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1401 H Street, NW, Suite 1200 Washington, DC 20005 202/326-5800 www.ici.org

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The Role of IRAs in U.S. Households' Saving for Retirement, 2010

Key Findings

- **Four out of 10 U.S. households owned IRAs in 2010.** More than three-quarters of IRA-owning households also had employer-sponsored retirement plan accumulations or had defined benefit plan coverage. All told, 70 percent of all U.S. households had retirement plans through work or IRAs.
- **About one-third of U.S. households owned traditional IRAs in 2010.** 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.** More than half of traditional IRA–owning households indicated their IRAs contained rollovers from employer-sponsored retirement plans. Among households with rollovers in their traditional IRAs, 85 percent indicated they had rolled over all their retirement plan assets in their most recent rollover.
- **Although most U.S. households were eligible to make contributions, few did so.** Only 15 percent of U.S. households contributed to any type of IRA in tax year 2009, as was the case in tax year 2008. In addition, very few eligible households made "catch-up" contributions to traditional IRAs or Roth IRAs.
- **IRA withdrawals were infrequent and mostly retirement related.** Fifteen percent of traditional IRA–owning households took a withdrawal in tax year 2009, down from 19 percent in tax year 2008. Some of the decline in withdrawal activity resulted from the suspension of required minimum distributions in tax year 2009.
- **The majority of traditional IRA withdrawals were made by retirees.** Seventy-three percent of households that made traditional IRA withdrawals were retired. Only 5 percent of traditional IRA–owning households in 2010 headed by individuals younger than 59 took withdrawals, as was the case in 2009.
- **Traditional IRA–owning households not making withdrawals generally indicated they do not plan to tap their IRAs until age 70½.** Fifty-nine percent of traditional IRA–owning households not making withdrawals in tax year 2009 indicated it was unlikely they would withdraw from their IRAs before age 70½. The most commonly cited planned future use of IRA withdrawals was to pay for living expenses, although 64 percent of traditional IRA–owning households without withdrawals indicated a possible future use of the monies would be to cover emergencies.

IRAs Play an Increasingly Important Role in Saving for Retirement

With $4.2 trillion in assets at the end of the second quarter of 2010, individual retirement accounts (IRAs) represented more than one-quarter of U.S. total retirement market assets, compared with 16 percent two decades ago.[1] IRAs also have risen in importance on household balance sheets. In June 2010, IRA assets

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

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About the Annual Mutual Fund Shareholder Tracking Survey

ICI conducts the Mutual Fund Shareholder Tracking Survey each spring to gather information on the demographic and financial characteristics of U.S. households. The most recent survey was conducted in May 2010 and was based on a sample of 4,200 U.S. households selected by random digit dialing, of which 1,738 households, or 41.4 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 2010 sample of households is ± 1.5 percentage points at the 95 percent confidence level.

About the IRA Owners Survey

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 most recent survey was conducted in May 2010 and was based on a sample of 1,800 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 ± 2.3 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called Education IRAs).

were 10 percent of all household financial assets, up from 4 percent of assets two decades ago.[2] In May 2010, 48.6 million, or 41 percent of, U.S. households reported owning IRAs (Figure 1).[3]

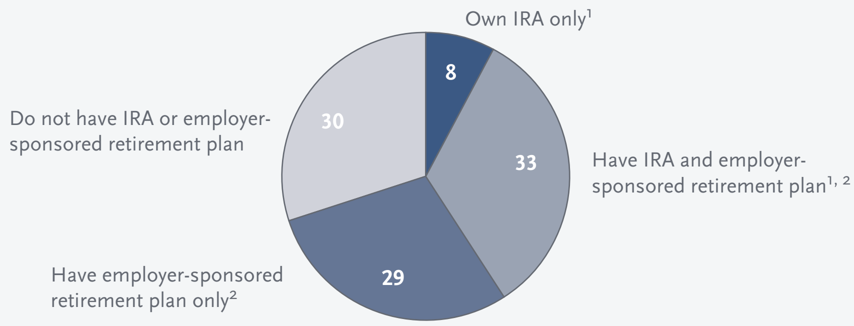
Among all IRA-owning households in May 2010, 80 percent also participated in employer-sponsored retirement plans; that is, they had defined contribution (DC) plan balances, current defined benefit (DB) plan payments, or expected future DB plan payments. Another 29 percent of U.S. households reported employer-sponsored retirement plan coverage, but no IRAs. All told, 70 percent of all U.S. households had some type of formal, tax-advantaged retirement savings.

