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Sarah Holden, Senior Director of Retirement and Investor Research, and Daniel Schrass, Associate Economist, prepared this report.

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The Role of IRAs in U.S. Households' Saving for Retirement, 2015

KEY FINDINGS

- » **Nearly one-third of U.S. households owned IRAs in 2015.** More than eight in 10 IRA-owning households also had employer-sponsored retirement plan accumulations or had defined benefit plan coverage. All told, 60 percent of all U.S. households had retirement plans through work or IRAs.
- » **Nearly one-quarter of U.S. households owned traditional IRAs in 2015.** Traditional IRAs were the most common type of IRA owned, followed by Roth IRAs and employer-sponsored IRAs.
- » **Rollovers from employer-sponsored retirement plans have fueled the growth in IRAs.** Nearly half of traditional IRA-owning households indicated their IRAs contained rollovers from employer-sponsored retirement plans. Among households with rollovers in their traditional IRAs, 76 percent indicated they had rolled over the entire retirement account balance in their most recent rollover. More than half also had made contributions to their traditional IRAs at some point.
- » **Traditional IRA-owning households with rollovers cite multiple reasons for rolling over their retirement plan assets into traditional IRAs.** The two most common primary reasons for rolling over were wanting more investment options (21 percent of traditional IRA-owning households with rollovers) and not wanting to leave assets behind at the former employer (19 percent of traditional IRA-owning households with rollovers). Another 16 percent of traditional IRA-owning households with rollovers indicated their primary reason for rolling over was to consolidate assets.
- » **Although most U.S. households were eligible to make IRA contributions, few did so.** Only 14 percent of U.S. households contributed to any type of IRA in tax year 2014, and very few eligible households made catch-up contributions to traditional IRAs or Roth IRAs.

- » **IRA withdrawals were infrequent and mostly retirement related.** Twenty-two percent of traditional IRA-owning households took withdrawals in tax year 2014, compared with 20 percent in tax year 2013.
- » **The majority of traditional IRA withdrawals were made by retirees.** Seventy-three percent of households that made traditional IRA withdrawals were retired. Indeed, only 9 percent of traditional IRA-owning households in mid-2015 headed by individuals younger than 59 took withdrawals. Sixty-one percent of withdrawals were calculated using the required minimum distribution (RMD)—this was the most common amount withdrawn.
- » **Traditional IRA-owning households not making withdrawals generally indicated they do not plan to tap their IRAs until age 70½.** Seventy-two percent of traditional IRA-owning households not making withdrawals in tax year 2014 indicated it was unlikely they would withdraw from their traditional IRAs before age 70½. The most commonly cited planned future uses of traditional IRA withdrawals were to pay for living expenses and cover emergencies.

IRAs Play an Increasingly Important Role in Saving for Retirement

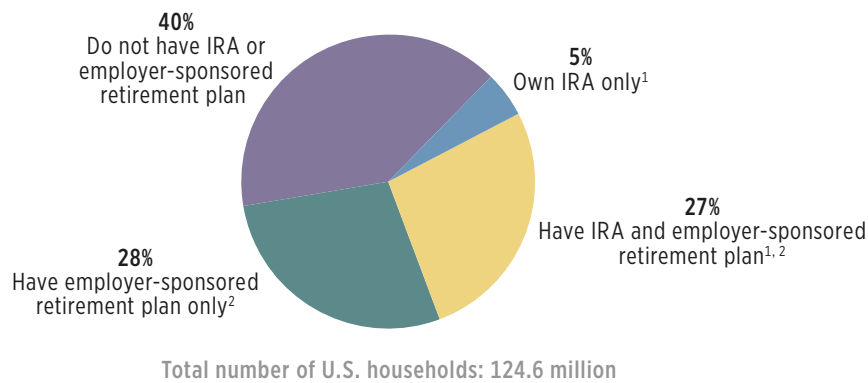
With \$7.3 trillion in assets at the end of the third quarter of 2015, individual retirement accounts (IRAs) represented 31 percent of U.S. total retirement market assets, compared with 18 percent two decades ago.¹ IRAs also have risen in importance on household balance sheets. In September 2015, IRA assets were 11 percent of all household financial assets, up from 6 percent of assets two decades ago.² In mid-2015, 40.2 million, or 32 percent of, U.S. households reported they owned IRAs (Figure 1).³ Among all IRA-owning households in mid-2015, more than eight in 10 also had employer-sponsored retirement plans; that is, they had defined contribution (DC) plan balances, current defined benefit (DB) plan payments, or expected future DB plan payments. Another 28 percent of U.S. households reported employer-sponsored retirement plan coverage, but no IRAs. All told, nearly 75 million, or 60 percent of, U.S. households had some type of formal, tax-advantaged retirement savings.

Traditional IRAs are the oldest and most common type of IRA. In mid-2015, 30.4 million, or 24.4 percent of, U.S. households owned traditional IRAs (Figure 2).⁴ In addition to being a repository for contributions, the traditional IRA is a vehicle for rollovers from employer-sponsored retirement plans. Indeed, nearly half of U.S. households with traditional IRAs indicated their IRAs contained rollover assets.⁵ Roth IRAs, which were first available in 1998, are the second most frequently owned type of IRA, held by 20.3 million, or 16.3 percent of, U.S. households.⁶ In mid-2015, 5.4 percent of U.S. households owned employer-sponsored IRAs, which include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

FIGURE 1

Many U.S. Households Have Tax-Advantaged Retirement Savings

Percentage of U.S. households, 2015



¹IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

²Employer-sponsored retirement plans include DC and DB retirement plans.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

FIGURE 2

Millions of U.S. Households Own IRAs

	Year created	Number of U.S. households with type of IRA, ¹ 2015	Percentage of U.S. households with type of IRA, ¹ 2015
Traditional IRA	1974 (Employee Retirement Income Security Act)	30.4 million	24.4%
SEP IRA²	1978 (Revenue Act)	6.7 million	5.4%
SAR-SEP IRA²	1986 (Tax Reform Act)		
SIMPLE IRA²	1996 (Small Business Job Protection Act)		
Roth IRA	1997 (Taxpayer Relief Act)	20.3 million	16.3%
Any IRA¹		40.2 million	32.3%

¹Households may own more than one type of IRA.

²SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs are employer-sponsored IRAs.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

About the Annual Mutual Fund Shareholder Tracking Survey

ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each year to gather information on the demographic and financial characteristics of mutual fund-owning households in the United States. The most recent survey was conducted from May to July 2015 and was based on a dual frame telephone sample of 6,000 U.S. households. Of these, 3,000 households were from a landline random digit dial (RDD) frame and 3,000 households were from a cell phone RDD frame. All interviews were conducted over the telephone with the member of the household who was either the sole or the co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2015 sample of households is ± 1.3 percentage points at the 95 percent confidence level.

Revisions to ICI's Annual Mutual Fund Shareholder Tracking Survey

In the usual course of household survey work, researchers periodically reexamine sampling and weighting methods to ensure that the results published are representative of the millions of households in the United States. ICI reexamined its Annual Mutual Fund Shareholder Tracking Survey in 2014, and the figures on incidence of IRA ownership presented in this paper for the 2015 survey reflect the revised sampling and weighting methodology that was adopted in 2014. In order to achieve a representative sample of U.S. households, the 2014 and 2015 Annual Mutual Fund Shareholder Tracking Survey is based on a dual frame sample of landline and cell phone numbers. The combined sample includes about 50 percent of households reached on a landline and about 50 percent of households reached on a cell phone. In previous years, the Annual Mutual Fund Shareholder Tracking Survey was based on a sample of landline phone numbers only. The change to a combined sample of cell and landline phone numbers improves the representativeness of the sample. For a detailed description of the survey methodology, see "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2015," *ICI Research Perspective* 21, no. 5 (November), available at www.ici.org/pdf/per21-05.pdf.

About the IRA Owners Survey

ICI conducts the IRA Owners Survey each year to gather information on the characteristics and activities of IRA-owning households in the United States. The most recent survey was conducted from May to July 2015 and was based on a dual frame telephone sample of 3,200 randomly selected, representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). The 2015 sample included 2,200 households from a landline RDD frame and 1,000 households from a cell phone RDD frame. All interviews were conducted over the telephone with the member of the household aged 18 or older who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the total sample is ± 1.7 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called education IRAs).

Revisions to ICI's IRA Owners Survey

The IRA Owners Survey interviews a random sample of U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) to determine the demographic and financial characteristics of households owning IRAs. ICI reexamined its IRA Owners Survey in 2014, and the figures presented in this paper for the 2015 survey reflect the revised sampling and weighting methodology that was adopted in 2014. In order to achieve a representative sample of U.S. households owning IRAs, the 2014 and 2015 IRA Owners Survey is based on a dual frame sample of landline and cell phone numbers. The combined sample includes about 69 percent of households reached on a landline and about 31 percent of households reached on a cell phone. In previous years, the IRA Owners Survey was based on a sample of landline phone numbers only. The change to a combined sample of cell and landline phone numbers improves the representativeness of the sample.

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Because the sample methodology for the IRA Owners Survey was changed to a dual frame RDD survey to include cell phones starting in 2014, it was necessary to adjust the weighting methodology for the survey. In order to combine the landline and cell phone samples, an initial base weight was created to adjust for households that could have been in both the landline and cell phone sample frames. A second stage of weighting included the standard raking to control totals based on census region, householder age, household income, educational attainment, and household telephone status of U.S. households owning IRAs.

Incidence of IRA Ownership Increases with Age and Income

People of all ages own IRAs, but ownership is greatest among the older groups of working-age individuals. This reflects the life-cycle effects on saving; that is, households tend to focus on retirement-related saving as they get older (and save for other goals such as education or buying a house when younger).⁷ Also, many traditional IRA owners became owners as a result of rollovers from employer-sponsored plans, which occur after at least some years in the workforce.⁸ In mid-2015, 38 percent of households headed by an individual aged 45 to 54 owned IRAs, and

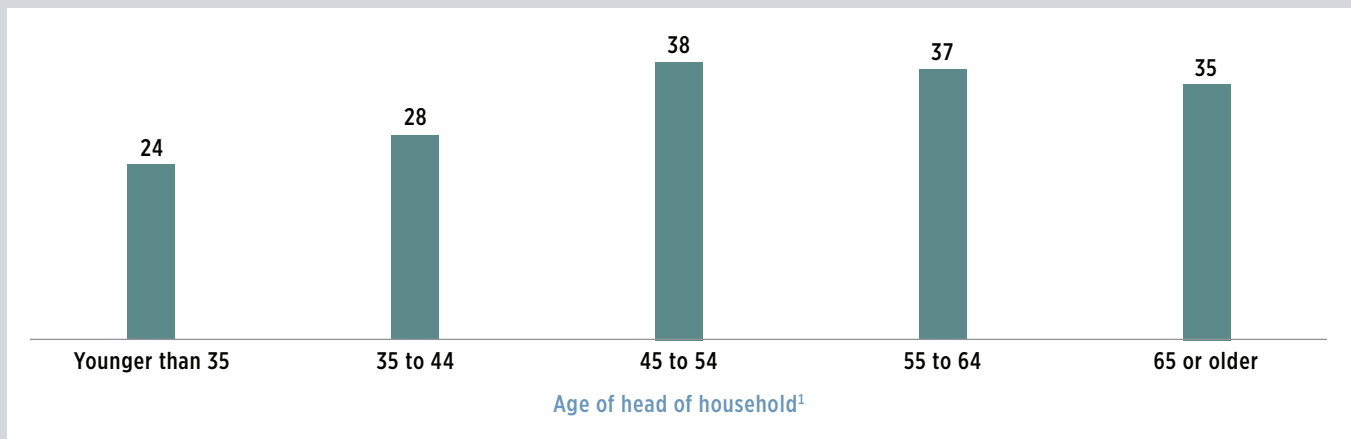
37 percent of households headed by an individual aged 55 to 64 owned IRAs (Figure 3). As a result, 69 percent of IRA-owning households were headed by individuals aged 45 or older (Figure 4). Among all U.S. households, by comparison, 62 percent were headed by individuals in this age group.

Although the majority of IRA-owning households had moderate incomes, IRA ownership tends to increase with household income. This pattern is consistent with the fact that lower-income households, which tend to be focused on near-term spending needs, and which receive a higher replacement benefit through Social Security,⁹ generally have

FIGURE 3

Incidence of IRA Ownership Is Greatest Among 45- to 64-Year-Olds

Percentage of U.S. households within each age group that own IRAs,^{1, 2} 2015



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

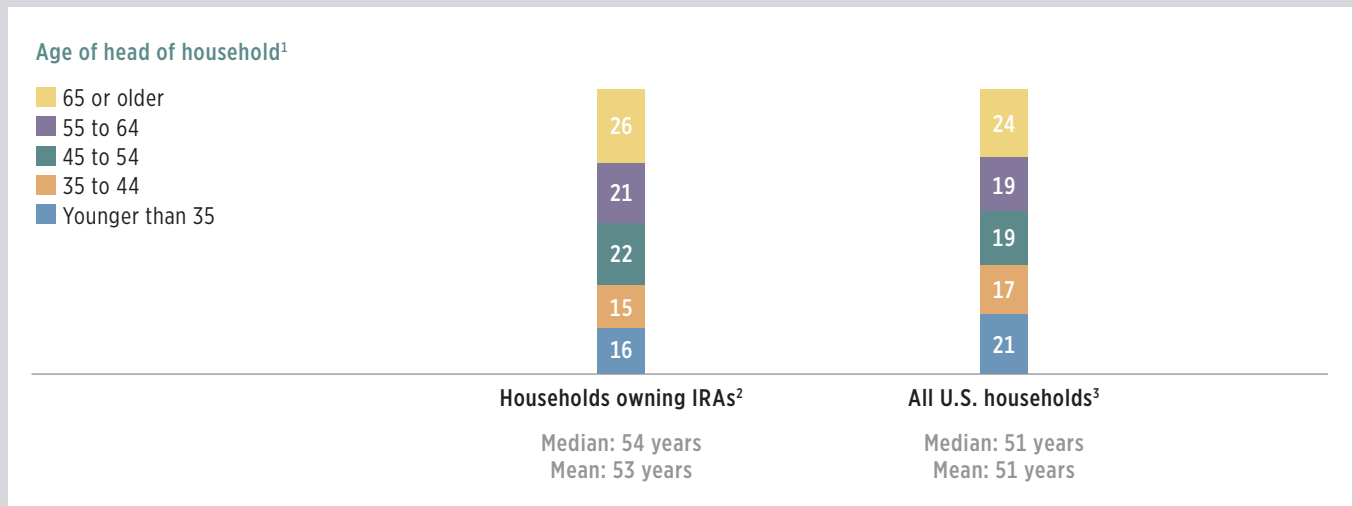
² IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

