The IRA Investor Profile

TRADITIONAL IRA INVESTORS' CONTRIBUTION ACTIVITY, 2007 AND 2008

INVESTMENT COMPANY INSTITUTE®

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The IRA Investor Database™

The Investment Company Institute and the Securities Industry and Financial Markets Association have launched a new research project that collects account-level data for more than 10 million IRA investors.

Individual retirement accounts (IRAs) are an important segment of the U.S. retirement market. This database aims to increase public understanding in this area of retirement savings by expanding on the existing household surveys and IRS tax data about IRA investors.

By tapping account-level records, research drawn from this database can provide new and important insights into IRA investor demographics, activities, and asset allocation decisions. The database is designed to shed light on key determinants of IRA contributions, rollover and withdrawal activity, and the types of assets that investors hold in these accounts.

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Key Findings

- **A small share of individuals contribute to traditional IRAs in any given year, whether looking across all taxpayers or only across investors who own traditional IRAs.** In 2007, 11.2 percent of traditional IRA investors made contributions to their traditional IRAs. In 2008, 9.4 percent contributed.

- **A number of factors may account for individuals' low contribution rate.** Two of the major determinants of individuals' decisions to contribute to traditional IRAs are their assessment of their need for additional retirement savings and their ability to deduct contributions from their taxable income. Individuals who are covered by retirement plans at work may find that they can meet their saving needs through those plans. In addition, coverage by such plans may curtail their eligibility to make tax-deductible contributions. For lower-income households, Social Security replaces a much higher fraction of pre-retirement earnings, which may reduce their need for additional retirement savings. Furthermore, there is some evidence that confusion about IRA rules may prevent some individuals from contributing.

- **Traditional IRA owners may also contribute to Roth IRAs, and contribution rates are noticeably higher when both forms of IRAs are included.** The contribution rate in 2007 rises from 11.2 percent to 16.6 percent among investors owning traditional IRAs when contributions to their Roth IRAs at the same financial institution are included.

- **Among traditional IRA investors who contributed to their traditional IRAs in 2007, a sizable majority made repeat contributions in 2008.** Overall, 63 percent of traditional IRA contributors in 2007 also contributed in 2008. This demonstrated persistence in contributions holds across age, income, and gender groups.

- **Many traditional IRA investors who contributed made contributions at the legal limit in 2007.** Among traditional IRA investors aged 25 to 69, 60 percent of those who contributed in 2007 made the largest contribution allowed by law. Limits on traditional IRA contributions increased in 2008, and more than half who contributed at the legal limits in 2007 increased their contributions to the new legal limit in 2008.

- **Traditional IRA contribution rates rise with income, even after controlling for other factors like age and gender.** This is a consistent pattern also observed in participation rates for employer-sponsored retirement plans and other savings vehicles. The positive relationship between contribution rates and income can be explained by many factors, but the role that Social Security plays for lower-income households is probably the most important.

- **Female traditional IRA investors are more likely to contribute to their traditional IRAs than their male counterparts in most age groups.** Overall, 11.9 percent of women with traditional IRAs contributed in 2007, while only 10.7 percent of men contributed.

» **Traditional IRA investors who make rollovers into their traditional IRAs are less likely to make contributions in the same year.** The negative impact of rollovers on contribution activity was larger for younger traditional IRA investors compared with older ones.

» **Traditional IRA investors who take withdrawals from their traditional IRAs are less likely to contribute in that year, but different patterns among age groups may reflect different approaches to IRA saving.** Across traditional IRA investors taking withdrawals, older traditional IRA investors are less likely to contribute while simultaneously taking withdrawals compared with younger age groups.

Introduction

Role of IRAs in U.S. Retirement Planning

The Employee Retirement Income Security Act (ERISA) in 1974 created individual retirement accounts (IRAs).[1] Thirty-five years later, IRAs have grown to be a significant component of U.S. households' retirement assets. At year-end 2009, IRAs held $4.2 trillion, or more than one-quarter of the $16.0 trillion in total U.S. retirement assets,[2] and were 9.5 percent of U.S. households' total financial assets (Figure 1). All told, 46.1 million, or 39.3 percent of, U.S. households owned one or more types of IRAs in mid-2009. Traditional IRAs, the first type of IRA created, are the most common type of IRA.[3]

Because of the important role that IRAs play in U.S. retirement planning, policymakers and researchers seek to understand how individuals use IRAs. These policy questions include how Americans contribute to these accounts. Individuals also use IRAs to preserve and consolidate retirement accumulations from employer-sponsored plans through rollovers, and policymakers want to know how people manage these accounts, including whether there is significant withdrawal of assets prior to retirement ("leakage").

Sources of IRA Data

Researchers have relied primarily on household surveys and Internal Revenue Service (IRS) tax data to examine policy questions about IRAs. There are several publicly available household surveys that researchers use to analyze households' retirement savings,[4] and ICI conducts two annual household surveys that provide information on IRA-owning households.[5, 6] While household surveys provide a comprehensive picture of households' finances and activities, they can suffer from data problems due to inaccurate respondent recall, which often limits the level of detail that can be obtained on specific financial assets or activities.

IRS tax data provide a rich array of information from a variety of sources including Form 1040 (U.S. Individual Income Tax Return), Form 5498 (IRA Contribution Information), and Form 1099-R (Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.).[7] These tabulations provide benchmarks of aggregate IRA-related activity, such as contributions, assets, rollovers into IRAs, conversions, and withdrawals. The tax data, however, do not have information about the types of assets that investors hold in their IRAs.

The IRA Investor Database

To augment the existing survey information and tax data for IRAs, the Investment Company Institute (ICI) and the Securities Industry and Financial Markets Association (SIFMA)[8] have embarked on a new data collection effort—The IRA Investor Database—to examine administrative, or recordkept, data on IRAs.

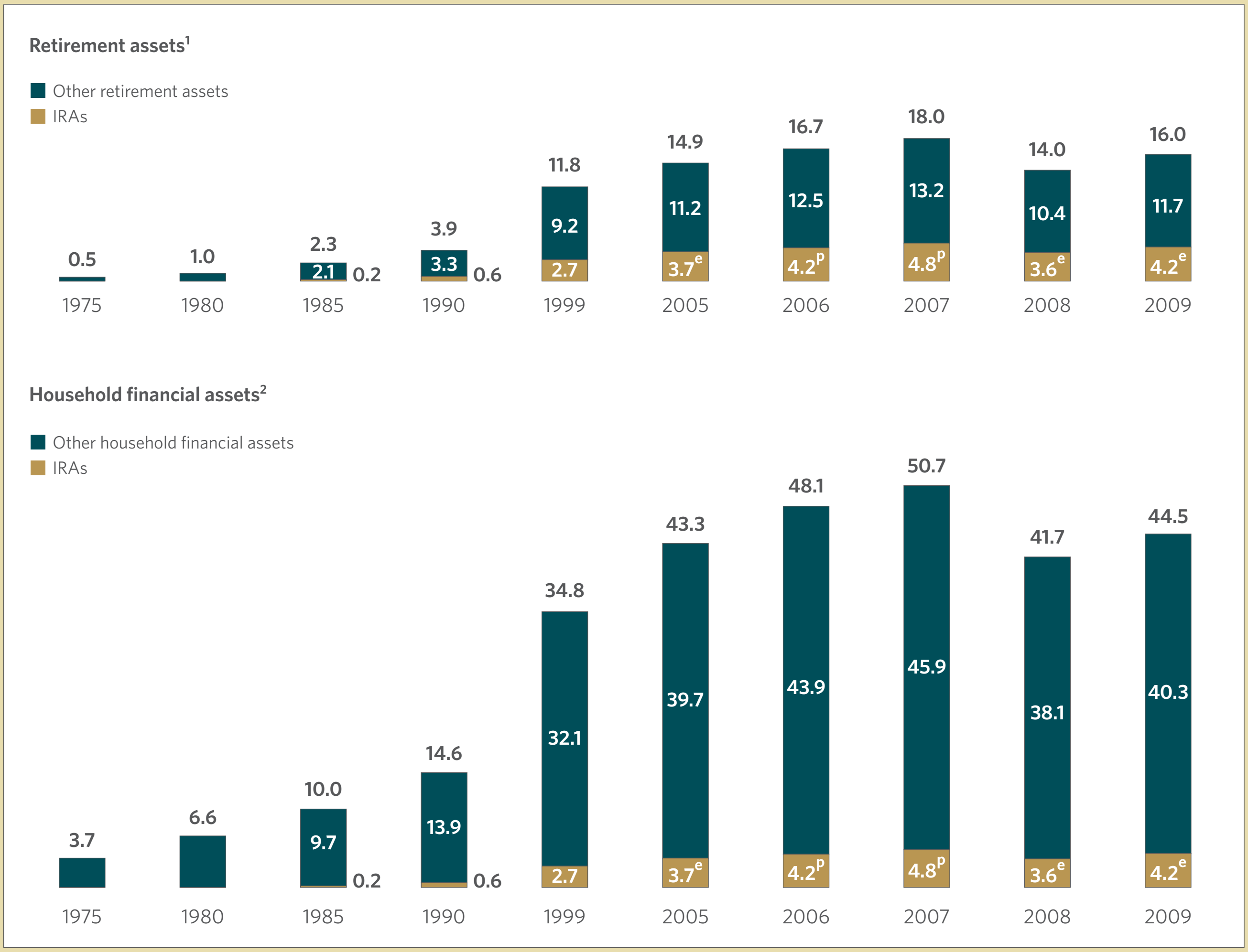
The IRA Investor Database contains account-level information from a wide range of mutual fund and insurance companies, which provided data for more than 10 million IRA investors in 2007 and 2008.[9] Participating data providers encrypted individual records to protect the identities of individuals, but provided each investor's year of birth; gender; zip code; and IRA assets, contributions, withdrawals, and rollovers. Because IRA recordkeeper systems contain the actual account data, the data provide precise dollar amounts and do not suffer from errors in respondent recall. Throughout this report, the term "IRA investor" refers to a unique IRA investor at a given data provider.[10]

This collection effort brings additional detail to IRA activity—particularly about the incidence and magnitude of contributions, rollovers, and withdrawals across IRA investors. In addition, the collection provides detailed insight into individual asset allocations.

FIGURE 1

IRA Assets Represent a Growing Share of Retirement Assets and Household Financial Assets

Trillions of dollars, year-end, selected years



[1]Retirement assets include IRAs, annuities, and employer-sponsored DB and DC plans.
[2]Household financial assets include deposits, fixed-income securities, stocks, retirement savings, mutual funds, equity in noncorporate business, and other financial assets. Financial assets of nonprofit organizations are also included. Household financial assets do not include the household's primary residence.
[e]Data are estimated.
[p]Data are preliminary.
Note: Components may not add to the total because of rounding.
Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

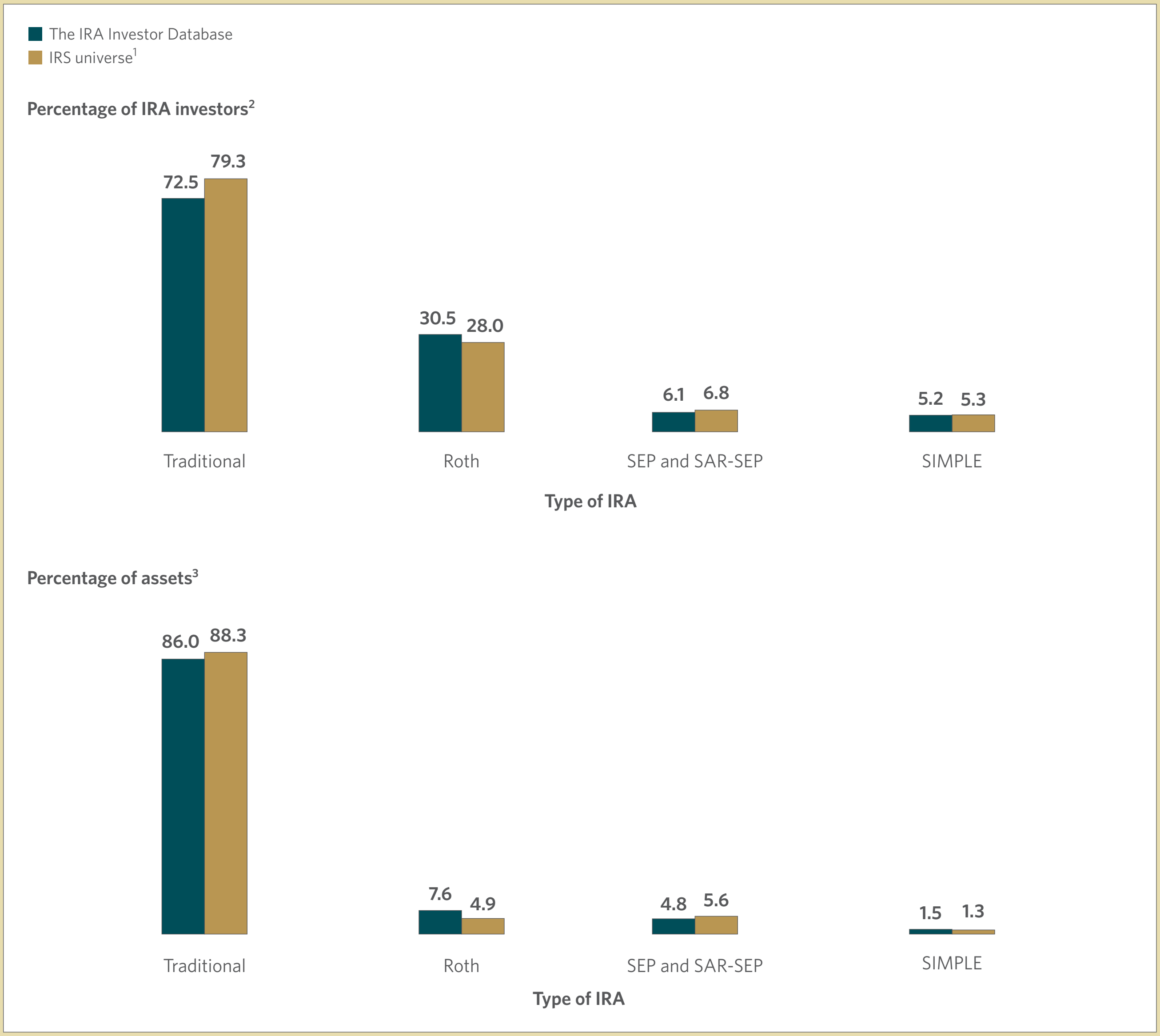
Database Contains Comprehensive Cross-Section of IRA Investors

The IRA Investor Database contains a comprehensive and representative sample of IRA investors, which provides important insights into many IRA investor activities (Figure 2).[11] The bulk (72.5 percent) of the IRA investors in the database held traditional IRAs and 86.0 percent of all IRA assets were in traditional IRAs. More than 3 million Roth IRA investors (30.5 percent of the total) held 7.6 percent of all IRA assets.[12] Employer-sponsored IRAs (SEP, SAR-SEP, and SIMPLE IRAs) represented the remainder.[13] The distribution of IRA investors and IRA assets by type of IRA in the database is similar to the universe of IRAs tabulated by the IRS Statistics of Income Division.

FIGURE 2

The IRA Investor Database™ Covers All IRA Types

Distribution of IRA investors and assets, 2007



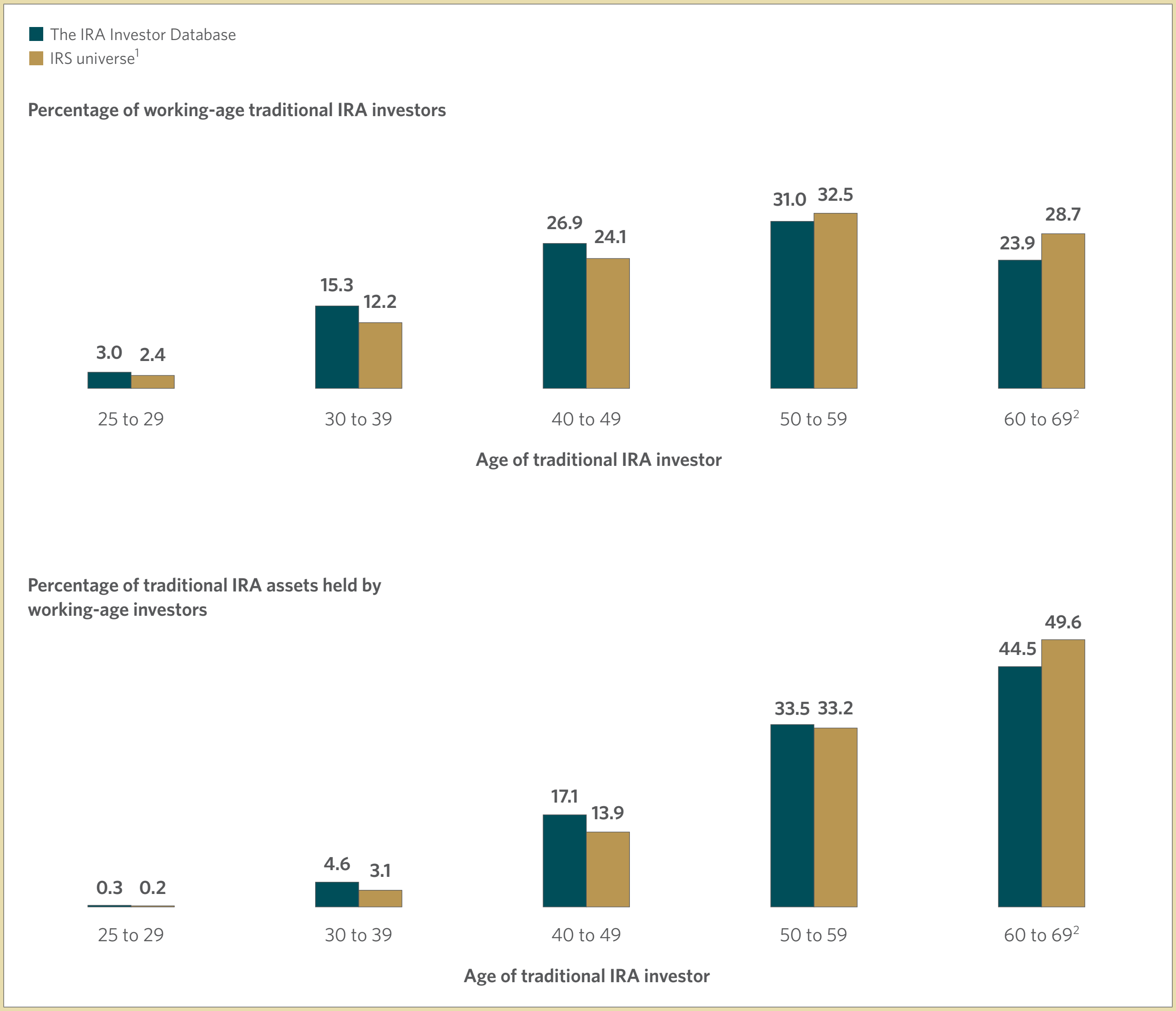
[1]IRS Statistics of Income data for 2007 are preliminary.
[2]These percentages add to more than 100 percent because investors may own more than one type of IRA.
[3]These percentages do not add to 100 percent because of rounding.
Note: Figure A.1 in the appendix provides additional detail.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

The IRA Investor Database contains investors from a wide range of ages (Figure 3).[14] The analysis of contribution activity in this report focuses on IRA investors in the working-age population—25 to 69 years of age. This is the group of most concern to policymakers focused on Americans' accumulation of retirement assets. The bulk of working-age investors who own traditional IRAs ("traditional IRA investors") in the database are in their peak earning and saving years. At year-end 2007, 57.9 percent of working-age traditional IRA investors were between the ages of 40 and 59. Another 23.9 percent were 60 to 69, and the remaining 18.3 percent were younger than 40. The age distribution of working-age traditional IRA investors in the database in 2007 is similar to the age distribution seen in the IRS Statistics of Income universe estimates.

FIGURE 3

Traditional IRA Investors Represent a Wide Cross-Section of Age Groups

Distribution of working-age traditional IRA investors and their assets, 2007



[1]IRS Statistics of Income data for 2007 are preliminary.
[2]In the IRS universe, individuals aged 60 to 70½ are included in this category.
Note: Percentages may not add to 100 percent because of rounding. The samples are 6.4 million working-age traditional IRA investors in The IRA Investor Database™ and 35.2 million working-age traditional IRA taxpayers from the IRS universe.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

Older traditional IRA investors tend to have accumulated more traditional IRA assets compared with younger traditional IRA investors. For example, the average account balance among traditional IRA investors in their sixties was $154,004 at year-end 2007, compared with $52,602 among traditional IRA investors in their forties and $8,663 among those in their late twenties (Figure 4). The average traditional IRA balance by age group in the working-age population in the database is very similar to the IRS Statistics of Income universe estimates for working-age traditional IRA taxpayers.

The IRA Investor Database also has information on investor gender. In the 2007 database, 46 percent of working-age traditional IRA investors are female and 54 percent are male. The age composition within the two genders is broadly similar.[15]

Working-age traditional IRA investors in the database live in areas that represent a wide range of income groups. Income for each IRA investor is proxied by the average income per tax return for taxpayers living in that investor's zip code.[16] In 2007, 23.0 percent of working-age traditional IRA investors lived in zip codes with average incomes of less than $45,000; another 35.3 percent had average incomes of $45,000 to less than $70,000; another 22.2 percent had average incomes of $70,000 to less than $100,000; and the remaining 19.6 percent lived in zip codes with average incomes of $100,000 or more.

The IRA Investor Profile Research Agenda

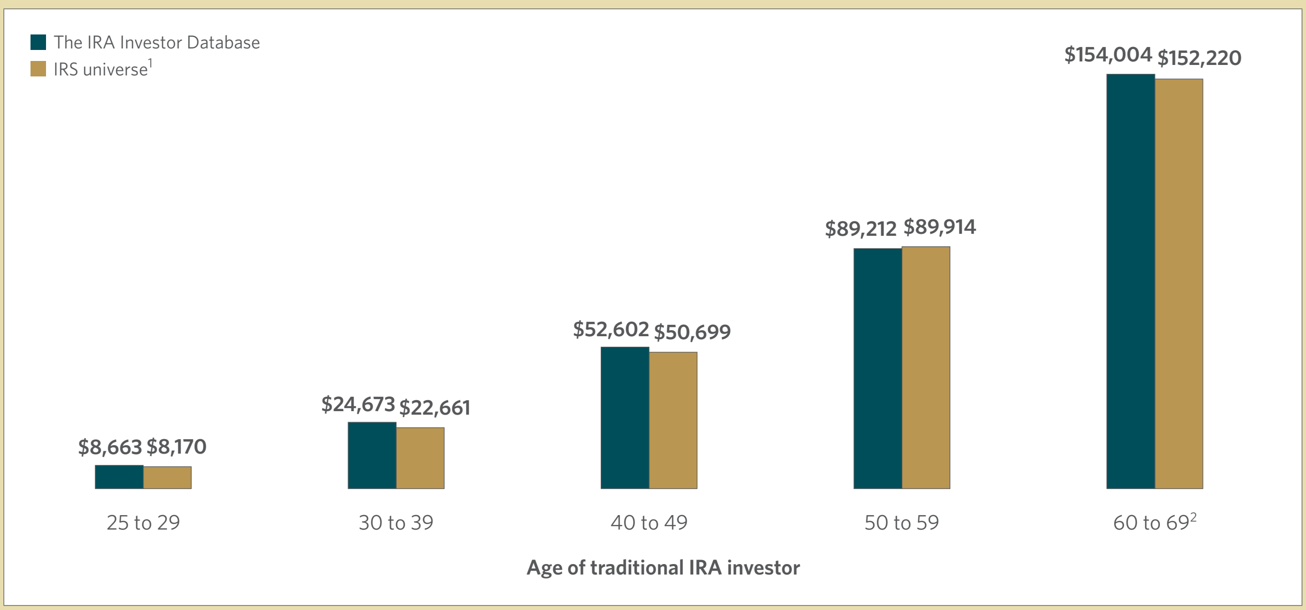
This research project aims to gain insight into how individuals use IRAs in the process of planning for retirement. The most commonly held IRAs, traditional IRAs, are analyzed first in this series of reports. Research questions regarding traditional IRA investors will be addressed in the typical order in which IRA investors experience traditional IRAs: opening an IRA with contributions or rollovers, managing the asset allocation, and taking withdrawals.

