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The Role of IRAs in US Households' Saving for Retirement, 2020

KEY FINDINGS

- » **In mid-2020, 37 percent of US households owned individual retirement accounts (IRAs).** More than eight in 10 IRA-owning households also had employer-sponsored retirement plan accumulations or had defined benefit plan coverage. All told, more than six in 10 US households had retirement plans through work or IRAs; more than three-quarters of near-retiree households did.
- » **In mid-2020, nearly 29 percent of US households owned traditional IRAs.** 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.** In mid-2020, about six in 10 traditional IRA-owning households indicated that their IRAs contained rollovers from employer-sponsored retirement plans. Among households with rollovers in their traditional IRAs, 81 percent indicated that they had rolled over the entire retirement account balance in their most recent rollover; 43 percent had also made contributions to their traditional IRAs at some point.
- » **Traditional IRA-owning households with rollovers cite multiple reasons for rolling over their retirement plan assets into traditional IRAs.** The three most common primary reasons for rolling over were not wanting to leave assets behind at the former employer, wanting to preserve the tax treatment of the savings, and wanting to consolidate assets (23 percent, 17 percent, and 16 percent of traditional IRA-owning households with rollovers, respectively). Another 11 percent of traditional IRA-owning households with rollovers reported that their primary reason for rolling over was to access more investment options.

Key findings continued »

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Sarah Holden, senior director of retirement and investor research, and Daniel Schrass, economist, prepared this report.

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For more information about the role of IRAs in US households' saving for retirement, see the appendix to this paper, available at www.ici.org/info/per27-01_data.xls.

Key findings continued »

- » **Although most US households were eligible to make IRA contributions, few did so.** Only 12 percent of US households contributed to traditional or Roth IRAs in tax year 2019, and very few eligible households made catch-up contributions to traditional IRAs or Roth IRAs. Thirty-five percent of households owning traditional or Roth IRAs in mid-2020 made contributions in tax year 2019. Other research finds that confusion over rules or satisfying savings needs at work may explain lack of contributions. In addition, traditional IRA-owning households without contributions tended to have rollovers (63 percent) or have a defined contribution (DC) plan account (67 percent). Forty-four percent of traditional IRA-owning households without contributions were retired.
- » **IRA withdrawals were infrequent and mostly retirement related.** Twenty-seven percent of traditional IRA-owning households in mid-2020 took withdrawals in tax year 2019, about the same share as in tax year 2018.
- » **The majority of traditional IRA withdrawals were made by retirees.** Eighty-five percent of households that made traditional IRA withdrawals were retired. Indeed, only 6 percent of traditional IRA-owning households in mid-2020 headed by individuals younger than 59 took withdrawals. Seventy-six percent of traditional IRA-owning households with withdrawals calculated the withdrawal using the required minimum distribution (RMD) rule—this was the most common amount withdrawn.
- » **Most traditional IRA-owning households have a planned retirement strategy.** More than two-thirds of traditional IRA-owning households in mid-2020 indicated that they have a strategy for managing income and assets in retirement. Typically, these strategies have many components. Many traditional IRA-owning households with a strategy reported taking the following steps: 70 percent reviewed their asset allocation, 67 percent determined their retirement expenses, 66 percent developed a retirement income plan, 60 percent set aside emergency funds, and 50 percent determined when to take Social Security benefits.

IRAs Play an Increasingly Important Role in Saving for Retirement

With \$10.8 trillion in assets at the end of the second quarter of 2020, individual retirement accounts (IRAs) represented 34 percent of US total retirement market assets, compared with 23 percent two decades ago.¹ IRAs have also risen in importance on household balance sheets. In June 2020, IRA assets were 11 percent of all household financial assets, up from 8 percent of assets two decades ago.² In mid-2020, 47.9 million US households, or 37.3 percent, reported

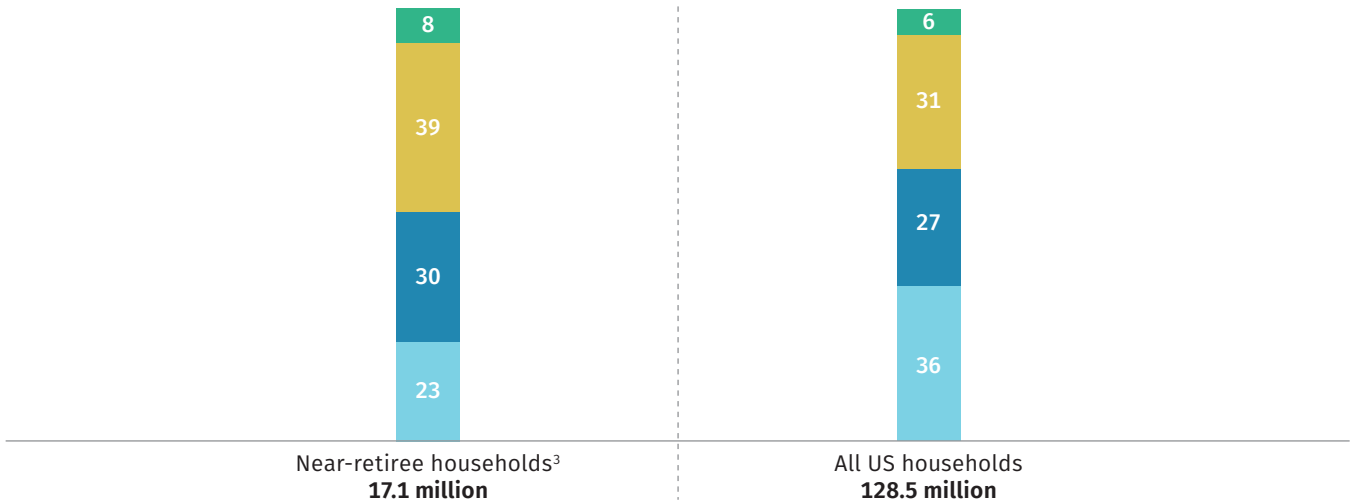
that they owned IRAs (Figure 1).³ Among all IRA-owning households in mid-2020, more than eight in 10 also had employer-sponsored retirement plans; that is, they had defined contribution (DC) plan balances, current defined benefit (DB) plan payments, or expected future DB plan payments. Another 27 percent of US households reported employer-sponsored retirement plan coverage but no IRAs. All told, about 82 million US households, or 64 percent, had some type of formal, tax-advantaged retirement savings.

FIGURE 1

Many US Households Have Tax-Advantaged Retirement Savings

Percentage of US households, 2020

- Own IRA only¹
- Have IRA and employer-sponsored retirement plan^{1,2}
- Have employer-sponsored retirement plan only²
- Do not have IRA or employer-sponsored retirement plan



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.

³ *Near-retiree households* are those with a head of household aged 55 to 64, and a working head of household or working spouse.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and US Census Bureau

Traditional IRAs are the oldest and most common type of IRA. In mid-2020, 36.8 million US households, or 28.6 percent, 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, about six in 10 US households with traditional IRAs indicated that 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 26.3 million US households, or 20.5 percent.⁶ Overall, 35.3 percent of US households, or 45.4 million, owned traditional or Roth IRAs (13.8 percent of US households owned both traditional and Roth IRAs). In mid-2020, 6.7 percent of US households owned employer-sponsored IRAs, which include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

FIGURE 2

Millions of US Households Own IRAs

	Year created	Number of US households with type of IRA, ¹ 2020	Percentage of US households with type of IRA, ¹ 2020
Traditional IRA	1974 (Employee Retirement Income Security Act)	36.8 million	28.6%
SEP IRA²	1978 (Revenue Act)	8.6 million	6.7%
SAR-SEP IRA²	1986 (Tax Reform Act)		
SIMPLE IRA²	1996 (Small Business Job Protection Act)		
Roth IRA	1997 (Taxpayer Relief Act)	26.3 million	20.5%
Any IRA¹		47.9 million	37.3%

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 US Census Bureau

About the Annual Mutual Fund Shareholder Tracking Survey

ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each year to gather information on the demographic and financial characteristics of mutual fund-owning households in the United States. The most recent survey was conducted from May to June 2020 and was based on a dual-frame telephone sample of 3,001 US households. Of these, 1,350 households were from a landline random digit dial (RDD) frame, and 1,651 households were from a cell phone RDD frame. All interviews were conducted over the telephone with the member of the household who was either the sole or the co-decisionmaker

most knowledgeable about the household’s savings and investments. The standard error for the 2020 sample of households is ± 1.8 percentage points at the 95 percent confidence level.

Revisions to ICI’s Annual Mutual Fund Shareholder Tracking Survey

In the usual course of household survey work, researchers periodically reexamine sampling and weighting methods to ensure that the results published are representative of the underlying population of interest. ICI reexamined its Annual

About the Annual Mutual Fund Shareholder Tracking Survey continued

Mutual Fund Shareholder Tracking Survey in 2014, and the figures on incidence of IRA ownership presented in this paper for the 2020 survey reflect the revised sampling and weighting methodology that was adopted in 2014. To achieve a representative sample of US households, the 2014, 2015, 2016, 2017, and 2018 Annual Mutual Fund Shareholder Tracking Surveys were based on dual-frame samples of landline (about half) and cell phone numbers (about half). The combined samples for 2019 and 2020 include about 45 percent of households reached on a landline and about 55 percent of households reached on a cell phone. Before 2014, the Annual Mutual Fund Shareholder Tracking Survey was based on a sample of landline phone numbers only. The change to a combined sample of cell and landline phone numbers improves the representativeness of the sample. For a detailed description of the survey methodology, see “Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2020,” *ICI Research Perspective* 26, no. 8 (November), available at www.ici.org/pdf/per26-08.pdf.

About the IRA Owners Survey

ICI conducts the IRA Owners Survey each year to gather information on the characteristics and activities of IRA-owning households in the United States. The most recent survey was conducted in June 2020 using the KnowledgePanel®, a probability-based online panel designed to be representative of the US population. The KnowledgePanel® was designed and administered by Ipsos, an online consumer research company. The 2020 sample of IRA owners included 3,277 representative US households owning traditional IRAs or Roth IRAs. All surveys were conducted online 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 ± 1.7 percentage points at the 95 percent confidence level. In 2016, 2017, 2018, 2019, and 2020, households owning traditional or Roth IRAs were surveyed, and thus households owning only employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) or Coverdell education

savings accounts (formerly called education IRAs) are not included.

Revisions to ICI’s IRA Owners Survey

Starting in 2016, the ICI IRA Owners Survey was changed from a dual-frame RDD telephone survey to a self-administered online survey on the KnowledgePanel®, a probability-based online panel administered by Ipsos. In 2020, the KnowledgePanel® includes about 60,000 individuals from randomly sampled households. Initially, participants are chosen scientifically by a random selection of telephone numbers and residential addresses. Persons in selected households are then invited by telephone or by mail to participate in the web-enabled KnowledgePanel®. For those who agree to participate but do not already have internet access, Ipsos provides a laptop and ISP connection at no cost. People who already have computers and internet service are permitted to participate using their own equipment. Panelists then receive unique log-in information for accessing surveys online and are sent emails throughout each month inviting them to participate in research.

In addition to the change in the survey mode for the ICI IRA Owners Survey in 2016, the questionnaire was also revised to collect only demographic and financial characteristics of households owning traditional IRAs or Roth IRAs. In previous years, the survey collected information on households owning employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). These survey changes were implemented in 2016 to reduce the cost of data collection, improve the representativeness of the sample, and reduce the burden on survey respondents.

Because the methodology for the IRA Owners Survey was changed to an online survey in 2016, it was necessary to adjust the weighting methodology for the survey. For the 2016, 2017, 2018, 2019, and 2020 data, the weighting included the standard raking to control totals based on census region, householder age, household income, and educational attainment of US households owning traditional or Roth IRAs.

Incidence of IRA Ownership Increases with Age and Income

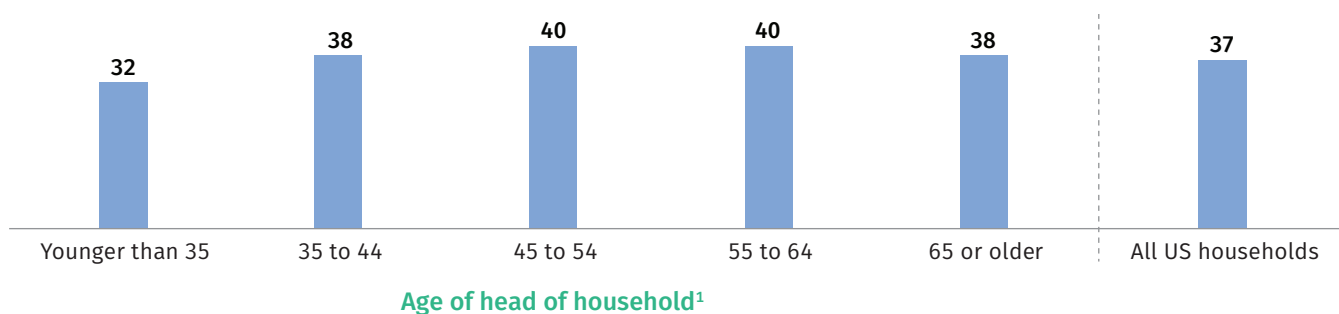
People of all ages own IRAs, but ownership is higher among households aged 35 or older. This reflects the life-cycle effect on saving; that is, households tend to focus on retirement-related saving as they get older (when younger, they save for other goals such as education or buying a house).⁷ Also, 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 mid-2020, 38 percent of households headed by an individual aged 35 to 44 owned IRAs, 40 percent of households headed by an individual aged 55 to 64 owned IRAs, and 38 percent of households headed by an individual aged 65 or older owned IRAs (Figure 3). As a result, 66 percent of IRA-owning households were headed by individuals aged 45 or older (Figure 4).