FIGURE 4

Most IRA-Owning Households Are Between Ages 35 and 64

Percent distribution of households owning IRAs and all U.S. households by age,^{1, 2} 2015



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

² IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

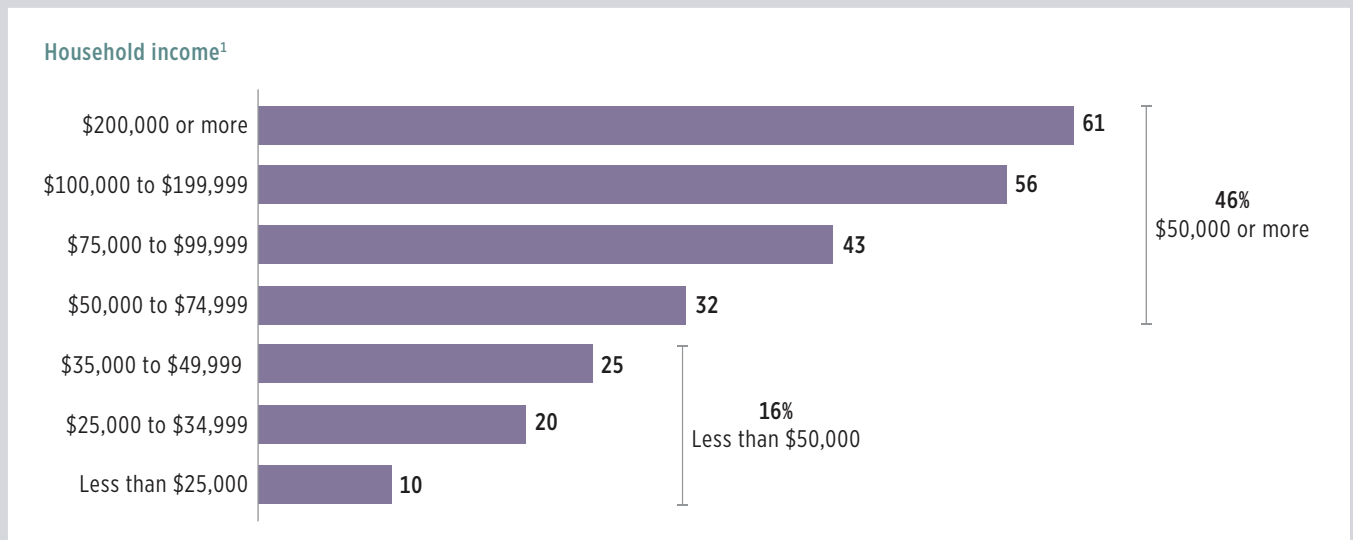
³ The percentage of all households in each age group is based on ICI survey data and is weighted to match the U.S. Census Bureau's Current Population Survey (CPS).

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

FIGURE 5

Incidence of IRA Ownership Increases with Household Income

Percentage of U.S. households within each income group¹ that own IRAs,² 2015



¹ Total reported is household income before taxes in 2014.

² IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

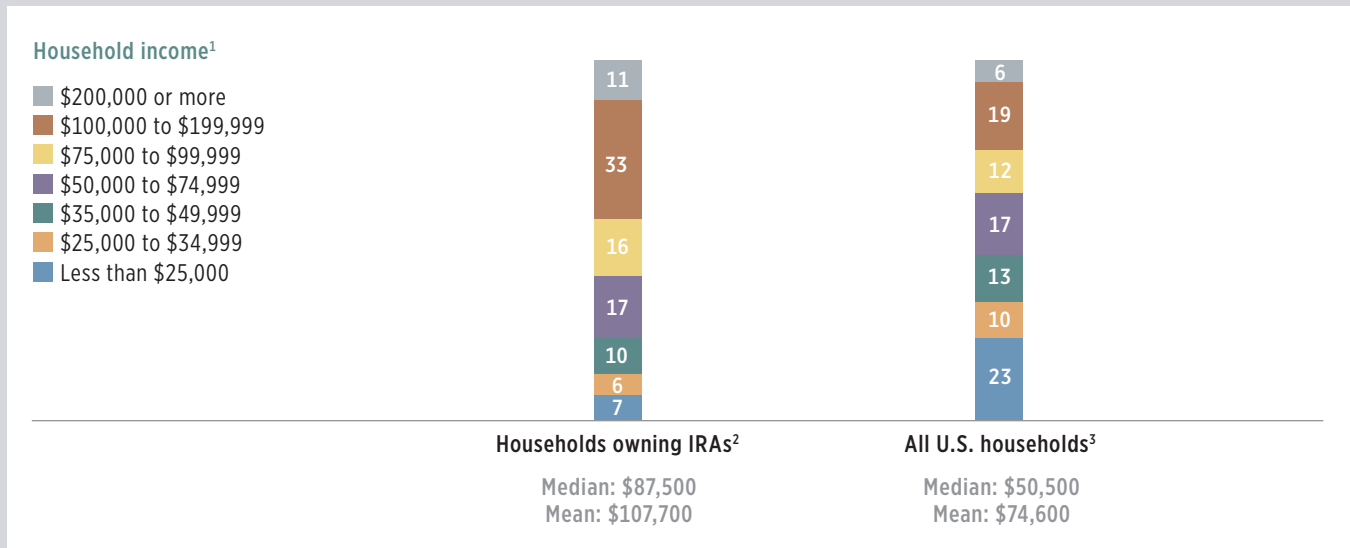
a lower propensity to save for retirement.¹⁰ Forty-six percent of households with incomes of \$50,000 or more owned IRAs, compared with 16 percent of households with incomes of less than \$50,000 (Figure 5). Fifty-seven percent households with incomes of \$100,000 or more owned IRAs in mid-2015.

As a result, 13 percent of households owning IRAs earned less than \$35,000, compared with 33 percent of all U.S. households (Figure 6). Forty-three percent of households owning IRAs in mid-2015 had incomes between \$35,000 and \$99,999, similar to 42 percent of all U.S. households.

FIGURE 6

Most IRA-Owning Households Have Moderate Incomes

Percent distribution of households owning IRAs and all U.S. households by household income,^{1, 2} 2015



¹Total reported is household income before taxes in 2014.

²IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

³The percentage of all households in each income group is based on ICI survey data and is weighted to match the U.S. Census Bureau’s Current Population Survey (CPS). For 2014, the estimated median and mean income for all U.S. households from the CPS is \$53,657 and \$75,738, respectively.

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

IRA Owners Tend to Be Savers

IRA owners build substantial financial assets. The median financial assets of IRA-owning households were 10 times greater than the median financial assets of households that did not own IRAs (Figure 7). Those assets included DC retirement plan accounts—75 percent of households that owned IRAs also owned such accounts. IRA owners typically exhibit the characteristics that correlate with a greater propensity to save: the financial decisionmakers of households with IRAs tend to be older and are more likely to be married, employed, and have college or postgraduate degrees than households that do not own IRAs.¹¹

Like other investing households, the majority of IRA-owning households were willing to take some investment

risk for financial gain. Willingness to take investment risk remained about the same among IRA-owning households overall between 2011 and 2015. In mid-2015, 30 percent of IRA-owning households were willing to take substantial or above-average investment risk for similar levels of financial gain, compared with 29 percent in 2014, 28 percent in 2013 and 2012, and 30 percent in 2011 (Figure 8).^{12, 13}

In mid-2015, while 30 percent of IRA-owning households were willing to take substantial or above-average risk, the largest percentage of households owning IRAs, 46 percent, were willing to take average risk for average gain (Figure 9). Twenty-four percent were willing to take below-average risk for below-average gain or were unwilling to take any investment risk. Willingness to take

FIGURE 7

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

Characteristics of U.S. households by ownership of IRAs,¹ 2015

	Households owning IRAs ¹	Households not owning IRAs
Median per household		
Age of household sole or co-decisionmaker for saving and investing	54 years	49 years
Household income ²	\$87,500	\$40,000
Household financial assets ³	\$300,000	\$30,000
Household financial assets in IRAs	\$50,000	N/A
Share of household financial assets in IRAs	32%	N/A
Percentage of households		
Household sole or co-decisionmaker for saving and investing		
Married or living with a partner	71%	52%
College or postgraduate degree	54	24
Employed full- or part-time	69	56
Retired from lifetime occupation	30	27
Household has DC account or DB plan coverage (total)		
DC retirement plan account	75	33
DB plan coverage	43	19

¹ IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

² Total reported is household income before taxes in 2014.

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

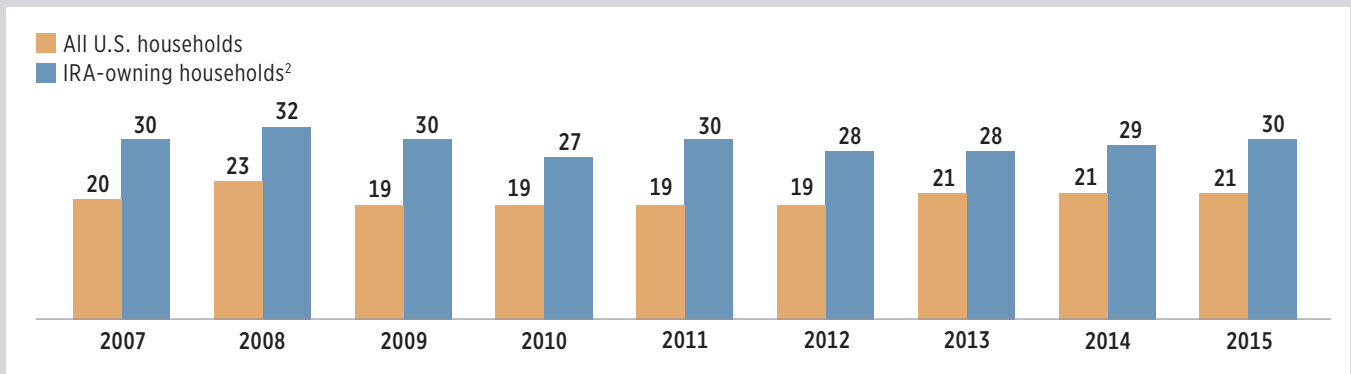
N/A = not applicable

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

FIGURE 8

IRA-Owning Households Are More Willing to Take Investment Risk

Percentage of U.S. households by ownership of IRAs, willingness to take above-average or substantial investment risk,¹ 2007–2015



¹The question had three other possible responses: average risk for average gain, below-average risk for below-average gain, and unwilling to take any risk.

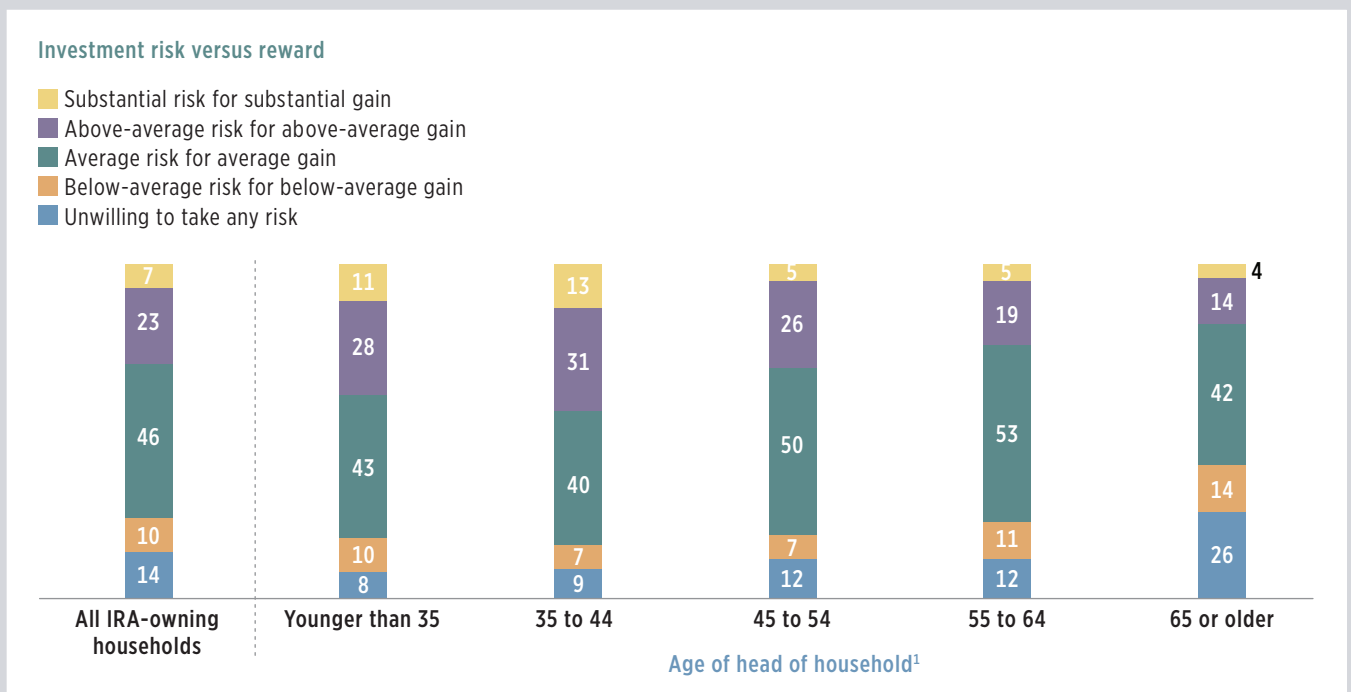
²IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Sources: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances, Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey, and Investment Company Institute IRA Owners Survey

FIGURE 9

Willingness to Take Investment Risk Falls with Age

Percentage of U.S. households owning IRAs by age,^{1,2} 2015



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

²IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Source: Investment Company Institute IRA Owners Survey

investment risk among households owning IRAs generally decreases with age.¹⁴ Eighteen percent of IRA-owning households aged 65 or older reported that they were willing to take substantial or above-average investment risk

for similar levels of gain. Thirty-nine percent of IRA-owning households younger than 35 were willing to take substantial or above-average investment risk for similar levels of gain.¹⁵

FIGURE 10

Willingness to Take Investment Risk by Age for Households That Own IRAs

Percentage of U.S. households owning IRAs by age of head of household, willingness to take above-average or substantial investment risk, 2007–2015



