

Fundamentals

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IRA Ownership in 2000

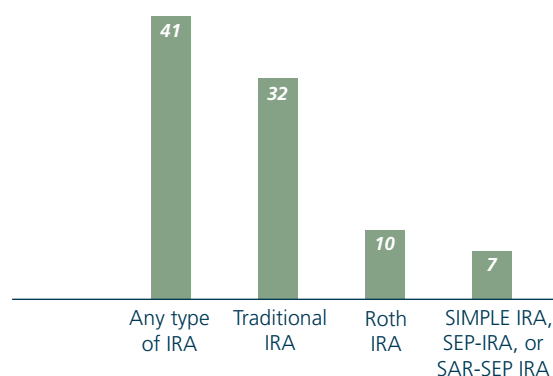
An estimated 41 percent, or 42.5 million, of U.S. households owned Individual Retirement Accounts (IRAs) as of June 2000 (Figure 1).¹ Nearly one-third of U.S. households—an estimated 33.1 million—held traditional IRAs, making it the most common form of IRA ownership.² Ten percent of U.S. households—an estimated 10.4 million—owned Roth IRAs, and seven percent—an estimated 7.4 million—held SIMPLE IRAs, SEP-IRAs, or SAR-SEP IRAs.^{3,4}

Households with Traditional IRAs

More than three-quarters of all households with IRAs owned traditional IRAs. The median age of an individual heading a traditional

figure 1

Ownership of Types of IRAs, 2000¹
(percent of all U.S. households)



Millions of U.S. households	42.5	33.1	10.4	7.4
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Number of respondents = 3,000

¹ Multiple responses included.

note: Data as of June 2000.

¹ Incidence of IRA ownership was based on an annual tracking survey of 3,000 randomly selected, representative U.S. households conducted in June 2000. The demographic and financial characteristics of IRA owners were from a separate survey of 515 U.S. households owning IRAs, including traditional IRAs, Roth IRAs, SIMPLE IRAs, SEP-IRAs, and SAR-SEP IRAs. The survey included owners of deductible and nondeductible traditional IRAs (see footnote number two for information about the deductibility rules governing traditional IRA contributions).

² The traditional IRA, established in 1974 under the Employee Retirement Income Security Act (ERISA), 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.

³ The Roth IRA, established in 1997 under the Taxpayer Relief Act, 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.

⁴ 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 \$6,000. 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.

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. The limit on compensation that can be considered when calculating the annual contribution is \$160,000. 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.

figure 2

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

	Own Traditional IRA	Own Roth IRA	Own Employer-sponsored IRA ⁴
Median			
Age of household head	53 years	44 years	43 years
Household income	\$62,500	\$64,000	\$74,300
Household financial assets ¹	\$200,000	\$142,700	\$103,400
Household financial assets in all types of IRAs	\$32,000	\$12,400	\$25,100
Mean			
Age of household head	53 years	45 years	45 years
Household income	\$92,100	\$89,600	\$159,700
Household financial assets ¹	\$311,100	\$248,800	\$233,700
Household financial assets in all types of IRAs	\$95,500	\$75,200	\$76,600
Percent			
Married	68	64	70
College or post-graduate degree ²	62	67	59
Employed full- or part-time ²	66	90	86
Self-employed ²	13	14	25
Retired from lifetime occupation ²	33	14	13
Own:³			
Mutual funds	79	83	78
Individual stock	61	63	62
Individual bonds	29	28	33
Fixed or variable annuities	32	38	37
Whole life insurance with a cash value	53	47	54
Real estate other than primary residence	32	35	33
Defined contribution plan: ³	66	77	65
401(k) plan	53	63	53
Some other type of defined contribution plan	29	31	31
Defined benefit plan	49	50	41
Traditional IRA	100	59	51
Roth IRA	18	100	18
Employer-sponsored IRA ⁴	9	11	100

¹ Includes assets in employer-sponsored retirement plans but excludes primary residence.

² Percent of household heads.

³ Multiple responses included. Data reported are for the household.

⁴ Includes SIMPLE IRAs, SEP-IRAs, and SAR-SEP IRAs.

note: Data as of July 2000. Number of respondents varies.

IRA household was 53 (Figure 2). The median income in these households was \$62,500, and the median household financial assets were \$200,000.⁵ The median household assets in traditional IRAs was \$30,000, typically in two accounts (Figure 3). Nearly half of traditional IRA households had “rolled over” assets from employer-sponsored retirement plans into traditional IRA accounts.

figure 3

Characteristics of U.S. Households Owning Traditional IRAs

Median¹	
Amount in traditional IRAs	\$30,000
Amount contributed to traditional IRAs for tax-year 1999 ²	\$2,000
Number of traditional IRAs owned	2
Mean¹	
Amount in traditional IRAs	\$85,600
Amount contributed to traditional IRAs for tax-year 1999 ²	\$2,100
Number of traditional IRAs owned	2
Percent¹	
Traditional IRA includes rollover from an employer-sponsored retirement plan	46
Contributed to a traditional IRA in tax-year 1999	31
Planning to convert a traditional IRA to a Roth IRA in tax-year 2000	7
Own traditional IRA:³	
Household head	93
Spouse	44
Dependent children	3
Year first traditional IRA was opened:	
Before 1986	49
1986 to 1990	21
1991 or later	30
Made a withdrawal from a traditional IRA in 1999	14

¹ Data reported are for the household.

² Of those who contributed to a traditional IRA in tax-year 1999.

³ Multiple responses included.

note: Data as of July 2000. Number of respondents varies.

