

# Fundamentals

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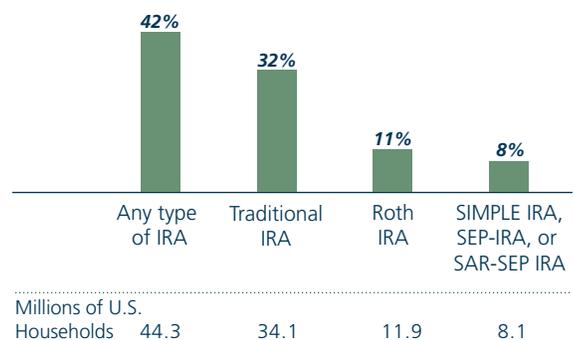
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## IRA Ownership in 2001

An estimated 42 percent, or 44.3 million, of U.S. households owned Individual Retirement Accounts (IRAs) as of May 2001 (Figure 1).<sup>1</sup> Nearly one-third of U.S. households—an estimated 34.1 million—held traditional IRAs, making it the most common form of IRA ownership.<sup>2</sup> A total of 11 percent of U.S. households—an estimated 11.9 million—owned Roth IRAs, and 8 percent—an estimated 8.1 million—held SIMPLE IRAs, SEP-IRAs, or SAR-SEP IRAs.<sup>3,4</sup>

figure 1

### Ownership of Types of IRAs, 2001<sup>1</sup> (number and percent of all U.S. households)



Number of respondents = 3,019

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

note: Data as of May 2001.

<sup>1</sup> Incidence of IRA ownership is based on an annual tracking survey of 3,019 randomly selected, representative U.S. households conducted in May 2001. The demographic and financial characteristics of IRA owners are from a separate June 2001 survey of 524 U.S. households owning IRAs, including traditional IRAs, Roth IRAs, SIMPLE IRAs, SEP-IRAs, and SAR-SEP IRAs. The survey includes owners of deductible and nondeductible traditional IRAs. (See footnote number two for information about the deductibility rules governing traditional IRA contributions.) The survey does not include owners of Education IRAs, which recently were renamed Coverdell Education Savings Accounts.

<sup>2</sup> The traditional IRA, established in 1974 under the Employee Retirement Income Security Act (ERISA), currently permits a maximum deductible annual contribution of \$2,000 for single persons and \$4,000 for married couples. (Individuals participating in qualified employer plans are subject to rules that phase out and eliminate contribution deductibility at certain income levels.) Earnings are tax-deferred and distributions are taxed as ordinary income at withdrawal. Withdrawals before age 59½ are subject to a 10 percent tax penalty except in cases of disability, death, or payments for higher education or to buy a first home (\$10,000 limit). Distributions must commence after individuals attain age 70½. [Note: The Economic Growth and Tax Relief Reconciliation Act of 2001 increases the annual limit on contributions to IRAs in stages from \$3,000 in 2002 to \$5,000 in 2008. Beginning in 2008, the limit is indexed for inflation in \$500 increments. Individuals who have reached age 50 may make "catch-up" contributions of up to \$500 in years 2002 through 2005, and \$1,000 per year thereafter.]

<sup>3</sup> The Roth IRA, established in 1997 under the Taxpayer Relief Act, currently permits a maximum nondeductible annual individual contribution of \$2,000 per year (eligibility subject to phase out and elimination at certain income levels and offset by contributions made to a traditional IRA). Individuals contributing to employer-sponsored retirement plans are allowed to contribute to Roth IRAs. Earnings are not taxed, and distributions of earnings and principal are tax free, provided the account is held for at least five years and the account holder is at least age 59½ at the time of withdrawal. Penalty-free early withdrawals can be made for first home purchases and higher-education expenses after accounts have been open for at least five years. There is no requirement that distributions commence after age 70½.