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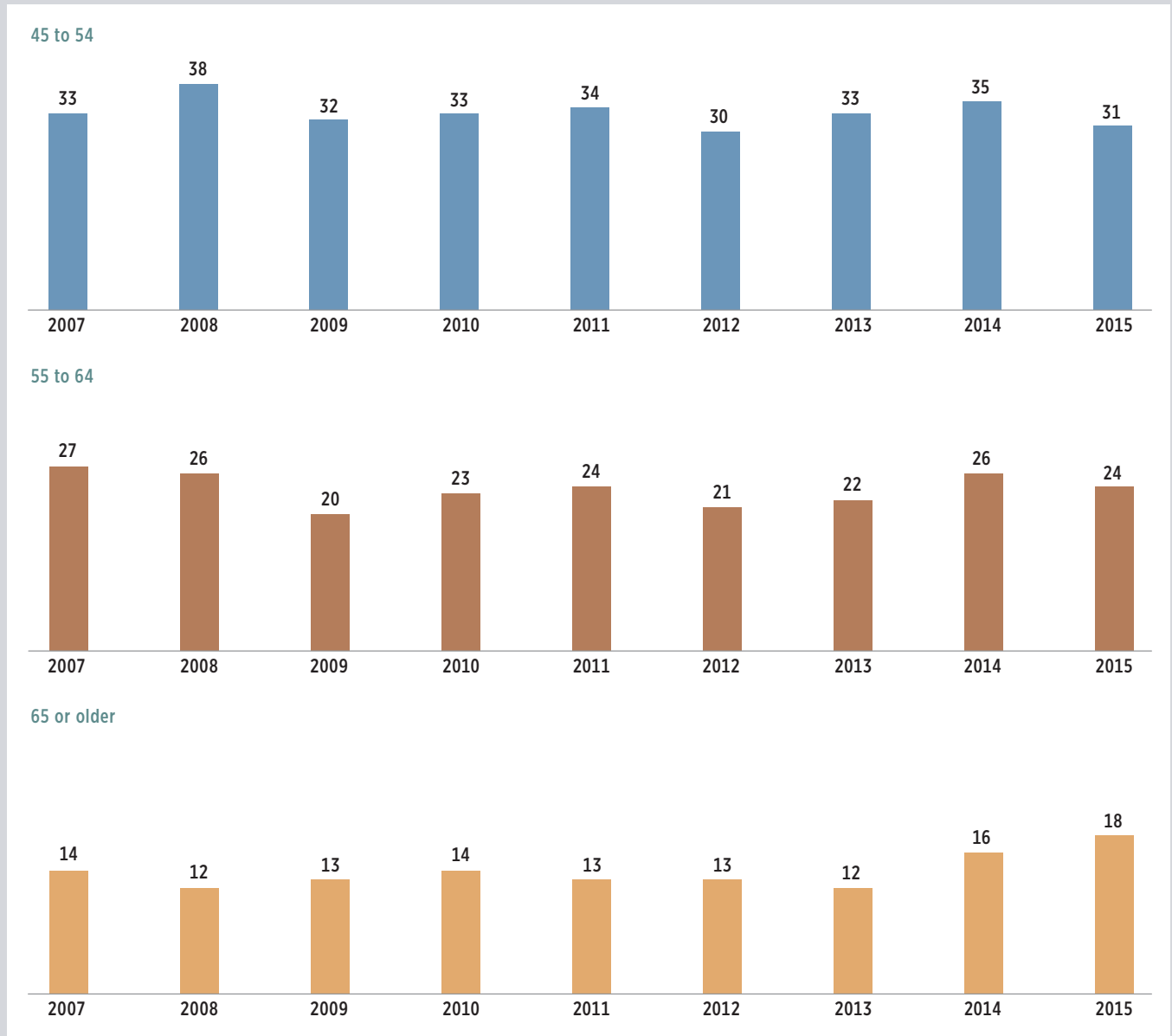
Between mid-2014 and mid-2015, willingness to take investment risk increased or stayed about the same for every age group of IRA-owning households except for those aged 45 to 64. For example, 39 percent of IRA-owning

households younger than 35 reported that they were willing to take substantial or above-average investment risk for similar levels of gain in mid-2015, compared with 38 percent in 2014 (Figure 10).¹⁶ Forty-four percent of

FIGURE 10 CONTINUED

Willingness to Take Investment Risk by Age for Households That Own IRAs

Percentage of U.S. households owning IRAs by age of head of household, willingness to take above-average or substantial investment risk, 2007-2015



Note: The question had three other possible responses: average risk for average gain, below-average risk for below-average gain, and unwilling to take any risk.

Sources: Investment Company Institute tabulations of Federal Reserve Board Survey of Consumer Finances, Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey, and Investment Company Institute IRA Owners Survey

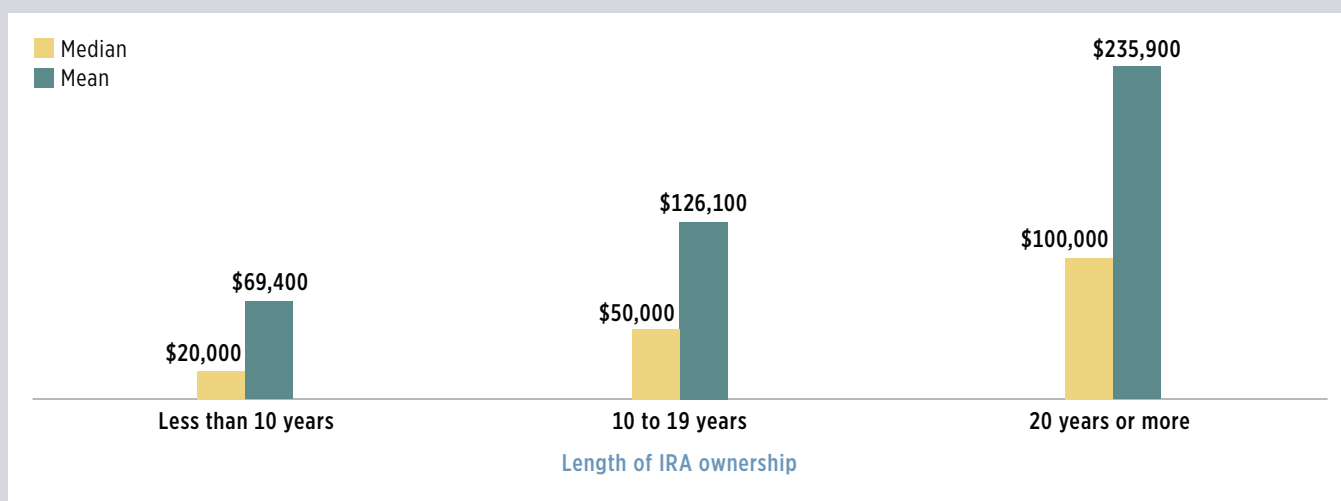
IRA-owning households aged 35 to 44 reported that they were willing to take substantial or above-average investment risk for similar levels of gain in mid-2015, compared with 34 percent in 2014. In mid-2015, 18 percent of IRA-owning households aged 65 or older were willing to take substantial or above-average investment risk for similar levels of gain, compared with 16 percent in 2014. Willingness to take investment risk decreased in mid-2015 for IRA-owning households aged 45 to 64.

Just as 401(k) balances tend to be higher the longer a worker's job tenure,¹⁷ IRA balances tend to rise with length of ownership. In mid-2015, households owning IRAs for less than 10 years had median IRA holdings of \$20,000, while households owning IRAs for 20 years or more had median IRA holdings of \$100,000 (Figure 11). Mean IRA holdings, though considerably higher than the median values, display a similar pattern.

FIGURE 11

IRA Assets Increase with Length of IRA Ownership

Median and mean household financial assets in IRAs by length of IRA ownership, 2015



Note: IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Source: Investment Company Institute IRA Owners Survey

Rollovers to Traditional IRAs Fuel Growth

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

retirement savings, has fueled recent IRA growth. The most recent available data show that households transferred \$335 billion from employer-sponsored retirement plans to IRAs in 2012.²¹ In mid-2015, about 15 million U.S. households (or 49 percent of all U.S. households owning traditional IRAs) had traditional IRAs that included rollover assets (Figure 12).²² With their most recent rollovers,

FIGURE 12

Rollovers Are Often a Source of Assets for Traditional IRAs

Households with traditional IRAs that include rollovers

Percentage of households owning traditional IRAs, 2015

Traditional IRA includes rollover	49
Traditional IRA does not include rollover	51

Traditional IRA rollover activity

Percentage of households owning traditional IRAs that include rollovers, 2015

Traditional IRA rollover(s) because of*

Job change, layoff, or termination	69
Retirement	34
Other	13

Contributions to traditional IRA other than rollover

Have made contribution other than rollover	51
Have never made contribution in addition to rollover	49

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

Less than 25 percent	16
25 to 49 percent	16
50 to 74 percent	22
75 percent or more	46
Median percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans	60

* Multiple responses are included.

Note: Number of respondents varies.

Source: Investment Company Institute IRA Owners Survey

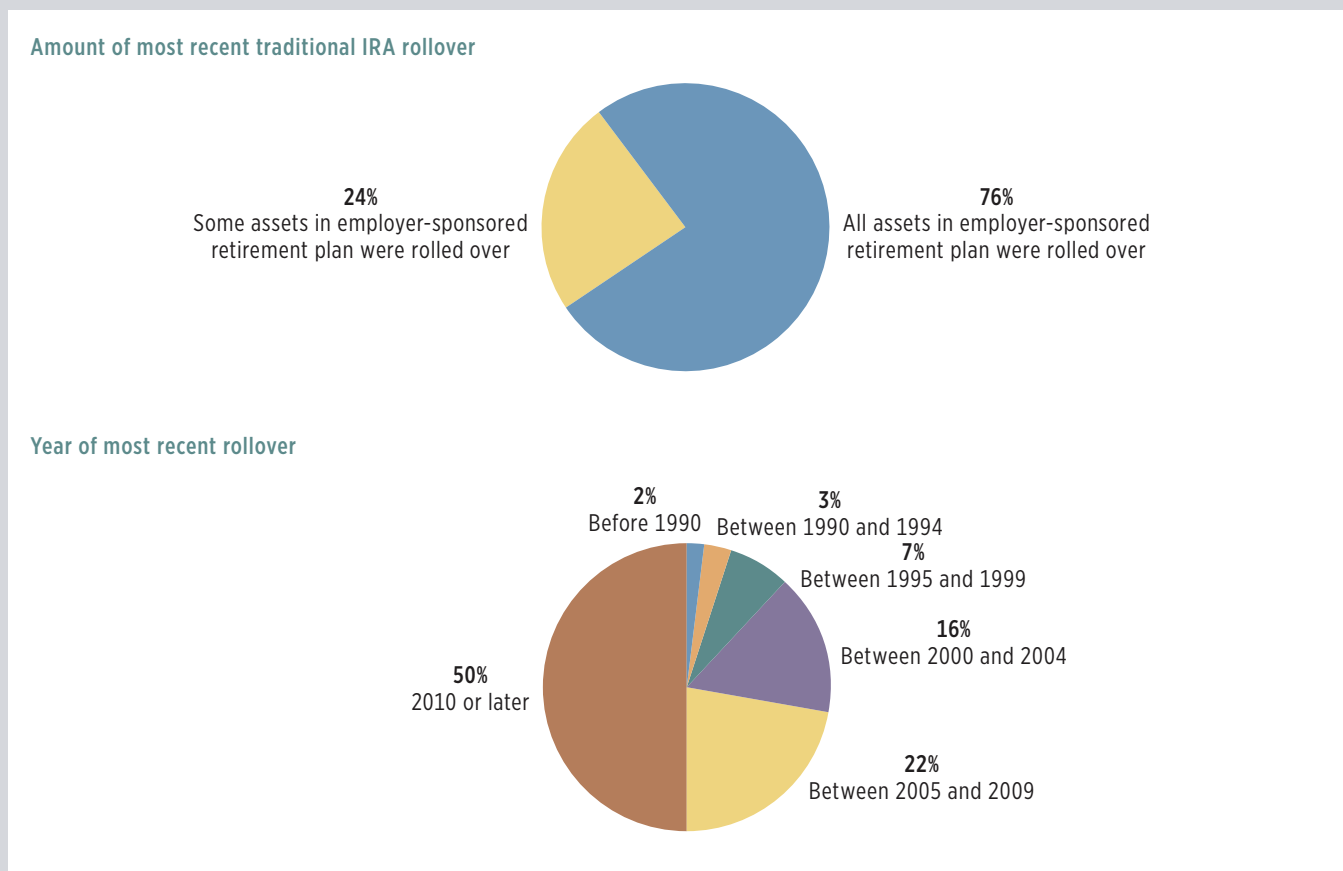
the vast majority of these households (76 percent) transferred the entire retirement plan account balance into the traditional IRA (Figure 13, top panel).²³ Nearly nine in 10 traditional IRA-owning households with rollovers made their most recent rollover in 2000 or later, including 72 percent whose most recent rollover was within the past 10 years (Figure 13, lower panel). Among households with rollovers in their traditional IRAs, 49 percent only had rollover IRAs (having never made traditional IRA contributions) (Figure 12).

Most traditional IRA-owning households with rollovers had multiple reasons for rolling over the accumulations from their employer-sponsored retirement plans to traditional IRAs (Figure 14).²⁴ For example, 67 percent said they wanted to preserve the tax treatment of the savings and 61 percent rolled over to get more investment options. Sixty-one percent did not want to leave assets with their former employer. Fifty-eight percent of traditional IRA-owning households with rollovers indicated that consolidating assets was one of the reasons for the rollover.

