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Contributions, Not Rollovers, Form Base of Savings in Roth IRAs

Washington, DC, July 28, 2015—Roth IRA investors tend to be younger than traditional IRA investors, reflecting the rules governing access to Roth IRAs, according to an updated annual study by the Investment Company Institute (ICI) released today. In addition, Roth IRA investors rely more heavily on contributions to fund their accounts than do traditional IRA investors, who tend to open their traditional IRAs with rollovers from employer-sponsored retirement plans.

The report, "The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2013," provides analysis of contribution, conversion, rollover, withdrawal, and asset allocation activity among Roth IRA investors, based on data for 5.2 million Roth IRA owners at year-end 2013. Roth IRAs differ from traditional IRAs mainly in their tax treatment. Roth IRA owners pay taxes up front on their contributions and conversions, and their withdrawals in retirement are generally tax-free. In contrast, traditional IRA owners' contributions may be tax deductible and their withdrawals are taxed. Roth IRAs, first available in 1998, held more than $500 billion in assets at year-end 2014 and accounted for 7 percent of all IRA assets.

"The data show that Roth IRA investors are quite different from traditional IRA investors," said Sarah Holden, ICI's senior director of retirement and investor research and a coauthor of the report. "Roth IRA investors use rollovers infrequently, contribute more frequently, and make withdrawals much more rarely, in contrast to traditional IRA investors. The different rules governing these two types of IRAs help to shape investors' activity and give investors alternatives in tax planning."

Income Limits on Roth IRA Contributions Play a Role in Younger Age Distribution

The ICI study found that 31 percent of Roth IRA investors were younger than 40 at year-end 2013, compared with 15 percent of traditional IRA investors. Only 24 percent of Roth IRA investors were 60 or older, compared with 38 percent of traditional IRA investors. Factors that contribute to the younger age distribution in Roth IRAs include income limits on contributions (and, until 2010, conversions); because income tends to rise with age, older workers may find themselves above the income limits and not permitted to make Roth IRA contributions.

In addition, rollover activity attracts older investors because rollovers tend to occur after at least some time in the workforce. While Congress has allowed rollovers into traditional IRAs from their start in 1974, under Roth IRA rules, rollovers from designated Roth accounts in employer-sponsored retirement plans have been permitted only since 2006, and from non-Roth employer-sponsored retirement plan accounts, only since 2008.

Contribution Rate for Roth IRAs Is Higher Than for Traditional IRAs

New Roth IRA investors tend to open their accounts with contributions and Roth IRA investors are more likely to make contributions compared with traditional IRA investors. Three-quarters of investors who opened new Roth IRAs in 2013 did so only with contributions, which is in sharp contrast to the 86 percent of investors who opened new traditional IRAs only with rollovers. ICI's analysis of Roth IRA investors in 2013 finds that in tax year 2013, about three in 10 Roth IRA investors contributed to their accounts, and nearly four in 10 of these contributors did so at the legal limit—$5,500 for taxpayers younger than 50, and $6,500 for those 50 or older. Fewer than one in 10 traditional IRA investors contributed to their traditional IRAs in tax year 2013.

Many Consistent Investors in Roth IRAs Kept Contributing

The report also analyzes the activity of 2.4 million "consistent" Roth IRA investors—those with accounts in every year between 2007 and 2013—and found that consistent Roth IRA investors showed little reaction to the changing economic conditions. Forty-five percent of consistent Roth IRA investors aged 24 or older in 2013 contributed to their Roth IRAs between tax year 2008 and tax year 2013, and more than three-quarters of them contributed in multiple years.

Other key findings of the study include:

- Equity holdings represent the largest share of Roth IRA balances, and older Roth IRA investors tend to have a lower share of their accounts invested in equity holdings than younger ones. At year-end 2013, on average, Roth IRA investors younger than 50 had more than 80 percent of their Roth IRAs invested in equity holdings, while Roth IRA investors aged 60 or older had about 70 percent of their Roth IRAs invested in equity holdings—equities, equity funds, and the equity portion of balanced funds.

- Target date fund use edged up among Roth IRA investors. At year-end 2013, 13 percent of Roth IRA investors held target date funds and nearly 8 percent of Roth IRA assets were invested in target date funds.
- Withdrawals are rare among Roth IRA investors. Overall, fewer than one in 25 Roth IRA investors took withdrawals in 2013.

For additional information, please see ICI's newly updated "Ten Important Facts About Roth IRAs."

About The IRA Investor Database

The report is based on The IRA Investor Database™, a joint project by ICI and the Securities Industry and Financial Markets Association (SIFMA). The database is designed to shed light on IRA contribution, rollover, conversion, and withdrawal activity, and the types of assets that investors hold in these accounts. For year-end 2013, The IRA Investor Database has nearly 16 million IRA investors, about one-third of whom own Roth IRAs.
