

ICI RESEARCH

JULY 2022

Ten Important Facts About IRAs

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 introduced new types of IRAs and changed rules surrounding IRAs.

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Ten Important Facts About IRAs

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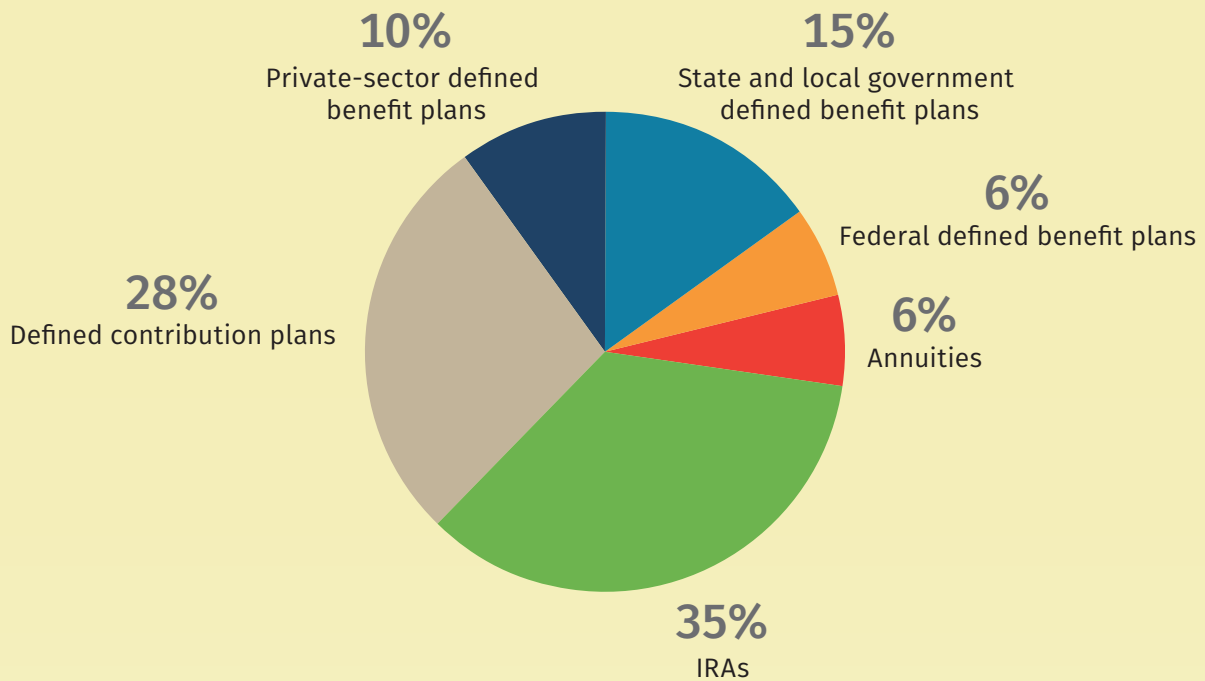
1

IRAs are the largest pool of assets in the US retirement market.

Americans held \$13.9 trillion in individual retirement accounts (IRAs) at year-end 2021, accounting for 35 percent of the \$39.3 trillion in dedicated retirement assets. Forty-five percent of IRA assets, or \$6.2 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).

IRAs Are the Largest Share of US Retirement Assets

Percentage of total US retirement assets, year-end 2021



Total retirement assets: \$39.3 trillion

Note: For definitions of plan categories and a complete list of data sources, see Table 1 in “The US Retirement Market, First Quarter 2022.” Some data are estimated.

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division; see Table 1 in “The US Retirement Market, First Quarter 2022”



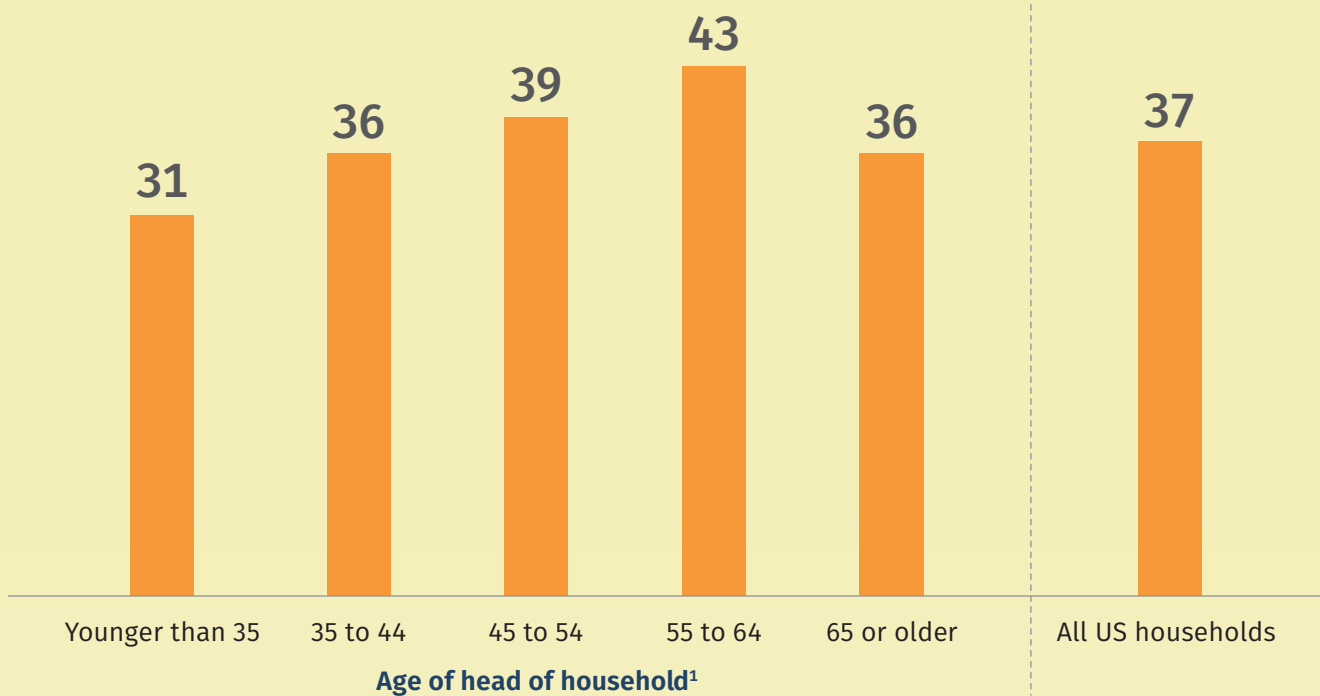
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Incidence of
IRA ownership
increases with age.

