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## WHAT'S INSIDE



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# The Role of IRAs in U.S. Households' Saving for Retirement, 2013

## KEY FINDINGS

» **Nearly four out of 10 U.S. households owned IRAs in 2013.** More than eight in 10 IRA-owning households also had employer-sponsored retirement plan accumulations or had defined benefit plan coverage. All told, 67 percent of all U.S. households had retirement plans through work or IRAs.

» **Nearly three out of 10 U.S. households owned traditional IRAs in 2013.** Traditional IRAs were the most common type of IRA owned, followed by Roth IRAs and employer-sponsored IRAs.

» **Rollovers from employer-sponsored retirement plans have fueled the growth in IRAs.** Nearly half of traditional IRA–owning households indicated their IRAs contained rollovers from employer-sponsored retirement plans. Among households with rollovers in their traditional IRAs, 85 percent indicated they had rolled over the entire retirement account balance in their most recent rollover. More than half also had made contributions to their traditional IRAs at some point.

» **Although most U.S. households were eligible to make contributions, few did so.** Only 15 percent of U.S. households contributed to any type of IRA in tax year 2012, and very few eligible households made catch-up contributions to traditional IRAs or Roth IRAs. Among nonretired traditional IRA–owning households not making contributions in tax year 2012, 37 percent indicated they did not contribute to their IRAs because they were saving enough through their retirement plans at work.

» **IRA withdrawals were infrequent and mostly retirement related.** Twenty-one percent of traditional IRA–owning households took withdrawals in tax year 2012, the same share as in tax year 2011.

» **The majority of traditional IRA withdrawals were made by retirees.** Seventy-six percent of households that made traditional IRA withdrawals were retired. Indeed, only 8 percent of traditional IRA–owning households in 2013 headed by individuals younger than 59 took withdrawals. Sixty-six percent of withdrawals were calculated using the required minimum distribution (RMD)—this was the most common amount withdrawn.

*Key findings continued on the next page*

- **Traditional IRA–owning households not making withdrawals generally indicated they do not plan to tap their IRAs until age 70½.** Sixty-six percent of traditional IRA–owning households not making withdrawals in tax year 2012 indicated it was unlikely they would withdraw from their IRAs before age 70½. The most commonly cited planned future uses of IRA withdrawals were to pay for living expenses and cover emergencies.

## IRAs Play an Increasingly Important Role in Saving for Retirement

With $5.7 trillion in assets at the end of the second quarter of 2013, individual retirement accounts (IRAs) represented more than one-quarter of U.S. total retirement market assets, compared with 17 percent two decades ago.[1] IRAs also have risen in importance on household balance sheets. In June 2013, IRA assets were 9 percent of all household financial assets, up from 4 percent of assets two decades ago.[2] In May 2013, 46.1 million, or 38 percent of, U.S. households reported they owned IRAs (Figure 1).[3] Among all IRA-owning households in May 2013, 84 percent also had employer-sponsored retirement plans; that is, they had defined contribution (DC) plan balances, current defined benefit (DB) plan payments, or expected future DB plan payments. Another 29 percent of U.S. households reported employer-sponsored retirement plan coverage, but no IRAs. All told, 67 percent of all U.S. households had some type of formal, tax-advantaged retirement savings.

Traditional IRAs are the oldest and most common type of IRA. In 2013, 36.0 million, or 29.4 percent of, U.S. households owned traditional IRAs (Figure 2).[4] In addition to being a repository for contributions, the traditional IRA is a vehicle for rollovers from employer-sponsored retirement plans. Indeed, nearly half of U.S. households with traditional IRAs indicated their IRAs contained rollover assets.[5] Roth IRAs, which were first available in 1998, are the second most frequently owned type of IRA, held by 19.1 million, or 15.6 percent of, U.S. households.[6] In May 2013, 7.5 percent of U.S. households owned employer-sponsored IRAs, which include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

### *About the Annual Mutual Fund Shareholder Tracking Survey*

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 most recent survey was conducted in May 2013 and was based on a sample of 4,001 U.S. households selected by random digit dialing, of which 1,504 households, or 37.6 percent, owned IRAs. All interviews were conducted over the telephone with the member of the household aged 18 or older who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2013 sample of households is ± 1.6 percentage points at the 95 percent confidence level.

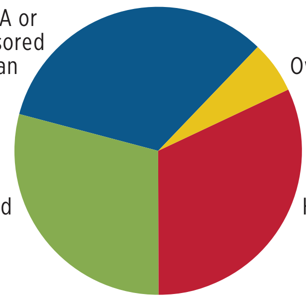
### *About the IRA Owners Survey*

ICI conducts the IRA Owners Survey each spring to gather information on characteristics and activities of IRA-owning households in the United States. The most recent survey was conducted in May 2013 and was based on a sample of 3,006 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 aged 18 or older who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the total sample is ± 1.8 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called education IRAs).

FIGURE 1

## Many U.S. Households Have Tax-Advantaged Retirement Savings

*Percentage of U.S. households, 2013*




[1] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

[2] Employer-sponsored retirement plans include DC and DB retirement plans.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

FIGURE 2

## Millions of U.S. Households Own IRAs

| | Year created | Number of U.S. households with type of IRA,[1] 2013 | Percentage of U.S. households with type of IRA,[1] 2013 |
|---|---|---|---|
| **Traditional IRA** | 1974 (Employee Retirement Income Security Act) | 36.0 million | 29.4% |
| **SEP IRA[2]** | 1978 (Revenue Act) | 9.2 million | 7.5% |
| **SAR-SEP IRA[2]** | 1986 (Tax Reform Act) | | |
| **SIMPLE IRA[2]** | 1996 (Small Business Job Protection Act) | | |
| **Roth IRA** | 1997 (Taxpayer Relief Act) | 19.1 million | 15.6% |
| **Any IRA[1]** | | 46.1 million | 37.6% |

[1] Households may own more than one type of IRA.

[2] SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs are employer-sponsored IRAs.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

## Incidence of IRA Ownership Increases with Age and Income

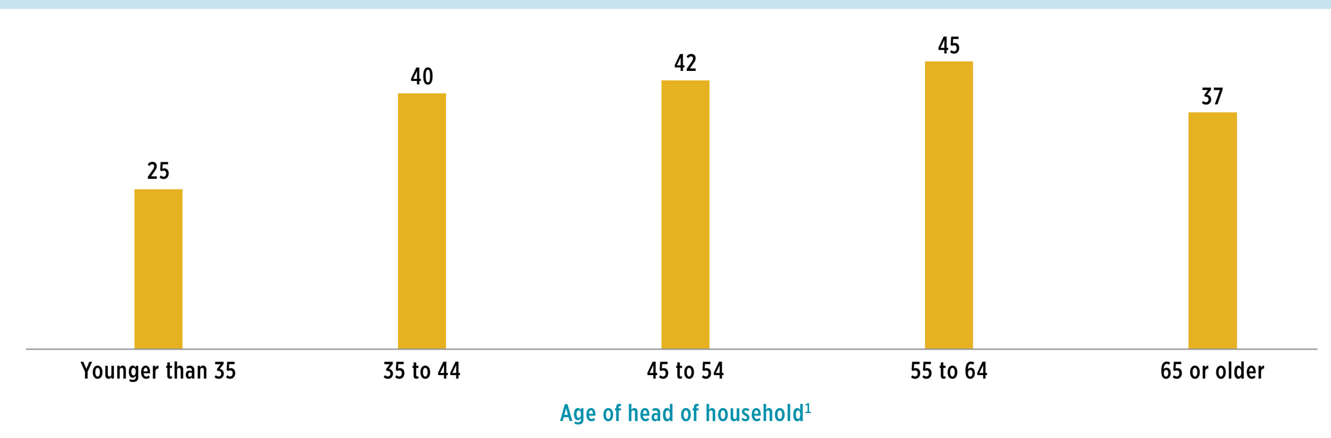
People of all ages own IRAs, but ownership is greatest among the older groups of working-age individuals. This reflects the life-cycle effects on saving; that is, households tend to focus on retirement-related saving as they get older (and save for other goals such as education or buying a house when younger).[7] Also, many traditional IRA owners became owners as a result of rollovers from employer-sponsored plans, which occur after at least some years in the workforce.[8] In 2013, 42 percent of households headed by an individual aged 45 to 54 owned IRAs, and 45 percent of households headed by an individual aged 55 to 64 owned IRAs (Figure 3). As a result, 67 percent of IRA-owning households were headed by individuals aged 45 or older (Figure 4). Among all U.S. households, by comparison, 62 percent were headed by individuals in this age group.

Although the majority of IRA-owning households had moderate incomes, IRA ownership tends to increase with household income. This pattern is consistent with the fact that lower-income households, which tend to be focused on near-term spending needs, and which get a higher replacement benefit through Social Security,[9] generally have a lower propensity to save for retirement.[10] Fifty-four percent of households with incomes of $50,000 or more owned IRAs, compared with 21 percent of households with incomes of less than $50,000 (Figure 5). Sixty-four percent households with incomes of $100,000 or more owned IRAs in 2013. As a result, 16 percent of households owning IRAs earned less than $35,000, compared with 36 percent of all U.S. households (Figure 6). Forty-seven percent of households owning IRAs in 2013 had incomes between $35,000 and $99,999, compared with 42 percent of all U.S. households.

FIGURE 3

### Incidence of IRA Ownership Greatest Among 35- to 64-Year-Olds

*Percentage of U.S. households within each age group that own IRAs,[1, 2] 2013*




[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.

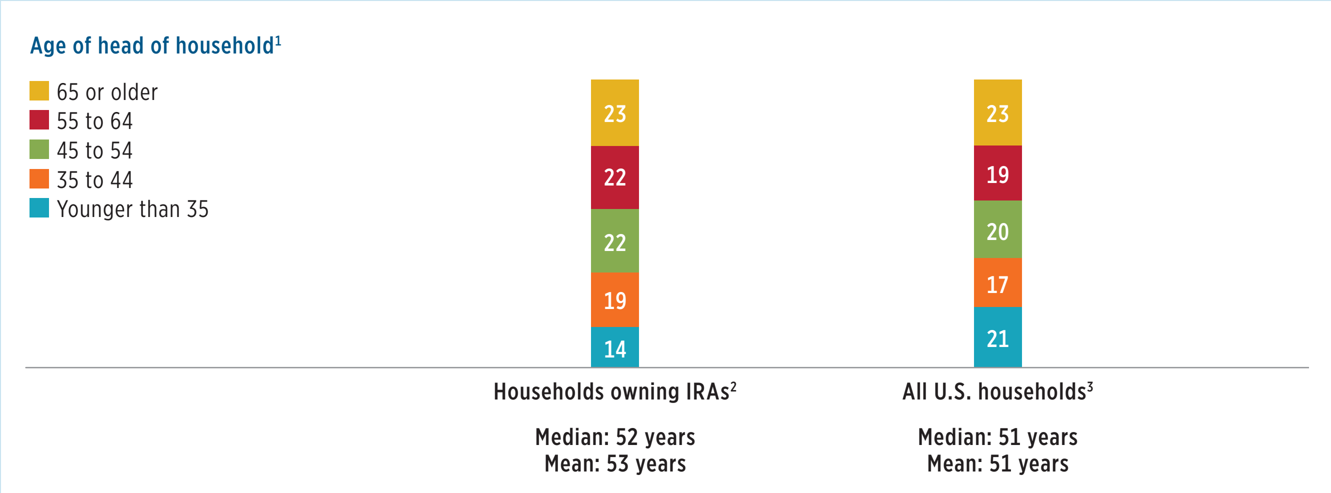
[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

FIGURE 4

## Most IRA-Owning Households Are Between Age 35 and 64

*Percent distribution of households owning IRAs and all U.S. households by age,[1, 2] 2013*




[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.

[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

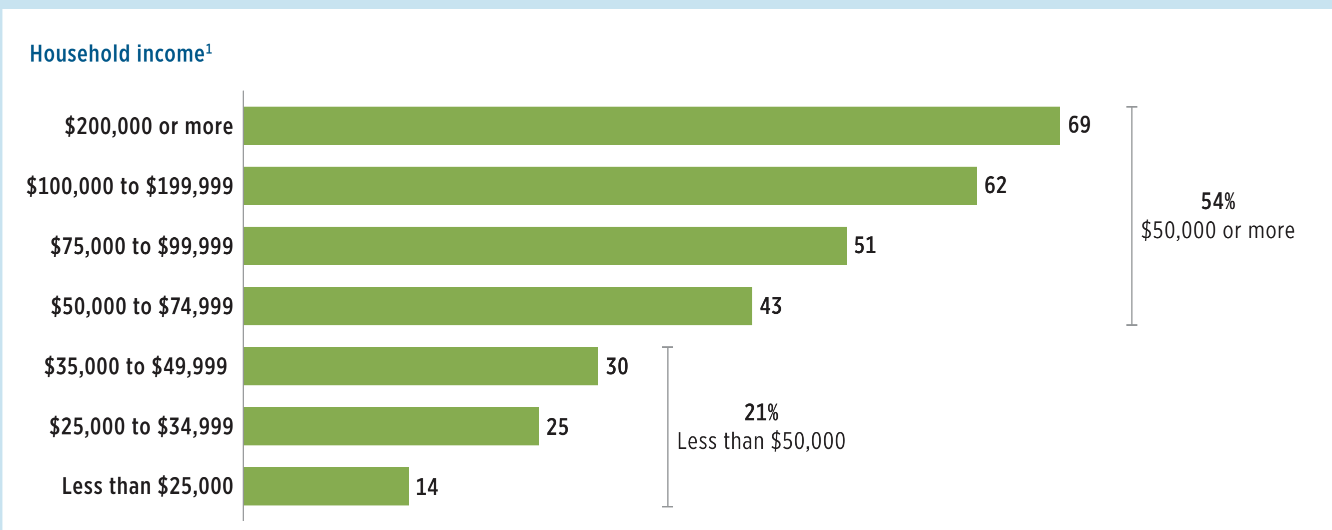
[3] The percentage of all households in each age group is based on ICI survey data and is weighted to match the U.S. Census Bureau's Current Population Survey.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

FIGURE 5

## Incidence of IRA Ownership Increases with Household Income

*Percentage of U.S. households within each income group that own IRAs,[1, 2] 2013*




[1] Total reported is household income before taxes in 2012.