FIGURE 3

Ownership of IRAs Tends to Increase with Age

Percentage of US households within each age group that own IRAs,^{1,2} 2020



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

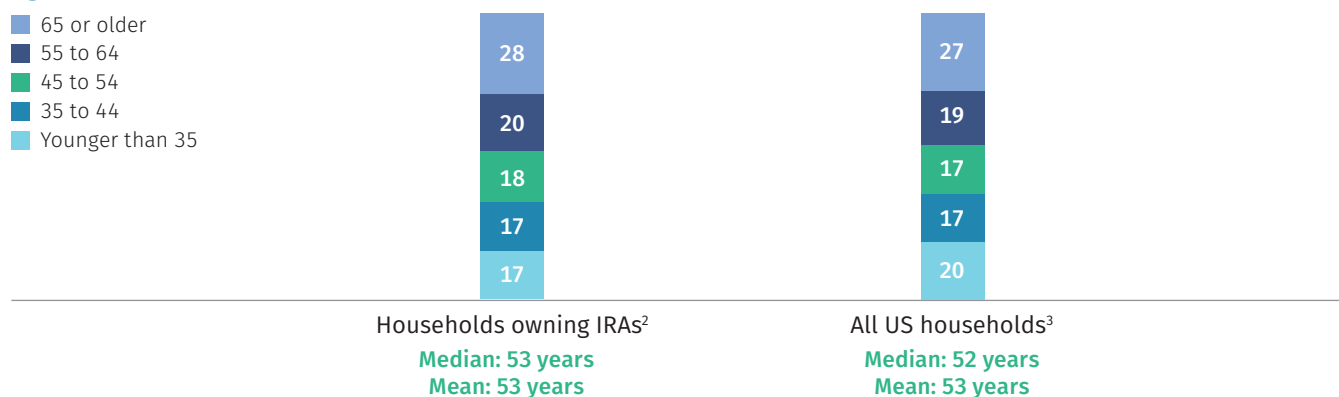
FIGURE 4

Households Across All Age Groups Own IRAs

Percent distribution of households owning IRAs and all US households by age,^{1,2} 2020

Age of head of household¹

- 65 or older
- 55 to 64
- 45 to 54
- 35 to 44
- Younger than 35



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 US Census Bureau's Current Population Survey (CPS).

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and US Census Bureau

IRA-owning households cover a range of incomes. In mid-2020, 9 percent of households owning IRAs earned less than \$35,000 and 36 percent had household incomes between \$35,000 and \$99,999 (Figure 5).

Although the majority of IRA-owning households had moderate or lower incomes, IRA ownership tends to increase with household income. This pattern is consistent with the fact that lower-income households,

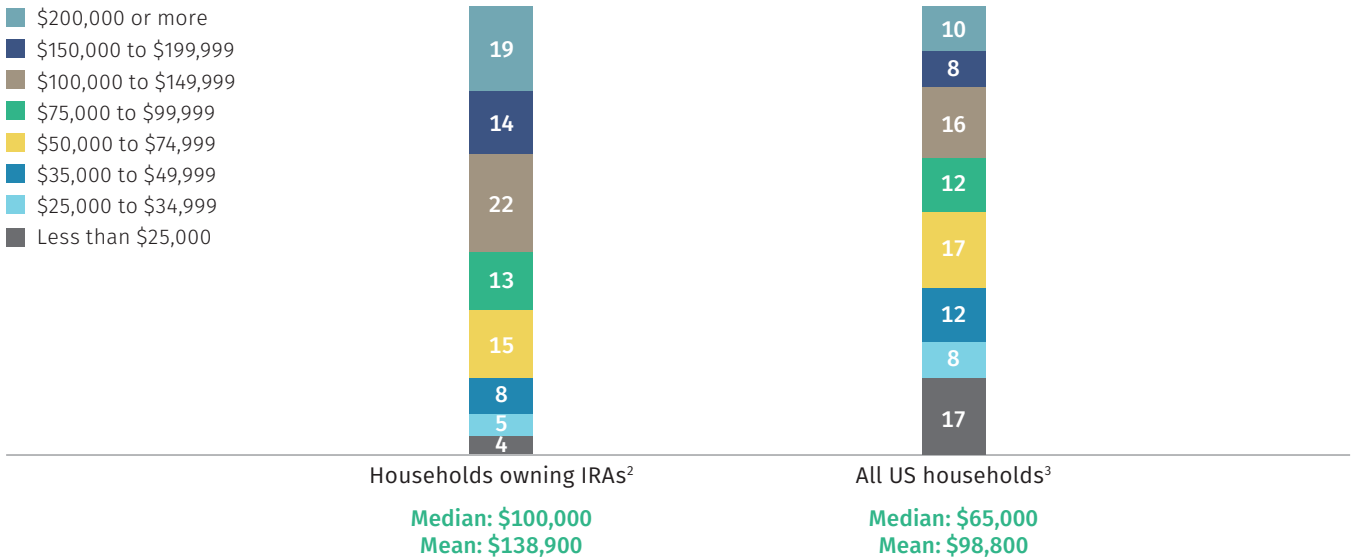
FIGURE 5

IRA-Owning Households Include a Range of Incomes

Percent distribution of households owning IRAs and all US households by household income,^{1,2} 2020

Household income¹

- \$200,000 or more
- \$150,000 to \$199,999
- \$100,000 to \$149,999
- \$75,000 to \$99,999
- \$50,000 to \$74,999
- \$35,000 to \$49,999
- \$25,000 to \$34,999
- Less than \$25,000



¹ Total reported is household income before taxes in 2019.

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 US Census Bureau's Current Population Survey (CPS). For 2019, the estimated median and mean income for all US households from the CPS is \$68,703 and \$98,088, respectively.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and US Census Bureau

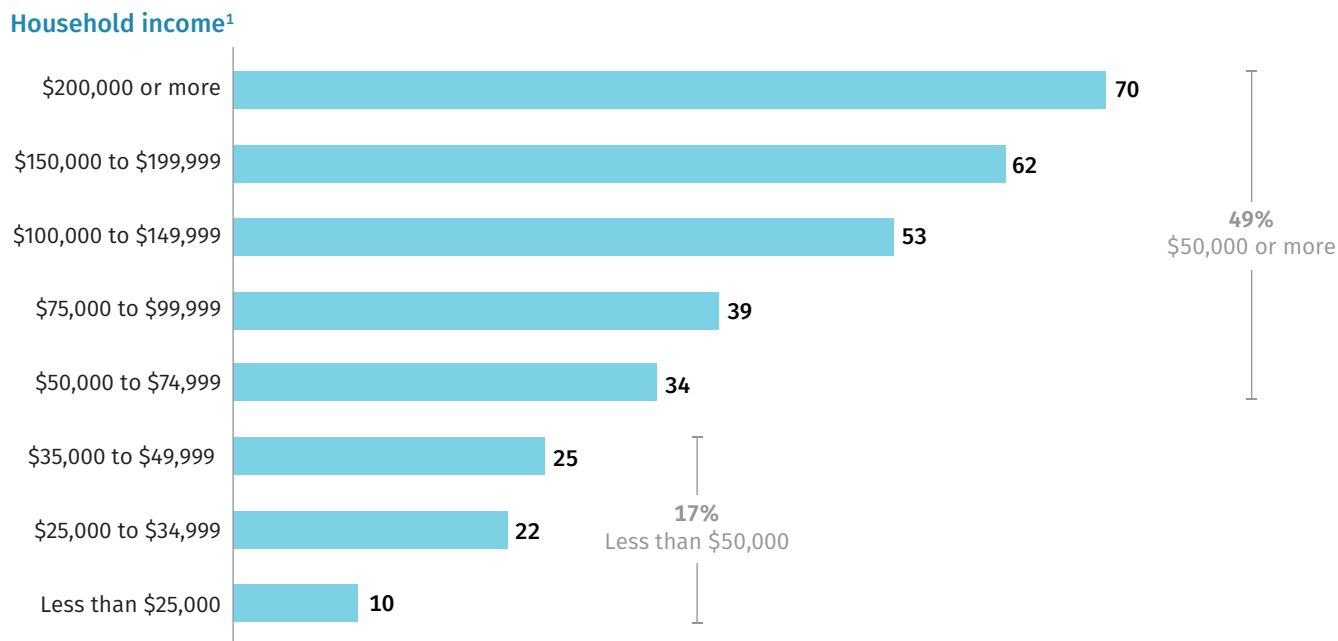
which tend to be focused on near-term spending needs and which receive a higher replacement benefit through Social Security,⁹ generally have a lower propensity to save for retirement.¹⁰ Forty-nine percent of households with household incomes of \$50,000 or more owned

IRAs, compared with 17 percent of households with household incomes of less than \$50,000 (Figure 6). Sixty percent of households with incomes of \$100,000 or more owned IRAs in mid-2020.

FIGURE 6

Incidence of IRA Ownership Increases with Household Income

Percentage of US households within each income group that own IRAs,^{1,2} 2020



¹ Total reported is household income before taxes in 2019.

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

IRA Owners Tend to Be Savers

IRA owners build substantial financial assets. The median financial assets of IRA-owning households were nearly nine times the median financial assets of households that did not own IRAs (Figure 7). Those assets included DC retirement plan accounts—75 percent of households that owned

IRAs also owned such accounts. IRA owners typically exhibit the characteristics that correlate with a greater propensity to save: the financial decisionmakers of households with IRAs are more likely to be married, employed, and have college or postgraduate degrees than households that do not own IRAs.¹¹

FIGURE 7

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

Characteristics of US households by ownership of IRAs,¹ 2020

	Households owning IRAs ¹	Households not owning IRAs
Median per household		
Age of household sole or co-decisionmaker for saving and investing	53 years	52 years
Household income ²	\$100,000	\$50,000
Household financial assets ³	\$300,000	\$35,000
Household financial assets in traditional or Roth IRAs	\$87,500	N/A
Share of household financial assets in traditional or Roth IRAs (percent)	40%	N/A
Percentage of households		
Household sole or co-decisionmaker for saving and investing:		
Married or living with a partner	69%	47%
College or postgraduate degree	55	29
Employed full- or part-time	68	54
Retired from lifetime occupation	30	30
Household has DC account or DB plan coverage (total)		
DC retirement plan account	75	34
DB plan coverage	38	20

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 2019.