FIGURE 13

Amount and Timing of Most Recent Traditional IRA Rollover

Percentage of traditional IRA-owning households with rollovers, 2015



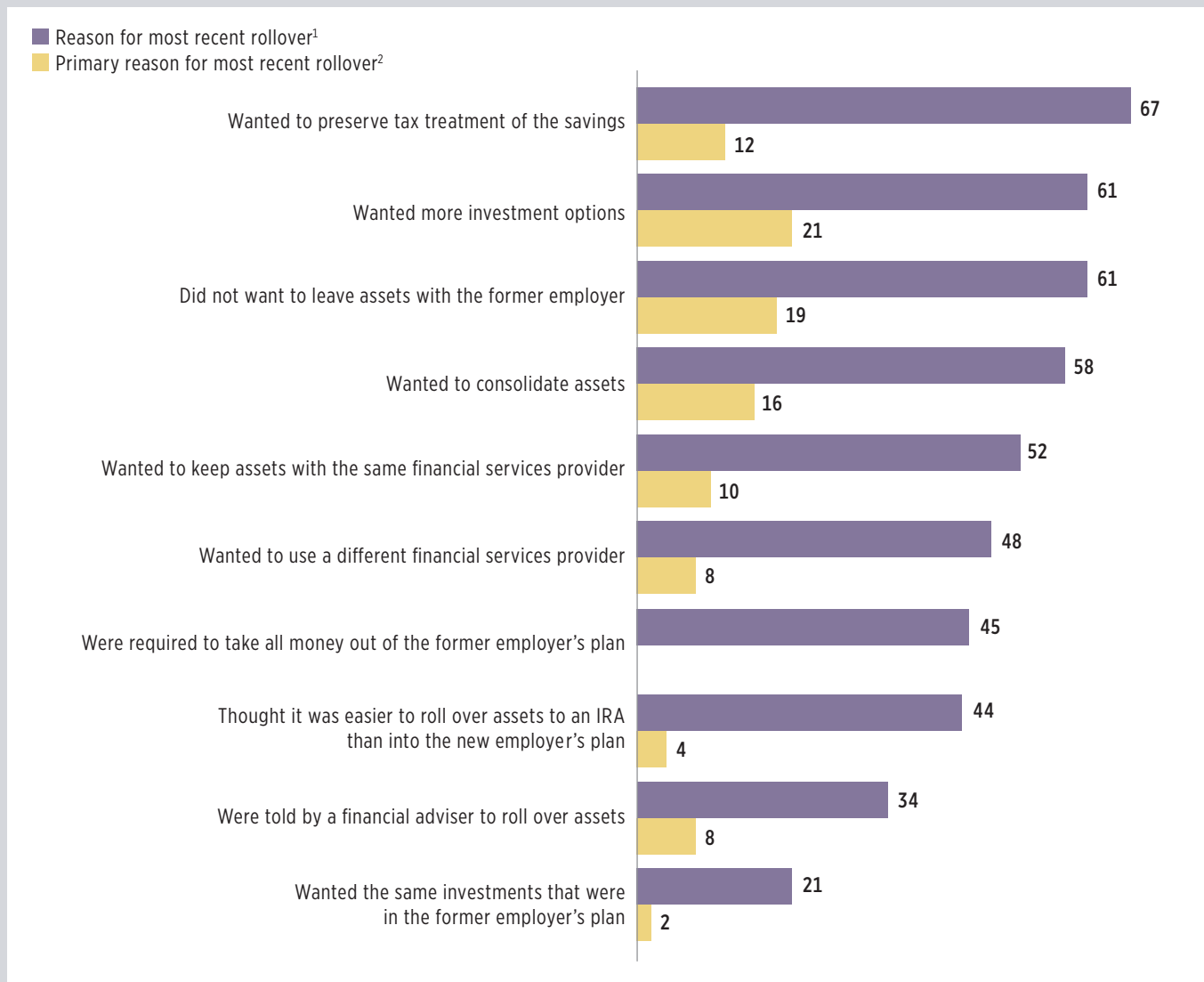
Note: Forty-nine percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans (see Figure 12).

Source: Investment Company Institute IRA Owners Survey

FIGURE 14

Reasons for Most Recent Rollover

Percentage of households owning traditional IRAs that include rollovers, 2015



¹ Multiple responses are included for all responses except for respondents who were required to take the money out of their former employer's plan.

² Figure does not include the households owning traditional IRAs that include rollovers that were required to take the money out of their former employer's plan.

Source: Investment Company Institute IRA Owners Survey

Forty-eight percent rolled over to change financial services providers, and 52 percent kept their assets with the same financial services provider when they rolled over assets. Forty-four percent thought it was easier to roll over to an IRA than into their new employer’s plan. Forty-five percent indicated they were required to take all of their money out of their former employer’s plan.

When traditional IRA-owning households that chose to roll over were asked to identify the primary reason for the rollover, 21 percent said they wanted more investment options, and 19 percent said they did not want to leave the assets with their former employer (Figure 14). Sixteen percent rolled over primarily to consolidate assets and 12 percent wanted to preserve the tax treatment of the savings. Eight percent said the primary reason they rolled over was to use a different financial services firm,

and 10 percent said the primary reason they rolled over was to use the same financial services firm. Eight percent indicated the primary reason they rolled the money over was that a professional financial adviser recommended it. Four percent indicated the primary reason they rolled their retirement plan accumulations over to a traditional IRA was because it was easier to roll over to an IRA than to their new employer’s plan.

Traditional IRA-owning households generally researched the decision to roll over money from their former employer’s retirement plan into a traditional IRA. Eighty-one percent consulted multiple sources of information—the most common source of information was professional financial advisers, who were consulted by 63 percent of traditional IRA-owning households with rollovers (Figure 15, first panel). Nearly four in 10 traditional IRA-

FIGURE 15

Sources of Information Consulted for Rollover Decision

Percentage of traditional IRA-owning households with rollovers by age of head of household,¹ 2015

	Age of head of household ¹				
	All	Younger than 50	50 to 59	60 to 69	70 or older
Source of information²					
Your spouse or partner	43	48	42	39	42
Coworker, friend, or family member	23	31	19	21	22
Your employer (printed or online materials, seminars, workshops)	38	44	34	36	37
Seminar or workshop sponsored by your employer	12	12	10	14	16
Printed materials provided by your employer	29	33	27	26	30
Online materials from your employer	19	24	15	18	15
Financial services firms (printed or online materials, seminars, workshops, phone representative)	65	66	63	66	62
Seminar or workshop sponsored by financial services firms	15	8	10	20	26
Printed materials provided by financial services firms	38	35	40	38	41
Online materials from financial services firms	29	36	28	28	21
Phone representative from a financial services firm	32	32	34	32	32
IRS rules or publications	30	28	32	26	34
Professional financial adviser	63	57	64	69	63
Other ³	7	4	7	8	8

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FIGURE 15 CONTINUED

Sources of Information Consulted for Rollover Decision

Percentage of traditional IRA-owning households with rollovers by age of head of household,¹ 2015

	Age of head of household ¹				
	All	Younger than 50	50 to 59	60 to 69	70 or older
Primary source of information					
Your spouse or partner	6	7	5	5	8
Coworker, friend, or family member	8	10	9	5	8
Your employer (printed or online materials, seminars, workshops)	11	10	14	8	10
Seminar or workshop sponsored by your employer	3	2	4	3	2
Printed materials provided by your employer	6	6	7	3	7
Online materials from your employer	2	2	3	2	1
Financial services firms (printed or online materials, seminars, workshops, phone representative)	16	18	17	16	11
Seminar or workshop sponsored by financial services firms	1	(*)	1	2	2
Printed materials provided by financial services firms	4	3	5	3	3
Online materials from financial services firms	7	12	6	6	4
Phone representative from a financial services firm	4	3	5	5	2
IRS rules or publications	5	6	2	6	10
Professional financial adviser	49	45	49	54	48
Other ³	5	4	4	6	5
<i>Number of respondents</i>	<i>1,180</i>	<i>355</i>	<i>312</i>	<i>329</i>	<i>184</i>

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

² Multiple responses are included; 81 percent of traditional IRA-owning households with rollovers consulted multiple sources of information.

³ Other responses given included: myself, other online information, bank, and books and magazines.

(*) = less than 0.5 percent

Source: Investment Company Institute IRA Owners Survey

owning households with rollovers relied on information provided by their employers, with 29 percent of traditional IRA-owning households with rollovers using printed materials from their employers as a source of information. Sixty-five percent of traditional IRA-owning households with rollovers relied on information provided by financial services firms, with 38 percent using printed materials provided by financial services firms. Twenty-nine percent indicated they used online materials from financial services firms.

When asked to identify their primary source of information on the rollover decision, nearly half of traditional IRA-

owning households with rollovers indicated they primarily relied on professional financial advisers; older households were more likely to consult professional financial advisers than younger households (Figure 15, second panel). Sixteen percent of traditional IRA-owning households with rollovers indicated their primary source of information on the rollover decision was materials from financial services firms, mainly online materials. Seven percent of traditional IRA-owning households with rollovers indicated their primary source of information was online materials from financial services firms, with younger households more likely to rely on online resources than older households.

In selecting the initial asset allocation of rollover assets in traditional IRAs, 14 percent of traditional IRA-owning households with rollovers indicated that their professional financial adviser selected the investments, and 45 percent indicated they worked together with a professional financial adviser to select the investments. Forty-one percent of traditional IRA-owning households with rollovers indicated that the household selected the investments without outside help.

Households with rollover assets in their traditional IRAs tend to have higher IRA balances, compared with IRAs funded purely by individual contributions. Median traditional IRA holdings that include rollovers were \$100,000 in mid-2015, compared with median traditional IRA holdings of \$40,000 for balances that did not include rollovers (Figure 16).²⁵

FIGURE 16

Traditional IRAs Preserve Assets from Employer-Sponsored Retirement Plans

Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2015

	Traditional IRA includes rollover from employer-sponsored retirement plan¹	Traditional IRA does not include rollover from employer-sponsored retirement plan²
Traditional IRA assets		
Mean	\$195,800	\$106,700
Median	\$100,000	\$40,000
Household financial assets³		
Mean	\$459,300	\$384,100
Median	\$350,000	\$250,000

¹Forty-nine percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans (see Figure 12).

²Fifty-one percent of households owning traditional IRAs have traditional IRAs that do not include rollovers from employer-sponsored retirement plans (see Figure 12).

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

Source: Investment Company Institute IRA Owners Survey

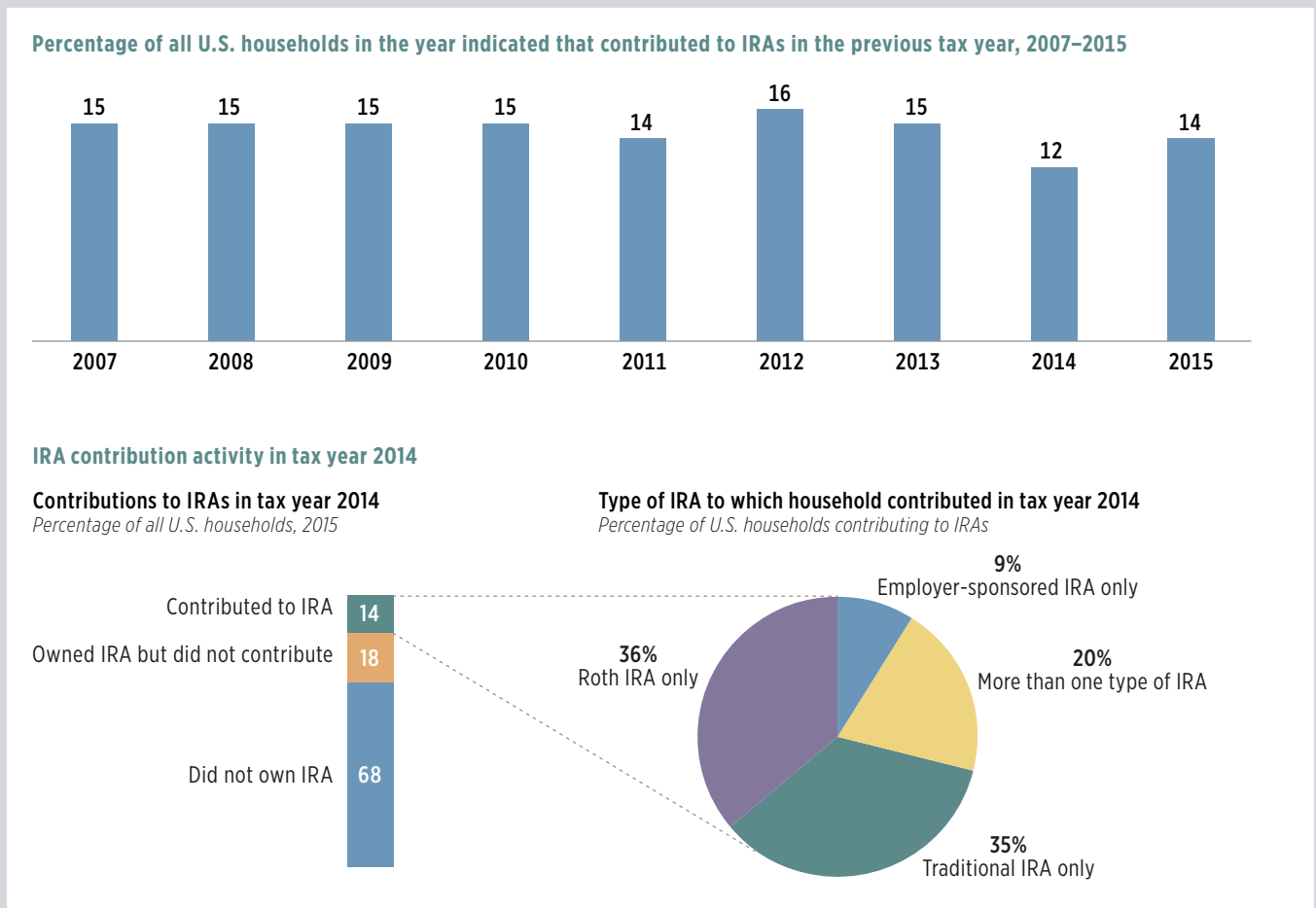
Few Households Make Contributions to IRAs

Although IRAs can help Americans build their retirement savings, the majority of U.S. households do not contribute to them. In tax year 2014, only 14 percent of all U.S. households made contributions to IRAs, compared with 12 percent in tax year 2013 (Figure 17, top panel). Forty-three percent of households owning IRAs in mid-2015 made contributions in tax year 2014 (Figure 17, lower panel), compared with 34 percent in tax year 2013 and 39 percent

in tax year 2012.²⁶ Households may, depending on their eligibility, contribute to more than one type of IRA in each tax year. Among households making contributions to IRAs in tax year 2014, 53 percent contributed to traditional IRAs, with 35 percent contributing to traditional IRAs only.²⁷ Fifty-two percent of households making IRA contributions in tax year 2014 made Roth contributions, with 36 percent contributing to Roth IRAs only.²⁸ Sixteen percent contributed to employer-sponsored IRAs in tax year 2014,

FIGURE 17

Few Households Contribute to IRAs



Note: Employer-sponsored IRAs include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

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

with 9 percent contributing to employer-sponsored IRAs only.²⁹

Roth and Employer-Sponsored IRA Owners Are More Likely to Contribute

Traditional IRA owners were less likely than owners of other types of IRAs to have made contributions. Forty-five percent of households owning Roth IRAs in mid-2015 made contributions in tax year 2014 (Figure 18), and 42 percent of all households owning employer-sponsored IRAs in mid-2015 made contributions in tax year 2014. In contrast, only 30 percent of traditional IRA-owning