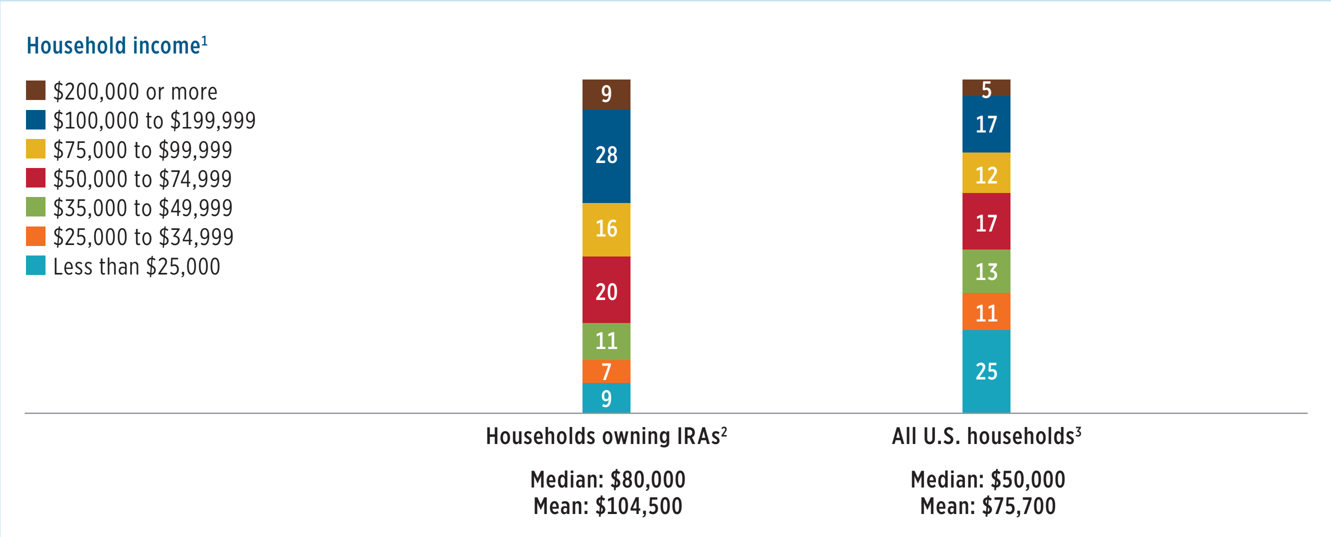
[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

FIGURE 6

**Most IRA-Owning Households Have Moderate Incomes**

*Percent distribution of households owning IRAs and all U.S. households by household income,[1, 2] 2013*




[1] Total reported is household income before taxes in 2012.

[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

[3] The percentage of all households in each income group is based on ICI survey data and is weighted to match the U.S. Census Bureau's Current Population Survey (CPS). For 2012, the estimated median and mean income for all U.S. households from the CPS is $51,017 and $71,274, respectively.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

## IRA Owners Tend to Be Savers

IRA owners build substantial financial assets. The median financial assets of IRA-owning households were eight times greater than the median financial assets of households that did not own IRAs (Figure 7). Those assets included DC retirement plan accounts—72 percent of households that owned IRAs also owned such accounts. IRA owners typically exhibit the characteristics that tend to correlate with a greater propensity to save: the financial decisionmakers of households with IRAs tend to be older and are more likely to be married, employed, and have college or postgraduate degrees than households that do not own IRAs.[11]

Like other investing households, the majority of IRA-owning households were willing to take some investment risk for financial gain. Willingness to take risk remained the same among IRA-owning households overall between 2012 and 2013. In 2013, 28 percent of IRA-owning households were willing to take substantial or above-average investment risk for similar levels of financial gain, compared with 28 percent in 2012 and 30 percent in 2011 (Figure 8).[12]

FIGURE 7

## IRA Owners Are Typically Middle-Aged, Married, and Employed

*Characteristics of U.S. households by ownership of IRAs,[1] 2013*

| | Households owning IRAs[1] | Households not owning IRAs |
|---|---|---|
| **Median per household** | | |
| Age of household sole or co-decisionmaker for saving and investing | 52 years | 50 years |
| Household income[2] | $80,000 | $37,300 |
| Household financial assets[3] | $200,000 | $25,000 |
| Household financial assets in IRAs | $50,000 | N/A |
| Share of household financial assets in IRAs (percent) | 32% | N/A |
| **Percentage of households** | | |
| Household sole or co-decisionmaker for saving and investing | | |
| Married or living with a partner | 72% | 55% |
| College or postgraduate degree | 49 | 23 |
| Employed full- or part-time | 68 | 52 |
| Retired from lifetime occupation | 31 | 30 |
| Household has DC account or DB plan coverage (total) | 81 | 47 |
| DC retirement plan account | 72 | 39 |
| DB plan coverage | 45 | 24 |

[1] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

[2] Total reported is household income before taxes in 2012.

[3] Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.

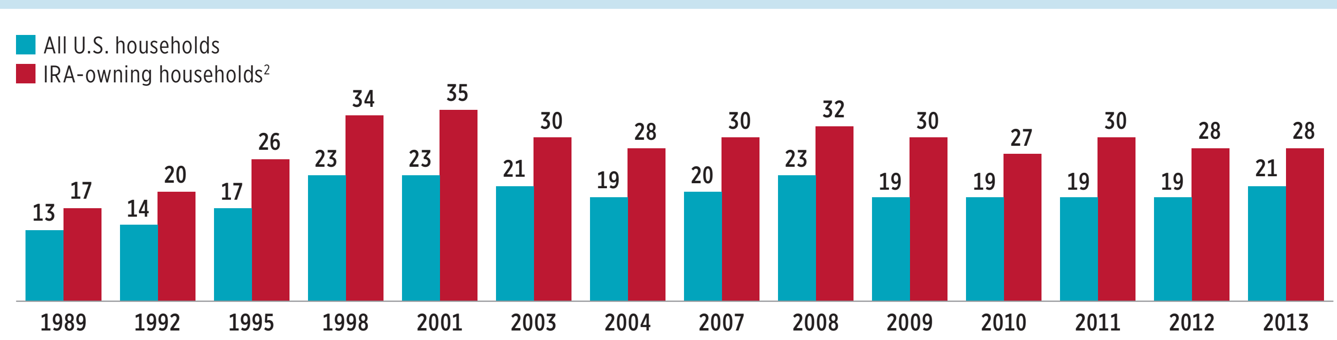
N/A = not applicable

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and Investment Company Institute IRA Owners Survey

FIGURE 8

## Willingness to Take Investment Risk Varies over Time

*Percentage of U.S. households by ownership of IRAs; willingness to take above-average or substantial investment risk,[1] selected years*




[1] The question had three other possible responses: average risk for average gain, below-average risk for below-average gain, and unwilling to take any risk.

[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Sources: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances, Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey, and Investment Company Institute IRA Owners Survey

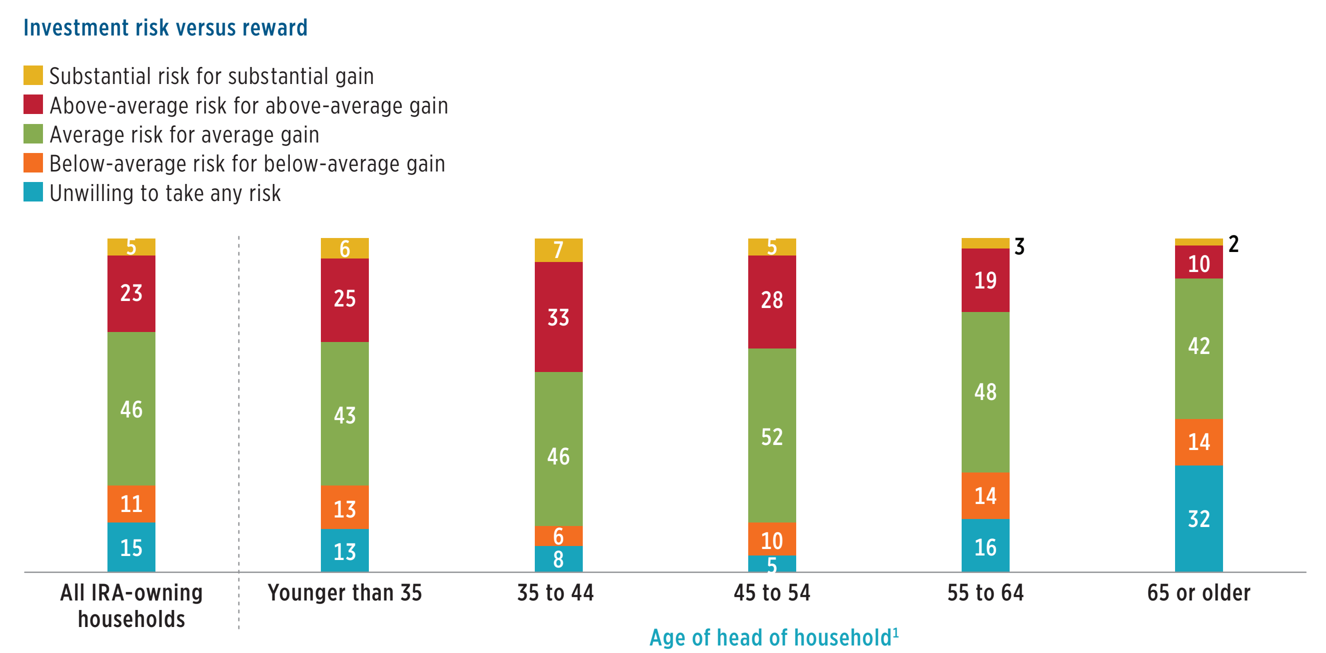
In 2013, while 28 percent of IRA-owning households were willing to take substantial or above-average risk, the largest percentage of households owning IRAs, 46 percent, were willing to take average risk for average gain (Figure 9). Twenty-six percent were willing to take below-average risk for below-average gain or were unwilling to take any investment risk. Willingness to take investment risk among households owning IRAs generally decreases with age.[13] Twelve percent of IRA-owning households aged 65 or older reported that they were willing to take substantial or above-average investment risk for similar levels of gain. Forty percent of IRA-owning households aged 35 to 44 were willing to take substantial or above-average investment risk for similar levels of gain.[14]

Between 2012 and 2013, willingness to take investment risk moved down for the youngest, slightly increased for those aged 45 to 54, and remained essentially the same for all other age groups of IRA-owning households. For example, 31 percent of IRA-owning households younger than 35 reported that they were willing to take substantial or above-average investment risk for similar levels of gain in 2013, compared with 42 percent in 2012 (Figure 10). Forty percent of IRA-owning households aged 35 to 44 reported that they were willing to take substantial or above-average investment risk for similar levels of gain in 2013, compared with 42 percent in 2012. Willingness to take risk increased in 2013 for IRA-owning households aged 45 to 54 and stayed essentially the same for IRA-owning households 55 or older.

FIGURE 9

**Willingness to Take Investment Risk Falls with Age**

*Percentage of U.S. households owning IRAs by age,[1, 2] 2013*




[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.

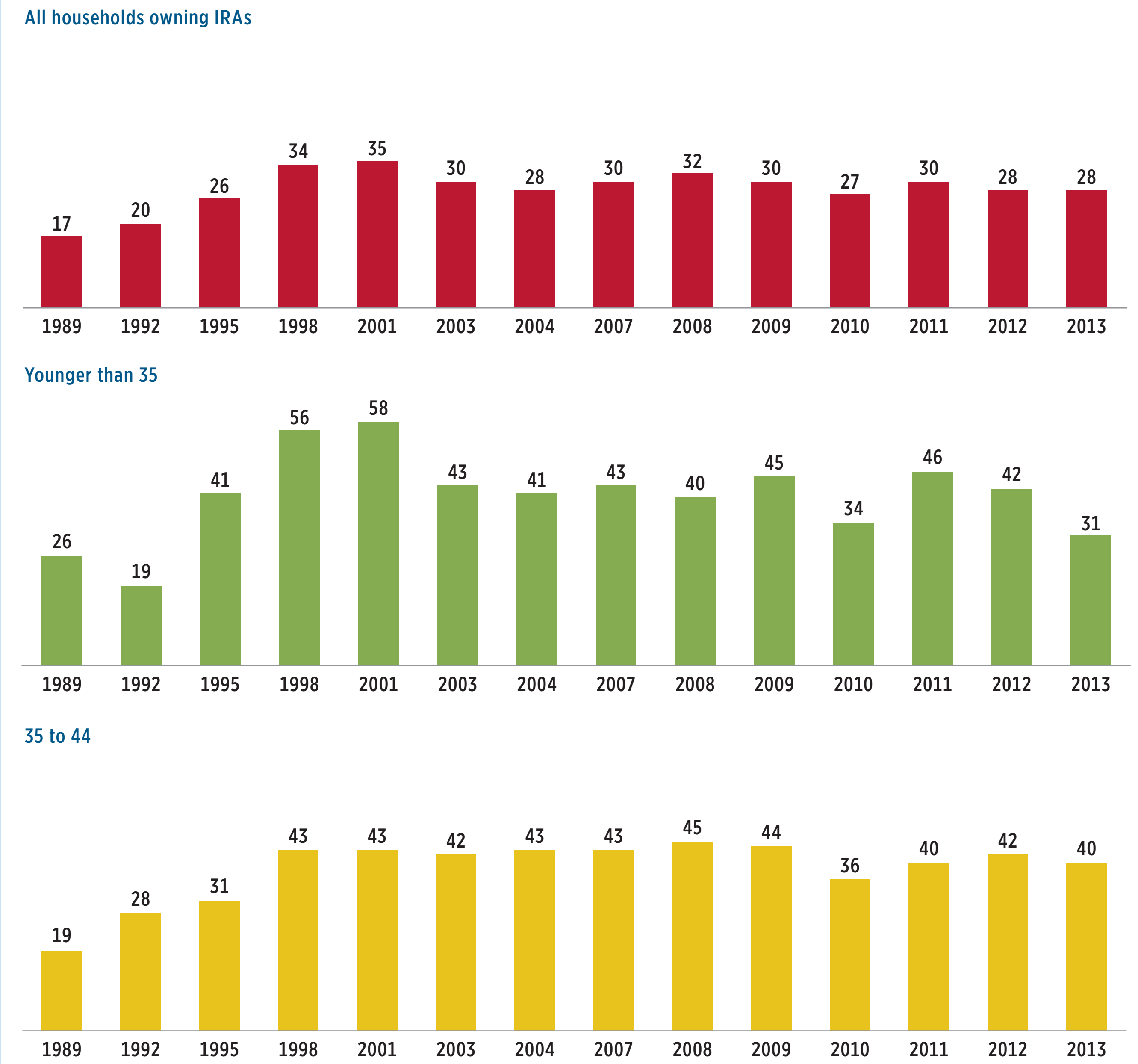
[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Source: Investment Company Institute IRA Owners Survey