Traditional IRAs are the oldest and most common type of IRA. In 2010, 38.5 million, or 33 percent of, U.S. households owned traditional IRAs (Figure 2). In addition to being a repository for contributions, the

Figure 1

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

Percentage of U.S. households, 2010



[1] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
[2] Employer-sponsored retirement plans include DC and DB retirement plans.
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] 2010	Percentage of U.S. households with type of IRA,[1] 2010
Traditional IRA	1974 (Employee Retirement Income Security Act)	38.5 million	32.8%
SEP IRA[2]	1978 (Revenue Act)	9.4 million	8.0%
SAR-SEP IRA[2]	1986 (Tax Reform Act)		
SIMPLE IRA[2]	1996 (Small Business Job Protection Act)		
Roth IRA	1997 (Taxpayer Relief Act)	19.5 million	16.6%
Any IRA[1]		48.6 million	41.4%

[1] Households may own more than one type of IRA.
[2] SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs are employer-sponsored IRAs.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

traditional IRA is a vehicle for rollovers from employer-sponsored retirement plans. Indeed, more than half of U.S. households with traditional IRAs indicated their IRAs contained rollover assets.[4] Roth IRAs, which were first available in 1998, are the second most frequently owned type of IRA, owned by 19.5 million, or 17 percent of, U.S. households. Income limits restrict many U.S. households' ability to invest in Roth IRAs.[5] Eight percent of U.S. households owned employer-sponsored IRAs, which include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

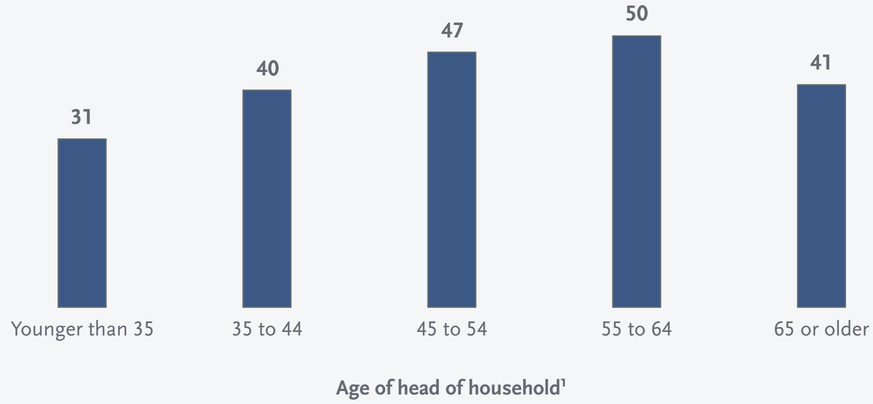
Incidence of IRA Ownership Increases with Age and Income

People of all ages own IRAs, but ownership is greatest among the older age groups. This reflects the life-cycle approach to saving, which finds that 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).[6] 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.[7] In 2010, 47 percent of

Figure 3

Incidence of IRA Ownership Is Greatest Among 55- to 64-Year-Olds

Percentage of U.S. households within each age group that own IRAs,[1, 2] 2010

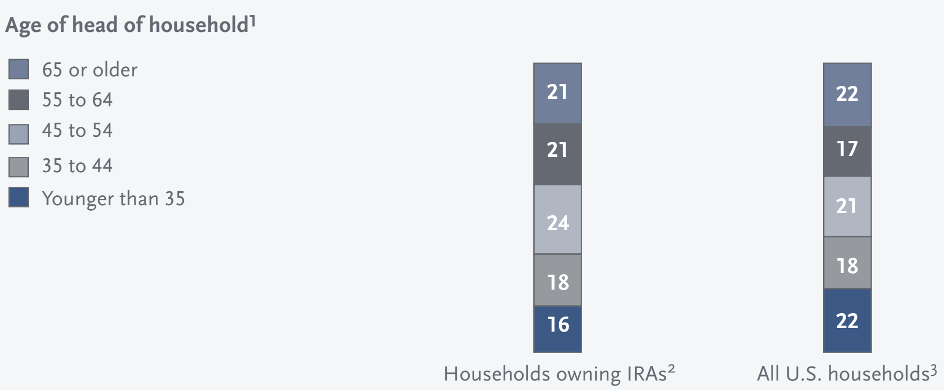


[1] Age is based on the age of the sole or co-decisionmaker for household saving and investing.
[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