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

Like other investing households, the majority of IRA-owning households were willing to take some investment risk for financial gain. In mid-2020, 39 percent of IRA-owning households were willing to take substantial or above-average investment risk for similar levels of financial gain (Figure 8, upper panel);¹² the figure was about the same (40 percent) for mutual fund-owning households¹³ but was substantially less (25 percent) for all US households (Figure 8, lower panel).¹⁴

In mid-2020, while 39 percent of IRA-owning households were willing to take substantial or above-average risk,

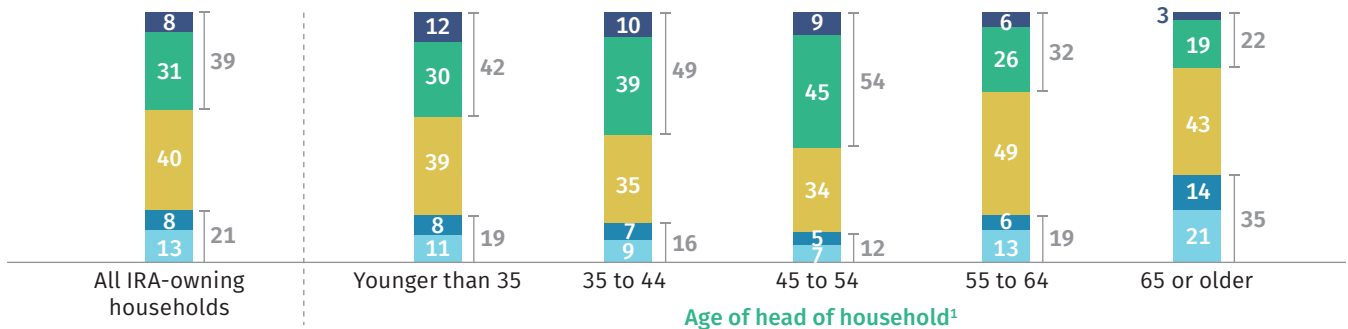
the largest percentage of households owning IRAs, 40 percent, were willing to take average risk for average gain (Figure 8, upper panel). Twenty-one percent were willing to take below-average risk for below-average gain or were unwilling to take any investment risk. Willingness to take investment risk among households owning IRAs generally decreases with age.¹⁵ Twenty-two 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, compared with 42 percent of IRA-owning households younger than 35 and 49 percent of IRA-owning households younger than 35 and 49 percent of IRA-owning households aged 35 to 44.¹⁶

FIGURE 8
Willingness to Take Investment Risk Tends to Fall with Age
 Percentage of US households by age,^{1,2} 2020

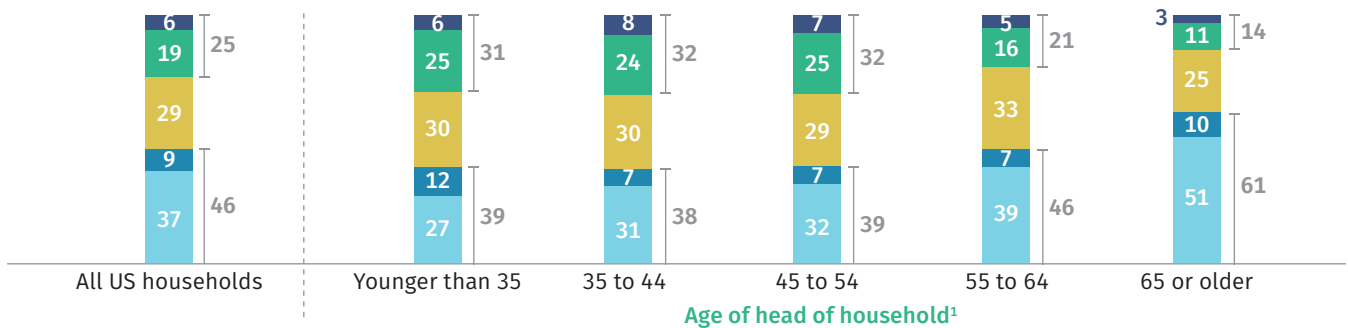
Level of risk willing to take with financial investments

- Substantial risk for substantial gain
- Above-average risk for above-average gain
- Average risk for average gain
- Below-average risk for below-average gain
- Unwilling to take any risk

Households owning IRAs²



All US households



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

Just as 401(k) balances tend to be higher the longer a worker's job tenure,¹⁷ IRA balances tend to rise with length of ownership. In mid-2020, households owning traditional or Roth IRAs for less than 10 years had median IRA holdings of \$22,200, while households owning traditional or Roth IRAs for 20 years or more had median traditional and Roth IRA holdings of \$200,000 (Figure 9). Mean traditional and Roth IRA holdings, though considerably higher than the median values, display a similar pattern.

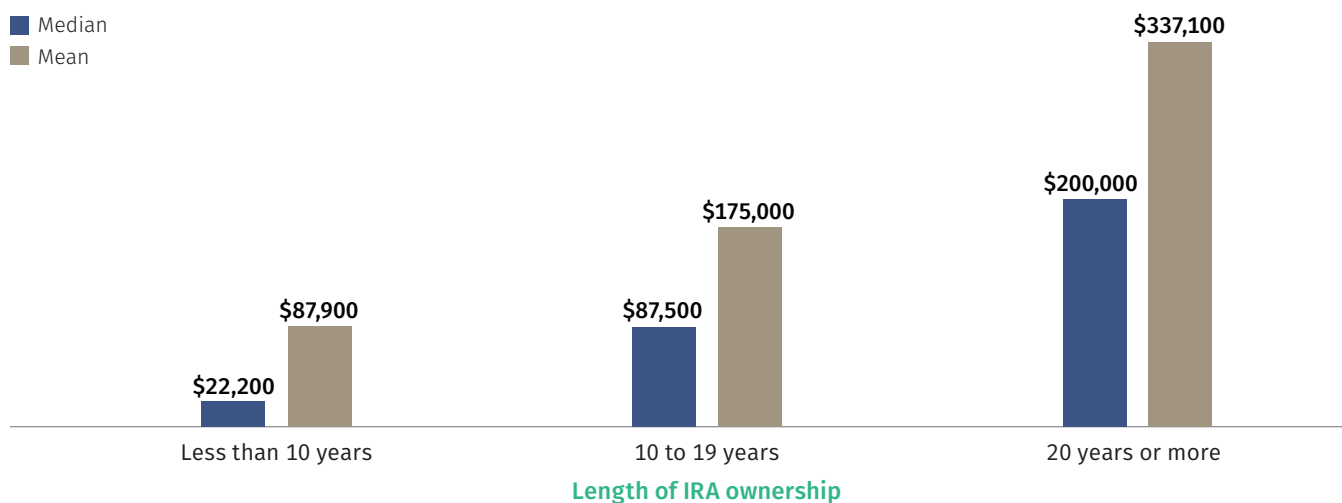
Rollovers to Traditional IRAs Fuel Growth

From their inception, traditional IRAs have been designed so that investors could accumulate retirement assets either through contributions¹⁸ or by rolling over balances from employer-sponsored retirement plans (to help workers consolidate and preserve these assets).^{19, 20} Rollover activity, which helps many Americans preserve their retirement savings, has fueled recent IRA growth. The most recent available data

FIGURE 9

IRA Assets Increase with Length of IRA Ownership

Median and mean household financial assets in IRAs by length of ownership, 2020



Note: IRAs include traditional IRAs or Roth IRAs.

Source: Investment Company Institute IRA Owners Survey

show that households transferred \$463 billion from employer-sponsored (DC or DB or both) retirement plans to traditional IRAs in 2017.²¹ In mid-2020, about 22 million US households (or 59 percent of all US households owning traditional IRAs) had traditional IRAs that included rollover assets (Figure 10).²² With their most recent rollovers, the vast majority of these households (81 percent) transferred the entire retirement plan account balance into the traditional

IRA (Figure 11, top panel).²³ Nine in 10 traditional IRA-owning households with rollovers made their most recent rollover in 2000 or later, including 67 percent whose most recent rollover was within the past 10 years (Figure 11, lower panel). Among households with rollovers in their traditional IRAs, 57 percent had only rollover IRAs (having never made traditional IRA contributions) (Figure 10).

FIGURE 10

Rollovers Are Often a Source of Assets for Traditional IRAs

Households with traditional IRAs that include rollovers

Percentage of households owning traditional IRAs, 2020

Traditional IRA includes rollover	59%
Traditional IRA does not include rollover	41

Traditional IRA rollover activity

Percentage of households owning traditional IRAs that include rollovers, 2020

Reason for traditional IRA rollover(s):*

Job change, layoff, or termination	70
Retirement	36
Other	9

Contributions to traditional IRA other than rollover:

Have made contribution other than rollover	43
Have never made contribution in addition to rollover	57

Percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans:

Less than 25 percent	13
25 to 49 percent	10
50 to 74 percent	17
75 percent or more	60

Median percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans (among households with rollovers) 88

* Multiple responses are included.

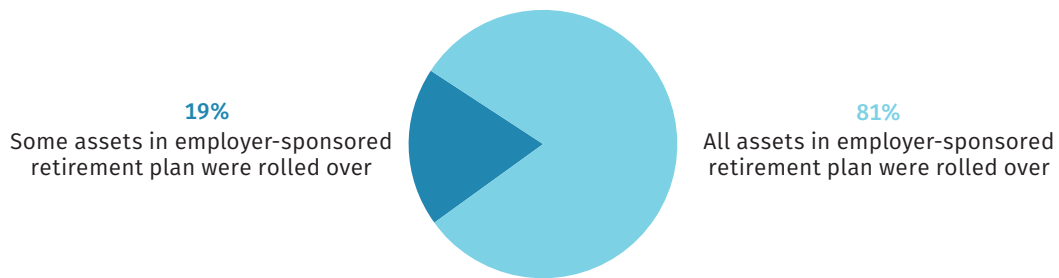
Source: Investment Company Institute IRA Owners Survey

FIGURE 11

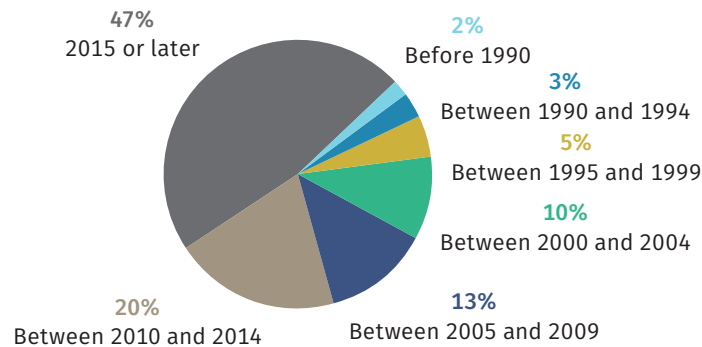
Amount and Timing of Most Recent Traditional IRA Rollover

Percentage of traditional IRA-owning households with rollovers, 2020

Amount of most recent traditional IRA rollover



Year of most recent rollover



Note: Fifty-nine percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans (see Figure 10).

Source: Investment Company Institute IRA Owners Survey

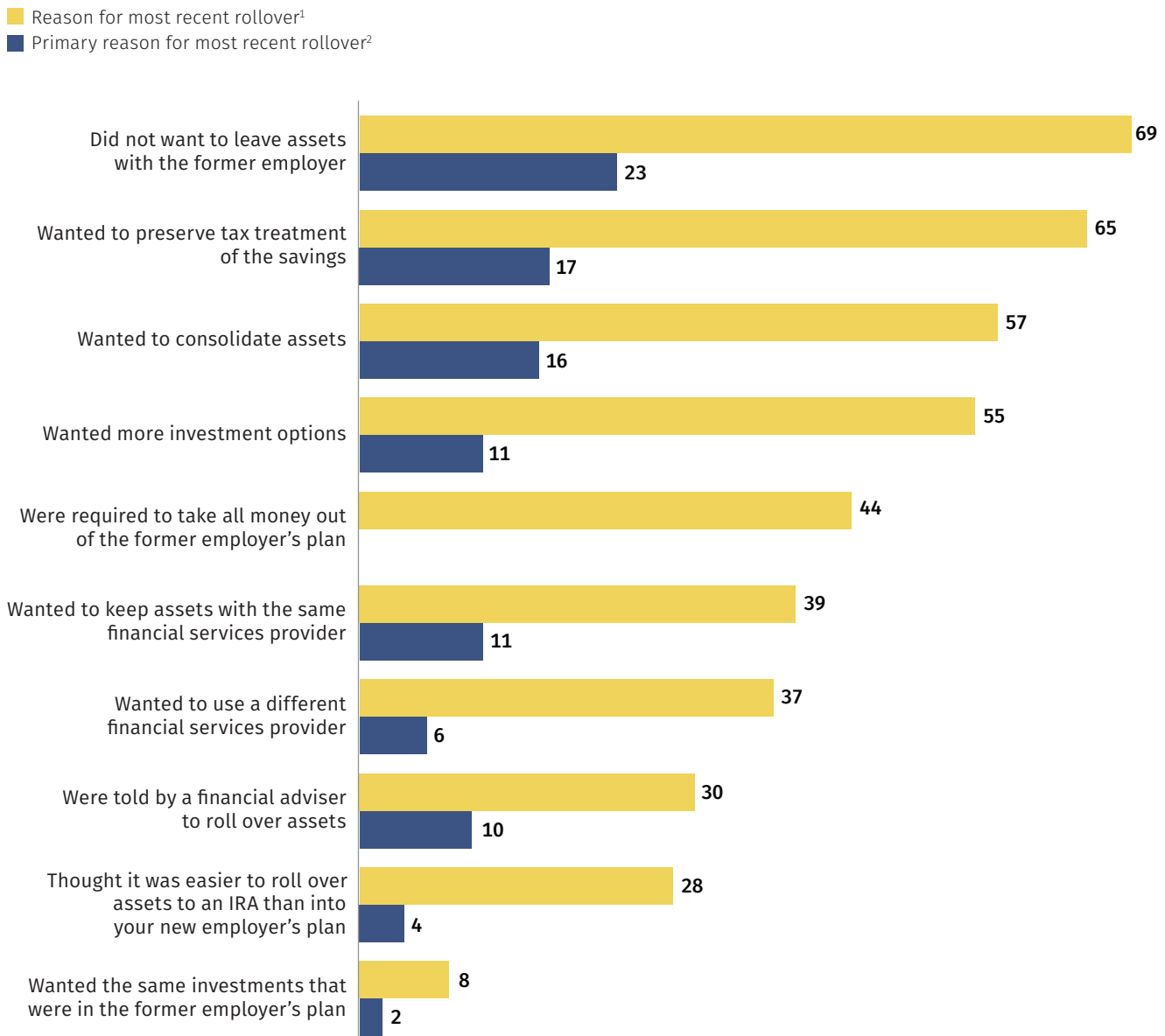
Most traditional IRA-owning households with rollovers (79 percent) had multiple reasons for rolling over the accumulations from their employer-sponsored retirement plans to traditional IRAs (Figure 12).²⁴ For example, 69 percent did not want to leave assets with their former employer, and 65 percent said they wanted to preserve the tax treatment of the savings. Fifty-seven percent of traditional IRA-owning households with rollovers indicated that consolidating assets was one of the reasons for the rollover. Fifty-five percent rolled over to get more investment options. Thirty-nine percent kept their assets with the same financial services provider when they rolled over assets, and 37 percent rolled over to change financial services providers. Thirty percent were told by a financial adviser to roll over, and 28 percent thought it was easier to roll over to an IRA than into their new employer's plan. Forty-four percent reported that they were required to take all of their money out of their former employer's plan.

