ICI RESEARCH REPORT

The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2011

October 2013

The IRA Investor Database™

The Investment Company Institute and the Securities Industry and Financial Markets Association maintain an account-level database with more than 15 million individual retirement account (IRA) investors.

IRAs are an important segment of the U.S. retirement market. The aim of this database is to increase public understanding in this area of retirement savings by expanding on the existing household surveys and Internal Revenue Service (IRS) tax data about IRA investors.

By tapping account-level records, research drawn from this database can provide new and important insights into IRA investor demographics, activities, and asset allocation decisions. The database is designed to shed light on key determinants of IRA contributions, rollover and withdrawal activity, and the types of assets that investors hold in these accounts.

Suggested citation: Holden, Sarah, and Steven Bass. 2013. "The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2011." *ICI Research Report* (October). Available at www.ici.org/pdf/rpt_13_ira_investors.pdf.

The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.

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Executive Summary

With $4.7 trillion in assets at year-end 2012, traditional individual retirement accounts (IRAs) are a key component of the U.S. retirement system. Traditional IRAs were created by Congress to provide a contributory retirement savings vehicle (originally for individuals not covered by retirement plans at work) and as a place to roll over accumulations from employer-sponsored retirement plans. Traditional IRAs are managed by individuals, and policymakers are interested in understanding how traditional IRA investors navigated through the financial crisis.

By analyzing the contribution, rollover, withdrawal, and asset allocation activity of 5.8 million "consistent" traditional IRA investors, those with accounts in every year between 2007 and 2011, it is possible to determine how consistent traditional IRA investors fared during and in the wake of the financial crisis.

Traditional IRA Investors Had Only Modest Reaction to Financial Stresses

Contributions, Rollovers, Withdrawals. Despite dramatic declines in stock values between October 2007 and March 2009, a recession (December 2007 to June 2009), and rising unemployment rates, traditional IRA investors with accounts from year-end 2007 through year-end 2011 showed little reaction to the financial events. Contribution and rollover activity declined only a bit in the wake of the financial crisis. Although relatively few traditional IRA investors contribute to their traditional IRAs in any given year, those that do contribute tend to do so in multiple years; this tendency persisted even from 2007 to 2011. Withdrawal rates rose slightly between 2008 and 2011, but still only a small fraction of younger traditional IRA investors took money out of their traditional IRAs. If withdrawal in response to financial stress is defined as commencing withdrawals in 2010 or 2011, then only 6.2 percent of consistent traditional IRA investors younger than 60 fall into that category.

Asset Allocation. The decline in the stock market reduced traditional IRA investors' allocation to equity holdings, on average, although some of the change merely reflects market movement rather than investors' rebalancing. For example, among consistent traditional IRA investors aged 25 to 59, about three-quarters of their traditional IRA assets were invested in equity holdings—which includes equities, equity funds, and the equity portion of balanced funds—at year-end 2007, and about two-thirds of their traditional IRA assets were invested in equity holdings at year-end 2011. On movement to or from equity concentration measures of zero or 100 percent of the individual investor's traditional IRA balance, there was very little activity among traditional IRA investors between year-end 2007 and year-end 2011. A significant minority of consistent traditional IRA investors had all of their traditional IRA balances invested in equity holdings, and only slight net movement away from that full concentration occurred between year-end 2007 and year-end 2011.

Account Balances. The movement of traditional IRA balances reflected the impact of investment returns; investors' contribution, rollover, and withdrawal activity; and the rules governing traditional IRAs. Although account balances fell considerably following the stock market decline in 2008, the average traditional IRA balance for traditional IRA investors aged 25 to 69 with account balances in all years between 2007 and 2011 was higher at year-end 2011 than at year-end 2007. The change in traditional IRA balances reflects contributions, rollovers, withdrawals, and investment returns. Traditional IRA investors in all age groups except for those 70 or older saw their account balances increase on average between 2007 and 2011. Beginning at age 70½, individuals are no longer eligible to make contributions to traditional IRAs and typically must begin to take withdrawals, putting downward pressure on account balances among older traditional IRA investors. Increased Roth conversion activity in 2010 also may have put downward pressure on average traditional IRA balances.

Snapshot of Traditional IRA Investors at Year-End 2011 Provides Additional Insight into Traditional IRA Investors' Activities

It also is possible to analyze a snapshot of all traditional IRA investors present in the database in any given year. This report primarily focuses on the 10.2 million traditional IRA investors present in 2011.

Few Traditional IRA Investors Make Contributions

In any given year, few traditional IRA investors make contributions to their traditional IRAs. Several factors likely explain this tendency, including meeting savings needs through employer-sponsored retirement plans, rules limiting the ability to make deductible contributions, making Roth contributions instead, and confusion about IRA rules. In tax year 2011, 8.3 percent of traditional IRA investors contributed to their traditional IRAs, and half of traditional IRA investors who did so contributed at the legal limit.

New Traditional IRAs Are Often Created by Rollovers

Rollovers are the predominant way investors open traditional IRAs. In 2011, about seven in 10 new traditional IRAs received rollovers. Because rollovers generally occur after job change or retirement, which is a sporadic event for most people, in any given year only about one in 10 traditional IRA investors made rollovers. In the aggregate, the data for rollover activity find that a large fraction of traditional IRA investors have had a rollover at some point. Traditional IRAs with recent rollovers tend to have larger balances than those without rollovers, particularly among older traditional IRA investors.

Withdrawal Activity Is Concentrated Among the Oldest Traditional IRA Investors

Withdrawal activity is rare among younger traditional IRA investors and overall, only about one in five traditional IRA investors took withdrawals in 2011. Of these, nearly three-quarters were taken by traditional IRA investors aged 60 or older who can take penalty-free distributions, and more than half were taken by investors aged 70 or older for whom annual distributions generally are required. Withdrawal activity responds to rule changes, and it predictably dipped in 2009 when required minimum distributions (RMDs) were suspended by law. It also tends to edge up as more and more traditional IRA investors age into RMD status. A majority of traditional IRA investors aged 70 or older use RMD rules to determine how much to withdraw from their accounts.

Equity Holdings Figure Prominently in Traditional IRAs

IRAs hold a range of investments, and the largest share of traditional IRA assets is invested in equities and equity funds, both in aggregate and across investor age groups. The pattern of investment holdings in traditional IRAs tended to vary with investor age, typically as expected across the life cycle. For the most part, younger traditional IRA investors tended to have a higher proportion of their accounts invested in equity holdings—equities, equity funds, and the equity portion of balanced funds—compared with older investors. The exception to the typically declining equity-holdings pattern by age occurred in traditional IRAs held by investors younger than 40, which were more concentrated in money market holdings and less concentrated in equity holdings than expected. This result may be driven in part by the large number of small accounts among this age group. Such small accounts may represent automatic rollovers from employer-sponsored plans and be invested in default money market and cash investments.

Introduction

The Role of IRAs in U.S. Retirement Planning

The Employee Retirement Income Security Act (ERISA) of 1974 created individual retirement accounts (IRAs)—tax-deferred accounts for retirement savings.[1] Nearly 40 years later, IRAs have grown to be a significant component of U.S. households' retirement assets. All told, 48.9 million, or 40.4 percent of, U.S. households owned one or more types of IRAs in mid-2012.[2] Households held $5.4 trillion in IRAs at year-end 2012, or more than one-quarter of the $19.7 trillion in total U.S. retirement assets.[3] IRAs accounted for 9.1 percent of U.S. households' total financial assets. Traditional IRAs, the first type of IRA created, are the most common type of IRA.[4]

IRAs play two roles in household retirement planning: (1) as a contributory savings vehicle and (2) to preserve and consolidate retirement accumulations from employer-sponsored plans through rollovers. Because of the important role that IRAs play in U.S. retirement planning, policymakers and researchers seek to understand how individuals use IRAs. Whether funded by contributions, rollovers, or both, IRAs are managed by individuals, and asset allocation plays an important role in the returns and variation in returns that IRA investors experience. Thus, policymakers and researchers also are interested in understanding the asset allocation of IRA balances across investors. In addition, policymakers want to know how people manage these accounts, including whether there is significant withdrawal of assets prior to retirement (leakage) and how individuals tap their IRAs throughout retirement.[5] In the wake of the financial crisis, there also is interest in understanding how IRA investors managed their IRAs through those rough economic times.

Sources of IRA Data

Researchers have relied primarily on household surveys and Internal Revenue Service (IRS) tax data to examine policy questions about IRAs. There are several publicly available household surveys that researchers use to analyze households' retirement savings,[6] and ICI conducts two annual household surveys that provide information on IRA-owning households.[7, 8] While household surveys provide a comprehensive picture of households' finances and activities and can provide insights into the reasoning behind decisions, they can suffer from data problems due to inaccurate respondent recall, which often limits the level of detail that can be obtained on specific financial assets or activities.

The IRS collects a rich array of information about IRAs such as contributions, assets, rollovers into IRAs, conversions, and withdrawals from a variety of tax returns (e.g., Form 1040) and information returns (e.g., Form 5498 and Form 1099-R). The Statistics of Income Division of the IRS publishes tabulations of these data and research reports.[9] The tax data, however, do not have information about the types of assets that investors hold in their IRAs.

The IRA Investor Database™

To augment the existing survey information and tax data for IRAs, the Investment Company Institute (ICI) and the Securities Industry and Financial Markets Association (SIFMA)[10] embarked on a data collection effort—The IRA Investor Database—to examine administrative, or recordkept, data on IRAs. To date, this collection effort has gathered data on IRAs from 2007 through 2011. The IRA Investor Database contains account-level information from a wide range of mutual fund and insurance companies, which provided data for more than 15 million IRA investors in 2011. The database, which contains information about IRA asset levels, investments, contributions, rollovers, and withdrawals, provides a more complete picture of account-level holdings and activity for IRA investors. Throughout this report, the term *IRA investor* refers to a unique IRA investor at a given data provider.[11] At year-end 2011, The IRA Investor Database has 15.3 million IRA investors.

Research Agenda for This Report

Using data from year-end 2007 through year-end 2011, this report analyzes data on traditional IRA investors drawn from The IRA Investor Database to gain insight into how traditional IRA investors fared during and after the financial crisis.

After setting the scene in terms of financial developments and regulatory changes affecting traditional IRAs, Chapter 1 analyzes the contribution, rollover, and withdrawal activity among 5.8 million consistent traditional IRA investors (those with accounts at the end of each year from 2007 through 2011). In addition, this chapter explores changes in asset allocation and account balances among consistent traditional IRA investors.

The remaining chapters of the report primarily focus on a snapshot of 10.2 million traditional IRA investors at year-end 2011. Chapter 2 discusses how contribution activity varied by investor age in 2011, exploring which traditional IRA investors had contributions and how many of them contributed at the limit. Chapter 3 notes that the vast majority of new traditional IRAs opened in 2011 were opened with rollovers, and examines rollover activity by investor age. Chapter 4 explores withdrawal activity, which varies significantly with investor age and in reaction to rules governing withdrawals. Few traditional IRA investors younger than 60 take withdrawals; traditional IRA investors taking withdrawals tend to be older and often take out the required minimum distribution (RMD) amount. Chapter 5 reports variation in traditional IRA balances by investor age. Chapter 6 compares snapshots of the asset allocation of traditional IRA balances among cross sections of traditional IRA investors at year-end 2007 and year-end 2011. Because some of the variation in asset allocation appears to be related to traditional IRA balance size, the asset allocation of balances of $5,000 or less are compared with the asset allocation of balances of more than $5,000. Smaller balances often have high allocations to money market funds or other cash instruments, which may reflect in part default investment rules for certain rollovers.

CHAPTER 1

Traditional IRA Investors in the Wake of the Financial Crisis

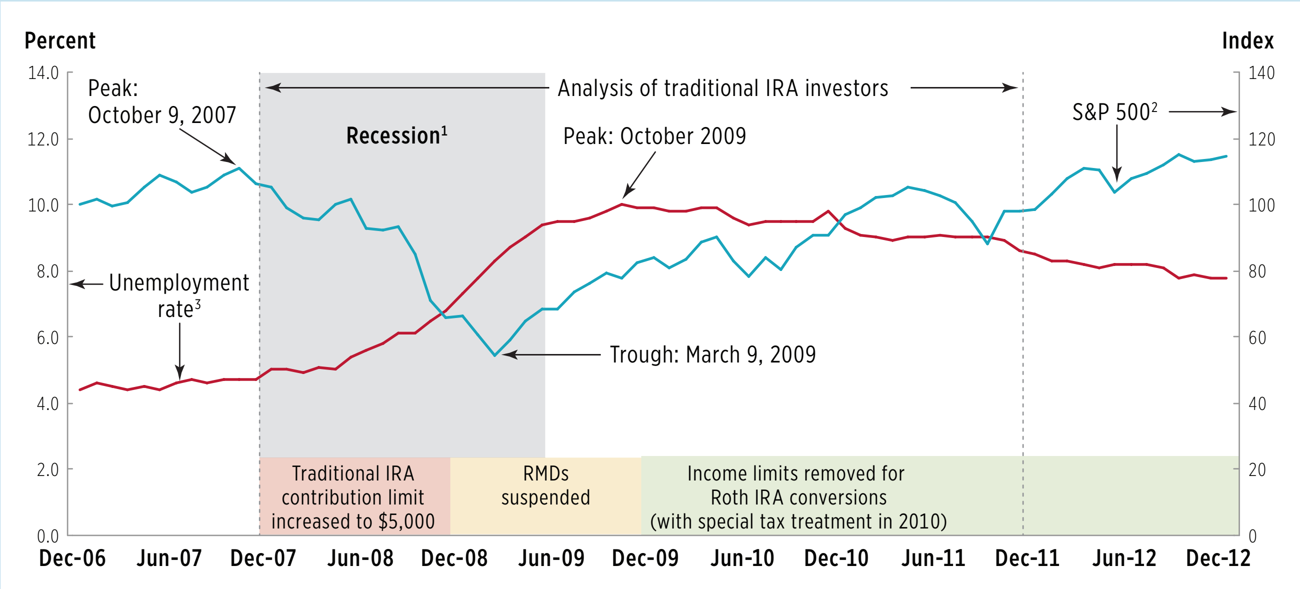
The IRA Investor Database contains data on millions of IRA investors from year-end 2007 through year-end 2011. It is possible to analyze snapshots, or cross sections, of IRA investors in any given year. In addition, one of the advantages of The IRA Investor Database is the ability to explore activity for the same investors over time to see whether activities and behaviors are persistent or change from year to year. This chapter features such an analysis, focusing on the group of 5.8 million traditional IRA investors who had accounts at the same financial services provider at the end of each year from 2007 through 2011. These traditional IRA investors will be referred to as consistent traditional IRA investors. They were aged 25 or older at year-end 2011, and thus, aged 21 or older at year-end 2007 (the first year in the database). After reviewing the economic and regulatory influences on traditional IRAs between 2007 and 2011, this chapter examines how consistent traditional IRA investors fared in the wake of the financial crisis. Specifically, patterns of contribution, rollover, and withdrawal activities are explored, as well as changes in asset allocation. Finally, the movement of their traditional IRA balances from year-end 2007 to year-end 2011 is analyzed.

Financial and Regulatory Developments, 2007 Through 2011

Between 2007 and 2011, the United States experienced two dramatic financial events. During that time period, large-cap stocks contracted in value, falling 37.0 percent in 2008 (Figure 1.1). The only worse annual stock market contraction occurred in 1931 (when large-cap stock values fell 43.3 percent over the year).[12] Large-cap stocks peaked in value on October 9, 2007, and fell 56.8 percent to their low, which occurred on March 9, 2009. Investors in the bond market also saw some rocky returns over this period, as interest rates on many nongovernment fixed-income securities also rose, and corporate bond prices declined 22.2 percent between September 9, 2008, and October 17, 2008.[13] The U.S. economy also contracted sharply, with a recession occurring between December 2007 and June 2009.[14] Unemployment rates rose, peaking at 10.0 percent in October 2009 (Figure 1.1), and disposable personal income fell.[15] The financial crisis and recession weakened household balance sheets during much of this period. In addition, housing values fell 30.8 percent between June 2006 and March 2009.[16] In 2010 and 2011, as the economy and financial sector began to recover, household income and net worth also began to increase.

FIGURE 1.1

Financial Events and Changing Rules Surrounding Traditional IRAs, 2007–2012



[1] The National Bureau of Economic Research dates the most recent recession from December 2007 to June 2009.

[2] The S&P 500 is an index of 500 stocks chosen for market size, liquidity, and industry group representation. The index is normalized to 100 in December 2006.

[3] The unemployment rate is the number of unemployed individuals as a percentage of the labor force and has been seasonally adjusted.

Sources: Bureau of Labor Statistics, NBER, Standard and Poor's, and ICI summary of legislative changes

Traditional IRA assets, in large part, followed the movement of the stock market. Tracked on an annual basis, traditional IRA assets were $4.2 trillion at year-end 2007, and were $3.3 trillion at year-end 2008 (Figure 1.2). Aggregate traditional IRA assets then rose through the rest of the period analyzed, reaching $4.3 trillion at year-end 2011.

Regulations governing traditional IRAs also changed between 2007 and 2011. In 2008, automatic adjustment for inflation increased the traditional IRA contribution limit by $1,000 to $5,000 for investors younger than 50 (Figure 1.1). For investors aged 50 or older, the limit rose to $6,000 including catch-up contributions. In 2009, required minimum distributions (RMDs) were suspended so that traditional IRA investors would not be forced to sell assets when the financial markets were performing poorly.[17] This meant traditional IRA investors aged 70½ or older and those with inherited IRAs did not have to take withdrawals in 2009. In 2010, the income limits on Roth conversions were lifted.[18] While this change does not directly apply to traditional IRAs, it could affect traditional IRAs if investors diverted monies into Roth IRAs.

Against this backdrop, it is possible to analyze how consistent traditional IRA investors navigated through this period. Changes in traditional IRA balances between year-end 2007 and year-end 2011 among consistent, or ongoing, traditional IRA investors are affected by these investors' activities with respect to contributions, rollovers, and withdrawals from 2008 through 2011. In addition, asset allocation plays a role in investment returns, which also affect traditional IRA balances.

FIGURE 1.2

Traditional IRA Assets and Flows

Billions of dollars, 1996–2012

	Contributions[1]	Rollovers[2]	Withdrawals	Roth conversions	Total assets[3] *Year-end*
1996	$14.1	$114.0	N/A	N/A	N/A
1997	15.0	121.5	N/A	N/A	$1,642[e]
1998	11.9	160.0	N/A	$39.3	1,974
1999	10.3	199.9	N/A	3.7	2,423
2000	10.0	225.6	$96.8	3.2	2,407
2001	9.2	187.8	105.8	3.1	2,395
2002	12.4	204.4	116.7	3.3	2,322
2003	12.3[e]	205.0[e]	103.4[e]	3.0[e]	2,719[e]
2004	12.6	214.9	133.0	2.8	2,957
2005	13.4	228.5	119.3	2.6	3,034
2006	14.3	282.0	136.8	2.8	3,722
2007	14.4	316.6	159.0	2.2	4,187
2008	13.4	272.1	212.3	3.7	3,257
2009	N/A	N/A	N/A	N/A	3,855[e]
2010	N/A	N/A	N/A	N/A	4,250[e]
2011	N/A	N/A	N/A	N/A	4,276[e]
2012	N/A	N/A	N/A	N/A	4,740[e]

[1] Contributions include both deductible and nondeductible contributions to traditional IRAs.

[2] Rollovers are primarily from employer-sponsored retirement plans.

[3] Total assets are the fair market value of assets at year-end.

[e] Data are estimated.

N/A = not available

Sources: Investment Company Institute and Internal Revenue Service Statistics of Income Division

Changes in Traditional IRA Assets

The change in traditional IRA assets from one period to the next is affected by several factors including:

- contributions into traditional IRAs (+);
- rollovers from employer-sponsored retirement plans, both defined benefit (DB) and defined contribution (DC), from both private-sector and public-sector employers, into traditional IRAs (+);
- distributions out of traditional IRAs, whether as withdrawals or Roth conversions (-);[19] and
- returns on investments, which vary with asset allocation.