Contribution activity. As a first step in the *IRA Investor Profile* research project, this report analyzes the contribution activity of the largest pool of IRA investors, working-age (aged 25 to 69) traditional IRA investors. The goal of this report is to identify traditional IRA investor characteristics (age, income, and gender) or activities (rollovers and withdrawals) that impact contribution activity.

FIGURE 4

Average Traditional IRA Balance by Age of Traditional IRA Investor

Dollars, year-end 2007



[1]IRS Statistics of Income data for 2007 are preliminary.
[2]In the IRS universe, individuals aged 60 to 70½ are included in this category.
Note: The samples are 6.4 million working-age traditional IRA investors in The IRA Investor Database™ and 35.2 million working-age traditional IRA taxpayers from the IRS universe.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

Rollover activity. The next report will research traditional IRA investors' rollover activity. Inflows into traditional IRAs from rollovers have outpaced contributions by a significant margin for many years.[17] The extent to which rollovers fuel IRA growth across age, income, and gender groups is a key input to understanding whether or not "leakage" from employer-sponsored retirement plans is an issue that needs to be addressed.

Asset allocation. IRA investors select the investments for their accounts and determine how to allocate their IRA balances across asset classes. Analysis will shed light on the range of IRA investors' individual asset allocations and how asset allocation across broad investment types may vary with investor age, income, or gender.[18] Policymakers are interested in learning how investors' portfolios change as they get close to retirement.

Withdrawal activity. Because retirement savers decide on the use of their retirement accumulations, another report will analyze traditional IRA withdrawal activity. Although loans are not permitted from IRAs, withdrawals are. Withdrawals from traditional IRAs made before the IRA investor is 59½ typically are subject to a penalty in addition to income taxes.[19] Withdrawals made after the IRA investor is 59½ typically are penalty-free, but still generally subject to income tax. Traditional IRA investors aged 70½ or older are required to take distributions at a minimum level based on remaining life expectancy. This analysis will explore individuals' decisions on when to take distributions from their traditional IRAs, as well as the range of distribution amounts.

Roth IRA investor activity. Future reports will apply a similar analysis to Roth IRA investors. Roth IRAs were first available in 1998. Although relatively newer and smaller compared with traditional IRA aggregates, Roth IRAs typically have had higher aggregate contribution inflows than traditional IRAs.[20]

Traditional IRA Investors' Contribution Activity in 2007

Background

Policymakers designed the traditional IRA with two goals in mind: (1) to create a contributory retirement account for workers without access to plans at work, and (2) to provide a rollover vehicle to preserve assets accumulated in employer-sponsored retirement plans, both defined benefit (DB) and defined contribution (DC). While there are no restrictions on eligibility for rollover activity, there generally have been restrictions on eligibility for contributions.

Originally, workers under the age of 70½ and without employer-sponsored retirement plan coverage could make an annual contribution to an IRA of the lesser of $1,500 or 15 percent of compensation.[21] Individuals did not pay income taxes on these contributions (after-tax, or nondeductible, contributions were not allowed), but rather the contributions and investment earnings were taxed when withdrawn from the IRA.

Since Congress created the original, or traditional, IRA in 1974, lawmakers have added new types of IRAs and changed eligibility and contribution rules several times.

» In 1981, Congress included provisions in the Economic Recovery Tax Act (ERTA '81) to raise the annual traditional IRA contribution limit to the lesser of $2,000 or 100 percent of compensation. From 1982 to 1986, Congress allowed any worker with compensation to make tax-deductible contributions, regardless of income or retirement plan coverage at work.

» The Tax Reform Act of 1986 (TRA '86) removed universal tax-deductibility, but created nondeductible contributions to traditional IRAs. The total contribution allowed (deductible or nondeductible) remained at $2,000 with no allowance for future adjustments based on inflations.

» Congress eased restrictions on eligibility in the Taxpayer Relief Act of 1997 by raising the income limits that determine whether an individual covered by an employer-sponsored retirement plan is eligible to make deductible traditional IRA contributions. In addition, this act created the Roth IRA.

» The Economic Growth and Tax Relief Reconciliation Act in 2001 (EGTRRA) increased the traditional IRA contribution limit for the first time in 20 years and also permitted additional "catch-up" contributions for eligible workers aged 50 or older.[22]

The level of tax-deductible contributions to traditional IRAs has risen and fallen with these changes in eligibility and contribution limits. Such contributions totaled $1.4 billion in their first year (1975) and remained at these low levels until the early-1980s, when deductible contributions to traditional IRAs averaged $34.4 billion per year and use of traditional IRAs expanded (Figure 5). In 1987, deductible IRA contributions fell to an aggregate $14.1 billion, and declined further, amounting to $7.4 billion, in 2001. It was not until after Congress enacted EGTRRA that traditional IRA contributions picked up. Nevertheless, there continue to be significant restrictions on deductible traditional IRA contributions that limit some individuals' ability to make such contributions to these accounts (Figure 6).

FIGURE 5

Rules Affect Aggregate Traditional IRA Deductible Contributions*

Selected years

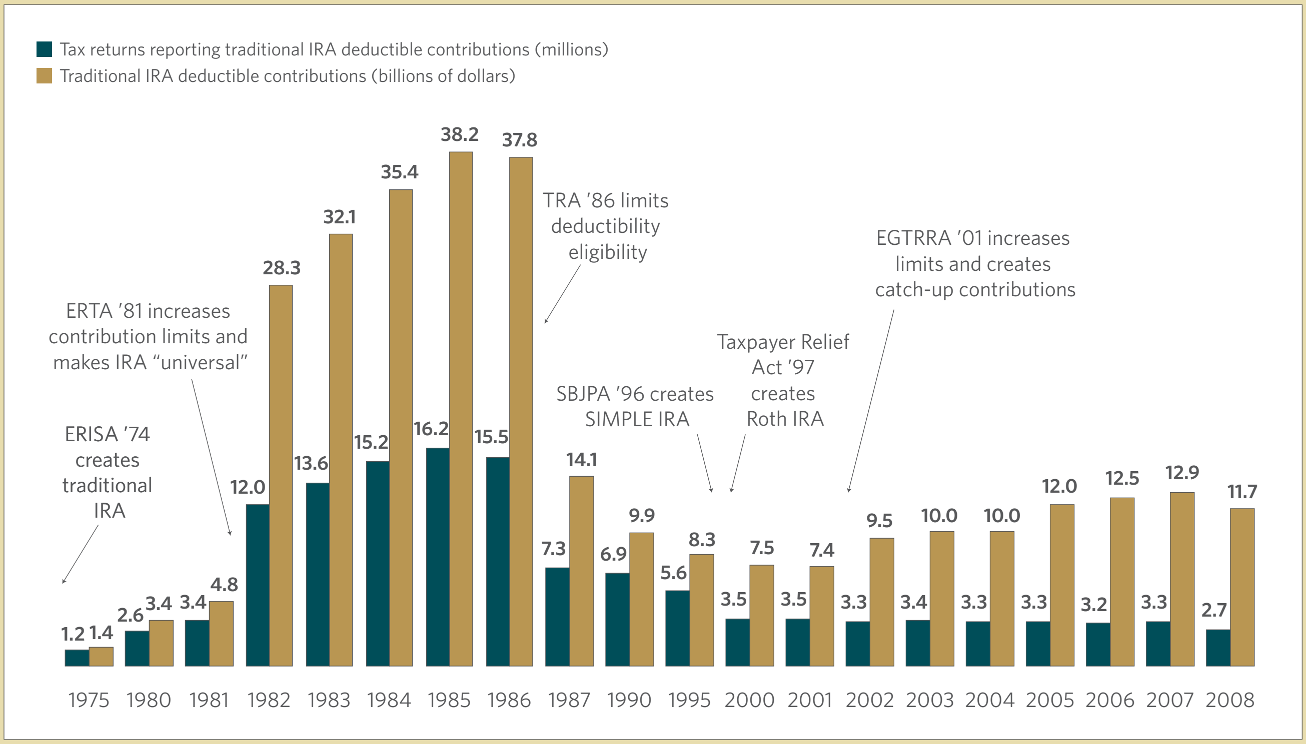


**Figure reports deductible IRA contributions reported on individual income tax returns (Form 1040).*

Sources: Internal Revenue Service Statistics of Income Division, Individual Income Tax Returns, Publication 1304, *various years; Internal Revenue Service,* SOI Bulletin, *various issues; and ICI summary of legislative changes*

FIGURE 6

Traditional IRA Eligibility Rules and Contribution Limits

Income limit, deductibility eligibility, and contribution limit by selected income tax return filing status, 2007 and 2008

	Limits in 2007			Limits in 2008		
	Income limit[1]	Deductibility[2]	Contribution limit[3]	Income limit[1]	Deductibility[2]	Contribution limit[3]
Filing status						
Single and covered by an employer-sponsored retirement plan	$52,000 or less	Full deduction	$4,000	$53,000 or less	Full deduction	$5,000
			$5,000 if 50 or older			$6,000 if 50 or older
	$52,001 to $61,999	Partial deduction	Same	$53,001 to $62,999	Partial deduction	Same
	$62,000 or more	No deduction	Same	$63,000 or more	No deduction	Same
Single and not covered by an employer-sponsored retirement plan	None	Full deduction	Same	None	Full deduction	Same
Married filing jointly and both spouses are covered by employer-sponsored retirement plans	$83,000 or less	Full deduction	$4,000	$85,000 or less	Full deduction	$5,000
			$5,000 if 50 or older, each			$6,000 if 50 or older, each
	$83,001 to $102,999	Partial deduction	Same	$85,001 to $104,999	Partial deduction	Same
	$103,000 or more	No deduction	Same	$105,000 or more	No deduction	Same
Married filing jointly and one spouse is covered by an employer-sponsored retirement plan	$156,000 or less	Full deduction	Same	$159,000 or less	Full deduction	Same
	$156,001 to $165,999	Partial deduction	Same	$159,001 to $168,999	Partial deduction	Same
	$166,000 or more	No deduction	Same	$169,000 or more	No deduction	Same
Married filing jointly and neither spouse is covered by an employer-sponsored retirement plan	None	Full deduction	Same	None	Full deduction	Same

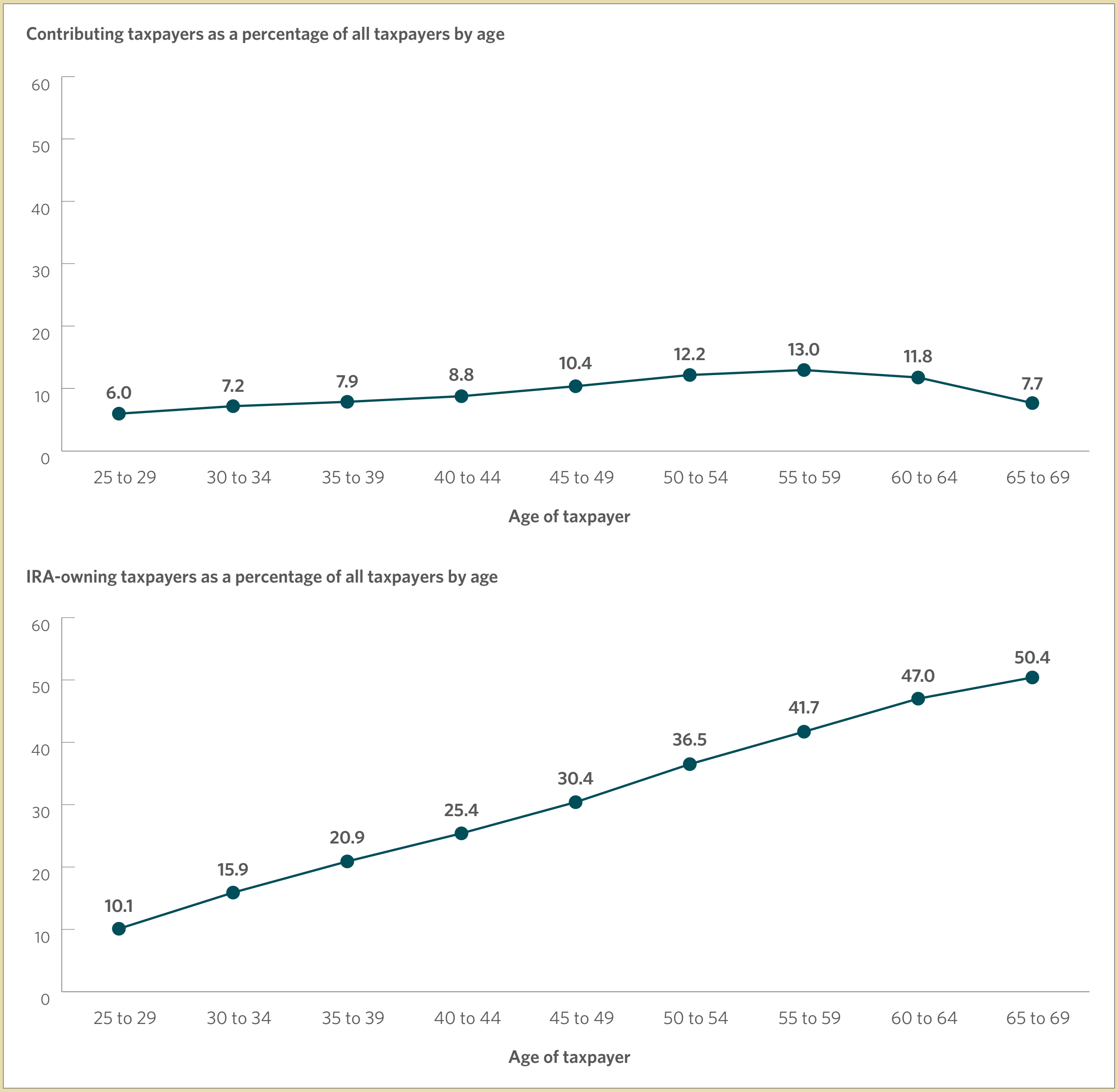
[1]The income limit refers to the modified adjusted gross income (AGI) of the household's tax return.
[2]Deductibility refers to the amount of the total contribution that may be deducted from income for tax purposes.
[3]The limit is the total amount that may be contributed, either on a deductible or nondeductible (after-tax) basis. Individuals also contributing to Roth IRAs are constrained so that their total traditional and Roth IRA contributions do not exceed the limit. The household must have compensation sufficient to cover the contribution amount and the individual must not have reached age 70½ by the end of the year.
Note: See Figure 15 for traditional IRA contribution limits over time. See Internal Revenue Service, Publication 590, *for complete details on the eligibility rules.*
Source: ICI summary of U.S. Internal Revenue Code

Contribution activity is low across U.S. taxpayers. IRS data for tax year 2004 (latest data) show that only 9.4 percent of working-age taxpayers made contributions to IRAs.[23] Older working-age taxpayers generally were more likely to make some type of IRA contribution compared with younger working-age taxpayers (Figure 7). For example, 13.0 percent of U.S. taxpayers in their late fifties made IRA contributions, compared with 6.0 percent of U.S. taxpayers in their late twenties. Although most individuals do not make contributions to IRAs in a given year, IRAs serve as an important means to preserve assets accumulated in employer-sponsored retirement plans.[24] Consequently, ownership of IRAs rises with the age of the taxpayer: 50.4 percent of taxpayers in their late sixties owned some type of IRA in 2004, compared with 10.1 percent of taxpayers in their late twenties.[25]

FIGURE 7

Older Taxpayers Typically Are More Likely to Contribute to IRAs

Tax year 2004



Note: IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). The sample is 149.6 million working-age U.S. taxpayers.

Source: ICI tabulations of information from Internal Revenue Service Statistics of Income Division

The incidence of contributions among IRA investors is the lowest among those with traditional IRAs.[26] This low level of activity likely results from several factors. Some traditional IRA investors may find that saving through their employer-sponsored retirement plans meets their savings needs. Households headed by older working-age individuals tend to own both IRAs and DC plan accounts (Figure 8). For some traditional IRA investors, presence of employer-sponsored plans may curtail their ability to make deductible contributions to their traditional IRAs. Figure 6 highlights the restrictions on eligibility for tax-deductible contributions because of retirement plan coverage, which may deter some traditional IRA investors from making contributions to their traditional IRAs.[27] Some traditional IRA investors may prefer to direct savings into their Roth IRAs. In addition, there is some evidence that confusion about IRA rules may prevent some individuals from contributing to IRAs.[28] Difficulty in determining eligibility for a tax-deductible contribution may deter some individuals from making any contribution. For other individuals, the primary focus of current household saving may not be for retirement. Households may be focused on saving for other more immediate goals, such as saving for emergencies, education, or housing.

Focusing on individuals who made contributions to traditional IRAs, this report seeks to promote better understanding of the factors that are associated with contribution activity. The IRA Investor Database allows analysis of how contribution activity varies by IRA investor characteristics (such as age, income, and gender) or activities (such as whether they recently have rolled over assets from employer-sponsored retirement plans or recently have made withdrawals from their IRAs).

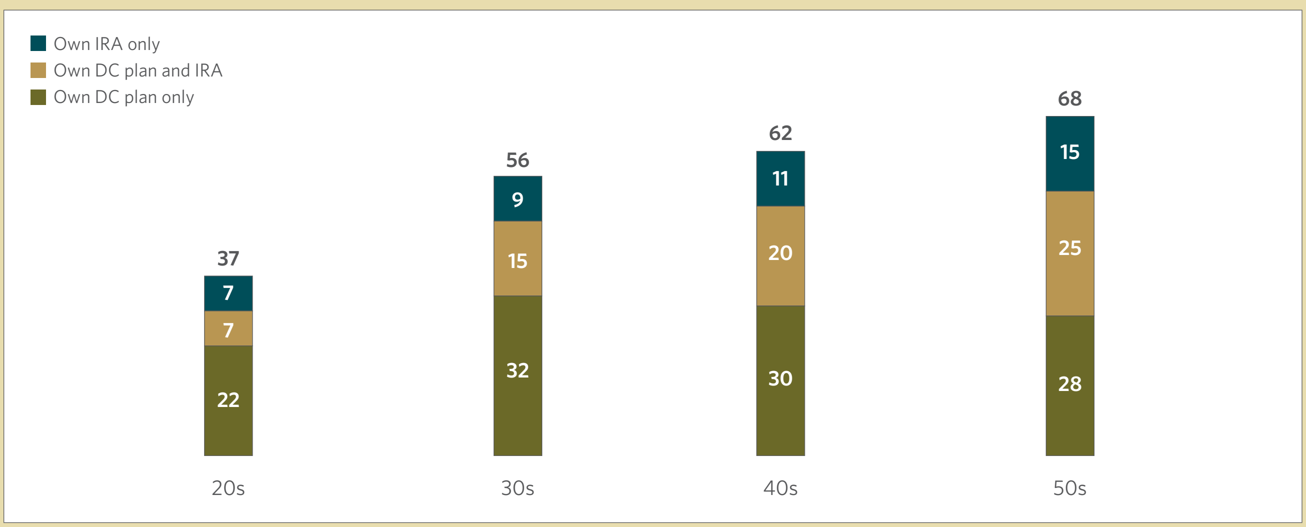
The research takes two approaches to examine working-age traditional IRA investors' contribution activity. First, the analysis presents the variation in contribution activity across one or two variables at a time. Second, regression analysis isolates the impact of each variable while controlling for the impact of the other variables.

This report uses the IRA recordkeeper data to examine how the decision of whether or not to contribute varies by IRA investor characteristics and activities. Next, the research sheds light on the range of individual traditional IRA contribution amounts and whether traditional IRA contributors reach the IRS contribution limits. These analyses use the 2007 and 2008 snapshots (cross-sections) of working-age traditional IRA investors. Finally, analysis of the group of traditional IRA investors present in both 2007 and 2008 provides insight into the persistence of contribution activity.

FIGURE 8

Ownership of Both Defined Contribution Plan Accounts and IRAs Tends to Rise with Working Age

Percentage of U.S. households by age of household head, 2007



Note: IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
Source: ICI tabulations of 2007 Federal Reserve Board Survey of Consumer Finances

Incidence of Traditional IRA Contribution Activity Varies Systematically over the Lifecycle

This section explores how the decision of whether or not to contribute varies across working-age traditional IRA investors in 2007. The analysis found that contribution activity varies with traditional IRA investor characteristics and rollover or withdrawal activity.

Consistent with the contribution activity observed in household survey and tax data, relatively few traditional IRA investors in The IRA Investor Database made contributions to their traditional IRAs in tax year 2007.[29] Among the 6.4 million working-age traditional IRA investors[30] in the 2007 database, only 11.2 percent made contributions (either tax-deductible or nondeductible) to their traditional IRAs in tax year 2007 (Figure 9).

Younger Traditional IRA Investors Were More Likely to Contribute in 2007

Among working-age traditional IRA investors in 2007, younger traditional IRA investors were more likely to have contributed to their traditional IRAs compared with older traditional IRA investors. For example, 13.1 percent of traditional IRA investors in their late twenties contributed to their traditional IRAs in tax year 2007, compared with 12.2 percent of traditional IRA investors in their early forties, and 6.9 percent of traditional IRA investors in their late sixties (Figure 9).[31]

As mentioned above, some traditional IRA investors may be directing saving into other types of retirement vehicles. A complete accounting of all of the other savings outlets is not possible, but if contributions by traditional IRA investors into their Roth IRAs at the same financial

FIGURE 9

Contribution Activity of Working-Age Traditional IRA Investors in 2007

Number of traditional IRA investors and traditional IRA contributors[1, 2] by age

	Traditional IRA investors		Traditional IRA contributors[1, 2]		Memo: percentage of traditional IRA investors who made contributions[1, 2]
	Number *Thousands*	Share[3] *Percent*	Number *Thousands*	Share[3] *Percent*	
Age					
25 to 29	192.2	3.0%	25.1	3.5%	13.1%
30 to 34	377.1	5.9	47.4	6.6	12.6
35 to 39	601.1	9.4	75.1	10.4	12.5
40 to 44	767.7	12.0	93.7	13.0	12.2
45 to 49	953.0	14.9	113.2	15.7	11.9
50 to 54	1,014.3	15.8	120.3	16.7	11.9
55 to 59	968.9	15.1	114.0	15.8	11.8
60 to 64	884.1	13.8	86.8	12.1	9.8
65 to 69	644.4	10.1	44.6	6.2	6.9
All	*6,403.0*	*100.0*	*720.2*	*100.0*	*11.2*
Memo:					
25 to 49	2,891.3	45.2	354.5	49.2	12.3
50 to 69	3,511.8	54.8	365.7	50.8	10.4

[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]Share is the percentage of the total.
Note: Figure A.4 in the appendix provides additional detail by gender.
Source: The IRA Investor Database™

services firm are counted as contribution activity, then the percentage of traditional IRA investors in the database with contribution activity rises from 11.2 percent (Figure 9) to 16.6 percent.[32] Observed contribution rates to traditional or Roth IRAs in 2007 conditional on owning a traditional IRA are higher for all age groups but still decline with age, from 21.0 percent for traditional IRA investors in their late twenties down to 9.7 percent for those in their late sixties.

Contribution Activity Tended to Rise with Income in 2007

Working-age traditional IRA investors with higher incomes tend to have higher rates of contribution activity compared with lower-income working-age traditional IRA investors.[33] This pattern occurs across all age groups. For example, among traditional IRA investors in their late twenties, 18.9 percent of those earning $140,000 or more contributed to their traditional IRAs in 2007, compared with 12.6 percent of those earning $55,000 to less than $65,000 (Figure 10).[34] Nearly 10 percent of working-age traditional IRA investors in their late twenties earning less than $35,000 contributed to their traditional IRAs in 2007.

