Fundamentals

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IRA Ownership in 1998

An estimated 30.6 million, or 30 percent, of U.S. households owned some type of Individual Retirement Account (IRA) as of mid-1998 (Figure 1).[1] Twenty-six percent of these households owned traditional IRAs, 3 percent had Roth IRAs, and 1 percent had Education IRAs. Roth and Education IRAs had been available for only four months at the time of the survey.[2, 3] Nine percent of U.S. households owned employer-based IRAs—SIMPLE IRAs, SEP-IRAs, or SAR-SEPs.[4]

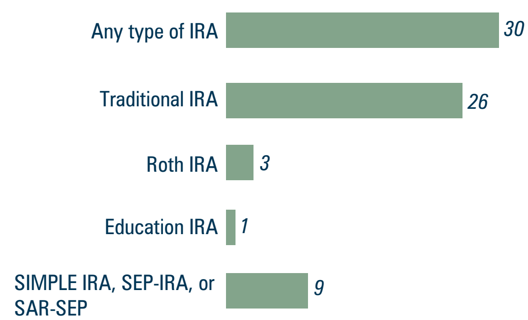
Households with Traditional IRAs

Twenty-six percent of U.S. households surveyed owned traditional IRAs as of mid-1998. The median age of individuals heading these

figure 1

Ownership of Types of IRAs, 1998[1]

(percent of U.S. households)



Number of respondents = 2,575

figure footnotes:

[1] Multiple responses included because households can own more than one type of IRA.

note: Data as of May 1998.

[1]The data presented on household ownership of IRAs is based on an Institute survey of 3,000 U.S. households conducted in May 1998.

[2]The traditional IRA permits a maximum deductible annual contribution of $2,000 for singles and $4,000 for married couples (individuals participating in qualified employer plans are subject to rules that phase out deductible contributions at certain income levels). Earnings are tax-deferred and distributions are taxed as ordinary income at withdrawal. Withdrawals before age 59½ are subject to a 10 percent tax penalty except in cases of disability, death, or to pay for higher education or buy a first house ($10,000 limit). Distributions must commence after individuals reach age 70½.

The Roth IRA, available for the first time in tax-year 1998, permits a maximum nondeductible individual contribution of $2,000 per year (subject to phase out and elimination at certain income levels and offset by contributions made to a traditional IRA). Individuals contributing to employer-sponsored retirement plans are allowed to contribute to Roth IRAs. Earnings grow tax-free and distributions of earnings and principal are tax-free provided the account is held for at least five years and the account holder is at least age 59½ at the time of withdrawal. Penalty-free early withdrawals can be made for the purchase of a first home and to pay for higher education expenses as long as the account has been opened for at least five years. There is no requirement that distributions must be made after age 70½.

An Education IRA, available for the first time in tax-year 1998, permits a maximum nondeductible contribution of $500 per year for a child (subject to phase out and elimination at certain income levels). Withdrawals to pay for higher education are tax-free. The account must be distributed when the individual reaches age 30.

[3]The number of households owning Education IRAs was too small to analyze.

[4]The SIMPLE IRA was established as part of the Small Business Job Protection Act of 1996 (SBJPA) for small employers with no more than 100 employees. The SIMPLE IRA allows employees to make elective contributions of up to $6,000. Employers are required to match employee elective contributions on a dollar-for-dollar basis up to 3 percent of the employee's compensation, or provide a 2 percent contribution for all eligible employees. Distributions from SIMPLE IRAs are generally taxed under the rules applicable to traditional IRAs. Early withdrawals are usually subject to the early tax withdrawal applicable to traditional IRAs. However, early withdrawals made from a SIMPLE IRA within two years of the date on which an individual first began to participate in the program are subject to a 25 percent, rather than a 10 percent, early withdrawal tax.

The Simplified Employee Pension (SEP) IRA was established for small businesses under the Revenue Act of 1978. SEPs are arrangements under an IRA established by an employer for each eligible employee. The employee is immediately vested in employer contributions and generally directs the investment of the money. Employers can contribute a maximum of 15 percent of an employee's compensation. The limit on compensation that can be considered when calculating the annual contribution is $160,000. Distributions from SEP-IRAs are generally taxed under the rules applicable to traditional IRAs. Early withdrawals are usually subject to the early tax withdrawal applicable to traditional IRAs.

A SAR-SEP is a SEP-IRA with a salary reduction feature. Under the SBJPA, employers may not establish new SAR-SEPs after December 31, 1996.