FIGURE 10

## Willingness to Take Investment Risk by Age for Households That Own IRAs

*Percentage of U.S. households owning IRAs by age of head of household; willingness to take above-average or substantial investment risk; selected years*

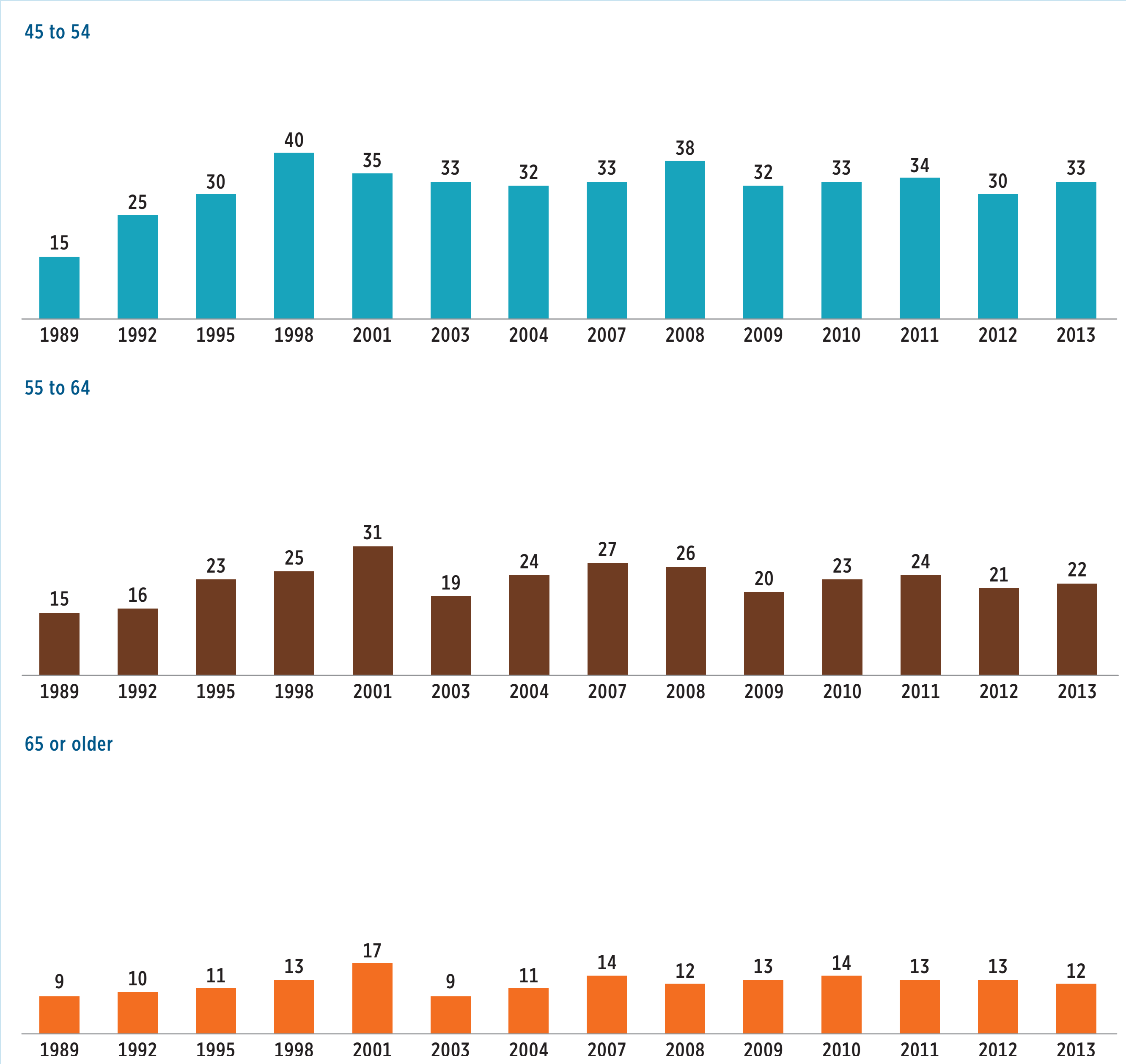



Continued on the next page

FIGURE 10 CONTINUED

## Willingness to Take Investment Risk by Age for Households That Own IRAs

*Percentage of U.S. households owning IRAs by age of head of household; willingness to take above-average or substantial investment risk; selected years*




Note: The question had three other possible responses: average risk for average gain, below-average risk for below-average gain, and unwilling to take any risk.

Sources: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances, Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey, and Investment Company Institute IRA Owners Survey

Just as 401(k) balances tend to be higher the longer a worker's job tenure,[15] IRA balances tend to rise with length of ownership. In 2013, households owning IRAs for less than 10 years had median IRA holdings of $20,000, while households owning IRAs for 20 years or more had median IRA holdings of $120,000 (Figure 11). Mean IRA holdings, while considerably higher than the median values, display a similar pattern.

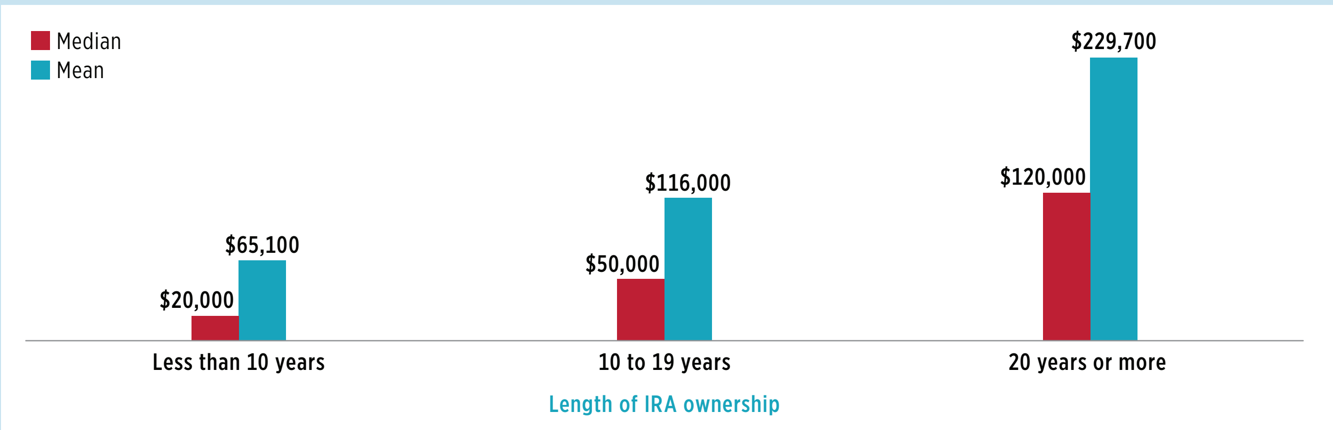
## Rollovers to Traditional IRAs Fuel Growth

From their inception, traditional IRAs were designed so that investors could accumulate retirement assets either through contributions[16] or by rolling over balances from employer-sponsored retirement plans (to help workers consolidate and preserve these assets).[17, 18]

FIGURE 11

### IRA Assets Increase with Length of IRA Ownership

*Median and mean household financial assets in IRAs by length of IRA ownership, 2013*




Note: IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
Source: Investment Company Institute IRA Owners Survey

Rollover activity, which helps many Americans preserve their retirement savings, has fueled recent IRA growth. The most recent available data show that households transferred $272 billion from employer-sponsored retirement plans to IRAs in 2008.[19] In 2013, about 18 million U.S. households (or 49 percent of all U.S. households owning traditional IRAs) had traditional IRAs that included rollover assets (Figure 12).[20] With their most recent rollovers, the vast majority of these households (85 percent) transferred the entire retirement plan account balance into the traditional IRA (Figure 13, top panel).[21] More than eight in 10 traditional IRA–owning households with rollovers made their most recent rollover in 2000 or later, including 63 percent whose most recent rollover was within the past eight years (Figure 13, lower panel). Among households with rollovers in their traditional IRAs, 44 percent only had rollover IRAs (having never made traditional IRA contributions) (Figure 12).

FIGURE 12

## Rollovers Are Often a Source of Assets for Traditional IRAs

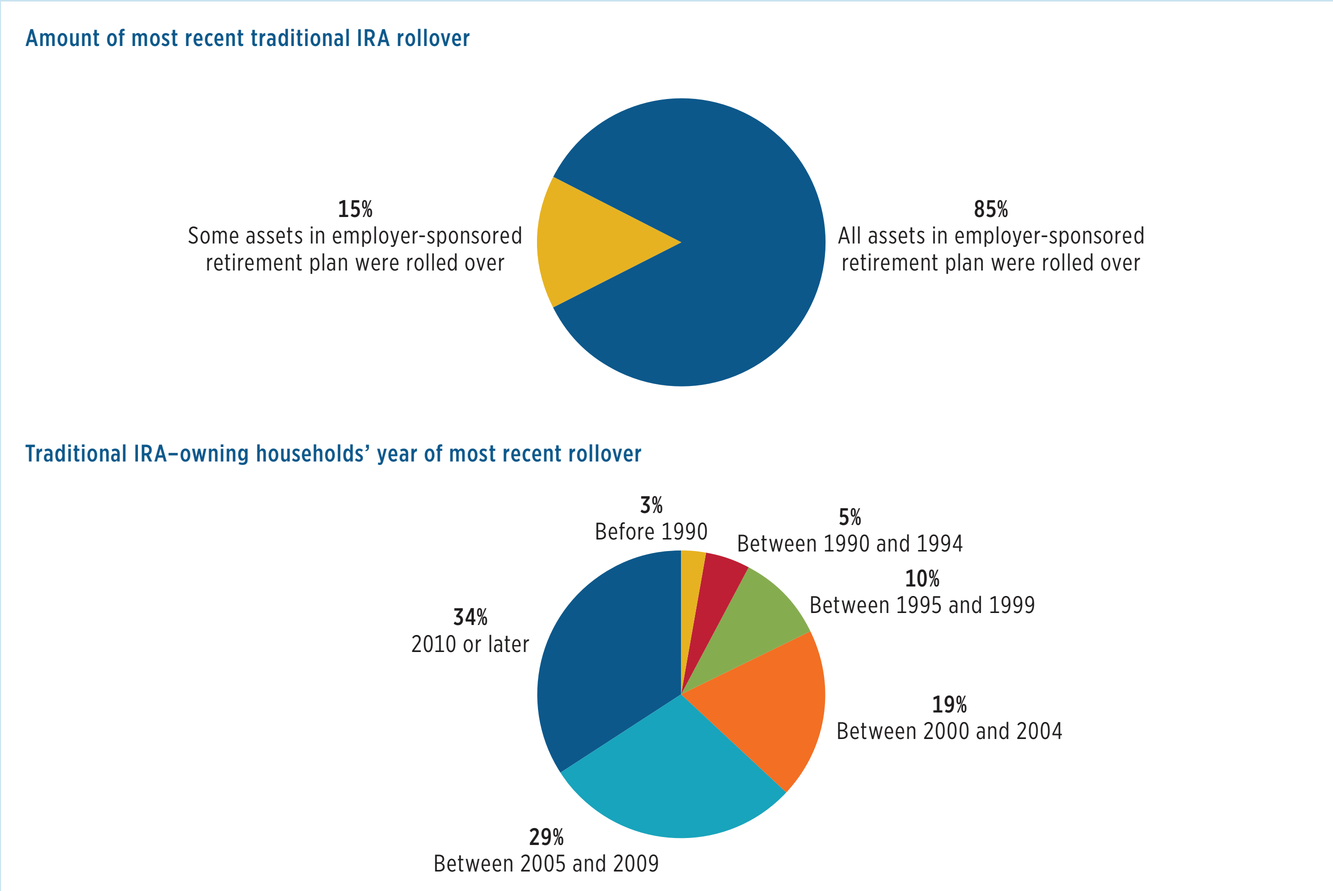
| | |
|---|---|
| **Households with traditional IRAs that include rollovers**<br>*Percentage of households owning traditional IRAs, 2013* | |
| Traditional IRA includes rollover | 49 |
| Traditional IRA does not include rollover | 51 |
| **Traditional IRA rollover activity**<br>*Percentage of households owning traditional IRAs that include rollovers, 2013* | |
| ***Traditional IRA rollover(s) due to**** | |
| Job change, layoff, or termination | 72 |
| Retirement | 29 |
| Other | 13 |
| ***Contributions to traditional IRA other than rollover*** | |
| Have made contribution other than rollover | 56 |
| Have never made contribution in addition to rollover | 44 |
| ***Percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans*** | |
| Less than 25 percent | 17 |
| 25 to 49 percent | 13 |
| 50 to 74 percent | 21 |
| 75 percent or more | 49 |
| Median percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans | 70 |

* Multiple responses are included.
Note: Number of respondents varies.
Source: Investment Company Institute IRA Owners Survey

FIGURE 13

### Amount and Timing of Most Recent Traditional IRA Rollover

*Percentage of traditional IRA–owning households with rollovers, 2013*




Note: Forty-nine percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans.