The positive relationship between earnings and contribution activity is consistent with other observations about savings and participation in employer-sponsored pensions.[35] There are various explanations for why saving and pension participation rise with investor income, but Social Security is probably the most important. The basic retirement benefit formula in Social Security is progressive, replacing a much higher fraction of pre-retirement earnings for lower earners. The differences in replacement rates across the earnings distribution are substantial, with retired workers in the bottom quintile of lifetime earnings receiving Social Security replacement rates that are more than double the replacement rates for workers in the top quintile of lifetime earnings.[36]

2007 IRS Income by Zip Code

The IRA Investor Database contains income information only for a subset of IRA investors. Thus, to carry out an analysis using income, one must develop a proxy for income. The IRA Investor Database contains five-digit zip codes, which were used to assign each IRA investor the average income per tax return for the investor's zip code. This income information came from the Internal Revenue Service, *IRS Statistics of Income (SOI) Individual Tax Statistics Zip Code Data* for 2007. Discussion in the text of "IRA investor income" refers to the average income of tax returns in the zip code area in which the investor lives.

Zip-code level income data have been useful in a variety of research studies. For example, see Price and Novak 1999, DeLia 2003, Skinner and Zhou 2006, Currie and Moretti 2007, and Mian and Sufi 2009.

For additional discussion, see the appendix.

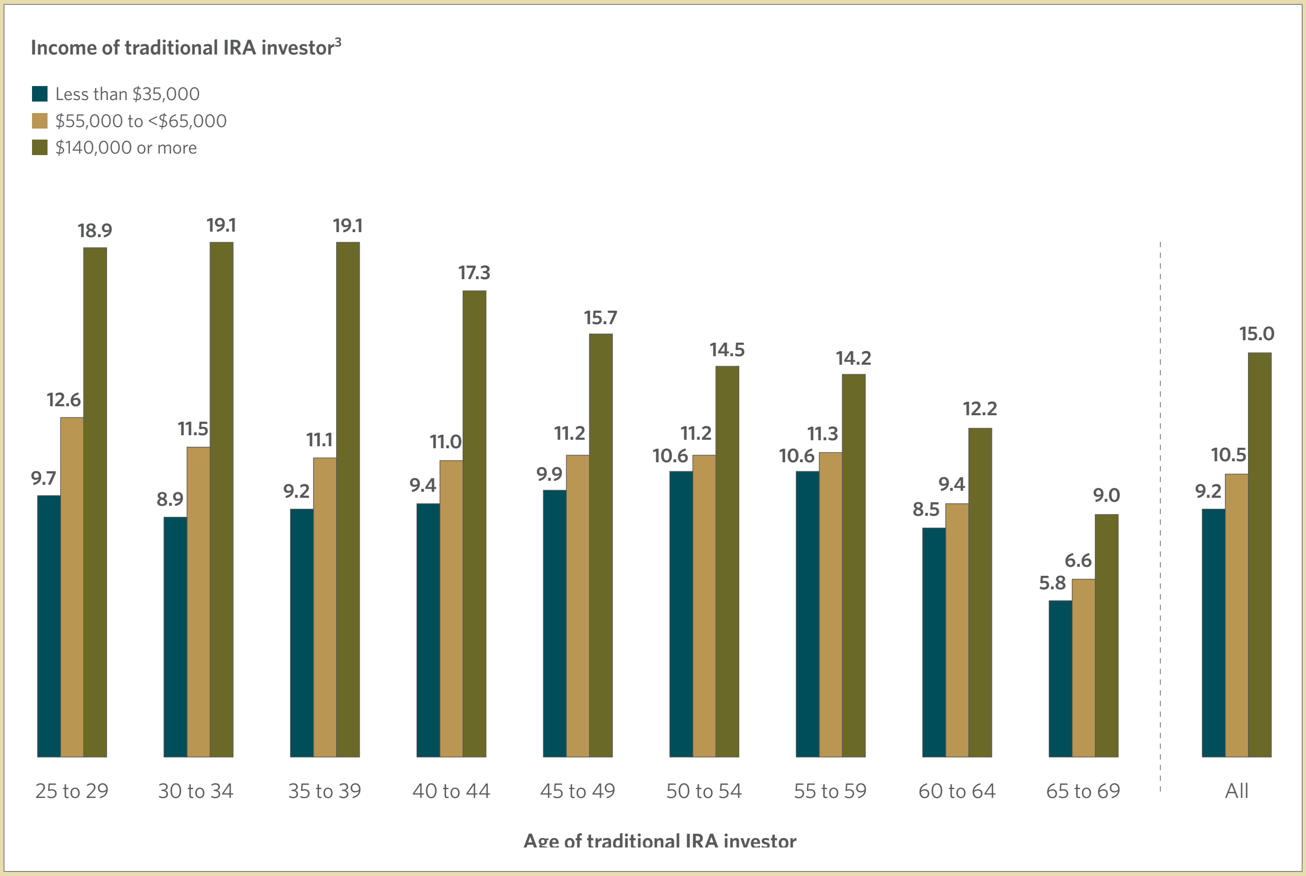
The effect of income on contribution activity is stronger for the younger traditional IRA investors. In any given income group, the younger traditional IRA investors are much more likely to contribute than older traditional IRA investors in the same income group. For example, 18.9 percent of traditional IRA investors in their late twenties earning $140,000 or more contributed to their traditional IRAs in 2007, compared with 9.0 percent of those in their late sixties with similar incomes (Figure 10). This is likely because a younger individual with a given income level is likely to be on a higher-earnings career path compared with an older individual in the same year with the same income.[37] Thus, the impetus to save is more income-driven among younger traditional IRA investors, but the income differential diminishes among older traditional IRA investors.

Variation in traditional IRA contribution activity across income groups is smaller among the older working-age traditional IRA investors. For example, the highest income group among traditional IRA investors in their late sixties is one-and-one-half times as likely to contribute as the lowest income group, while the highest income group among traditional IRA investors in their late twenties is about twice as likely to contribute as the lowest income group (Figure 10). The narrowing of this differential suggests that aging leads to more and more traditional IRA investors wanting to increase their saving as they approach retirement, regardless of their income.

FIGURE 10

Traditional IRA Investors with Higher Incomes Were More Likely to Contribute in 2007

Traditional IRA contributors[1, 2] as a percentage of traditional IRA investors by age and income,[3] 2007



[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.
Note: The sample is 6.4 million working-age traditional IRA investors in 2007. Figure A.5 in the appendix provides additional detail.
Source: The IRA Investor Database™

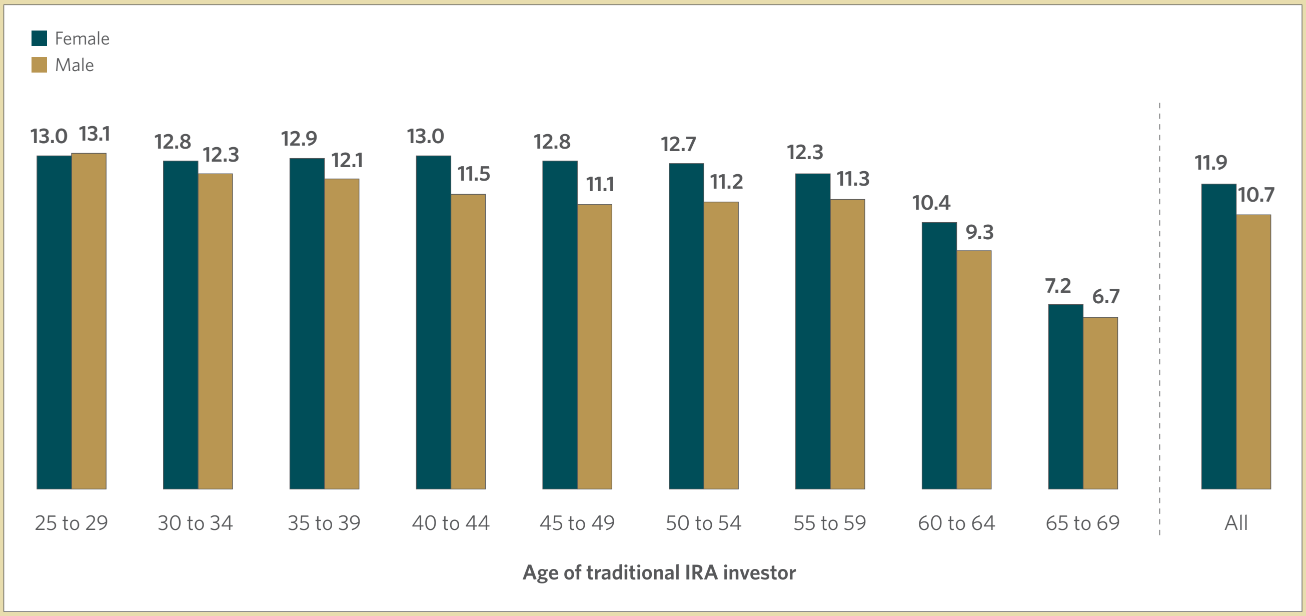
Female Traditional IRA Investors Typically Were More Likely to Contribute to Their Traditional IRAs Than Males in 2007

Female traditional IRA investors in most age groups were more likely to make contributions compared with their male counterparts. With the exception of working-age female traditional IRA investors younger than 30, female traditional IRA investors were more likely to contribute than their male counterparts across the remaining age groups. For example, 13.0 percent of female traditional IRA investors in their early forties made contributions in tax year 2007, compared with 11.5 percent of male traditional IRA investors in their early forties (Figure 11). More than 10 percent of female traditional IRA investors in their early sixties made contributions in tax year 2007, compared with 9.3 percent of male traditional IRA investors in their early sixties. Overall, 11.9 percent of working-age female traditional IRA investors made contributions in tax year 2007 while 10.7 percent of working-age male traditional IRA investors did so.[38]

FIGURE 11

Female Investors Typically Were More Likely to Contribute to Their Traditional IRAs Than Males in 2007

Traditional IRA contributors[1, 2] as a percentage of traditional IRA investors by age and gender, 2007



[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
Note: The sample is 6.4 million working-age traditional IRA investors in 2007. Figures A.4 and A.5 in the appendix provide additional detail.
Source: The IRA Investor Database™

After controlling for other factors, the regression analysis also found that working-age female traditional IRA investors tended to be more likely to contribute than working-age male traditional IRA investors. The effect of gender varied with traditional IRA investor age. With the exception of female traditional IRA investors younger than 30, female traditional IRA investors were more likely to contribute than their male counterparts across the remaining age groups, after controlling for the other variables. The effect of gender on traditional IRA contribution activity in 2007 is most pronounced for mid-career traditional IRA investors (Figure 12). For example, regression estimates indicated that female traditional IRA investors in their late forties were 13 percent more likely to contribute to their traditional IRAs than their male counterparts; female traditional IRA investors in their early sixties were 7 percent more likely to contribute than their male counterparts; and females in their late sixties were only 3 percent more likely.[39]

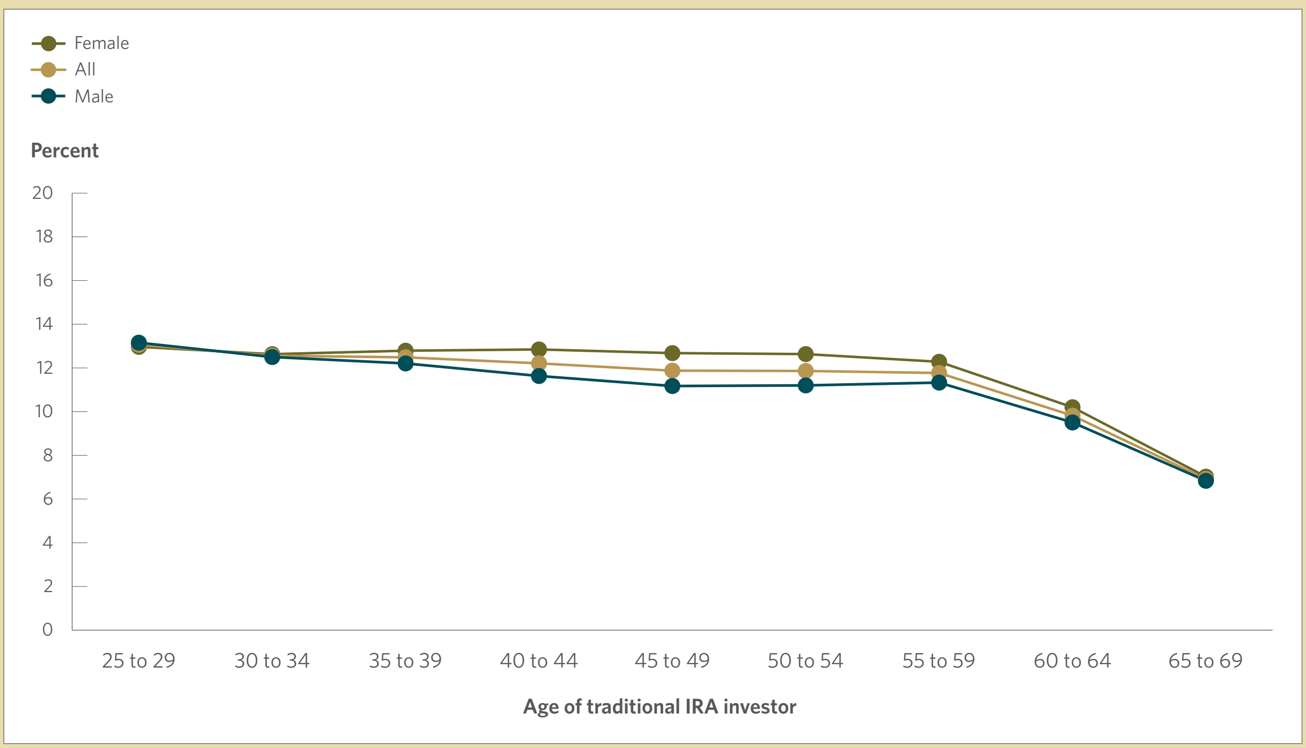
Same-Year Rollover Activity Put a Damper on Contribution Activity in 2007

Traditional IRA investors who make rollovers into their traditional IRAs are less likely to make contributions in the same year.[40] The regression results, which isolated the impact of rollover activity in 2007 ("same-year rollover" activity), found that traditional IRA investors with rollovers in 2007 were less likely to make contributions in tax year 2007.[41] The negative effect was largest among the youngest working-age traditional IRA investors, tapering off among traditional IRA investors in their early sixties, and only creating a minor drag on the late-sixties age group (Figure 13). For example, traditional IRA investors in their late twenties with rollovers in 2007 were 61 percent less likely to contribute compared with those without rollovers in 2007. Traditional IRA investors in their late fifties with rollovers in 2007 were 27 percent less likely to contribute compared with those without rollovers in 2007. Traditional IRA investors in their late sixties with rollovers in 2007 were only very slightly less likely (1 percent) to contribute than those without rollovers in 2007.

FIGURE 12

The Effect of Gender on Traditional IRA Contribution Activity Is Most Pronounced Mid-Career

Estimated probability of contributing to a traditional IRA by age and gender, 2007

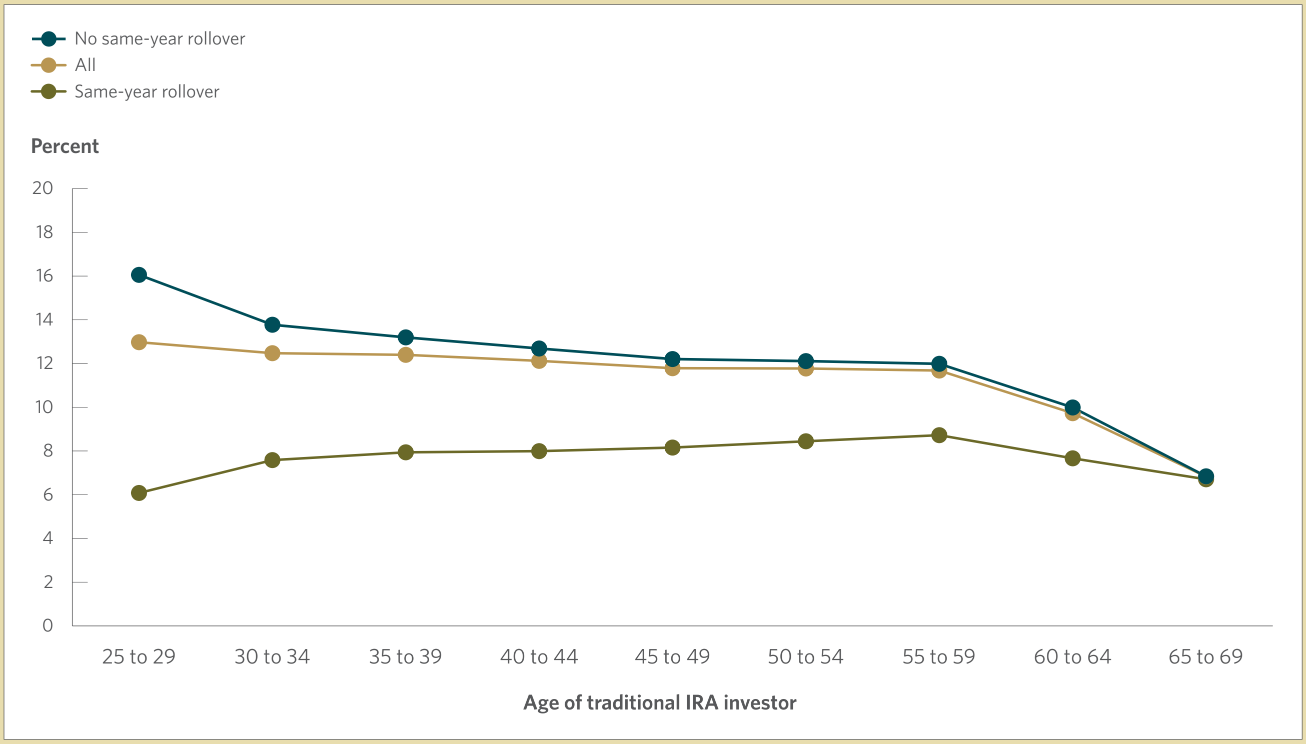


Note: Analysis is of the impact of gender on traditional IRA contributions (both deductible and nondeductible) in tax year 2007 among working-age traditional IRA investors. Figures A.11 and A.13 in the appendix provide additional detail.
Source: Regression analysis using data from The IRA Investor Database™

FIGURE 13

Traditional IRA Investors with Same-Year Rollovers Were Less Likely to Contribute in 2007

Estimated probability of contributing to a traditional IRA by age and same-year rollover activity, 2007



Note: Analysis is of the impact of rollovers in 2007 ("same-year rollovers") on the decision to make traditional IRA contributions (both deductible and nondeductible) in tax year 2007 among working-age traditional IRA investors. Figures A.11 and A.13 in the appendix provide additional detail.

Source: Regression analysis using data from The IRA Investor Database™

The most likely reason that rollover activity puts a damper on contribution activity is employer-sponsored retirement plan coverage. Traditional IRA investors with rollovers typically have DC plan accounts or DB plan coverage. For younger traditional IRA investors, that retirement plan coverage likely is at their current employers, thus, they may not be eligible for tax-deductible contributions.[42] In addition, younger traditional IRA investors may not be able to contribute both to their DC plans and to their traditional IRAs. For some IRA investors, their rollover may be their first introduction to IRA investing, and they may not have researched the possibility of contributions.

Although still negative, the impact of same-year rollovers was much smaller for the traditional IRA investors in their late sixties. For these investors, it may be late-career "topping off the tank" activity that leads to same-year rollover and contribution activity, perhaps immediately prior to retirement. Alternatively, it may be the case that the rollover amounts among these older investors are from retirement plan accumulations much earlier in their careers, and the rollover activity is a consolidation exercise.

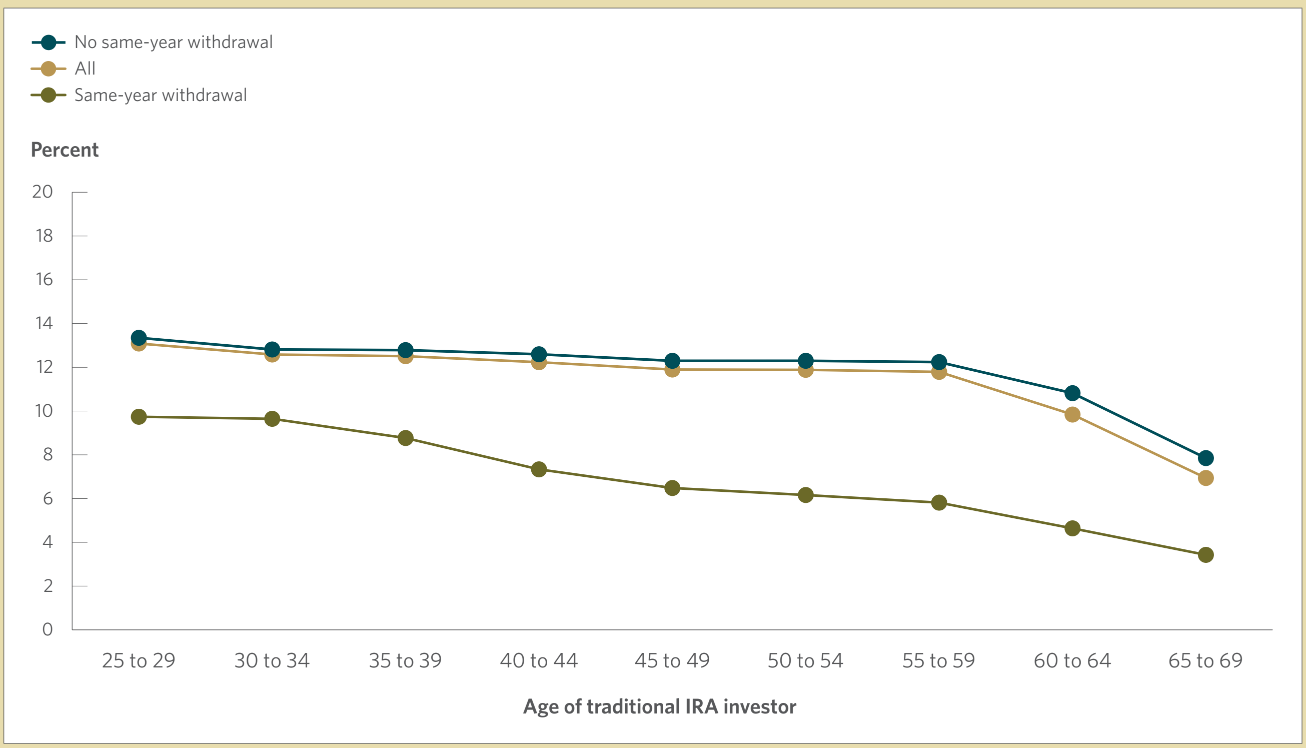
Same-Year Withdrawal Activity Depressed Contribution Activity in 2007

Traditional IRA contribution activity is negatively related to same-year withdrawal activity, with the greatest effect occurring among the older working-age population.[43] The regression results, which isolated the impact of withdrawal activity in 2007 ("same-year withdrawal" activity), found that working-age traditional IRA investors with withdrawals in 2007 were less likely to make contributions in tax year 2007.[44] The negative effect was noticeable across all age groups but largest among older working-age traditional IRA investors (Figure 14). For example, traditional IRA investors in their late twenties with withdrawals in 2007 were 27 percent less likely to contribute compared with those without withdrawals in 2007. Traditional IRA investors in their late sixties with withdrawals in 2007 were 56 percent less likely to contribute compared with those without withdrawals in 2007.