IRAs are owned by individuals of all ages, but ownership is greatest among older groups of working-age individuals. This reflects the life-cycle impact on saving; that is, households tend to focus on retirement-related saving as they get older, and also tend to have rollovers into IRAs as they move through their careers.

IRA Ownership Is Greatest Among 45- to 64-Year-Olds

Percentage of US households within each age group that own IRAs,^{1, 2} 2021



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; see Figure 3 in “The Role of IRAs in US Households’ Saving for Retirement, 2021,” *ICI Research Perspective* (January 2022)



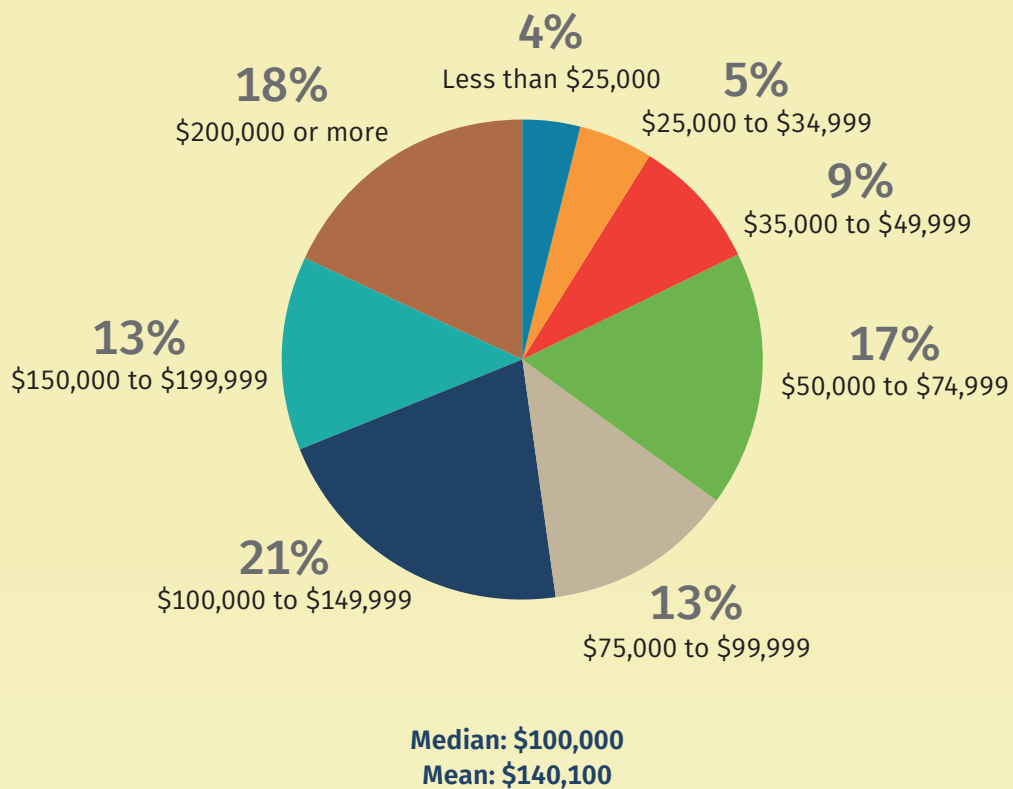
3

Households from
all income groups
own IRAs.

Although IRA ownership tends to increase with household income, many IRA-owning households had moderate or lower incomes. Eighteen percent of households owning IRAs had household income of less than \$50,000, and another 30 percent had household income between \$50,000 and \$99,999.

IRA-Owning Households Include a Range of Incomes

Percent distribution of households owning IRAs by household income,^{1,2} 2021



¹ Total reported is household income before taxes in 2020.

