

## ICI VIEWPOINTS

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## Some Facts About Roth IRAs and the Investors Who Use Them

By Todd Bernhardt

Since the individual retirement account (IRA) was created as part of the Employee Retirement Income Security Act of 1974 (ERISA), it has become a resounding success, accounting for the largest pool of assets in the U.S. retirement market. By the end of 2013, Americans held \$6.5 trillion in IRAs, with 45 percent of that total—\$3.0 trillion—invested in mutual funds.

Although the most common type of IRA is the traditional IRA, the Roth IRA is becoming increasingly popular. The Roth IRA was created in 1997 when Congress passed legislation sponsored by Senator William Roth Jr. (R-DE) that allowed tax-free withdrawals after the Roth IRA owner reaches age 59½, dies, or becomes disabled (provided a five-year holding period is met).

For a number of years, ICI has published [reports analyzing the activity of traditional IRA investors](#), drawing since 2007 on information gathered in The IRA Investor Database™—a comprehensive resource compiled by ICI and the Securities Industry and Financial Markets Association (SIFMA) that includes account-level records for 15.5 million IRA investors at year-end 2012. Recently, ICI released its [first analysis of the Roth IRA investors](#) in the database, covering 5.1 million investors who owned Roth IRAs in 2012.

Here are 10 facts about these investors that you may not have known. They are assembled from information in The IRA Investor Database and from ICI's IRA Owners Survey, which includes data drawn from interviews with American households about their [IRA ownership in 2013](#). For more information about any of these facts, and to see charts detailing each one, please see [Ten Important Facts About Roth IRAs](#).

- 1. One-third of IRA investors have Roth IRAs.** Households often invest in both traditional and Roth IRAs—nearly two-thirds of Roth IRA-owning households in 2013 also owned traditional IRAs. Interestingly, though traditional IRAs dominate—at \$505 billion, Roth IRAs account only for about 8 percent of total IRA holdings—four in 10 Roth IRA-owning households said in 2013 that their Roth IRA was the first IRA that they opened.
- 2. Roth IRA investors are younger.** Nearly one-third of Roth IRA investors are younger than 40, compared with only about 14 percent of traditional IRA investors. Only 24 percent of Roth IRA investors are 60 or older, compared with 38 percent of traditional IRA investors—a pattern that reflects the principal funding sources of these different types of IRAs (more on that below).
- 3. Roth IRAs usually are opened with contributions.** In tax year 2012, more than 70 percent of new Roth IRAs were opened only with contributions—a big difference when compared to traditional IRAs, which tend to be opened with rollovers.
- 4. Roth IRA investors are persistent.** Both Roth and traditional IRA investors with accounts at year-end 2011 and 2012 were persistent in contributing from year to year—69 percent of Roth IRA investors who contributed at the limit in tax year 2011 also contributed at the limit in tax year 2012, while 68 percent of traditional IRA investors did so. That said, in any given year, Roth IRA investors are more likely to make contributions than traditional IRA investors. In 2012, 30.3 percent of Roth IRA investors made contributions to their Roth IRAs, while less than 10 percent of traditional IRA investors made contributions.
- 5. Rollovers into Roth IRAs are rare.** IRAs play a complementary role to the employer-sponsored retirement system. As people change jobs or retire and wish to preserve their employer-sponsored retirement plan assets, they can roll over those assets into an IRA. That said, in contrast to traditional IRAs—which are often opened with rollovers—rollovers into Roth IRAs are rare, with less than 2 percent of Roth IRA investors having rollovers into their Roth IRAs in any given year.

**6. Roth IRAs are held at a variety of financial services firms** In 2013, 75 percent of Roth IRA-owning households held their Roth IRAs through investment professionals—including full-service brokerage firms, independent financial advisers, banks or savings institutions, and insurance companies—while 30 percent held their Roth IRAs directly at a mutual fund company or discount brokerage.

**7. Equity holdings account for the majority of Roth IRA investments** Equity holdings—which include individual equities, equity funds, and the equity portion of target date funds and non-target date balanced funds—made up 73 percent of Roth IRA assets at year-end 2012. This allocation does tend to drop slightly with age, as older investors begin to concentrate more on fixed-income investments such as bonds, bond funds, and money market funds.

**8. Roth IRA owners consciously plan for retirement.** More than three-quarters of Roth IRA-owning households in 2013 indicated that they have a strategy for managing income and assets in retirement. Most of these strategies have multiple components, including developing a retirement income plan, setting aside emergency funds, reviewing insurance policies, determining retirement expenses, and determining when to take Social Security benefits.

**9. Roth IRA owners seek expert help when planning for retirement** Both Roth and traditional IRA-owning households seek help when building a retirement income and asset management strategy. When it comes to seeking help from a professional financial adviser—the top source of information for both groups—the numbers are almost identical, with 65 percent of Roth IRA-owning households saying they consult a financial adviser, and 63 percent of traditional IRA-owning households doing the same.

**10. Few Roth IRA investors take withdrawals.** In contrast to traditional IRAs, which require investors aged 70½ or older to take required minimum distributions (RMDs) each year, Roth IRAs do not have RMDs (unless the accounts are inherited). Consequently, withdrawal activity is much lower among Roth IRA investors. For example, in 2012 only 4 percent of Roth IRA investors aged 25 or older took withdrawals, while 22 percent of traditional IRA investors took withdrawals.

## Additional resources

- [\*The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2012\*](#)
- [\*The IRA Investor Profile: Traditional IRA Investors' Activity, 2007-2012\*](#)
- [\*The Role of IRAs in U.S. Households' Saving for Retirement, 2013\*](#)
- [\*Ten Important Facts About Roth IRAs\*](#)
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