Source: Investment Company Institute IRA Owners Survey

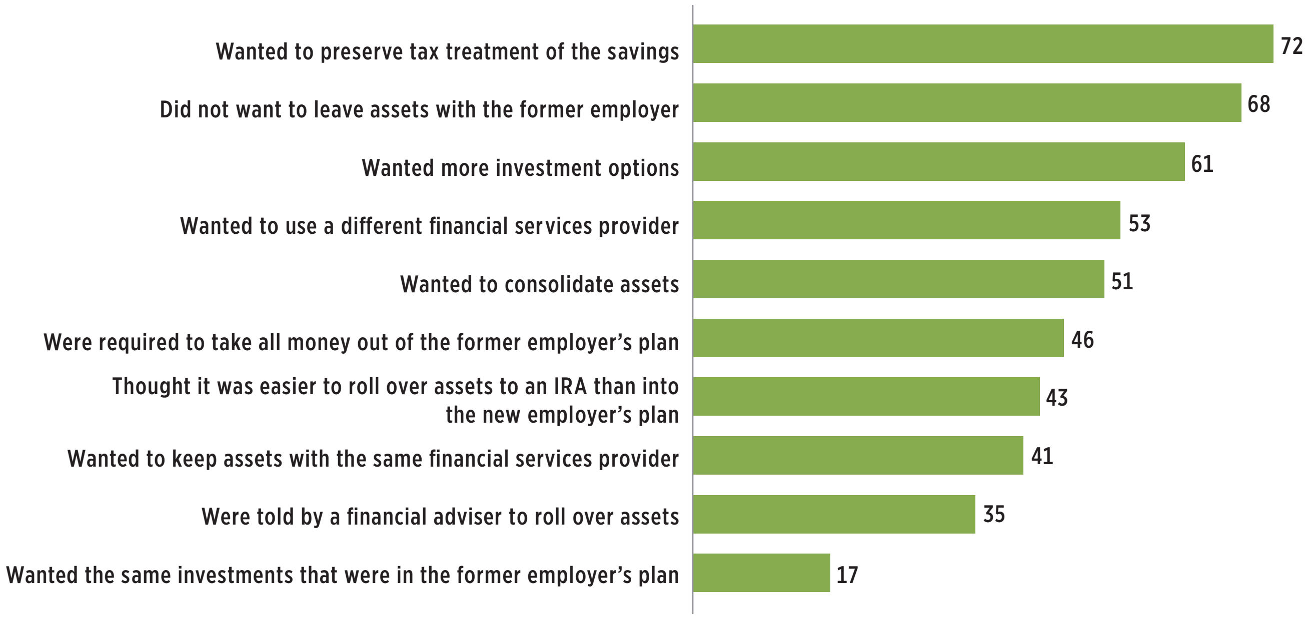
Most traditional IRA–owning households with rollovers had multiple reasons for rolling over the accumulations from their employer-sponsored retirement plans to traditional IRAs (Figure 14, top panel).[22] For example, 72 percent said they wanted to preserve the tax treatment of the savings and 68 percent did not want to leave assets with their former employer. Sixty-one percent rolled over to get more investment options. Fifty-three percent rolled over to change financial services providers, while 41 percent kept their assets with the same financial services provider when they rolled over assets. Fifty-one percent of traditional IRA–owning households with rollovers indicated that consolidating assets was one of the reasons for the rollover. When asked to identify the primary reason for the rollover, 23 percent said they wanted to consolidate assets, and 22 percent said they did not want to leave the assets with their former employer (Figure 14, lower panel). Nineteen percent rolled over primarily for more investment options and 12 percent wanted to preserve the tax treatment of the savings. Six percent indicated the primary reason they rolled the money over was that a professional financial adviser recommended it.

FIGURE 14

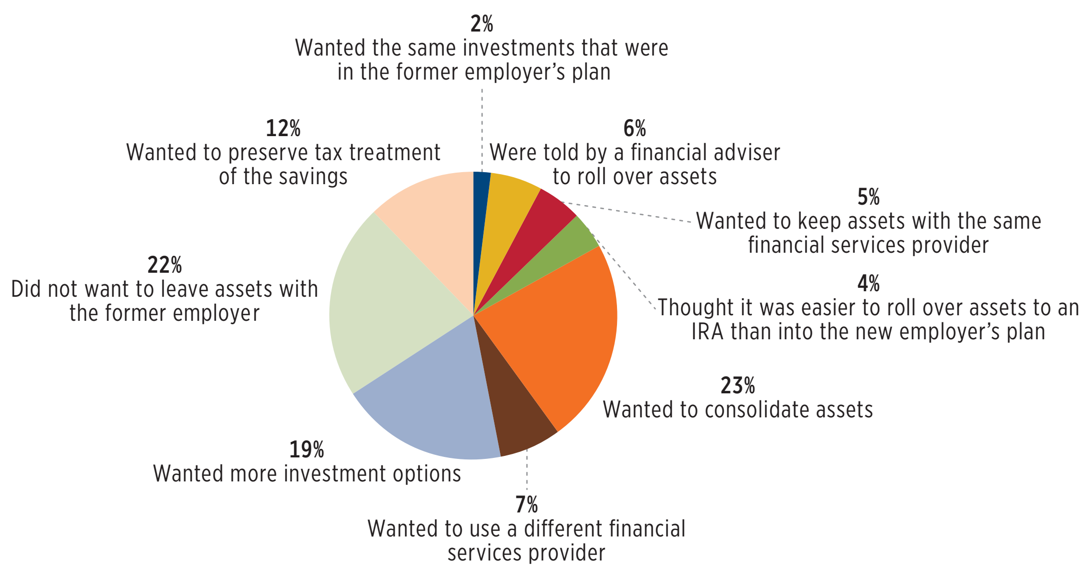
## Reasons for Most Recent Rollover

*Percentage of households owning traditional IRAs that include rollovers, 2013*

### Reasons for most recent rollover[1]




### Primary reason for most recent rollover among those choosing to roll over assets[2]




[1] Multiple responses are included for all responses except for respondents who were required to take the money out of their former employer's plan.

[2] Figure does not include the households owning traditional IRAs that include rollovers that were required to take the money out of the their former employer's plan.

Source: Investment Company Institute IRA Owners Survey

Traditional IRA–owning households generally researched the decision to roll over money from their former employer's retirement plan into a traditional IRA. Two-thirds (67 percent) consulted multiple sources of information—the most common source of information was professional financial advisers, who were consulted by 64 percent of traditional IRA–owning households with rollovers (Figure 15). Nearly four in 10 traditional IRA–owning households with rollovers relied on information provided by their employers, with 31 percent of traditional IRA–

FIGURE 15

### Sources of Information Consulted for Rollover Decision

*Percentage of traditional IRA–owning households with rollovers, 2013*

| | | Age of head of household[1] | | | |
|---|---|---|---|---|---|
| | All | Younger than 50 | 50 to 59 | 60 to 69 | 70 or older |
| **Source of information[2]** | | | | | |
| Your spouse or partner | 40 | 43 | 44 | 35 | 33 |
| A coworker, friend, or family member | 19 | 23 | 19 | 14 | 16 |
| Your employer (printed or online materials, seminars, workshops) | 39 | 42 | 38 | 36 | 33 |
| A seminar or workshop sponsored by your employer | 10 | 9 | 7 | 14 | 16 |
| Printed materials provided by your employer | 31 | 36 | 31 | 26 | 24 |
| Online materials from your employer | 17 | 19 | 16 | 16 | 10 |
| Online materials from financial services firms | 29 | 29 | 31 | 32 | 25 |
| The IRS rules or publications | 23 | 22 | 18 | 25 | 29 |
| A professional financial adviser | 64 | 58 | 64 | 67 | 73 |
| Other | 11 | 9 | 12 | 14 | 12 |
| **Primary source of information** | | | | | |
| Your spouse or partner | 6 | 5 | 7 | 5 | 5 |
| A coworker, friend, or family member | 5 | 7 | 5 | 4 | 6 |
| Your employer (printed or online materials, seminars, workshops) | 13 | 15 | 10 | 13 | 10 |
| A seminar or workshop sponsored by your employer | 3 | 3 | 1 | 3 | 4 |
| Printed materials provided by your employer | 8 | 8 | 7 | 8 | 6 |
| Online materials from your employer | 2 | 4 | 2 | 2 | 0 |
| Online materials from financial services firms | 11 | 15 | 13 | 7 | 2 |
| The IRS rules or publications | 4 | 4 | 2 | 6 | 5 |
| A professional financial adviser | 54 | 49 | 54 | 56 | 67 |
| Other | 7 | 5 | 9 | 9 | 5 |
| **Number of respondents** | 1,142 | 459 | 307 | 225 | 152 |

[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.

[2] Multiple responses are included.

Note: Other responses given included: myself, other online information, bank, books and magazines, and seminars sponsored by a financial institution.

Source: Investment Company Institute IRA Owners Survey

owning households with rollovers using printed materials from their employers as a source of information. Twenty-nine percent indicated they used online materials from financial services firms. When asked to identify their primary source of information on the rollover decision, 54 percent of traditional IRA–owning households with rollovers indicated they primarily relied on professional financial advisers; older households were more likely to consult professional financial advisers than younger households. Eleven percent of traditional IRA–owning households with rollovers indicated their primary source of information was online materials from financial services firms, with younger households more likely to rely on online resources than older households.

In selecting the initial asset allocation of rollover assets in traditional IRAs, 10 percent of traditional IRA–owning households with rollovers indicated that their professional financial adviser selected the investments, and 48 percent indicated they worked together with a professional financial adviser to select the investments. Forty percent of traditional IRA–owning households with rollovers indicated that the household selected the investments without outside help.[23]

Households with rollover assets in their IRAs tend to have higher IRA balances, compared with IRAs funded purely by individual contributions. Median traditional IRA holdings that include rollovers were $70,000 in 2013, compared with median traditional IRA holdings of $30,000 for balances that did not include rollovers (Figure 16).[24]

FIGURE 16

**Traditional IRAs Preserve Assets from Employer-Sponsored Retirement Plans**

*Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2013*

| | Traditional IRA includes rollover from employer-sponsored retirement plan[1] | Traditional IRA does not include rollover from employer-sponsored retirement plan[2] |
|---|---|---|
| **Traditional IRA assets** | | |
| Mean | $173,500 | $91,730 |
| Median | $70,000 | $30,000 |
| **Household financial assets[3]** | | |
| Mean | $396,600 | $315,100 |
| Median | $275,000 | $200,000 |

[1] Forty-nine percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans.

[2] Fifty-one percent of households owning traditional IRAs have traditional IRAs that do not include rollovers from employer-sponsored retirement plans.

[3] Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.

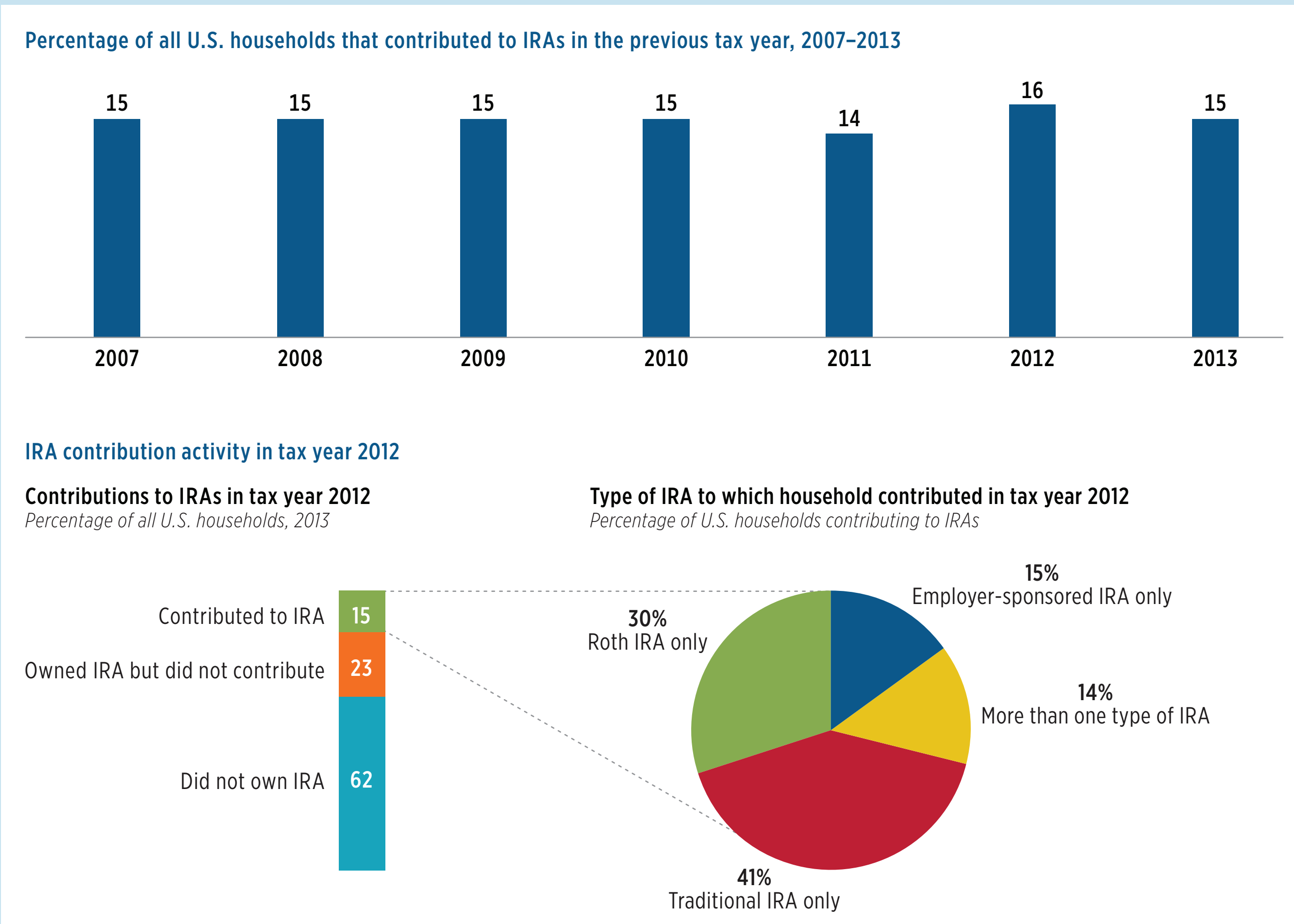
Source: Investment Company Institute IRA Owners Survey