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; see Figure 5 in "The Role of IRAs in US Households' Saving for Retirement, 2021," *ICI Research Perspective* (January 2022)



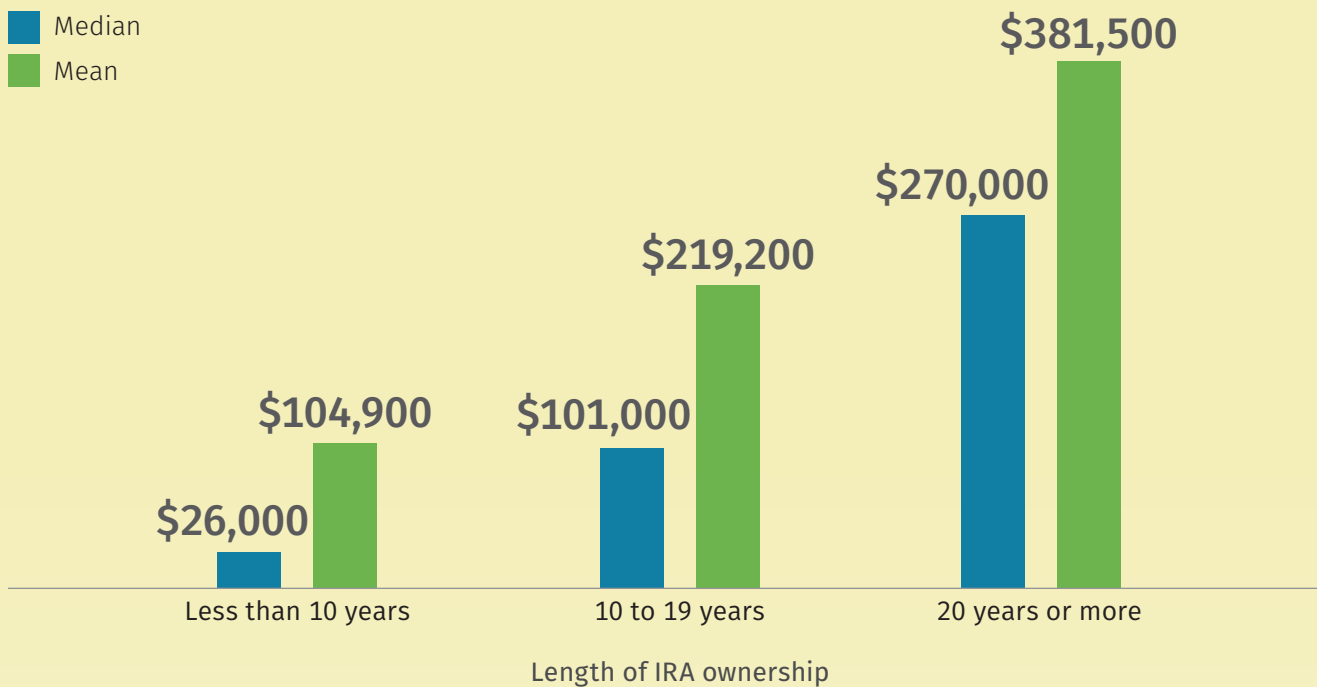
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IRA balances tend to rise with length of ownership.

Households' IRA balances tend to be higher the longer they have owned their IRAs. In 2021, households owning IRAs for less than 10 years had median IRA holdings of \$26,000, while households owning IRAs for 20 years or more had median IRA holdings of \$270,000. Mean IRA holdings display a similar pattern.

IRA Balances Increase with Length of IRA Ownership

Median and mean household financial assets in IRAs by length of ownership, 2021



Note: IRAs include traditional IRAs or Roth IRAs.

Source: Investment Company Institute IRA Owners Survey; see Figure 9 in “The Role of IRAs in US Households’ Saving for Retirement, 2021,” *ICI Research Perspective* (January 2022)