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] 2010



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

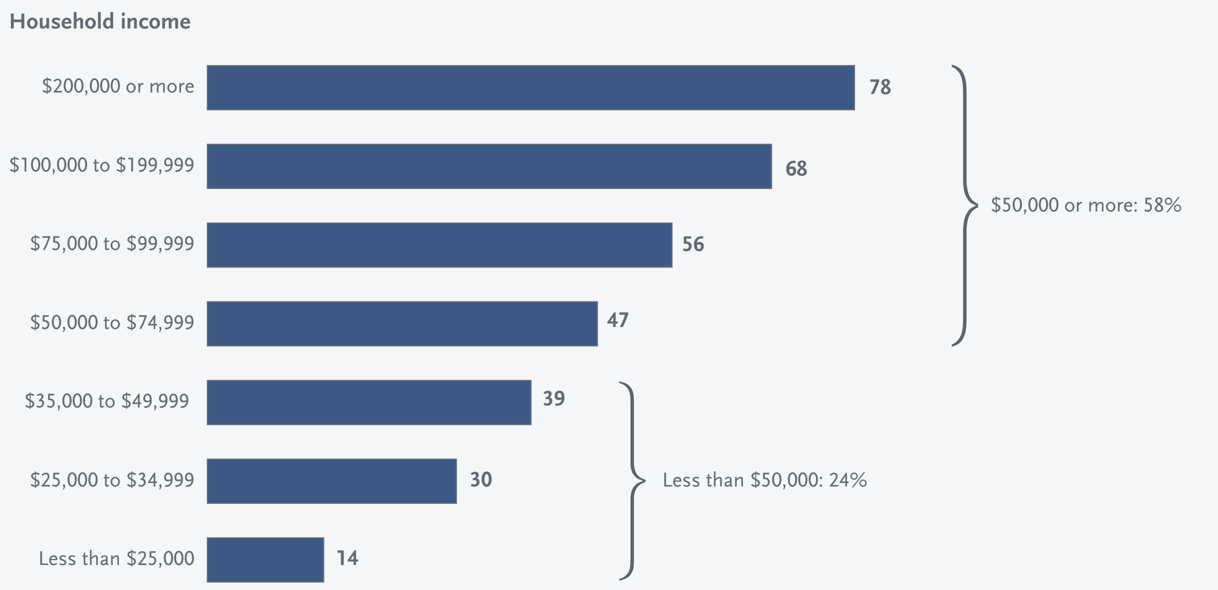
households headed by an individual aged 45 to 54 owned IRAs, and half of households headed by an individual aged 55 to 64 owned IRAs (Figure 3). As a result, two-thirds of IRA-owning households were headed by individuals aged 45 or older (Figure 4). Among all U.S. households, by comparison, 60 percent 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, who tend to be focused on near-term spending needs and get a higher replacement benefit through Social Security, generally exhibit less tendency to save for retirement.[8] Fifty-eight percent of households with incomes of $50,000 or more owned IRAs, compared with 24 percent of households with incomes of less than $50,000 (Figure 5). More than two-thirds of households with incomes of $100,000 or more owned IRAs in 2010. As a result, 16 percent of households owning IRAs earned less than $35,000, compared with

Figure 5

IRA Ownership Incidence Increases with Household Income

Percentage of U.S. households within each income group that own IRAs,[1, 2] 2010



[1]*Total reported is household income before taxes in 2009.*
[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

36 percent of all U.S. households (Figure 6). Forty-nine percent of households owning IRAs in 2010 had incomes between $35,000 and $99,999.