When traditional IRA-owning households that chose to roll over assets were asked to identify the primary reason for the rollover, 23 percent said they did not want to leave the assets with their former employer, and 17 percent wanted to preserve the tax treatment of the savings (Figure 12). Sixteen percent primarily wanted to consolidate assets, and 11 percent said they primarily wanted more investment options. Eleven percent said the primary reason they rolled over was to use the same financial services firm, and 6 percent said their primary motivation was to use a different financial services firm. Ten percent said they primarily rolled over because a professional financial adviser recommended it, and 4 percent indicated that the primary reason they did so was because it was easier to roll over to an IRA than to their new employer's plan.

FIGURE 12

Reasons for Most Recent Rollover

Percentage of households owning traditional IRAs that include rollovers, 2020



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. Seventy-nine percent of traditional IRA-owning households with rollovers had multiple reasons for rolling over.

² Figure does not include households with traditional IRAs that made their most recent or only rollover because they were required to take the money out of 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. Sixty-five percent consulted multiple sources of information—the most common source of information was professional financial advisers, who were consulted by 65 percent of traditional IRA-owning households with rollovers (Figure 13, first panel). Thirty-six percent of traditional IRA-owning households with rollovers relied on information provided by their employers, with 28 percent using printed materials from their employers as a source of information and 21 percent consulting online material from their employers. Forty-eight percent of traditional IRA-owning households with rollovers relied on information provided by financial services firms, with 25 percent using printed materials provided by financial services firms. Twenty-seven percent indicated that they used online materials from financial services firms.

When asked to identify their primary source of information on the rollover decision, 52 percent of traditional IRA-owning households with rollovers primarily relied on professional financial advisers; older households were more likely to consult professional financial advisers than younger households (Figure 13, second panel). Nineteen percent of traditional IRA-owning households with rollovers identified their primary source of information on the rollover decision as financial services firms. Seven percent of traditional IRA-owning households with rollovers said their primary source of information was online materials from these firms, with younger households more likely to rely primarily on online resources than older households.

FIGURE 13

Sources of Information Consulted for Rollover Decision

Percentage of traditional IRA-owning households with rollovers by age,¹ 2020

Sources of information ²	All	Age of head of household ¹			
		Younger than 50	50 to 59	60 to 69	70 or older
Spouse or partner	39	41	38	39	35
Coworker, friend, or family member	17	27	12	15	14
Employer (printed or online materials, seminars, workshops)	36	36	36	36	35
Seminar or workshop sponsored by your employer	8	5	4	10	13
Printed materials provided by your employer	28	26	31	30	27
Online materials from your employer	21	25	22	19	17
Financial services firms (printed or online materials, seminars, workshops, phone representative)	48	51	46	47	46
Seminar or workshop sponsored by financial services firms	8	7	4	9	12
Printed materials provided by financial services firms	25	18	27	27	29
Online materials from financial services firms	27	35	26	22	22
Phone representative from a financial services firm	20	24	21	18	18
IRS rules or publications	28	29	20	28	33
Professional financial adviser	65	53	63	71	74
Other	3	4	2	4	3
Primary source of information					
Spouse or partner	6	9	5	6	4
Coworker, friend, or family member	5	10	3	4	3
Employer (printed or online materials, seminars, workshops)	10	9	13	9	8
Seminar or workshop sponsored by your employer	2	1	1	1	3
Printed materials provided by your employer	4	3	7	5	3
Online materials from your employer	4	5	5	3	2
Financial services firms (printed or online materials, seminars, workshops, phone representative)	19	25	20	14	15
Seminar or workshop sponsored by financial services firms	1	1	0	1	1
Printed materials provided by financial services firms	4	3	4	3	5
Online materials from financial services firms	7	12	7	5	3
Phone representative from a financial services firm	7	9	9	5	6
IRS rules or publications	6	3	4	5	10
Professional financial adviser	52	41	54	59	57
Other	2	3	1	3	3
<i>Number of respondents</i>	1,432	403	320	350	359

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

² Multiple responses are included; 65 percent of traditional IRA-owning households with rollovers consulted multiple sources of information.

Note: Other responses given included: myself, other online information, bank, and books and magazines.

Source: Investment Company Institute IRA Owners Survey

When asked about the selection of the initial asset allocation of rollover assets in traditional IRAs, 21 percent of traditional IRA-owning households with rollovers indicated that their professional financial adviser selected the investments, and 45 percent indicated that they worked together with a professional financial adviser to select the investments. Thirty-four percent of traditional IRA-owning households with rollovers reported that the household selected the investments without outside help.

Households with rollover assets in their traditional IRAs tend to have higher IRA balances, compared with IRAs funded purely by individual contributions. Median traditional IRA holdings that include rollovers were \$125,000 in mid-2020, compared with median traditional IRA holdings of \$30,000 for balances that did not include rollovers (Figure 14).²⁵

Few Households Make Contributions to IRAs

Although IRAs can help Americans build their retirement savings, the majority of US households do not contribute to them. In tax year 2019, only 12 percent of all US households made contributions to traditional IRAs or Roth IRAs, the same as in tax year 2018 (Figure 15, top panel). Thirty-five percent of households owning traditional IRAs or Roth IRAs in mid-2020 made contributions in tax year 2019 (Figure 16), compared with 35 percent in tax year 2018 and 34 percent in tax year 2017.²⁶ Households may, depending on their eligibility, contribute to more than one type of IRA in each tax year. Among households making contributions to traditional IRAs or Roth IRAs in tax year 2019, 36 percent contributed to traditional IRAs only, and 45 percent contributed to Roth IRAs only (Figure 15, lower panel). The remaining 19 percent contributed to both traditional IRAs and Roth IRAs in tax year 2019.

FIGURE 14

Traditional IRAs Preserve Assets from Employer-Sponsored Retirement Plans

Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2020

Traditional IRA assets	Traditional IRA includes rollover from employer-sponsored retirement plan ¹	Traditional IRA does not include rollover from employer-sponsored retirement plan ²
Mean	\$262,800	\$98,700
Median	\$125,000	\$30,000
Household financial assets³		
Mean	\$508,600	\$400,400
Median	\$425,000	\$300,000

¹ Fifty-nine percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans (see Figure 10).

² Forty-one percent of households owning traditional IRAs have traditional IRAs that do not include rollovers from employer-sponsored retirement plans (see Figure 10).

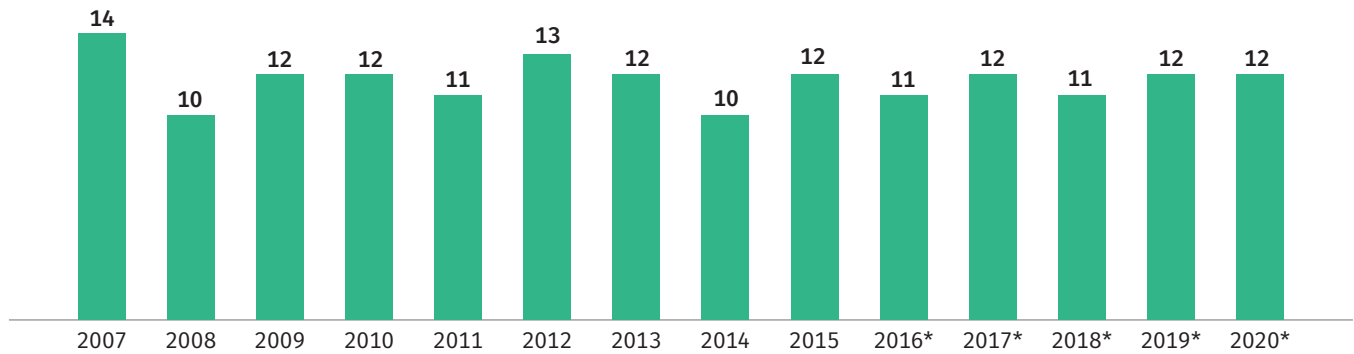
³ Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.

Source: Investment Company Institute IRA Owners Survey

FIGURE 15

Few Households Contribute to Traditional or Roth IRAs

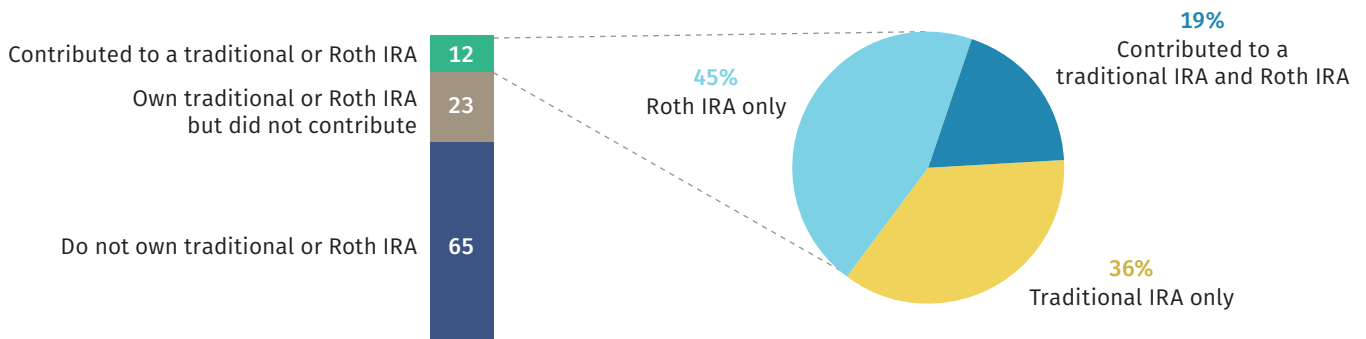
Percentage of all US households that contributed to traditional or Roth IRAs in the previous tax year



Traditional or Roth IRA contribution activity in tax year 2019

Contributions to traditional or Roth IRAs in tax year 2019
Percentage of all US households

Type of IRA to which household contributed in tax year 2019
Percentage of US households contributing to traditional or Roth IRAs



* Starting in 2016, the ICI IRA Owners Survey was changed from a dual-frame RDD telephone survey to a self-administered online survey on the KnowledgePanel®, a probability-based online panel administered by Ipsos. Please see the box on page 4 for a discussion of the revision to the survey methodology and the effect of that revision on the results.

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

Roth IRA Owners Are More Likely to Contribute

Traditional IRA owners were less likely than Roth IRA owners to have made contributions. Thirty-nine percent of households owning Roth IRAs in mid-2020 made contributions in tax year 2019 (Figure 16). In contrast, 24 percent of traditional IRA-owning households in mid-2020 contributed to their traditional IRAs in tax year 2019.²⁷ Several factors play a role in the lower contribution rate to traditional IRAs.²⁸ For example, restrictions on the tax deductibility of contributions²⁹ must be considered by traditional IRA-owning households that have retirement plan coverage at work.³⁰ In addition, 42 percent of traditional IRA-owning households in mid-2020 indicated that someone in the household was retired.³¹ Traditional IRA investors aged 70½ or older are not permitted to make contributions to traditional IRAs.^{32,33} Furthermore, some households that own traditional IRAs use them to preserve rollovers rather than as a contributory savings vehicle. And some households may be able to meet their retirement savings needs through their retirement plans at work.³⁴ Traditional IRA-owning households without

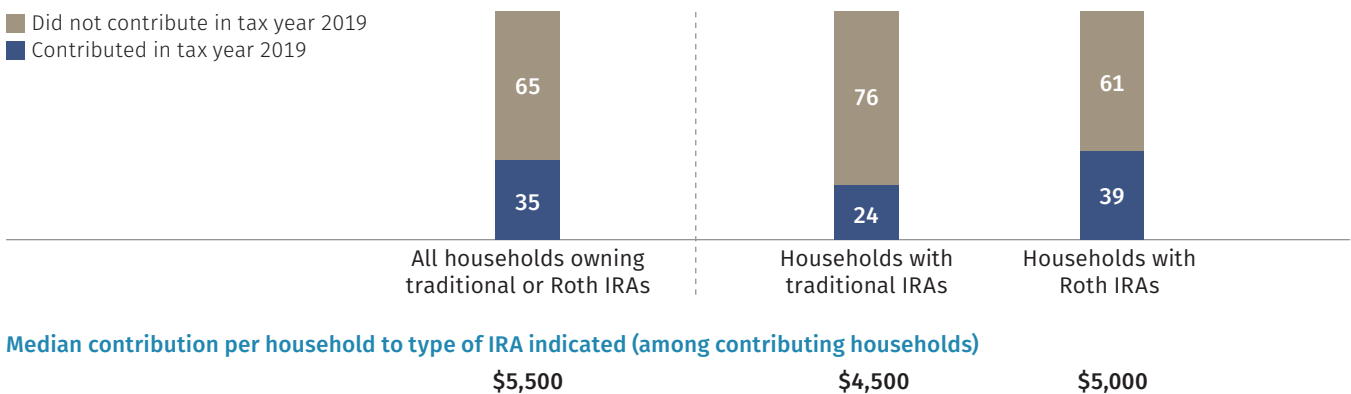
contributions tended to have rollovers (63 percent) or have a DC plan account (67 percent).³⁵ Forty-four percent of traditional IRA-owning households without contributions were retired.³⁶ Nevertheless, other research finds that traditional IRA investors who make contributions tend to do so on a recurring basis.³⁷

In tax year 2019, the median household contribution to traditional IRAs was \$4,500 (Figure 16), and the median household contribution to Roth IRAs was \$5,000. In tax year 2019, the traditional and Roth IRA contribution limit was \$6,000 for individuals younger than 50 (Figure 17).³⁸ Since tax year 2002, individuals aged 50 or older are eligible to make catch-up contributions to their IRAs.³⁹ Among households aged 50 or older, 37 percent owned traditional or Roth IRAs in mid-2020 (Figure 18). Of these IRA-owning households, 24 percent made contributions to traditional or Roth IRAs; 44 percent of these contributing households made catch-up contributions. All told, catch-up contributions are not prevalent, with only 4 percent of all US households aged 50 or older⁴⁰ reporting catch-up contributions to traditional or Roth IRAs.