## Few Households Make Contributions to IRAs

Although IRAs can help Americans build their retirement savings, the majority of U.S. households do not contribute to them. In tax year 2012, only 15 percent of all U.S. households made contributions to IRAs, compared with 16 percent in tax year 2011 (Figure 17, top panel). Thirty-nine percent of households owning IRAs in 2013 made contributions in tax year 2012 (Figure 17, lower panel), the same share as in tax year 2011.[25] Households may, depending on their eligibility, contribute to more than one type of IRA in each tax year. Among households making contributions to IRAs in tax year 2012, 52 percent contributed to traditional IRAs, with 41 percent contributing to traditional IRAs only.[26] Forty percent of households making IRA contributions in tax year 2012 made Roth contributions, with 30 percent contributing to Roth IRAs only.[27] Twenty-three percent contributed to employer-sponsored IRAs in tax year 2012, with 15 percent contributing to employer-sponsored IRAs only.[28]

FIGURE 17

**Few Households Contribute to IRAs**




Note: Employer-sponsored IRAs include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and the Investment Company Institute IRA Owners Survey

## Roth and Employer-Sponsored IRA Owners Are More Likely to Contribute

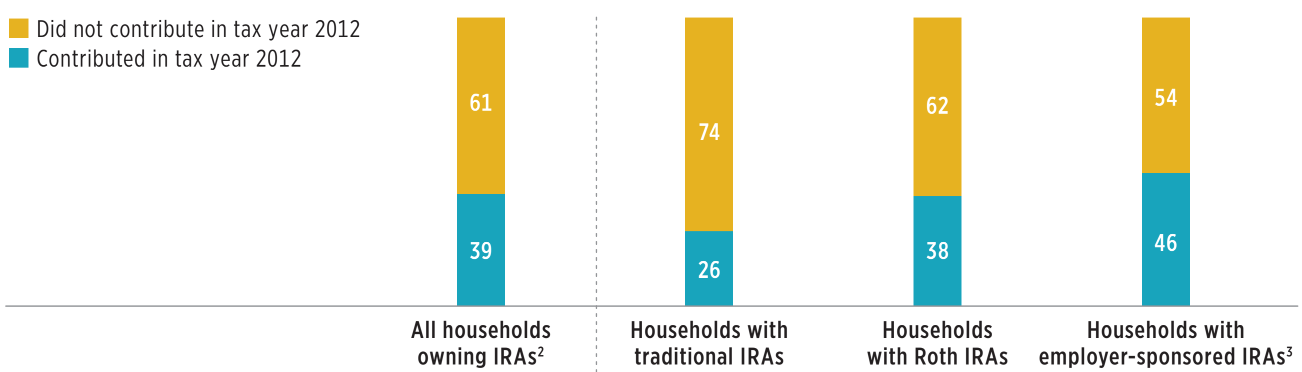
Traditional IRA owners were less likely than owners of other types of IRAs to have made contributions. Thirty-eight percent of households owning Roth IRAs in 2013 made contributions in tax year 2012 (Figure 18), and 46 percent of all households owning employer-sponsored IRAs in 2013 made contributions in tax year 2012. In contrast, only 26 percent of traditional IRA–owning households in 2013 contributed to their traditional IRAs in tax year 2012.[29]

Several factors play a role in the lower contribution rate to traditional IRAs. First, restrictions on the tax deductibility of contributions[30] must be considered by the 82 percent of traditional IRA–owning households that have retirement plan coverage at work.[31] When asked for the reasons they did not contribute, 17 percent of traditional IRA–owning households not making contributions indicated that ineligibility to make deductible contributions was a reason why they did not contribute (Figure 19). Thirty-seven percent of nonretired traditional IRA–owning households

FIGURE 18

### Contribution Activity to Roth and Employer-Sponsored IRAs Outpaces Contribution Activity to Traditional IRAs in Tax Year 2012

*Percentage of U.S. households owning each type of IRA[1] in 2013 by contribution status in tax year 2012*




| | All households owning IRAs[2] | Households with traditional IRAs | Households with Roth IRAs | Households with employer-sponsored IRAs[3] |
|---|---|---|---|---|
| Median contribution per household to type of IRA indicated (among contributing households) | $5,000 | $4,000 | $4,000 | $5,000 |

[1] Households may hold more than one type of IRA. Contribution activity reported is for type of IRA indicated. Some of these households may have been ineligible to make contributions.

[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

[3] Employer-sponsored IRAs include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

Source: Investment Company Institute IRA Owners Survey

not making contributions indicated they were able to save enough in their retirement plans at work. Fifty-two percent of traditional IRA–owning households not making contributions were retired from their lifetime occupation, and 61 percent of them indicated they were not contributing because they were retired and no longer saving. Overall, 32 percent of traditional IRA–owning households not making contributions said that one reason they did not contribute was that they were retired and no longer saving. Furthermore, some traditional IRA–owning households use traditional IRAs to preserve rollovers rather than as a contributory savings vehicle. Nevertheless, other research finds that traditional IRA investors who make contributions tend to do so on a recurring basis.[32]

The median contribution among households contributing to employer-sponsored IRAs was $5,000 in tax year 2012, while the median contribution to traditional IRAs was $4,000 per household (Figure 18). The median contribution to Roth IRAs was $4,000 per household. In 2012, the

FIGURE 19

**Reasons Why Traditional IRA–Owning Households Did Not Contribute to an IRA in Tax Year 2012**

*Percentage of traditional IRA–owning households that did not make contributions in tax year 2012*

| | | Age of head of household[1] | | | | Retirement status[2] | |
|---|---|---|---|---|---|---|---|
| | All | Younger than 50 | 50 to 59 | 60 to 69 | 70 or older | Retired[2] | Not retired |
| Saving enough through a retirement plan at work | 24 | 33 | 38 | 22 | 5 | 12 | 37 |
| Do not have extra money to save | 35 | 44 | 46 | 31 | 20 | 26 | 45 |
| Are not eligible to make a deductible contribution | 17 | 16 | 14 | 18 | 21 | 20 | 14 |
| Are not eligible to contribute to an IRA | 16 | 9 | 15 | 14 | 28 | 23 | 9 |
| Are retired and no longer saving | 32 | 7 | 9 | 44 | 69 | 61 | 1 |
| Own an inherited IRA | 4 | 4 | 3 | 4 | 3 | 4 | 3 |
| Other reason | 8 | 10 | 9 | 9 | 3 | 5 | 10 |
| **Number of respondents** | 1,122 | 314 | 253 | 264 | 291 | 580 | 542 |

[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.

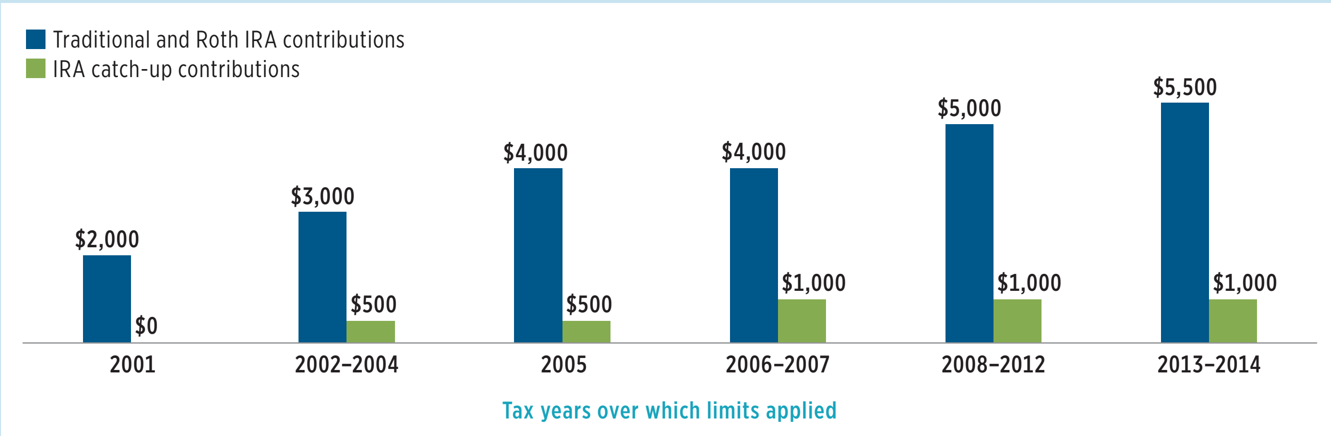
[2] The household was considered retired if either the head of household or spouse responded affirmatively to the question: "Are you retired from your lifetime occupation?"

Source: Investment Company Institute IRA Owners Survey

traditional and Roth IRA contribution limit was $5,000 for individuals under the age of 50 (Figure 20).[33] Since tax year 2002, individuals aged 50 or older are eligible to make catch-up contributions to their IRAs.[34] Among households aged 50 or older, 39 percent owned traditional or Roth IRAs in 2013 (Figure 21). Of these IRA-owning households, 31 percent made contributions to traditional or Roth IRAs; 42 percent of these contributing households made catch-up contributions. All told, catch-up contributions are not prevalent, with only 5 percent of all U.S. households aged 50 or older[35] reporting catch-up contributions to traditional or Roth IRAs.

FIGURE 20

**Traditional and Roth IRA Contribution Limits Set by the Internal Revenue Code, 2001–2014**

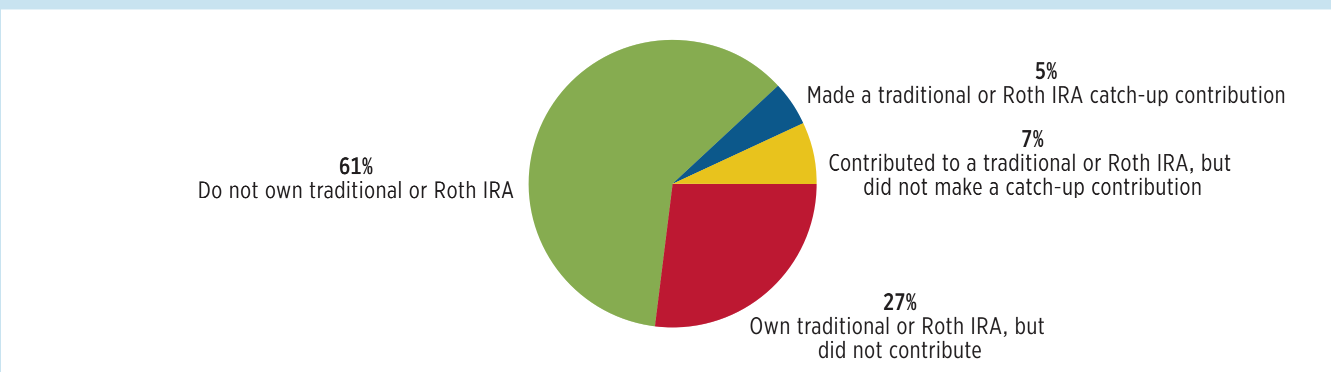



Note: After 2008, IRA contributions are indexed for inflation in $500 increments. IRA catch-up contributions are not indexed for inflation.
Source: ICI summary of U.S. Internal Revenue Code

FIGURE 21

**Traditional and Roth IRA Catch-Up Contributions Are Infrequent**

*Percentage of U.S. households with individuals aged 50 or older by contribution status in tax year 2012*




Note: Catch-up contribution activity is identified if an individual's contribution is greater than the $5,000 limit in tax year 2012 or if respondents indicated their contributions included a catch-up contribution.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and Investment Company Institute IRA Owners Survey

## IRA Withdrawals Are Infrequent, Mostly Retirement Related

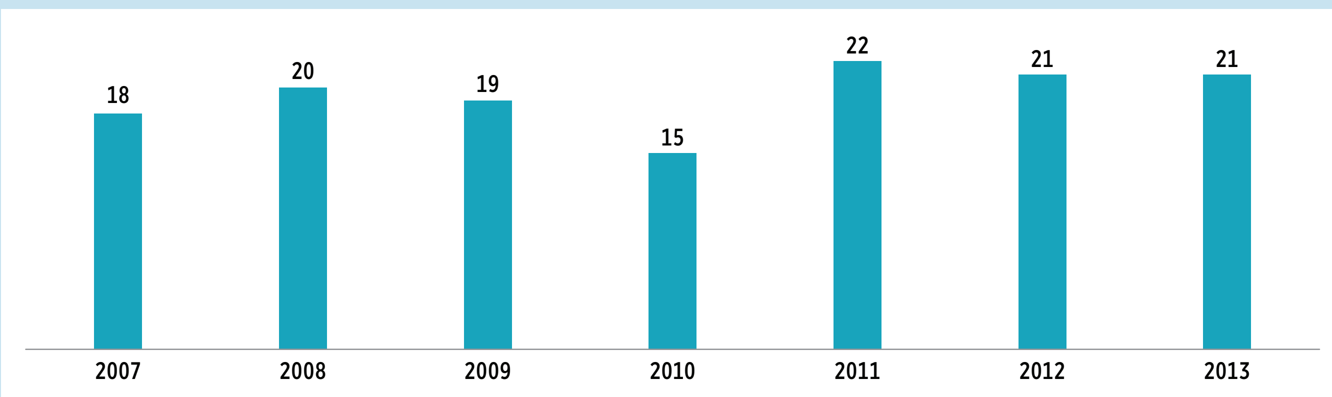
Few households withdraw money from their IRAs in any given year, and most withdrawals are retirement related. A traditional IRA withdrawal taken by an individual prior to age 59½ generally is subject to a 10 percent penalty on the taxable portion of the withdrawal (in addition to the federal, state, and local income tax that may be due).[36] Taxpayers older than 59½ but younger than 70½ may take withdrawals without penalty, but generally are not required to do so. Traditional IRA owners aged 70½ or older are required to withdraw an annual amount based on life expectancy or pay a penalty for failing to do so; these withdrawals are called required minimum distributions (RMDs). Households with inherited IRAs also generally are required to take distributions.