IRA Owners Tend to Be Savers

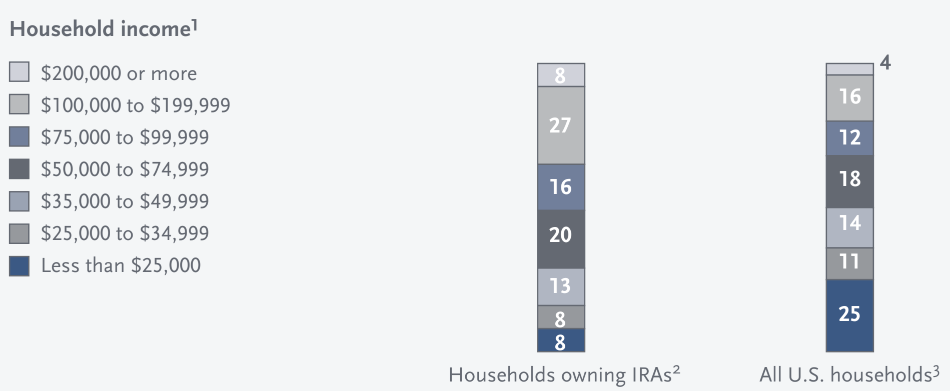
IRA owners build substantial financial assets. The median financial assets of IRA-owning households was six times greater than the median financial assets of households that did not own IRAs (Figure 7). Those assets included DC retirement plan accounts; 70 percent of IRA-owning households also had such accounts. IRA owners typically exhibit the characteristics of individuals who are most likely 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. These are all factors that tend to correlate with a greater propensity to save.[9]

Like other investing households, the majority of IRA-owning households were willing to take some financial risk for financial gain. Twenty-seven percent were willing to take substantial or above-average financial risk for similar levels of financial gain (Figure 8).[10] The largest percentage of households owning IRAs, 45 percent, were willing to take average risk for average gain. Twenty-eight percent were willing to take below-average risk for below-average gain or were unwilling to take any financial risk. Willingness to take risk among households owning IRAs generally decreases with age.[11] Forty-five percent of IRA-owning households aged 65 or older reported that they were willing to take below-average risk for below-average gain or were unwilling to take any financial risk. For households aged 35 to 44, only 14 percent were willing to take below-average risk for below-average gain or were unwilling to take any financial risk.

Figure 6

Most IRA-Owning Households Have Moderate Incomes

Percent distribution of households owning IRAs and all U.S. households by household income,[1] 2010



[1]Total reported is household income before taxes in 2009.
[2]IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
[3]The percentage of all households in each income group is based on ICI survey data and is weighted to match the U.S. Census Bureau's Current Population Survey.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and U.S. Census Bureau

Figure 7

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

Characteristics of U.S. households by ownership of IRAs,[1] 2010

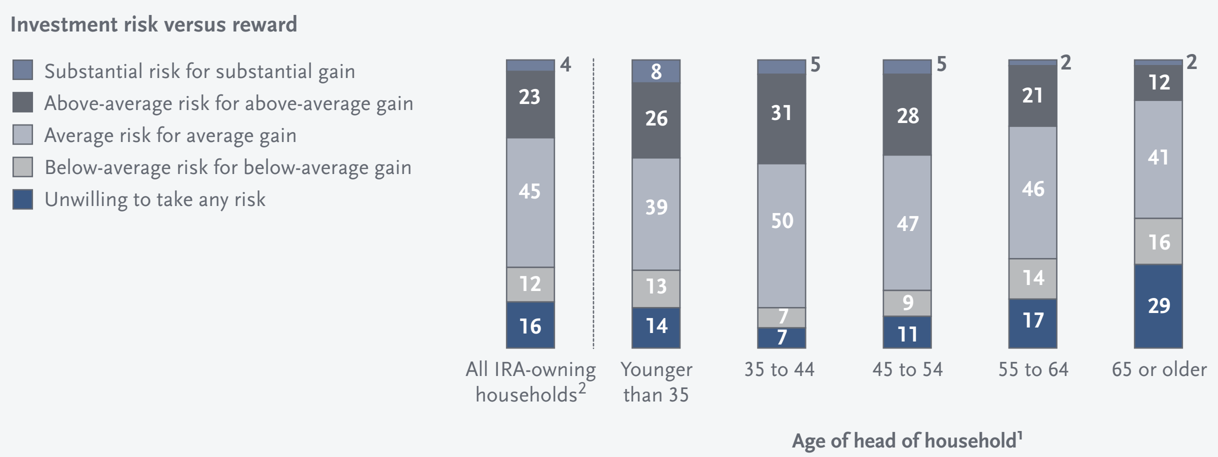
	Households owning IRAs[1]	Households not owning IRAs
Median per household		
Age of household sole or co-decisionmaker for saving and investing	51 years	47 years
Household income[2]	$73,000	$35,000
Household financial assets[3]	$150,000	$25,000
Household financial assets in IRAs	$36,000	N/A
Share of household financial assets in IRAs	34%	N/A
Percentage of households		
Household sole or co-decisionmaker for saving and investing:		
Married or living with a partner	74	56
College or postgraduate degree	43	21
Employed full- or part-time	70	55
Retired from lifetime occupation	26	29
Household has DC account or DB plan coverage (total)	80	50
DC retirement plan account	70	41
DB plan coverage	47	23