FIGURE 16

Contribution Activity to Roth IRAs Outpaces Contribution Activity to Traditional IRAs in Tax Year 2019

Percentage of US households owning each type of IRA in 2020 by contribution status

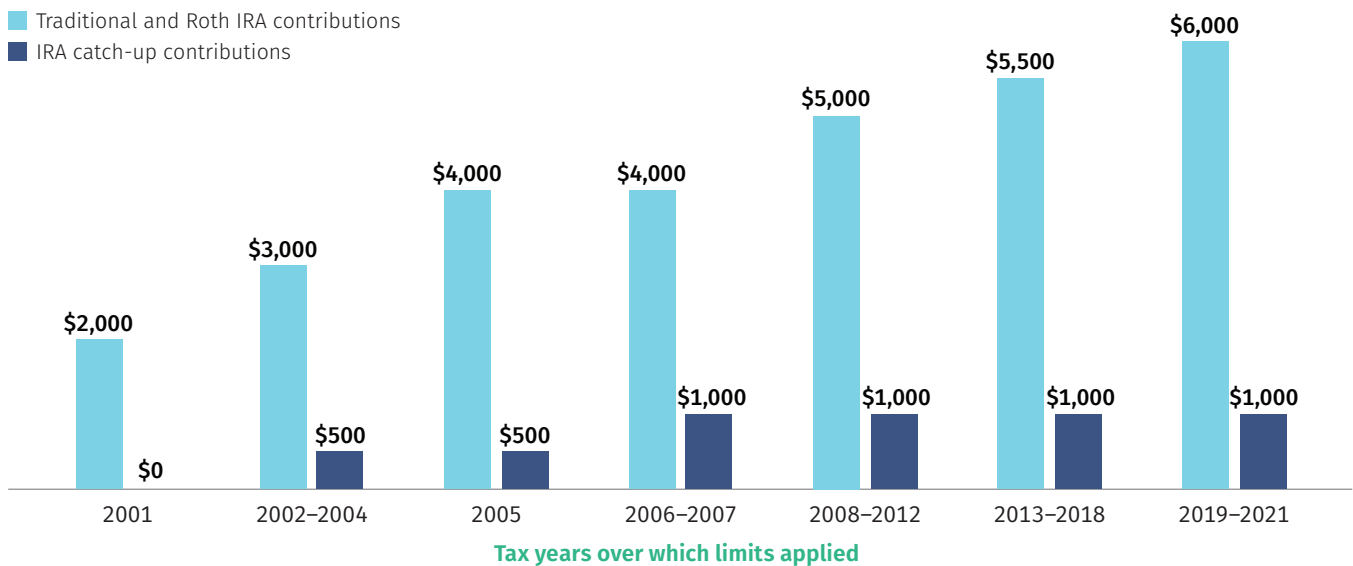


Note: Households may hold more than one type of IRA. Contribution activity reported is for type of IRA indicated. Some of these households may have been ineligible to make contributions.

Source: Investment Company Institute IRA Owners Survey

FIGURE 17

Traditional and Roth IRA Contribution Limits Set by the Internal Revenue Code

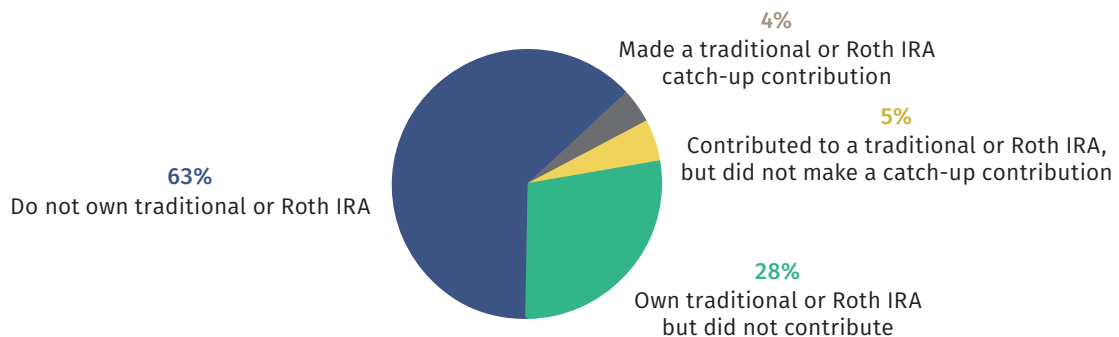


Note: After 2008, IRA contributions are indexed for inflation in \$500 increments. IRA catch-up contributions are not indexed for inflation.
 Source: ICI summary of US Internal Revenue Code

FIGURE 18

Traditional and Roth IRA Catch-Up Contributions Are Infrequent

Percentage of US households with individuals aged 50 or older in 2020 by contribution status in tax year 2019



Note: Catch-up contribution activity is identified if an individual's contribution is greater than the \$6,000 limit in tax year 2019 or if they indicated that they made a catch-up contribution.

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

Traditional IRAs Are Held Through a Variety of Financial Institutions

Households with traditional IRAs held them through a wide array of financial institutions.^{41,42} In mid-2020, 73 percent of households that owned traditional IRAs held them through investment professionals, and 31 percent held them directly at mutual fund companies or discount brokers (Figure 19). Older traditional IRA-owning households were more likely to use investment professionals (78 percent among those 55 or older) than younger traditional IRA-owning households (68 percent among those younger than 55).⁴³ Younger traditional IRA-owning households were more likely to hold their traditional IRAs through direct sources (37 percent among those younger than 55) than older traditional IRA-owning households (27 percent among those 55 or older).⁴⁴ Twenty-nine percent of households that owned traditional IRAs held them through full-service brokerage firms, and 24 percent held them through banks or savings institutions. Twenty-one percent held their traditional IRAs through mutual fund companies.

IRA Withdrawals Are Infrequent, Mostly Retirement Related

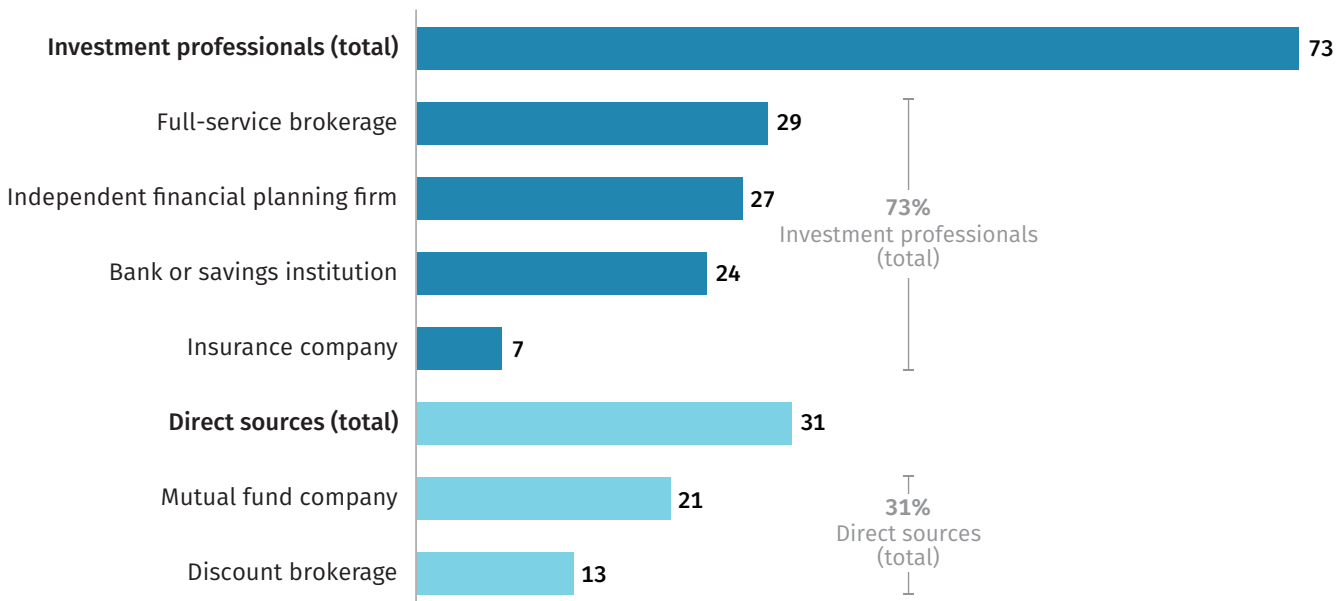
Few households withdraw money from their IRAs in any given year, and most withdrawals are retirement related. A traditional IRA withdrawal taken by an individual prior to age 59½ is generally subject to a 10 percent penalty on the taxable portion of the withdrawal (in addition to the federal, state, and local income tax that may be due).⁴⁵ Taxpayers older than 59½ but younger than 70½ may take withdrawals without penalty but generally are not required to do so.⁴⁶ 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).⁴⁷ Households with inherited IRAs are also generally required to take distributions.

Twenty-seven percent of households owning traditional IRAs in mid-2020 reported taking withdrawals from these IRAs in tax year 2019, about the same share as in tax year 2018 (Figure 20).⁴⁸ In 2008, the Worker,

FIGURE 19

Traditional IRAs Are Held Through a Variety of Financial Institutions

Percentage of households owning traditional IRAs, 2020



Note: Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

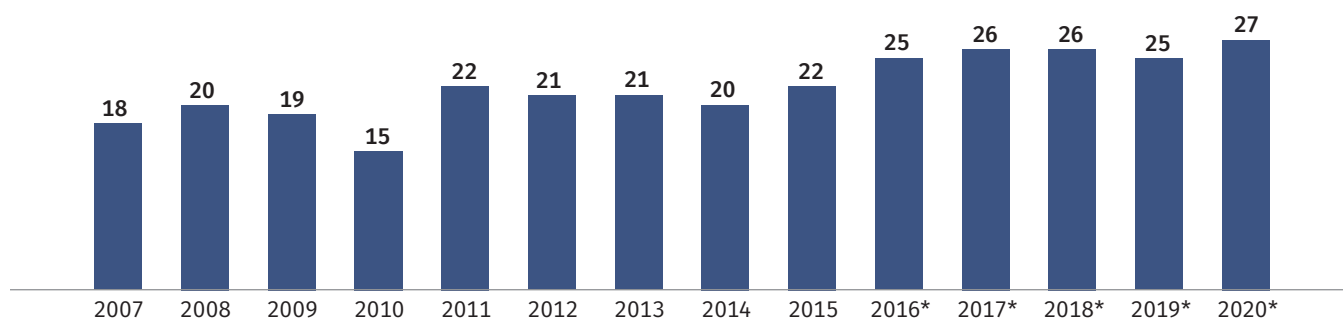
Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009.⁴⁹ Withdrawal activity among traditional IRA-owning households fell to lower levels in tax year 2009, likely due, to some extent, to the suspension of RMDs from traditional IRAs.⁵⁰ Some of the increase in withdrawal activity in tax year 2010 and tax year 2011

resulted from the return of RMDs.⁵¹ Among households taking traditional IRA withdrawals in tax year 2019, 85 percent reported that someone in the household was retired from their lifetime occupation (Figure 21). Nevertheless, 45 percent of retired households owning traditional IRAs in mid-2020 did not take withdrawals in tax year 2019.