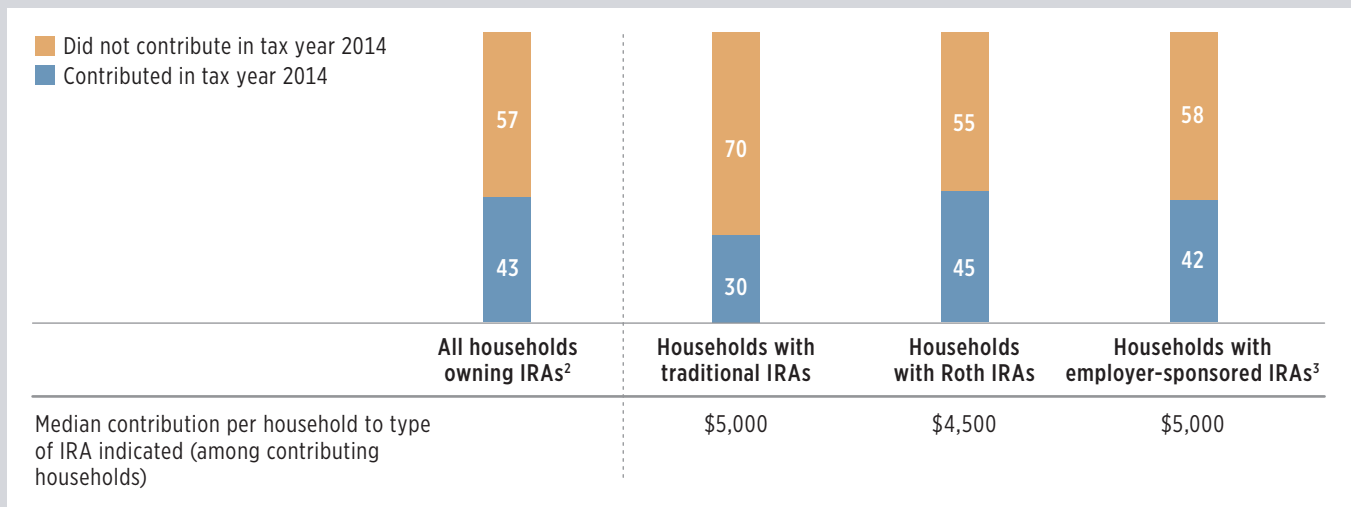
households in mid-2015 contributed to their traditional IRAs in tax year 2014.³⁰

Several factors play a role in the lower contribution rate to traditional IRAs.³¹ For example, restrictions on the tax deductibility of contributions³² must be considered by traditional IRA-owning households that have retirement plan coverage at work.³³ In addition, 39 percent of traditional IRA-owning households in mid-2015 indicated that someone in the household was retired. Furthermore, some traditional IRA-owning households use traditional IRAs to preserve rollovers rather than as a contributory savings vehicle. And, some households may be able to meet

FIGURE 18

Contribution Activity to Roth and Employer-Sponsored IRAs Outpaces Contribution Activity to Traditional IRAs in Tax Year 2014

Percentage of U.S. households owning each type of IRA¹ in 2015 by contribution status in tax year 2014



¹Households may hold more than one type of IRA. Contribution activity reported is for type of IRA indicated. Some of these households may have been ineligible to make contributions.

²IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

³Employer-sponsored IRAs include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

Source: Investment Company Institute IRA Owners Survey

their retirement savings needs through their retirement plans at work.³⁴ Nevertheless, other research finds that traditional IRA investors who make contributions tend to do so on a recurring basis.³⁵

In tax year 2014, the median contribution among households contributing to employer-sponsored IRAs was \$5,000; similarly, the median household contribution to traditional IRAs was \$5,000 (Figure 18), and the median household contribution to Roth IRAs was \$4,500. In 2014,

the traditional and Roth IRA contribution limit was \$5,500 for individuals under the age of 50 (Figure 19).³⁶ Since tax year 2002, individuals aged 50 or older are eligible to make catch-up contributions to their IRAs.³⁷ Among households aged 50 or older, 35 percent owned traditional or Roth IRAs in mid-2015 (Figure 20). Of these IRA-owning households, 29 percent made contributions to traditional or Roth IRAs; 60 percent of these contributing households made catch-up contributions. All told, catch-up contributions are not prevalent, with only 6 percent of all U.S. households aged

FIGURE 19

Traditional and Roth IRA Contribution Limits Set by the Internal Revenue Code, 2001–2016

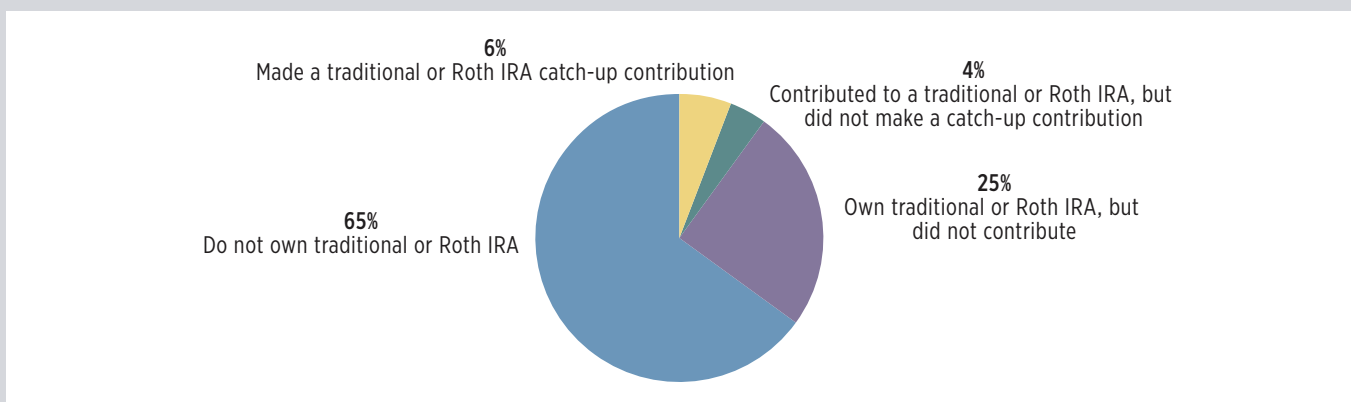


Note: After 2008, IRA contributions are indexed for inflation in \$500 increments. IRA catch-up contributions are not indexed for inflation.
Source: ICI summary of U.S. Internal Revenue Code

FIGURE 20

Traditional and Roth IRA Catch-Up Contributions Are Infrequent

Percentage of U.S. households with individuals aged 50 or older in 2015 by contribution status in tax year 2014



Note: Catch-up contribution activity is identified if an individual's contribution is greater than the \$5,500 limit in tax year 2014 or if they indicated their contributions included a catch-up contribution.

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

50 or older³⁸ reporting catch-up contributions to traditional or Roth IRAs.

IRA Withdrawals Are Infrequent, Mostly Retirement Related

Few households withdraw money from their IRAs in any given year, and most withdrawals are retirement related. A traditional IRA withdrawal taken by an individual prior to age 59½ generally is subject to a 10 percent penalty on the taxable portion of the withdrawal (in addition to the federal, state, and local income tax that may be due).³⁹ Taxpayers older than 59½ but younger than 70½ may take withdrawals without penalty, but generally are not

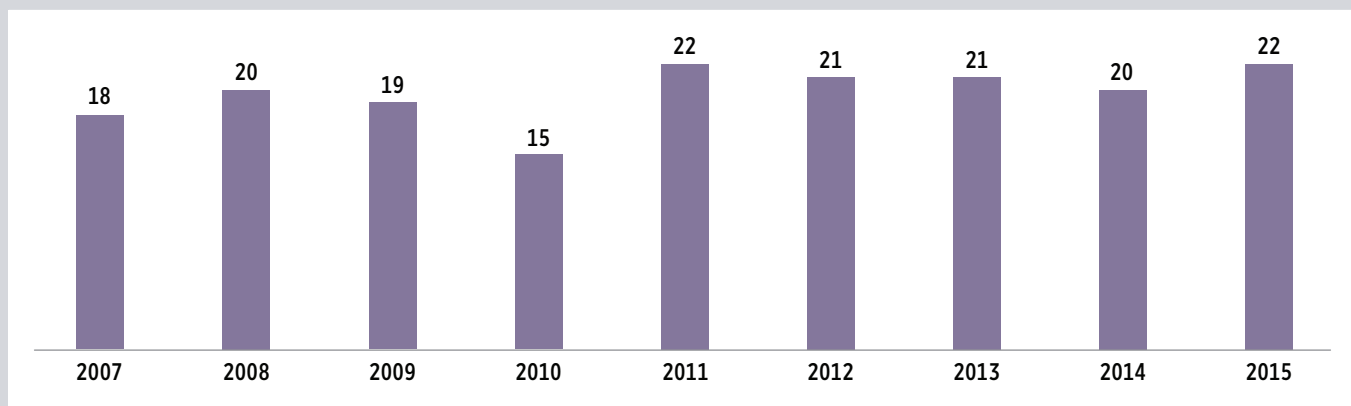
required to do so. Traditional IRA owners aged 70½ or older are required to withdraw an annual amount based on life expectancy or pay a penalty for failing to do so; these withdrawals are called required minimum distributions (RMDs). Households with inherited IRAs also generally are required to take distributions.

Twenty-two percent of households owning traditional IRAs in mid-2015 reported taking withdrawals from these IRAs in tax year 2014, compared with 20 percent in tax year 2013 (Figure 21).⁴⁰ In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009.⁴¹ Withdrawal activity among traditional IRA-owning households fell

FIGURE 21

Traditional IRA Withdrawal Activity

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



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

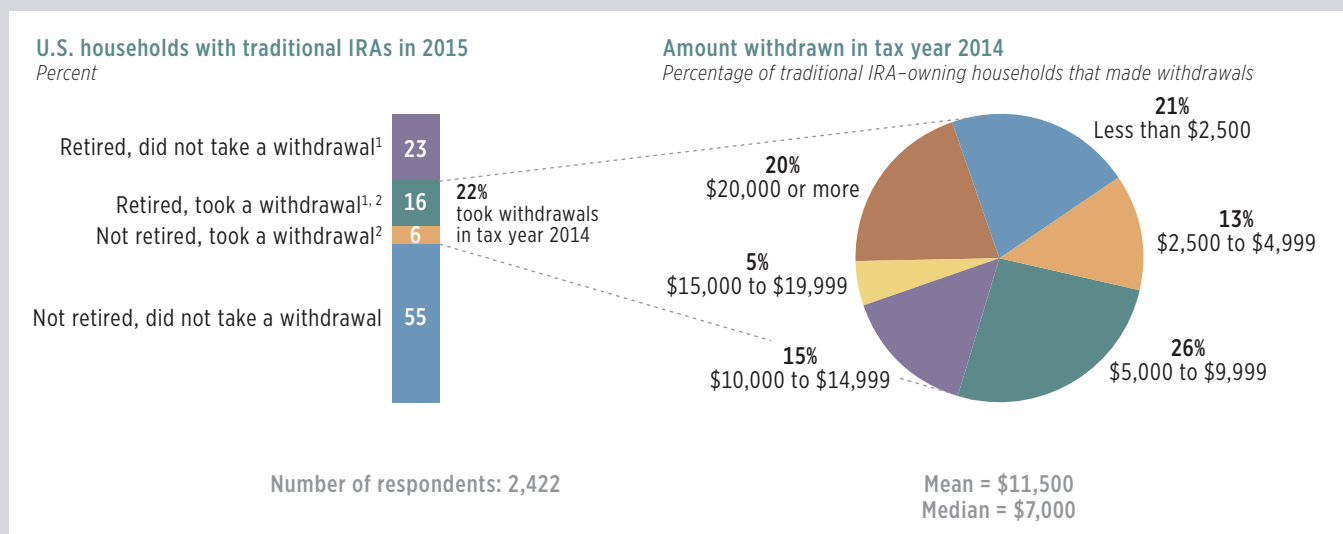
Source: Investment Company Institute IRA Owners Survey

to lower levels in tax year 2009, likely in part due to the suspension of RMDs from traditional IRAs.⁴² Some of the increase in withdrawal activity in tax year 2010 and tax year 2011 resulted from the return of RMDs. Among households taking traditional IRA withdrawals in tax year 2014, 73 percent reported that someone in the household was retired from their lifetime occupation (Figure 22). Nevertheless, 59 percent of retired households owning traditional IRAs in mid-2015 did not take withdrawals in tax year 2014.

Traditional IRA-owning households that made withdrawals generally took modest-sized amounts. Twenty-one percent of traditional IRA-owning households making withdrawals in tax year 2014 took less than \$2,500 from their IRAs, and another 13 percent withdrew between \$2,500 and \$4,999 (Figure 22). Although some withdrawals appear large in dollar amounts, a median of 7 percent of the account balance was typically withdrawn. In line with the incentives and disincentives of the tax code, younger households were much less likely to make withdrawals than older

FIGURE 22

Withdrawals from Traditional IRAs Are Infrequent



¹The household was considered retired if either the head of household or spouse responded affirmatively to the question: "Are you retired from your lifetime occupation?"

²Households that made withdrawals exclude those that closed and no longer own traditional IRAs.