FIGURE 14

Traditional IRA Investors with Same-Year Withdrawals Were Less Likely to Contribute in 2007

Estimated probability of contributing to a traditional IRA by age and same-year withdrawal activity, 2007



Note: Analysis is of the impact of withdrawals in 2007 ("same-year withdrawals") on the decision to make traditional IRA contributions (both deductible and nondeductible) in tax year 2007 among working-age traditional IRA investors. Figures A.11 and A.13 in the appendix provide additional detail.
Source: Regression analysis using data from The IRA Investor Database™

There are various reasons why withdrawal activity could reduce contribution activity, and those reasons may well vary with age. Younger traditional IRA investors taking withdrawals typically are dealing with financial stress (e.g., job loss, divorce, health issues).[45] Thus, it is unlikely that those individuals will be able to contribute. Older traditional IRA investors taking withdrawals are likely to be in or phasing into retirement, and thus not contributing. The negative impact of same-year withdrawal activity on contribution activity was smaller for younger traditional IRA investors compared with older ones, which may reflect a different approach to IRA saving. The slightly lesser dampening effect among traditional IRA investors younger than 40 may reflect contributions simultaneously with penalty-free withdrawals for education or first-time home purchase.[46]

Magnitude of Traditional IRA Contributions Varies Systematically over the Lifecycle

Traditional IRA Contribution Limits

As mentioned above, EGTRRA adjusted upward the traditional IRA contribution limit, which had been set at $2,000 for 20 years. In tax year 2007, the traditional IRA contribution limit was $4,000 for workers younger than 50 and, including catch-up, $5,000 for workers aged 50 or older (Figure 15). Although the amount that is deductible for income taxes may be limited depending on a household's retirement plan coverage at work, income, and other factors (Figure 6), workers with compensation to cover the contribution amount may contribute on a nondeductible (after-tax) basis to traditional IRAs for themselves or their spouses.[47] The database contains a contribution variable that includes both tax-deductible and nondeductible traditional IRA contribution amounts.

FIGURE 15

Internal Revenue Code Traditional IRA Contribution Limits, 2001–2010

**After 2008, traditional IRA contributions are indexed for inflation in $500 increments. Traditional IRA catch-up contributions are not indexed for inflation.*
Source: ICI summary of U.S. Internal Revenue Code

Traditional IRA Contributors Tended to Contribute at the Limit in 2007

With the exception of the very youngest working-age traditional IRA contributors, more than half of each age group contributed at its relevant, or "age-allowed," contribution limit in 2007 (Figures 16, 17, and 18). In 2007, 720,200 traditional IRA contributors contributed a total of $2.5 billion (Figure 16). The median contribution among traditional IRA contributors in their thirties was the $4,000 limit, the same as among contributors in their forties. The median contribution among traditional IRA contributors in their fifties was $5,000, and 60.4 percent of these contributors took advantage of full catch-up contributions. The median contribution among traditional IRA contributors in their sixties was also $5,000.

FIGURE 16

Traditional IRA Contributions by Age in 2007

Number and amount of contributions[1, 2] to traditional IRAs by age, 2007

	Traditional IRA contributors[1, 2]		Traditional IRA contributions[1, 2]		Traditional IRA contribution amount[2]	
	Number *Thousands*	Share[3] *Percent*	Amount *Millions*	Share[3] *Percent*	Median	Mean
Age						
25 to 29	25.1	3.5%	$59.5	2.4%	$2,400	$2,370
30 to 34	47.4	6.6	129.7	5.2	4,000	2,740
35 to 39	75.1	10.4	222.2	9.0	4,000	2,960
40 to 44	93.7	13.0	286.8	11.6	4,000	3,060
45 to 49	113.2	15.7	352.6	14.3	4,000	3,120
50 to 54	120.3	16.7	456.8	18.5	5,000	3,800
55 to 59	114.0	15.8	444.8	18.0	5,000	3,900
60 to 64	86.8	12.1	344.8	13.9	5,000	3,970
65 to 69	44.6	6.2	175.7	7.1	5,000	3,940
All	*720.2*	*100.0*	*2,472.9*	*100.0*	*4,000*	*3,430*

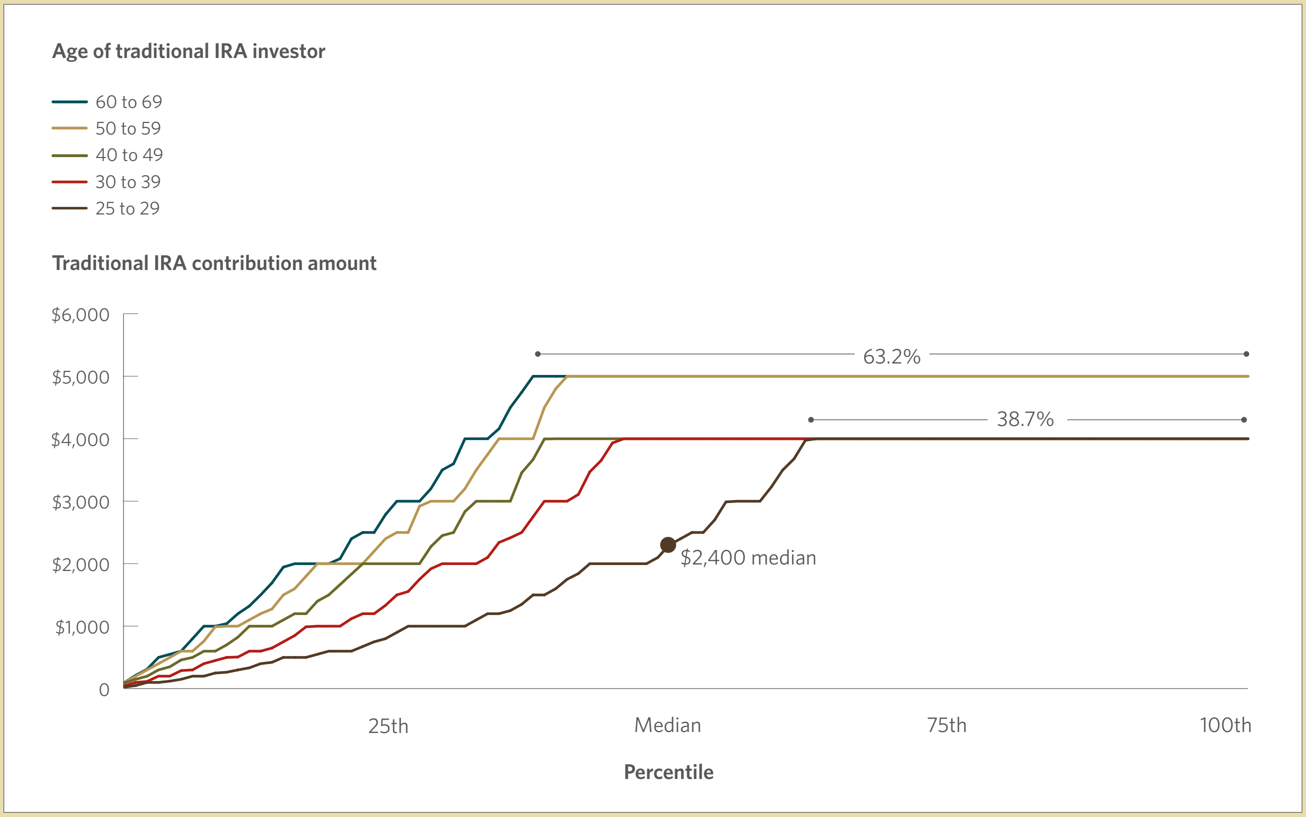
[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]Share is the percentage of the total.
Source: The IRA Investor Database™

In addition, older working-age traditional IRA contributors tended to contribute more than younger working-age contributors. Figure 17 plots the individual contribution amounts from smallest to largest among the different broad age groups. For example, the lowest line of the figure shows the contribution amounts among traditional IRA contributors in their late twenties, going left to right from the smallest to the largest. As labeled in the figure, the median contribution among traditional IRA contributors in their late twenties was $2,400 in 2007, and 38.7 percent of traditional IRA contributors in their late twenties contributed at the $4,000 limit. The top-most line of Figure 17 tracks the individual contributions of traditional IRA contributors in their sixties. In 2007, 63.2 percent of traditional IRA contributors in their sixties took full advantage of the catch-up contribution and contributed $5,000 to their traditional IRAs. If one were to consider traditional IRA investors in their sixties who contributed at least the $4,000 limit, then 69.1 percent were at the limit.

FIGURE 17

Older Working-Age Traditional IRA Contributors Tended to Make Higher Contributions in 2007

Percentile distribution of contributions[1, 2] to traditional IRAs by age, 2007



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

[2]The contribution limit in tax year 2007 was $4,000 for traditional IRA investors younger than 50 and $5,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers.

Note: The sample is 720,200 working-age traditional IRA contributors in tax year 2007. Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.

Source: The IRA Investor Database™

All told, 59.6 percent of working-age traditional IRA contributors in 2007 contributed at the limits[48] (Figure 18).[49, 50] For individuals younger than 50, the contribution limit was $4,000 in 2007, and 57.7 percent of traditional IRA contributors in that age group contributed at the limit. For individuals in their fifties or sixties, the contribution limit was $5,000 in 2007, and 61.4 percent of traditional IRA contributors in those age groups took full advantage of catch-up contributions and contributed that amount.[51]

Some traditional IRA investors contributed amounts that matched contribution limits from earlier years.[52] Overall, 5.0 percent of all working-age traditional IRA contributors contributed $2,000 in 2007, which was last the limit in 2001 (Figures 18 and 15). Another 3.5 percent contributed $3,000, which was the limit from 2002 through 2004.

FIGURE 18

60 Percent of Working-Age Traditional IRA Contributors Contributed at the Limit in 2007

Percentage of traditional IRA contributors[1, 2] contributing the amount indicated by age, 2007

	Amount of traditional IRA contribution[2]							
	<$2,000	$2,000	>$2,000–<$3,000	$3,000	>$3,000–<$4,000	$4,000[3, 4]	>$4,000–<$5,000[3, 4]	$5,000[3, 4]
Age								
25 to 29	41.6	5.8	6.6	3.4	3.8	38.7	0.0	0.0
30 to 34	32.2	4.3	5.3	3.2	4.2	50.7	0.0	0.0
35 to 39	25.8	4.5	4.6	3.1	3.9	58.0	0.0	0.0
40 to 44	22.6	5.3	4.2	3.6	3.6	60.7	0.0	0.0
45 to 49	20.6	5.9	4.1	3.8	3.4	62.2	0.0	0.0
50 to 54	18.5	5.0	4.6	3.9	2.5	4.3	2.5	58.7
55 to 59	16.6	4.8	4.6	3.4	3.0	2.7	2.7	62.2
60 to 64	15.1	4.6	4.6	3.2	3.1	2.8	2.9	63.7
65 to 69	15.5	4.7	4.7	3.1	3.6	2.9	3.3	62.2
All	*20.9*	*5.0*	*4.6*	*3.5*	*3.3*	*30.1*	*1.4*	*31.2*
Memo:								
25 to 49	25.3	5.2	4.6	3.5	3.7	57.7	0.0	0.0
50 to 69	16.7	4.8	4.6	3.5	3.0	3.3	2.8	61.4

[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]The contribution limit in tax year 2007 was $4,000 for traditional IRA investors younger than 50 and $5,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers.
[4]In total, 59.6 percent of working-age traditional IRA contributors appear to have contributed at the limit. If individuals who were apparently eligible for catch-up contributions, and who contributed at least $4,000 are included, 62.6 percent of working-age traditional IRA contributors made contributions at the limit.
Note: The sample is 720,200 working-age traditional IRA contributors in tax year 2007. Figures A.15 and A.16 in the appendix provide additional detail by gender.
Source: The IRA Investor Database™

These patterns likely are the result of two forces. First, older workers are at the stage in the lifecycle of saving when significant amounts can be devoted to retirement saving.[53] Older households are more likely to indicate retirement saving is a primary goal of the household compared with younger households (Figure 19). Younger workers may not have sufficient income to save or may be focused on other savings goals, such as education or home purchase. Second, such older workers' savings efforts are facilitated by the higher IRS contribution limits (Figure 15).

FIGURE 19

Older Households Are More Focused on Retirement Saving as Their Primary Savings Goal

Percentage of households by age of household head, 2007

	Age of household head					
	All	**20s**	**30s**	**40s**	**50s**	**60s**
Retirement	36	12	28	40	53	40
Liquidity	30	35	31	29	25	36
Education, home, or major purchases	24	42	29	23	14	14
Education	10	14	15	12	6	2
Buying a home	5	14	6	3	2	1
Major purchases	9	13	8	8	7	11
Other	8	9	12	6	5	7
Investments	2	2	2	2	2	1
For the family	5	7	8	4	3	4
No particular reason	1	1	1	(*)	1	2
Can't/Don't save	2	2	1	3	3	3

(*) = less than 0.5 percent

Note: Column components may not add to the total because of rounding.

Source: ICI tabulations of the 2007 Federal Reserve Board Survey of Consumer Finances

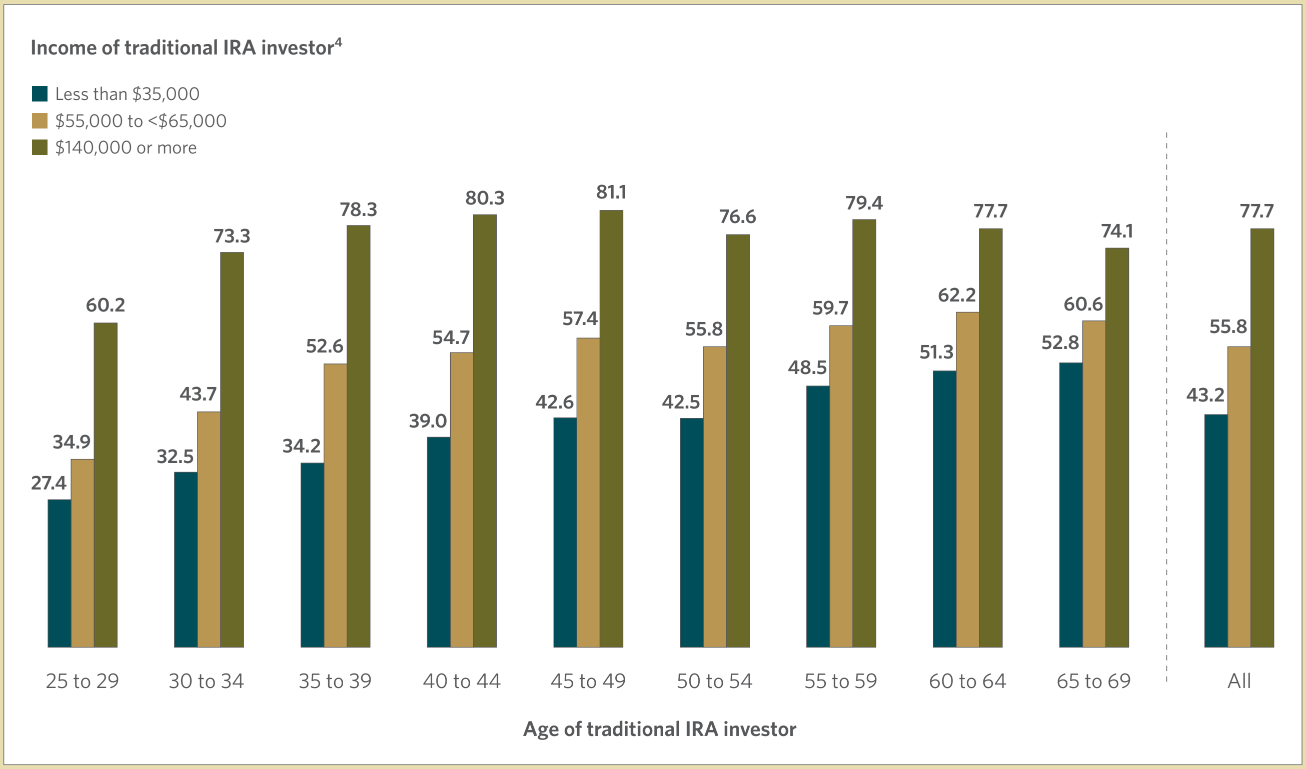
Higher-Income Working-Age Traditional IRA Contributors Were More Likely to Contribute at the Limit in 2007

Higher-income traditional IRA contributors tend to be more likely to contribute at the limit, compared with lower-income traditional IRA contributors. For example, overall, 43.2 percent of working-age traditional IRA contributors earning less than $35,000 contributed at the limit, compared with 77.7 percent of working-age traditional IRA contributors earning $140,000 or more (Figure 20).[54] Similar patterns occur across the income groups within each age group.

FIGURE 20

Traditional IRA Contributors with Higher Incomes Were More Likely to Contribute at the Limit in 2007

Traditional IRA contributors[1, 2] at the limit[3] as a percentage of traditional IRA contributors by age and income,[4] 2007



[1]*Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.*
[2]*Contributions include both deductible and nondeductible traditional IRA contribution amounts.*
[3]*The contribution limit in tax year 2007 was $4,000 for traditional IRA investors younger than 50 and $5,000 for traditional IRA investors aged 50 or older.*
[4]*Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.*
Note: The sample is 720,200 working-age traditional IRA contributors in tax year 2007. Figure A.21 in the appendix provides additional detail.
Source: The IRA Investor Database™

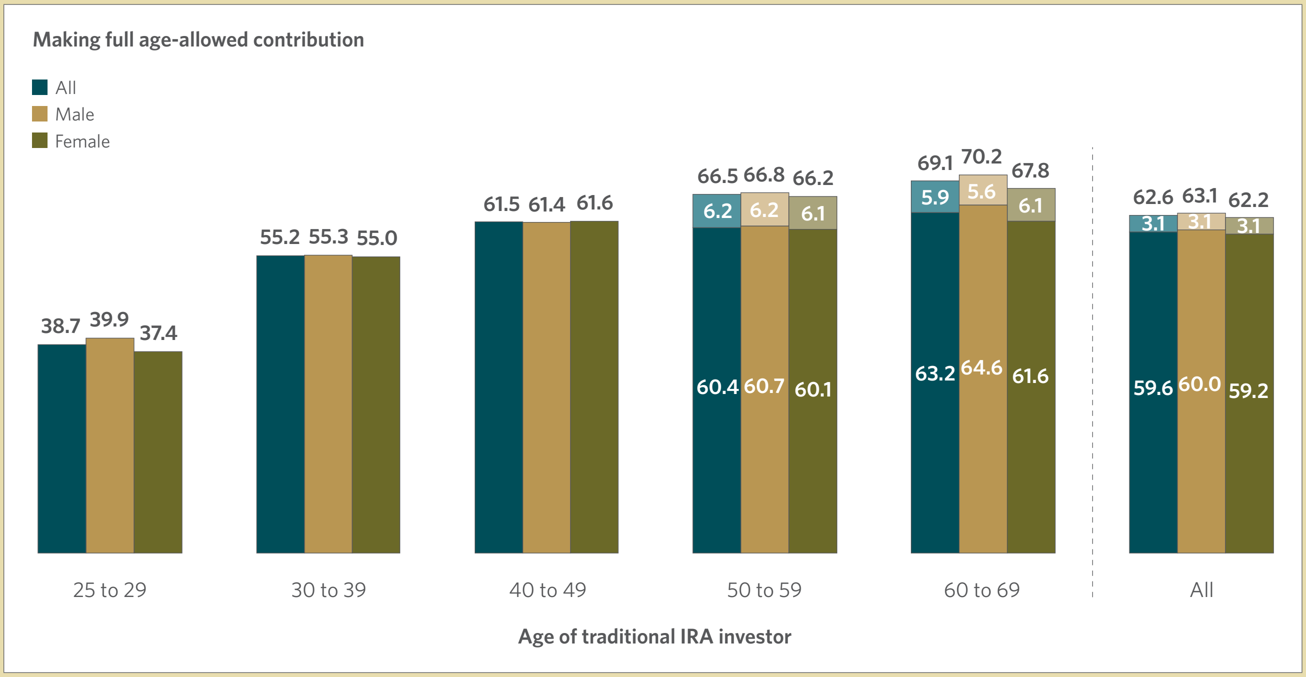
Mid-Career Female and Male Traditional IRA Contributors Were Similarly Likely to Contribute at the Limit in 2007

On average, there was little difference in the propensity to contribute at the limit between male and female traditional IRA contributors in 2007. Overall, 60.0 percent of working-age male traditional IRA contributors were at their age-allowed limits in 2007, compared with 59.2 percent of female traditional IRA contributors (Figure 21).[55, 56] If one counts older working-age traditional IRA contributors reaching the $4,000 limit but not taking any or full advantage of catch-up, then 63.1 percent of working-age male traditional IRA contributors contributed at least the $4,000 limit, compared with 62.2 percent of female traditional IRA contributors. However, these results are driven primarily by traditional IRA contributors in their sixties or late twenties. Among traditional IRA contributors aged 30 to 59, female and male traditional IRA contributors tended to be similarly likely to reach the limit in 2007.

FIGURE 21

Female and Male Traditional IRA Contributors Typically Were Similarly Likely to Reach the Limit in 2007

Traditional IRA investors contributors[1, 2] at the limit[3] as a percentage of traditional IRA contributors by age and gender, 2007



[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]Lighter shading indicates the traditional IRA investor made at least a $4,000 contribution, which was not the maximum allowed.
Note: The sample is 720,200 working-age traditional IRA contributors in tax year 2007. Figures A.15 and A.16 in the appendix provide additional detail. Components may not add to the total because of rounding.
Source: The IRA Investor Database™

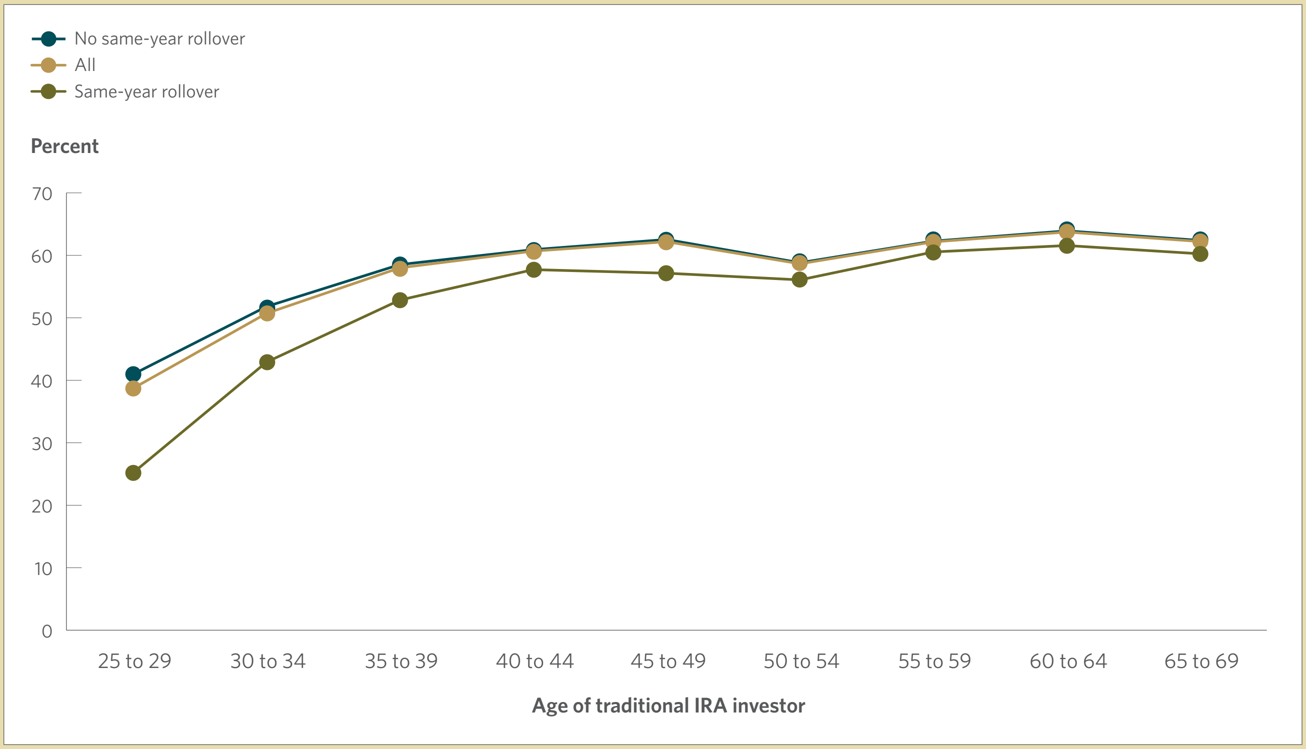
Same-Year Rollovers Reduced the Likelihood of Contributing at the Limit in 2007

Traditional IRA contributors with same-year rollover activity are less likely to contribute at the limit, particularly if the traditional IRA contributor is younger.[57] The regression results, which isolated the impact of rollover activity in 2007 ("same-year rollover" activity), found that working-age traditional IRA contributors who also did rollovers in 2007 were less likely to make contributions at the limit in tax year 2007.[58] The negative effect was largest among the youngest working-age traditional IRA investors, tapering off to a lower level among traditional IRA investors aged 50 or older (Figure 22). For example, traditional IRA contributors in their late twenties with rollovers in 2007 were 39 percent less likely to contribute at their $4,000 limit compared with those without rollovers in 2007. Traditional IRA contributors in their early fifties with rollovers in 2007 were 5 percent less likely to contribute at their $5,000 limit compared with those without rollovers in 2007. Traditional IRA investors in their late sixties with rollovers in 2007 were 4 percent less likely to contribute at their $5,000 limit than those without rollovers in 2007.