<sup>4</sup> The SIMPLE IRA, created in 1996 under the Small Business Job Protection Act for employers with no more than 100 employees, allows employees to make annual elective contributions of up to \$6,500 for 2001. Employers must match employee elective contributions dollar-for-dollar up to 3 percent of the employee's compensation or provide a 2 percent contribution for all eligible employees. Distributions from SIMPLE IRAs are generally taxed under the rules applicable to IRAs. Early withdrawals are usually subject to the provisions applicable to IRAs, but those made within two years of the date on which an individual first began to participate in the program are subject to a 25 percent rather than a 10 percent early withdrawal tax. [Note: The Economic Growth and Tax Relief Reconciliation Act of 2001 increases the SIMPLE plan contribution limit to \$7,000 in 2002, then increases the limit in increments of \$1,000 per year until it reaches \$10,000 in 2005, and then indexes it thereafter in increments of \$500.]

Simplified Employee Pension (SEP) IRAs, created under the Revenue Act of 1978, are arrangements established by an employer for each eligible employee. Employees receive immediate vesting in employer contributions and generally direct investments. Employers can contribute a maximum of 15 percent of compensation annually. For 2001, the limit on compensation that can be considered when calculating the annual contribution is \$170,000. [Note: The Economic Growth and Tax Relief Reconciliation Act of 2001 changes the compensation limit to \$200,000 for 2002 and indexes it thereafter in increments of \$5,000.] Distributions from SEP-IRAs are generally taxed under the rules applicable to IRAs. Early withdrawals are subject to the early withdrawal tax applicable to IRAs.

A SAR-SEP is a SEP-IRA with a salary reduction feature. The Small Business Job Protection Act prohibited the formation of new SAR-SEPs after December 31, 1996.

## Households with Traditional IRAs

Traditional IRAs are the most frequently held IRA. More than three-quarters of all U.S. households with IRAs own traditional IRAs. The median age of individuals heading traditional IRA households was 50 years (Figure 2). The median income in these households was \$62,500, and the median household financial assets were \$180,000.<sup>5</sup> The median household assets in traditional IRAs was \$30,000, typically held in two accounts (Figure 3). Forty-four percent of traditional IRA households had traditional

figure 2

### Characteristics of U.S. Households Owning Traditional, Roth, and Employer-Sponsored IRAs

	Own Traditional IRA	Own Roth IRA	Own Employer-Sponsored IRA <sup>1</sup>
<b>Median</b>			
Age of household primary or co-decisionmaker	50 years	43 years	45 years
Household income	\$62,500	\$70,000	\$70,000
Household financial assets <sup>2</sup>	\$180,000	\$150,000	\$150,000
Household financial assets in all types of IRAs	\$32,000	\$14,000	\$48,200
<b>Percent</b>			
Married <sup>3</sup>	65	59	66
College or post-graduate degree <sup>3</sup>	61	67	61
Employed full- or part-time <sup>3</sup>	72	89	85
Self-employed <sup>3</sup>	18	16	32
Retired from lifetime occupation <sup>3</sup>	28	10	13
Household owns: <sup>4</sup>			
Mutual funds	80	90	84
Individual stocks	65	59	67
Individual bonds	30	24	31
Certificates of deposit	58	50	54
Fixed or variable annuities	44	44	40
Whole life insurance with a cash value	54	46	61
Real estate other than primary residence	35	24	37
Defined contribution plan (net) <sup>4</sup>			
401(k) plan	56	60	57
Some other type of defined contribution plan	33	32	35
Defined benefit plan			
Traditional IRA	100	59	62
Roth IRA	32	100	27
Employer-sponsored IRA <sup>1</sup>	23	18	100

<sup>1</sup> Includes SIMPLE IRAs, SEP-IRAs, and SAR-SEP IRAs.

<sup>2</sup> Includes assets in employer-sponsored retirement plans.

<sup>3</sup> Percent of household primary or co-decisionmakers.

<sup>4</sup> Multiple responses included.