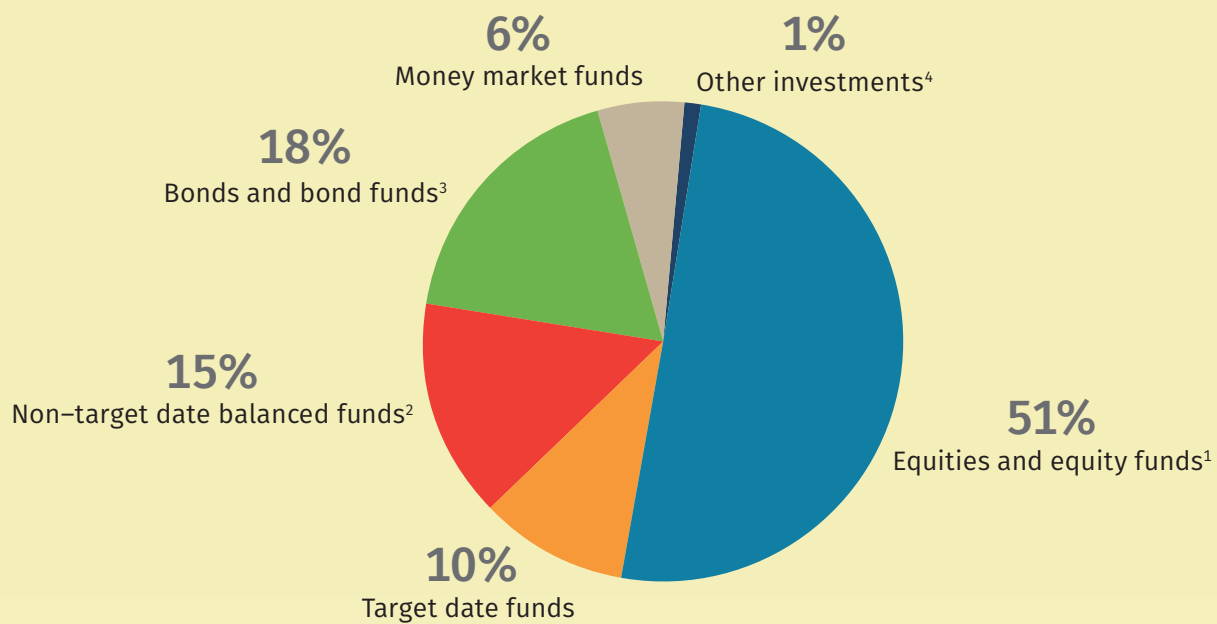
5

Equity holdings figure prominently in traditional IRA investments.

Equities and equity funds were the largest components of traditional IRA investors' accounts, on average, representing 51 percent of traditional IRA assets at year-end 2018. Investors also may hold equities through target date funds and non-target date balanced funds; at year-end 2018, 65 percent of traditional 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 traditional IRAs varies with investor age and traditional IRA balance.

Equity Holdings Figure Prominently in Traditional IRA Investments

Percentage of traditional IRA balances, year-end 2018



¹ Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

² Balanced funds invest in a mix of equities and fixed-income securities.

³ Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.

⁴ Other investments include certificates of deposit and unidentifiable assets.

Note: The sample is 6.3 million traditional IRA investors aged 18 or older in 2018. Percentages are dollar-weighted averages. Components do not add to 100 percent because of rounding.

Source: The IRA Investor Database™; see Figure 6.1 in “The IRA Investor Profile: Traditional IRA Investors’ Activity, 2010–2018,” *ICI Research Report* (August 2021)



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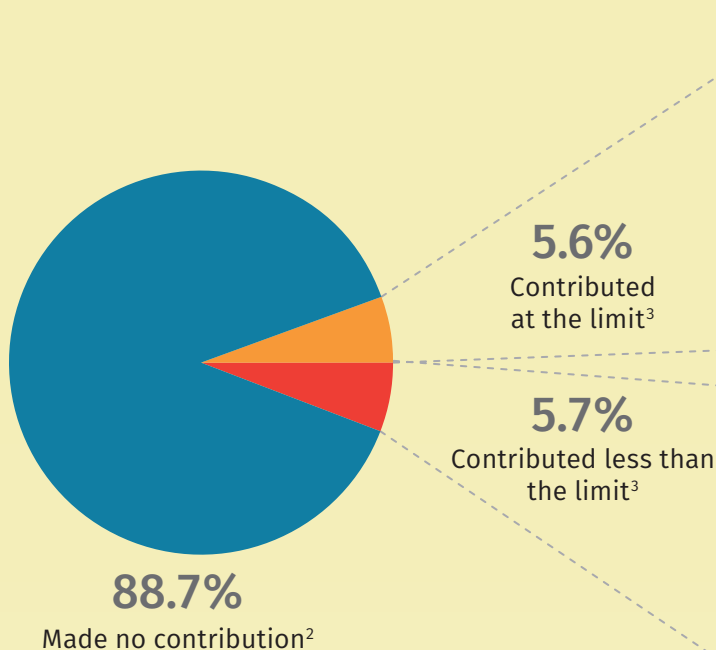
Although few traditional IRA investors make contributions, those who do display persistence.

In tax year 2017, 11 percent of traditional IRA investors with account balances at year-end 2017 and year-end 2018 made contributions to their traditional IRAs, and half of those contributing did so at the limit. In addition, individuals using traditional IRAs as a contributory savings vehicle tend to contribute from year to year: 65 percent of traditional IRA investors who contributed at the limit in 2017 also did so in 2018.

Nearly Two-Thirds of Traditional IRA Investors at the Limit in Tax Year 2017 Continued to Contribute at the Limit in Tax Year 2018

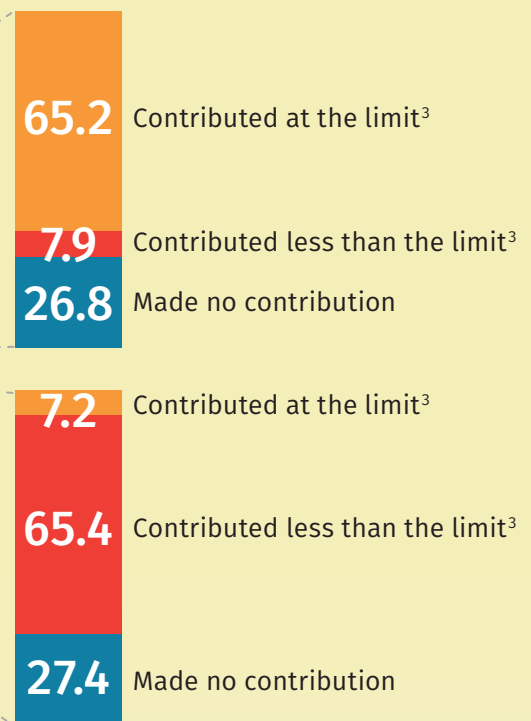
2017 contribution amount¹

Percentage of traditional IRA investors present in both 2017 and 2018



2018 contribution amount¹

Percentage of traditional IRA investors by 2018 contribution amount



¹ Contributions include both deductible and nondeductible traditional IRA contribution amounts.