FIGURE 22

Traditional IRA Contributors with Same-Year Rollovers Were Less Likely to Contribute at the Limit in 2007

Estimated probability of contributing at the limit to a traditional IRA by age and same-year rollover activity, 2007



Note: Analysis is of the impact of rollovers in 2007 ("same-year rollovers") on the decision to make traditional IRA contributions (both deductible and nondeductible) at the limit in tax year 2007 among working-age traditional IRA contributors. Figures A.23 and A.25 in the appendix provide additional detail.

Source: Regression analysis using data from The IRA Investor Database™

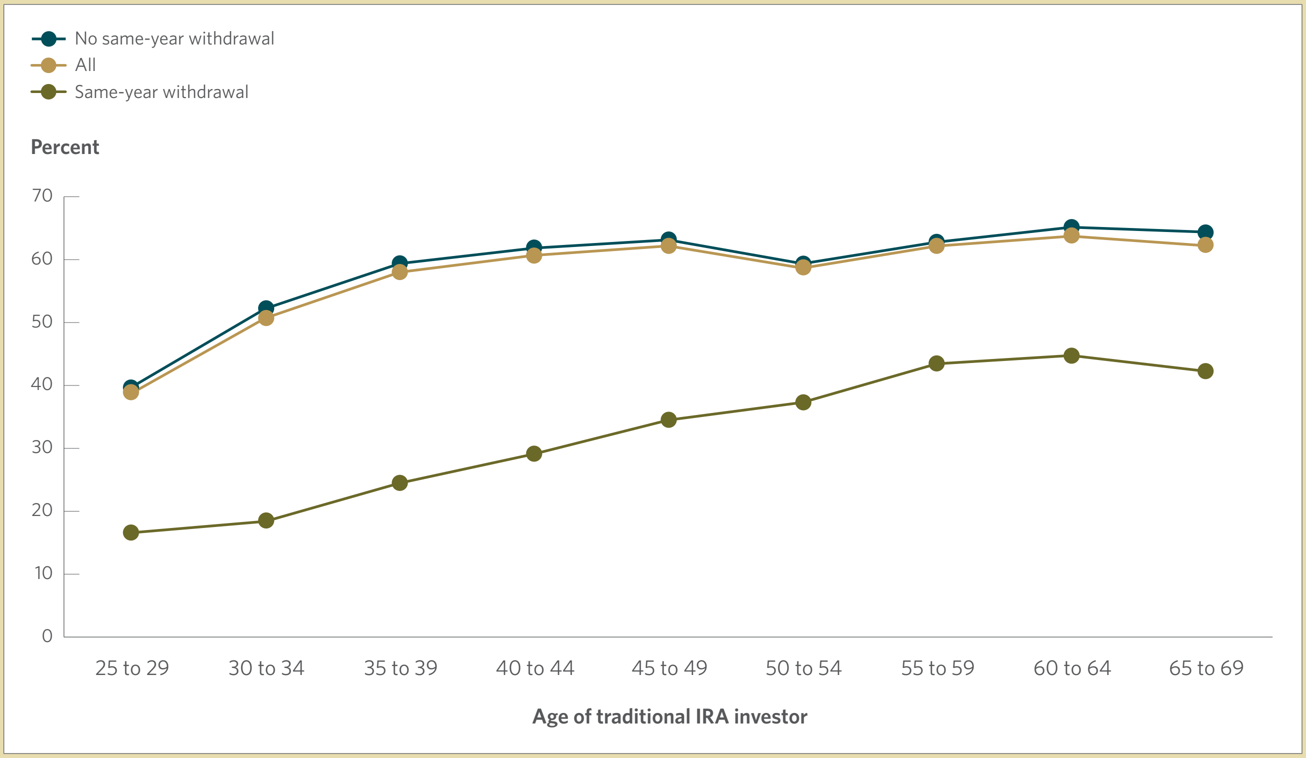
Same-Year Withdrawals Greatly Reduced the Likelihood of Contributing at the Limit in 2007

Traditional IRA contributors who also had withdrawals in 2007 ("same-year withdrawals") were much less likely to contribute at the limit compared with contributors without same-year withdrawals. The regression results, which isolated the impact of same-year withdrawal activity, found a strong negative effect from withdrawals across all age groups (Figure 23).[59] For example, traditional IRA contributors in their late twenties with withdrawals in 2007 were 58 percent less likely to contribute at their $4,000 limit, compared with those without withdrawals in 2007. Traditional IRA contributors in their early fifties with withdrawals in 2007 were 37 percent less likely to contribute at their $5,000 limit, and those in their early sixties were 31 percent less likely to do so.

FIGURE 23

Traditional IRA Contributors with Same-Year Withdrawals Were Much Less Likely to Contribute at the Limit in 2007

Estimated probability of contributing at the limit to a traditional IRA by age and same-year withdrawal activity, 2007



Note: Analysis is of the impact of withdrawals in 2007 ("same-year withdrawals") on the decision to make traditional IRA contributions (both deductible and nondeductible) at the limit in tax year 2007 among working-age traditional IRA contributors. Figures A.23 and A.25 in the appendix provide additional detail.
Source: Regression analysis using data from The IRA Investor Database™

Traditional IRA Contribution Activity over Time

This report analyzes traditional IRA contribution activity over time in two ways. First, it examines the contribution activity among the snapshot (cross-section) of IRA investors present in any given year. Second, it examines the contribution activity of the same IRA investors over time, starting with 2007 and adding years of analysis as years of data are added to the database.

Incidence of Traditional IRA Contribution Activity in 2008

Contribution Activity in 2008 Is Lower Compared with 2007 Across Age, Income, and Gender Groups

Contribution activity in 2008 was at lower levels than those levels observed in 2007, both in the IRS individual tax return data and in The IRA Investor Database. Aggregate deductible IRA contribution activity reported by the IRS showed a decline in 2008. The number of tax returns reporting deductible IRA contributions fell by 17.0 percent between 2007 and 2008 and the aggregate amount contributed fell by 9.4 percent (Figure 5).[60] In The IRA Investor Database, 9.4 percent of traditional IRA investors contributed to their traditional IRAs in 2008 (Figure 24),[61] compared with 11.2 percent in 2007 (Figure 25). The overall decline in contribution activity between the two snapshots of traditional IRA investors was 16 percent. These reductions in contribution activity likely reflect the impact of the severe economic conditions in 2008. The decline was widespread and roughly proportional across age, income, and gender groups.

The reductions in percentages of traditional IRA investors making traditional IRA contributions fell across all age groups compared with 2007 (Figure 25). For example, 19 percent fewer traditional IRA investors in their late sixties made contributions in 2008 compared with the contribution activity level in 2007 among traditional IRA investors in their late sixties. Twelve percent fewer traditional IRA investors in their late twenties made contributions in 2008 compared with the contribution activity level in 2007. The pattern of contribution activity by age observed in 2008 is similar to that observed in 2007: younger traditional IRA investors were more likely to contribute compared with older traditional IRA investors in 2008 (Figures 24 and 25).[62]

FIGURE 24

Contribution Activity of Working-Age Traditional IRA Investors in 2008

Number of traditional IRA investors and traditional IRA contributors[1, 2] by age, 2008

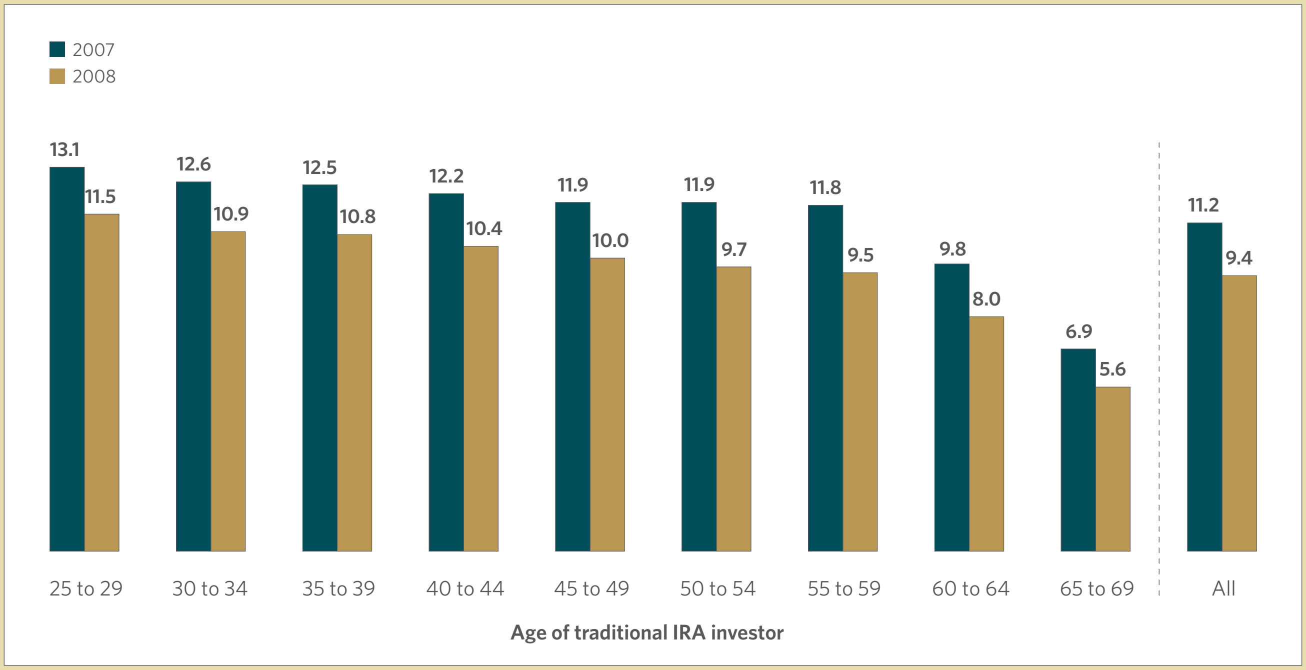
	Traditional IRA investors		Traditional IRA contributors[1, 2]		Memo: percentage of traditional IRA investors who made contributions[1, 2]
	Number *Thousands*	Share[3] *Percent*	Number *Thousands*	Share[3] *Percent*	
Age					
25 to 29	213.4	3.1%	24.5	3.8%	11.5%
30 to 34	416.2	6.1	45.5	7.1	10.9
35 to 39	637.1	9.3	68.5	10.7	10.8
40 to 44	797.8	11.7	83.3	13.0	10.4
45 to 49	1,001.7	14.7	99.8	15.6	10.0
50 to 54	1,077.1	15.8	105.0	16.4	9.7
55 to 59	1,025.5	15.0	97.5	15.2	9.5
60 to 64	943.1	13.8	75.8	11.9	8.0
65 to 69	704.2	10.3	39.7	6.2	5.6
All	*6,816.0*	*100.0*	*639.6*	*100.0*	*9.4*
Memo:					
25 to 49	3,066.1	45.0	321.6	50.3	10.5
50 to 69	3,749.9	55.0	318.0	49.7	8.5

[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2008.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]Share is the percentage of the total.
Note: Figure A.6 in the appendix provides additional detail by gender.
Source: The IRA Investor Database™

FIGURE 25

Contribution Activity of Traditional IRA Investors by Age, 2007 and 2008

Traditional IRA contributors[1, 2] as a percentage of traditional IRA investors by age, 2007 and 2008



[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in the tax year indicated.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
Note: The samples are 6.4 million working-age traditional IRA investors in 2007 and 6.8 million working-age traditional IRA investors in 2008.
Figures A.5 and A.7 in the appendix provide additional detail.
Source: The IRA Investor Database™

The reductions in the percentage of traditional IRA investors making contributions fell across all income groups between 2007 and 2008. Seventeen percent fewer traditional IRA investors with incomes of less than $35,000 made contributions in 2008 compared with the contribution activity level in 2007 among investors in this income group (Figure 26). Among traditional IRA investors with incomes of $55,000 to less than $65,000, contribution activity fell 16 percent between 2007 and 2008, while among those earning $140,000 or more, contribution activity fell 14 percent. The pattern of contribution activity across income groups within 2008 is similar to the pattern observed in 2007. Higher-income traditional IRA investors were more likely to make contributions to their traditional IRAs compared with lower-income traditional IRA investors in 2008 (Figures 26 and 27).[63]

FIGURE 26

Contribution Activity of Traditional IRA Investors by Income, 2007 and 2008

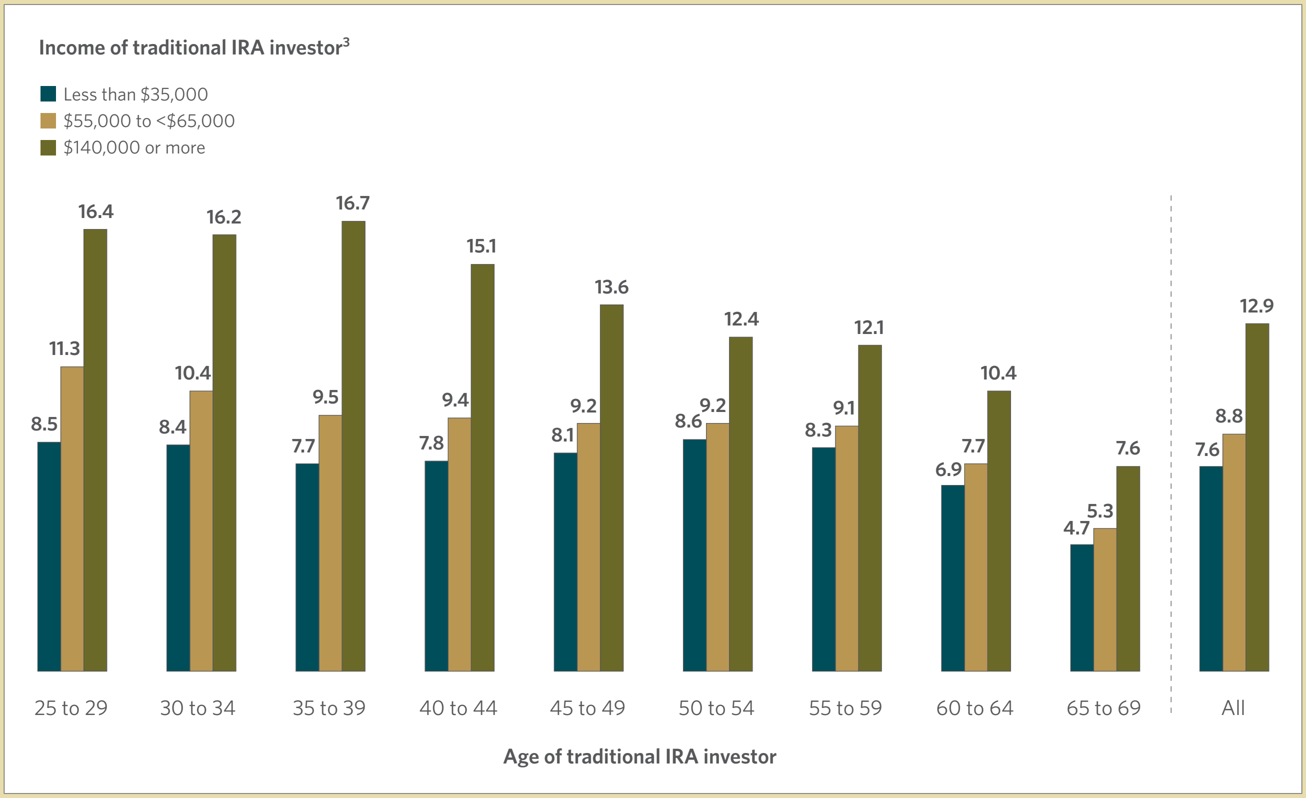
Traditional IRA contributors[1, 2] as a percentage of traditional IRA investors by income,[3] 2007 and 2008

[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in the tax year indicated.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.
Note: The samples are 6.4 million working-age traditional IRA investors in 2007 and 6.8 million working-age traditional IRA investors in 2008. Figures A.5 and A.7 in the appendix provide additional detail.
Source: The IRA Investor Database™

FIGURE 27

Traditional IRA Investors' Contribution Activity Varied by Age and Income in 2008

Traditional IRA contributors[1,2] as a percentage of traditional IRA investors by age and income,[3] 2008



[1]*Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2008.*

[2]*Contributions include both deductible and nondeductible traditional IRA contribution amounts.*

[3]*Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.*

Note: The sample is 6.8 million working-age traditional IRA investors in 2008. Figure A.7 in the appendix provides additional detail.

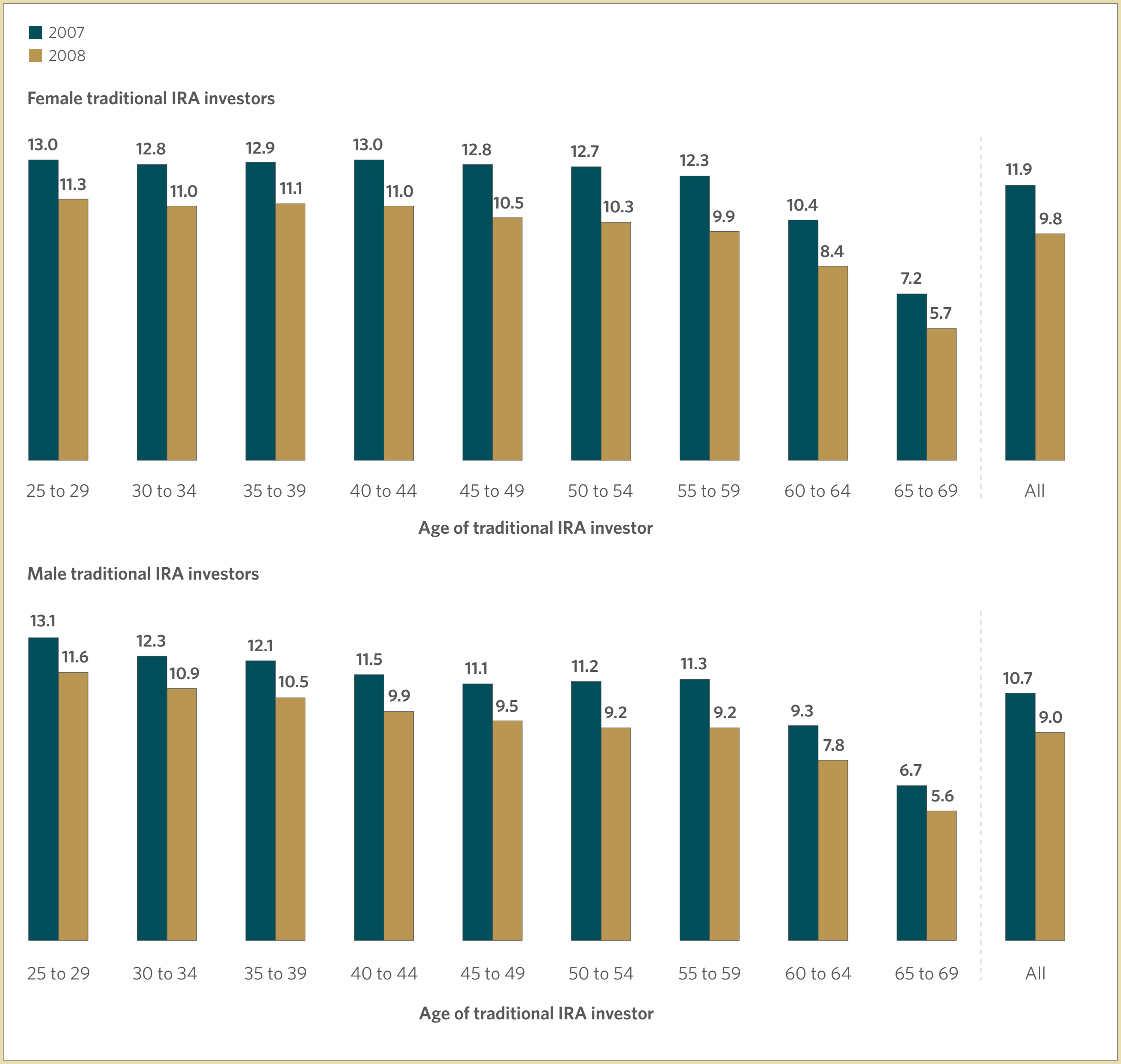
Source: The IRA Investor Database™

Contribution activity declined between 2007 and 2008 among both female and male traditional IRA investors. For example, in the 2008 database, 10.3 percent of female traditional IRA investors in their early fifties contributed in tax year 2007, which is 19 percent lower than the rate (12.7 percent) observed in 2007 (Figure 28). Among male traditional IRA investors in their early fifties, the drop was 18 percent. Nevertheless, female traditional IRA investors typically continued to have higher rates of traditional IRA contribution activity compared with their male counterparts in 2008, as was also observed in 2007.[64]

FIGURE 28

Contribution Activity of Traditional IRA Investors by Age and Gender, 2007 and 2008

Traditional IRA contributors[1, 2] as a percentage of working-age traditional IRA investors by age and gender, 2007 and 2008



[1]*Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in the tax year indicated.*

[2]*Contributions include both deductible and nondeductible traditional IRA contribution amounts.*

Note: The samples are 6.4 million working-age traditional IRA investors in 2007 and 6.8 million working-age traditional IRA investors in 2008. Figures A.5 and A.7 in the appendix provide additional detail.