**note:** Data as of June 2001. Number of respondents varies.

figure 3

### Characteristics of U.S. Households Owning Traditional IRAs

<b>Median Per Household</b>	
Amount in traditional IRAs	\$30,000
Amount contributed to traditional IRAs in tax-year 2000 <sup>1</sup>	\$2,000
Amount withdrawn from traditional IRA in tax-year 2000 <sup>2</sup>	\$5,000
Number of traditional IRAs owned	2

#### Percent Per Household

Traditional IRA includes rollover from an employer-sponsored retirement plan	44
Traditional IRA rollover due to: <sup>3,4</sup>	
Job change	76
Retirement	22
Contributed to a traditional IRA in tax-year 2000	25
Deducted a traditional IRA contribution in tax-year 2000 <sup>1</sup>	41
Planning to convert a traditional IRA to a Roth IRA in tax-year 2001	11
Own traditional IRA: <sup>3</sup>	
Responding household primary or co-decisionmaker	93
Spouse	45
Dependent children	3
Year first traditional IRA was opened:	
Before 1984	36
1984 through 1993	37
1994 or later	27
Made a withdrawal from a traditional IRA in 2000	14
Reasons for withdrawal: <sup>3</sup>	
To take a required minimum distribution at age 70½ or older	39
To purchase investments outside of an IRA	12

<sup>1</sup> Of households that contributed to traditional IRAs in tax-year 2000.

<sup>2</sup> Of households that withdrew traditional IRA assets in tax-year 2000.

<sup>3</sup> Multiple responses included.

<sup>4</sup> Of those who "rolled over" employer-sponsored retirement plan assets in a traditional IRA.

**note:** Data as of June 2001. Number of respondents varies.

<sup>5</sup> Household financial assets include holdings in employer-sponsored retirement plans but exclude primary residence.

figure 4

## Characteristics of U.S. Households Contributing to Traditional and Roth IRAs

	Households Owning Traditional IRAs		Households Owning Roth IRAs	
	Contributed to Traditional IRA in 2000	Did not Contribute to Traditional IRA in 2000 <sup>1</sup>	Contributed to Roth IRA in 2000	Did not Contribute to Roth IRA in 2000 <sup>1</sup>
<b>Median</b>				
Age of household primary or co-decisionmaker	50 years	51 years	41 years	48 years
Household income	\$62,500	\$62,500	\$62,500	\$69,900
Household financial assets <sup>2</sup>	\$161,100	\$180,000	\$100,000	\$175,000
Household financial assets in all types of IRAs	\$45,500	\$30,000	\$10,000	\$13,400
<b>Percent</b>				
Married <sup>3</sup>	70	63	56	65
College degree or more <sup>3</sup>	62	62	65	66
Employed full- or part-time <sup>3</sup>	80	65	95	79
Household has defined contribution plan(s)	71	70	76	67

<sup>1</sup> Includes households ineligible to contribute.

<sup>2</sup> Includes assets in employer-sponsored retirement plans

<sup>3</sup> Percent of household primary or co-decisionmakers.

**note:** Data as of June 2001. Number of respondents varies.

IRA accounts that included assets “rolled over” from employer-sponsored retirement plans.

Nearly one-third of traditional IRA households also owned Roth IRAs (Figure 2). Seventy-two percent of traditional IRA households participated in defined contribution retirement plans at the time of the survey, and more than half were covered by defined benefit plans.

Twenty-five percent of traditional IRA households—an estimated 8.5 million—contributed to their traditional IRA accounts in tax-year 2000, with a median contribution of \$2,000 per household (Figure 3). Contributors typically had fewer household financial assets than non-contributors, but tended to have greater assets in IRAs (Figure 4).