² Among the 88.7 percent of traditional IRA investors who did not contribute in 2017, 1.0 percent contributed at the limit in 2018 and 1.1 percent contributed below the limit in 2018.

³ The contribution limit in tax years 2017 and 2018 was \$5,500 for traditional IRA investors younger than 50 and \$6,500 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers. Investors were considered at the limit if they contributed their full age-allowed amount.

Note: The sample is 4.6 million traditional IRA investors aged 19 to 69 in 2018 with traditional IRA balances at both year-end 2017 and year-end 2018. Percentages may not add to 100 percent because of rounding.

Source: The IRA Investor Database™; see Figure 2.7 in “The IRA Investor Profile: Traditional IRA Investors’ Activity, 2010–2018,” *ICI Research Report* (August 2021)



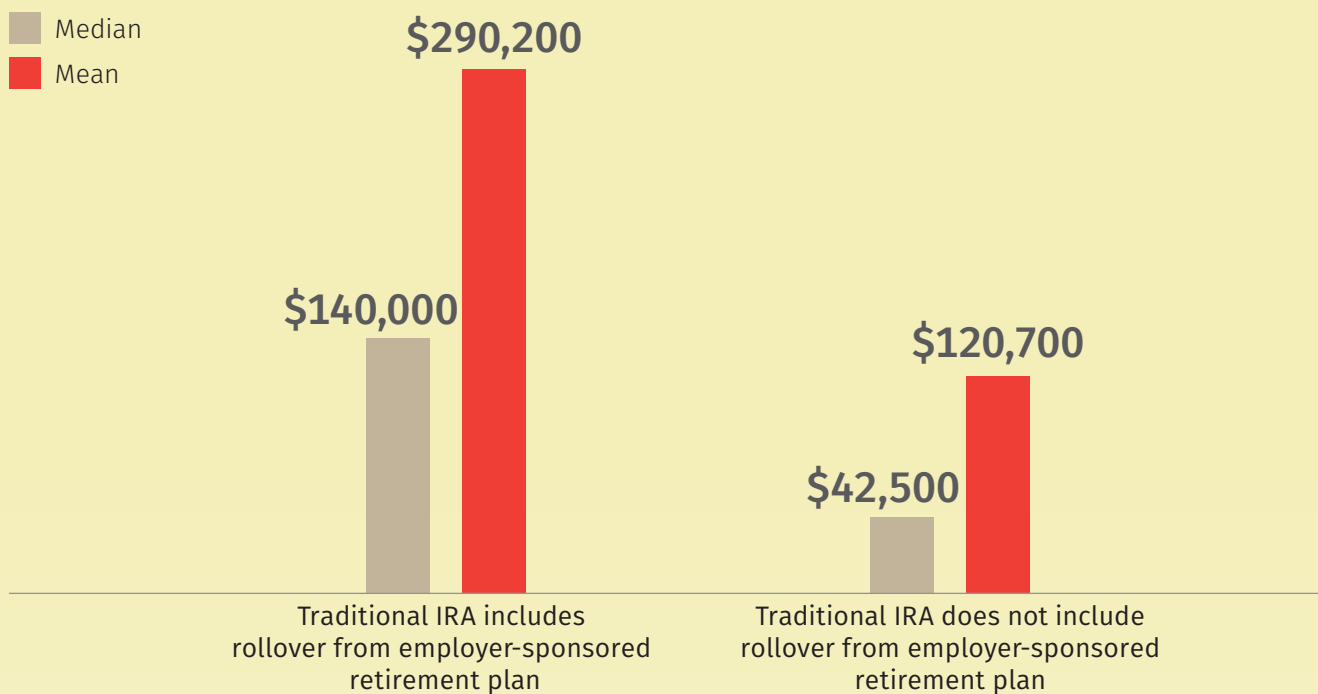
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Rollovers from employer-sponsored retirement plans have fueled growth in IRAs.

Fifty-seven percent of traditional IRA-owning households in 2021 indicated their traditional IRAs contained rollovers from employer-sponsored retirement plans. Among households with rollovers in their traditional IRAs, 85 percent indicated they had rolled over the entire retirement account balance in their most recent rollover. Households with rollover assets in their IRAs tend to have higher IRA balances compared with IRAs funded purely by individual contributions. Median traditional IRA holdings that include rollovers were \$140,000 in 2021, compared with median traditional IRA holdings of \$42,500 for balances that did not include rollovers.