Source: The IRA Investor Database™

Same-Year Rollover or Withdrawal Activity Diminished Contribution Activity in 2008

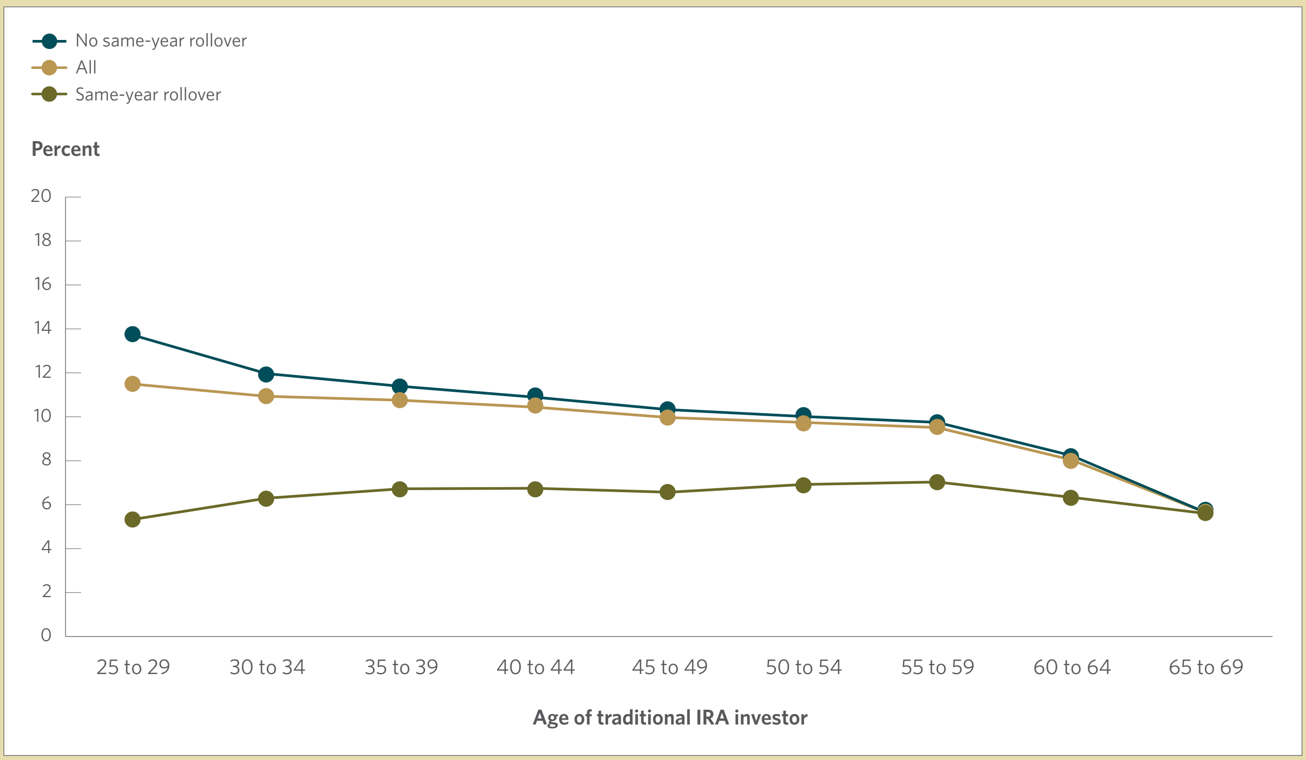
Traditional IRA investors with rollovers in 2008 or withdrawals in 2008 were less likely to contribute to their traditional IRAs in 2008 than those not engaging in either of those activities.[65] The patterns for the impact of each of these activities in 2008 are similar to those observed in 2007.

Traditional IRA contribution activity is negatively related to same-year rollover activity, with the largest drag among the younger age groups. The regression results, which isolated the impact of rollover activity in 2008 ("same-year rollover" activity), found that traditional IRA investors with rollovers in 2008 were less likely to make contributions in tax year 2008.[66] The negative effect was largest among the youngest working-age traditional IRA investors, tapering off among traditional IRA investors in their early sixties, and only creating a minor drag on the late-sixties age group (Figure 29).[67] For example, traditional IRA investors in their late twenties with rollovers in 2008 were 61 percent less likely to contribute compared with those without rollovers in 2008. Traditional IRA investors in their late fifties with rollovers in 2008 were 28 percent less likely to contribute compared with those without rollovers in 2008. Traditional IRA investors in their late sixties with rollovers in 2008 were slightly less likely (1 percent) to contribute than those without rollovers in 2008. This pattern of the impact of same-year rollovers in 2008 is similar to that observed in 2007.[68]

FIGURE 29

Traditional IRA Investors with Same-Year Rollovers Were Less Likely to Contribute in 2008

Estimated probability of contributing to a traditional IRA by age and same-year rollover activity, 2008



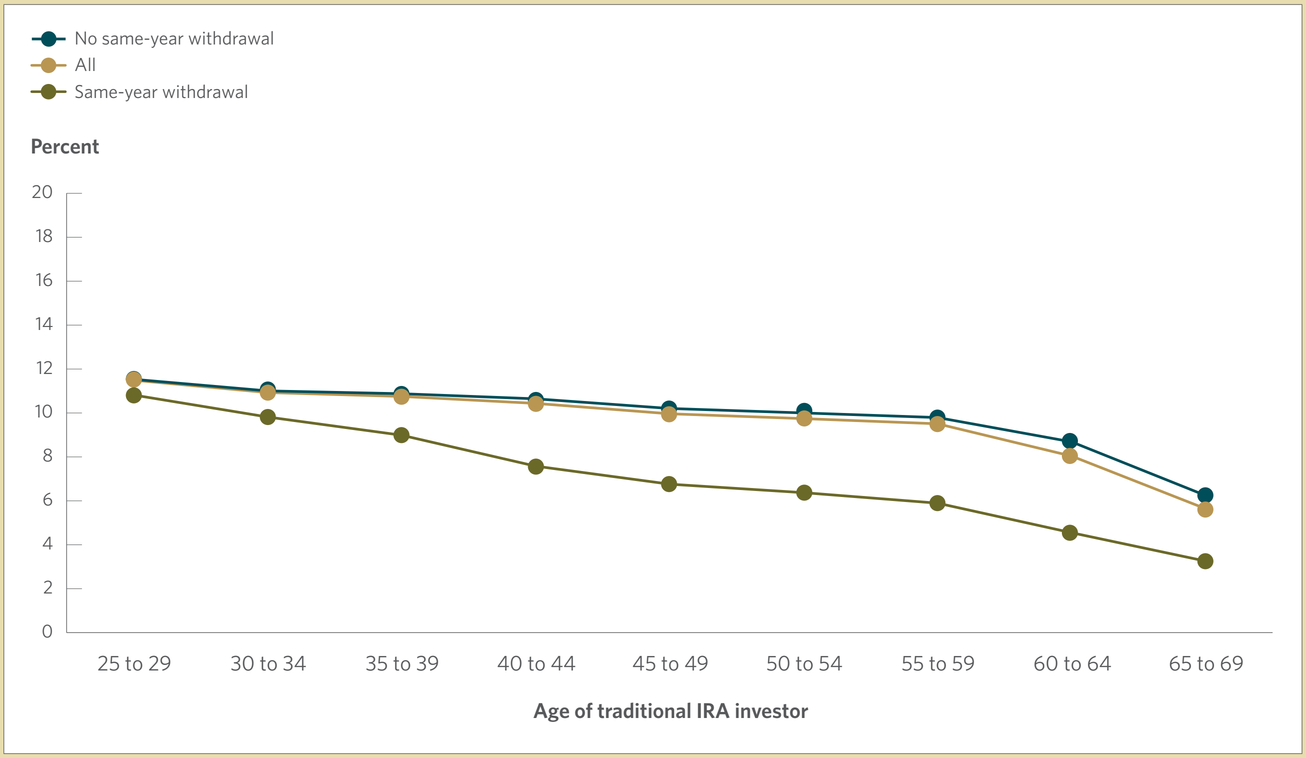
Note: Analysis is of the impact of rollovers in 2008 ("same-year rollovers") on the decision to make traditional IRA contributions (both deductible and nondeductible) in tax year 2008 among working-age traditional IRA investors. Figures A.12 and A.14 in the appendix provide additional detail.
Source: Regression analysis using data from The IRA Investor Database™

Traditional IRA contribution activity is negatively related to same-year withdrawal activity, with the greatest effect occurring among the older age groups.[69] The regression results, which isolated the impact of withdrawal activity in 2008 ("same-year withdrawal" activity), found that traditional IRA investors with withdrawals in 2008 were less likely to make contributions in tax year 2008.[70] The negative effect was noticeable across all age groups, but largest among older working-age traditional IRA investors (Figure 30). For example, traditional IRA investors in their late twenties with withdrawals in 2008 were 6 percent less likely to contribute compared with those without withdrawals in 2008. Traditional IRA investors in their late fifties with withdrawals in 2008 were 40 percent less likely to contribute compared with those without withdrawals in 2008, and those in their sixties with withdrawals in 2008 were 48 percent less likely to contribute.

FIGURE 30

Traditional IRA Investors with Same-Year Withdrawals Were Less Likely to Contribute in 2008

Estimated probability of contributing to a traditional IRA by age and same-year withdrawal activity, 2008



Note: Analysis is of the impact of withdrawals in 2008 ("same-year withdrawals") on the decision to make traditional IRA contributions (both deductible and nondeductible) in tax year 2008 among working-age traditional IRA investors. Figures A.12 and A.14 in the appendix provide additional detail.
Source: Regression analysis using data from The IRA Investor Database™

Magnitude of Traditional IRA Contributions in 2008

Traditional IRA contribution limits increased between 2007 and 2008. In 2008, the traditional IRA contribution limit was $5,000 for individuals younger than 50 and $6,000 for individuals aged 50 or older because of catch-up contributions (Figure 15). In the 2008 database, 639,600 working-age traditional IRA investors with traditional IRA contributions had aggregate total contributions of $2.5 billion (Figure 31).

Older working-age traditional IRA contributors tended to contribute more than younger working-age contributors in 2008. This pattern, which also occurred in the 2007 database, is likely the result of two forces. First, older workers are able to focus more on retirement saving (Figure 19). Second, such older workers' savings efforts are facilitated by the higher IRS contribution limits (Figure 15).

Figure 32 plots the individual contribution amounts from smallest to largest among the different broad age groups. For example, the lowest line of the figure shows the contribution amounts among traditional IRA investors in their late twenties, going left to right from the smallest to the largest. As labeled in the figure, the median contribution among traditional IRA investors in their late twenties was $2,400 in 2008, and 31.7 percent of traditional IRA contributors in their late twenties contributed at the $5,000 limit. Such younger workers may not have sufficient income to save or may be focused on other savings goals, such as education or home purchase (Figure 19). The top-most line of Figure 32 tracks the individual contributions in 2008 of traditional IRA investors in their sixties. More than half of contributing traditional IRA investors in their sixties took full advantage of the catch-up contribution and contributed $6,000 to their IRAs in 2008. Considering traditional IRA investors in their sixties who contributed at least the $5,000 limit, 62.4 percent were at the limit.

FIGURE 31

Traditional IRA Contributions by Age in 2008

Number and amount of contributions[1,2] to traditional IRAs by age, 2008

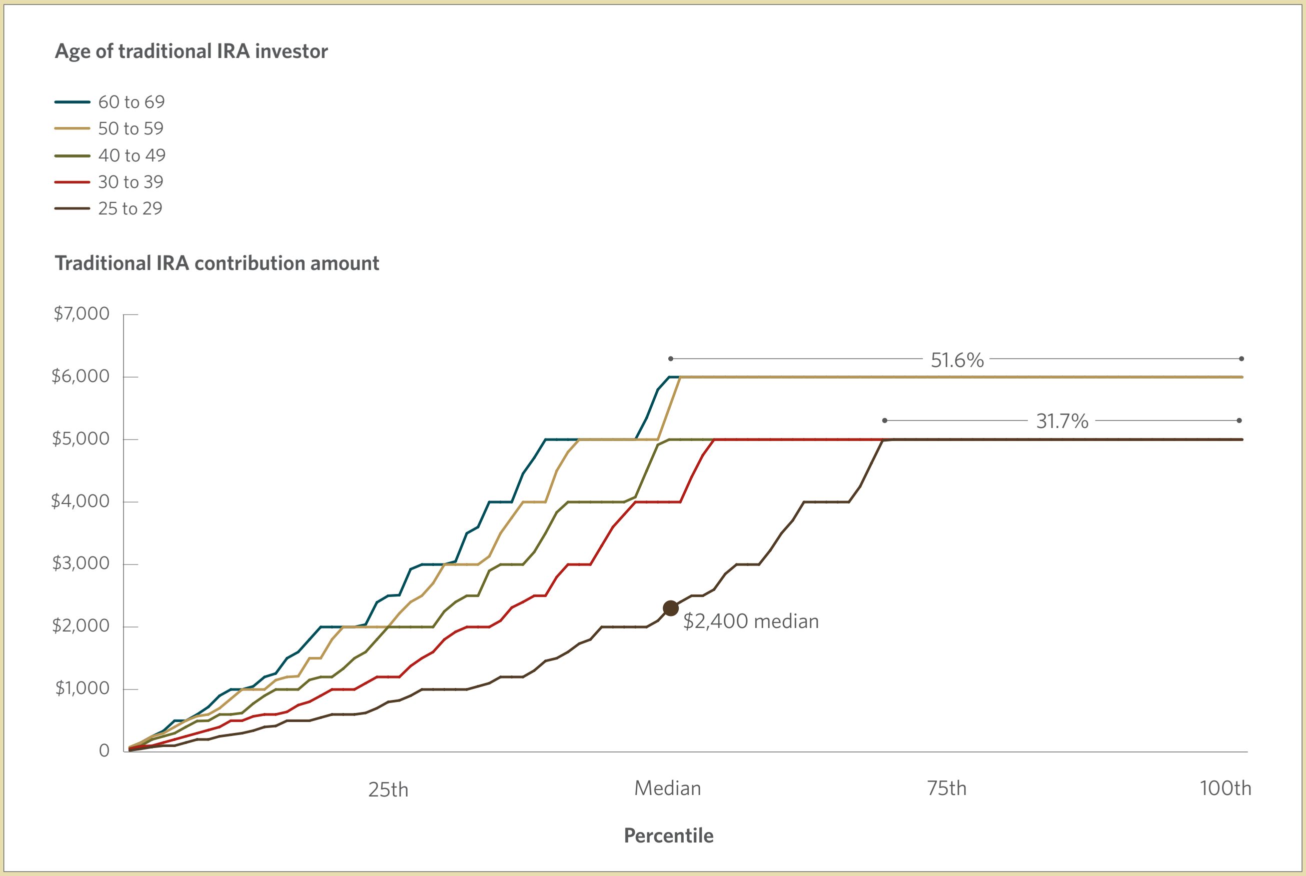
	Traditional IRA contributors[1,2]		Traditional IRA contributions[1,2]		Traditional IRA contribution amount[2]	
	Number *Thousands*	Share[3] *Percent*	Amount *Millions*	Share[3] *Percent*	Median	Mean
Age						
25 to 29	24.5	3.8%	$65.9	2.7%	$2,400	$2,690
30 to 34	45.5	7.1	142.5	5.8	4,000	3,130
35 to 39	68.5	10.7	234.5	9.5	4,980	3,420
40 to 44	83.3	13.0	294.0	11.9	5,000	3,530
45 to 49	99.8	15.6	357.5	14.5	5,000	3,580
50 to 54	105.0	16.4	441.9	17.9	5,220	4,210
55 to 59	97.5	15.2	423.9	17.2	6,000	4,350
60 to 64	75.8	11.9	334.0	13.5	6,000	4,410
65 to 69	39.7	6.2	174.5	7.1	6,000	4,390
All	*639.6*	*100.0*	*2,468.7*	*100.0*	*5,000*	*3,860*

[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2008.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]Share is the percentage of the total.
Source: The IRA Investor Database™

FIGURE 32

Older Working-Age IRA Contributors Tended to Make Higher Contributions in 2008

Percentile distribution of contributions[1, 2] to traditional IRAs by age, 2008



[1]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[2]The contribution limit in tax year 2008 was $5,000 for traditional IRA investors younger than 50 and $6,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers.
Note: The sample is 639,600 working-age traditional IRA contributors in tax year 2008. Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2008.
Source: The IRA Investor Database™

The share of traditional IRA contributors reaching their age-allowed limits was lower in 2008 compared with 2007 across all age groups. Overall, 49.5 percent of traditional IRA contributors in 2008 reached their age-allowed contribution limit, down 17 percent from 2007, when 59.6 percent of traditional IRA contributors reached their age-allowed contribution limit (Figure 33).[71] The reduction occurred across all age groups.

Older Working-Age Traditional IRA Contributors Were More Likely to Contribute at the Limit Than Younger Contributors in 2008

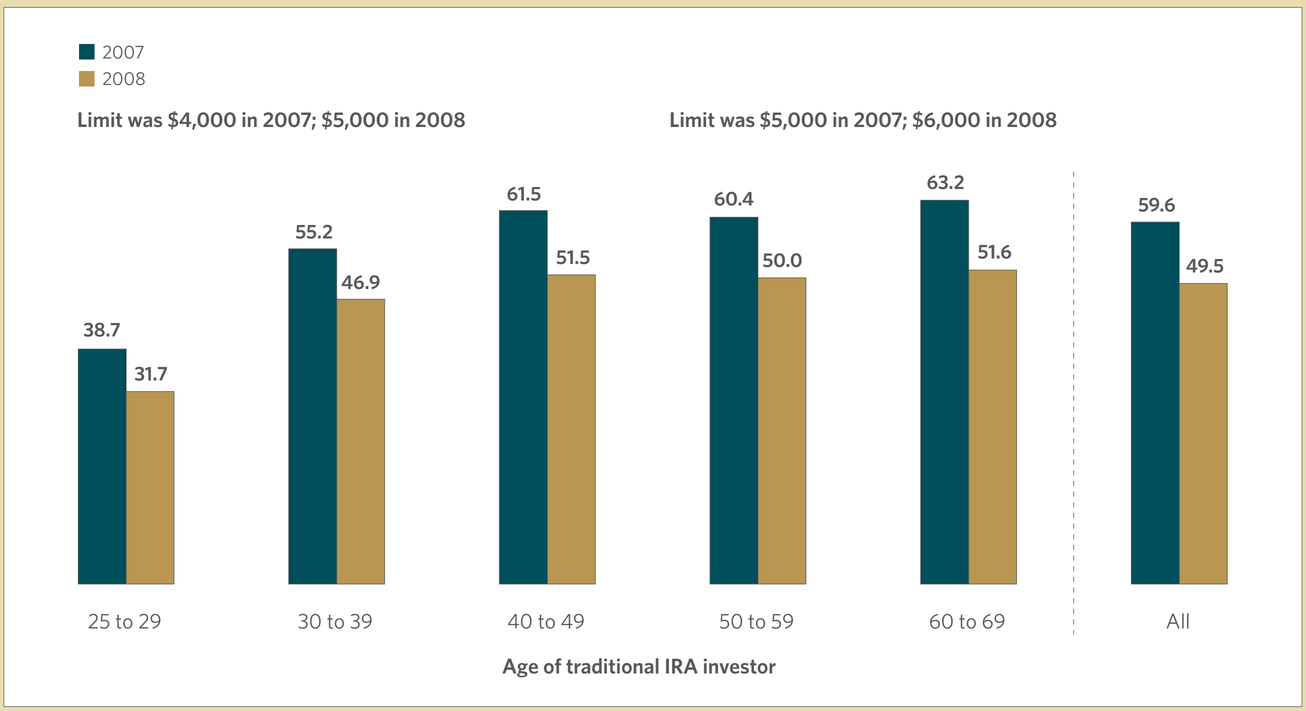
The pattern of traditional IRA contributors reaching the limit in 2008 by age was similar to that observed in the 2007 data. Older traditional IRA contributors in 2008 were more likely to reach the limits compared with younger traditional IRA contributors in 2008. For individuals younger than 50, the contribution limit was $5,000 in 2008, and 48.4 percent of working-age traditional IRA contributors in that age group contributed at the limit (Figure 34). For individuals in their fifties or sixties, the contribution limit was $6,000 in 2008, and 50.6 percent of working-age traditional IRA contributors in those age groups took full advantage of catch-up contributions and contributed that amount.

There is perhaps some constancy in contribution amounts evident in 2008, with some traditional IRA investors contributing amounts that matched contribution limits from earlier years. Overall, 4.2 percent of all traditional IRA contributors in 2008 contributed $2,000, which was last the limit in 2001 (Figures 34 and 15). Another 3.6 percent contributed $3,000, which was the limit from 2002 through 2004. Four percent contributed $4,000, the limit from 2005 to 2007. Among traditional IRA investors older than 50, 8.2 percent contributed $5,000 (the 2008 contribution limit without catch-up, which is the 2006 to 2007 contribution limit with catch-up, i.e., their limit with catch-up from the prior two years).

FIGURE 33

Fewer Traditional IRA Contributors Reached the Limit in 2008 Compared with 2007

Traditional IRA contributors[1, 2] at the limit[3] as a percentage of traditional IRA contributors by age, 2007 and 2008



[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in the tax year indicated.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]The contribution limit in tax year 2007 was $4,000 for traditional IRA investors younger than 50 and $5,000 for traditional IRA investors aged 50 or older. The contribution limit in tax year 2008 was $5,000 for traditional IRA investors younger than 50 and $6,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers.
Note: The samples are 720,200 working-age traditional IRA contributors in tax year 2007 and 639,600 working-age traditional IRA contributors in tax year 2008. Figures A.21 and A.22 in the appendix provide additional detail.
Source: The IRA Investor Database™

FIGURE 34

About Half of Working-Age Traditional IRA Contributors Contributed at the Limit in 2008

Percentage of traditional IRA contributors[1, 2] contributing the amount indicated by age, 2008

	Amount of traditional IRA contribution[2]									
	<$2,000	$2,000	>$2,000–<$3,000	$3,000	>$3,000–<$4,000	$4,000	>$4,000–<$5,000	$5,000[3, 4]	>$5,000–<$6,000[3, 4]	$6,000[3, 4]
Age										
25 to 29	42.9	4.5	7.0	3.1	3.4	4.3	3.0	31.7	0.0	0.0
30 to 34	33.9	3.5	6.6	2.7	3.4	3.9	3.3	42.8	0.0	0.0
35 to 39	27.7	3.5	5.3	2.9	3.3	4.8	2.9	49.6	0.0	0.0
40 to 44	24.7	4.1	5.1	3.3	3.0	5.7	2.8	51.3	0.0	0.0
45 to 49	23.0	4.6	5.0	3.5	3.0	6.8	2.5	51.7	0.0	0.0
50 to 54	21.0	4.5	4.3	4.3	2.5	3.2	2.1	7.8	1.8	48.5
55 to 59	18.9	4.3	4.3	3.9	2.8	2.2	2.3	7.9	1.7	51.6
60 to 64	17.8	4.2	4.2	3.8	2.8	2.3	2.3	8.6	1.9	52.1
65 to 69	17.5	4.2	4.2	3.8	3.4	2.4	2.4	9.3	2.0	50.6
All	*23.4*	*4.2*	*4.9*	*3.6*	*2.9*	*4.0*	*2.5*	*28.4*	*0.9*	*25.1*
Memo:										
25 to 49	27.5	4.1	5.5	3.2	3.1	5.5	2.8	48.4	0.0	0.0
50 to 69	19.1	4.3	4.3	4.0	2.7	2.6	2.3	8.2	1.8	50.6

[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2008.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]The contribution limit in tax year 2008 was $5,000 for traditional IRA investors younger than 50 and $6,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers.
[4]In total, 49.5 percent of working-age traditional IRA contributors appear to have contributed at the limit. If individuals who were apparently eligible for catch-up contributions, and who contributed at least $5,000 are included, 53.8 percent of working-age traditional IRA contributors made contributions at the limit.
Note: The sample is 639,600 working-age traditional IRA contributors in tax year 2008. Figures A.18 and A.19 in the appendix provide additional detail by gender.
Source: The IRA Investor Database™