⁵ 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 1999	Did not Contribute to Traditional IRA in 1999	Contributed to Roth IRA in 1999	Did not Contribute to Roth IRA in 1999
Median				
Age of household head	49 years	56 years	44 years	44 years
Household income	\$62,500	\$60,600	\$65,200	\$63,200
Household financial assets ¹	\$200,000	\$230,000	\$127,400	\$153,700
Household financial assets in all types of IRAs	\$30,000	\$35,000	\$12,000	\$20,000
Mean				
Age of household head	49 years	56 years	44 years	45 years
Household income	\$110,200	\$82,400	\$82,200	\$99,700
Household financial assets ¹	\$258,200	\$339,000	\$227,600	\$272,800
Household financial assets in all types of IRAs	\$88,800	\$98,700	\$68,700	\$83,100
Percent				
Employed full- or part-time ²	82	59	96	82
Retired from lifetime occupation ²	20	38	11	17
Own a defined contribution plan ³	74	63	78	76

¹ Includes assets in employer-sponsored retirement plans but excludes primary residence.

² Percent of household heads.

³ Multiple responses included. Data reported are for the household.

note: Data as of July 2000. Number of respondents varies.

Eighteen percent of traditional IRA households also owned Roth IRAs. Sixty-six percent of traditional IRA households participated in defined contribution retirement plans, and about half were covered by defined benefit plans (Figure 2).

Thirty-one percent of traditional IRA households—an estimated 10.3 million—contributed to their traditional IRA accounts in tax-year 1999, with a median contribution of \$2,000 per household (Figure 3). The median age of traditional IRA contributors was 49, seven years younger than non-contributing traditional IRA owners (Figure 4). Non-contributors were more likely to be retired than contributors.

Fourteen percent of traditional IRA households made a withdrawal from a traditional IRA in 1999, with retired households conducting the vast majority

figure 5

Where IRA Account Was Held¹

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

	Traditional IRA	Roth IRA
Full-service brokerage	32	28
Mutual fund company	30	29
Bank or savings institution	27	10
Independent financial planning firm	20	24
Discount brokerage	14	13
Insurance company	9	11
Other	3	1

¹ Multiple responses included.

note: Data as of July 2000. Number of respondents varies.

figure 6

Types of Assets Held in IRAs, by Type of IRA¹

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

	Traditional IRA	Roth IRA	Employer-sponsored IRA ²
Mutual funds (net)	65	58	64
Stock mutual funds	55	44	54
Bond mutual funds	20	6	14
Hybrid mutual funds	19	9	10
Money market mutual funds	22	14	23
Individual stock	40	32	33
Bank savings accounts, money market deposit accounts, or certificates of deposit	31	12	15
Variable annuities	15	15	11
Fixed annuities	14	11	12
Individual bonds	13	7	13
Other	2	1	4

¹ Multiple responses included.

² Includes SIMPLE IRAs, SEP-IRAs, and SAR-SEP IRAs.

note: Data as of July 2000. Number of respondents varies.

figure 7

Characteristics of U.S. Households Owning Roth IRAs

Median¹

Amount in Roth IRAs	\$6,000
Amount converted from traditional IRAs to Roth IRAs ²	\$10,100
Amount contributed to Roth IRAs for tax-year 1999 ³	\$2,000
Number of Roth IRAs owned	1

Mean¹

Amount in Roth IRAs	\$28,500
Amount converted from traditional IRAs to Roth IRAs ²	\$25,500
Amount contributed to Roth IRAs for tax-year 1999 ³	\$2,100
Number of Roth IRAs owned	1

Percent¹

Roth IRA was first IRA owned	28
Roth IRA was funded by a conversion from a traditional IRA	29
Contributed to a Roth IRA in tax-year 1999	56
Roth IRA assets were initially from an employer-sponsored retirement plan	13
Own Roth IRA: ⁴	
Household head	83
Spouse	41
Dependent children	8
Year first Roth IRA was opened:	
1998	67
1999 – 2000	33
Made a withdrawal from a Roth IRA in 1999	1

¹ Data reported are for the household.

² For Roth IRA owners whose Roth IRAs were funded by a conversion from a traditional IRA.

³ Of those who contributed to a Roth IRA in tax-year 1999.

⁴ Multiple responses included.

note: Data as of July 2000. Number of respondents varies.

of withdrawals. Most retired households withdrew assets to comply with the Internal Revenue Code's minimum distribution rules.

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

Households with Roth IRAs

Approximately 25 percent of IRA households owned Roth IRAs as of June 2000. Nearly one in three opened Roth IRAs as their first IRA accounts (Figure 7). The median age of an individual heading a Roth IRA household was 44, nine years younger than the traditional IRA counterpart (Figure 2). The median household income was \$64,000, and the median household financial assets were \$142,700. The majority of Roth IRA households owned one Roth IRA account with a median balance of \$6,000 (Figure 7). Fifty-eight percent invested Roth IRA assets in mutual funds, primarily stock funds. (Figure 6). Twenty-nine percent of Roth IRA households initially funded their Roth IRAs with conversions from traditional IRAs.

Fifty-six percent of Roth IRA owners contributed to their Roth IRAs in 1999 (Figure 7), and Roth IRA contributors were more likely to be employed than non-contributors (Figure 4).

Households with Employer-sponsored IRAs

An estimated 17 percent of IRA households owned employer-sponsored IRAs as of June 2000.⁶ Heads of these households were typically 43 years old, and 25 percent were self-employed (Figure 2). The median household income was \$74,300, and the median household financial assets were \$103,400. Most employer-sponsored IRA owners invested their employer-sponsored IRA assets in stock mutual funds (Figure 6).

⁶ Employer-sponsored IRAs include SIMPLE IRAs, SEP-IRAs, and SAR-SEP IRAs.