[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 2009.
[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

Willingness to Take Investment Risk Falls with Age

Percentage of U.S. households owning IRAs by age,[1] 2010



[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 IRA Owners Survey

Just as 401(k) balances tend to be higher the longer a worker's job tenure,[12] IRA balances tend to rise with length of ownership. In 2010, households owning IRAs for less than 10 years had median IRA holdings of $18,000, while households owning IRAs for 20 years or more had median IRA holdings of $87,500 (Figure 9). Mean IRA holdings, while considerably higher than the median values, display a similar pattern.

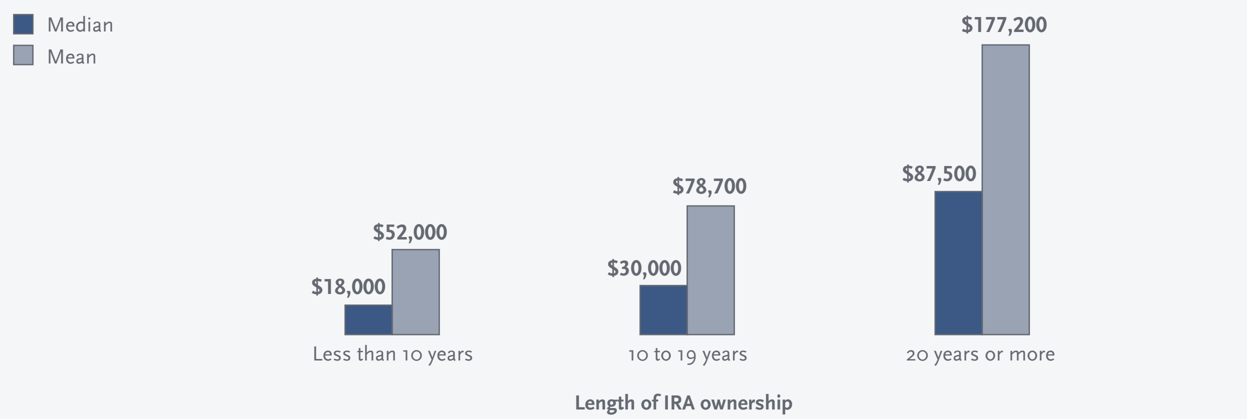
Rollovers to Traditional IRAs Fuel Growth

In 1974, Congress created traditional IRAs with a dual purpose.[13] First, traditional IRAs provide individuals not covered by retirement plans at work with a tax-deferred opportunity to save for retirement. Second, traditional IRAs also give retirees or workers who are changing jobs a way to preserve the tax-advantaged status of

Figure 9

IRA Assets Increase with Length of Ownership

Median and mean household financial assets in IRAs by length of ownership, 2010*



**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

employer-sponsored retirement plan accumulations by allowing transfers, or "rollovers," of plan balances into IRAs.[14, 15]