Source: Investment Company Institute IRA Owners Survey

households. Among traditional IRA-owning households in mid-2015 headed by individuals younger than 59, only 9 percent took withdrawals in tax year 2014 (Figure 23).⁴³ Eighteen percent of households owning traditional IRAs and headed by an individual aged 59 to 69 in mid-2015

reported withdrawals in tax year 2014. Sixty-six percent of households owning traditional IRAs and headed by an individual aged 70 or older took withdrawals in tax year 2014.⁴⁴

FIGURE 23

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

Percentage of traditional IRA-owning households, 2007–2015

	Traditional IRA-owning households								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Age of head of household*									
<i>Percentage of U.S. households owning traditional IRAs</i>									
Younger than 59	64	62	63	62	58	61	61	60	54
59 to 69	20	22	20	22	25	23	22	23	27
70 or older	16	16	17	16	17	16	17	17	19
Traditional IRA withdrawal activity by age*									
<i>Percentage of U.S. households owning traditional IRAs</i>									
Younger than 59, did not take a withdrawal	61	59	60	59	54	56	56	56	50
Younger than 59, took a withdrawal	3	4	3	3	5	5	5	4	5
Aged 59 to 69, did not take a withdrawal	15	17	16	18	20	19	18	18	22
Aged 59 to 69, took a withdrawal	6	5	4	4	5	4	4	5	5
Aged 70 or older, did not take a withdrawal	6	4	5	7	5	4	5	6	6
Aged 70 or older, took a withdrawal	9	11	12	9	13	12	12	11	12
Memo:									
Percentage of traditional IRA-owning households with withdrawals	18	20	19	15	22	21	21	20	22
Incidence of withdrawal activity by age*									
<i>Percentage of traditional IRA-owning households by age*</i>									
Younger than 59	4	6	5	5	8	7	8	7	9
59 to 69	27	24	19	17	19	17	19	20	18
70 or older	59	73	70	53	72	74	70	67	66
Age composition of households with withdrawals*									
<i>Percentage of traditional IRA-owning households with withdrawals</i>									
Younger than 59	16	18	16	20	22	22	22	20	22
59 to 69	31	26	20	25	21	19	21	23	22
70 or older	53	56	64	55	57	59	57	57	56

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

Note: The figure reports traditional IRA withdrawal activity for the prior year. For example, for traditional IRA-owning households in 2015, the figure reports withdrawal activity for tax year 2014.

Source: Investment Company Institute IRA Owners Survey

Typically, withdrawals from traditional IRAs were taken to fulfill RMDs. Sixty-one percent of households owning traditional IRAs in mid-2015 and making withdrawals in tax year 2014 calculated their withdrawal amount based on the RMD, compared with 65 percent in tax year 2013 (Figure 24). Another 24 percent of traditional IRA-owning households taking withdrawals reported they withdrew lump sums based on needs in tax year 2014, compared with 20 percent in tax year 2013. In tax year 2014, 11 percent reported a scheduled withdrawal amount, either as a percentage of the account or a regular dollar amount, the same share that reported a scheduled withdrawal amount in tax year 2013.

Reflecting the rules governing distributions from traditional IRAs, households headed by individuals aged 70 or older were much more likely to cite RMDs as the way they calculated their withdrawal amounts,⁴⁵ while younger

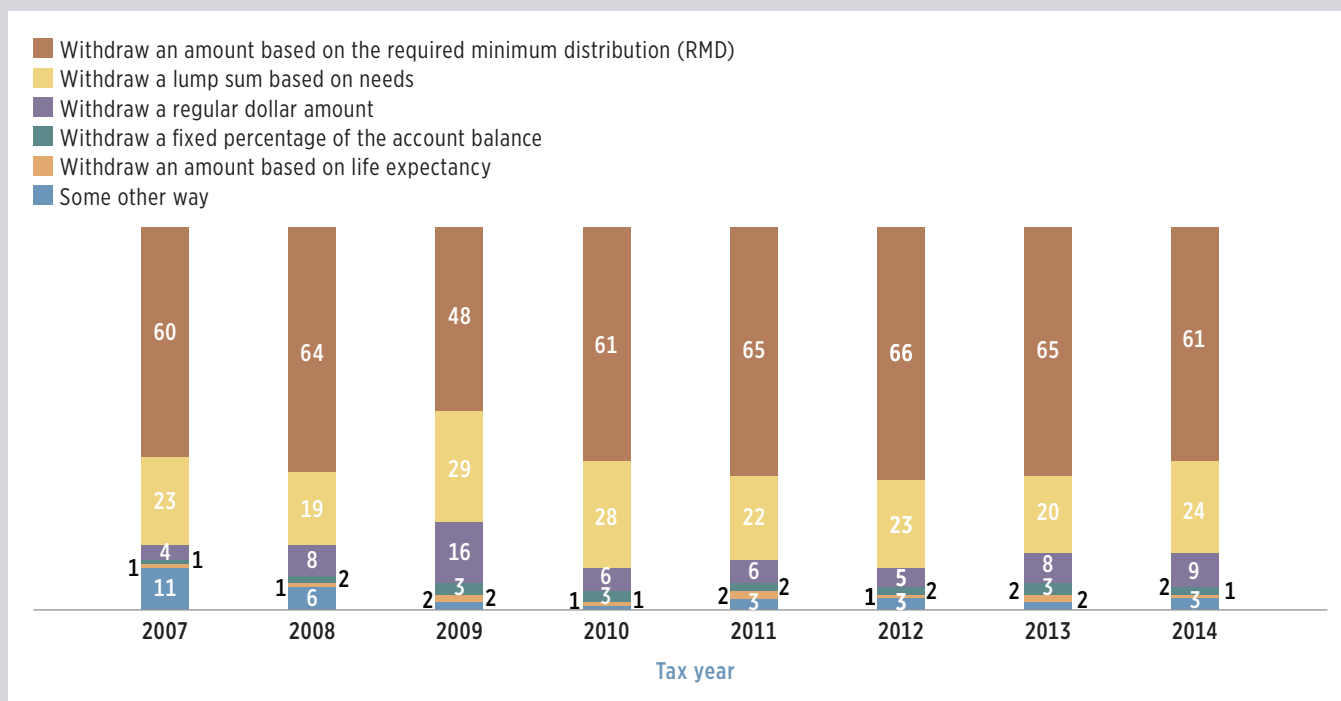
households were much more likely to take lump-sum withdrawals based on needs. Among traditional IRA-owning households in mid-2015 with a head of household aged 70 or older and taking a withdrawal in tax year 2014, 89 percent indicated their withdrawal was based on the RMD rules—only 5 percent took lump sums based on needs (Figure 25). In contrast, among withdrawing households younger than age 70, 49 percent took lump sums based on needs.

Traditional IRA-owning households that took withdrawals in tax year 2014 usually consulted outside sources to determine the amount of the withdrawal. Sixty-nine percent consulted a professional financial adviser to determine the amount to withdraw in tax year 2014 (Figure 26). Forty-three percent consulted Internal Revenue Service (IRS) rules or publications.

FIGURE 24

How Traditional IRA Withdrawals Are Determined

Percentage of traditional IRA-owning households with withdrawals in tax years 2007–2014

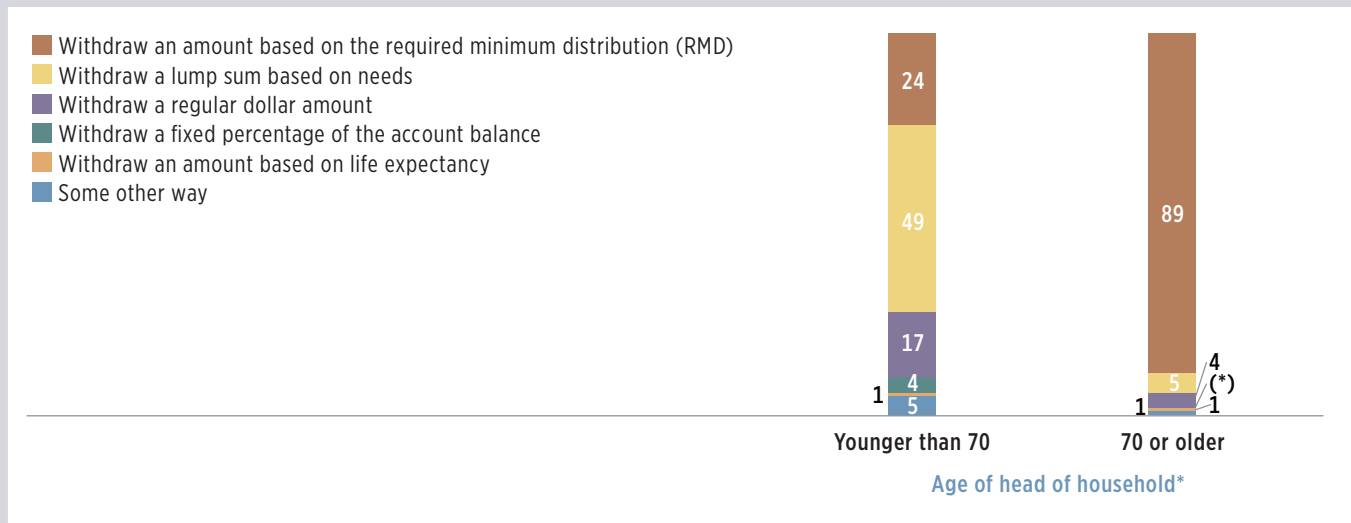


Source: Investment Company Institute IRA Owners Survey

FIGURE 25

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

Percentage of traditional IRA–owning households with withdrawals in tax year 2014



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

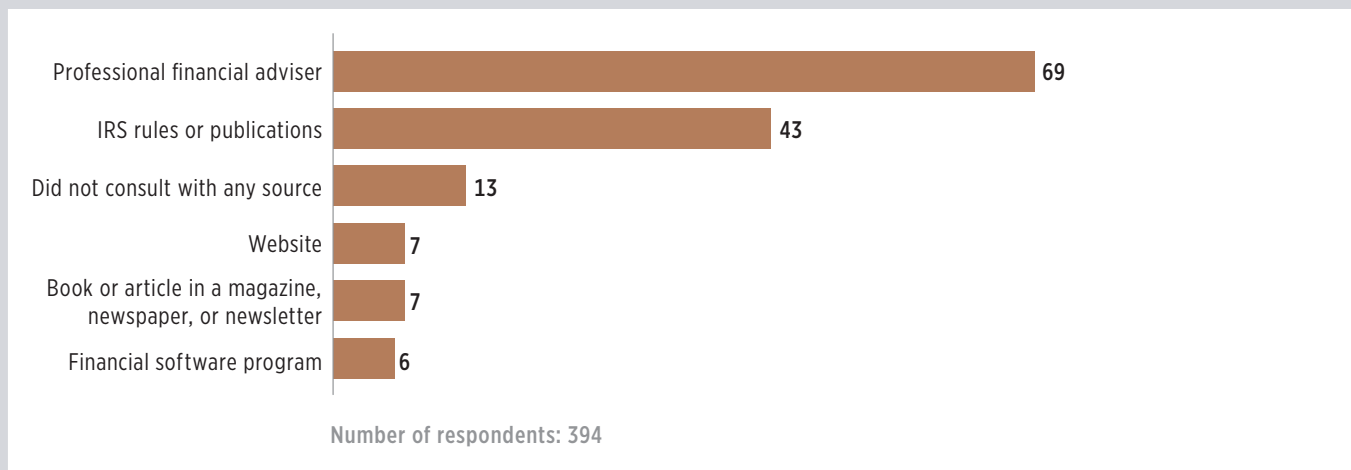
(*) = less than 0.5 percent

Source: Investment Company Institute IRA Owners Survey

FIGURE 26

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

Percentage of traditional IRA–owning households with withdrawals in tax year 2014



Note: Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

The Role of Traditional IRA Withdrawals in Retirement

Traditional IRA withdrawals can be used for a variety of purposes in retirement. Among households in which either the head of household or spouse was retired, 48 percent reported using traditional IRA withdrawals to pay for living expenses (Figure 27). Thirty-seven percent of retired households that took traditional IRA withdrawals in tax year 2014 reinvested or saved the withdrawal amount into another account.⁴⁶ Twenty-five percent reported using their withdrawals for home purchase, repair, or remodeling, and 36 percent reported using their withdrawals for healthcare expenses. Twenty-three percent used their withdrawals for emergencies.

Because today’s withdrawal activity may not be a good indicator of future withdrawal activity, traditional IRA-owning households that did not take withdrawals in tax year 2014 were asked about their future withdrawal intentions. In mid-2015, 72 percent of these traditional IRA-owning households said it is unlikely they will take withdrawals prior to age 70½ (Figure 28). Among traditional IRA-owning households in 2015 that did not take withdrawals in tax year 2014, 46 percent indicated it is “not likely at all” that they would start traditional IRA withdrawals before required. Another 26 percent reported it is “not very likely” that they would take withdrawals prior to age 70½.

FIGURE 27

Traditional IRA Withdrawals Often Are Used to Pay for Living Expenses

Percentage of withdrawing traditional IRA-owning households¹ in which either the head of household or spouse is retired,² 2015

Purpose of traditional IRA withdrawal in retirement ³	
Took withdrawals to pay for living expenses	48
Spent it on a car, boat, or big-ticket item other than a home	12
Spent it on a healthcare expense	36
Used it for an emergency	23
Used it for home purchase, repair, or remodeling	25
Reinvested or saved it in another account	37
Paid for education	8
Some other purpose	11
<i>Number of respondents</i>	388

¹The base of respondents includes the 16 percent of traditional IRA-owning households that were retired and took withdrawals reported in Figure 22.

²The household was considered retired if either the head of household or spouse responded affirmatively to the question: “Are you retired from your lifetime occupation?”

³Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

Most Traditional IRA Owners Have a Planned Retirement Strategy

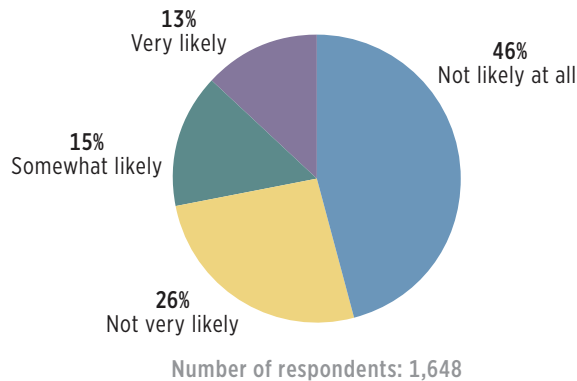
Seventy percent of traditional IRA-owning households in mid-2015 said they have a strategy for managing income and assets in retirement (Figure 29). These households typically seek advice when building their retirement income strategy. Sixty-eight percent of traditional IRA-owning

households with a strategy consulted a professional financial adviser when creating the strategy (Figure 30). Twenty-eight percent of households with a strategy consulted with friends or family and 21 percent consulted written materials (e.g., a book or article in a magazine or newspaper). Twenty percent used a website to help create their retirement income and asset management strategy, and 9 percent used a financial software package.