Twenty-one percent of households owning traditional IRAs in 2013 reported taking withdrawals from these IRAs in tax year 2012, the same share as in tax year 2011 (Figure 22).[37] In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009.[38] Withdrawal activity among traditional IRA–owning households fell to lower levels in tax year 2009, likely in part due to the suspension of RMDs from traditional IRAs.[39] Some of the increase in withdrawal activity in tax year 2010 and tax year 2011 resulted from the return of RMDs. Among households taking traditional IRA withdrawals in tax year 2012, 76 percent reported that someone in the household was retired from their lifetime occupation (Figure 23). Nevertheless, 59 percent of retired households owning traditional IRAs in 2013 did not take withdrawals in tax year 2012.

FIGURE 22

### Traditional IRA Withdrawal Activity

*Percentage of households owning traditional IRAs in the year indicated that took withdrawals in the prior year*




Note: Households were surveyed in May of the year indicated and asked about withdrawals in the prior year.
Source: Investment Company Institute IRA Owners Survey

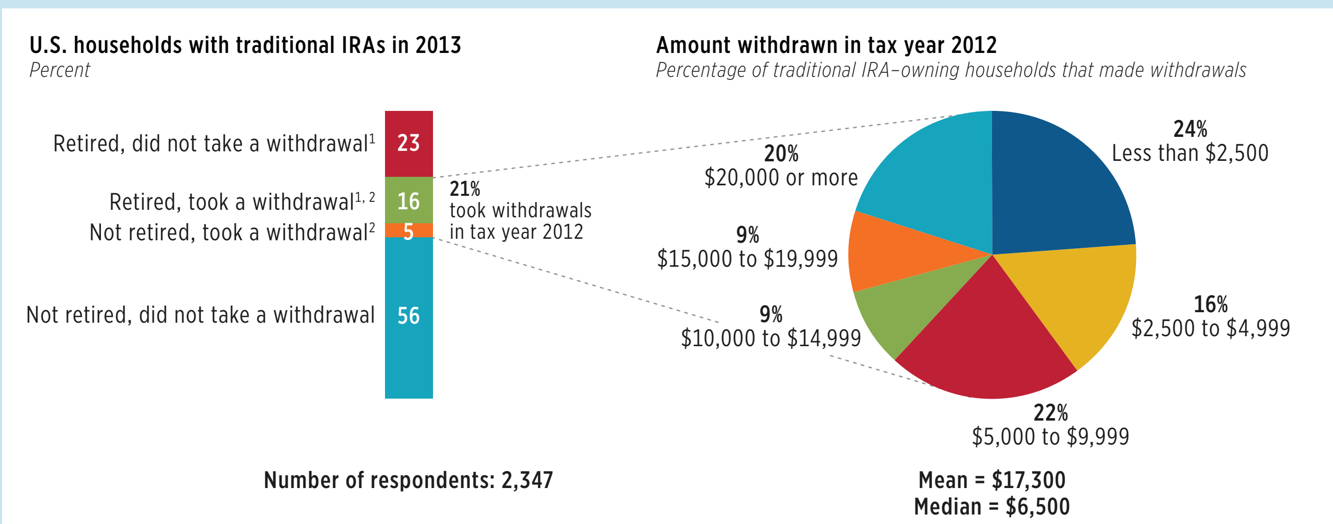
Traditional IRA–owning households that made withdrawals generally took modest-sized amounts. Twenty-four percent of traditional IRA–owning households making withdrawals in tax year 2012 took less than $2,500 from their IRAs, and another 16 percent withdrew between $2,500 and $4,999 (Figure 23). Although some withdrawals appear large in dollar amounts, a median of 7 percent of the account balance was typically withdrawn. In line with the incentives and disincentives of the tax code, younger households were much less likely to make withdrawals than older households. Among traditional IRA–owning households in 2013 headed by individuals younger than 59, only 8 percent took withdrawals in tax year 2012 (Figure 24).[40] Nineteen percent of households owning traditional IRAs and headed by an individual aged 59 to 69 in 2013 reported withdrawals in tax year 2012. Seventy percent of households owning traditional IRAs and headed by an individual aged 70 or older took withdrawals in tax year 2012.[41]

Typically, withdrawals from traditional IRAs were taken to fulfill RMDs. Sixty-six percent of households owning traditional IRAs in 2013 and making withdrawals in tax year 2012 calculated their withdrawal amount based on the RMD, compared with 65 percent in tax year 2011 (Figure 25). Another 23 percent of traditional IRA–owning households taking withdrawals reported they withdrew lump sums based on needs in tax year 2012, compared with 22 percent in tax year 2011. In tax year 2012, 7 percent reported a scheduled withdrawal amount, either as a percentage of the account or a regular dollar amount, compared with 8 percent that reported a scheduled withdrawal amount in tax year 2011.

Reflecting the rules governing distributions from traditional IRAs, households headed by individuals aged 70 or older were much more likely to cite RMDs as the way they calculated their withdrawal amounts,[42] while younger households were much more likely to take lump-sum

FIGURE 23

## Withdrawals from Traditional IRAs Are Infrequent




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

[2] Households that made withdrawals exclude those that closed and no longer own traditional IRAs.

Source: Investment Company Institute IRA Owners Survey

FIGURE 24

## Most Traditional IRA–Owning Households That Take Withdrawals Are Headed by Individuals Aged 70 or Older

*Percentage of traditional IRA–owning households, 2007–2013*

| | Traditional IRA–owning households | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
| **Age of head of household*** *Percentage of U.S. households owning traditional IRAs* | | | | | | | |
| Younger than 59 | 64 | 62 | 63 | 62 | 58 | 61 | 61 |
| 59 to 69 | 20 | 22 | 20 | 22 | 25 | 23 | 22 |
| 70 or older | 16 | 16 | 17 | 16 | 17 | 16 | 17 |
| **Traditional IRA withdrawal activity by age*** *Percentage of U.S. households owning traditional IRAs* | | | | | | | |
| Younger than 59, did not take a withdrawal | 61 | 59 | 60 | 59 | 54 | 56 | 56 |
| Younger than 59, took a withdrawal | 3 | 4 | 3 | 3 | 5 | 5 | 5 |
| Aged 59 to 69, did not take a withdrawal | 15 | 17 | 16 | 18 | 20 | 19 | 18 |
| Aged 59 to 69, took a withdrawal | 6 | 5 | 4 | 4 | 5 | 4 | 4 |
| Aged 70 or older, did not take a withdrawal | 6 | 4 | 5 | 7 | 5 | 4 | 5 |
| Aged 70 or older, took a withdrawal | 9 | 11 | 12 | 9 | 13 | 12 | 12 |
| **Memo:** | | | | | | | |
| Percentage of traditional IRA–owning households with withdrawals | 18 | 20 | 19 | 15 | 22 | 21 | 21 |
| **Incidence of withdrawal activity by age*** *Percentage of traditional IRA–owning households by age** | | | | | | | |
| Younger than 59 | 4 | 6 | 5 | 5 | 8 | 7 | 8 |
| 59 to 69 | 27 | 24 | 19 | 17 | 19 | 17 | 19 |
| 70 or older | 59 | 73 | 70 | 53 | 72 | 74 | 70 |
| **Age composition of households with withdrawals*** *Percentage of traditional IRA–owning households with withdrawals* | | | | | | | |
| Younger than 59 | 16 | 18 | 16 | 20 | 22 | 22 | 22 |
| 59 to 69 | 31 | 26 | 20 | 25 | 21 | 19 | 21 |
| 70 or older | 53 | 56 | 64 | 55 | 57 | 59 | 57 |

* Age is based on the age of the sole or co-decisionmaker for household saving and investing.

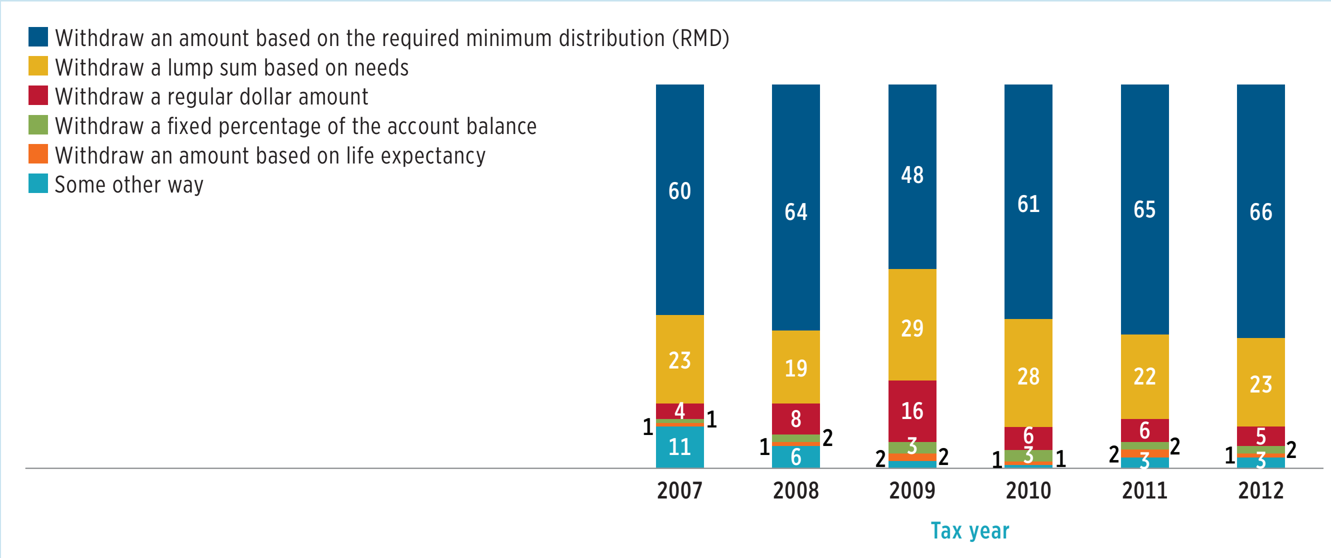
Note: The figure reports traditional IRA withdrawal activity for the prior year. For example, for traditional IRA–owning households in 2013, the figure reports withdrawal activity for tax year 2012.

Source: Investment Company Institute IRA Owners Survey

FIGURE 25

**How Traditional IRA Withdrawals Are Determined**

*Percentage of traditional IRA–owning households with withdrawals in tax years 2007–2012*




Source: Investment Company Institute IRA Owners Survey

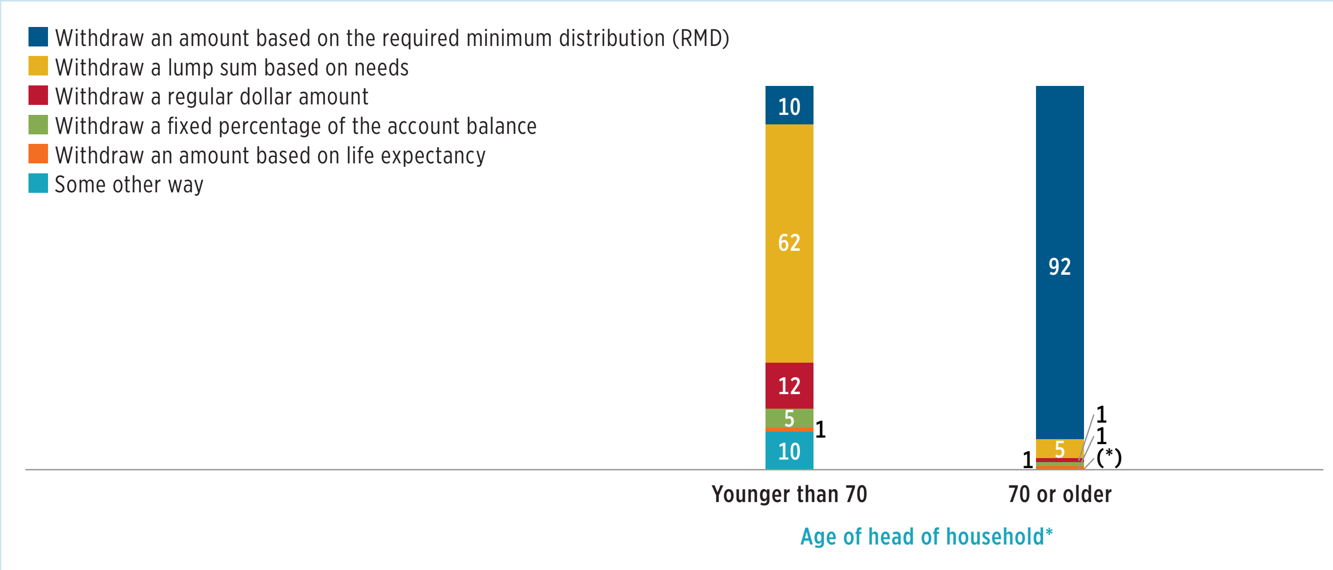
withdrawals based on needs. Among traditional IRA–owning households in 2013 with a head of household aged 70 or older and taking a withdrawal in tax year 2012, 92 percent indicated their withdrawal was based on the RMD rules—only 5 percent took lump sums based on needs (Figure 26). In contrast, among withdrawing households younger than age 70, 62 percent took lump sums based on needs. Some households headed by an individual younger than 70 with withdrawals (10 percent) indicated their withdrawals were RMDs, possibly reflecting an older spouse or partner, or ownership of inherited IRAs.

Traditional IRA–owning households that took withdrawals in tax year 2012 usually consulted outside sources to determine the amount of the withdrawal. Fifty-eight percent consulted a professional financial adviser to determine the amount to withdraw in tax year 2012 (Figure 27). Thirty-four percent consulted IRS rules or publications.

FIGURE 26

## Older Traditional IRA–Owning Households Use RMD Rules When Taking Withdrawals

*Percentage of traditional IRA–owning households with withdrawals in tax year 2012*




* Age is based on the age of the sole or co-decisionmaker for household saving and investing.