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households was 52; median household income, $60,000; and median financial assets, $100,000 (Figure 2).[5] Traditional IRA households owned a range of investments, with more than half holding individual stock (other than the stock of a household member's employer). More than one-third of traditional IRA households did not participate in defined-contribution plans, and slightly more than half were not covered by traditional defined-benefit pension plans.

Traditional IRA households owned a median of two traditional IRAs, one held by the head of the household and the other by a spouse (Figure 3). About one-quarter had traditional IRAs for

figure 2

Characteristics of Households Owning IRAs, 1998

	Traditional IRA	Roth IRA[3]	Employer-sponsored IRA
Median			
Age of household head	52	39	47
Household income	$60,000	$68,500	$62,800
Number of children under age 18	0	1	1
Household financial assets[1]	$100,000	$97,100	$107,800
Percent of Households			
Married	68	74	75
College or post-graduate degree	57	57	55
Employed full- or part-time	69	90	77
Retired from lifetime occupation	30	11	22
Own:[2]			
Checking account	99	100	99
Bank or thrift savings account	82	80	87
Certificates of deposit	41	38	41
Mutual funds	78	92	85
Individual bonds	37	39	40
Individual stock other than employers'	54	58	44
Stock in employer's company	34	49	38
Variable annuities	32	39	40
Fixed annuities	17	21	18
Real estate other than primary residence	37	44	38
Life insurance	83	87	88
Household has:[2]			
Defined-contribution plan:[2]	64	83	73
401(k) plan	52	71	61
Some other type of defined-contribution plan	30	38	42
Traditional pension plan	46	46	46
Traditional IRA	100	52	66

figure footnotes:

[1] Includes assets in employer-sponsored retirement plans but excludes primary residence.

[2] Multiple responses included because households can own more than one.

[3] Roth data is for the first four months of 1998 and may not represent the population that purchased or converted to a Roth IRA by year-end 1998.

note: Data as of May 1998.

figure 3

Characteristics of Households Owning Traditional IRAs, 1998

Median[1]	
Number of traditional IRAs owned by household	2
Amount in traditional IRAs	$17,500
Amount contributed to traditional IRAs for 1997 tax year[2]	$2,000
Percent	
Traditional IRA includes conversion from an employer-sponsored retirement plan	38
Contributed to a traditional IRA in 1997	36
Took a tax deduction for traditional IRA contribution on 1997 taxes[2]	53
Plan to contribute to traditional IRA in 1998 tax year	40
Plan to convert a traditional IRA to a Roth IRA in 1998 tax year	13
Household members who own traditional IRAs:[3]	
Household head	89
Spouse	54
Dependent children	5
Other household member	3
Have traditional IRA for a nonworking spouse	23
Year of first traditional IRA purchase:	
Before 1986	55
1986 to 1990	20
1991 or later	25
Own a Roth IRA	6

figure footnotes:

[1] Data are reported for the household.

[2] Of those who contributed to a traditional IRA in 1997.

[3] Multiple responses included because households can own more than one IRA.

note: Number of respondents varies. Data as of May 1998.

[5] Household financial assets include holdings in employer-sponsored retirement plans but exclude primary residence.

nonworking spouses. Fifty-five percent opened their first traditional IRAs before 1986.

The median amount held in traditional IRAs was $17,500. Thirty-six percent of traditional IRA households made contributions in 1997, with median household contributions of $2,000. For nearly 40 percent, traditional IRA assets included rollovers from employer-sponsored retirement plans. Thirteen percent of traditional IRA households surveyed expected to convert traditional IRAs to Roth IRAs in the 1998 tax year. Six percent also owned Roth IRAs as of May 1998.

Most households with traditional IRAs opened these accounts either at banks or full-service brokerages (Figure 4). Sixty-four percent invested their traditional IRAs in mutual funds (primarily equity funds), 32 percent invested their traditional IRAs in individual stocks, and 30 percent used bank money market deposit accounts or CDs (Figure 5).[6]

Households with Roth IRAs

Roth IRAs had been available for only four months at the time of the survey. As a result, the percentage of Roth IRA households noted was small—just 3 percent. Anecdotal evidence suggests that most Roth conversions and purchases occurred later in 1998. Consequently, this sample of Roth IRA owners does not represent all Roth IRA holders for the year.

The median age of individuals heading Roth IRA households was 39 (Figure 2), 13 years younger than the median age of traditional IRA heads of households. Median household income was $68,500, and median household financial assets were $97,100. Although more than half of Roth IRA households in May 1998 also owned traditional IRAs, 30 percent of Roth IRA purchasers were first-time IRA owners.

