.pdf](http://www.ici.org/pdf/per23-01.pdf)
- » **Ten Important Facts About IRAs**  
[www.ici.org/pdf/ten\\_facts\\_iras.pdf](http://www.ici.org/pdf/ten_facts_iras.pdf)
- » **The Evolving Role of IRAs in US Retirement Planning**  
[www.ici.org/pdf/per15-03.pdf](http://www.ici.org/pdf/per15-03.pdf)
- » **Individual Retirement Account Resource Center**  
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202-326-5800  
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