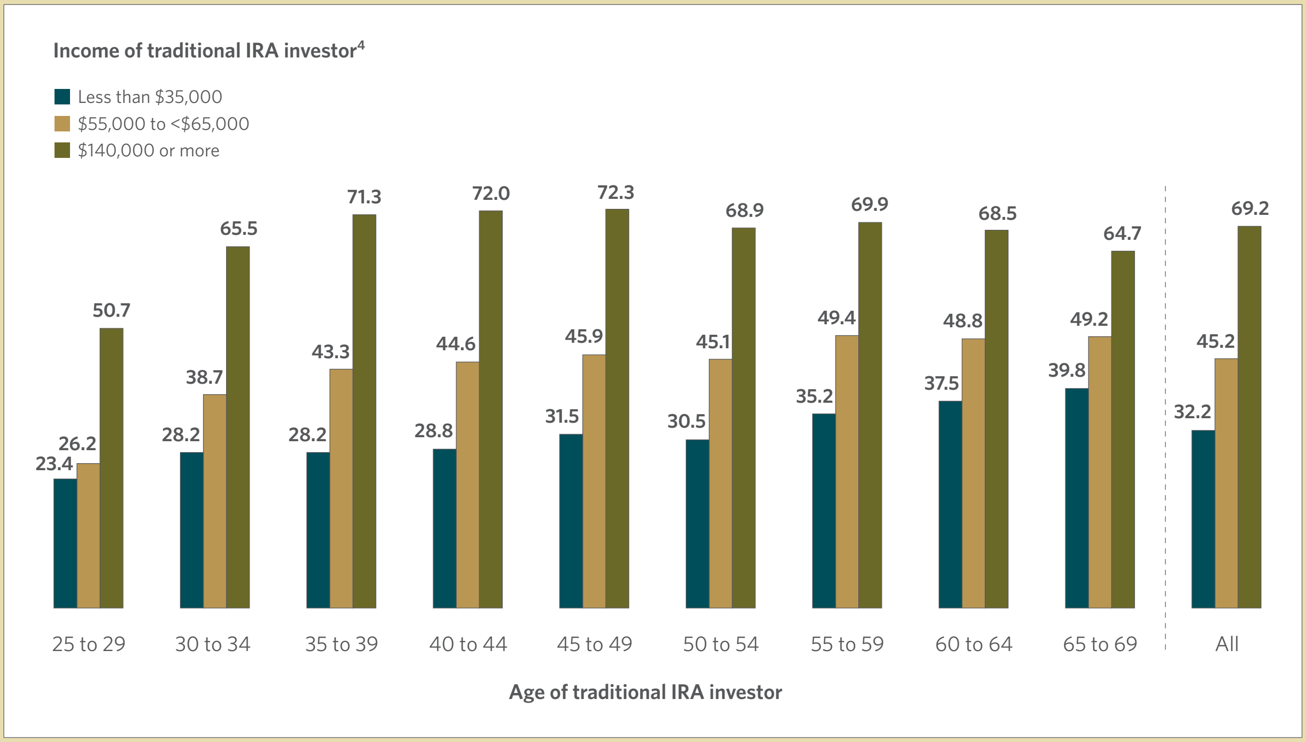
Higher-Income Working-Age Traditional IRA Contributors Were More Likely to Contribute at the Limit in 2008

Higher-income traditional IRA contributors tended to be more likely to contribute at the limit compared with lower-income traditional IRA investors. For example, overall, 32.2 percent of working-age traditional IRA contributors earning less than $35,000 contributed at the limit in 2008, compared with 69.2 percent of working-age traditional IRA contributors earning $140,000 or more (Figure 35).[72] Similar patterns occur across the income groups within each age group. The pattern of contributions at the limit ("limit contributions") by income in 2008 is similar to that observed in 2007.[73]

FIGURE 35

Traditional IRA Contributors with Higher Incomes Were More Likely to Contribute at the Limit in 2008

Traditional IRA contributors[1, 2] at the limit[3] as a percentage of traditional IRA contributors by age and income,[4] 2008



[1]*Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2008.*
[2]*Contributions include both deductible and nondeductible traditional IRA contribution amounts.*
[3]*The contribution limit in tax year 2008 was $5,000 for traditional IRA investors younger than 50 and $6,000 for traditional IRA investors aged 50 or older.*
[4]*Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.*
Note: The sample is 639,600 working-age traditional IRA contributors in tax year 2008. Figure A.22 in the appendix provides additional detail.
Source: The IRA Investor Database™

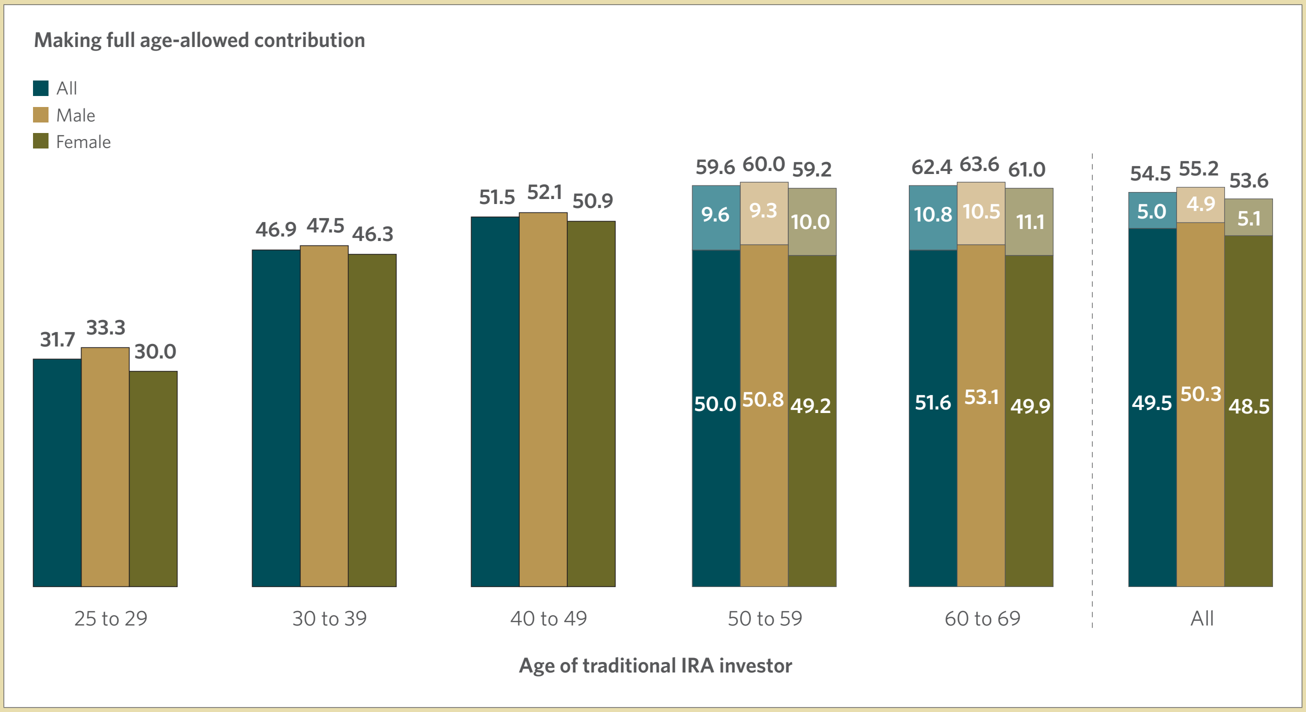
Female Traditional IRA Investors Were Slightly Less Likely to Contribute at the Limit in 2008 Than Males

Male traditional IRA contributors had a slightly higher propensity to contribute at the limits than female traditional IRA contributors in 2008, but this result primarily is driven by the oldest and youngest traditional IRA contributors. Overall, 50.3 percent of male traditional IRA contributors were at their age-allowed limits in 2008, compared with 48.5 percent of female traditional IRA contributors (Figure 36).[74] If one counts older traditional IRA investors reaching the $4,000 limit but not taking any or full advantage of catch-up, then 55.2 percent of male traditional IRA contributors contributed at least the $5,000 limit, compared with 53.6 percent of female traditional IRA contributors. These results are driven primarily by traditional IRA contributors in their sixties or late twenties. Among traditional IRA contributors aged 30 to 59, female traditional IRA contributors were only slightly less likely to reach the limit in 2008 than their male counterparts.

FIGURE 36

Female Traditional IRA Contributors Were Slightly Less Likely Than Males to Reach the Limit in 2008

Traditional IRA contributors[1, 2] at the limit[3] as a percentage of traditional IRA contributors by age and gender, 2008



[1]Traditional IRA contributors are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2008.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]Lighter shading indicates the traditional IRA investor made at least a $5,000 contribution, which was not the maximum allowed.
Note: The sample is 639,600 working-age traditional IRA contributors in tax year 2008. Figures A.18 and A.19 in the appendix provide additional detail. Components may not add to the total because of rounding.
Source: The IRA Investor Database™

Same-Year Rollovers or Withdrawals Reduced the Likelihood of Contributing at the Limit in 2008

As also observed in 2007, same-year rollover or withdrawal activity in 2008 reduced the likelihood that a working-age traditional IRA contributor contributed at the limit. Traditional IRA contributors with same-year rollover activity were less likely to contribute at the limit in 2008, particularly if the traditional IRA contributor was younger.[75] The regression results, which isolated the impact of rollover activity in 2008 ("same-year rollover" activity), found that working-age traditional IRA contributors who also did rollovers in 2008 were less likely to make contributions at the limit in tax year 2008.[76]

Traditional IRA contributors who also had withdrawals in 2008 ("same-year withdrawals") were much less likely to contribute at the limit compared with contributors without same-year withdrawals. The regression results, which isolated the impact of same-year withdrawal activity, found a strong negative effect across all age groups.[77]

Persistence in Contribution Activity Among Consistent Traditional IRA Investors

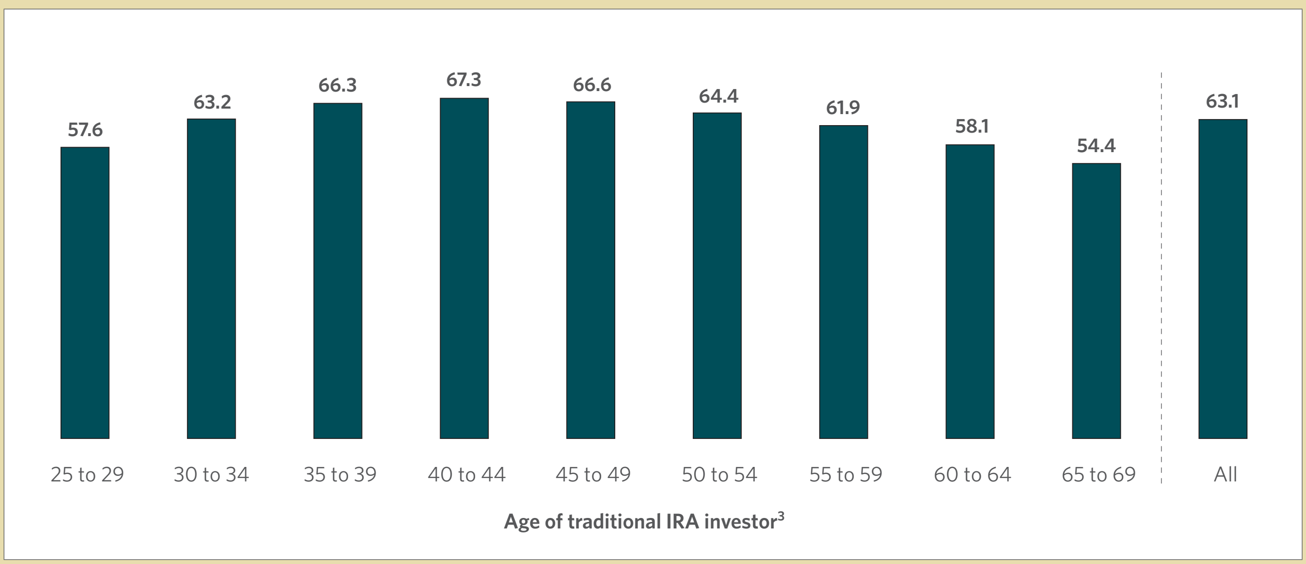
In The IRA Investor Database for 2008, there are 6.0 million working-age traditional IRA investors who also had traditional IRAs at the same financial services firm in the 2007 database ("consistent traditional IRA investors"). The tracking of the same individual IRA investors over time makes it possible to analyze persistence in contribution activity. There is a very high overall degree of persistence in both the contribution decision and the decision to contribute at the age-allowed limit. This persistence reinforces a key insight about IRA contributors that emerges from the earlier analysis: although relatively few IRA investors make contributions in a given year, for those who do, the traditional IRA is likely a key saving vehicle.

The overall persistence in IRA contribution activity is 63.1 percent, which means that nearly two-thirds of traditional IRA investors who contributed in 2007 also contributed in 2008 ("repeat contributors;" Figure 37). In general, persistence in the decision to contribute for any given group is within a few percentage points of the overall average across the demographic and socioeconomic dimensions (age, income, and gender) that are shown above to have a strong effect on contribution activity in any given year.[78] Thus, the data suggest more similarities than differences in observed contribution persistence across groups.

FIGURE 37

Most Traditional IRA Investors Who Contributed in 2007 Contributed Again in 2008

Traditional IRA repeat contributors as a percentage of traditional IRA contributors in 2007[1, 2] by age[3]



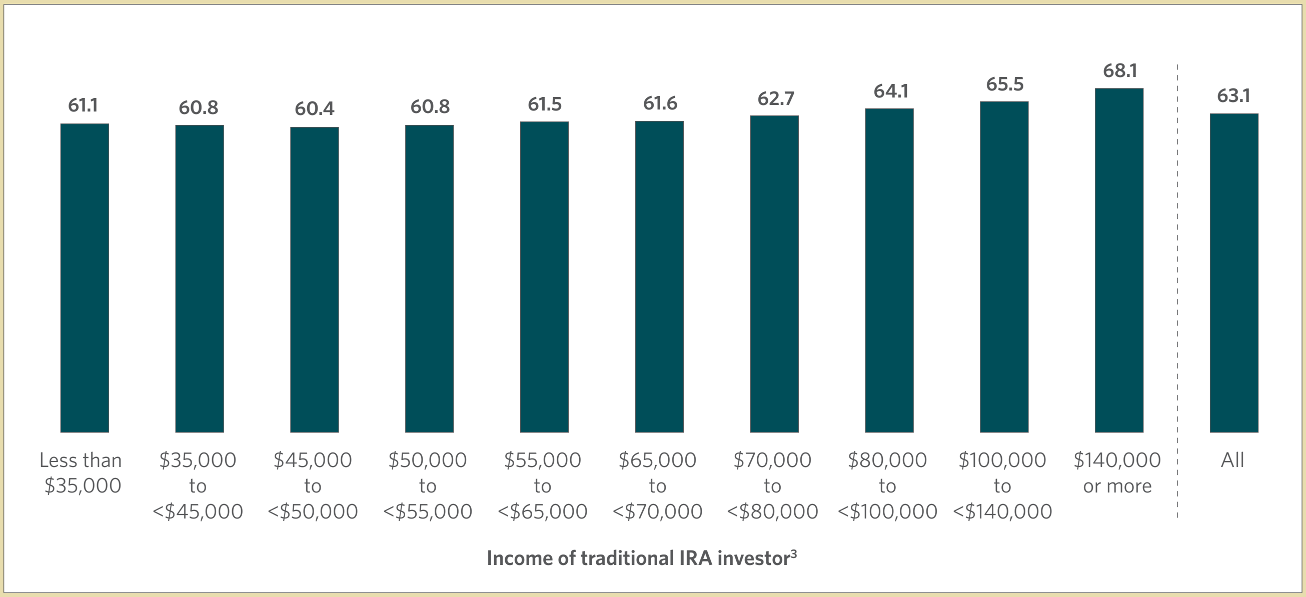
[1]Traditional IRA contributors in 2007 are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]Age is based on traditional IRA investor age at year-end 2008.
Note: The sample is 706,500 working-age contributors in 2007 who also had traditional IRA balances at year-end 2008. Figure A.27 in the appendix provides additional detail.
Source: The IRA Investor Database™

Although the demonstrated persistence in contribution activity holds generally across age, income, and gender groups, there are some small differentials worth noting. For example, persistence is highest for traditional IRA contributors in their early forties at 67.3 percent, but only 54.4 percent for traditional IRA contributors in their late sixties and 57.6 percent for those in their late twenties (Figure 37). Persistence in contribution activity rises with income, with the highest rates of continued contributions in 2008 (68.1 percent) observed for the income group $140,000 or more (Figure 38). Nevertheless, traditional IRA contributors with income less than $35,000 showed a high degree of persistence (61.1 percent). These differentials from the overall average are fairly small and do not reverse the general impression of widespread persistence regardless of demographic and socioeconomic characteristics.

FIGURE 38

Higher-Income Working-Age Traditional IRA Contributors in 2007 Were More Likely to Contribute Again in 2008

Traditional IRA repeat contributors as a percentage of traditional IRA contributors in 2007[1, 2] by income[3]



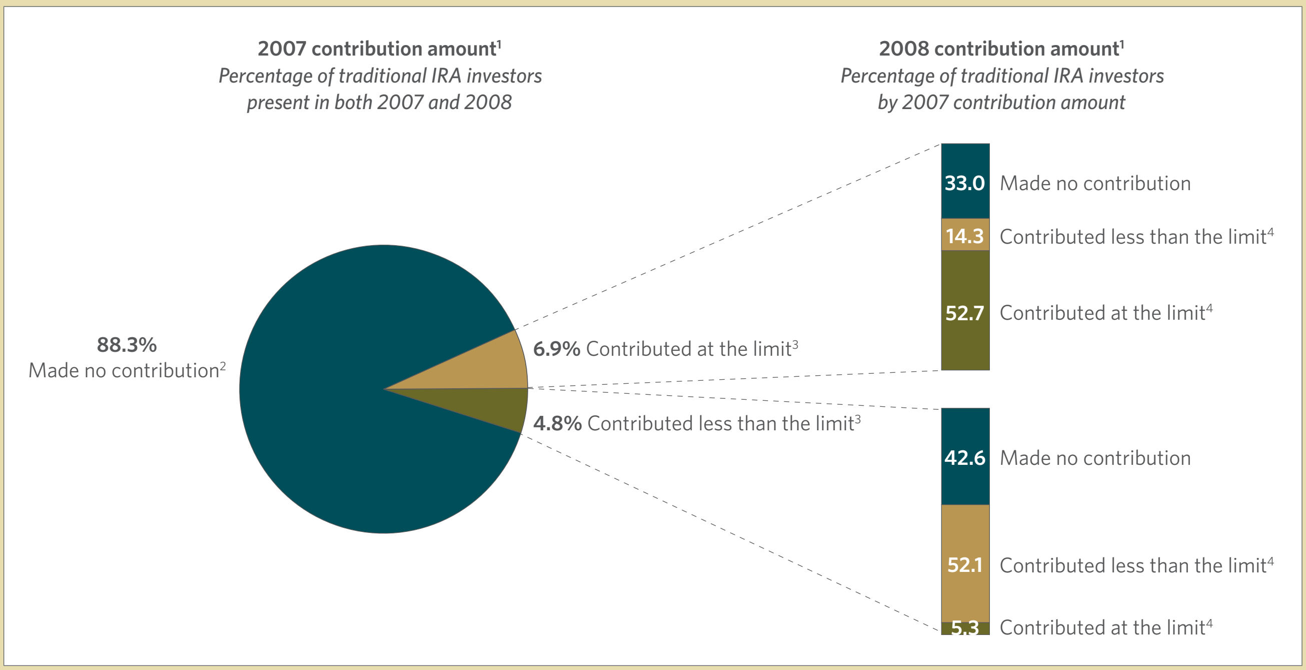
[1]Traditional IRA contributors in 2007 are working-age traditional IRA investors who made contributions to their traditional IRAs in tax year 2007.
[2]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[3]Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.
Note: The sample is 706,500 working-age traditional IRA contributors in 2007 who also had traditional IRA balances at year-end 2008. Figure A.27 in the appendix provides additional detail.
Source: The IRA Investor Database™

The exhibited persistence across IRA investors also shows up in limit contributions, with more than half of limit contributors in 2007 increasing their contributions usually by the full $1,000 increase in the legal limit that was implemented in 2008 (Figure 39).[79] The year 2008 was a true test of an IRA owner's desire to save, because the change in the limit required that contributors actively increase their contribution amount (relative to 2007) in order to stay at the limit. Indeed, 52.7 percent of IRA investors contributing at the limit in 2007 did so, and moved to the new higher limit in 2008. There was a noticeable minority (33.0 percent) of limit contributors in 2007 who made no contribution in 2008, and only time will tell whether the macro economic shocks that occurred during this time period are what caused those IRA investors to drop their contributions. In other words, persistence in both contribution rates and contributions at the limit may be even higher (in most years) than this two-year snapshot suggests.

The persistence of contribution activity among this group of consistent traditional IRA investors in 2007 and 2008 reinforces the idea that traditional IRAs play an essential savings role for some investors, even though IRAs may not be a primary saving vehicle for most investors. Most workers who desire to save can do so through employer-sponsored pensions—and in fact, those workers often become non-contributing IRA owners when they change jobs and roll their retirement plan distribution into an IRA.[80] However, these data suggest that there is an important subgroup of the working-age population that rely on traditional IRAs, and the observed persistence in their contribution activity and contributions at the legal limit underscore the way in which IRAs accommodate their needs.

FIGURE 39

More Than Half of Traditional IRA Investors Who Contributed at the Limit in 2007 Also Contributed at the Limit in 2008



[1]Contributions include both deductible and nondeductible traditional IRA contribution amounts.
[2]Among the 88.3 percent of traditional IRA investors who did not contribute in 2007, 0.8 percent contributed at the limit in 2008 and 1.4 percent contributed below the limit in 2008.
[3]The contribution limit in tax year 2007 was $4,000 for traditional IRA investors younger than 50 and $5,000 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.
[4]The contribution limit in tax year 2008 was $5,000 for traditional IRA investors younger than 50 and $6,000 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 6.0 million working-age traditional IRA investors with traditional IRA balances in both 2007 and 2008.
Source: The IRA Investor Database™

Conclusion

The IRA Investor Database covers a comprehensive and representative sample of IRA investors across all types of IRAs and a range of individual investor characteristics. This report, which is the first in a series, focused on the contribution activity of working-age traditional IRA investors. The analysis found that the fraction of traditional IRA investors making contributions in 2007 and 2008 is modest when compared to participation in employer-sponsored retirement plans. The observed contribution rates are to some extent mechanical, however, because many IRA owners are already achieving their savings goals through their employer-sponsored retirement plan. Even if those investors wanted to save more, legal limits on IRA contributions for investors with other tax-preferred saving prevent them from doing so.

Although IRAs do not appear to be the primary savings vehicle for most IRA investors, they are clearly an important repository for rollovers from other types of qualified accounts, and there is an important subset of investors for whom IRAs are an important form of saving. This is evidenced by the fact that the majority of traditional IRA investors who contributed in 2007 did so at the legal limit, and those who contributed in 2007 were very likely to contribute again in 2008 (despite the severe economic downturn). This high degree of persistence is widespread across age, gender, and income groups, suggesting that an array of individuals rely on IRAs to help them meet their retirement savings goals.

Additional Reading

"**The Individual Retirement Account at Age 30: A Retrospective**," *Investment Company Institute Perspective*. This report provides a summary of the growth and development of the IRA market. Available at www.ici.org/pdf/per11-01.pdf.

"**The Evolving Role of IRAs in U.S. Retirement Planning**," *Investment Company Institute Perspective*. This report describes how the evolution of employer-sponsored retirement plans has elevated the importance of IRAs for many U.S. households and highlights the significant role that IRAs play in retirement and retirement planning. Available at www.ici.org/pdf/per15-03.pdf.

"**The Role of IRAs in U.S. Households' Saving for Retirement, 2009**," *Investment Company Institute Fundamentals*. This study reports information from two ICI household surveys. Available at www.ici.org/pdf/fm-v19n1.pdf.

"**Frequently Asked Questions About Individual Retirement Accounts**," Investment Company Institute. Available at www.ici.org/faqs/faqs_iras.

Notes

[1] For a history of IRAs, see Holden et al. 2005. For a discussion of the changing role of IRAs, see Sabelhaus and Schrass 2009.

[2] ICI reports total IRA and total retirement market assets on a quarterly basis. For additional information on the U.S. retirement market at year-end 2009, see Brady, Holden, and Short 2010.