FIGURE 20

Traditional IRA Withdrawal Activity

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



* Starting in 2016, the ICI IRA Owners Survey was changed from a dual-frame RDD telephone survey to a self-administered online survey on the KnowledgePanel®, a probability-based online panel administered by Ipsos. Please see the box on page 4 for a discussion of the revision to the survey methodology and the effect of that revision on the results.

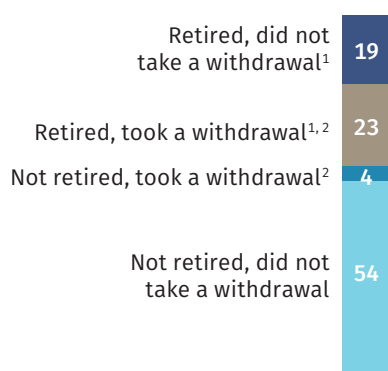
Note: Households were surveyed in the spring of the year indicated and asked about withdrawals in the prior year.

Source: Investment Company Institute IRA Owners Survey

FIGURE 21

Withdrawals from Traditional IRAs Are Infrequent

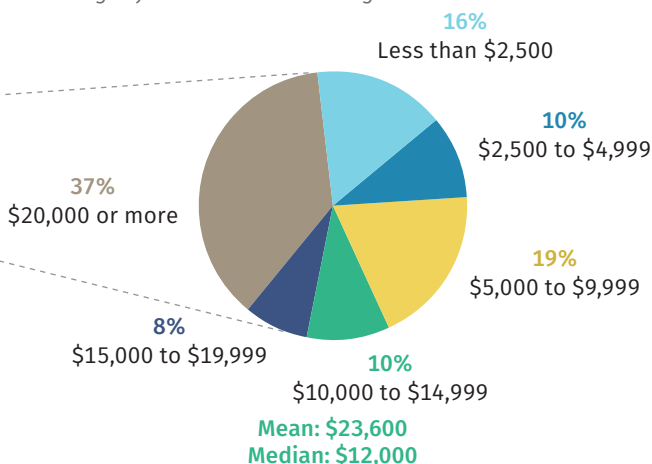
US households with traditional IRAs in 2020
Percentage



Number of respondents: 2,660

Amount withdrawn in tax year 2019

Percentage of traditional IRA-owning households that made withdrawals



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 a withdrawal exclude those that closed and no longer own traditional IRAs.

Source: Investment Company Institute IRA Owners Survey

Traditional IRA-owning households that made withdrawals generally took modest-sized amounts. Sixteen percent of traditional IRA-owning households making withdrawals in tax year 2019 took less than \$2,500 from their IRAs, and another 10 percent withdrew between \$2,500 and \$4,999 (Figure 21). Although some withdrawals appear large in dollar amounts, a median of 5 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 mid-2020 headed by individuals younger than 59, only 6 percent took withdrawals in tax year 2019 (Figure 22).⁵² Twenty-two percent of households owning traditional IRAs and headed by an individual aged 59 to 69 in mid-2020 reported withdrawals in tax year 2019. Eighty-one percent of households owning traditional IRAs and headed by an individual aged 70 or older took withdrawals in tax year 2019.⁵³

FIGURE 22

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

Percentage of traditional IRA-owning households, 2007–2020

	Traditional IRA-owning households														
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 ¹	2017 ¹	2018 ¹	2019 ¹	2020 ¹	
Age of head of household²															
<i>Percentage of US households owning traditional IRAs</i>															
Younger than 59	64	62	63	62	58	61	61	60	54	51	57	56	56	54	
59 to 69	20	22	20	22	25	23	22	23	27	29	24	23	23	23	
70 or older	16	16	17	16	17	16	17	17	19	20	19	21	21	23	
Traditional IRA withdrawal activity by age²															
<i>Percentage of US households owning traditional IRAs</i>															
Younger than 59, did not take a withdrawal	61	59	60	59	54	56	56	56	50	48	52	53	53	51	
Younger than 59, took a withdrawal	3	4	3	3	5	5	5	4	5	3	5	3	3	3	
Aged 59 to 69, did not take a withdrawal	15	17	16	18	20	19	18	18	22	23	18	17	18	18	
Aged 59 to 69, took a withdrawal	6	5	4	4	5	4	4	5	5	6	6	6	5	5	
Aged 70 or older, did not take a withdrawal	6	4	5	7	5	4	5	6	6	4	4	4	3	4	
Aged 70 or older, took a withdrawal	9	11	12	9	13	12	12	11	12	16	15	17	18	19	
Memo:															
Percentage of traditional IRA-owning households with withdrawals	18	20	19	15	22	21	21	20	22	25	26	26	25	27	

Continued on next page

FIGURE 22 CONTINUED

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

Percentage of traditional IRA–owning households, 2007–2020

	Traditional IRA–owning households														
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 ¹	2017 ¹	2018 ¹	2019 ¹	2020 ¹	
Incidence of withdrawal activity by age²															
<i>Percentage of traditional IRA–owning households by age²</i>															
Younger than 59	4	6	5	5	8	7	8	7	9	5	8	5	5	6	
59 to 69	27	24	19	17	19	17	19	20	18	21	27	25	21	22	
70 or older	59	73	70	53	72	74	70	67	66	82	80	83	84	81	
Age composition of households with withdrawals²															
<i>Percentage of traditional IRA–owning households with withdrawals</i>															
Younger than 59	16	18	16	20	22	22	22	20	22	11	17	11	11	12	
59 to 69	31	26	20	25	21	19	21	23	22	24	25	23	19	19	
70 or older	53	56	64	55	57	59	57	57	56	65	58	66	70	69	

¹ Starting in 2016, the ICI IRA Owners Survey was changed from a dual-frame RDD telephone survey to a self-administered online survey on the KnowledgePanel®, a probability-based online panel administered by Ipsos. Please see the box on page 4 for a discussion of the revision to the survey methodology and the effect of that revision on the results.

² 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 2020, the figure reports withdrawal activity for tax year 2019.

Source: Investment Company Institute IRA Owners Survey

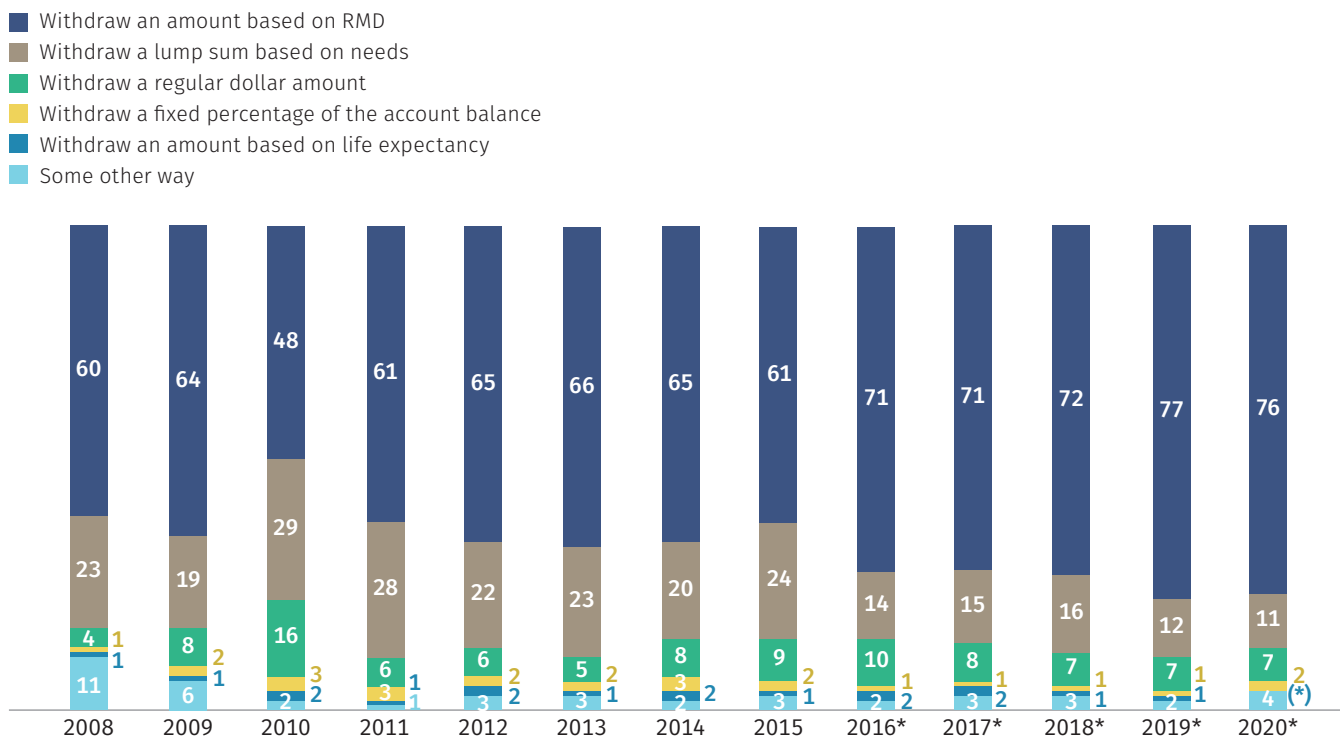
Typically, withdrawals from traditional IRAs were taken to fulfill RMDs. Seventy-six percent of households owning traditional IRAs in mid-2020 and making withdrawals in tax year 2019 calculated their withdrawal amount based on the RMD, compared with 77 percent in tax year 2018 (Figure 23). Another 11 percent of traditional IRA-owning households taking withdrawals

reported they withdrew lump sums based on needs in tax year 2019, compared with 12 percent in tax year 2018. In tax year 2019, 9 percent reported a scheduled withdrawal amount, either as a percentage of the account or a regular dollar amount, about the same share as in tax year 2018.

FIGURE 23

How Traditional IRA Withdrawals Are Determined

Percentage of traditional IRA-owning households in the year indicated with withdrawals in the prior year



* Starting in 2016, the ICI IRA Owners Survey was changed from a dual-frame RDD telephone survey to a self-administered online survey on the KnowledgePanel®, a probability-based online panel administered by Ipsos. Please see the box on page 4 for a discussion of the revision to the survey methodology and the effect of that revision on the results.

(*) = less than 0.5 percent

Source: Investment Company Institute IRA Owners Survey

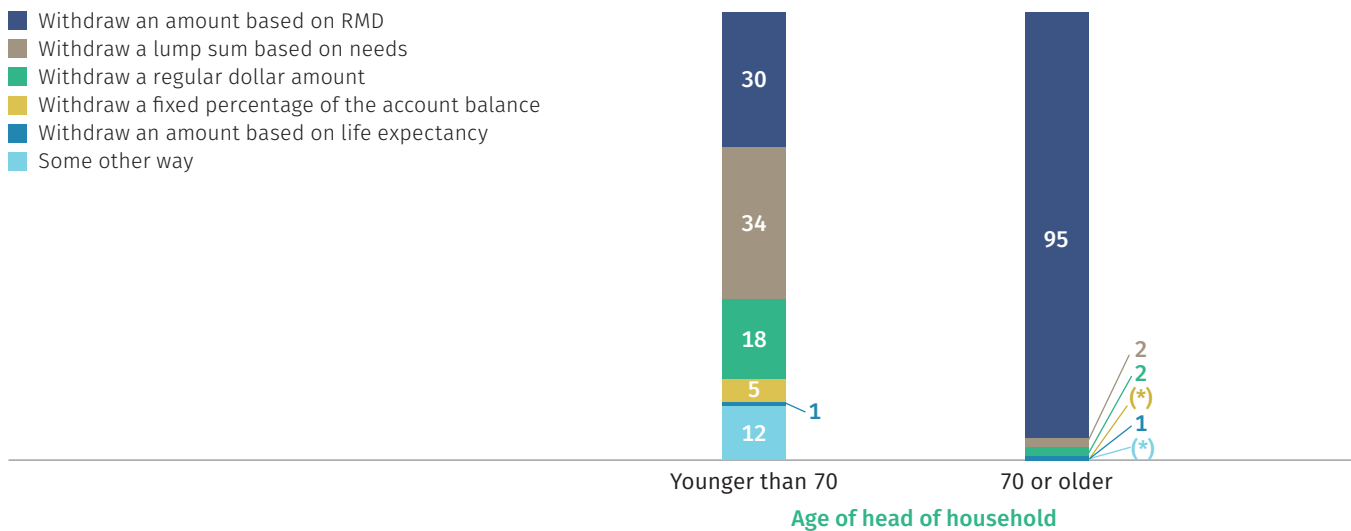
Reflecting the rules governing distributions from traditional IRAs, households headed by individuals aged 70 or older were much more likely to cite RMDs as the way they calculated their withdrawal amounts,^{54, 55} while younger households were much more likely to take lump-sum withdrawals based on needs. Among traditional IRA-owning households in mid-2020 with

a head of household aged 70 or older and taking a withdrawal in tax year 2019, 95 percent indicated their withdrawal was based on the RMD rules—only 2 percent took lump sums based on needs (Figure 24). In contrast, among withdrawing households younger than age 70, 30 percent took RMDs, and 34 percent took lump sums based on needs.