Rollover activity has fueled recent IRA growth and helps many Americans preserve their retirement savings. The most recent available data show that households transferred more than $300 billion from employer-sponsored retirement plans to IRAs in 2007.[16] In 2010, 21 million U.S. households (or 55 percent of all U.S. households owning traditional IRAs), had traditional IRAs that included rollover assets (Figure 10).[17] With their most recent rollovers, the vast majority of these households (85 percent) transferred their entire retirement plan balances

Figure 10

Rollovers Are Often a Source of Assets for Traditional IRAs

Households with traditional IRAs that include rollovers *Percentage of households owning traditional IRAs, 2010*	
Traditional IRA includes rollover	55
Traditional IRA does not include rollover	45
Traditional IRA rollover activity *Percentage of households owning traditional IRAs that include rollovers, 2010*	
Traditional IRA rollover(s) due to:*	
Job change, layoff, or termination	66
Retirement	29
Other	16
Contributions to traditional IRA other than rollover:	
Have made contribution other than rollover	54
Have never made contribution in addition to rollover	46
Percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans:	
Less than 25 percent	13
25 to 49 percent	11
50 to 74 percent	21
75 percent or more	55
Median percentage of traditional IRA balance from rollovers or transfers from former employer-sponsored retirement plans	75

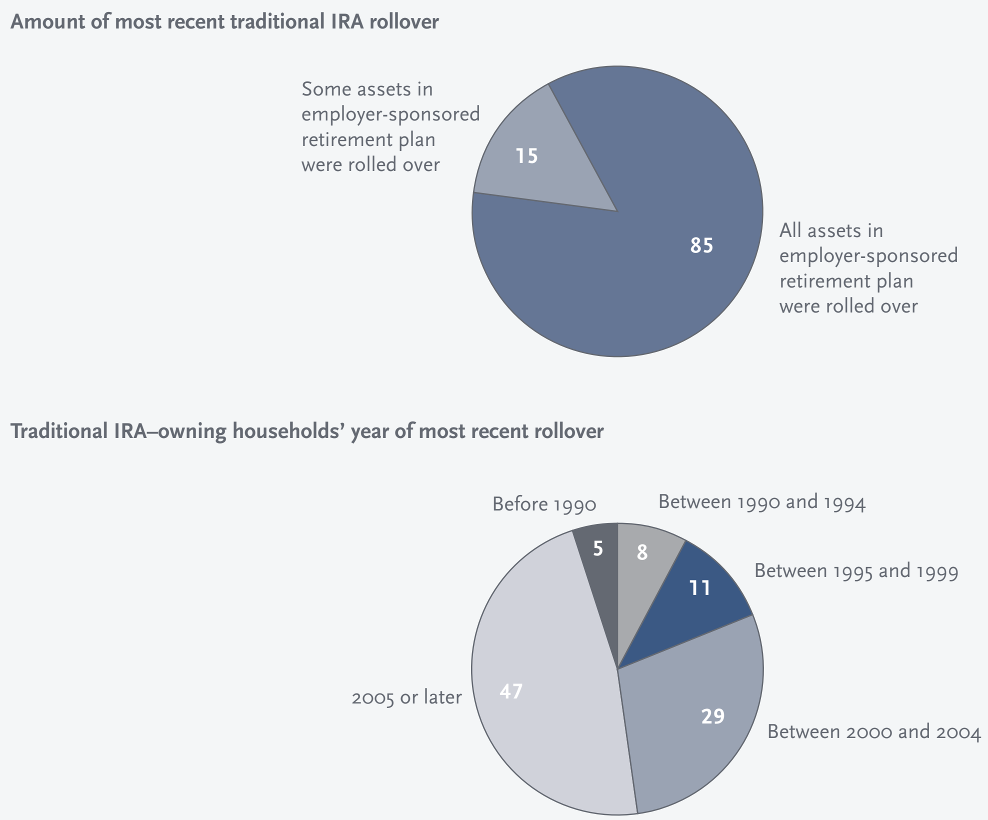
**Multiple responses are included.*
Note: Number of respondents varies.
Source: Investment Company Institute IRA Owners Survey

into traditional IRAs (Figure 11).[18] More than three-quarters of traditional IRA–owning households with rollovers made their most recent rollover in 2000 or later, including 47 percent whose most recent rollover was within the past five years. Among households with rollovers in their traditional IRAs, 46 percent only had rollover IRAs (having never made traditional IRA contributions; Figure 10). Households with rollover assets in their IRAs tend to have higher IRA balances, compared with IRAs funded purely by individual contributions. Median traditional IRA holdings that include rollovers were $54,000 in 2010, compared with median traditional IRA holdings of $20,000 for balances that did not include rollovers (Figure 12).