Traditional IRAs Preserve Assets from Employer-Sponsored Retirement Plans

Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2021



Note: Fifty-seven percent of traditional IRA-owning households in 2021 had rollovers in their traditional IRAs.
Source: Investment Company Institute IRA Owners Survey; see Figure 14 in “The Role of IRAs in US Households’ Saving for Retirement, 2021,” *ICI Research Perspective* (January 2022)



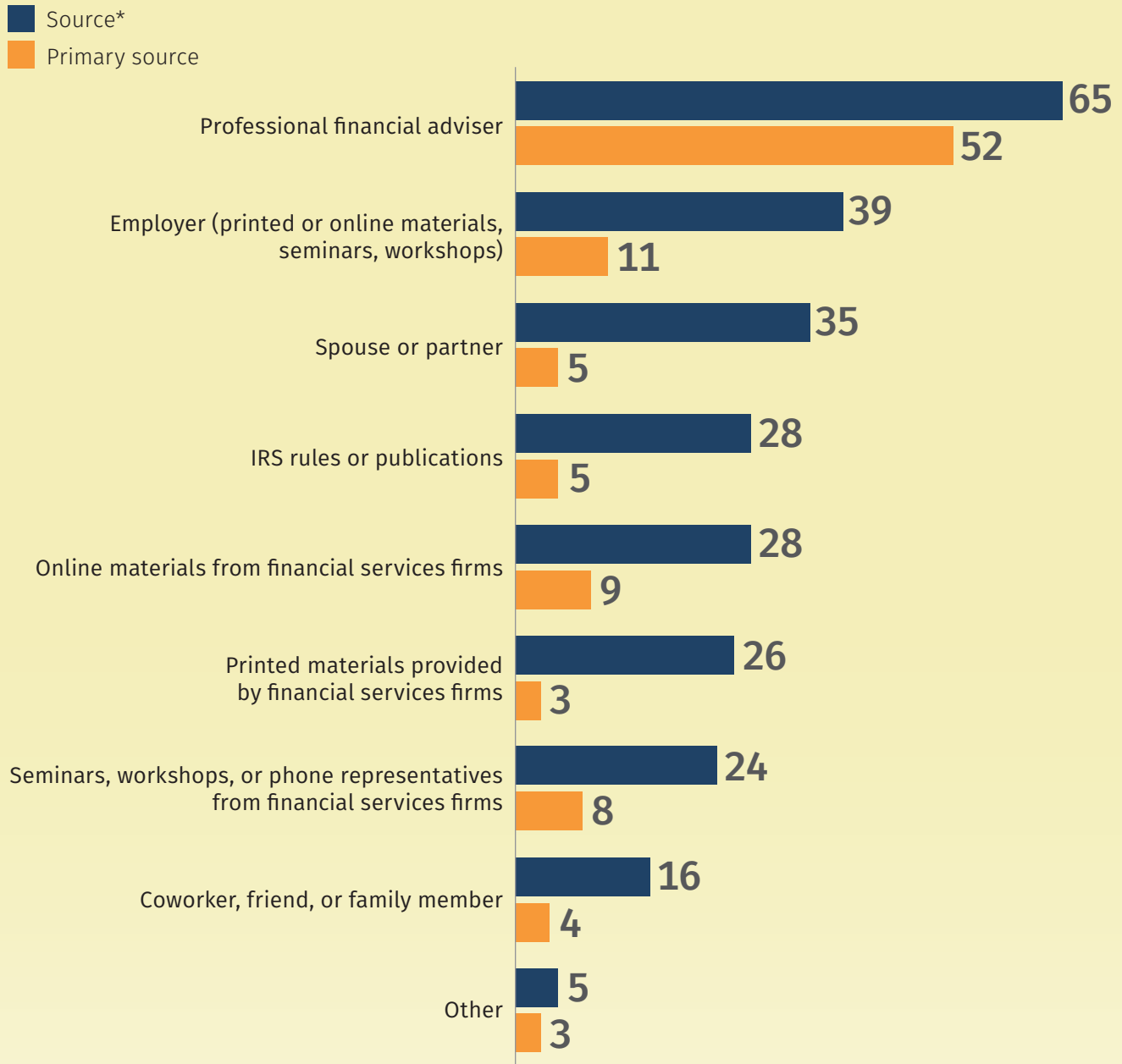
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A large majority of individuals consult a financial professional when rolling over assets to a traditional IRA from a former employer's retirement plan.

Traditional IRA-owning households generally researched the decision to roll over money from their former employer's retirement plan into a traditional IRA. Sixty-five percent consulted multiple sources of information. The most common source was financial professionals, who were consulted by 65 percent of traditional IRA-owning households with rollovers. Thirty-nine percent of traditional IRA-owning households with rollovers consulted materials provided by their employers.