[3] For additional discussion of IRA-owning households, see Holden and Schrass 2010a and 2010b.

[4] One of the frequently analyzed household surveys is the Survey of Consumer Finances (SCF), which is administered by the Federal Reserve Board. The SCF is a triennial interview survey of U.S. families sponsored by the Board of Governors of the Federal Reserve System and the U.S. Department of Treasury. The sample design of the survey aims to measure a broad range of financial characteristics. The sample has two parts: (1) a standard geographically based random sample and (2) a specially constructed oversampling of wealthy families. Weights are used to combine the two samples to represent the full population of U.S. families. The 2007 SCF interviewed 4,422 families, which represent 116.1 million families. Data available on the Federal Reserve Board's website are altered to protect the privacy of individual respondents and include weights. For an overview of the 2007 SCF results, see Bucks et al. 2009. For a full description of the SCF and recent SCF data, see www.federalreserve.gov/pubs/oss/oss2/scfindex.html.

Researchers interested in the behavior of older households use another publicly available household survey, the Health and Retirement Study (HRS), which is administered by the University of Michigan. For an extensive bibliography of papers using HRS data, see www.umich.edu/~hrswww/pubs/biblio.html.

Another household survey that is often used is the Survey of Income and Program Participation (SIPP), which is administered by the U.S. Census Bureau. For a complete description, see www.census.gov/sipp/intro.html.

[5] ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each spring to gather information on the demographic and financial characteristics of U.S. households. The May 2009 survey was based on a sample of 4,201 U.S. households selected by random digit dialing, of which 1,651 households, or 39.3 percent, owned IRAs. All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2009 sample of households is ± 1.5 percentage points at the 95 percent confidence level. For the 2009 survey results, see Bogdan, Sabelhaus, and Bass 2009. For reporting of 2009 IRA incidence, see Holden and Schrass 2010a.

[6] ICI typically conducts the IRA Owners Survey each spring to gather information on characteristics and activities of IRA-owning households in the United States. The May 2009 survey was based on a sample of 1,000 randomly selected, representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the total sample is ± 3.1 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell education savings accounts (formerly called education IRAs). For results from the 2009 survey, see Holden and Schrass 2010a and 2010b.

[7] For the most recent tabulations of individual income tax return data, see Internal Revenue Service 2010. For the most recent tabulations of the IRA data from Forms 5498 and 1099-R, see the results for tax year 2004 presented in Bryant 2008. For earlier years and explanation of the IRS methodology for the IRA data, see Sailer, Weber, and Gurka 2003; Sailer and Nutter 2004; and Bryant and Sailer 2006.

[8] The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks, and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation, and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

[9] See Figure A.1 in the appendix.

[10] While it is possible to track the same individuals over time within the same data provider, it is not possible to link individuals across providers. Therefore, it is possible that some IRA investors will be counted more than once if they own IRAs across multiple service providers. For additional detail on the variables collected and the data collection methodology, see the appendix.

[11] For the most recent published IRS Statistics of Income data (tax year 2004), see Bryant 2008. For the 2009 ICI IRA Owners Survey results, see Holden and Schrass 2010a and 2010b.

[12] Roth IRAs were first made available in 1998 under the Taxpayer Relief Act of 1997. For additional information on Roth IRAs, see Brady, Holden, and Short 2010 and Holden and Schrass 2010a and 2010b.

[13] The simplified employee pension (SEP) IRA was created under the Revenue Act of 1978. The salary reduction (SAR)-SEP IRA was created under the Tax Reform Act of 1986. The Small Business Job Protection Act of 1996 prohibited the formation of new SAR-SEP IRAs after December 31, 1996, but introduced the savings incentive match plan for employees (SIMPLE) IRAs, which were first available in 1997. For additional information on employer-sponsored IRAs, see Brady, Holden, and Short 2010 and Holden and Schrass 2010a and 2010b.

[14] See Figure A.2 in the appendix for a comparison of the full set of traditional IRA data for 2007 in The IRA Investor Database with the 2007 IRS Statistics of Income traditional IRA data ("IRA universe").

[15] See Figure A.4 in the appendix.

[16] Individual IRA investor income is proxied by the average income per tax return for the traditional IRA investor based on his or her five-digit zip code. The income averages are taken from the *IRS Statistics of Income (SOI) Individual Tax Statistics Zip Code* data file, available at www.irs.gov/taxstats/indtaxstats/article/0,,id=96947,00.html. Traditional IRA investors are grouped into approximate deciles of income and analyzed on the basis of that grouping. See additional discussion on page 15 and the appendix.

[17] See Brady, Holden, and Short 2010.

[18] Asset allocation varies across 401(k) participants by participant age. See Holden, VanDerhei, and Alonso 2009.

[19] The 10 percent penalty applies to the taxable portion of the withdrawal. There are some exemptions to the 10 percent penalty. For example, distributions used to pay for first time home purchase (up to $10,000), higher education expenses, or health insurance if unemployed. In addition, exemption from the penalty has been granted to individuals affected by hurricanes or military service. Furthermore, amounts taken out as substantially equal periodic payments (SEPPs) are also exempt. For additional details, see Internal Revenue Service, *Publication 590*.

[20] See Brady, Holden, and Short 2010, which reports a history of IRS Statistics of Income tabulations.

[21] For a more complete discussion of the history of IRA rules, see Holden et al. 2005. The limits discussed here are individual limits. The Tax Reform Act of 1976 created the spousal IRA, which allowed individuals eligible to deduct IRA contributions to make contributions on the behalf of the individual and his or her nonworking spouse. Rules governing spousal IRAs also have changed over the years.

[22] For a complete discussion of the changes in the eligibility rules over time, see Holden et al. 2005. For complete rules, see Internal Revenue Service, *Publication 590*.

[23] For the complete report, see Bryant 2008. These data include all types of IRAs—traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

[24] For discussion of the lifecycle pattern of working, accumulating a retirement plan balance (DC account or DB lump sum), changing jobs, and rolling over assets, see Sabelhaus and Schrass 2009.

[25] Household surveys also found this ownership pattern. For discussion, see Sabelhaus and Schrass 2009 and Holden and Schrass 2010a.

[26] For IRS tax data reporting IRA contribution activity by type of IRA, see Bryant 2008. For results showing IRA contribution activity across households by type of IRA, see the 2009 ICI IRA Owners Survey results in Holden and Schrass 2010a.

[27] The ICI IRA Owners Survey found that nearly two-thirds of U.S. households owning traditional IRAs also had DC plan accounts (see Holden and Schrass 2010b).

[28] See discussion and references in Holden et al. 2005.

[29] For example, the IRS Statistics of Income data analysis found that 13.0 percent of all traditional IRA–owning taxpayers in 2004 had made contributions (see Bryant 2008).

[30] Analysis of traditional IRA investors' contribution activity was limited to those aged 25 to 69. Sample sizes grew small for traditional IRA investors younger than 25, and many traditional IRA investors aged 70 or older are not eligible to make traditional IRA contributions because IRS rules prevent workers aged 70½ or older from contributing. The database only contains birth year for the encrypted individual IRA investors, so it is not possible to apply the exact 70½ cut-off age for contributions. See Internal Revenue Service, *Publication 590*, for the rules. Throughout this report, "working-age" will refer to individuals aged 25 to 69.

[31] For a discussion of the treatment of age in the regression analysis, see the appendix.

32 See Figure A.8 in the appendix for working-age traditional IRA investors' contribution activity in 2007 including their contributions to Roth IRAs at the same financial services firm.

33 Individual IRA investor income is proxied by the average income per tax return for the traditional IRA investor based on his or her five-digit zip code. See note 16.

34 For a complete set of figures reporting all 10 income groups, see Figure A.5 in the appendix. The regression analysis also found that income is positively correlated with traditional IRA contribution activity among working-age traditional IRA investors in 2007. The appendix contains a full description of the regression results. See Figures A.11 and A.13 for the results for the logistic regression analysis of the contribution decision in 2007.

35 For example, Brady and Sigrist 2008a show that income is highly correlated with participation in employer-sponsored pension plans.

36 For the most recent cohort of retired workers, born in the 1940s, the Congressional Budget Office (CBO) estimates that replacement rates in the bottom household earnings quintile averaged 74 percent of pre-retirement earnings, while the replacement rate in the top quintile for the same cohort is only 31 percent. See Congressional Budget Office 2009.

37 For a description of lifecycle earnings patterns generally and the persistence of earnings over the lifecycle in particular, see Congressional Budget Office 2006.

38 See Figures A.4 and A.5 in the appendix for additional detail.

39 The appendix contains a full description of the regression results and explains how the probabilities in these figures were constructed. This report's discussion presents the change in the percentage of traditional IRA investors making contributions by gender for each age group. For example, in Figure 12, in the 45 to 49 year-old age group, the regression predicted 12.7 percent of female traditional IRA investors made contributions while 11.2 percent of male traditional IRA investors made contributions. The difference between these two figures is reported in the text: female traditional IRA investors were 13 percent more likely to make a contribution compared with males in 2007. As explained in the appendix, these probabilities are constructed using the odds ratios from the logistic regressions. The odds ratios, which report the ratio of the odds of females making contributions to the odds of males, are reported in Figure A.13 in the appendix (regression coefficients are reported in Figure A.11 in the appendix). Among traditional IRA investors in the 45 to 49 year-old age group, the odds of females making contributions is about one-out-of-seven (or 0.127/(1-0.127) = 0.145 = 1/6.87); the odds of males making contributions is about one-out-of-eight (or 0.112/(1-0.112) = 0.126 = 1/7.93). The ratio of the odds of female traditional IRA investors making contributions to the odds of male traditional IRA investors is the odds ratio reported (or 0.145/0.126 = 1.15), which can be read as saying that the odds of females contributing are 15 percent higher than the odds of males contributing. (An odds ratio of one indicates the events are equally likely.)

40 The IRA Investor Database contains information on rollovers starting in 2007. It is possible that traditional IRA investors at year-end 2007 may have made rollovers to their traditional IRAs prior to 2007, but those rollovers cannot be identified in the database. As years of information are added to the database, it will be possible to track a longer history of rollover activity. Among working-age traditional IRA investors in the 2007 database, 11.9 percent had rollovers in 2007. Among working-age traditional IRA investors in the 2008 database, 20.0 percent had made rollovers in 2007 or 2008 (that is, within the past two years). ICI household survey information indicates that a much higher percentage of traditional IRA–owning households had made rollovers to their IRAs at some point. Among households owning traditional IRAs in 2009, 54 percent had traditional IRAs that included rollovers from employer-sponsored retirement plans (see Holden and Schrass 2010a and 2010b).

41 The appendix contains a full description of the regression results. See Figures A.11 and A.13 for the results for the logistic regression analysis of the contribution decision in 2007.

42 Presence of a rollover is a proxy for having had an employer-sponsored plan at a prior job (DC account or DB lump-sum distribution). Pension coverage is not random, and a worker who has worked for an employer with a pension is likely to continue to work at employers with pensions. See Brady and Sigrist 2008a for a discussion of the characteristics of workers likely to be covered by pensions.

43 Among working-age traditional IRA investors in the 2007 database, 9.5 percent had taken withdrawals in 2007. This level of withdrawal activity is in line with ICI household survey information, which indicates that 8.4 percent of working-age U.S. households owning traditional IRAs in 2009 had taken withdrawals in tax year 2008. Across working-age taxpayers owning all types of IRAs, about 13 percent took withdrawals in 2004 (see Bryant 2008).

44 The appendix contains a full description of the regression results. See Figures A.11 and A.13 for the results for the logistic regression analysis of the contribution decision in 2007.

45 For example, see research in Amromin and Smith 2003; Lin 2006; Holden and Reid 2008; and Holden and Schrass 2010a.

46 For the list of exceptions to the early withdrawal penalty, see Internal Revenue Service, *Publication 590*.

47 See Internal Revenue Service, *Publication 590*, for a detailed description of the rules governing traditional IRA contributions.

[48] This estimate is the lower bound on the percentage of traditional IRA contributors at the limit with respect to deductible contributions. Some individuals may have been constrained in their deductible amount and may not have elected to make a total contribution that would reach the limit. It is not possible to determine how many such individuals exist in the database.

[49] If one were to consider working-age traditional IRA investors' contributions to their Roth IRAs at the same financial services firm as well as their traditional IRA contributions, then 63.5 percent were at their age-allowed limits in 2007. See Figure A.17 in the appendix.

[50] The IRS data for traditional IRA contribution activity in 2004 found that 51 percent of traditional IRA contributors aged 25 to 70½ contributed at their age-allowed limits. For individuals younger than 50, the contribution limit was $3,000 in 2004, and 52 percent of traditional IRA contributors aged 25 to 49 contributed at the limit. For individuals 50 to 70½, the contribution limit was $3,500 in 2004, and 50 percent of traditional IRA contributors in that age group took full advantage of catch-up contributions and contributed that amount. See Bryant 2008.

[51] See Figures A.15 and A.16 in the appendix for additional detail by gender.

[52] The IRS data for traditional IRA contributions in 2004 similarly exhibited some constancy in contribution amounts. In 2004, the contribution limit was $3,000 for individuals younger than 50 and $3,500 for individuals aged 50 or older (Figure 15). Nevertheless, 7 percent of traditional IRA contributors aged 25 to 70½ in 2004 contributed exactly $2,000, which had last been the limit in 2001. See Bryant 2008.

[53] In addition, see discussion of the lifecycle of saving and savings goals in Brady and Sigrist 2008a and 2008b.

[54] For a complete set of figures reporting all 10 income groups, see Figure A.21 in the appendix. The regression analysis also found that income is positively correlated with traditional IRA contributions at the limits among working-age traditional IRA investors in 2007. The appendix contains a full description of the regression results. See Figures A.23 and A.25 for the results for the logistic regression analysis of the decision to contribute at the limit in 2007 among working-age traditional IRA contributors.

[55] See Figures A.15, A.16, and A.21 in the appendix for additional detail.

[56] Regression analysis highlights that the relationship between gender and contributing at the limit varies with investor age. The differential in contribution patterns is small among traditional IRA investors aged 30 to 59, and only more pronounced among the younger or older. Female traditional IRA contributors in their late twenties were 7 percent less likely to contribute at the limit compared with their male counterparts. The effect of gender was most pronounced among the older working-age traditional IRA contributors. For example, female traditional IRA contributors in their late sixties were 9 percent less likely to contribute the full contribution amount including catch-up, compared with male traditional IRA contributors in that age group. The appendix contains a full description of the regression results. See Figures A.23 and A.25 for the results for the logistic regression analysis of the decision to contribute at the limit in 2007 among working-age traditional IRA contributors.

[57] In this first year of the database, only rollovers in 2007 can be analyzed. See note 40 for additional discussion.

[58] The appendix contains a full description of the regression results. See Figures A.23 and A.25 for the results for the logistic regression analysis of the decision to contribute at the limit in 2007 among working-age traditional IRA contributors.

[59] The appendix contains a full description of the regression results. See Figures A.23 and A.25 for the results for the logistic regression analysis of the decision to contribute at the limit in 2007 among working-age traditional IRA contributors.

[60] For the complete report, see Internal Revenue Service 2010.

[61] If contributions by traditional IRA investors into their Roth IRAs at the same financial services firm are counted as contribution activity, then the percentage of traditional IRA investors in the 2008 database with contribution activity rises from 9.4 percent (Figure 24) to 13.9 percent (see Figure A.9 in the appendix).

[62] See Figures A.5 and A.7 in the appendix for additional detail.

[63] For a complete set of figures reporting all 10 income groups, see Figure A.7 in the appendix. The regression analysis also found that income is positively correlated with traditional IRA contribution activity among working-age traditional IRA investors in 2008. The appendix contains a full description of the regression results. See Figures A.12 and A.14 for the results for the logistic regression analysis of the contribution decision in 2008.

[64] See Figure A.7 in the appendix for additional detail. The appendix contains a full description of the regression results. See Figures A.12 and A.14 for the results for the logistic regression analysis of the contribution decision in 2008.

[65] The appendix contains a full description of the regression results. See Figures A.12 and A.14 for the results for the logistic regression analysis of the contribution decision in 2008.

[66] This analysis only considers same-year rollovers (rollovers in 2008). Among working-age traditional IRA investors in the 2008 database, 10.9 percent had made rollovers in 2008. See additional discussion in note 40.

[67] The appendix contains a full description of the regression results. See Figures A.12 and A.14 for the results for the logistic regression analysis of the contribution decision in 2008.

[68] See Figures A.13 and A.14 in the appendix.

[69] Among working-age traditional IRA investors in the 2008 database, 9.5 percent had taken withdrawals in 2008. See additional discussion in note 43.

[70] The appendix contains a full description of the regression results. See Figures A.12 and A.14 for the results for the logistic regression analysis of the contribution decision in 2008.

[71] This estimate is the lower bound on the percentage of traditional IRA contributors at the limit with respect to deductible contributions. Some individuals may have been constrained in their deductible amount and may not have elected to make a total contribution that would reach the limit. It is not possible to determine how many such individuals exist in the database. If one were to consider working-age traditional IRA investors' contributions to their Roth IRAs at the same financial services firm as well as their traditional IRA contributions, then 53.1 percent were at their age-allowed limits in 2008. See Figure A.20 in the appendix.

[72] For a complete set of figures reporting all 10 income groups, see Figure A.22 in the appendix. The regression analysis also found that income is positively correlated with traditional IRA contributions at the limits among working-age traditional IRA investors in 2008. The appendix contains a full description of the regression results. See Figures A.24 and A.26 for the results for the logistic regression analysis of the decision to contribute at the limit in 2008 among working-age traditional IRA contributors.

[73] Compare Figures A. 21 and A.22 in the appendix.

[74] For additional detail, see Figures A.18, A.19, and A.22 in the appendix.

[75] In this first year of the database, only rollovers in 2007 can be analyzed. See note 40 for additional discussion.

[76] The appendix contains a full description of the regression results. See Figures A.24 and A.26 for the results for the logistic regression analysis of the decision to contribute at the limit in 2008 among working-age traditional IRA contributors.

[77] The appendix contains a full description of the regression results. See Figures A.24 and A.26 for the results for the logistic regression analysis of the decision to contribute at the limit in 2008 among working-age traditional IRA contributors.

[78] For the persistence calculations across age, gender, and income groups, see Figure A.27 in the appendix.

[79] Traditional IRA limit contributors in 2007 who passed the threshold making them newly eligible for catch-up contributions in 2008 would have increased their contributions by $2,000 to reach their new limit in 2008.

[80] The 2009 ICI IRA Owners Survey found that traditional IRA–owning households whose traditional IRAs contained rollovers were less likely to contribute compared with those whose traditional IRAs did not contain rollovers. Overall, 24 percent of traditional IRA–owning households in 2009 made contributions to their traditional IRAs in tax year 2008 (see Holden and Schrass 2010a). Grouping these households based on the presence of rollovers, the contribution rates are: 21 percent of traditional IRA–owning households with rollovers, compared with 29 percent of traditional IRA–owning households without rollovers.

Glossary

catch-up contribution. Individuals aged 50 or older are permitted to make contributions to an IRA or employer-sponsored retirement savings plan in excess of the annual contribution limit. In 2009, the catch-up limit was $1,000 for IRAs, $2,500 for SIMPLE plans, and $5,500 for 401(k) plans.

contribution limit. Federal law establishes limits for the amount an individual may contribute to an IRA, 401(k), or other retirement savings plan in any given year. In 2009, the annual employee contribution limit for 401(k)s and similar employer-sponsored retirement plans was $16,500; the annual limit for traditional and Roth IRAs was $5,000; and the annual limit for SIMPLE IRAs was $11,500. The limit on the sum of employee and employer contributions for DC plans in 2009 was $49,000. Individuals aged 50 or older can make additional "catch-up" contributions. The contribution limits are unchanged for 2010. See also **catch-up contribution**.

distribution. Individuals may take distributions (that is, withdraw funds) from their IRAs prior to retirement, but distributions may be subject to federal income tax, a tax penalty, or both. Withdrawals from traditional IRAs before age 59½ are subject to income tax and may be subject to a 10 percent early withdrawal penalty. The earnings portion of withdrawals from Roth IRAs made within five years of contribution or made before age 59½ are generally subject to income tax and may be subject to the 10 percent penalty (along with the after-tax contribution portion in some circumstances). For both traditional IRAs and Roth IRAs, the 10 percent penalty does not apply to withdrawals made in cases of death or disability, or if used for certain medical expenses, first-time homebuyer expenses, qualified higher-education expenses, health insurance expenses of unemployed individuals, or as part of a series of substantially equal periodic payments made for the life or over the life expectancy of the individual. In addition, provided the five-year holding period is satisfied, the earnings portion of early withdrawals from a Roth IRA made in cases of death, disability, or first-time homebuyer expenses are not subject to income tax.

defined benefit (DB) plan. An employer-sponsored pension plan where the amount of future benefits an employee will receive from the plan is defined, typically by a formula based on salary history and years of service. The amount of contributions the employer is required to make will depend on the investment returns experienced by the plan and the benefits promised. Contrast **defined contribution plan**.

defined contribution (DC) plan. An employer-sponsored retirement plan, such as a 401(k) plan or a 403(b) plan, in which contributions are made to individual participant accounts. Depending on the type of DC plan, contributions may be made by the employee, the employer, or both. The employee's benefits at retirement or termination of employment are based on the employee and employer contributions and earnings and losses on those contributions. See also **401(k) plan**. Contrast **defined benefit plan**.

401(k) plan. A type of DC plan that allows employees to choose to contribute a portion of their salaries into the plan, which defers income taxes on the amounts contributed. Like a traditional IRA, no taxes are due until distributions are taken from the account. Starting in 2006, plans could choose to allow employees to make Roth contributions to a 401(k) plan. These contributions are claimed as taxable income in the year of the contribution, but no taxes are due on qualified distributions. Most 401(k) plans also allow employees to choose how they wish to invest their accounts. See also **defined contribution plan**.

individual retirement account (IRA). A tax-deferred or tax-free retirement account that allows contributions of a limited yearly sum. Congress initially designed IRAs to have two roles: (1) to give individuals not covered by a retirement plan at work a tax-advantaged retirement savings plan, and (2) to play a complementary role to the employer-sponsored retirement system by preserving rollover assets at job separation or retirement. The term IRA is also applied to *individual retirement annuities*, which receive similar tax treatment.

rollover. The transfer of an investor's assets from one qualified retirement plan or account (IRA, 401(k), or other tax-advantaged, employer-sponsored retirement plan) to another—due to changing jobs, for instance—without a tax penalty.

Roth IRA. An individual retirement account, first available in 1998, that permits only after-tax (nondeductible) contributions. Earnings on investments in this IRA are not taxed. Distributions of both principal and earnings are generally not subject to federal income tax if taken after age 59½. Distributions of principal before age 59½ are not subject to tax, but investment earnings are generally subject to tax and a 10 percent penalty if taken before age 59½. There are no required distributions during the account holder's lifetime. See also **distribution**.

SIMPLE IRA (Savings Incentive Match Plan for Employees). A tax-favored retirement plan, created in 1996, that small employers can set up for the benefit of their employees. Both employer and employee contributions are allowed in a SIMPLE IRA plan.

Simplified Employee Pension Plan (SEP) IRA. A retirement program in which an employer makes contributions to the IRAs on behalf of employees. A Salary Reduction SEP (or "SAR-SEP") IRA is a SEP IRA that allows employees to contribute their own compensation into the IRA. When Congress created the SIMPLE IRA in 1996, it provided that an employer could not establish a new SAR-SEP plan after 1996.

traditional IRA. The first type of IRA, created in 1974. Individuals may make tax-deductible and nondeductible contributions to these IRAs. Taxes on IRA investment earnings are deferred until they are distributed. Upon distribution, both principal and earnings are subject to federal income tax. Generally, distributions before age 59½ are subject to income tax and a 10 percent penalty.

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