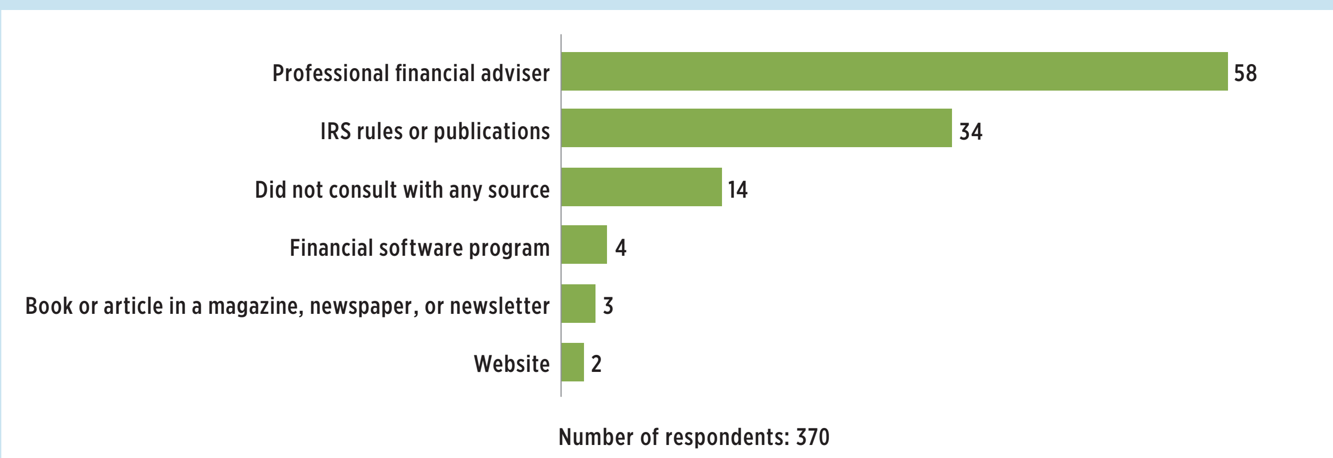
(*) = less than 0.5 percent

Source: Investment Company Institute IRA Owners Survey

FIGURE 27

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

*Percentage of traditional IRA–owning households that made withdrawals in tax year 2012*




Note: Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

## The Role of Traditional IRA Withdrawals in Retirement

Traditional IRA withdrawals can be used for a variety of purposes in retirement. Among households where either the head of household or spouse was retired, 38 percent reported using traditional IRA withdrawals to pay for living expenses (Figure 28). Thirty-one percent of retired households that took traditional IRA withdrawals in tax year 2012 reinvested or saved the withdrawal amount into another account.[43] Sixteen percent reported using their withdrawals for home purchase, repair, or remodeling, and 9 percent used their withdrawals for emergencies. Twelve percent reported using their withdrawals for healthcare expenses. Because today's withdrawal activity may not be a good indicator of future withdrawal activity, traditional IRA–owning households that did not take withdrawals in tax year 2012 were asked about their future withdrawal intentions. In 2013, 66 percent of these traditional IRA–owning households say it is unlikely they will take withdrawals prior to age 70½ (Figure 29). Among traditional IRA–owning households in 2013 that did not take withdrawals in tax year 2012, 39 percent indicate it is "not likely at all" that they would start traditional IRA withdrawals before required. Another 27 percent report it is "not very likely" that they would take withdrawals prior to age 70½.

FIGURE 28

### Traditional IRA Withdrawals Often Are Used to Pay for Living Expenses

*Percentage of withdrawing traditional IRA–owning households[1] in which either the head of household or spouse is retired,[2] 2013*

| Purpose of traditional IRA withdrawal in retirement[3] | |
|---|---|
| Took withdrawals to pay for living expenses | 38 |
| Spent it on a car, boat, or big-ticket item other than a home | 6 |
| Spent it on a healthcare expense | 12 |
| Used it for an emergency | 9 |
| Used it for home purchase, repair, or remodeling | 16 |
| Reinvested or saved it in another account | 31 |
| Paid for education | 3 |
| Some other purpose | 14 |
| **Number of respondents** | 372 |

[1] The base of respondents includes the 16 percent of traditional IRA–owning households that were retired and took withdrawals reported in Figure 23.

[2] The household was considered retired if either the head of household or spouse responded affirmatively to the question: "Are you retired from your lifetime occupation?"

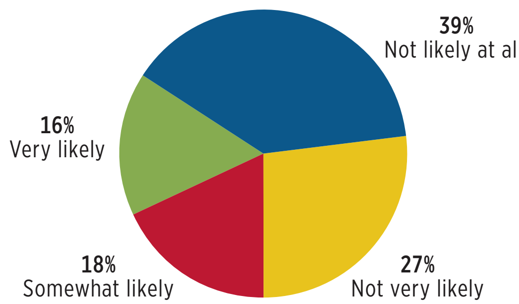
[3] Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

FIGURE 29

**Likelihood of Withdrawing from Traditional IRA Before Age 70½**

*Percentage of traditional IRA–owning households that did not take withdrawals in tax year 2012*




**Number of respondents: 1,757**

Source: Investment Company Institute IRA Owners Survey

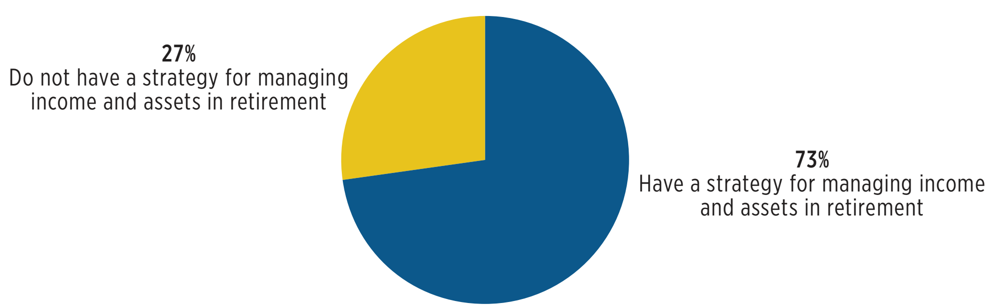
## Most Traditional IRA Owners Have a Planned Retirement Strategy

Seventy-three percent of traditional IRA–owning households in 2013 say they have a strategy for managing income and assets in retirement (Figure 30). These households typically seek advice when building their retirement income strategy. Sixty-three percent of traditional IRA–owning households with a strategy consulted a professional financial adviser when creating the strategy (Figure 31). Thirty percent of households with a strategy consulted with friends or family and 24 percent consulted written materials (e.g., a book or article in a magazine or newspaper). Nineteen percent used a website to help create their retirement income and asset management strategy.

FIGURE 30

**Most Traditional IRA–Owning Households Have a Strategy for Managing Income and Assets in Retirement**

*Percentage of traditional IRA–owning households, 2013*



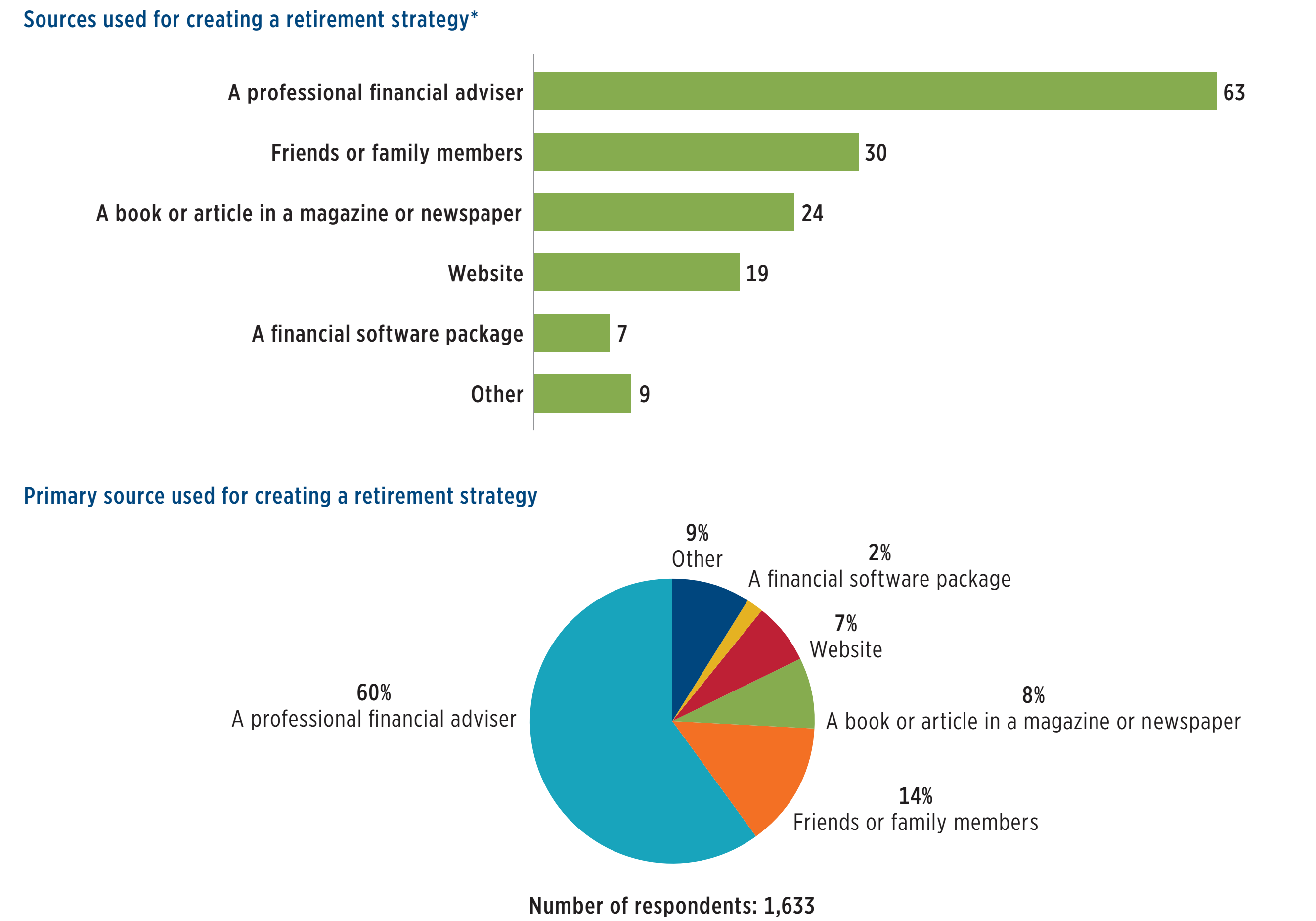

**Number of respondents: 2,244**

Source: Investment Company Institute IRA Owners Survey

FIGURE 31

## Most IRA Owners Consult a Professional Financial Adviser When Creating a Retirement Strategy

*Percentage of traditional IRA–owning households that indicated they have a strategy for managing income and assets in retirement, 2013*




* Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

Traditional IRA–owning households with a strategy for managing their income and assets in retirement reported that their strategy had multiple components. Seventy-two percent of these households indicated setting aside emergency funds and 67 percent developed a retirement income plan as part of their strategy (Figure 32). Fifty-nine percent reviewed their insurance policies and 63 percent determined their retirement expenses. More than half determined when to take Social Security benefits, with households aged 50 or older more likely to have done so compared with households younger than 50. Sixty-four percent of traditional IRA–owning households with a strategy took three or more steps in developing their strategy.

FIGURE 32

## Components of Strategy for Managing Income and Assets in Retirement

*Percentage of traditional IRA–owning households that indicated they have a strategy for managing income and assets in retirement, 2013*

| | | Age of head of household* | | | |
|---|---|---|---|---|---|
| | **All** | **Younger than 35** | **35 to 49** | **50 to 64** | **65 or older** |
| Set aside emergency funds | 72 | 82 | 72 | 71 | 67 |
| Develop a retirement income plan | 67 | 61 | 69 | 71 | 60 |
| Review your insurance policies | 59 | 57 | 56 | 65 | 51 |
| Determine your retirement expenses | 63 | 43 | 63 | 67 | 68 |
| Determine when to take Social Security benefits | 52 | 40 | 42 | 54 | 66 |
| Other | 7 | 7 | 7 | 8 | 6 |
| **Number of respondents** | 1,535 | 178 | 417 | 568 | 372 |

* Age is based on the age of the sole or co-decisionmaker for household saving and investing.

Note: Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

## Expected Role of IRA Withdrawals in Retirement

Traditional IRA–owning households that were either (1) not retired or (2) retired but did not take withdrawals in tax year 2012 reported a pattern for the expected role of future IRA withdrawals in retirement that is consistent with the use of withdrawals among those who withdrew in tax year 2012. Sixty-three percent of these households reported they plan to use IRA withdrawals to pay for living expenses in retirement (Figure 33). Another 63 percent reported they plan to use IRA withdrawals for an emergency. When asked to select a primary role for future IRA withdrawals in retirement, 52 percent expected the primary role of IRA withdrawals will be to pay for living expenses in retirement.

FIGURE 33

### Expected Role of IRA Withdrawals in Retirement

*Percentage of traditional IRA–owning households,[1] excluding retiree households with withdrawals, 2013*

| | |
|---|---|
| **Plan for future IRA withdrawals in retirement[2]** | |
| Take withdrawals to pay for living expenses | 63 |
| Spend it on a car, boat, or big-ticket item other than a home | 11 |
| Spend it on a healthcare expense | 31 |
| Use it for an emergency | 63 |
| Use it for home purchase, repair, or remodeling | 23 |
| Reinvest or save it in another account | 42 |
| Pay for education | 12 |
| Some other plan | 18 |
| **Primary plan for future IRA withdrawals in retirement** | |
| Take withdrawals to pay for living expenses | 52 |
| Spend it on a car, boat, or big-ticket item other than a home | 2 |
| Spend it on a healthcare expense | 4 |
| Use it for an emergency | 17 |
| Use it for home purchase, repair, or remodeling | 5 |
| Reinvest or save it in another account | 13 |
| Pay for education | 5 |
| Some other plan | 2 |
| **Number of respondents** | 1,964 |

[1] The base of respondents includes the 23 percent of traditional IRA–owning households that were retired but did not take withdrawals (that were asked about their future plans), the 5 percent of nonretired households that took withdrawals, and the 56 percent of nonretired households that did not take withdrawals (see Figure 23).