Sources of Information Consulted for Rollover Decision

Percentage of traditional IRA-owning households with rollovers, 2021



* Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey; see Figure 13 in “The Role of IRAs in US Households’ Saving for Retirement, 2021,” *ICI Research Perspective* (January 2022)



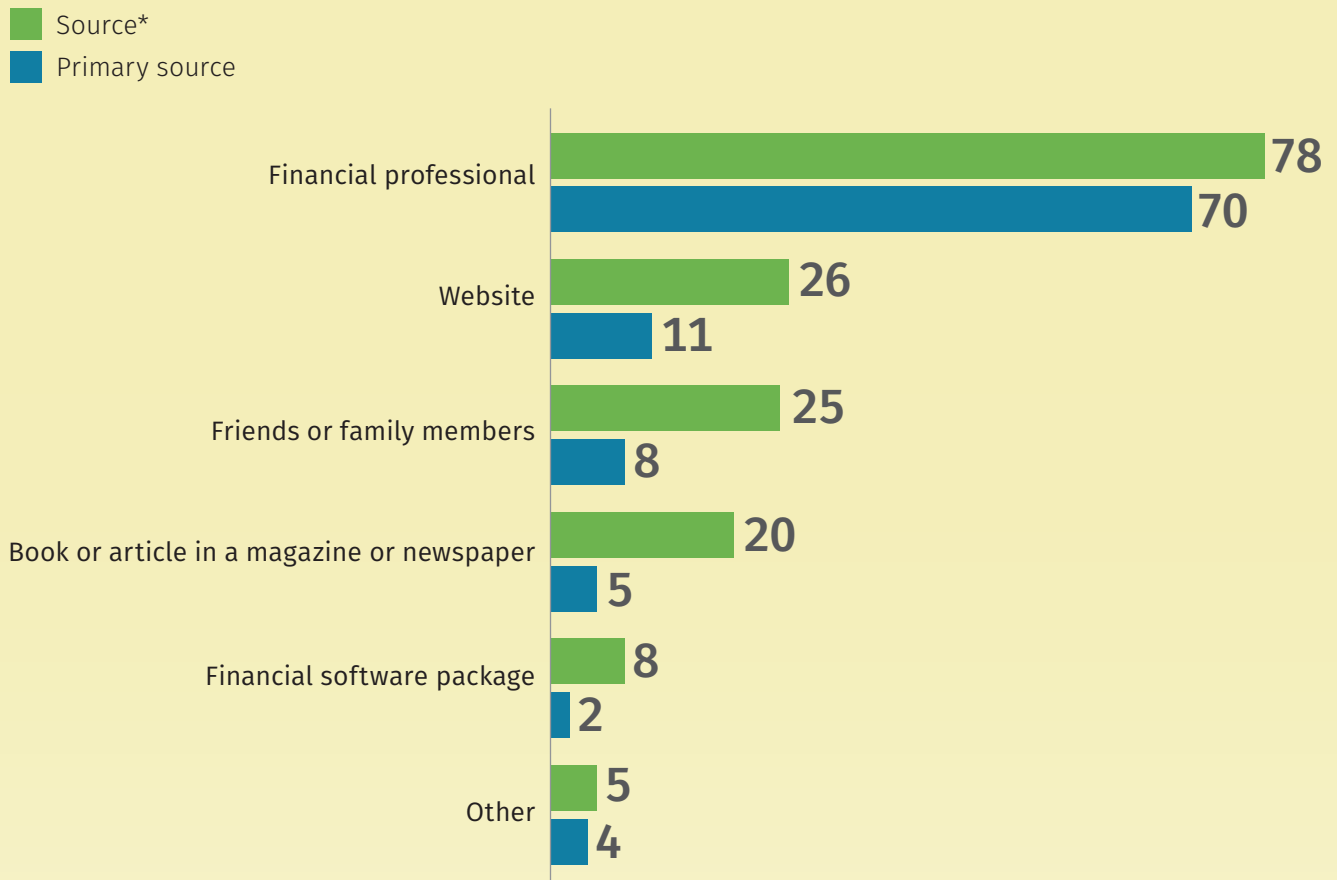
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Most IRA owners consult a financial professional when creating a retirement strategy.

Seventy percent of traditional IRA-owning households reported that they have a strategy for managing income and assets in retirement, and creating their strategy often involved multiple steps. Their strategies include actions such as setting aside emergency funds, developing a retirement income plan, reviewing asset allocation, reviewing insurance policies, determining retirement expenses, and determining when to take Social Security benefits. These households typically seek help when building their retirement income and asset management strategy. Specifically, 78 percent of traditional IRA-owning households with a strategy consulted a financial professional when creating the strategy, and 70 percent indicated that a financial professional was the primary source consulted when developing their strategy.

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

Percentage of traditional IRA-owning households that indicated they have a strategy for managing income and assets in retirement, 2021



* Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey; see Figure 27 in “The Role of IRAs in US Households’ Saving for Retirement, 2021,” *ICI Research Perspective* (January 2022)