FIGURE 24

Older Traditional IRA-Owning Households Use RMD Rules When Taking Withdrawals

Percentage of traditional IRA-owning households in 2020 with withdrawals in tax year 2019



(*) = less than 0.5 percent

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

Source: Investment Company Institute IRA Owners Survey

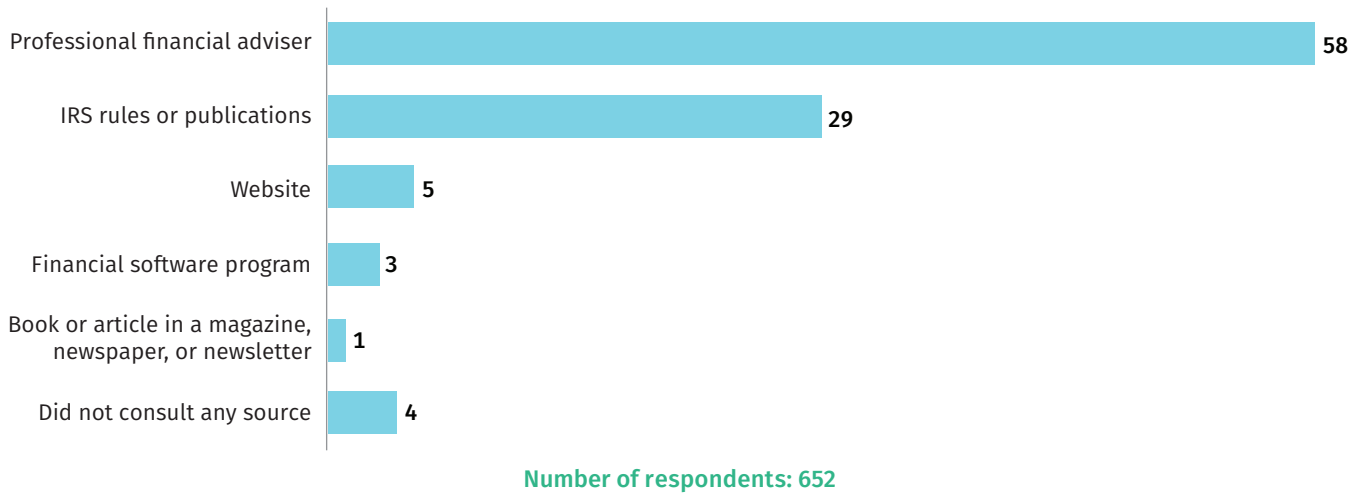
Traditional IRA-owning households that took withdrawals in tax year 2019 usually consulted outside sources to determine the amount of the withdrawal. Fifty-eight percent consulted a professional financial

adviser to determine the amount to withdraw in tax year 2019 (Figure 25). Twenty-nine percent consulted Internal Revenue Service (IRS) rules or publications.

FIGURE 25

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

Percentage of traditional IRA-owning households in 2020 that made withdrawals in tax year 2019



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 in which either the head of household or spouse was retired, 41 percent reported using traditional IRA withdrawals to pay for living expenses (Figure 26). Forty-one percent of retired households that took traditional IRA withdrawals in tax year 2019 reinvested or saved at least some of the withdrawal amount into another account.⁵⁶ Sixteen percent reported using their withdrawals for

home purchase, repair, or remodeling; and 8 percent reported using their withdrawals for healthcare expenses. Four percent used their withdrawals for emergencies. Nonretired traditional IRA-owning households that reported taking withdrawals in tax year 2019 had different uses for the funds. These households were less likely to indicate using some or all of the money for living expenses (26 percent) and were more likely to indicate they used the funds for emergencies (8 percent) or for a healthcare expense (14 percent) than retired households.

FIGURE 26

Traditional IRA Withdrawals Among Retirees Often Are Used to Pay for Living Expenses

Percentage of withdrawing traditional IRA-owning households by retirement status,¹ 2020

Purpose of traditional IRA withdrawal	Retired ^{1,2}	Not retired ^{2,3}
Took withdrawals to pay for living expenses	41	26
Spent it on a car, boat, or big-ticket item other than a home	8	4
Spent it on a healthcare expense	8	14
Used it for an emergency	4	8
Used it for home purchase, repair, or remodeling	16	21
Reinvested or saved it in another account	41	22
Paid for education	2	9
Some other purpose	9	14
<i>Number of respondents</i>	596	107

¹ The base of respondents includes the 23 percent of traditional IRA-owning households that were retired and took withdrawals reported in Figure 21.

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 The base of respondents includes the 4 percent of traditional IRA-owning households that were not retired and took withdrawals reported in Figure 21.

Note: Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

Most Traditional IRA Owners Have a Planned Retirement Strategy

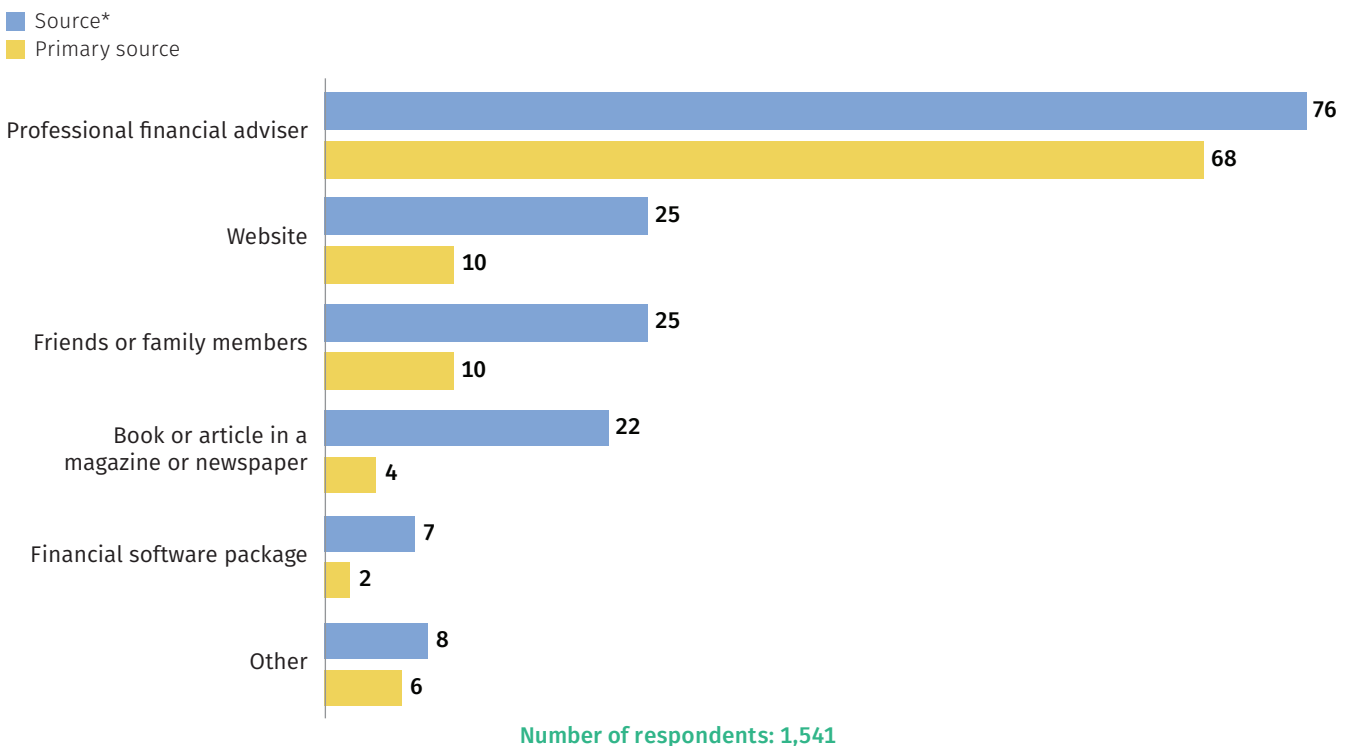
Sixty-nine percent of traditional IRA-owning households in mid-2020 said they have a strategy for managing income and assets in retirement. These households typically seek advice when building their retirement income and asset management strategy. Seventy-six percent of traditional IRA-owning households with a strategy consulted a professional financial adviser when creating the strategy (Figure 27), with older households more likely to do so than younger households.⁵⁷

Twenty-five percent used a website to help create their retirement income and asset management strategy, with younger households more likely to do so than older households.^{58, 59} Twenty-five percent consulted with friends or family, and 22 percent consulted written materials (e.g., a book or article in a magazine or newspaper). Seven percent of households with a strategy used a financial software package to build their retirement income and asset management strategy.

FIGURE 27

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, 2020



* Multiple responses are included.

Note: Sixty-nine percent of traditional IRA-owning households indicated they have a strategy to manage income and assets in retirement.

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.⁶⁰ Seventy percent of these households reviewed their asset allocation, and 67 percent determined their retirement expenses (Figure 28). Sixty-six percent of households with a strategy for managing their income and assets in retirement developed a retirement income plan as part of their strategy. Sixty percent set aside

emergency funds, and half reviewed their insurance policies. Half determined when to take Social Security benefits, with households aged 50 or older more likely to have done so than households younger than 50. Sixty-nine percent of traditional IRA-owning households with a strategy took three or more steps in developing their strategy.

FIGURE 28

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, 2020

	All	Age of head of household*			
		Younger than 35	35 to 49	50 to 64	65 or older
Review asset allocation	70	55	70	74	71
Determine your retirement expenses	67	49	59	71	71
Develop a retirement income plan	66	61	67	71	62
Set aside emergency funds	60	74	65	65	49
Determine when to take Social Security benefits	50	22	32	63	55
Review your insurance policies	50	39	52	55	47
Other	3	2	4	3	4
<i>Number of respondents</i>	1,720	190	297	581	652

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

Note: Multiple responses are included; 69 percent of traditional IRA-owning households that indicated they have a strategy for managing income and assets in retirement took three or more steps in developing their strategy.

Source: Investment Company Institute IRA Owners Survey

Additional Reading

» **Individual Retirement Accounts in the *Investment Company Fact Book***

www.icifactbook.org/ch8/20_fb_ch8#ira

» **The IRA Investor Database**

www.ici.org/research/investors/database

» **The Evolving Role of IRAs in US Retirement Planning**

www.ici.org/pdf/per15-03.pdf

» **The Individual Retirement Account at Age 30: A Retrospective**

www.ici.org/pdf/per11-01.pdf

» **The US Retirement Market, Third Quarter 2020**

www.ici.org/research/stats/retirement

» **Ten Important Facts About IRAs**

www.ici.org/pdf/ten_facts_iras.pdf

» **Ten Important Facts About Roth IRAs**

www.ici.org/pdf/ten_facts_roth_iras.pdf

» **Individual Retirement Account Resource Center**

www.ici.org/iraresource

Notes

- ¹ See Investment Company Institute 2020. For the rules governing IRAs, see Internal Revenue Service 2020a and 2020b.
- ² Households' total financial assets were \$95.3 trillion as of June 2020 and \$34.5 trillion at year-end 2000. See US Federal Reserve Board 2020a.
- 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, which was conducted from May to June 2020. This survey was based on a dual-frame random digit dial (RDD) telephone sample and included 3,001 representative US households. The standard error for the total sample is ± 1.8 percentage points at the 95 percent confidence level. For further discussion and additional results from this survey, see Holden, Schrass, and Bogdan 2020a and 2020b and Schrass and Bogdan, forthcoming.

The demographic and financial characteristics of IRA owners are derived from a separate IRA Owners Survey of 3,277 representative US households owning traditional IRAs or Roth IRAs. The 2020 IRA Owners Survey was conducted using the KnowledgePanel®, a probability-based online panel designed to be representative of the US population. The KnowledgePanel® was designed and administered by Ipsos, an online consumer research company. The Federal Reserve has also used the KnowledgePanel®; see US Federal Reserve Board 2020b. The standard error for the total sample is ± 1.7 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) or Coverdell education savings accounts (formerly called education IRAs).

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 US households headed by individuals aged 18 or older. Starting in 2013, the order of the account type choices in the question regarding ownership of retirement and other savings accounts was changed. This change was made to avoid confusion between individual accounts in 401(k) and other employer-sponsored DC plan accounts versus IRAs. Beginning 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 2014, 2015, 2016, 2017, 2018, 2019, and 2020 the incidence of IRA ownership is lower than in previous years, possibly due to the reordering of questions regarding retirement and other savings accounts in the questionnaire (introduced in 2013), as well as a sampling and weighting methodology

change introduced in 2014. See Figure A1 in the appendix for the complete time series on IRA incidence (available at www.ici.org/info/per27-01_data.xls). See Holden, Schrass, and Bogdan 2020b for details on the changes to the ICI Annual Mutual Fund Shareholder Tracking Survey.

