FUNDAMENTALS

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# Households with IRAs

Assets in Individual Retirement Accounts[1] (IRAs) totaled $917.0 billion at yearend 1994. Thirty-five percent of IRA assets were held in self-directed brokerage accounts (which include broker-sold nonproprietary funds), 31 percent in mutual funds, 26 percent in deposit institutions, and 8 percent in life insurance companies.

A March 1995 Investment Company Institute survey of 3,254 U.S. households found that 25 percent owned IRAs. Households with IRAs had median incomes of $48,600 and median financial assets of $44,500, 22 percent of which was held in IRAs (Figure 1). More than half of households with IRAs contributed to their IRAs for tax year 1994 (Figure 2). Nearly two fifths of those contributing deducted all or part of that contribution on their 1994 income tax returns.

## Households Contributing and Taking a Deduction

Households that contributed to their IRAs for tax year 1994 and took a deduction had median incomes of $40,800 and median financial assets of $38,300. Their financial decision-makers were typically in their early forties, married, and employed. More than half of households that contributed and took a deduction had no household member who was an active participant in an employment-based retirement plan (Figure 3).

Figure 1

### Characteristics of Households with IRAs

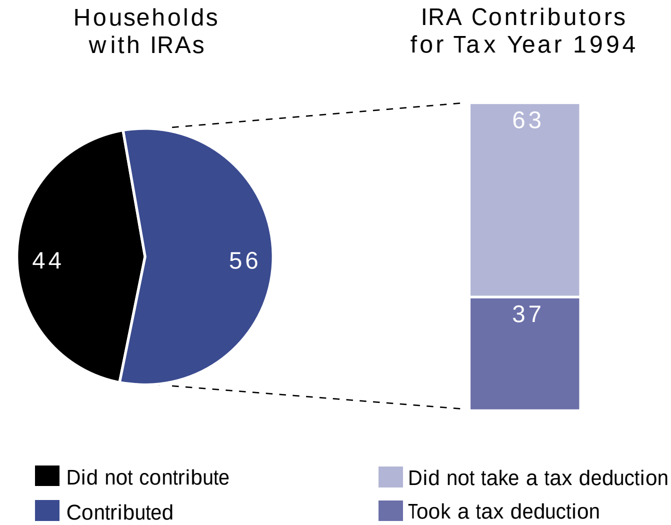
| | |
|---|---|
| **Median** | |
| Age of financial decisionmaker* | 46 |
| Household income** | $48,600 |
| Household financial assets | $44,500 |
| Household financial assets held in IRAs | $10,000 |
| **Percent** | |
| Have mutual fund IRA | 53% |
| Have at least one household member who is an active participant in an employer-based retirement plan | 71 |

**includes primary and co-decisionmakers*
***includes assets in IRAs but excludes primary residence and assets in company-sponsored retirement plans*

Figure 2

### IRA Contribution Status for Tax Year 1994

(percent of households with IRAs)




Households that contributed to their IRAs for tax year 1994 and took a deduction had a median of $9,600 invested in two IRA accounts. These households had their IRAs invested through an average of two financial institutions. More than half had at least some IRA assets in mutual funds (Figures 4 and 5).

## Households Contributing But Not Taking a Deduction

Households that contributed to their IRAs for tax year 1994 but did not take a deduction had median incomes of $50,000 and median financial assets of $45,000, figures greater than those for households that took a deduction (Figure 3). More than four fifths of households not taking a deduction had at least one household member who was an active participant in an employment-based retirement plan.

Like households taking an IRA deduction for tax year 1994, those not taking a deduction typically had two IRA accounts at different financial institutions. Households not taking a deduction had a median of $9,000 invested in IRAs. Less than half had at least some IRA assets in mutual funds (Figures 4 and 5).

## Households Not Contributing

Seventy percent of households not contributing to their IRAs for tax year 1994 had at least one household member who was an active participant in an employment-based retirement plan. Households not contributing had median incomes of $48,300 and median financial assets of $48,200. Their financial decisionmakers had a median age of 51, eight years older than decisionmakers whose households contributed (Figure 3).

Households not contributing to their IRAs for tax year 1994 had a median of $10,000 invested in two IRA accounts. Almost half of these households had at least some IRA assets in mutual funds (Figure 4). On average, households not contributing made their previous contributions through one institution, usually a bank (Figure 5).

Figure 3

### Characteristics of Households with IRAs by 1994 Tax Year Contribution Status

| | Did Not Contribute | Contributed: Took Deduction | Contributed: Did Not Take Deduction |
|---|---|---|---|
| **Median** | | | |
| Age of decisionmaker* | 51 | 43 | 43 |
| Household income | $48,300 | $40,800 | $50,000 |
| Household financial assets** | $48,200 | $38,300 | $45,000 |
| **Percent of Financial Decisionmakers*** | | | |
| Male | 47% | 49% | 54% |
| Married | 75 | 68 | 73 |
| Employed full- or part-time | 59 | 82 | 84 |
| Retired from lifetime occupation | 36 | 6 | 14 |
| College degree or post-graduate | 50 | 46 | 45 |
| Have at least one household member who is an active participant in an employer-based retirement plan | 70 | 45 | 83 |

*includes primary and co-decisionmakers
**includes assets in IRAs but excludes primary residence and assets in company-sponsored retirement plans

Figure 4

### Characteristics of Household IRA Investments by 1994 Tax Year Contribution Status

| | Did Not Contribute | Contributed: Took Deduction | Contributed: Did Not Take Deduction |
|---|---|---|---|
| **Median** | | | |
| Number of separate IRA accounts | 2 | 2 | 2 |
| Financial assets held in IRAs | $10,000 | $9,600 | $9,000 |
| **Percent of Respondents with IRAs Invested in:*** | | | |
| Mutual funds | 47% | 54% | 45% |
| Certificates of deposit | 33 | 29 | 20 |
| U.S. savings bonds | 24 | 28 | 29 |
| Individual stocks | 24 | 22 | 17 |
| Accounts other than CDs at banks or savings institutions | 15 | 22 | 23 |
| Annuities | 17 | 13 | 16 |
| Individual bonds other than U.S. savings bonds | 8 | 13 | 9 |
| Other types of investments | 11 | 16 | 11 |

*multiple responses included

Figure 5

### Institutions Where IRAs Were Invested by 1994 Tax Year Contribution Status*

(percent of households with IRAs)

| | Did Not Contribute | Contributed: Took Deduction | Contributed: Did Not Take Deduction |
|---|---|---|---|
| Average Number of Institutions | 1 | 2 | 2 |
| Bank or savings institution | 49 | 39 | 42 |
| Full-service brokerage firm | 24 | 29 | 21 |
| Independent financial planner or firm | 19 | 23 | 21 |
| Insurance agent or company | 23 | 23 | 29 |
| Direct market fund company | 12 | 13 | 11 |
| Discount brokerage firm | 6 | 6 | 6 |
| Other type of institution | 11 | 12 | 19 |

*multiple responses included

[1] *Under current law, all wage earners under age 70 may set up an Individual Retirement Account. Individuals may contribute as much as $2,000 of compensation each year; earnings are tax-deferred until withdrawal; and the contribution may be wholly or partially tax deductible depending on the wage earner's household income and whether the wage earner or his or her spouse is an active participant in certain types of pension plans. Special rules govern IRAs established for non-wage earning spouses. (See Internal Revenue Code, Sections 219 and 408; IRS Publication No. 590, Individual Retirement Arrangements.)*