[2] Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

### *Additional Reading*

- "**The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2011**," *ICI Research Report*. Drawing from information collected in The IRA Investor Database™, the report provides insight into contributions, rollovers, withdrawals, asset allocation, and account balances of more than 10 million traditional IRA investors in 2011. Available at www.ici.org/pdf/rpt_13_ira_investors.pdf.

- "**The Evolving Role of IRAs in U.S. Retirement Planning**," *Investment Company Institute Perspective*. This research paper 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 Individual Retirement Account at Age 30: A Retrospective**," *Investment Company Institute Perspective*. This research paper provides a summary of the growth and development of the IRA market. Available at www.ici.org/pdf/per11-01.pdf.

- "**The U.S. Retirement Market, Second Quarter 2013**." This quarterly release updates aggregate assets in retirement plans, IRAs, and annuities. Available at www.ici.org/info/ret_13_q2_data.xls.

## 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 2013, 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 2013, the annual employee contribution limit for 401(k)s and similar employer-sponsored retirement plans was $17,500; the annual limit for traditional and Roth IRAs was $5,500; and the annual limit for SIMPLE IRAs was $12,000. The limit on the sum of employee and employer contributions for DC plans in 2013 was $51,000. Individuals aged 50 or older can make additional catch-up contributions.

**conversion**. The movement of assets in a traditional IRA to a Roth IRA, done either through a transfer of assets from a traditional IRA to a Roth IRA or by redesignating a traditional IRA as a Roth IRA. Assets in a 401(k) or other tax-advantaged employer-sponsored retirement plan also may be converted to a Roth IRA. Generally the assets converted are taxable in the year of the conversion to the Roth IRA.

**defined benefit (DB) plan**. An employer-sponsored pension plan in which 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.

**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's and employer's contributions, as well as earnings and losses on those contributions.

**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. 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 (SEPPs) 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 qualified first-time homebuyer expenses are not subject to income tax.

**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.

**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.

**required minimum distribution (RMD)**. Minimum distribution rules require that beginning at age 70½, the entire amount of a traditional IRA be distributed over the expected life of the individual (or the joint lives of the individual and designated beneficiary). Distributing less than the required amount will result in a tax penalty. Roth IRAs are not subject to required minimum distributions during the account holder’s lifetime.

**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 only permits after-tax (nondeductible) contributions. Distributions of both principal and earnings generally are not subject to federal income tax if taken after age 59½ (provided the five-year holding period is met). 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.

**SEP IRA (simplified employee pension)**. 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.

**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.

**traditional IRA**. The first type of IRA, which was 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 deductible contributions and earnings are subject to federal income tax. Generally, distributions before age 59½ are subject to income tax and a 10 percent penalty.

## Notes

[1] See Investment Company Institute 2013. Key terms related to IRAs and retirement savings are presented in the glossary of this report (pages 32–33). For additional information and the rules governing IRAs, see Internal Revenue Service 2013.

[2] Households' total financial assets were $61.9 trillion as of June 2013 and $19.6 trillion at year-end 1993. See U.S. Federal Reserve Board 2013.

[3] Data in this *ICI Research Perspective* on the number and percentage of households owning IRAs are based on ICI's Annual Mutual Fund Shareholder Tracking Survey of 4,001 randomly selected, representative U.S. households, conducted in May 2013. The standard error for the total sample is ± 1.6 percentage points at the 95 percent confidence level. For further discussion and additional results from this survey, see Burham, Bogdan, and Schrass 2013a and 2013b. The demographic and financial characteristics of IRA owners are derived from a separate May 2013 IRA Owners Survey of 3,006 representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). The standard error for the total sample is ± 1.8 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called education IRAs).

[4] The incidence of IRA ownership is calculated from the ICI Annual Mutual Fund Shareholder Tracking Survey, which collects information on retirement and other investment account ownership among U.S. households headed by individuals aged 18 or older. The survey questionnaire for 2013 changed the order of the account type choices in the question regarding ownership of retirement and other savings accounts. This change was made primarily to avoid possible confusion between individual accounts in 401(k) and other employer-sponsored DC plan accounts versus IRAs. In 2013, respondents were asked if they own a 401(k) and other employer-sponsored DC retirement plans, then if they own a traditional IRA or a Roth IRA, then if they own an employer-sponsored IRA, and finally, if they own a 529 plan or Coverdell Education Savings Account (ESA). In prior years, respondents were asked first if they own a traditional IRA or Roth IRA, then if they own a Coverdell ESA, then if they own an employer-sponsored IRA, and finally, if they own a 401(k) or other employer-sponsored plan account (529 plan ownership was a separate question). In previous years, respondents were asked separately if they have an employer-sponsored IRA and about the size of their employer. In 2013, these questions were not asked separately. When asked what type of employer-sponsored IRA they own, respondents were told that a SIMPLE IRA allows employer and employee contributions and is offered by businesses with fewer than 100 employees, a SAR-SEP includes only employee contributions, and a SEP IRA includes only employer contributions. Perhaps partly because of the reordering of the account types, incidence of IRA ownership in 2013 is lower than in 2012. See Figure A1 in the appendix for the complete time series on IRA incidence. See Burham, Bogdan, and Schrass 2013a for details on the changes to the ICI Annual Mutual Fund Shareholder Tracking Survey.

[5] See Figures 12–16 for additional information on rollover activities and Figure A15 in the appendix for additional information on traditional IRA–owning households with rollovers.

[6] The ability to contribute to Roth IRAs is restricted based on household income. Prior to 2010, there were restrictions on conversions based on household income. In 2010, the income limits for Roth conversions were lifted. For additional detail, see Internal Revenue Service 2013. It is possible that Roth IRA ownership is not more widespread because income limits restrict many U.S. households' ability to invest in Roth IRAs.

[7] See Brady and Bogdan 2013 and Brady, Burham, and Holden 2012, for discussion of the life-cycle model and household survey results regarding savings goals.

[8] See Sabelhaus and Schrass 2009.

[9] For example, the first-year replacement rate (scheduled Social Security benefits as a percentage of average career earnings) for retired workers in the 1940–1949 birth cohort (individuals aged 61–70 in 2010) decreased as income increased. The median replacement rate for the lowest household lifetime earnings quintile was 70 percent; for the middle quintile, the median Social Security replacement rate was 42 percent; and for the highest quintile, it was 29 percent. See Congressional Budget Office 2012. Brady, Burham, and Holden 2012 also discusses the role of Social Security in retirement planning.

[10] For discussion of retirement saving by different income groups, see Brady and Bogdan 2013; Burham, Bogdan, and Schrass 2013a; and Sabelhaus, Bogdan, and Schrass 2008.

[11] See Holden et al. 2005 for a discussion of the relationship between demographic characteristics and the propensity to save. For additional discussion, see also Brady and Bogdan 2013 and Sabelhaus, Bogdan, and Schrass 2008.

[12] Willingness to take investment risk among IRA-owning households was similar to that among mutual fund–owning households. Among households owning mutual funds, 30 percent were willing to take substantial or above-average investment risk for similar levels of gain in 2013; see Burham, Bogdan, and Schrass 2013a.

[13] This is a pattern of risk tolerance observed in other types of investors. For example, see Sabelhaus, Bogdan, and Schrass 2008 and Bogdan and Schrass 2014, forthcoming.

[14] Research finds that the asset allocation of traditional IRA investors varies over the life cycle. Older traditional IRA investors tended to have higher shares of their IRAs in fixed-income investments compared with younger traditional IRA investors. With the exception of the youngest traditional IRA investors (who tend to have small accounts), younger traditional IRA investors tended to have higher allocations to equity investments compared with older traditional IRA investors. See Holden and Bass 2011 and 2013.

[15] See Holden et al. 2012 and 2013.

[16] For a brief history of IRAs and a discussion of the various features of different IRA types, see Holden et al. 2005. For a discussion of the evolving role of IRAs in U.S. retirement planning, see Sabelhaus and Schrass 2009.

[17] Prior to 2008, Roth IRAs generally were not eligible for direct rollovers from employer-sponsored retirement plan accounts. The Pension Protection Act of 2006 (PPA) allows direct rollovers from employer-sponsored plans to Roth IRAs starting in 2008. For a complete discussion of the specific rules and the change, see Internal Revenue Service 2013.

[18] Rollovers are possible from both DC plans and DB plans. For research on DC plan participants' distribution decisions at retirement, see Sabelhaus, Bogdan, and Holden 2008.

[19] See Bryant 2012. For historical data, see Investment Company Institute 2013.

[20] Tabulations of the Federal Reserve Board's 2010 Survey of Consumer Finances data find that 44 percent of traditional IRA–owning households had rollovers in their IRAs in 2010, compared with 55 percent of traditional IRA–owning households in ICI's 2010 IRA Owners Survey. For a description of the Survey of Consumer Finances, see Bricker et al. 2012.

[21] In the case of a DC plan, this amount is the account balance. In the case of DB plans, this amount is the lump-sum distribution based on accrued benefits. See Figure A15 in the appendix for additional information on traditional IRA owners with rollovers.

[22] The Internal Revenue Code sets out a comprehensive disclosure regime covering both plan sponsors and IRA providers with regard to information provided for distribution and rollover decisions. Plan sponsors must inform departing employees of information relevant to their distribution decision. IRA providers must disclose the relevant information to IRA owners at the outset and on an ongoing basis. In addition, financial planners, advisers, or brokers may have fiduciary obligations or be subject to other rules of practice with regard to advice to clients on distribution and rollover decisions. For additional discussion, see Holden 2009.

[23] The remaining 2 percent of households owning traditional IRAs that include rollovers indicated that someone else selected the initial asset allocation of the rollover assets in the traditional IRA.

[24] For more information on rollovers among traditional IRA investors, see Holden, Sabelhaus, and Bass 2010b; and Holden and Bass 2013.

[25] See Holden and Schrass 2012.

[26] Among households making IRA contributions, the 52 percent contributing to traditional IRAs includes the 41 percent contributing to traditional IRAs only plus 78 percent of the 14 percent that contributed to more than one type of IRA (Figure 17).

[27] Among households making IRA contributions, the 40 percent contributing to Roth IRAs includes the 30 percent contributing to Roth IRAs only plus 71 percent of the 14 percent that contributed to more than one type of IRA (Figure 17).

[28] Among households making IRA contributions, the 23 percent contributing to employer-sponsored IRAs includes the 15 percent contributing to employer-sponsored IRAs only plus 60 percent of the 14 percent that contributed to more than one type of IRA (Figure 17).

[29] Although it is difficult to compare household-level data and individual-level data, the IRA Owners Survey finds higher rates of contribution activity in traditional IRAs among traditional IRA–owning households than The IRA Investor Database finds among individual traditional IRA investors. Analysis of 8.8 million traditional IRA investors aged 25 to 69 in 2011 finds that 8.3 percent of them contributed to their traditional IRAs in tax year 2011 (see Holden and Bass 2013).

[30] For traditional IRA contribution eligibility rules, see Internal Revenue Service 2013.

[31] See Figure A13 in the appendix.

[32] For an analysis of the persistence of traditional IRA contribution activity, see Holden, Sabelhaus, and Bass 2010a; and Holden and Bass 2013.

[33] See Internal Revenue Service 2013 for details on income restrictions and other qualifications for contribution eligibility.

[34] The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) created catch-up contributions, which permit individuals aged 50 or older to make additional contributions to qualified retirement plans and IRAs above the annual deferral limits. Households may make catch-up contributions to Roth IRAs if their incomes are within the limits to contribute to a Roth IRA and if a household member is aged 50 or older. Households may make catch-up contributions to traditional IRAs if a household member is at least 50 years old by the end of the year but younger than 70½ years old by the end of the year. See Internal Revenue Service 2013.

[35] U.S. households aged 50 or older include households ineligible to make deductible contributions to traditional IRAs.

[36] Over the years, Congress has created exceptions to the early withdrawal penalty, including qualified first-time home purchase, certain medical expenses, certain educational expenses, and withdrawals made as substantially equal periodic payments (SEPPs) based on a life expectancy calculation. For additional discussion of IRA withdrawal rules and activity, see Holden and Reid 2008 and Internal Revenue Service 2013.

[37] Data exclude households that closed and no longer owned traditional IRAs.

[38] See Section 201 of the Worker, Retiree, and Employer Recovery Act of 2008. For additional information on the suspension of RMDs, see Internal Revenue Service 2010.

[39] For analysis of withdrawal activity from 2008 through 2011 among a consistent group of 5.8 million traditional IRA investors (those with accounts between year-end 2007 and year-end 2011), see Holden and Bass 2013.

[40] The withdrawal activity observed in ICI's IRA Owners Survey shows similar results compared with data reported by the IRS based on tabulations of individual taxpayers' information returns. Data reported in Bryant 2012 indicate that among all IRA-owning taxpayers in 2008, 28 percent took a withdrawal. Incidence of withdrawal activity indicated that 12 percent of IRA-owning taxpayers younger than 60 took withdrawals in 2008; 28 percent of IRA-owning taxpayers aged 60 to 69 took withdrawals; and 95 percent of IRA-owning taxpayers aged 70 or older took withdrawals. The withdrawal activity observed in ICI's IRA Owners Survey shows similar results compared with data reported in The IRA Investor Database. In 2011, 8.8 percent of traditional IRA investors younger than 60 had withdrawals in 2011, 19.6 percent of traditional IRA investors aged 60 to 69 had withdrawals, and 79.6 percent of traditional IRA investors aged 70 or older had withdrawals (see Holden and Bass 2013).

[41] Withdrawal activity among households with a head of household aged 70 or older is not 100 percent because the traditional IRA owner may be a younger spouse or partner who is not yet required to make withdrawals. In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009 (see note 38).

[42] Analysis of 1.1 million traditional IRA investors aged 70 or older in 2011 in The IRA Investor Database finds that 54.2 percent took the RMD required for the individual, 1.2 percent took a joint RMD, and 0.2 percent took the inherited RMD amount. See Holden and Bass 2013.

[43] Among the 31 percent of households that reported reinvesting or saving the amount of the traditional IRA withdrawal into another account (Figure 28), 91 percent reported withdrawing the amount based on the RMD.

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