Contributions in aggregate tend to be relatively small, running at about $13 billion per year, on average, between 2002 and 2008 (latest data available) (Figure 1.2). Rollovers provide the bulk of the new money into traditional IRAs. In aggregate, they appear to vary a bit with economic cycles and stock market movement, rising to $225.6 billion in 2000, after the stock market peak in March 2000, before falling with the recession in 2001 to $187.8 billion. Rollovers rose again through 2007 as the stock market and economy recovered, before falling back again in 2008. Withdrawals, reflecting in part the aging of the traditional IRA investor base, have tended to rise in nominal dollar terms over time. Nevertheless, relative to the asset base, withdrawals continue to represent a small percentage. Roth conversions have tended to be minor, with the exception of 1998, when special tax incentives were available.[20] However, the tax law change lifting income limits on Roth conversion activity starting in 2010 and providing special tax incentives in 2010 increased Roth conversion activity. Although official estimates of the exact magnitude of Roth conversions are not available, an uptick in IRA withdrawals on personal income tax returns (Form 1040) in 2010 indicates that some taxpayers took advantage of the new Roth conversion opportunity.[21] The IRA Investor Database shows an uptick in Roth conversion activity in 2010 and 2011.[22]

Changes in Consistent Individual Investors' Traditional IRA Balances Between 2007 and 2011

When analyzing the change in investor account balances over time, it is important to have a consistent sample. Comparing average account balances across different year-end snapshots can lead to false conclusions. For example, the addition of a large number of new investors with smaller balances would tend to pull down the average account balance. This could then be mistakenly described as an indication that balances are declining, but actually would tell us nothing about the experience of individual investors. Because of this, the following analysis of traditional IRA balances covers traditional IRA investors with account balances at the end of every year between 2007 and 2011.

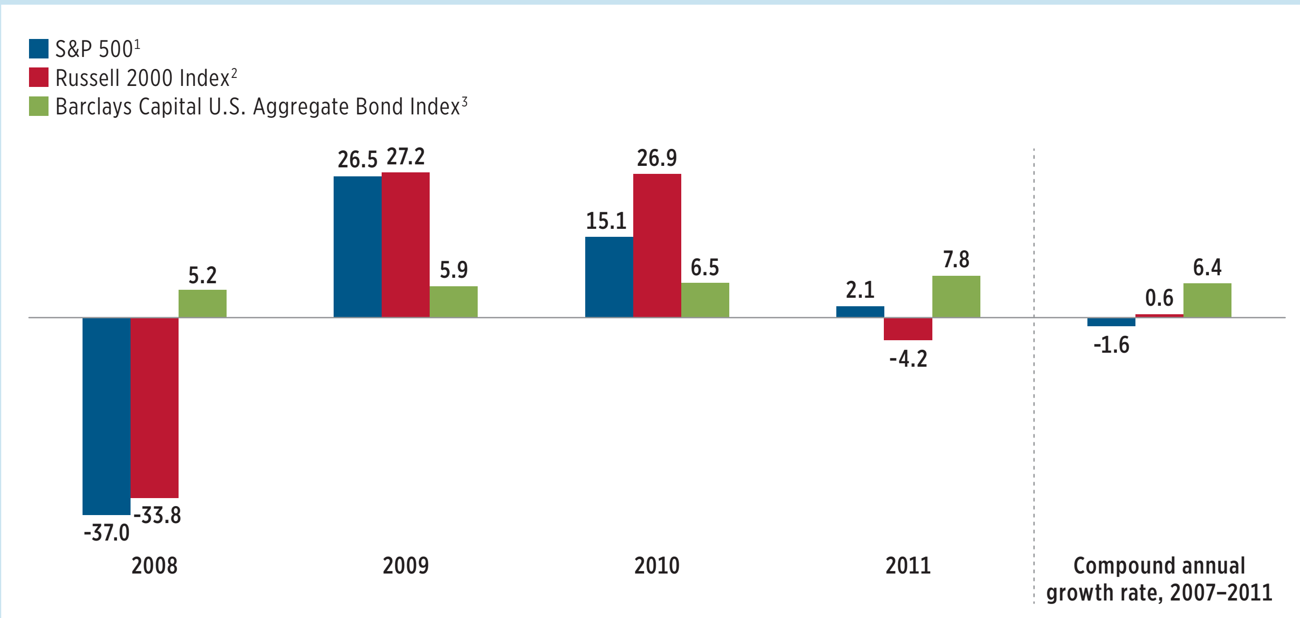
To analyze changes in traditional IRA balances from year-end 2007 to year-end 2011, the flow activity of the traditional IRA investors from 2008 through 2011 needs to be understood. Although detailed information on the timing of flows into and out of the traditional IRA balances analyzed is not available, the presence of annual contributions, rollovers, or withdrawals can be tracked.[23] Because traditional IRA investors younger than 59½ typically are subject to penalties if they take withdrawals, those aged 59½ to 70½ may withdraw without penalty, and those aged 70½ or older must take withdrawals, the consistent sample of traditional IRA investors is divided into three groups based on their ages at year-end 2011: traditional IRA investors aged 25 to 59, those aged 60 to 69, and those aged 70 or older. Contribution, rollover, and withdrawal activity is analyzed among these three groups of consistent traditional IRA investors.

Finally, investment returns affect the value of assets held in traditional IRAs and will vary depending upon the individual investor's portfolio. Traditional IRA investors' concentrations in equity holdings are analyzed from year-end 2007 to year-end 2011. It is not possible to calculate rates of return specific to traditional IRA investors in the database. However, aggregate market return data indicate the compound average annual return on large-cap equities was -1.6 percent from year-end 2007 to year-end 2011 and the compound average annual return on small-cap equities was 0.6 percent, while the compound average annual return on bonds was 6.4 percent (Figure 1.3).

FIGURE 1.3

Domestic Stock and Bond Market Total Return Indexes

Percent change, 2008–2011



[1] The S&P 500 is an index of 500 stocks chosen for market size, liquidity, and industry group representation.

[2] The Russell 2000 Index measures the performance of the 2,000 smallest U.S. companies (based on total market capitalization) included in the Russell 3000 Index (which tracks the 3,000 largest U.S. companies).

[3] Formerly the Lehman Brothers U.S. Aggregate Bond Index, the Barclays Capital U.S. Aggregate Bond Index is composed of securities covering government and corporate bonds, mortgage-backed securities, and asset-backed securities (rebalanced monthly by market capitalization). The index's total return consists of price appreciation/depreciation plus income as a percentage of the original investment.

Sources: Bloomberg, Barclays Global Investors, Frank Russell Company, and Standard & Poor's

Contribution Activity for Consistent Traditional IRA Investors, 2008 Through 2011

Contribution activity only slowed a bit in the wake of the financial crisis. While one might expect a significant reduction in contribution activity in times of financial stress, contribution activity declined slightly among consistent traditional IRA investors from 2008 through 2011. For example, 9.0 percent of consistent traditional IRA investors aged 25 to 59 in 2011 made contributions in tax year 2011, while 10.4 percent of them made contributions to their traditional IRAs in tax year 2008, when they were 22 to 56 (Figure 1.4, first panel). Similarly, 6.9 percent of consistent traditional IRA investors aged 60 to 69 in 2011 made contributions in tax year 2011, while 8.7 percent of them made contributions to their traditional IRAs in tax year 2008, when they were 57 to 66 (Figure 1.4, second panel). Because contributions are not allowed if an individual is age 70½ by year-end, only a negligible share of traditional IRA investors aged 70 or older in 2011 made contributions in any given tax year between 2008 and 2011 (in tax year 2008, when they were 67 or older, 1.8 percent made contributions) (Figure 1.4, third panel).

Even during this economically stressful period, contribution activity persisted. For example, 15.8 percent of consistent traditional IRA investors aged 25 to 59 in 2011 made at least one contribution between tax year 2008 and tax year 2011 (Figure 1.5, second panel). Among those contributing during that period, 31.6 percent contributed in every year. Another 14.7 percent of those contributing between 2008 and 2011 contributed in three of the four years, and 18.5 percent contributed in two of the four years. The older consistent traditional IRA investors (aged 60 to 69) also had repeat contribution activity, with 13.8 percent making contributions from tax year 2008 through tax year 2011 (Figure 1.5, third panel). Among those contributing, 24.6 percent did so in all four years. These repeat contributions occurred despite the recession (Figure 1.1) and poor stock market performance during part of this period (Figure 1.3).

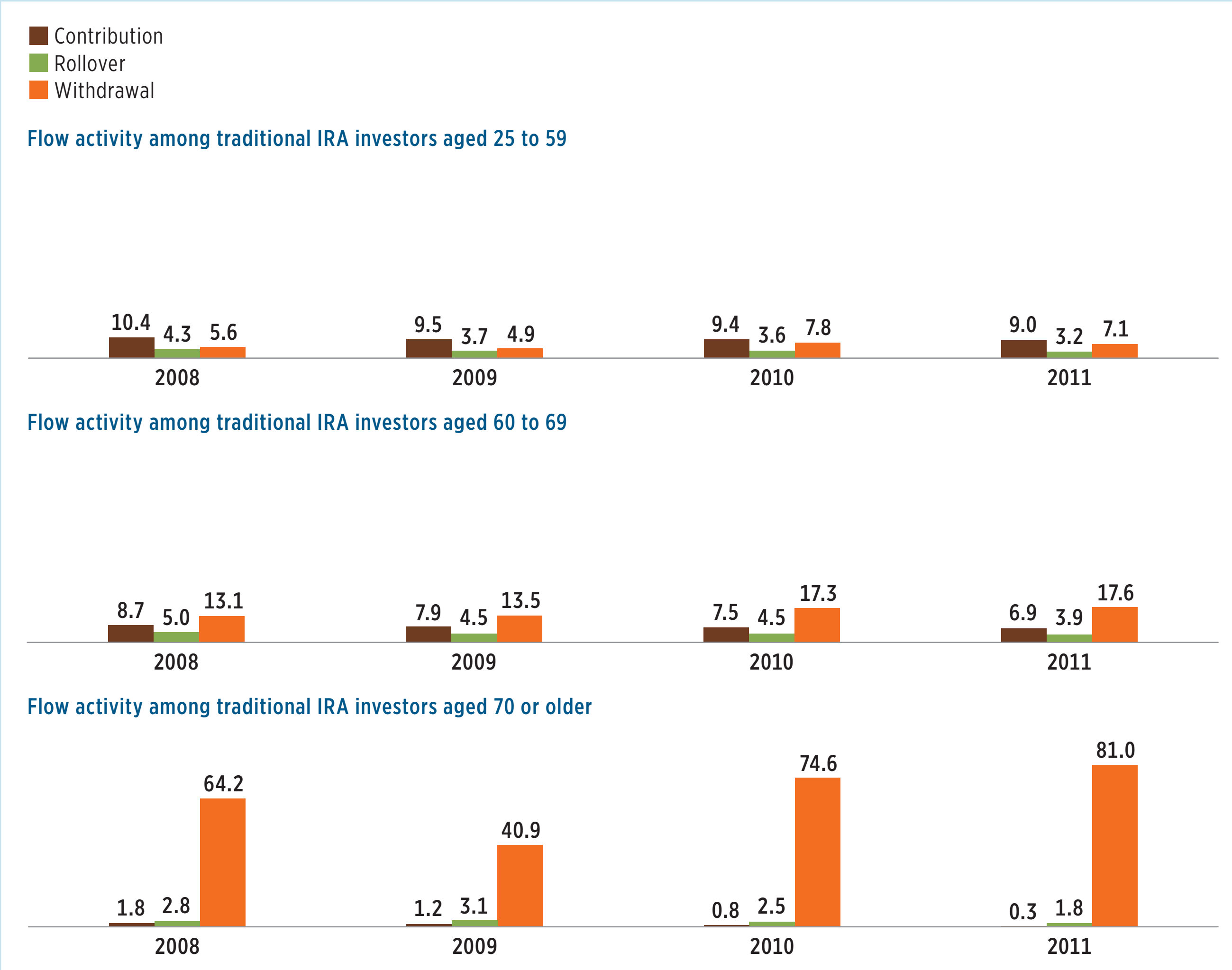
Rollover Activity for Consistent Traditional IRA Investors, 2008 through 2011

Rollover activity, which runs at low levels because job changes or retirement generally are not annual events and rollovers occur after such career changes, edged down a bit in the wake of the financial crisis. For example, 3.2 percent of the consistent traditional IRA investors aged 25 to 59 in 2011 made rollovers into their traditional IRAs in 2011 and in 2008, 4.3 percent made rollovers when they were aged 22 to 56 (Figure 1.4, first panel).[24] Similarly, while 3.9 percent of the consistent traditional IRA investors aged 60 to 69 in 2011 made rollovers into their traditional IRAs in 2011, in 2008, 5.0 percent made rollovers when they were aged 57 to 66 (Figure 1.4, second panel). And, while 1.8 percent of the consistent traditional IRA investors aged 70 or older in 2011 made rollovers into their traditional IRAs in 2011, in 2008, 2.8 percent made rollovers when they were aged 67 or older (Figure 1.4, third panel).

FIGURE 1.4

Factors Influencing Changes in Consistent Individual Investors' Traditional IRA Balances, 2008–2011

Percentage of consistent traditional IRA investors by age, 2008–2011



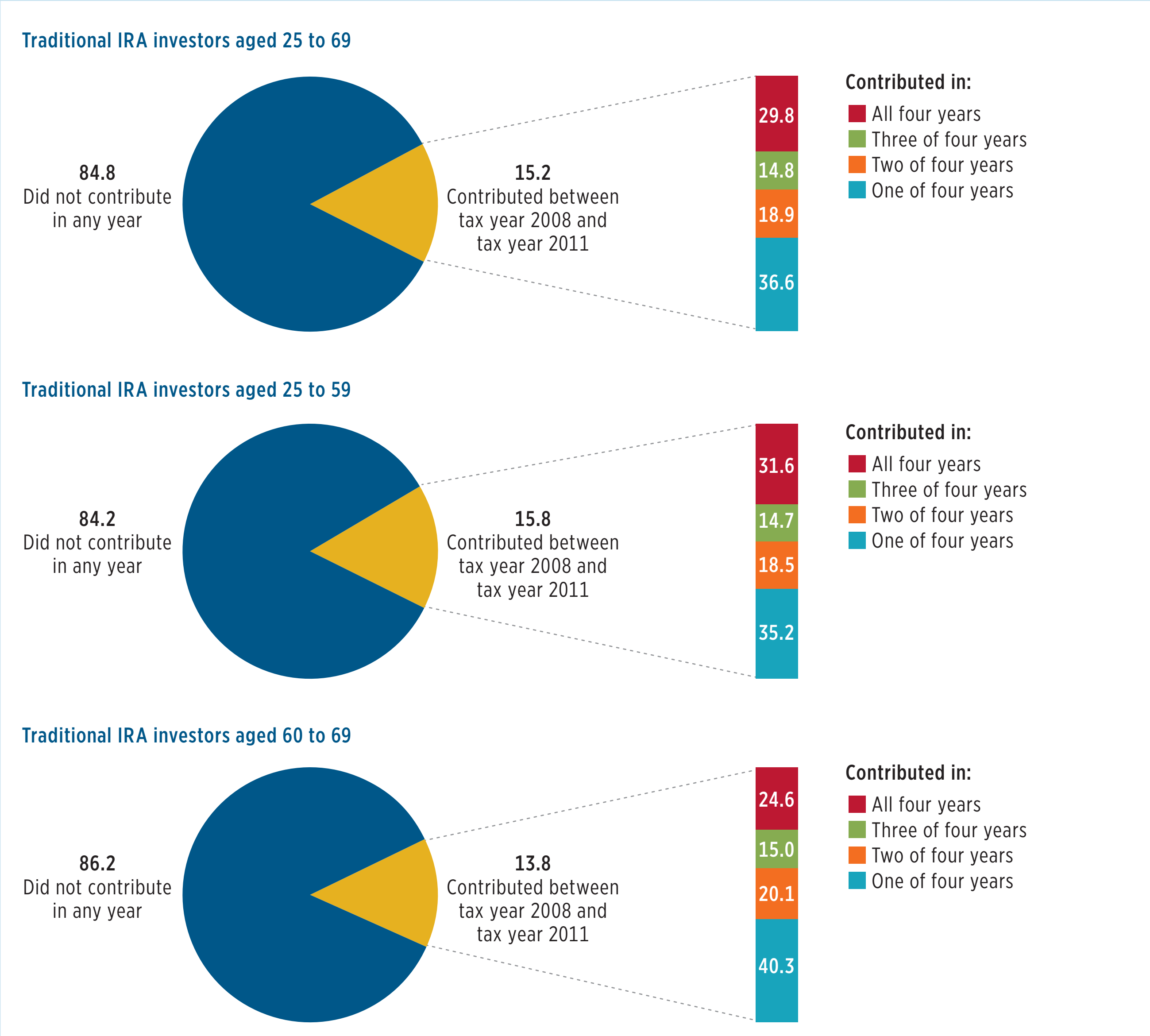
Note: Consistent traditional IRA investors are 5.8 million traditional IRA investors aged 25 or older with an account balance from year-end 2007 through year-end 2011. Age is based on the age of the traditional IRA investor in 2011. Activity is for the tax year indicated.

Source: The IRA Investor Database™

FIGURE 1.5

Contribution Activity for Consistent Traditional IRA Investors, 2008–2011

Percentage of traditional IRA investors by age with account balances in 2007, 2008, 2009, 2010, and 2011



Note: The samples are 4.8 million traditional IRA investors aged 25 to 69 in 2011, 3.4 million traditional IRA investors aged 25 to 59 in 2011, and 1.4 million traditional IRA investors aged 60 to 69 in 2011, all holding traditional IRA balances in 2007, 2008, 2009, 2010, and 2011. Components may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

Withdrawal Activity for Consistent Traditional IRA Investors, 2008 through 2011

Withdrawal activity generally fell in response to the temporary tax law change in 2009, before edging up a bit in 2010 and 2011. Only a small share of traditional IRA investors younger than 60 take withdrawals in any given year, likely reflecting, in part, the early withdrawal penalty that typically applies.[25] This also was the case among the consistent group of traditional IRA investors aged 25 to 59 at year-end 2011. In 2008, 5.6 percent of them took withdrawals when they were aged 22 to 56 (Figure 1.4, first panel). This fell to 4.9 percent in 2009, likely reflecting the suspension of RMDs that year, which would have impacted young traditional IRA investors with inherited traditional IRAs. Withdrawal activity edged up a bit in 2010 and 2011, compared with the earlier years. In 2010, 7.8 percent of these consistent traditional IRA investors took withdrawals (when they were 24 to 58) and 7.1 percent took withdrawals in 2011.

Among traditional IRA investors aged 60 to 69 in 2011, movement into penalty-free withdrawal ages appears to have more than compensated for the suspension of RMDs in 2009. In 2008, 13.1 percent of this group took withdrawals, when they were aged 57 to 66 (Figure 1.4, second panel). In 2009, 13.5 percent of this group took withdrawals, when they were aged 58 to 67. Withdrawal activity edged up a bit further in 2010 and 2011 to 17.3 percent and 17.6 percent, respectively.

Withdrawal activity among traditional IRA investors aged 70 or older runs at higher levels compared with the younger investors and responded more dramatically to the suspension of RMDs in 2009. Traditional IRA investors aged 70 or older are allowed to take withdrawals without penalty, and those aged 70½ or older are required to do so. While 64.2 percent of consistent traditional IRA investors took withdrawals in 2008 when they were aged 67 or older, only 40.9 percent of consistent traditional IRA investors took withdrawals in 2009 when they were aged 68 or older (Figure 1.4, third panel). In 2010, 74.6 percent of the consistent traditional IRA investors took withdrawals when they were aged 69 or older, and in 2011, 81.0 percent took withdrawals when they were aged 70 or older. Some of the increase in withdrawal activity over this period for the consistent group reflects their aging by four years, which caused some of the consistent traditional IRA investors in this group to become old enough to start taking RMDs.

