IRAs Succeed in Dual Mission as Contributory and Rollover Savings Vehicles

IRAs Succeed in Dual Mission as Contributory and Rollover Savings Vehicles

New Data on How Investors Use a Critical Part of the US Retirement System

Washington, DC, June 7, 2017—Reports released today from the Investment Company Institute (ICI) shed light on the characteristics and behavior of investors using traditional and Roth individual retirement accounts (IRAs). Traditional IRAs were established in 1974 to help savers accumulate and preserve retirement assets through contributions and rollovers. Roth IRAs were created in 1997 to offer a retirement savings account on an after-tax basis with qualified withdrawals distributed tax-free. ICI's reports provide new data on how IRA investors are saving with these vehicles—traditional and Roth IRAs—and analysis of how IRAs are living up to their intended purposes.

"With $7.4 trillion in assets invested, traditional and Roth IRAs are successfully meeting their dual mission as contributory savings vehicles and as a place to transfer or consolidate assets from employer-sponsored retirement plans," said Sarah Holden, ICI senior director of retirement and investor research, who coauthored the reports. "The reports demonstrate that traditional and Roth IRAs offer retirement savers flexibility and diversification, and both have become a vital part of the US retirement system."

The updated reports, titled "The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2015" and "The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2015," use data from The IRA Investor Database™, which houses account-level data for millions of IRA investors from year-end 2007 through year-end 2015.

Some key findings from the reports include:

Roth IRA investors tend to be younger than traditional IRA investors. At year-end 2015, 31 percent of Roth IRA investors were younger than 40, compared with 16 percent of traditional IRA investors. Only 25 percent of Roth IRA investors were 60 or older, compared with 40 percent of traditional IRA investors. According to the reports, this younger age distribution reflects, in part, the rules governing access to Roth IRAs, which have long been subject to varying limitations on contributions, conversions, and rollovers.

Traditional IRAs are typically opened by rollovers, while Roth IRAs are more often started with contributions. Most (85 percent) of new traditional IRAs in 2015 were opened only with rollovers and more than half of traditional IRA investors with an account balance at year-end 2015 had rollovers in their account. By contrast, rollovers are less common with Roth IRAs—rather, contribution activity plays a more important role in Roth IRAs, with 71 percent of new Roth IRAs opened only through contributions in tax year 2015.

IRA investors with contributions tend to persist with the contribution activity year-to-year. For example, more than seven in 10 traditional IRA investors who contributed in tax year 2014 also contributed in tax year 2015. Persistence in contribution activity was even higher for Roth IRA investors, as eight in 10 Roth IRA investors with contributions in tax year 2014 also contributed in tax year 2015.

Roth IRA assets are allocated more to equity funds—including equity mutual funds—than are traditional IRA assets. At year-end 2015, 66 percent of Roth IRA assets were invested in equities and equity funds—mutual funds, exchange-traded funds (ETFs), and closed-end funds—compared with 54 percent of traditional IRA assets. Allocation to target date funds and non–target date balanced funds were the same between Roth IRAs (18 percent) and traditional IRAs (18 percent), but Roth IRAs had less allocated to bonds and bond funds (7 percent) than traditional IRAs (16 percent). Roth IRAs also had a lower allocation to money market funds (6 percent) than traditional IRAs (9 percent). ICI’s analysis suggests that some of the differences in allocation reflect the different age distributions, as Roth IRA investors are younger, and younger investors typically weight their portfolios more heavily toward equity investments than older savers.

Withdrawal activity is much lower among Roth IRA investors than traditional IRA investors. In 2015, 4 percent of Roth IRA investors made withdrawals, compared with 24 percent of traditional IRA investors. In contrast to traditional IRAs, which require investors aged 70½ or older to take required minimum distributions (RMDs), Roth IRAs have no RMDs (unless the Roth IRAs are inherited).

About The IRA Investor Database™

The IRA Investor 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. The database supplements existing household surveys and IRS tax data about IRA investors and is designed to increase public understanding in this critical area of retirement savings. As of year-end 2015, The IRA Investor Database tracked nearly 17 million IRA investors.