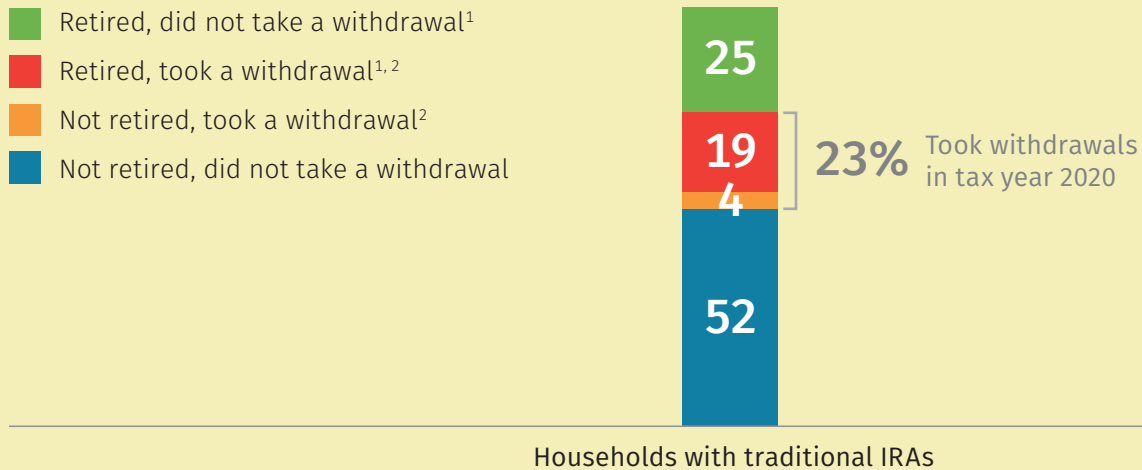
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IRA withdrawals are infrequent and mostly retirement related, and most households consult a financial professional when taking withdrawals.

Few households withdraw money from their IRAs in any given year, and most withdrawals are retirement related. Twenty-three percent of households owning traditional IRAs in 2021 reported taking withdrawals from these IRAs in tax year 2020, compared with 27 percent in tax year 2019. Among households taking traditional IRA withdrawals in tax year 2020, 83 percent reported that someone in the household was retired from their lifetime occupation. Although RMDs were suspended in tax year 2020, some households chose to receive their regular RMD. Sixty-one percent of households owning traditional IRAs in mid-2021 and making withdrawals in tax year 2020 calculated their withdrawal amount based on the RMD, compared with 76 percent in tax year 2019. Fifty-four percent of traditional IRA-owning households with withdrawals consulted a financial professional to determine the withdrawal amount.

Withdrawals from Traditional IRAs Are Infrequent, Retirement Related

Percentage of US households with traditional IRAs, 2021



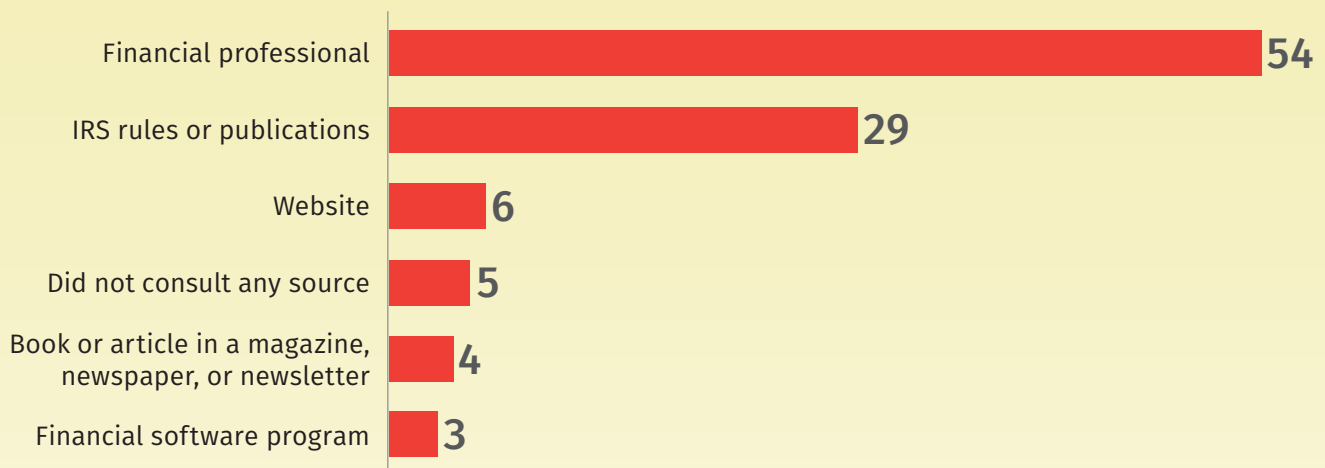
¹ The household was considered retired if either the head of household or spouse responded affirmatively to the question: “Are you retired from your lifetime occupation?”

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

Source: Investment Company Institute IRA Owners Survey; see Figure 21 in “The Role of IRAs in US Households’ Saving for Retirement, 2021,” *ICI Research Perspective* (January 2022)

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

Percentage of traditional IRA-owning households in 2021 that made withdrawals in tax year 2020



Note: Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey; see Figure 25 in “The Role of IRAs in US Households’ Saving for Retirement, 2021,” *ICI Research Perspective* (January 2022)

Additional Reading

- » **The IRA Investor Database™**
www.ici.org/research/investors/database
- » **The Role of IRAs in US Households' Saving for Retirement, 2021**
www.ici.org/files/2022/per28-01.pdf
- » **Ten Important Facts About Roth IRAs**
www.ici.org/files/2022/ten-facts-roth-iras.pdf
- » **The Evolving Role of IRAs in US Retirement Planning**
www.ici.org/pdf/per15-03.pdf
- » **Individual Retirement Account Resource Center**
www.ici.org/ira