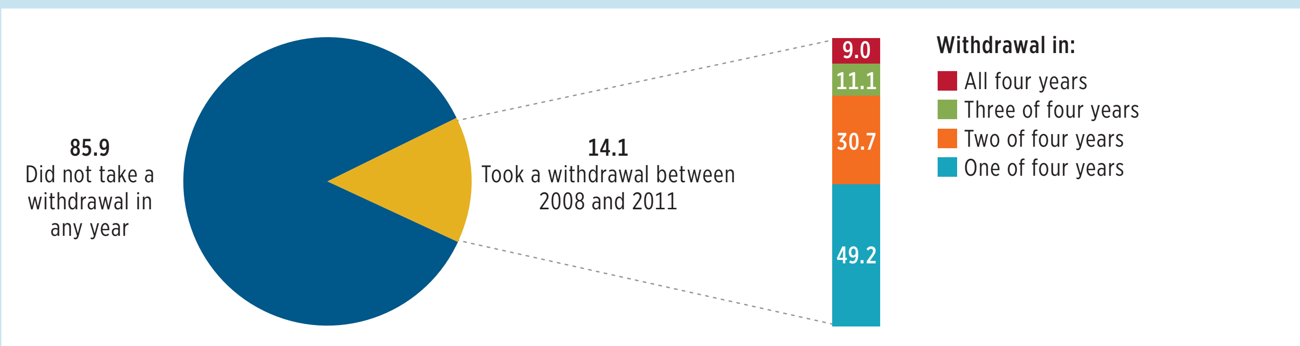
Withdrawal activity is rare among traditional IRA investors younger than 60, and financial stresses appear to have caught up with only a small number of traditional IRA investors in the wake of the financial crisis. Analyzing the withdrawal activity of traditional IRA investors aged 25 to 59 in 2011 with accounts at the end of each year from year-end 2007 to year-end 2011, 14.1 percent took withdrawals from 2008 through 2011 (Figure 1.6). Among those taking withdrawals, nearly half (49.2 percent) only took withdrawals in one of the four years (2008 through 2011) analyzed, and 30.7 percent only took withdrawals in two of the four years. If responding to the financial stress of 2008–2009 is defined as commencing withdrawals in 2010 or 2011, then 43.7 percent of these traditional IRA investors with withdrawals fall into that category, which is only 6.2 percent of the pool of traditional IRA investors aged 25 to 59 in 2011 with accounts at the end of each year from year-end 2007 to year-end 2011.

In 2010, income limits restricting Roth IRA conversions were removed.[26] In addition, in 2010, taxpayers taking advantage of the Roth conversions could choose to pay taxes on the taxable amount in 2011 and 2012. In The IRA Investor Database, incomplete information is available on amounts leaving traditional IRAs to be converted to Roth IRAs. Nevertheless, aggregate IRA withdrawal data and preliminary analysis of The IRA Investor Database suggest a significant increase in Roth IRA conversion activity occurred in 2010. This could create a downward drag on average traditional IRA balances.

FIGURE 1.6

Withdrawal Activity for Consistent Traditional IRA Investors, 2008–2011

Percentage of traditional IRA investors aged 25 to 59 in 2011 with account balances in 2007, 2008, 2009, 2010, and 2011



Note: The sample is 3.4 million traditional IRA investors (aged 25 to 59 in 2011) with traditional IRA balances in 2007, 2008, 2009, 2010, and 2011.

Source: The IRA Investor Database™

Equity Investing in Traditional IRAs Before and After the Financial Crisis

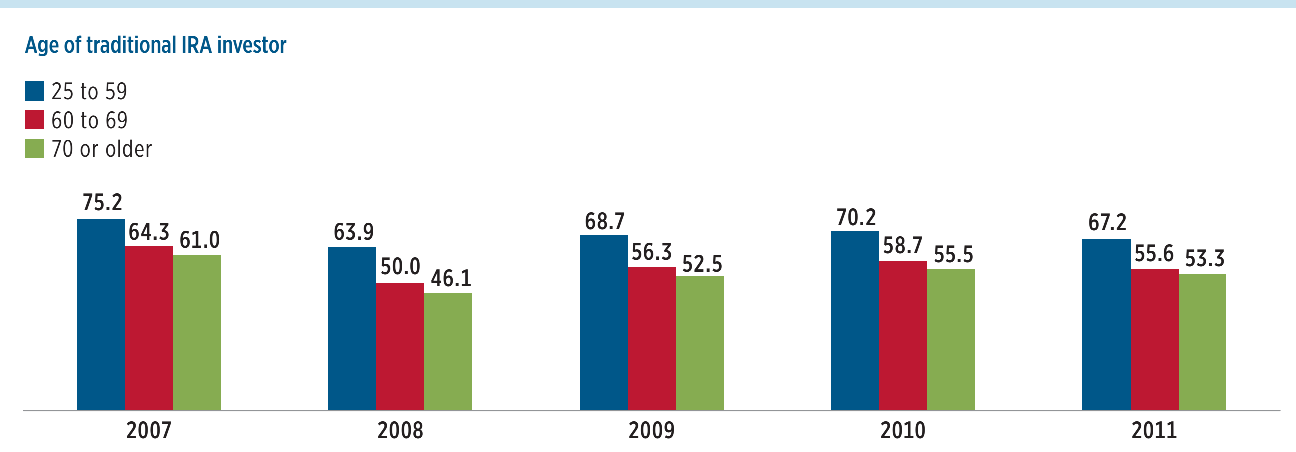
Because, on average, the majority of traditional IRA assets tend to be invested in equity holdings, the movement of the stock market had a significant impact on traditional IRA balances between year-end 2007 and year-end 2011. On average, the sample of consistent traditional IRA investors, when they were aged 21 to 55 at year-end 2007, had 75.2 percent of their traditional IRA assets invested in equity holdings—equities, equity funds, and the equity portion of balanced funds (Figure 1.7). As stock values declined in 2008 (Figures 1.1 and 1.3), equity holdings fell to 63.9 percent of this group's traditional IRA assets at year-end 2008 (Figure 1.7). As stock values moved up in 2009 and 2010, equity holdings rose to 70.2 percent of this group's traditional IRA assets by year-end 2010. At year-end 2011, on average, consistent traditional IRA investors aged 25 to 59 had 67.2 percent of their traditional IRA assets in equity holdings.

Older traditional IRA investors generally had lower average allocations to equity holdings, although equity holdings represented significant shares of their assets over the entire period (Figure 1.7). The average allocation to equity holdings among the older consistent traditional IRA investors also mirrored the stock market movement. For example, consistent traditional IRA investors aged 60 to 69 in 2011 had 64.3 percent of their traditional IRA assets invested in equity holdings at year-end 2007, when they were aged 56 to 65. Their average allocation to equity holdings fell to 50.0 percent at year-end 2008, before rising to 58.7 percent in 2010. At year-end 2011, consistent traditional IRA investors aged 60 to 69 had 55.6 percent of their traditional IRA assets invested in equity holdings.

FIGURE 1.7

Equity Holdings Account for Majority of Assets in Traditional IRAs

Percentage of traditional IRA assets[1] invested in equity holdings[2] by investor age,[3] 2007–2011



[1] Percentages are dollar-weighted averages.

[2] Equity holdings include equities, equity funds, and the equity portion of balanced funds.

[3] Age is based on the age of the traditional IRA investor in 2011.

Note: Consistent traditional IRA investors are 5.8 million traditional IRA investors aged 25 or older with an account balance from year-end 2007 through year-end 2011.

Source: The IRA Investor Database™

Movement in the share of equity holdings in traditional IRA investors' accounts results from changes in stock values, in addition to reallocation activity by investors. Although information on specific trading activity of traditional IRA investors is not available in the database, it is possible to discern activity into or out of zero equity holdings or equity holdings that are 100 percent of the individual's traditional IRA balance.

On these equity concentration measures, there was very little activity among traditional IRA investors between year-end 2007 and year-end 2011. For example, analyzing consistent traditional IRA investors aged 25 to 59 at year-end 2011, the data show that 2.2 percent, on net, moved to a zero equity holding allocation—15.9 percent of this group had no equity holdings at year-end 2007 and 18.1 percent had no equity holdings at year-end 2011 (Figure 1.8, upper panel). This net change

FIGURE 1.8

Changes in Concentration of Consistent Traditional IRA Investors' Equity Holdings Between 2007 and 2011

[1] Equity holdings include equities, equity funds, and the equity portion of balanced funds.

[2] Age is based on the age of the traditional IRA investor in 2011.

Note: Consistent traditional IRA investors are 5.8 million traditional IRA investors aged 25 or older with an account balance from year-end 2007 through year-end 2011.

Source: The IRA Investor Database™

reflects 2.3 percent moving from zero equity holdings to at least some, 4.5 percent moving from some to zero, and 13.6 percent sticking with zero holdings in both 2007 and 2011 (Figure 1.9). Older traditional IRA investors displayed slightly higher reallocation activity toward zero equity holdings, but some of their activity may have resulted simply from reallocation in anticipation of retirement rather than in response to the financial market movements. Indeed, household survey information indicates households anticipate rebalancing their portfolios as they age.[27]

FIGURE 1.9

Changes in Zero Allocation to Equity Holdings Among Consistent Traditional IRA Investors Between 2007 and 2011

Percentage of traditional IRA investors, 2007 and 2011

Age	Zero in 2007	Moved away from zero by 2011	Remained at zero	Moved to zero by 2011	Net change	Zero in 2011
25 to 29	39.8	-4.8	35.0	3.4	-1.4	38.4
30 to 34	29.7	-3.9	25.8	4.0	0.1	29.8
35 to 39	20.8	-2.9	17.9	4.3	1.4	22.2
40 to 44	16.4	-2.3	14.1	4.3	2.0	18.4
45 to 49	14.4	-2.0	12.4	4.4	2.4	16.8
50 to 54	13.5	-2.0	11.5	4.5	2.5	16.0
55 to 59	13.4	-2.1	11.3	5.0	2.9	16.3
60 to 64	13.4	-2.4	11.0	6.0	3.6	17.0
65 to 69	14.0	-2.6	11.4	6.5	3.9	17.9
70 to 74	14.1	-2.4	11.7	6.5	4.1	18.2
75 or older	16.9	-1.8	15.1	5.7	3.9	20.8
All	15.3	-2.3	13.0	5.2	2.9	18.2
25 to 59	15.9	-2.3	13.6	4.5	2.2	18.1
60 to 69	13.6	-2.5	11.2	6.3	3.8	17.4
70 or older	15.7	-2.0	13.6	6.1	4.1	19.7

Note: The sample is 5.8 million traditional IRA investors aged 25 or older with accounts at the end of each year from 2007 through 2011. Equity holdings include equities, equity funds, and the equity portion of balanced funds.

Source: The IRA Investor Database™

A significant minority of consistent traditional IRA investors had all of their traditional IRA balances invested in equity holdings, and only slight net movement away from that full concentration occurred between year-end 2007 and year-end 2011. To be 100 percent invested in equity holdings, the traditional IRA investor would have allocated their full traditional IRA balance to equities or equity funds.[28] Analyzing consistent traditional IRA investors aged 25 to 59 at year-end 2011, the data show that 4.6 percent, on net, moved away from a 100 percent equity holding allocation—34.3 percent of this group at year-end 2007 and 29.8 percent at year-end 2011 were 100 percent invested in equity holdings (Figure 1.8, lower panel). This net change reflects 6.3 percent moving away from the 100 percent allocation to something less, 1.8 percent moving to a 100 percent allocation, and 28.0 percent sticking with 100 percent equity holdings in both 2007 and 2011 (Figure 1.10). Traditional IRA investors aged 60 to 64 in 2011 displayed slightly higher reallocation activity away from 100 percent equity holdings, but again, some of their activity may have resulted simply from reallocation in anticipation of retirement rather than in response to the financial market movements.

FIGURE 1.10

Changes in 100 Percent Allocation to Equity Holdings Among Consistent Traditional IRA Investors Between 2007 and 2011

Percentage of traditional IRA investors, 2007 and 2011

Age	100 percent in 2007	Moved away from 100 percent by 2011	Remained at 100 percent	Moved to 100 percent by 2011	Net change	100 percent in 2011
25 to 29	21.3	-3.6	17.7	1.6	-2.0	19.3
30 to 34	24.1	-4.7	19.4	1.9	-2.8	21.3
35 to 39	30.2	-5.6	24.6	2.0	-3.6	26.6
40 to 44	35.1	-6.0	29.1	1.8	-4.2	30.9
45 to 49	36.6	-6.3	30.3	1.8	-4.5	32.1
50 to 54	36.2	-6.7	29.5	1.7	-5.0	31.2
55 to 59	34.5	-7.0	27.5	1.7	-5.3	29.2
60 to 64	31.7	-7.4	24.3	1.8	-5.6	26.1
65 to 69	27.4	-6.5	20.9	1.8	-4.7	22.7
70 to 74	24.8	-5.7	19.1	2.0	-3.7	21.1
75 or older	26.4	-4.6	21.8	2.2	-2.4	24.0
All	31.6	-6.2	25.4	1.8	-4.4	27.2
25 to 59	34.3	-6.3	28.0	1.8	-4.6	29.8
60 to 69	29.7	-7.0	22.7	1.8	-5.2	24.5
70 or older	25.8	-5.1	20.6	2.1	-3.0	22.7

Note: The sample is 5.8 million traditional IRA investors aged 25 or older with accounts at the end of each year from 2007 through 2011. Equity holdings include equities, equity funds, and the equity portion of balanced funds.

Source: The IRA Investor Database™

Changes in Consistent Individual Investors' Traditional IRA Balances Between 2007 and 2011 by Investor Age

Analysis of the group of 5.8 million traditional IRA investors who were aged 25 or older in 2011 and had accounts at the end of each year from 2007 to 2011 finds that investor actions and the impact of the financial crisis varied across traditional IRA investors by age. While exposure to equity holdings, on average, was higher for younger traditional IRA investors, only a negligible share of traditional IRA investors of any age completely eschewed equities between 2007 and 2011 (Figures 1.8, 1.9, and 1.10). Contribution and rollover activity edged back only a bit in the wake of the financial crisis (Figures 1.4 and 1.5), but both can provide boosts to traditional IRA balances, particularly for younger traditional IRA investors. Withdrawal activity edged up a bit in 2010 and 2011 (Figures 1.4 and 1.6), and as will be discussed below, withdrawal requirements took their toll on older traditional IRA investors' balances. Altogether, these forces combine to influence the balances held in traditional IRAs.

Traditional IRA investors aged 59 or younger at year-end 2011 generally saw growth in their traditional IRA balances between year-end 2007 and year-end 2011. All told, the average traditional IRA balance among the consistent traditional IRA investors aged 25 to 59 at year-end 2011 was $57,550 at year-end 2011, up nearly $4,000 compared with the year-end 2007 average balance of $53,620 (Figure 1.11). The average traditional IRA balance among this group fell to $38,200 in 2008, before rising to $49,090 in 2009, $56,470 in 2010, and $57,550 in 2011. Movement in the average account balance is not as dramatic as the changes observed in the stock market because the majority of these investors had at least some non-equity investments in their traditional IRAs.[29] In addition, in any given year, about one in 10 had contributions, about one in 25 had rollovers, and fewer than one in 10 had withdrawals (Figure 1.4). Within this broad age group, changes in the average account balance varied with investor age. For example, the youngest traditional IRA investors, who tend to have smaller account balances, experienced moderately higher growth, compared with the group aged 25 to 59 in 2011 as a whole (Figure 1.12). Growth in average traditional IRA balances tended to be lower, the older the traditional IRA investor. Growth tended to be negative for traditional IRA investors aged 70 or older, given that they are generally not allowed to contribute and likely are taking RMDs.

FIGURE 1.11

Traditional IRA Balances Among Consistent Traditional IRA Investors, 2007–2011

Average traditional IRA balance for consistent traditional IRA investors, 2007–2011

Note: Consistent traditional IRA investors are 5.8 million traditional IRA investors aged 25 or older with an account balance from year-end 2007 through year-end 2011. Age is based on the age of the traditional IRA investor in 2011. See Figure 1.12 for additional detail.

Source: The IRA Investor Database™

Traditional IRA investors aged 60 to 69 at year-end 2011, as a group, saw a slight increase in their average traditional IRA balance between year-end 2007 and year-end 2011. All told, the average traditional IRA balance at year-end 2011 among the consistent traditional IRA investors aged 60 to 69 was $143,560, up from the year-end 2007 average balance of $138,860 (Figure 1.11). The average traditional IRA balance among this group fell to $104,670 in 2008, before rising to $127,630 in 2009, $142,060 in 2010, and $143,560 in 2011. Compared with the younger group of traditional IRA investors, these traditional IRA investors had lower rates of contribution activity, slightly higher rates of rollover activity, and higher rates of withdrawal activity (since they are generally allowed to take penalty-free withdrawals). In any given year, between 7 percent and nearly 9 percent had contributions and about one in 20 had rollovers (Figure 1.4). Asset diversification also muted the impact of the stock market on these traditional IRA balances.[30] However, with most old enough to take penalty-free distributions over most of the period, withdrawal activity exerted some downward pressure on balances, particularly in 2010 and 2011 when more than one in six had withdrawals.

Traditional IRA investors aged 70 or older at year-end 2011, as a group, saw a decline in their average traditional IRA balance between year-end 2007 and year-end 2011, as withdrawal activity—much of it required—took its toll. All told, the average traditional IRA balance among the consistent traditional IRA investors aged 70 or older at year-end 2011 was $164,230 at year-end 2011, down from the year-end 2007 average balance of $186,420 (Figure 1.11). The average traditional IRA balance among this group fell to $137,290 in 2008, before rising to $161,080 in 2009, $170,970 in 2010, and falling to $164,230 in 2011. Compared with the younger groups of traditional IRA investors, these traditional IRA investors had almost no contribution activity (indeed, for most of them during most of the time analyzed they would not have been allowed to contribute), lower rates of rollover activity, and much higher rates of withdrawal activity (since they were generally required to take withdrawals).

FIGURE 1.12

Changes in Traditional IRA Balances of Consistent Traditional IRA Investors Between 2007 and 2011 by Investor Age

Average traditional IRA balance for consistent traditional IRA investors, 2007–2011

Age	2007	2008	2009	2010	2011
25 to 29	$5,680	$4,350	$5,730	$6,830	$7,180
30 to 34	10,780	7,790	10,460	12,510	13,070
35 to 39	20,930	14,800	19,710	23,240	23,950
40 to 44	32,560	22,760	29,990	35,010	35,770
45 to 49	48,170	33,690	43,700	50,490	51,110
50 to 54	65,310	46,240	59,200	67,860	68,850
55 to 59	83,930	60,850	77,240	88,290	90,320
60 to 64	117,550	88,040	109,180	123,020	125,180
65 to 69	164,420	124,620	149,770	164,900	165,600
70 to 74	199,490	150,650	177,710	190,970	185,290
75 or older	176,460	127,090	148,400	155,710	148,160
All	97,320	71,500	87,550	97,080	96,900
25 to 59	53,620	38,200	49,090	56,470	57,550
60 to 69	138,860	104,670	127,630	142,060	143,560
70 or older	186,420	137,290	161,080	170,970	164,230

Note: Consistent traditional IRA investors are 5.8 million traditional IRA investors aged 25 or older with an account balance from year-end 2007 through year-end 2011. Age is based on the age of the traditional IRA investor in 2011.