Fourteen percent of traditional IRA households made withdrawals from traditional IRAs in tax-year 2000 (Figure 3). Of these households, 39 percent withdrew to comply with the Internal Revenue Code’s minimum distribution rules for individuals age 70½ or older, and 12 percent withdrew to buy investments outside IRAs.

figure 5

## Where IRA Account Was Held<sup>1</sup>

(percent of U.S. households owning each type of IRA)

	Traditional IRA	Roth IRA
Full-service brokerage	35	31
Mutual fund company	33	30
Bank or savings institution	29	13
Independent financial planning firm	27	26
Discount brokerage (net)	16	20
Discount brokerage with walk-in offices	15	19
Discount brokerage firm that is only available online	2	3
Insurance company	14	6
Other	1	0

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

**note:** Data as of June 2001. Number of respondents varies.

figure 6

## Types of Assets Held in IRAs, by Type of IRA<sup>1</sup>

(percent of U.S. households owning each type of IRA)

	Traditional IRA	Roth IRA	Employer-Sponsored IRA <sup>2</sup>
Mutual funds (net)	68	67	73
Stock mutual funds	58	53	56
Bond mutual funds	23	11	16
Hybrid mutual funds	19	13	16
Money market mutual funds	25	21	23
Individual stocks	37	28	35
Bank savings accounts, money market deposit accounts, or certificates of deposit	28	13	20
Variable annuities	18	17	14
Fixed annuities	16	7	12
Individual bonds	13	3	16
Other	3	2	5

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

<sup>2</sup> Includes SIMPLE IRAs, SEP-IRAs, and SAR-SEP IRAs.

**note:** Data as of June 2001. Number of respondents varies.

figure 7

## Characteristics of U.S. Households Owning Roth IRAs

### Median Per Household

Amount in Roth IRAs	\$6,000
Amount converted from traditional IRAs to Roth IRAs <sup>1</sup>	\$7,900
Amount contributed to Roth IRAs for tax-year 2000 <sup>2</sup>	\$2,000
Number of Roth IRAs owned	1

### Percent Per Household

Roth IRA was first IRA owned	34
Roth IRA was funded by a conversion from a traditional IRA	29
Contributed to a Roth IRA in tax-year 2000	66
Roth IRA assets include assets initially from an employer-sponsored retirement plan	11
Own Roth IRA: <sup>3</sup>	
Responding household primary or co-decisionmaker	92
Spouse	37
Dependent children	4
Year first Roth IRA was opened:	
1998	52
1999	26
2000	18
2001	4

<sup>1</sup> For Roth IRA owners whose Roth IRAs were funded by a conversion from a traditional IRA.

<sup>2</sup> Of households that contributed to a Roth IRA in tax-year 2000.

<sup>3</sup> Multiple responses included.

**note:** Data as of June 2001. Number of respondents varies.

<sup>6</sup> Employer-sponsored IRAs include SIMPLE IRAs, SEP-IRAs, and SAR-SEP IRAs.

Most traditional IRA households held these accounts at either full-service brokerages or mutual fund companies (Figure 5). More than two-thirds of households with traditional IRAs invested their traditional IRAs in mutual funds, primarily in stock funds (Figure 6).

## Households with Roth IRAs

Approximately 27 percent of IRA households owned Roth IRAs as of June 2001. More than one in three opened a Roth IRA as their first IRA account (Figure 7). The median age of an individual heading a Roth IRA household was 43 years, seven years younger the traditional IRA counterpart (Figure 2). The median household income was \$70,000, and the median household financial assets were \$150,000. The majority of Roth IRA households owned one Roth IRA account with a median balance of \$6,000 (Figure 7). Sixty-seven percent of households with Roth IRAs invested Roth IRA assets in mutual funds, primarily in stock funds. (Figure 6). Fifty-nine percent of Roth IRA households also owned traditional IRAs (Figure 2), and 29 percent have funded their Roth IRAs with conversions from traditional IRAs (Figure 7).

## Households with Employer-Sponsored IRAs

An estimated 18 percent of IRA households owned employer-sponsored IRAs as of June 2001.<sup>6</sup> Financial decisionmakers of these households were typically 45 years old, and 32 percent were self-employed (Figure 2). The median household income was \$70,000, and the median household financial assets were \$150,000. Most employer-sponsored IRA owners invested their employer-sponsored IRA assets in stock mutual funds (Figure 6).