The majority of Roth IRA households owned one Roth IRA with a median account balance of $3,600. Most had Roth IRA assets invested in mutual funds (Figures 5 and 6). Nearly one-third

figure 4

Where IRA Account Was Opened, 1998[1]

(percent of all U.S. households owning each type of IRA)

	Traditional IRA	Roth IRA[2]
Full-service brokerage	33	27
Discount brokerage	6	13
Insurance company	15	17
Independent financial planning firm	18	22
Bank or savings institution	44	21
Mutual fund company	22	21
Other	3	0

figure footnotes:

[1] Multiple responses included because households can own more than one IRA.

[2] Roth data is for the first four months of 1998 and may not represent the population that purchased or converted to a Roth IRA by year-end 1998.

note: Number of respondents varies. Data as of May 1998.

figure 5

Types of IRA Investments, 1998[1]

(percent of all U.S. households owning each type of IRA)

	Traditional IRA	Roth IRA[2]	Employer-sponsored IRA
Bank money market deposit accounts or CDs	30	11	20
Individual stocks	32	26	20
Individual bonds	14	5	9
Variable annuities	14	12	14
Fixed annuities	11	3	8
Mutual funds (net)	64	71	56
Stock	54	59	54
Bond	19	18	14
Hybrid	19	27	16
Money market	19	22	13
Other	2	4	2

figure footnotes:

[1] Multiple responses included because households can own more than one IRA.

[2] Roth data is for the first four months of 1998 and may not represent the population that purchased or converted to a Roth IRA by year-end 1998.

note: Number of respondents varies. Data as of May 1998.

[6] These percentages add to more than 100 percent because some households owned more than one IRA, and because some households hold IRA assets in more than one type of investment.

funded Roth IRAs with traditional IRA conversions, a median of $12,000 (Figure 7). Slightly more than two-thirds funded their Roth IRAs with new contributions.

Households with Employer-sponsored IRAs

The 9 percent of U.S. households owning employer-sponsored IRAs were headed by individuals with a median age of 47 (Figure 2). Median household income was $62,800, and median household financial assets were $107,800. Most of these households also held defined-contribution plan assets, usually in 401(k) plans. Similar to traditional and Roth IRA owners, most employer-sponsored IRA owners invested their IRA portfolios in mutual funds (Figure 5).

figure 6

Characteristics of Households Owning Roth IRAs, 1998[1]

Median[2]	
Number of Roth IRAs owned by household	1
Amount in Roth IRA	$3,600
Percent	
Roth IRA rolled over from an employer-sponsored retirement plan	12
Roth IRA is the first IRA ever owned	30
Own a Roth IRA:[3]	
Respondent	79
Spouse	50
Dependent children	18
Other household member	7

figure footnotes:

[1] Roth data is for the first four months of 1998 and may not represent the population that purchased or converted to a Roth IRA by year-end 1998.

[2] Data are reported for the household.

[3] Multiple responses included because households can own more than one IRA.

note: Number of respondents varies. Data as of May 1998.

figure 7

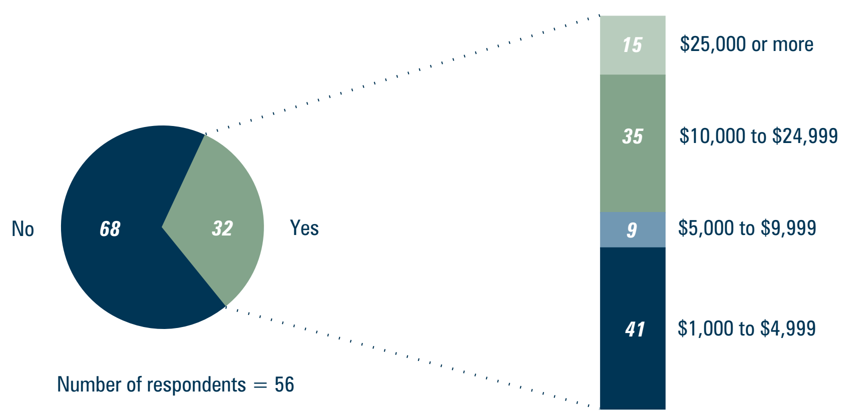
Transfers from Traditional IRAs to Roth IRAs, 1998

Whether Roth IRA Was Funded by a Transfer from a Traditional IRA[1]

(percent of Roth IRA owners)

Amount Transferred from Traditional IRA to Roth IRA

(percent of Roth IRA owners who funded Roth IRA by a transfer from a traditional IRA)



Number of respondents = 56

Median = $12,000

figure footnotes:

[1] Roth data is for the first four months of 1998 and may not represent the population that purchased or converted to a Roth IRA by year-end 1998.

note: Data as of May 1998.