Source: The IRA Investor Database™

CHAPTER 2

Traditional IRA Investors' Contribution Activity in 2011

From their inception, traditional IRAs were designed so that investors could accumulate retirement assets either by rolling over balances from employer-sponsored retirement plans (to help workers consolidate and preserve these assets) or through contributions. In the early and mid-1980s, after Congress eased the restrictions on contributions to IRAs, many more individuals made contributions.[31] However, since 1986, after Congress tightened the tax rules for making IRA contributions, many fewer IRA investors have contributed to these accounts. This chapter analyzes the contribution activity of traditional IRA investors, primarily focusing on variation in contribution activity in 2011 by investor age.

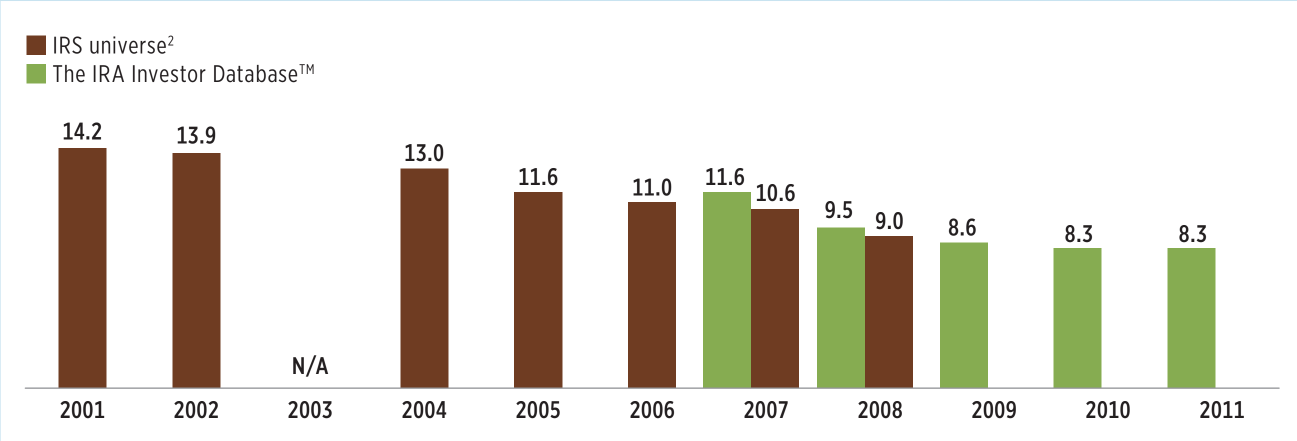
During the past decade, the percentage of households with traditional IRAs that make contributions has continued to decline. For example, about 14 percent of traditional IRA investors made contributions in tax year 2001, but by tax year 2008, fewer than one in 10 traditional IRA investors contributed to their traditional IRAs (Figure 2.1). Although more recent data are not available from the IRS, The IRA Investor Database shows that the percentage of traditional IRA investors aged 25 to 69 making contributions edged down between tax year 2008 and tax year 2011.

This low level of activity likely results from several factors. Some traditional IRA investors may find that saving through their employer-sponsored retirement plans meets their savings needs and the presence of employer-sponsored plans may curtail some traditional IRA investors' ability to make deductible contributions to their traditional IRAs.[32] As the base of traditional IRA investors grows as a result of rollovers, the likelihood of the presence of employer-sponsored plans damping IRA contribution activity rises. Some other traditional IRA investors may prefer to direct savings into their Roth IRAs.[33] In addition, there is some evidence that confusion about IRA rules may prevent some individuals from contributing to IRAs.[34] Difficulty in determining eligibility for a tax-deductible contribution may deter some individuals from making any contribution. For other individuals, the primary focus of current household saving may not be for retirement. Households may be focused on saving for other more immediate goals, such as saving for emergencies, education, or housing.[35]

FIGURE 2.1

Traditional IRA Contribution Rates, 2001–2011

Percentage of traditional IRA investors with contributions,[1] 2001–2011



[1] Traditional IRA contributors are working-age traditional IRA investors (aged 25 to 69) who made contributions to their traditional IRAs in the tax year indicated.

[2] In the IRS universe, data are for traditional IRA investors of all ages.

N/A = not available

Note: Contributions include both deductible and nondeductible traditional IRA contribution amounts.

Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

Contributions to Traditional IRAs in 2011 by Investor Age

Younger traditional IRA investors were somewhat more likely to contribute to their traditional IRAs than were older investors (Figure 2.2). In part, the lower incidence of contribution activity among older investors results from a higher percentage of older investors having traditional IRAs, and the fact that many of these investors created the traditional IRAs to hold rollovers. Smaller proportions of younger investors have traditional IRAs, and are somewhat more likely to create them with a contribution.

The highest level of contribution activity in tax year 2011, 9.4 percent, was observed among traditional IRA investors aged 25 to 29 (Figure 2.2). Nevertheless, nearly 9 percent of traditional IRA investors in their forties and fifties contributed to their traditional IRAs. The lowest incidence of contribution activity, 5.2 percent, was seen among traditional IRA investors aged 65 to 69 who are more likely to be approaching or in retirement and focusing on drawing down their assets.

FIGURE 2.2

Contribution Activity of Traditional IRA Investors in 2011 by Investor Age

Number of traditional IRA investors and traditional IRA contributors[1] by age, 2011

	Traditional IRA investors		Traditional IRA contributors[1]		Memo: percentage of traditional IRA investors who made contributions[1]
Age	**Number** *Thousands*	**Share[2]** *Percent*	**Number** *Thousands*	**Share[2]** *Percent*	
25 to 29	249.4	2.8%	23.6	3.2%	9.4%
30 to 34	526.9	6.0	48.7	6.7	9.2
35 to 39	727.2	8.2	65.8	9.0	9.1
40 to 44	995.3	11.3	88.0	12.1	8.8
45 to 49	1,197.3	13.6	104.7	14.4	8.7
50 to 54	1,399.7	15.9	121.6	16.7	8.7
55 to 59	1,404.3	15.9	123.7	17.0	8.8
60 to 64	1,311.1	14.9	99.3	13.6	7.6
65 to 69	1,005.3	11.4	52.3	7.2	5.2
All	8,816.5	100.0	727.8	100.0	8.3
Memo:					
25 to 49	3,696.1	41.9	330.9	45.5	9.0
50 to 69	5,120.5	58.1	396.9	54.5	7.8

[1] Traditional IRA contributors are working-age traditional IRA investors (aged 25 to 69) who made contributions to their traditional IRAs in tax year 2011.

[2] Share is the percentage of the total.

Note: Contributions include both deductible and nondeductible traditional IRA contribution amounts. Components may not add to the total because of rounding.

Source: The IRA Investor Database™

Traditional IRA Contribution Amounts in 2011 by Investor Age

Even though older IRA investors are less likely to make contributions, they tend to make larger contributions than do younger investors. Among traditional IRA contributors aged 25 to 29, the median contribution amount was $2,000 in tax year 2011 (Figure 2.3). For contributors in their forties, the median contribution amount was $5,000, the legal maximum for this age group. Among contributors in their sixties, the median contribution amount was $6,000, meaning more than half of those who made contributions did so to the full contribution amount, including catch-up contributions.

FIGURE 2.3

Traditional IRA Contribution Amounts in 2011 by Investor Age

Number and amount of contributions[1] to traditional IRAs by age, 2011

Age	Traditional IRA contributors[1]		Traditional IRA contributions[1]		Traditional IRA contribution amount	
	Number *Thousands*	Share[2] *Percent*	Amount *Millions*	Share[2] *Percent*	Median	Mean
25 to 29	23.6	3.2%	$60.4	2.2%	$2,000	$2,570
30 to 34	48.7	6.7	142.4	5.2	3,000	2,920
35 to 39	65.8	9.0	215.0	7.8	4,800	3,270
40 to 44	88.0	12.1	300.1	10.9	5,000	3,410
45 to 49	104.7	14.4	365.9	13.2	5,000	3,490
50 to 54	121.6	16.7	494.8	17.9	5,250	4,070
55 to 59	123.7	17.0	522.4	18.9	6,000	4,220
60 to 64	99.3	13.6	432.1	15.6	6,000	4,350
65 to 69	52.3	7.2	230.5	8.3	6,000	4,400
All	727.8	100.0	2,763.6	100.0	5,000	3,800

[1] Traditional IRA contributors are working-age traditional IRA investors (aged 25 to 69) who made contributions to their traditional IRAs in tax year 2011.

[2] Share is the percentage of the total.

Note: Contributions include both deductible and nondeductible traditional IRA contribution amounts. Components may not add to the total because of rounding.

Source: The IRA Investor Database™

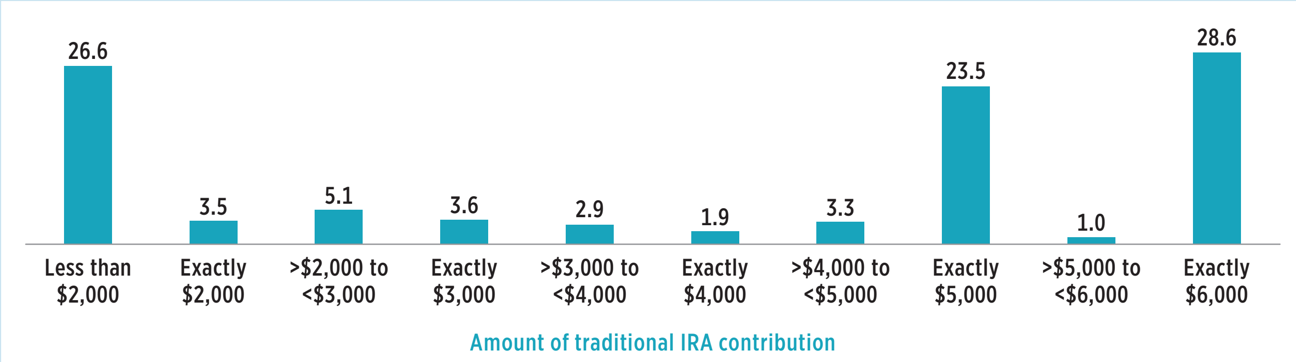
Traditional IRA Investors' Contribution Amounts Varied in 2011

Although half of traditional IRA contributors contributed the maximum amount in tax year 2011, there was a wide distribution in the amounts investors contributed. For example, while 26.6 percent of contributors contributed less than $2,000, another 23.5 percent contributed $5,000, and 29.6 percent made at least some portion of a catch-up contribution—contributing more than $5,000 up to the maximum of $6,000 (Figure 2.4). Overall, half of all traditional IRA contributors contributed the maximum amount allowed by law, including catch-up contributions for traditional IRA investors aged 50 or older (Figure 2.5). In fact, 52.4 percent of traditional IRA investors aged 50 to 69 made the full age-allowed contribution of $6,000 in tax year 2011. These estimates are the lower bounds on the percentage of traditional IRA contributors at the limit with respect to deductible contributions. Some individuals may have been constrained in their deductible contribution amount and may not have elected to make a total contribution that would reach the limit. It is not possible to determine how many such individuals are in the database.

FIGURE 2.4

Distribution of Traditional IRA Contribution Amounts in 2011

Percentage of traditional IRA contributors, 2011



Note: Traditional IRA contributors are working-age traditional IRA investors (aged 25 to 69) who made contributions to their traditional IRAs in tax year 2011. Contributions include both deductible and nondeductible traditional IRA contribution amounts. The sample is 0.7 million working-age traditional IRA investors with contributions in tax year 2011.

Source: The IRA Investor Database™

FIGURE 2.5

Half of Working-Age Traditional IRA Contributors Contributed at the Limit in 2011

Percentage of traditional IRA contributors[1] contributing the amount indicated by age, 2011

	Amount of traditional IRA contribution[2]									
Age	<$2,000	$2,000	>$2,000–<$3,000	$3,000	>$3,000–<$4,000	$4,000	>$4,000–<$5,000	$5,000[3]	>$5,000–<$6,000[3]	$6,000[3]
25 to 29	47.0	4.0	6.9	2.9	3.2	1.4	3.0	31.5	0.0	0.0
30 to 34	40.2	2.8	6.4	2.5	3.2	1.2	4.4	39.4	0.0	0.0
35 to 39	32.8	2.5	5.9	2.6	3.1	1.3	5.0	46.9	0.0	0.0
40 to 44	29.6	2.8	5.4	2.9	3.1	1.5	5.2	49.6	0.0	0.0
45 to 49	27.1	3.4	5.4	3.2	3.0	1.8	4.8	51.4	0.0	0.0
50 to 54	24.7	4.0	4.8	4.3	2.8	2.3	2.2	4.6	1.8	48.5
55 to 59	22.0	4.1	4.6	4.5	2.6	2.1	2.1	3.6	1.8	52.6
60 to 64	19.8	4.0	4.3	4.2	2.8	2.1	2.2	3.9	1.9	54.9
65 to 69	19.3	3.4	4.2	3.8	2.9	2.2	2.3	3.8	2.0	56.0
All	26.6	3.5	5.1	3.6	2.9	1.9	3.3	23.5	1.0	28.6
Memo:										
25 to 49	32.2	3.0	5.7	2.9	3.1	1.5	4.7	46.8	0.0	0.0
50 to 69	21.9	4.0	4.5	4.3	2.7	2.2	2.2	4.0	1.8	52.4

[1] Traditional IRA contributors are working-age traditional IRA investors (aged 25 to 69) who made contributions to their traditional IRAs in tax year 2011.

[2] The contribution limit in tax year 2011 was $5,000 for traditional IRA investors younger than 50 and $6,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for some taxpayers.

[3] In total, 49.9 percent of traditional IRA contributors appear to have contributed at the limit. If individuals who were apparently eligible for catch-up contributions, and who contributed at least $5,000 are included, 53.0 percent of traditional IRA contributors made contributions at the limit.

Note: The sample is 0.7 million working-age traditional IRA investors (aged 25 to 69) with contributions in tax year 2011. Row percentages may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

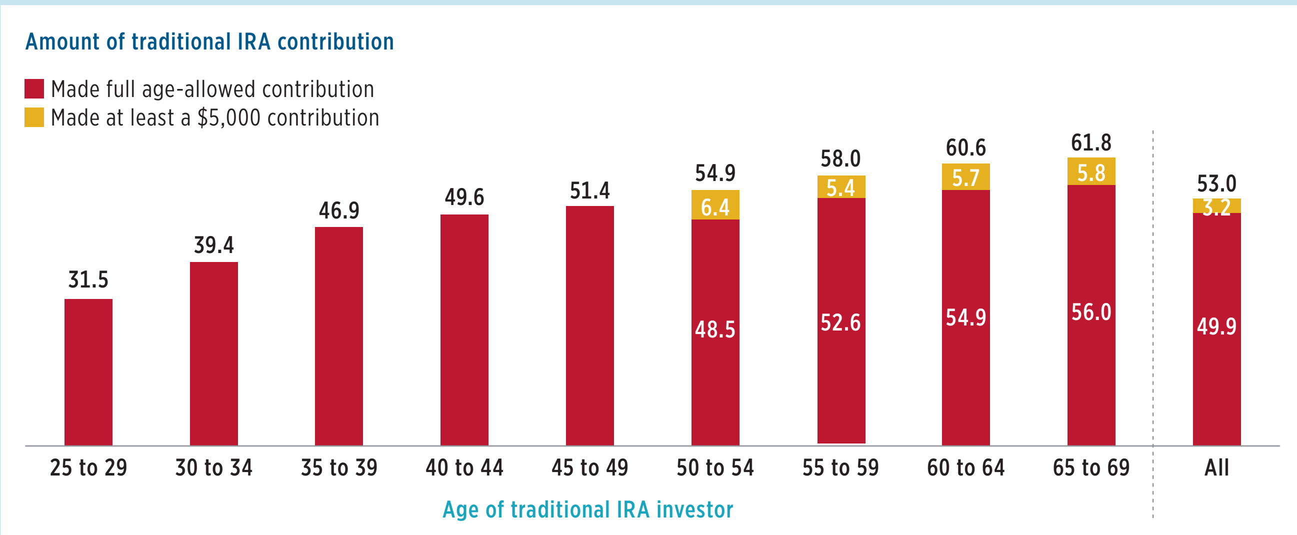
Older Traditional IRA Contributors Were More Likely to Contribute at the Limit in 2011

Half of all traditional IRA contributors contributed at the limit in tax year 2011, but older traditional IRA contributors were more likely to contribute at the limit. For example, 31.5 percent of traditional IRA contributors aged 25 to 29 and 39.4 percent of traditional IRA contributors aged 30 to 34 contributed at the $5,000 limit in tax year 2011 (Figure 2.6). Among contributors in their sixties, approximately 55 percent contributed the full $6,000 limit, including catch-up contributions. If investors who contributed at least $5,000 are considered, then more than six in 10 contributors in their sixties reached the limit. Overall, 53.0 percent of traditional IRA contributors in tax year 2011 contributed at least $5,000 to their traditional IRAs.

FIGURE 2.6

Older Traditional IRA Contributors Were More Likely to Contribute at the Limit in 2011

Traditional IRA contributors[1] at the limit[2] as a percentage of traditional IRA contributors by age, 2011



[1] Traditional IRA contributors are working-age traditional IRA investors (aged 25 to 69) who made contributions to their traditional IRAs in tax year 2011.

[2] The contribution limit in tax year 2011 was $5,000 for traditional IRA investors younger than 50 and $6,000 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for some taxpayers.

Note: Contributions include both deductible and nondeductible traditional IRA contribution amounts. Components may not add to the total because of rounding. The sample is 0.7 million working-age traditional IRA investors (aged 25 to 69) with contributions in tax year 2011.

Source: The IRA Investor Database™

CHAPTER 3

Traditional IRA Investors' Rollover Activity in 2011

Congress created traditional IRAs with two goals: (1) as a contributory retirement account, originally for workers without employer-sponsored pension plans at work; and (2) as a rollover vehicle to preserve pension assets at job change or retirement.[36] Although contribution activity expanded between 1982 and 1986 when there were no income limits restricting traditional IRA contributions,[37] in more recent years rollovers have been the key inflows into traditional IRAs (see Figure 1.2). This chapter analyzes the rollover activity of traditional IRA investors, primarily focusing on variation in rollover activity in 2011 by investor age. Rollovers can provide a significant boost to traditional IRA balances, given the higher contribution limits into employer-sponsored plans and the ability of workers to accumulate significant balances over their careers. This chapter also explores the variation in traditional IRA balances in 2011 by the presence of recent rollovers.

Rollovers Were Often the Source of New Traditional IRAs in 2011

Although traditional IRAs can be opened with either rollovers or contributions, rollovers tend to be the most common source for new traditional IRAs. In 2011, two-thirds (67.0 percent) of new traditional IRAs in The IRA Investor Database were opened with just a rollover (Figure 3.1). Another 2.2 percent were opened with both a rollover and a contribution, and 8.5 percent were opened with just a contribution. The remaining new traditional IRAs were transfers from one financial services firm to another and so, were unlikely to represent new IRAs. If these transfer accounts are excluded, 86.2 percent of new traditional IRAs in 2011 were opened exclusively with rollovers.

FIGURE 3.1

Sources of New Traditional IRAs in 2011 by Investor Age

Percentage of new traditional IRAs,[1] 2011

Age	Source of new account[1, 2]			
	Only rollover	Both rollover and contribution	Only contribution	Changed financial services firm[3]
25 to 29	78.2%	2.8%	8.6%	10.4%
30 to 34	73.2	3.0	10.1	13.8
35 to 39	70.5	2.6	10.2	16.7
40 to 44	68.0	2.3	9.7	20.1
45 to 49	65.7	2.1	9.3	23.0
50 to 54	62.2	2.1	9.2	26.5
55 to 59	60.1	2.1	9.1	28.7
60 to 64	67.1	1.9	6.2	24.7
65 to 69	63.1	1.6	5.1	30.2
70 to 74	55.5	0.2	0.8	43.4
All	67.0	2.2	8.5	22.3

[1] New traditional IRAs are accounts that exist in The IRA Investor Database™ in 2011 but did not exist in The IRA Investor Database™ in 2010.

[2] Row percentages may not add to 100 percent because of rounding.