- ⁴ See note 3 for a discussion of changes in IRA incidence in ICI's surveys. The ICI Annual Mutual Fund Shareholder Tracking Survey results in higher incidence of IRA ownership than the Federal Reserve Board's Survey of Consumer Finances. For example, ICI tabulations of the 2019 Survey of Consumer Finances indicate that 19.0 percent of US households owned traditional IRAs and 11.9 percent of US households owned Roth IRAs. The ICI Annual Mutual Fund Shareholder Tracking Survey finds that 28.1 percent of US households in 2019 and 28.6 percent in 2020 owned traditional IRAs; in addition, 19.4 percent of US households in 2019 and 20.5 percent in 2020 owned Roth IRAs (see Figure A1 in the appendix, available at (www.ici.org/info/per27-01_data.xls)). For a description of the Survey of Consumer Finances, see Bhutta et al. 2020.
- ⁵ See Figures 10–14 for additional information on rollover activities and Figure A14 in the appendix for additional information on traditional IRA-owning households with rollovers (available at www.ici.org/info/per27-01_data.xls).
- ⁶ The ability to contribute to Roth IRAs is restricted based on household income. Before 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 2020a. It is possible that Roth IRA ownership is not more widespread because income limits restrict the ability of many US households to invest in Roth IRAs.
- ⁷ See Brady and Bass 2020 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 (mean scheduled Social Security first-year benefits as a percentage of average inflation-indexed career earnings for retired workers in the 1960–1969 birth cohort [individuals aged 51 to 60 in 2020]) falls as income rises. The mean replacement rate for the lowest lifetime household earnings quintile was 75 percent; for the middle quintile, the mean Social Security replacement rate was 48 percent; and for the highest quintile, it was 30 percent. See Congressional Budget Office 2020. For additional discussion, see Brady and Bass 2020 and Brady, Burham, and Holden 2012.
- ¹⁰ For discussion of retirement saving by different income groups, see Brady and Bass 2020; Schrass and Bogdan, forthcoming; 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 Bass 2020; Brady, Burham, and Holden 2012; and Sabelhaus, Bogdan, and Schrass 2008.

- ¹² For earlier years of data ranging from 1989 through 2007 (based on the Federal Reserve Board's Survey of Consumer Finances), see Figures 8 and 10 in Holden and Schrass 2013. For data ranging from 2008 through 2020, see Figure A16 in the appendix (available at www.ici.org/info/per27-01_data.xls).
- ¹³ See Figure 11 in Holden, Schrass, and Bogdan 2020b.
- ¹⁴ For data ranging from 2008 through 2020 for all US households, see Figure A16 in the appendix (available at www.ici.org/info/per27-01_data.xls).
- ¹⁵ This is a pattern of risk tolerance observed in other types of investors. For example, see Sabelhaus, Bogdan, and Schrass 2008; Holden, Schrass, and Bogdan 2020b; and Schrass and Bogdan, forthcoming.
- ¹⁶ 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 2018.
- ¹⁷ See Holden et al. 2018 and Holden, VanDerhei, and Bass 2020.
- ¹⁸ 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 US retirement planning, see Sabelhaus and Schrass 2009.
- ¹⁹ Before 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 2020a.
- ²⁰ 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. For distribution activity from DC plans administered by the Vanguard Group, see Alling, Clark, and Stinnett 2020.
- ²¹ See Internal Revenue Service, Statistics of Income Division 2020. For historical data, see Investment Company Institute 2020.
- ²² Tabulations of the Federal Reserve Board's 2019 Survey of Consumer Finances data find that 52 percent of traditional IRA-owning households had rollovers in their IRAs in 2019, compared with 59 percent of traditional IRA-owning households in ICI's 2019 IRA Owners Survey (see Holden and Schrass 2019). For a description of the Survey of Consumer Finances, see Bhutta et al. 2020.
- ²³ In the case of a DC plan, this amount is the account balance. For DB plans, this amount is the lump-sum distribution based on accrued benefits. See Figure A14 in the appendix for additional information on traditional IRA owners with rollovers (available at www.ici.org/info/per27-01_data.xls).
- ²⁴ 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, Holden and Chism 2014, and Holden and Salinas 2018.
- ²⁵ For more information on rollovers among traditional IRA investors, see Holden, Sabelhaus, and Bass 2010b and Holden and Bass 2018.
- ²⁶ These results are from the 2018 and 2019 ICI IRA Owners Surveys; see Holden and Schrass 2018b and 2019.
- ²⁷ Although it is difficult to compare household-level data and individual-level data, the IRA Owners Survey finds higher rates of contribution activity than The IRA Investor Database finds among individual IRA investors. Analysis of 9.9 million traditional IRA investors aged 25 to 69 in 2016 finds that 9.0 percent of them contributed to their traditional IRAs in tax year 2016 (see Holden and Bass 2018). Contribution activity in Roth IRAs was also higher in the IRA Owners Survey. The IRA Investor Database finds that among 5.9 million Roth IRA investors aged 18 or older in 2016, 31.1 percent contributed to their Roth IRAs in tax year 2016 (see Holden and Schrass 2018a).
- ²⁸ ICI's 2013 IRA Owners Survey asked traditional IRA-owning households without contributions the reasons why they did not contribute. See Figure 19 in Holden and Schrass 2013 for those results.
- ²⁹ For traditional IRA contribution eligibility rules, see Internal Revenue Service 2020a.
- ³⁰ For ownership of DC accounts and access to DB plans among traditional IRA-owning households, see Figure A13 in the appendix (available at www.ici.org/info/per27-01_data.xls).
- ³¹ See Figure 21.
- ³² See Internal Revenue Service 2020a for the rules governing IRA contribution eligibility.
- ³³ In 2019, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) removed the age restriction for traditional IRA contributions starting in tax year 2020. The data in this ICI Research Perspective on traditional IRA contributions are for tax year 2019 and are not affected by the SECURE Act.
- ³⁴ Among traditional IRA-owning households in 2013 that did not make contributions to their traditional IRAs in tax year 2012, 37 percent indicated that they were able to save enough in their retirement plans at work. See Holden and Schrass 2013.
- ³⁵ See Figure A11 in the appendix (available at www.ici.org/info/per27-01_data.xls).

- ³⁶ Ibid.
- ³⁷ For an analysis of the persistence of traditional IRA contribution activity, see Holden, Sabelhaus, and Bass 2010a and Holden and Bass 2018.
- ³⁸ See Internal Revenue Service 2020a for details on income restrictions and other qualifications for contribution eligibility.
- ³⁹ 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 that exceed 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 2020a.
- ⁴⁰ US households aged 50 or older include households ineligible to make deductible contributions to traditional IRAs.
- ⁴¹ For discussion of the requirements for financial services firms providing IRAs, see Holden and Chism 2014.
- ⁴² Roth IRA-owning households similarly hold their Roth IRAs through a wide array of financial institutions; see Figure A15 in the appendix (available at www.ici.org/info/per27-01_data.xls).
- ⁴³ See Figure A18 in the appendix (available at www.ici.org/info/per27-01_data.xls).
- ⁴⁴ Ibid.
- ⁴⁵ 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 Internal Revenue Service 2020b; Mortenson, Schramm, and Whitten 2016; Poterba, Venti, and Wise 2013; and Holden and Reid 2008.
- ⁴⁶ In 2019, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) increased the age for required minimum distributions from 70½ to 72 for individuals who did not reach age 70½ in 2019. The data in this ICI Research Perspective on traditional IRA withdrawals and required minimum distributions are for tax year 2019 and are not affected by the SECURE Act.
- ⁴⁷ Ibid.
- ⁴⁸ Data exclude households that closed and no longer owned traditional IRAs.
- ⁴⁹ 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.
- ⁵⁰ For analysis of withdrawal activity from 2008 through 2016 among a consistent group of 4.5 million traditional IRA investors (those with accounts between year-end 2007 and year-end 2016), see Holden and Bass 2018.
- ⁵¹ In 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) suspended RMDs from traditional IRAs and other retirement accounts for tax year 2020. The data in this ICI Research Perspective on traditional IRA withdrawals and required minimum distributions are for tax year 2019 and are not affected by the CARES Act.
- ⁵² The withdrawal activity observed in ICI's IRA Owners Survey shows similar results compared with data collected in The IRA Investor Database. In 2016, 8.8 percent of traditional IRA investors younger than 60 had withdrawals, 21.6 percent of traditional IRA investors aged 60 to 69 had withdrawals, and 79.1 percent of traditional IRA investors aged 70 or older had withdrawals (see Holden and Bass 2018).
- ⁵³ 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. The IRA Investor Database finds that among 2.0 million traditional IRA investors aged 70 or older in 2016, 79.1 percent of them took a withdrawal from their traditional IRAs in tax year 2016 (see Holden and Bass 2018). The older traditional IRA investors without withdrawals may have taken RMDs from IRAs held at financial services firms outside The IRA Investor Database.
- ⁵⁴ Analysis of 1.0 million traditional IRA investors aged 70 or older who took withdrawals in 2016 in The IRA Investor Database finds that 57.8 percent took the RMD required for the individual, 1.3 percent took a joint RMD, and 0.2 percent took the inherited RMD amount. See Holden and Bass 2018.
- ⁵⁵ In 2019, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) increased the age for required minimum distributions from 70½ to 72 for individuals who did not reach age 70½ in 2019. The data in this ICI Research Perspective on traditional IRA withdrawals and required minimum distributions are for tax year 2019 and are not affected by the SECURE Act.
- ⁵⁶ Among the 41 percent of retired households that reported reinvesting or saving at least some of the amount of the traditional IRA withdrawal into another account (see Figure 26), 94 percent reported withdrawing the amount based on the RMD.
- ⁵⁷ See Figure A19 in the appendix (available at www.ici.org/info/per27-01_data.xls).
- ⁵⁸ Ibid.
- ⁵⁹ See Figure A20 in the appendix for sources of information used to create a retirement strategy among Roth IRA-owning households with a strategy for managing income and assets in retirement (available at www.ici.org/info/per27-01_data.xls).
- ⁶⁰ See Figure A21 in the appendix for strategy components among Roth IRA-owning households with a strategy for managing income and assets in retirement (available at www.ici.org/info/per27-01_data.xls).

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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 2020, the catch-up limit was \$1,000 for IRAs, \$3,000 for SIMPLE plans, and \$6,500 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 2020, the annual employee contribution limit for 401(k)s and similar employer-sponsored retirement plans was \$19,500; the annual limit for traditional and Roth IRAs was \$6,000; and the annual limit for SIMPLE IRAs was \$13,500. The limit on the sum of employee and employer contributions for DC plans in 2019 was \$57,000. Individuals aged 50 or older may make additional catch-up contributions.

conversion. The movement of assets in a traditional IRA to a Roth IRA, 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 may also 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 before 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 is 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 is 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 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 complement the employer-sponsored retirement system by preserving rollover assets at job separation or retirement. The acronym IRA also refers to individual retirement annuities, which receive similar tax treatment.

required minimum distribution (RMD). Minimum distribution rules require that beginning at a certain age (70½ for individuals born before July 1, 1949, or 72 for individuals born on July 1, 1949, or later), 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. First available in 1998, this type of individual retirement account permits only after-tax (nondeductible) contributions. Distributions of both principal and earnings are generally 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. Distributions are not required during the account holder's lifetime.

SEP IRA (simplified employee pension). A retirement program in which an employer makes contributions to 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 an 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 that was created in 1996 and 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.



Sarah Holden

Sarah Holden, ICI senior director of retirement and investor research, leads the Institute's research efforts on investor demographics and behavior and retirement and tax policy. Holden, who joined ICI in 1999, heads efforts to track trends in household retirement saving activity and ownership of funds as well as other investments inside and outside retirement accounts. She is responsible for analysis of 401(k) plan participant activity using data collected in a collaborative effort with the Employee Benefit Research Institute (EBRI), known as the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. In addition, she oversees The IRA Investor Database™, which contains data on more than 17 million IRA investors and allows analysis of IRA investors' contribution, rollover, conversion, and withdrawal activity, and asset allocation. Before joining ICI, Holden served as an economist at the Federal Reserve Board of Governors. She has a PhD in economics from the University of Michigan and a BA in mathematics and economics, *cum laude*, from Smith College.



Daniel Schrass

Daniel Schrass is an economist in the retirement and investor research division at ICI. He focuses on investor demographics and behavior, as well as trends in household retirement saving activity. His detailed research includes analysis of IRA-owning households and individual IRA investors in the IRA Investor Database™, which includes data on more than 17 million IRA investors. He also conducts research with government surveys such as the Survey of Consumer Finances, the Current Population Survey, and the Survey of Household Economics and Decisionmaking. Before joining ICI in October 2007, he served as an economist at the US Bureau of Labor Statistics. He has an MA in applied economics from the Johns Hopkins University and a BS in economics from the Pennsylvania State University.



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