FIGURE 28

Likelihood of Withdrawing from Traditional IRA Before Age 70½

Percentage of traditional IRA-owning households in 2015 that did not take withdrawals in tax year 2014

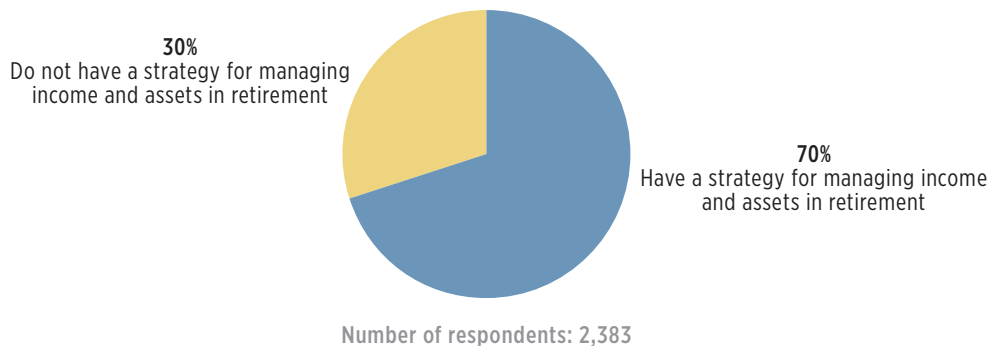


Source: Investment Company Institute IRA Owners Survey

FIGURE 29

Most Traditional IRA-Owning Households Have a Strategy for Managing Income and Assets in Retirement

Percentage of traditional IRA-owning households, 2015

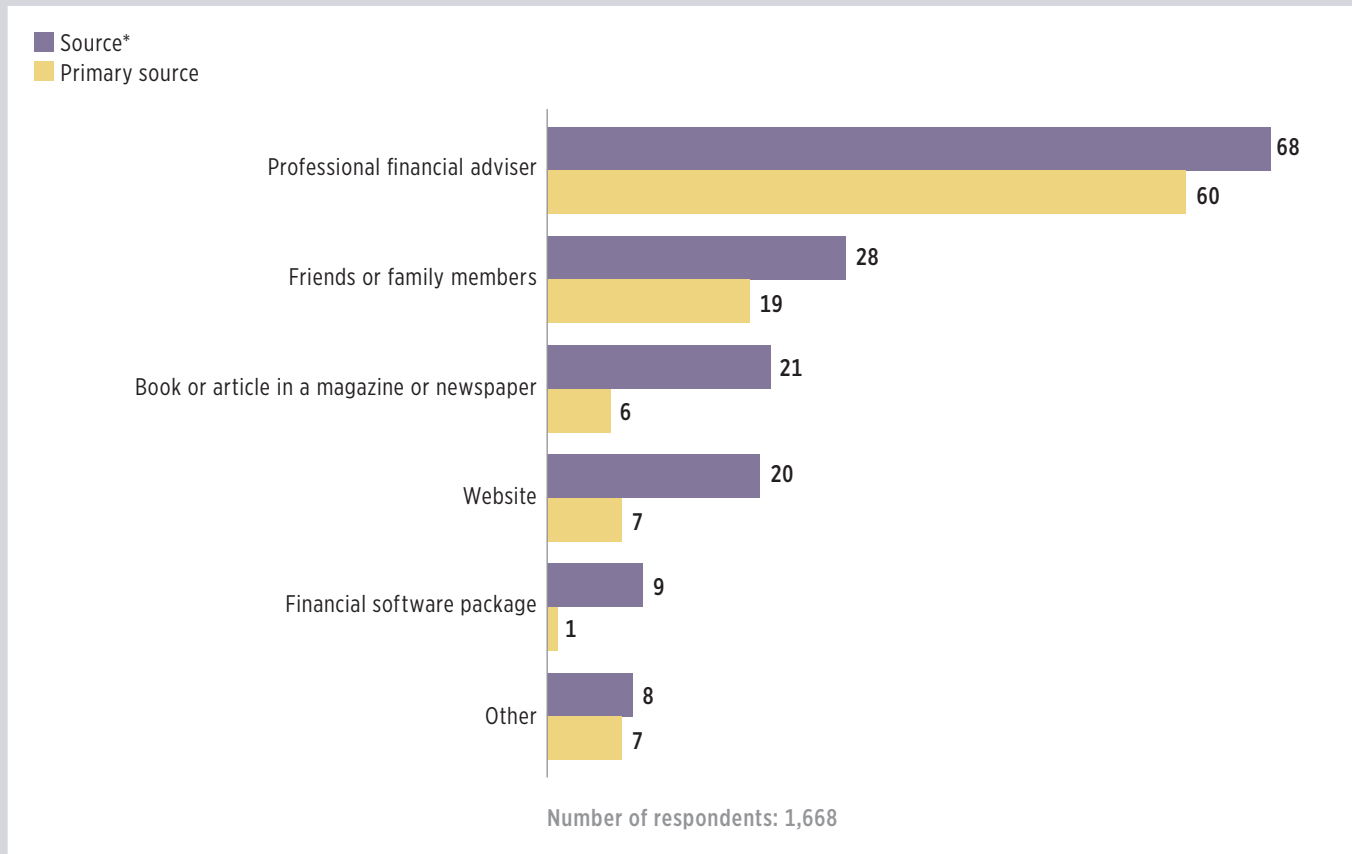


Source: Investment Company Institute IRA Owners Survey

FIGURE 30

Most IRA Owners Consult a Professional Financial Adviser When Creating a Retirement Strategy

Percentage of traditional IRA-owning households that indicated they have a strategy for managing income and assets in retirement, 2015



* Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

Traditional IRA-owning households with a strategy for managing their income and assets in retirement reported that their strategy had multiple components. Seventy-six percent of these households set aside emergency funds and 75 percent developed a retirement income plan as part of their strategy (Figure 31). Seventy-five percent of households with a strategy for managing their income and assets in retirement reviewed their asset allocation.

Seventy-two percent determined their retirement expenses, and 71 percent reviewed their insurance policies. More than six in 10 determined when to take Social Security benefits, with households aged 50 or older more likely to have done so compared with households younger than 50. Eighty-two percent of traditional IRA-owning households with a strategy took three or more steps in developing their strategy.

FIGURE 31

Components of Strategy for Managing Income and Assets in Retirement

Percentage of traditional IRA-owning households that indicated they have a strategy for managing income and assets in retirement, 2015

	All	Age of head of household*			
		Younger than 35	35 to 49	50 to 64	65 or older
Set aside emergency funds	76	81	77	75	76
Develop a retirement income plan	75	69	77	75	77
Review asset allocation	75	64	76	79	75
Determine your retirement expenses	72	57	69	75	76
Review your insurance policies	71	68	75	71	69
Determine when to take Social Security benefits	63	50	55	64	72
Other	3	3	1	3	3
<i>Number of respondents</i>	<i>1,605</i>	<i>180</i>	<i>305</i>	<i>596</i>	<i>524</i>

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

Note: Multiple responses are included; 82 percent of traditional IRA-owning households that indicated they have a strategy for managing income and assets in retirement took three or more steps in developing their strategy.

Source: Investment Company Institute IRA Owners Survey

Expected Role of IRA Withdrawals in Retirement

Traditional IRA-owning households that were either (1) not retired or (2) retired but did not take withdrawals in tax year 2014 reported a pattern for the expected role of future IRA withdrawals in retirement that is consistent among those who withdrew in tax year 2014. Sixty-two percent

of these households reported they plan to use IRA withdrawals to pay for living expenses in retirement (Figure 32). Another 65 percent reported they plan to use future IRA withdrawals for an emergency. When asked to select a primary role for future IRA withdrawals in retirement, 47 percent expected the primary role of IRA withdrawals will be to pay for living expenses in retirement.

FIGURE 32

Expected Role of IRA Withdrawals in Retirement

Percentage of traditional IRA-owning households,¹ excluding retiree households with withdrawals, 2015

Plan for future IRA withdrawals in retirement ²	
Take withdrawals to pay for living expenses	62
Spend it on a car, boat, or big-ticket item other than a home	11
Spend it on a healthcare expense	34
Use it for an emergency	65
Use it for home purchase, repair, or remodeling	25
Reinvest or save it in another account	45
Pay for education	13
Some other plan	8
Primary plan for future IRA withdrawals in retirement	
Take withdrawals to pay for living expenses	47
Spend it on a car, boat, or big-ticket item other than a home	2
Spend it on a healthcare expense	4
Use it for an emergency	18
Use it for home purchase, repair, or remodeling	6
Reinvest or save it in another account	16
Pay for education	3
Some other plan	4
<i>Number of respondents</i>	<i>1,837</i>

¹The base of respondents includes the 23 percent of traditional IRA-owning households that were retired but did not take withdrawals (that were asked about their future plans), the 6 percent of nonretired households that took withdrawals, and the 55 percent of nonretired households that did not take withdrawals (see Figure 22).

²Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

Additional Reading

- » **“The IRA Investor Profile: Traditional IRA Investors’ Activity, 2007–2013,”** *ICI Research Report*. This report uses information collected in The IRA Investor Database™ to provide insight into contributions, rollovers, withdrawals, asset allocation, and account balances of more than 10 million traditional IRA investors in 2013. Available at www.ici.org/pdf/rpt_15_ira_traditional.pdf.
- » **“The IRA Investor Profile: Roth IRA Investors’ Activity, 2007–2013,”** *ICI Research Report*. Information collected in The IRA Investor Database™ allows this report to analyze the contributions, conversions, rollovers, withdrawals, asset allocation, and account balances of more than 5 million Roth IRA investors in 2013. Available at www.ici.org/pdf/rpt_15_ira_roth_investors.pdf.
- » **“The Evolving Role of IRAs in U.S. Retirement Planning,”** *Investment Company Institute Perspective*. This research paper describes how the evolution of employer-sponsored retirement plans has elevated the importance of IRAs for many U.S. households and highlights the significant role that IRAs play in retirement and retirement planning. Available at www.ici.org/pdf/per15-03.pdf.
- » **“The Individual Retirement Account at Age 30: A Retrospective,”** *Investment Company Institute Perspective*. This research paper provides a summary of the growth and development of the IRA market. Available at www.ici.org/pdf/per11-01.pdf.
- » **“The U.S. Retirement Market, Third Quarter 2015.”** This quarterly release updates aggregate assets in retirement plans, IRAs, and annuities. Available at www.ici.org/info/ret_15_q3_data.xls.
- » **Individual Retirement Account Resource Center**
Available at www.ici.org/iraresource.

Glossary

catch-up contribution. Individuals aged 50 or older are permitted to make contributions to an IRA or employer-sponsored retirement savings plan in excess of the annual contribution limit. In 2015, the catch-up limit was \$1,000 for IRAs, \$2,500 for SIMPLE plans, and \$6,000 for 401(k) plans.

contribution limit. Federal law establishes limits for the amount an individual may contribute to an IRA, 401(k), or other retirement savings plan in any given year. In 2015, the annual employee contribution limit for 401(k)s and similar employer-sponsored retirement plans was \$18,000; the annual limit for traditional and Roth IRAs was \$5,500; and the annual limit for SIMPLE IRAs was \$12,500. The limit on the sum of employee and employer contributions for DC plans in 2015 was \$53,000. Individuals aged 50 or older may make additional catch-up contributions.

conversion. The movement of assets in a traditional IRA to a Roth IRA, either through a transfer of assets from a traditional IRA to a Roth IRA or by redesignating a traditional IRA as a Roth IRA. Assets in a 401(k) or other tax-advantaged employer-sponsored retirement plan also may be converted to a Roth IRA. Generally the assets converted are taxable in the year of the conversion to the Roth IRA.

defined benefit (DB) plan. An employer-sponsored pension plan in which the amount of future benefits an employee will receive from the plan is defined, typically by a formula based on salary history and years of service. The amount of contributions the employer is required to make will depend on the investment returns experienced by the plan and the benefits promised.

defined contribution (DC) plan. An employer-sponsored retirement plan, such as a 401(k) plan or a 403(b) plan, in which contributions are made to individual participant accounts. Depending on the type of DC plan, contributions may be made by the employee, the employer, or both. The employee's benefits at retirement or termination of employment are based on the employee's and employer's

contributions, as well as earnings and losses on those contributions.

distribution. Individuals may take distributions (that is, withdraw funds) from their IRAs prior to retirement, but distributions may be subject to federal income tax, a tax penalty, or both. Withdrawals from traditional IRAs before age 59½ are subject to income tax and may be subject to a 10 percent early withdrawal penalty. The earnings portion of withdrawals from Roth IRAs made within five years of contribution or made before age 59½ is generally subject to income tax and may be subject to the 10 percent penalty. For both traditional IRAs and Roth IRAs, the 10 percent penalty does not apply to withdrawals made in cases of death or disability, or if used for certain medical expenses, first-time homebuyer expenses, qualified higher-education expenses, health insurance expenses of unemployed individuals, or as part of a series of substantially equal periodic payments (SEPPs) made for the life or over the life expectancy of the individual. In addition, provided the five-year holding period is satisfied, the earnings portion of early withdrawals from a Roth IRA made in cases of death, disability, or qualified first-time homebuyer expenses are not subject to income tax.

401(k) plan. A type of DC plan that allows employees to choose to contribute a portion of their salaries into the plan, which defers income taxes on the amounts contributed. Like a traditional IRA, no taxes are due until distributions are taken from the account. Starting in 2006, plans could choose to allow employees to make Roth contributions to a 401(k) plan. These contributions are claimed as taxable income in the year of the contribution, but no taxes are due on qualified distributions. Most 401(k) plans also allow employees to choose how to invest their accounts.

individual retirement account (IRA). A tax-deferred or tax-free retirement account that allows contributions of a limited yearly sum. Congress initially designed IRAs to have two roles: (1) to give individuals not covered by a retirement plan at work a tax-advantaged retirement savings plan, and (2) to complement the employer-sponsored retirement system by preserving rollover assets at job separation or retirement. The acronym *IRA* also refers

to *individual retirement annuities*, which receive similar tax treatment.

required minimum distribution (RMD). Minimum distribution rules require that beginning at age 70½, the entire amount of a traditional IRA be distributed over the expected life of the individual (or the joint lives of the individual and designated beneficiary). Distributing less than the required amount will result in a tax penalty. Roth IRAs are not subject to required minimum distributions during the account holder's lifetime.

rollover. The transfer of an investor's assets from one qualified retirement plan or account (IRA, 401(k), or other tax-advantaged, employer-sponsored retirement plan) to another—due to changing jobs, for instance—without a tax penalty.

Roth IRA. First available in 1998, this type of individual retirement account only permits after-tax (nondeductible) contributions. Distributions of both principal and earnings generally are not subject to federal income tax if taken after age 59½ (provided the five-year holding period is met). Distributions of principal before age 59½ are not subject to tax, but investment earnings are generally

subject to tax and a 10 percent penalty if taken before age 59½. Distributions are not required during the account holder's lifetime.