[3] These accounts are often asset transfers to a new provider and thus are unlikely to represent a new traditional IRA investor.

Note: The sample is 0.8 million new traditional IRA investors aged 25 to 74 in The IRA Investor Database™ in 2011.

Source: The IRA Investor Database™

Traditional IRA Rollover Activity in 2011 by Investor Age

Although younger traditional IRA investors were more likely to have a rollover in 2011, rollovers were distributed across all age groups. Indeed, half of the rollovers in 2011 were made by investors aged 50 to 74 (Figure 3.2).

Younger traditional IRA investors were more likely to have rollovers, with 25.1 percent of traditional IRA investors aged 25 to 29 having rollovers in 2011, compared with 4.5 percent of traditional IRA investors aged 70 to 74 (Figure 3.2). In fact, the only exception to the general pattern of declining rollover incidence as age increases is among investors aged 60 to 64. While 7.3 percent of traditional IRA investors aged 55 to 59 had rollovers in 2011, 9.1 percent of traditional IRA investors aged 60 to 64 had rollovers in 2011, likely due in part to investors in this age group retiring and rolling their retirement accounts into IRAs.[38] Overall, 9.0 percent of traditional IRA investors aged 25 to 74 had rollovers in 2011.

FIGURE 3.2

Rollover Activity of Traditional IRA Investors in 2011 by Investor Age

Number of traditional IRA investors and traditional IRA investors with rollovers[1] by age, 2011

	Traditional IRA investors		Traditional IRA investors with rollovers[1]		Memo: percentage of traditional IRA investors who had rollovers[1]	Percentage of rollovers that created new accounts[2]
Age	Number *Thousands*	Share[3] *Percent*	Number *Thousands*	Share[3] *Percent*		
25 to 29	249.4	2.6%	62.5	7.3%	25.1%	90.2%
30 to 34	526.9	5.6	82.9	9.7	15.7	79.9
35 to 39	727.2	7.7	84.3	9.9	11.6	71.7
40 to 44	995.3	10.5	94.4	11.1	9.5	67.0
45 to 49	1,197.3	12.7	99.1	11.6	8.3	64.3
50 to 54	1,399.7	14.8	105.7	12.4	7.6	61.5
55 to 59	1,404.3	14.9	102.8	12.1	7.3	58.6
60 to 64	1,311.1	13.9	119.2	14.0	9.1	56.8
65 to 69	1,005.3	10.6	72.9	8.5	7.2	49.3
70 to 74	627.8	6.6	28.5	3.3	4.5	43.6
All	9,444.3	100.0	852.3	100.0	9.0	64.7

[1] Traditional IRA investors with rollovers are traditional IRA investors aged 25 to 74 who had rollovers into their traditional IRAs in tax year 2011.

[2] An account was determined to be "new" in 2011 if the account did not exist in 2010 at the same provider.

[3] Share is the percentage of the total.

Note: Components may not add to the total because of rounding.

Source: The IRA Investor Database™

For the bulk of younger investors with rollovers, the rollover event opened a new account. Indeed, for nine in 10 traditional IRA investors aged 25 to 29 with rollovers in 2011, the rollover opened a new traditional IRA (Figure 3.2). Still, even among traditional IRA investors aged 70 to 74 with rollovers in 2011, 43.6 percent of those rollovers opened new accounts. This pattern also helps explain the higher rollover incidence among younger traditional IRA investors. Since the rollover is often the event that opens the IRA for younger investors, they are less likely to own an IRA if they did not have a rollover, whereas older investors are more likely to have already opened an IRA.

Traditional IRA Rollover Amounts in 2011 by Investor Age

Rollover amounts tend to rise with investor age, reflecting the longer horizon older investors have had to build retirement plan accumulations.[39] The median rollover amount among traditional IRA investors aged 25 to 29 in 2011 was $3,300, rising to $52,780 for traditional IRA investors aged 65 to 69, before falling slightly to $47,400 for investors aged 70 to 74 (Figure 3.3). Although traditional IRA investors aged 50 to 74 accounted for half of rollovers, more than three-quarters of the money rolled over in 2011 came from this group. In fact, traditional IRA investors aged 60 to 64 accounted for one-quarter of all rollover money, reflecting their high average rollover amounts as well as the large number of rollovers that came from this age group.

FIGURE 3.3

Traditional IRA Investors with Rollovers in 2011 by Investor Age

Number and amount of rollovers[1] to traditional IRAs by age, 2011

	Traditional IRA investors with rollovers[1]		Traditional IRA rollovers[1]		Traditional IRA rollover amount	
Age	Number *Thousands*	Share[2] *Percent*	Amount *Millions*	Share[2] *Percent*	Median	Mean
25 to 29	62.5	7.3%	$530.8	0.9%	$3,300	$8,490
30 to 34	82.9	9.7	1,528.0	2.5	6,680	18,430
35 to 39	84.3	9.9	2,719.6	4.5	13,430	32,250
40 to 44	94.4	11.1	4,172.3	6.9	18,560	44,180
45 to 49	99.1	11.6	5,521.6	9.1	21,960	55,740
50 to 54	105.7	12.4	7,498.3	12.3	25,720	70,930
55 to 59	102.8	12.1	9,972.0	16.4	32,170	97,000
60 to 64	119.2	14.0	15,401.3	25.4	52,110	129,220
65 to 69	72.9	8.5	9,715.0	16.0	52,780	133,350
70 to 74	28.5	3.3	3,669.9	6.0	47,400	128,810
All	852.3	100.0	60,729.0	100.0	20,630	71,250

[1] Traditional IRA investors with rollovers are traditional IRA investors aged 25 to 74 who had rollovers into their traditional IRAs in tax year 2011.

[2] Share is the percentage of the total.

Note: Components may not add to the total because of rounding.

Source: The IRA Investor Database™

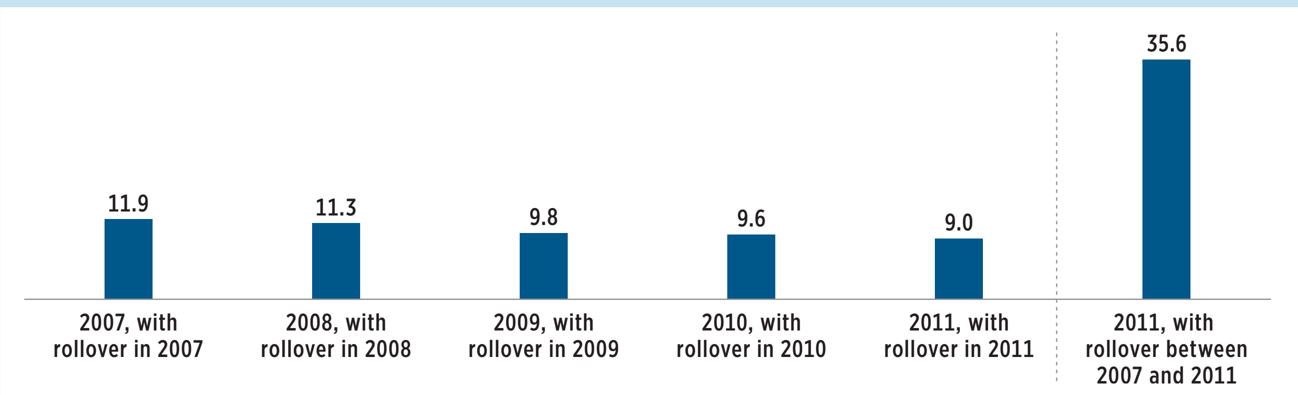
Like contribution activity, rollovers among traditional IRA investors are relatively infrequent in any given year. However, unlike contributions—where there appears to be some persistence among traditional IRA investors from year to year—different groups of people tend to have rollovers from year to year. Between 2007 and 2011, about one in 10 traditional IRA investors aged 25 to 74 had a rollover in any given year (Figure 3.4). However, among traditional IRA investors with an account balance at year-end 2011, 35.6 percent had a rollover at some point between 2007 and 2011.[40]

This increase in rollover incidence when expanding the period of observation is consistent with expectations based on labor market dynamics and the work life cycle. In any given year, a certain fraction of workers with employer-sponsored coverage will separate from their employers, and when they do, it is possible that separation will generate a rollover event. Because separating from one's employer is not an annual event for most workers and not all workers roll over money from their employer plan into a traditional IRA at job separation, rollovers to traditional IRAs by a given individual will tend to be sporadic.

FIGURE 3.4

Many Traditional IRA Investors Have Made Rollovers

Percentage of traditional IRA investors aged 25 to 74 with rollovers, 2007–2011



Note: The sample is 6.9 million traditional IRA investors aged 25 to 74 in 2007; 7.3 million traditional IRA investors aged 25 to 74 in 2008; and 9.4 million traditional IRA investors aged 25 to 74 in 2009, 2010, and 2011. Rollovers made prior to 2007, as well as rollovers made prior to a change in financial services provider, cannot be identified in the database.

Source: The IRA Investor Database™

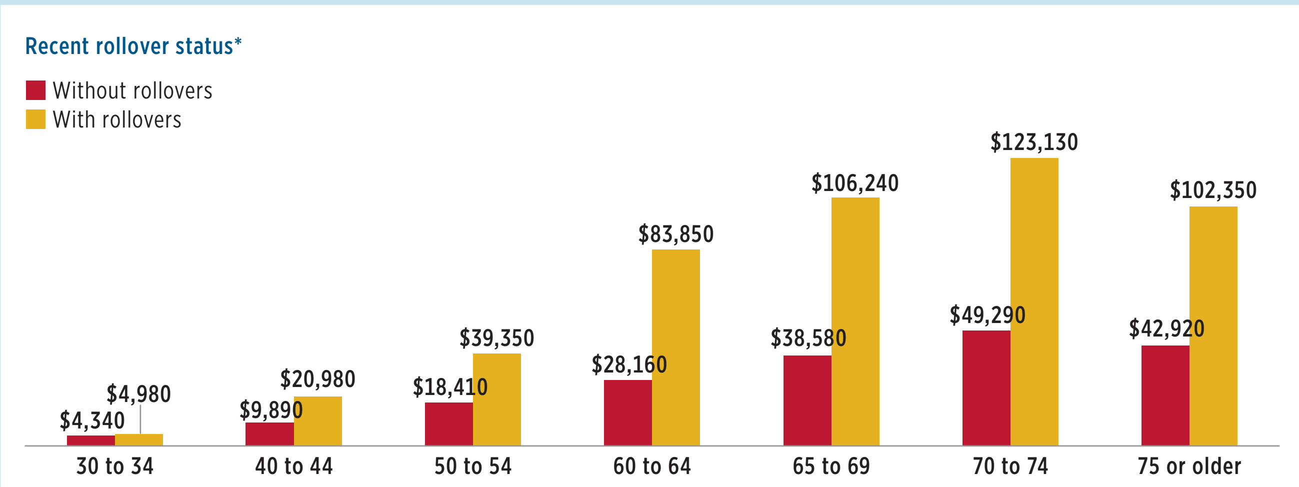
Rollovers Tend to Have a Strong Positive Impact on Traditional IRA Balances

Because of the higher contribution limits for employer-sponsored retirement plans, and the steady buildup of assets that can occur in these plans over the course of a career, rollovers into traditional IRAs appear to have a substantial, positive impact on the size of account balances. The impact of recent rollovers can be seen most clearly among older traditional IRA investors. For example, among traditional IRA investors aged 75 or older with rollovers between 2007 and 2011, the median traditional IRA balance at year-end 2011 was $102,350, compared with $42,920 for those without rollovers, or more than twice as much (Figure 3.5). Household survey data also find a substantial effect of rollovers on traditional IRA balances.[41]

FIGURE 3.5

Recent Rollovers Provide a Significant Boost to Traditional IRA Balances

Median account balances among traditional IRA investors, selected ages, 2011



* Rollovers can have happened in any year between 2007 and 2011. Rollovers made prior to 2007, as well as rollovers made prior to a change in financial services provider, cannot be identified in the database.

Note: The sample is 10.2 million traditional IRA investors aged 25 or older in 2011.

Source: The IRA Investor Database™

CHAPTER 4

Traditional IRA Investors' Withdrawal Activity in 2011

IRA investors can decide when and how to draw down the assets they hold inside their traditional IRAs, although IRS penalties, taxes, or distribution requirements may apply. This chapter first briefly reviews the distribution, or withdrawal, rules governing traditional IRAs. It then proceeds to analyze the withdrawal activity of traditional IRA investors, primarily focusing on variation in withdrawal activity in 2011 by investor age. Finally, withdrawal amounts are analyzed in the context of required minimum distribution (RMD) rules.

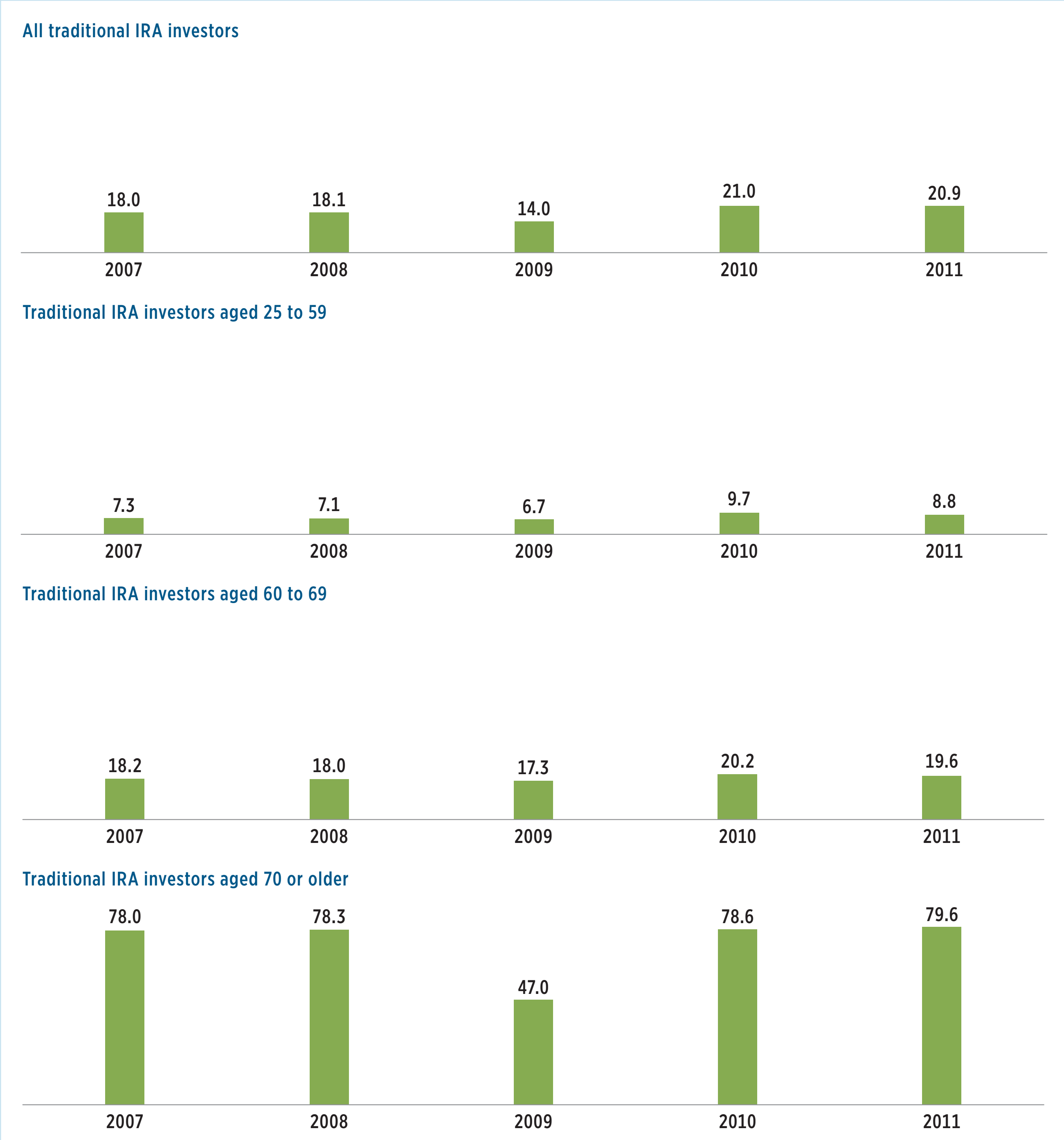
Many complex distribution rules govern investors' access to traditional IRAs, involving the investor's age, the investor's spouse's age (if married), whether the IRA is inherited, and exceptions for certain distributions. For investors under age 59½, distributions from traditional IRAs generally are subject to income tax as well as a 10 percent penalty. However, there are some exceptions to the penalty, including distributions for the purchase of a first home (up to $10,000) or certain qualified higher-education expenses.[42] In addition, individuals with inherited traditional IRAs may be required to take distributions and are able to take distributions without penalty. Given the possibility of penalty in most cases, there is little traditional IRA investor withdrawal activity prior to age 59½.[43] Taxpayers older than 59½ but younger than 70½ may take withdrawals without penalty, but generally are not required to do so. Beginning at age 70½, traditional IRA investors typically are required to take annual distributions from their IRAs, referred to as *required minimum distributions*.[44] However, in response to the decline in the stock market and the related financial market volatility, policymakers suspended RMDs for 2009 (see Figure 1.1).[45]

The percentage of traditional IRA investors taking distributions from their traditional IRAs in any given year has risen somewhat since 2007. Analysis of traditional IRA investors in 2007 and 2008 shows that about 18 percent of traditional IRA investors had distributions (Figure 4.1, first panel). The percentage taking distributions dropped to 14 percent in 2009, due at least in part to the suspension of RMDs, before rising to about 21 percent in 2010 and 2011. Some of this increase is attributable to the changing age composition of investors in The IRA Investor Database. As the population grows older and more investors move into their sixties and seventies, where withdrawal activity is not penalized and in many instances is required, the overall withdrawal rate is likely to increase.[46]

FIGURE 4.1

Traditional IRA Withdrawal Rates, 2007–2011

Percentage of traditional IRA investors with withdrawals by age, 2007–2011



Note: The samples are 7.4 million traditional IRA investors aged 25 or older in 2007, 7.8 million traditional IRA investors aged 25 or older in 2008, 10.0 million traditional IRA investors aged 25 or older in 2009, 10.1 million traditional IRA investors aged 25 or older in 2010, and 10.2 million traditional IRA investors aged 25 or older in 2011.

Source: The IRA Investor Database™

Traditional IRA Withdrawal Activity in 2011 by Investor Age

Withdrawal activity is highly concentrated among older traditional IRA investors. Investors aged 70 or older, who typically have RMDs, were much more likely to withdraw money than younger investors. Traditional IRA withdrawal activity is much lower among younger households for whom penalties often apply. Nevertheless, a slight uptick in their low levels of withdrawal activity is apparent in the wake of the financial crisis (2010–2011). On average, about 7 percent of traditional IRA investors aged 25 to 59 took withdrawals in 2007, 2008, or 2009 (Figure 4.1, second panel). Withdrawal activity for this age group ticked up to 9.7 percent in 2010 and was 8.8 percent in 2011. A similar pattern is discernable among traditional IRA investors aged 60 to 69, who may be withdrawing without penalty. In 2007 and 2008, about 18 percent of this age group took withdrawals; in 2010 and 2011, it was about one in five (Figure 4.1, third panel). The pattern of withdrawal activity for the traditional IRA investors aged 70 or older mainly reflects the suspension of RMDs in 2009 (Figure 4.1, fourth panel).

Although traditional IRA investors across all age groups withdrew money from their traditional IRAs in 2011, withdrawal activity is concentrated among older traditional IRA investors. In The IRA Investor Database, 20.9 percent of traditional IRA investors took withdrawals from their traditional IRAs in 2011, and this varied considerably by age (Figure 4.2). For example, 72.9 percent of traditional IRA investors aged 70 to 74 and 85.0 percent of investors aged 75 or older took withdrawals in 2011, compared with less than 20 percent of traditional IRA investors in their sixties and less than 10 percent of traditional IRA investors aged 25 to 59. In fact, the majority of traditional IRA withdrawals are taken by investors aged 60 or older, where penalties generally do not apply to the distributions and RMDs often apply. Indeed, while traditional IRA investors aged 60 or older only accounted for 36.2 percent of traditional IRA investors in The IRA Investor Database, they accounted for 73.1 percent of the traditional IRA investors with withdrawals in 2011.

The IRA Investor Database does not show universal withdrawal rates among traditional IRA investors aged 70 or older, even though traditional IRA investors are required to take distributions beginning at age 70½, for a few reasons. First, because *age* in the database refers to age at the end of 2011, some traditional IRA investors in this group did not turn 70½ until 2012 and would not have been required to take a distribution until then.[47] In addition, The IRA Investor Database may not capture the complete IRA portfolio of a traditional IRA investor, and thus some traditional IRA investors may have multiple IRAs and may have chosen to take their RMD from a traditional IRA which was not held at a provider in the sample. Although the IRS universe separates individuals younger than age 70½ from those 70½ or older and has a complete picture of an investor's total IRA portfolio, withdrawal rates are still not universal.[48]

FIGURE 4.2

Withdrawal Activity of Traditional IRA Investors in 2011 by Investor Age

Number of traditional IRA investors and traditional IRA investors with withdrawals[1] by age, 2011

Age	Traditional IRA investors		Traditional IRA investors with withdrawals[1]		Memo: percentage of traditional IRA investors who had withdrawals[1]
	Number *Thousands*	Share[2] *Percent*	Number *Thousands*	Share[2] *Percent*	
25 to 29	249.4	2.4%	15.6	0.7%	6.3%
30 to 34	526.9	5.2	38.4	1.8	7.3
35 to 39	727.2	7.1	57.5	2.7	7.9
40 to 44	995.3	9.7	84.5	4.0	8.5
45 to 49	1,197.3	11.7	109.3	5.1	9.1
50 to 54	1,399.7	13.7	133.3	6.2	9.5
55 to 59	1,404.3	13.8	135.4	6.3	9.6
60 to 64	1,311.1	12.8	230.3	10.8	17.6
65 to 69	1,005.3	9.8	224.1	10.5	22.3
70 to 74	627.8	6.1	457.7	21.4	72.9
75 or older	763.9	7.5	649.5	30.4	85.0
All	10,208.3	100.0	2,135.7	100.0	20.9

[1] Traditional IRA investors with withdrawals are traditional IRA investors aged 25 or older who had withdrawals from their traditional IRAs in tax year 2011.

[2] Share is the percentage of the total.

Note: Components do not add to the total because of rounding.

Source: The IRA Investor Database™

Traditional IRA Withdrawal Amounts in 2011 by Investor Age

Traditional IRA withdrawal amounts varied with investor age and were largest for investors aged 60 to 69, who can withdraw without penalty but generally are not required to take withdrawals (Figure 4.3). In 2011, the median distribution among traditional IRA investors aged 25 to 29 with withdrawals was $2,320. This number rose with age, peaking at $11,290 for investors aged 60 to 64 with withdrawals and falling slightly to $11,110 for those aged 65 to 69. For investors aged 70 to 74 with withdrawals, the median withdrawal amount was $5,000; it was $4,000 for investors aged 75 or older, perhaps reflecting RMDs that force the withdrawal of a small percentage of the account.

FIGURE 4.3

Traditional IRA Withdrawals in 2011 by Investor Age

Number and amount of withdrawals[1] from traditional IRAs by age, 2011

	Traditional IRA investors with withdrawals[1]		Traditional IRA withdrawals[1]		Traditional IRA withdrawal amount	
Age	Number *Thousands*	Share[2] *Percent*	Amount *Millions*	Share[2] *Percent*	Median	Mean
25 to 29	15.6	0.7%	$89.7	0.3%	$2,320	$5,730
30 to 34	38.4	1.8	288.2	0.9	3,230	7,510
35 to 39	57.5	2.7	611.4	1.9	4,980	10,630
40 to 44	84.5	4.0	1,121.4	3.6	5,060	13,270
45 to 49	109.3	5.1	1,661.8	5.3	6,000	15,200
50 to 54	133.3	6.2	2,195.3	7.0	6,280	16,470
55 to 59	135.4	6.3	2,355.5	7.5	6,850	17,400
60 to 64	230.3	10.8	5,318.6	17.0	11,290	23,090
65 to 69	224.1	10.5	4,853.6	15.5	11,110	21,660
70 to 74	457.7	21.4	5,703.0	18.2	5,000	12,460
75 or older	649.5	30.4	7,179.0	22.9	4,000	11,050
All	2,135.7	100.0	31,377.4	100.0	5,840	14,690

[1] Traditional IRA investors with withdrawals are traditional IRA investors aged 25 or older who had withdrawals from their traditional IRAs in tax year 2011.

[2] Share is the percentage of the total.

Note: Components do not add to the total because of rounding.

Source: The IRA Investor Database™

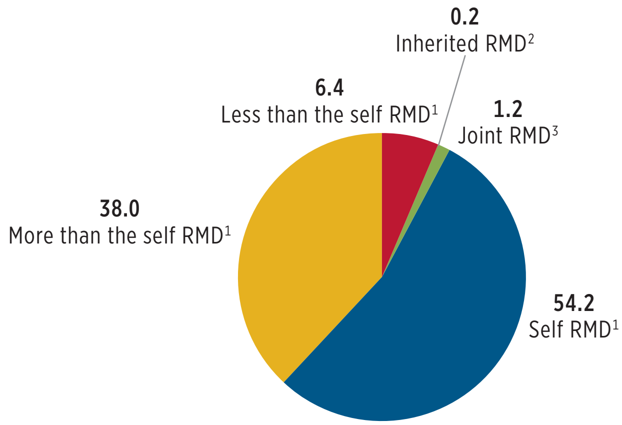
Many Traditional IRA Investors Determine Withdrawal Amounts Using RMD Rules

Household survey results reveal that traditional IRA–owning households with withdrawals often indicate that they calculated the withdrawal amount to meet the RMD rule.[49] Traditional IRA investors in The IRA Investor Database also often use the RMD rule to determine their withdrawal amounts. Using the IRS distribution tables, it is possible to identify withdrawal amounts that fulfill the RMD. For example, among traditional IRA investors with traditional IRAs at year-end 2010 and year-end 2011, aged 70 or older at year-end 2011, and taking withdrawals in 2011, more than half took the RMD amount as a withdrawal, including 54.2 percent who took exactly the RMD amount based on the Uniform Lifetime table published by the IRS (self RMD), 1.2 percent who appear to have used the Joint and Last Survivor Expectancy table (joint RMD), and another 0.2 percent who appear to be taking distributions from an inherited IRA (inherited RMD) (Figure 4.4). An additional 38.0 percent of these withdrawing traditional IRA investors took more than the self RMD amount and 6.4 percent took less than that amount.[50]

FIGURE 4.4

Required Minimum Distributions Often Were Used to Determine Withdrawal Amounts in 2011

Percentage of traditional IRA investors aged 70 or older in 2011 with account balances at year-end 2010 and year-end 2011 who took withdrawals in 2011



[1] The self RMD amount applies to traditional IRA investors who are (1) unmarried, (2) married to a spouse who is no more than 10 years younger, or (3) married to a spouse who is not the sole beneficiary of the IRA.

[2] The joint RMD amount applies to traditional IRA investors who are married to spouses who are more than 10 years younger and are the sole beneficiaries of the IRA.

[3] The inherited RMD amount applies to beneficiaries who inherited the traditional IRA.

Note: The sample is 1.1 million traditional IRA investors aged 70 or older in 2011 with account balances at year-end 2010 and year-end 2011 who took withdrawals in 2011.

Source: The IRA Investor Database™

CHAPTER 5

Traditional IRA Investors' Balances at Year-End 2011

The amounts accumulated in traditional IRAs depend on contributions and rollovers into the IRAs, withdrawals out of the IRAs, and investment returns, which are based on the asset allocation selected by the IRA investors.[51] Contribution, rollover, and withdrawal activity in traditional IRAs are governed by Internal Revenue Code regulations. Traditional IRA investors have access to a wide range of investment options available in the retail financial services market.[52] This chapter analyzes the variation in traditional IRA balances in 2011 by investor age.

Traditional IRA Balances in 2011 by Investor Age

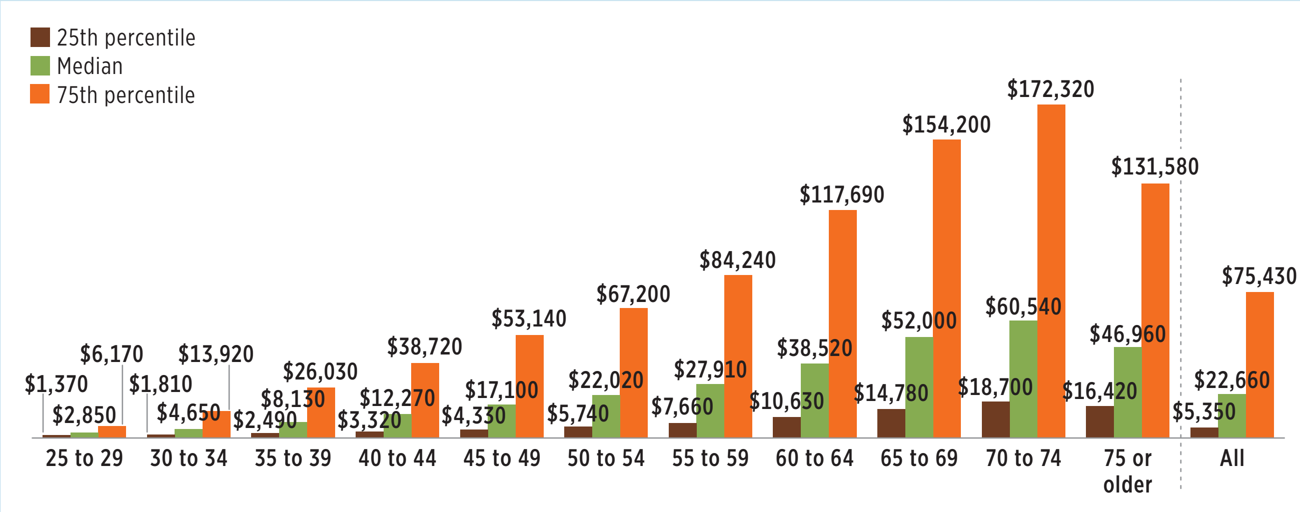
Traditional IRA balances generally increase with investor age. The median traditional IRA balance amount was $22,660 at year-end 2011, but the amount invested varied widely across investors (Figure 5.1). Older investors tended to have larger traditional IRA balances. The median balance for investors aged 25 to 29 was $2,850, compared with $60,540 for investors aged 70 to 74.

Traditional IRA balances varied even among traditional IRA investors of similar ages, as evidenced by the difference between the 25th percentile, median (50th percentile), and 75th percentile for individual age groups. For example, among traditional IRA investors aged 60 to 64, the median balance was $38,520 at year-end 2011, but the 25th percentile balance was $10,630, and the 75th percentile balance was $117,690 (Figure 5.1). This range reflects the variety of histories for these IRA investors, which are affected by factors such as different timing and patterns of contribution and rollover activity; different asset allocations; different withdrawals; and different lengths of time investing in the IRAs.

FIGURE 5.1

Traditional IRA Balances in 2011 Tended to Increase with Investor Age

25th percentile, median, and 75th percentile account balances among traditional IRA investors by age, 2011



Note: The sample is 10.2 million traditional IRA investors aged 25 or older in 2011.

Source: The IRA Investor Database™

Distribution of Traditional IRA Balances by Size in 2011

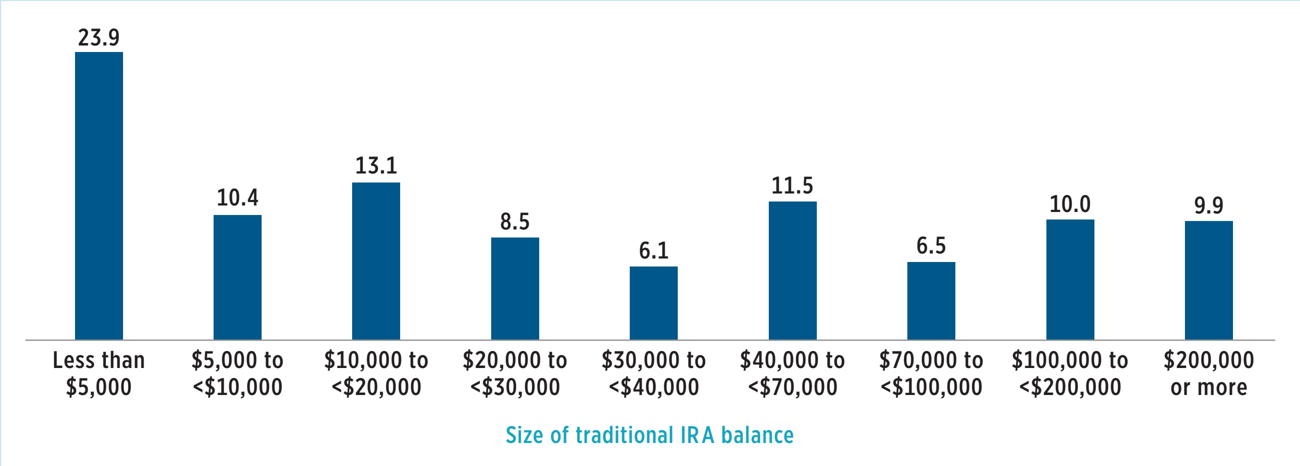
Some of the variation in traditional IRA balances is explained by different job histories and participation in employer-sponsored retirement plans. Traditional IRA investors can accumulate assets inside their IRAs through contributions, rollovers, and asset appreciation. Although contributions and asset appreciation generally cause relatively small changes in traditional IRA balances in any given year, rollover events are often larger because they can contain many years of contributions to employer-sponsored retirement plans at higher legal limits than those for IRAs.[53] Because of this, as well as differing contribution and withdrawal activity and asset allocation, there is a wide distribution of the resulting traditional IRA balance amounts. While 23.9 percent of traditional IRA investors had balances of less than $5,000, 19.9 percent had account balances of $100,000 or more (Figure 5.2).

The range of traditional IRA balances is most pronounced by age. Younger traditional IRA investors were more likely to have small balances than older traditional IRA investors in 2011. For example, although 70.2 percent of traditional IRA investors aged 25 to 29 had balances of less than $5,000, that percentage fell for each successive age group, reaching a minimum of 8.8 percent of traditional IRA investors aged 75 or older (Figure 5.3). On the other end, while a negligible number (0.3 percent) of traditional IRA investors aged 25 to 29 had balances of $100,000 or more, this percentage rose with age, reaching its peak at 37.6 percent of traditional IRA investors aged 70 to 74. The percentage of traditional IRA investors with balances of $100,000 or more fell to 31.0 percent for investors aged 75 or older, likely due in part to the cumulative effect of RMDs and the higher RMD percentages required for older investors.[54]

FIGURE 5.2

Distribution of Traditional IRA Balances by Size

Percentage of traditional IRA investors by size of traditional IRA balance, 2011



Note: The sample is 10.2 million traditional IRA investors aged 25 or older in 2011. Percentages do not add to 100 percent because of rounding.

Source: The IRA Investor Database™

FIGURE 5.3

Traditional IRA Balances in 2011 by Investor Age

Percentage of traditional IRA investors by age, 2011

	Size of traditional IRA balance								
Age	Less than $5,000	$5,000 to <$10,000	$10,000 to <$20,000	$20,000 to <$30,000	$30,000 to <$40,000	$40,000 to <$70,000	$70,000 to <$100,000	$100,000 to <$200,000	$200,000 or more
25 to 29	70.2	13.5	9.3	3.3	1.5	1.5	0.4	0.2	0.1
30 to 34	52.4	15.5	14.2	6.7	3.7	4.6	1.6	1.2	0.1
35 to 39	40.3	14.1	15.0	8.5	5.3	8.3	3.8	3.9	0.8
40 to 44	33.0	12.7	14.8	9.0	6.1	10.4	5.1	6.5	2.3
45 to 49	27.6	11.6	14.3	9.1	6.4	11.6	6.2	8.6	4.7
50 to 54	23.0	10.8	14.0	9.1	6.6	12.3	6.8	9.9	7.5
55 to 59	19.0	10.1	13.5	9.0	6.7	12.8	7.2	11.1	10.5
60 to 64	15.4	8.6	12.0	8.4	6.4	12.9	7.8	13.0	15.4
65 to 69	12.2	7.2	10.7	7.8	6.2	13.0	8.4	14.7	19.9
70 to 74	9.4	6.4	10.3	7.7	6.3	13.4	8.9	15.6	22.0
75 or older	8.8	7.7	12.6	9.4	7.3	14.6	8.7	13.8	17.2
All	23.9	10.4	13.1	8.5	6.1	11.5	6.5	10.0	9.9

Note: The sample is 10.2 million traditional IRA investors aged 25 or older in 2011. Row percentages may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

CHAPTER 6

Snapshots of Investments in Traditional IRAs at Year-End 2007 and Year-End 2011

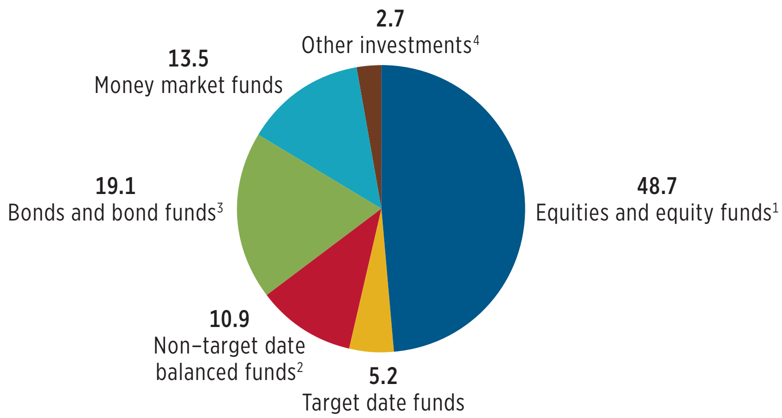
IRA investors decide how to allocate their IRA assets to investments such as individual securities (e.g., stocks and bonds), mutual funds, ETFs, closed-end funds, annuities, deposits, and other investments. This chapter analyzes the average dollar-weighted asset allocation of traditional IRA balances at year-end 2011 by investor age. Snapshots of traditional IRA asset allocations at year-end 2011 are compared with the asset allocation at year-end 2007. In addition, snapshots of individual traditional IRA investors' concentrations in equity holdings—that is, the percentage of individual traditional IRA balances invested in equities, equity funds, and the equity portion of balanced funds—between year-end 2007 and year-end 2011 also are compared. Finally, this chapter analyzes the concentration of equity holdings in traditional IRAs with low balances ($5,000 or less), since account size appears to figure into traditional IRA investors' asset allocations.

On average, equities and equity funds represent the largest investment category among traditional IRA investors. At year-end 2011, on average, equities and equity funds were 48.7 percent of traditional IRA assets held by individuals aged 25 or older (Figure 6.1). Bonds and bond funds were the next largest component, accounting for 19.1 percent of traditional IRA assets. Another 16.1 percent of traditional IRA assets were held in balanced, or hybrid, funds, which invest in a mix of equities and fixed-income securities and include target date funds.[55] Another 13.5 percent of traditional IRA assets were invested in money market funds.

FIGURE 6.1

Equity Holdings Figure Prominently in Traditional IRA Investments

Percentage of traditional IRA balances, year-end 2011



[1] Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

[2] Balanced funds invest in a mix of equities and fixed-income securities.

[3] Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.

[4] Other investments include certificates of deposit and unidentifiable assets.