SEP IRA (simplified employee pension). A retirement program in which an employer makes contributions to IRAs on behalf of employees. A salary reduction SEP (or SAR-SEP) IRA is a SEP IRA that allows employees to contribute their own compensation into an IRA. When Congress created the SIMPLE IRA in 1996, it provided that an employer could not establish a new SAR-SEP plan after 1996.

SIMPLE IRA (savings incentive match plan for employees). A tax-favored retirement plan created in 1996 that small employers can set up for the benefit of their employees. Both employer and employee contributions are allowed in a SIMPLE IRA plan.

traditional IRA. The first type of IRA, which was created in 1974. Individuals may make tax-deductible and nondeductible contributions to these IRAs. Taxes on IRA investment earnings are deferred until they are distributed. Upon distribution, both deductible contributions and earnings are subject to federal income tax. Generally, distributions before age 59½ are subject to income tax and a 10 percent penalty.

Notes

- ¹ See Investment Company Institute 2015. Key terms related to IRAs and retirement savings are presented in the glossary of this report (pages 33–34). For additional information and the rules governing IRAs, see Internal Revenue Service 2015a and 2015b.
- ² Households' total financial assets were \$68.9 trillion as of September 2015 and \$22.8 trillion at year-end 1995. See U.S. Federal Reserve Board 2015.
- ³ Data in this *ICI Research Perspective* on the number and percentage of households owning IRAs are based on ICI's Annual Mutual Fund Shareholder Tracking Survey conducted from May to July 2015. This survey was based on a dual frame random digit dial (RDD) telephone sample and included 6,000 representative U.S. households. The standard error for the total sample is ± 1.3 percentage points at the 95 percent confidence level. For further discussion and additional results from this survey, see Burham, Bogdan, and Schrass 2015a and 2015b. The demographic and financial characteristics of IRA owners are derived from a separate IRA Owners Survey of 3,200 representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). The 2015 IRA Owners Survey was based on a dual frame telephone sample with 2,200 households from the landline RDD frame and 1,000 households from the cell phone RDD frame. The standard error for the total sample is ± 1.7 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called education IRAs).

The incidence of IRA ownership is calculated from the ICI Annual Mutual Fund Shareholder Tracking Survey, which collects information on retirement and other investment account ownership among U.S. households headed by individuals aged 18 or older. Starting in 2013, the order of the account type choices in the question regarding ownership of retirement and other savings accounts was changed. This change was made to avoid confusion between individual accounts in 401(k) and other employer-sponsored DC plan accounts versus IRAs. Beginning in 2013, respondents were asked if they own a 401(k) and other employer-sponsored DC retirement plans, then if they own a traditional IRA or a Roth IRA, then if they own an employer-sponsored IRA, and finally, if they own a 529 plan or Coverdell Education Savings Account (ESA). In prior years, respondents were asked first if they own a traditional IRA or Roth IRA, then if they own a Coverdell ESA, then if they own an employer-sponsored IRA, and finally, if they own a 401(k) or other employer-sponsored plan account (529 plan ownership was a separate question). In 2014 and 2015, the incidence of IRA ownership is lower than in previous years, possibly due to the reordering of

questions regarding retirement and other savings accounts in the questionnaire (introduced in 2013), as well as a sampling and weighting methodology change introduced in 2014. See Figure A1 in the appendix for the complete time series on IRA incidence. See Burham, Bogdan, and Schrass 2015a for details on the changes to the ICI Annual Mutual Fund Shareholder Tracking Survey.

- ⁴ See note 3 for a discussion of changes in IRA incidence in ICI's surveys. The ICI Annual Mutual Fund Shareholder Tracking Survey results in higher incidence of IRA ownership than the Federal Reserve Board's Survey of Consumer Finances. For example, ICI tabulations of the 2013 Survey of Consumer Finances indicate that 22.2 percent of U.S. households owned traditional IRAs and 10.5 percent of U.S. households owned Roth IRAs. The ICI Annual Mutual Fund Shareholder Tracking Survey finds that 29.4 percent of U.S. households in 2013, 25.3 percent in 2014, and 24.4 percent in 2015 owned traditional IRAs; in addition, 15.6 percent of U.S. households in 2013, 15.6 percent in 2014, and 16.3 percent in 2015 owned Roth IRAs (see Figure A1 in the appendix). For a description of the Survey of Consumer Finances, see Bricker et al. 2014.
- ⁵ See Figures 12–16 for additional information on rollover activities and Figure A15 in the appendix for additional information on traditional IRA-owning households with rollovers.
- ⁶ 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 2015a. It is possible that Roth IRA ownership is not more widespread because income limits restrict the ability of many U.S. households to invest in Roth IRAs.
- ⁷ See Brady and Bogdan 2014 and Brady, Burham, and Holden 2012 for discussion of the life-cycle model and household survey results regarding savings goals.
- ⁸ See Sabelhaus and Schrass 2009.
- ⁹ For example, the first-year replacement rate (mean scheduled Social Security first-year benefits as a percentage of average inflation-indexed career earnings for retired workers in the 1960–1969 birth cohort [individuals aged 46 to 55 in 2015]) decreased as income increased. The mean replacement rate for the lowest lifetime household earnings quintile was 86 percent; for the middle quintile, the mean Social Security replacement rate was 55 percent; and for the highest quintile, it was 33 percent. See Congressional Budget Office 2015a and 2015b. For additional discussion, see Brady and Bogdan 2014 and Brady, Burham, and Holden 2012.

- ¹⁰ For discussion of retirement saving by different income groups, see Brady and Bogdan 2014; Burham, Bogdan, and Schrass 2015a; and Sabelhaus, Bogdan, and Schrass 2008.
- ¹¹ See Holden et al. 2005 for a discussion of the relationship between demographic characteristics and the propensity to save. For additional discussion, see also Brady and Bogdan 2014; Brady, Burham, and Holden 2012; and Sabelhaus, Bogdan, and Schrass 2008.
- ¹² Willingness to take investment risk among IRA-owning households was similar to that among mutual fund-owning households. Among households owning mutual funds, 31 percent were willing to take substantial or above-average investment risk for similar levels of gain in 2015; see Burham, Bogdan, and Schrass 2015a.
- ¹³ For earlier years of data ranging from 1989 through 2004, see Figure 8 in Holden and Schrass 2015a.
- ¹⁴ This is a pattern of risk tolerance observed in other types of investors. For example, see Sabelhaus, Bogdan, and Schrass 2008 and Bogdan and Schrass 2016, forthcoming.
- ¹⁵ Research finds that the asset allocation of traditional IRA investors varies over the life cycle. Older traditional IRA investors tended to have higher shares of their IRAs in fixed-income investments compared with younger traditional IRA investors. With the exception of the youngest traditional IRA investors (who tend to have small accounts), younger traditional IRA investors tended to have higher allocations to equity investments compared with older traditional IRA investors. See Holden and Bass 2011 and 2015.
- ¹⁶ For earlier years of data ranging from 1989 through 2004, see Figure 10 in Holden and Schrass 2015a.
- ¹⁷ See Holden et al. 2014 and 2015.
- ¹⁸ For a brief history of IRAs and a discussion of the various features of different IRA types, see Holden et al. 2005. For a discussion of the evolving role of IRAs in U.S. retirement planning, see Sabelhaus and Schrass 2009.
- ¹⁹ Before 2008, Roth IRAs generally were not eligible for direct rollovers from employer-sponsored retirement plan accounts. The Pension Protection Act of 2006 (PPA) allows direct rollovers from employer-sponsored plans to Roth IRAs starting in 2008. For a complete discussion of the specific rules and the change, see Internal Revenue Service 2015a.
- ²⁰ Rollovers are possible from both DC plans and DB plans. For research on DC plan participants' distribution decisions at retirement, see Sabelhaus, Bogdan, and Holden 2008. For distribution activity from DC plans administered by The Vanguard Group, see Utkus and Young 2015.
- ²¹ See Internal Revenue Service, Statistics of Income Division 2015. For historical data, see Investment Company Institute 2015.
- ²² Tabulations of the Federal Reserve Board's 2013 Survey of Consumer Finances data find that 46 percent of traditional IRA-owning households had rollovers in their IRAs in 2013, compared with 49 percent of traditional IRA-owning households in ICI's 2013 IRA Owners Survey (see Holden and Schrass 2013). For a description of the Survey of Consumer Finances, see Bricker et al. 2014.
- ²³ In the case of a DC plan, this amount is the account balance. For DB plans, this amount is the lump-sum distribution based on accrued benefits. See Figure A15 in the appendix for additional information on traditional IRA owners with rollovers.
- ²⁴ The Internal Revenue Code sets out a comprehensive disclosure regime covering both plan sponsors and IRA providers with regard to information provided for distribution and rollover decisions. Plan sponsors must inform departing employees of information relevant to their distribution decision. IRA providers must disclose the relevant information to IRA owners at the outset and on an ongoing basis. In addition, financial planners, advisers, or brokers may have fiduciary obligations or be subject to other rules of practice with regard to advice to clients on distribution and rollover decisions. For additional discussion, see Holden 2009 and Holden and Chism 2014.
- ²⁵ For more information on rollovers among traditional IRA investors, see Holden, Sabelhaus, and Bass 2010b and Holden and Bass 2015.
- ²⁶ See Holden and Schrass 2015a.
- ²⁷ Among households making IRA contributions, the 53 percent contributing to traditional IRAs includes the 35 percent contributing to traditional IRAs only plus 89 percent of the 20 percent that contributed to more than one type of IRA (Figure 17).
- ²⁸ Among households making IRA contributions, the 52 percent contributing to Roth IRAs includes the 36 percent contributing to Roth IRAs only plus 81 percent of the 20 percent that contributed to more than one type of IRA (Figure 17).
- ²⁹ Among households making IRA contributions, the 16 percent contributing to employer-sponsored IRAs includes the 9 percent contributing to employer-sponsored IRAs only plus 33 percent of the 20 percent that contributed to more than one type of IRA (Figure 17).
- ³⁰ Although it is difficult to compare household-level data and individual-level data, the IRA Owners Survey finds higher rates of contribution activity than The IRA Investor Database finds among individual IRA investors. Analysis of 9.1 million traditional IRA investors aged 25 to 69 in 2013 finds that 8.7 percent of them contributed to their traditional IRAs in tax year 2013 (see Holden and Bass 2015). Contribution activity

in Roth IRAs was also higher in the IRA Owners Survey. The IRA Investor Database finds that among 5.2 million Roth IRA investors aged 18 or older in 2013, 31.1 percent contributed to their Roth IRAs in tax year 2013 (see Holden and Schrass 2015b).

³¹ ICI's 2013 IRA Owners Survey asked traditional IRA-owning households without contributions the reasons why they did not contribute. See Figure 19 in Holden and Schrass 2013 for those results.

³² For traditional IRA contribution eligibility rules, see Internal Revenue Service 2015a.

³³ For ownership of DC accounts and access to DB plans among traditional IRA-owning households, see Figure A13 in the appendix.

³⁴ Among traditional IRA-owning households in 2013 that did not make contributions to their traditional IRAs in tax year 2012, 37 percent indicated they were able to save enough in their retirement plans at work. See Holden and Schrass 2013.

³⁵ For an analysis of the persistence of traditional IRA contribution activity, see Holden, Sabelhaus, and Bass 2010a and Holden and Bass 2015.

³⁶ See Internal Revenue Service 2015a for details on income restrictions and other qualifications for contribution eligibility.

³⁷ The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) created catch-up contributions, which permit individuals aged 50 or older to make additional contributions to qualified retirement plans and IRAs above the annual deferral limits. Households may make catch-up contributions to Roth IRAs if their incomes are within the limits to contribute to a Roth IRA and if a household member is aged 50 or older. Households may make catch-up contributions to traditional IRAs if a household member is at least 50 years old by the end of the year but younger than 70½ years old by the end of the year. See Internal Revenue Service 2015a.

³⁸ U.S. households aged 50 or older include households ineligible to make deductible contributions to traditional IRAs.

³⁹ Over the years, Congress has created exceptions to the early withdrawal penalty, including qualified first-time home purchase, certain medical expenses, certain educational expenses, and withdrawals made as substantially equal periodic payments (SEPPs) based on a life expectancy calculation. For additional discussion of IRA withdrawal rules and activity, see Holden and Reid 2008 and Internal Revenue Service 2015b.

⁴⁰ Data exclude households that closed and no longer owned traditional IRAs.

⁴¹ See Section 201 of the Worker, Retiree, and Employer Recovery Act of 2008. For additional information on the suspension of RMDs, see Internal Revenue Service 2010.

⁴² For analysis of withdrawal activity from 2008 through 2013 among a consistent group of 5.2 million traditional IRA investors (those with accounts between year-end 2007 and year-end 2013), see Holden and Bass 2015.

⁴³ The withdrawal activity observed in ICI's IRA Owners Survey shows similar results compared with data reported by the IRS based on tabulations of individual taxpayers' information returns. Data reported in Bryant and Gober 2013 indicate that among all IRA-owning taxpayers in 2010, 25 percent took a withdrawal. Incidence of withdrawal activity indicated that 10 percent of IRA-owning taxpayers aged 25 to 59 took withdrawals in 2010; 24 percent of IRA-owning taxpayers aged 60 to 69 took withdrawals; and 84 percent of IRA-owning taxpayers aged 70 or older took withdrawals. The withdrawal activity observed in ICI's IRA Owners Survey shows similar results compared with data reported in The IRA Investor Database. In 2013, 9.1 percent of traditional IRA investors younger than 60 had withdrawals in 2013, 20.8 percent of traditional IRA investors aged 60 to 69 had withdrawals, and 80.1 percent of traditional IRA investors aged 70 or older had withdrawals (see Holden and Bass 2015).

⁴⁴ Withdrawal activity among households with a head of household aged 70 or older is not 100 percent because the traditional IRA owner may be a younger spouse or partner who is not yet required to make withdrawals. The IRA Investor Database finds that among 1.6 million traditional IRA investors aged 70 or older in 2013, 80.1 percent of them took a withdrawal from their traditional IRAs in tax year 2013 (see Holden and Bass 2015). In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009 (see note 41).

⁴⁵ Analysis of 0.9 million traditional IRA investors aged 70 or older in 2013 in The IRA Investor Database finds that 56.2 percent took the RMD required for the individual, 1.3 percent took a joint RMD, and 0.2 percent took the inherited RMD amount. See Holden and Bass 2015.

⁴⁶ Among the 37 percent of households that reported reinvesting or saving the amount of the traditional IRA withdrawal into another account (Figure 27), 82 percent reported withdrawing the amount based on the RMD.

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1401 H Street, NW
Washington, DC 20005
202-326-5800
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