Note: The sample is 10.2 million traditional IRA investors aged 25 or older in 2011. Percentages are dollar-weighted averages. Percentages do not add to 100 percent because of rounding.

Source: The IRA Investor Database™

Investments in Traditional IRAs in 2011 by Investor Age

Equities and equity funds were the largest component of traditional IRA investors' accounts, on average, representing 48.7 percent of traditional IRA assets at year-end 2011 (Figure 6.2). Investors also may hold equities through balanced funds; at year-end 2011, 58.6 percent of traditional IRA assets were invested in equity holdings (equities, equity funds, and the equity portion of balanced funds). With the exception of the youngest groups of traditional IRA investors, the age pattern of allocation to equity holdings was as expected by financial theory and other research: older investors tend to have lower shares in equity holdings. Traditional IRA investors aged 35 to 49 had about 70 percent of their assets invested in equity holdings, on average. The share invested in equity holdings generally declined through the age groups, with those aged 65 or older having a little over half of their assets invested in equity holdings. Traditional IRA investors aged 25 to 29 had 59.7 percent of their assets invested in equity holdings, on average, at year-end 2011, and those aged 30 to 34 had 67.5 percent of their assets invested in equity holdings.

FIGURE 6.2

Investments in Traditional IRAs in 2011 by Investor Age

Percentage of traditional IRA balance by investor age, year-end 2011

		Balanced funds[2]							
		Equity portion		Non-equity portion					
Age	Equities and equity funds[1]	Target date	Non–target date	Target date	Non–target date	Bonds and bond funds[3]	Money market funds	Other investments[4]	Memo: Equity holdings[5]
25 to 29	38.7	15.4	5.6	3.0	3.2	5.2	20.1	8.8	59.7
30 to 34	47.0	15.2	5.3	3.2	3.1	6.0	14.7	5.5	67.5
35 to 39	53.4	11.6	4.8	2.8	2.8	7.2	13.5	3.8	69.8
40 to 44	56.8	8.5	5.0	2.3	2.9	8.3	13.2	3.0	70.3
45 to 49	57.4	6.0	5.4	2.5	3.1	9.7	13.3	2.6	68.8
50 to 54	55.3	4.5	6.1	2.4	3.5	12.2	13.4	2.5	65.9
55 to 59	51.5	3.3	6.6	2.5	3.8	16.0	13.7	2.6	61.4
60 to 64	46.7	2.4	6.9	2.4	4.0	20.7	13.8	3.1	56.0
65 to 69	44.8	1.6	7.0	2.2	4.0	23.4	14.0	2.9	53.4
70 to 74	44.6	0.9	7.5	1.8	4.3	24.9	13.5	2.4	53.0
75 or older	45.0	0.3	9.0	1.2	5.2	25.4	12.1	1.8	54.3
All	48.7	3.0	6.9	2.2	4.0	19.1	13.5	2.7	58.6

[1] Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

[2] Balanced funds invest in a mix of equities and fixed-income securities. The bulk of target date and lifestyle funds is counted in this category.

[3] Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.

[4] Other investments include certificates of deposit and unidentifiable assets.

[5] Equity holdings are the sum of equities and equity funds and the equity portion of target date and non–target date balanced funds.

Note: The sample is 10.2 million traditional IRA investors aged 25 or older in 2011. Percentages are dollar-weighted averages. Row percentages may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

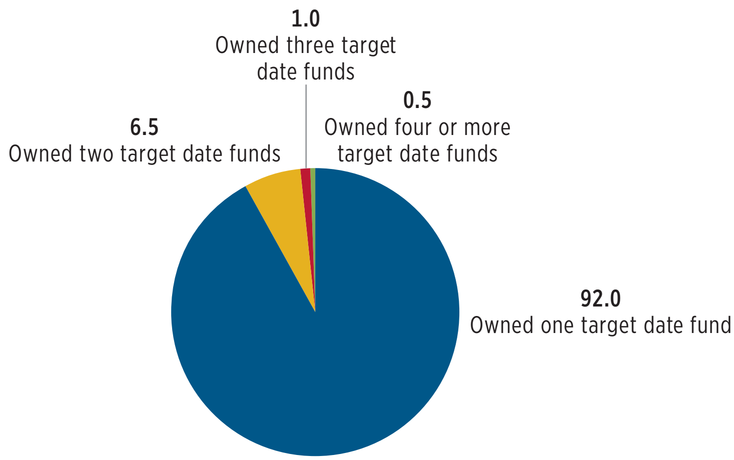
Younger traditional IRA investors had allocated more of their assets to target date funds, compared with older traditional IRA investors across the full age spectrum. At year-end 2011, 18.4 percent of the traditional IRA assets held by investors aged 25 to 34 was invested in target date funds, on average, compared with 1.5 percent of the assets held by those aged 75 or older (Figure 6.2). This pattern of target date fund use was expected because target date funds are relatively new investment products and younger investors are more likely to have been introduced to them either in their 401(k) plans or if they recently opened their IRAs.[56]

At year-end 2011, target date funds were 5.2 percent of traditional IRA assets and 10 percent of traditional IRA investors in The IRA Investor Database owned target date funds.[57] Among traditional IRA investors who owned target date funds, most owned one target date fund, and the bulk of the remainder owned two (Figure 6.3). At year-end 2011, 92.0 percent of traditional IRA investors aged 25 or older who owned target date funds owned one, and another 6.5 percent owned two target date funds. Only 1.0 percent owned three target date funds, and 0.5 percent owned four or more.

FIGURE 6.3

Number of Target Date Funds Owned by Traditional IRA Investors Who Owned Target Date Funds in 2011

Among traditional IRA investors owning target date funds, percentage of traditional IRA investors by number of target date funds owned, year-end 2011*



* A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

Note: The sample is 1.0 million traditional IRA investors aged 25 or older who owned target date funds at year-end 2011.

Source: The IRA Investor Database™

Older traditional IRA investors had higher allocations to bonds and bond funds in their traditional IRAs than younger investors, which follows the typical age-based pattern of bond investing seen in other research.[58] At year-end 2011, 5.2 percent of the traditional IRA assets held by investors aged 25 to 29 was invested in bonds and bond funds, compared with 25.4 percent of the assets held by those aged 75 or older (Figure 6.2).

Money market fund allocations in traditional IRAs followed a mixed pattern by age, with the highest average allocation occurring among the youngest traditional IRA investors, declining through the 40- to 44-year-old age group, rising through the 65- to 69-year-old age group, and falling among those 70 or older (Figure 6.2). As will be discussed below, some of this pattern is the result of an interaction between the variation in the size of the traditional IRA balance across the age groups and the tendency of the smallest traditional IRA balances to have higher investments in money market funds.

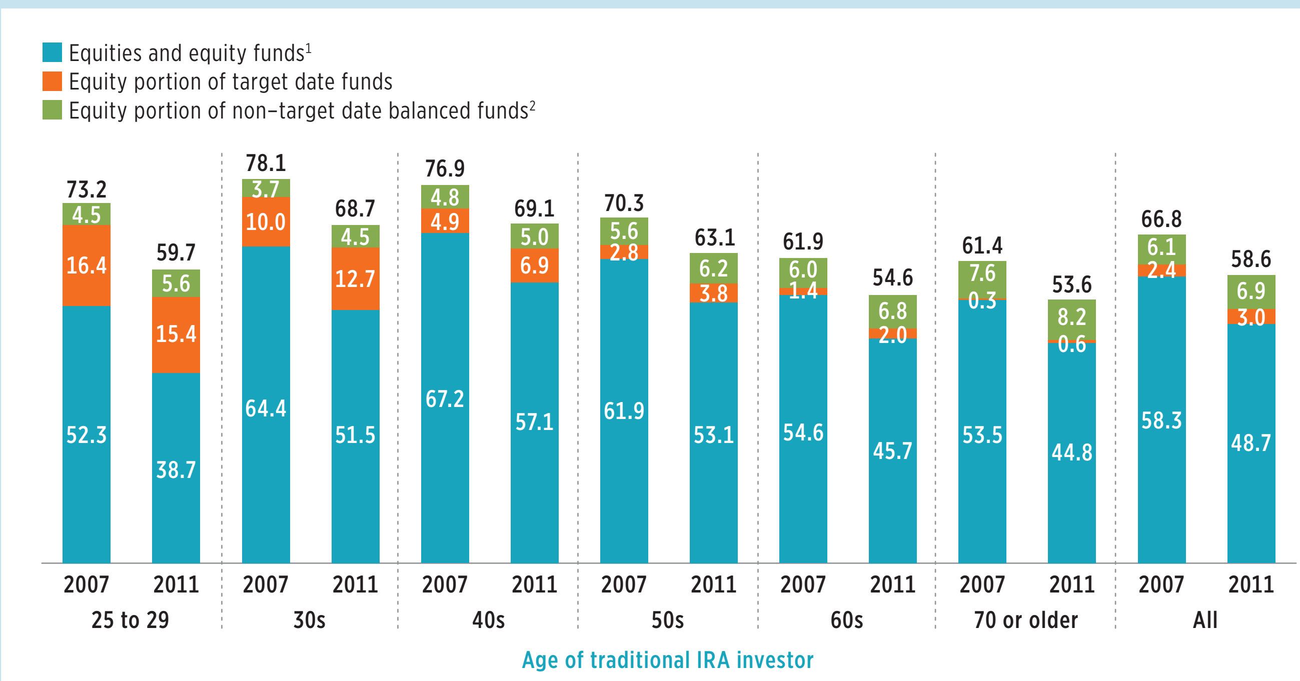
Snapshots of Allocation to Equity Holdings Between 2007 and 2011

Since 2007, the percentage of traditional IRA balances invested in equity holdings (equities, equity funds, and the equity portion of balanced funds) has declined. At year-end 2007, 66.8 percent of traditional IRA balances held by investors aged 25 or older was invested, on average, in equity holdings (Figure 6.4). By year-end 2011, that share had fallen to 58.6 percent. Although the decrease was slightly more pronounced for the youngest investors, with the share of equity holdings held by investors aged 25 to 29 decreasing from 73.2 percent at year-end 2007 to 59.7 percent at year-end 2011, it was relatively consistent across age groups. This decline was most pronounced in the category of equities and equity funds, with the share of traditional IRA balances allocated to the equity portion of target date funds and non–target date balanced funds increasing from 8.5 percent at year-end 2007 to 9.9 percent at year-end 2011. This analysis looks at dollar-weighted averages, and some of the change reflects the relative performance of equity holdings over time.

FIGURE 6.4

Share of Traditional IRA Balances Allocated to Equity Holdings Has Declined Since 2007

Percentage of traditional IRA balance by investor age, year-end 2007 and year-end 2011



[1] Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

[2] Balanced funds invest in a mix of equities and fixed-income securities.

Note: The samples are 7.4 million traditional IRA investors aged 25 or older in 2007 and 10.2 million traditional IRA investors aged 25 or older in 2011. Percentages are dollar-weighted averages. Percentages may not add to the total because of rounding.

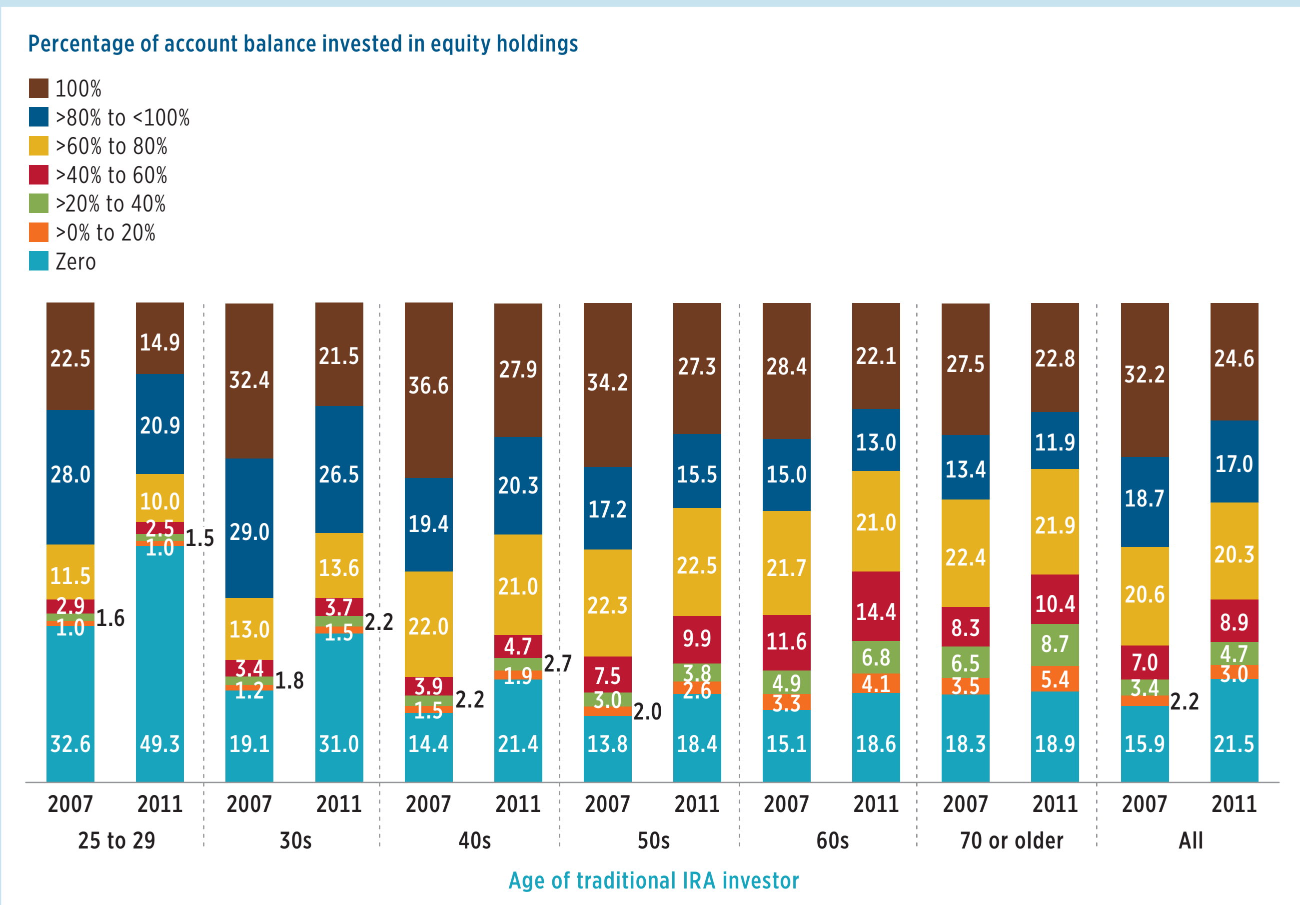
Source: The IRA Investor Database™

In addition to observing how traditional IRA balances are invested in aggregate, another way to explore the changes in allocation to equity holdings is by looking at the distribution of the shares in equity holdings held by individual investors. Looking at the data this way shows that, although the share of balances invested in equity holdings has decreased, this is partly a move toward more-diversified portfolios. For example, at year-end 2007, 50.9 percent of traditional IRA investors had more than 80 percent of their balances invested in equity holdings, compared with 41.6 percent at year-end 2011 (Figure 6.5). Some of this decline was balanced by an increase in more moderate allocations to equity holdings. At year-end 2007, 33.2 percent of traditional IRA investors had some equity holdings, but allocated no more than 80 percent of their account balances to equity holdings. That share rose to 36.9 percent by year-end 2011. The share of traditional IRA investors with no equity holdings also increased, from 15.9 percent at year-end 2007 to 21.5 percent at year-end 2011.

FIGURE 6.5

Exposure to Equity Holdings Has Declined Among Traditional IRA Investors Between 2007 and 2011

Percentage of traditional IRA investors by age, year-end 2007 and year-end 2011



Note: The samples are 7.4 million traditional IRA investors aged 25 or older in 2007 and 10.2 million traditional IRA investors aged 25 or older in 2011. Equity holdings are the sum of equities, equity funds, and the equity portion of balanced funds. Components may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

The decline in the percentage of investors with high allocations to equity holdings and the increase in the percentage of investors without any equity holdings were most prominent among the youngest traditional IRA investors. For example, although the share of traditional IRA investors aged 70 or older with more than 80 percent of their traditional IRA balances invested in equity holdings decreased from 40.9 percent at year-end 2007 to 34.7 percent at year-end 2011, or a 6.2 percentage point drop, the reduction for traditional IRA investors aged 25 to 29 was more than twice as large, falling from 50.5 percent at year-end 2007 to 35.8 percent at year-end 2011—a 14.7 percentage point drop (Figure 6.5). Similarly, while the share of traditional IRA investors aged 70 or older with no equity holdings barely moved between year-end 2007 and year-end 2011, increasing from 18.3 percent at year-end 2007 to 18.9 percent at year-end 2011, the share of investors aged 25 to 29 with no equity holdings increased from 32.6 percent at year-end 2007 to 49.3 percent at year-end 2011.

Default Rollover Rules Likely Impact Equity Exposure in Smaller Traditional IRAs

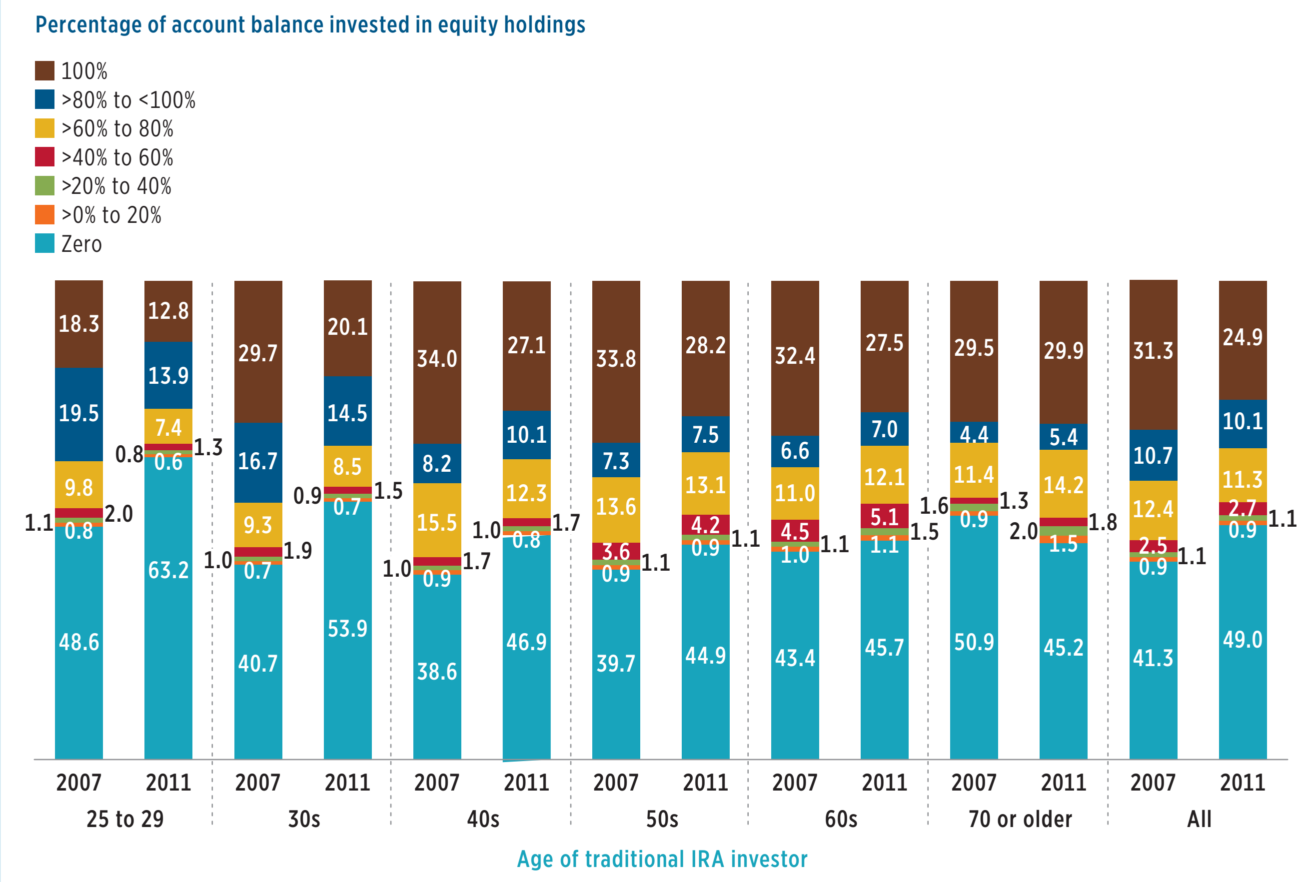
Many factors likely impacted equity ownership inside traditional IRAs between 2007 and 2011, including the decline in equity values over that period. The asset allocations in smaller traditional IRAs appear to have their own set of special forces at play. For example, default rules governing rollovers from employer-sponsored retirement plans appear to have had a noticeable impact. Since 2005, employer-sponsored DC retirement plans that cash out balances of $5,000 or less when the employee separates from employment are generally required to roll over any account that is more than $1,000, but no more than $5,000, into an IRA unless the plan participant affirmatively chooses otherwise.[59] The money must be invested in "an investment product designed to preserve principal and provide a reasonable rate of return." Typical examples include money market funds, CDs, and interest-bearing savings accounts. Small accounts may also be more likely to be invested in money market funds because of the economics of managing such small amounts. Furthermore, some younger traditional IRA investors may have shorter-term goals for the money (e.g., education or home purchase) and desire liquidity in their traditional IRA balances. Some of the financial uncertainty between 2007 and 2011 may have increased some investors' demand for liquidity.[60]

Because of the special rules and forces that apply to smaller account balances, it is important to analyze traditional IRA asset allocation by age while controlling for the size of the account balance. The default rollover rules appear to impact the share allocated to equity holdings in traditional IRAs with balances of $5,000 or less. For example, although 21.5 percent of traditional IRA investors owned no equity holdings at year-end 2011 (Figure 6.5), 49.0 percent of investors with account balances of $5,000 or less had no equity holdings (Figure 6.6). Among investors with account balances of more than $5,000, only 12.8 percent owned no equity holdings at year-end 2011 (Figure 6.7). This distinction is particularly evident among younger traditional IRA investors. While 63.2 percent of traditional IRA investors aged 25 to 29 with account balances of $5,000 or less owned no equity holdings at year-end 2011, only 16.6 percent of similarly aged investors with account balances of more than $5,000 owned no equity holdings at year-end 2011.

FIGURE 6.6

Percentage Invested in Equity Holdings in Traditional IRAs with Balances of $5,000 or Less

Percentage of traditional IRA investors by age, year-end 2007 and year-end 2011



Note: The samples are 1.3 million traditional IRA investors (aged 25 or older) with traditional IRA balances of $5,000 or less in 2007 and 2.4 million traditional IRA investors (aged 25 or older) with traditional IRA balances of $5,000 or less in 2011. Equity holdings are the sum of equities, equity funds, and the equity portion of balanced funds. Components may not add to 100 percent because of rounding.

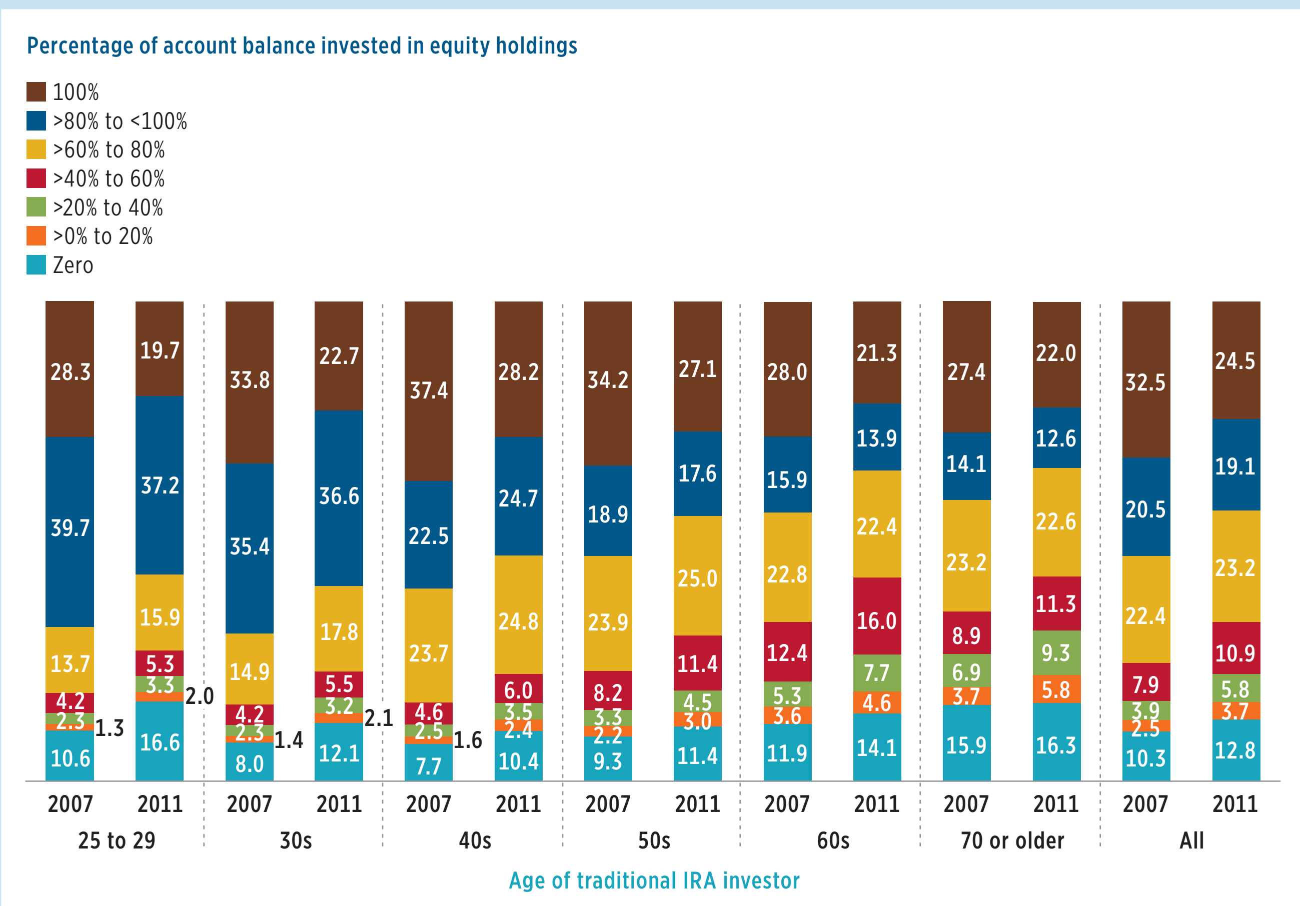
Source: The IRA Investor Database™

The share of smaller traditional IRAs with no exposure to equity holdings also increased significantly more between 2007 and 2011 than for larger traditional IRAs. At year-end 2007, 41.3 percent of traditional IRAs with balances of $5,000 or less owned no equity holdings (Figure 6.6). By year-end 2011, that share had increased to 49.0 percent. For traditional IRAs with more than $5,000, the share with no equity holdings increased less, from 10.3 percent at year-end 2007 to 12.8 percent at year-end 2011 (Figure 6.7). For traditional IRA investors aged 25 to 29 with account balances of more than $5,000, the percentage with no equity holdings increased from 10.6 percent at year-end 2007 to 16.6 percent at year-end 2011. However, for those younger traditional IRA investors with account balances of $5,000 or less, the share without equity holdings increased from 48.6 percent at year-end 2007 to 63.2 percent at year-end 2011. Although the default rollover rules were in place in 2007, they were relatively new and it is likely that fewer investors would have been affected by them.

FIGURE 6.7

Percentage Invested in Equity Holdings in Traditional IRAs with Balances of More Than $5,000

Percentage of traditional IRA investors by age, year-end 2007 and 2011



Note: The samples are 6.0 million traditional IRA investors (aged 25 or older) with traditional IRA balances of more than $5,000 in 2007 and 7.8 million traditional IRA investors (aged 25 or older) with traditional IRA balances of more than $5,000 in 2011. Equity holdings are the sum of equities, equity funds, and the equity portion of balanced funds. Components may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

Notes

[1] For a history of IRAs, see Holden et al. 2005. For a discussion of the changing role of IRAs, see Sabelhaus and Schrass 2009.

[2] For additional discussion of IRA-owning households, see Holden and Schrass 2012a and 2012b.

[3] ICI reports total IRA and total retirement market assets on a quarterly basis. For additional information on the U.S. retirement market at year-end 2012, see Investment Company Institute 2013. The Federal Reserve Board reports U.S. households' financial assets on a quarterly basis (see U.S. Federal Reserve Board 2013).

[4] See Holden and Schrass 2012a and Investment Company Institute 2013.

[5] At retirement, defined contribution plan account owners often choose to roll over their balances to IRAs. See Sabelhaus, Bogdan, and Holden 2008 and The Vanguard Group 2013.

[6] One of the frequently analyzed household surveys is the Survey of Consumer Finances (SCF), which is administered by the Federal Reserve Board. The SCF is a triennial interview survey of U.S. families sponsored by the Board of Governors of the Federal Reserve System and the U.S. Department of Treasury. The sample design of the survey aims to measure a broad range of financial characteristics. The sample has two parts: (1) a standard geographically based random sample and (2) a specially constructed oversampling of wealthy families. Weights are used to combine the two samples to represent the full population of U.S. families. The 2010 SCF interviewed 6,492 families, which represent 117.6 million families. Data available on the Federal Reserve Board's website are altered to protect the privacy of individual respondents and include weights. For an overview of the 2010 SCF results, see Bricker et al. 2012. For a full description of the SCF and recent SCF data, see www.federalreserve.gov/pubs/oss/oss2/scfindex.html. For a special panel analysis that resurveyed households from the 2007 SCF in 2009, see Bricker et al. 2011. For an overview of the 2007 SCF results, see Bucks et al. 2009.

Researchers interested in the behavior of older households use another publicly available household survey, the Health and Retirement Study (HRS), which is administered by the University of Michigan. For an extensive bibliography of papers using HRS data, see www.umich.edu/~hrswww/pubs/biblio.html.

Another household survey that is often used is the Survey of Income and Program Participation (SIPP), which is administered by the U.S. Census Bureau. For a complete description, see www.census.gov/sipp/intro.html.

[7] ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each spring to gather information on the demographic and financial characteristics of U.S. households. The May 2012 survey was based on a sample of 4,019 U.S. households selected by random digit dialing, of which 1,622 households, or 40.4 percent, owned IRAs. All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2012 sample of households is ± 1.6 percentage points at the 95 percent confidence level. For the 2012 survey results, see Schrass, Bogdan, and Holden 2012. For reporting of 2012 IRA incidence, see Holden and Schrass 2012a.

[8] ICI typically conducts the IRA Owners Survey each spring to gather information on characteristics and activities of IRA-owning households in the United States. The May 2012 survey was based on a sample of 2,801 randomly selected, representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the total sample is ± 1.9 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell education savings accounts (formerly called education IRAs). For results from the 2012 survey, see Holden and Schrass 2012a and 2012b.

[9] For the latest tabulations, see Bryant 2012.

[10] The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks, and asset managers. SIFMA's mission is to develop policies and practices which strengthen financial markets and which encourage capital mobility, job creation, and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, DC, is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

[11] While it is possible to track the same individuals over time within the same data provider, it is not possible to link individuals across providers. Therefore, it is possible that some IRA investors will be counted more than once if they own IRAs across multiple service providers. For additional detail on the variables collected and the data collection methodology, see Holden and Bass 2012.

[12] Another significant annual drop occurred in 1937, when large-cap stocks contracted 35.0 percent in value. See Morningstar 2013.

[13] See Citigroup Corporate 10+ Year bond index.

[14] See National Bureau of Economic Research 2010.

[15] For unemployment statistics, see U.S. Bureau of Labor Statistics 2013. For information on households' balance sheets and disposable personal income, see U.S. Federal Reserve Board 2013.

[16] See Standard & Poor's Case-Shiller Home Price Indices.

[17] Congress enacted the suspension of RMDs as part of the Worker, Retiree, and Employer Recovery Act of 2008. For more information, see Joint Committee on Taxation 2009.

[18] The ability to contribute to Roth IRAs is restricted based on household income. Prior to 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 2012a.

[19] Distributions also can result from recharacterization of contributions, but statistically, these amounts have been negligible.

[20] In 1998, individuals doing Roth IRA conversions could spread the tax bill generated over four years (1998 to 2001). In 1998, $39.3 billion was converted (see Figure 1.2). For more information, see discussion in Campbell, Parisi, and Balkovic 2000.

[21] See Bryan 2012.

[22] Analysis of Roth IRA investors is still in progress.

[23] Although it is possible to analyze conversions into Roth IRAs using The IRA Investor Database, it is not possible to fully identify conversions out of traditional IRAs.

[24] Rollover rates are lower among these consistent traditional IRA investors than in the annual cross-sectional snapshots (see Figure 3.4) because rollovers often open new traditional IRAs (see Figure 3.1) and these individuals have existing traditional IRAs by 2008.

[25] See Internal Revenue Service 2012a and Holden and Reid 2008.

[26] See Internal Revenue Service 2012a.

[27] See Sabelhaus, Bogdan, and Schrass 2008.

[28] Because no target date funds have a 100 percent equity allocation, investors with a 100 percent allocation to target date funds would not be counted as having 100 percent equity holdings.

[29] At year-end 2007, 65.7 percent of them had less than a full allocation to equity holdings, including 15.9 percent who had no equity holdings at all (see Figure 1.8). At year-end 2011, 70.2 percent had less than a full allocation to equity holdings, including 18.1 percent who had no equity holdings at all (see Figure 1.8).

[30] At year-end 2007, 70.3 percent of them had less than a full allocation to equity holdings, including 13.6 percent who had no equity holdings at all (see Figure 1.8). At year-end 2011, 75.5 percent had less than a full allocation to equity holdings, including 17.4 percent who had no equity holdings at all (see Figure 1.8).

[31] For a history of IRA contribution activity, see Holden et al. 2005.

[32] See Internal Revenue Service 2012a for the rules governing IRA contribution eligibility.

[33] In addition, some traditional IRA investors may choose to contribute to a Roth IRA. For example, in 2011, contribution rates among traditional IRA investors aged 25 to 69 increased from 8.3 percent to 12.4 percent if contributions to Roth IRAs at the same financial services firm were included.

[34] See discussion and references in Holden et al. 2005.

[35] Analysis of Survey of Consumer Finances data shows that younger and lower-income households were less likely to cite retirement as the primary reason they save. These households were more likely to be focused primarily on saving to fund education, to purchase a house, to fund other purchases, or to have cash on hand for an unexpected need. The tendency of younger workers to focus less on retirement savings is consistent with economic models of life-cycle consumption, which predict that most workers will delay saving for retirement until later in their working careers. For more information, see Brady and Bogdan 2013.

[36] See Holden et al. 2005 and Sabelhaus and Schrass 2009.

[37] See Holden et al. 2005.

[38] In 2012, 27 percent of households owning traditional IRAs that included rollovers responded that retirement was one of the reasons they chose to roll over the money (see Holden and Schrass 2012a).

[39] The EBRI/ICI 401(k) database finds that 401(k) balances tend to rise with investor age and job tenure. See Holden et al. 2012.

[40] This statistic undercounts the percentage of traditional IRA investors in 2011 with rollovers in their traditional IRAs because some will have rolled over money prior to 2007 and those rollovers cannot be identified in the database. In addition, rollovers made at a prior financial services firm cannot be identified in the database.

[41] See Holden and Schrass 2012a and 2012b.

[42] For more information, see Internal Revenue Service 2012a.

[43] For analysis of withdrawal activity among traditional IRA–owning households, see Holden and Schrass 2012a. Regression analysis in Holden and Reid 2008 suggests that the additional 10 percent tax puts a damper on withdrawal activity.

[44] The IRS rules indicate a traditional IRA investor must commence RMDs by April 1 following the calendar year in which the investor turns 70½. For additional details, see Internal Revenue Service 2012a.

[45] As part of the Worker, Retiree, and Employer Recovery Act of 2008, RMDs were waived for 2009. See Joint Committee on Taxation 2009.

[46] Some of the increase in withdrawal activity results from the aging of traditional IRA investors. In fact, if the age distribution in The IRA Investor Database had remained unchanged since 2007, then 19.5 percent of all traditional IRA investors aged 25 or older would have taken a withdrawal in 2011, which suggests about 1.4 percentage points of the 20.9 percent of traditional IRA investors with withdrawals in 2011 results simply from investor aging. At year-end 2007, 32.8 percent of traditional IRA investors in the database were 60 or older, which rose to 36.2 percent at year-end 2011.

[47] See Internal Revenue Service 2012a.

[48] See Bryant 2008.

[49] For more information, see Holden and Schrass 2012a and 2012b.

[50] Among those traditional IRA investors with withdrawals taking less than the self RMD amount, it is possible that they used a traditional IRA at another financial services firm to fulfill the RMD.

[51] Conversion activity also can impact traditional IRA balances. Generally, there are low levels of conversions, although lifting the income limits on Roth conversion activity in 2010 with special tax treatment in that year increased conversion activity. At this time, a complete estimate of the magnitude of that conversion activity is not known.

[52] See Internal Revenue Service 2012a for investment restrictions. Traditional IRA investors can generally select from the full range of mutual funds, exchange-traded funds, closed-end funds, stocks, bonds, and bank products.

[53] The ICI IRA Owners Survey finds that households with rollovers in their traditional IRAs tend to have higher balances, on average, than those without rollovers. For additional detail, see Holden and Schrass 2012a and 2012b. The IRA Investor Database also finds this result (see Figure 3.5).

[54] Because RMD amounts are based on average life expectancy, older RMD-aged traditional IRA investors generally have to withdraw a larger percentage of their account balances than younger RMD-aged investors. For example, while unmarried 70-year-old traditional IRA investors would have been required to withdraw 3.6 percent of their balances in 2011, that number was 5.3 percent of the traditional IRA balance for 80-year-olds, and 8.8 percent for 90-year-olds. For more information, see Internal Revenue Service 2012a.

[55] A target date fund pursues a long-term investment strategy, using a mix of asset classes, or asset allocation, that the fund provider adjusts to become less focused on growth and more focused on income over time as the fund approaches and passes the target date, which is usually mentioned in the fund's name. The asset allocation path that the target date fund follows to shift its focus from growth to income over time is typically referred to as the "glide path." Since discussions of asset allocation usually focus on the percentage of the portfolio invested in equities, the glide path generally reflects the declining percentage of equities in the portfolio as it approaches and passes the target date. The target date generally is the date at which the typical investor for whom that fund is designed would reach retirement age and stop making new investments in the fund. For additional information on target date funds, see ICI's Target Retirement Date Fund Resource Center at www.ici.org/trdf.

[56] For the pattern of use of target date funds in 401(k) plans, see Holden et al. 2012.

[57] Target date fund use is more widespread among 401(k) plan participants. At year-end 2011, 39.2 percent of 401(k) plan participants invested at least some of their accounts in target date funds (including target date mutual funds and target date collective investment trusts). See Holden et al. 2012.

[58] For discussion of how U.S. households' investments change over the life cycle, see Sabelhaus, Bogdan, and Schrass 2008. For the pattern of equity versus bond investing across 401(k) participants by age, see Holden et al. 2012.

[59] For more information on the rules governing automatic rollovers, see U.S. Department of Labor 2004.

[60] Household survey results from this time indicate households' willingness to take financial risk declined in the wake of the financial crisis. See Schrass, Bogdan, and Holden 2012.

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