Figure 11

Amount and Timing of Most Recent Traditional IRA Rollover

Percentage of traditional IRA–owning households with rollovers, 2010



Note: Fifty-five percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans.
Source: Investment Company Institute IRA Owners Survey

Figure 12

Traditional IRAs Preserve Assets from Employer-Sponsored Retirement Plans

Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2010

	Traditional IRA includes rollover from employer-sponsored retirement plan[1]	Traditional IRA does not include rollover from employer-sponsored retirement plan[2]
Traditional IRA assets		
Mean	$137,000	$57,600
Median	$54,000	$20,000
Household financial assets[3]		
Mean	$315,100	$270,000
Median	$200,000	$150,000

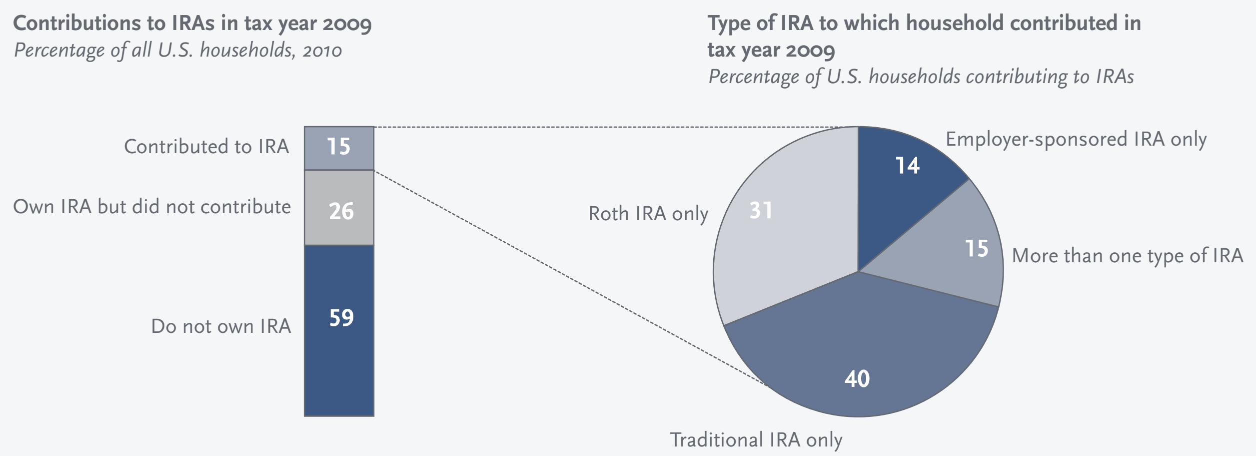
[1] Fifty-five percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans.
[2] Forty-five percent of households owning traditional IRAs have traditional IRAs that do not include rollovers from employer-sponsored retirement plans.
[3] Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.
Source: Investment Company Institute IRA Owners Survey

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 2009, only 15 percent of all U.S. households made contributions to IRAs, as was the case in tax year 2008 (Figure 13).[19] Among households owning IRAs, 37 percent made contributions in tax year 2009, compared with 39 percent in tax year 2008 (Figure 14). Among households making contributions to IRAs in tax year 2009, more than half (53 percent) contributed to traditional IRAs, with 40 percent only contributing to traditional IRAs (Figure 13).[19] Forty-one percent of households making IRA contributions in tax year 2009 made Roth contributions, with 31 percent only contributing to Roth IRAs.[20] Twenty-three percent contributed to employer-sponsored IRAs in tax year 2009, with 14 percent only contributing to employer-sponsored IRAs.[21]

Figure 13

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

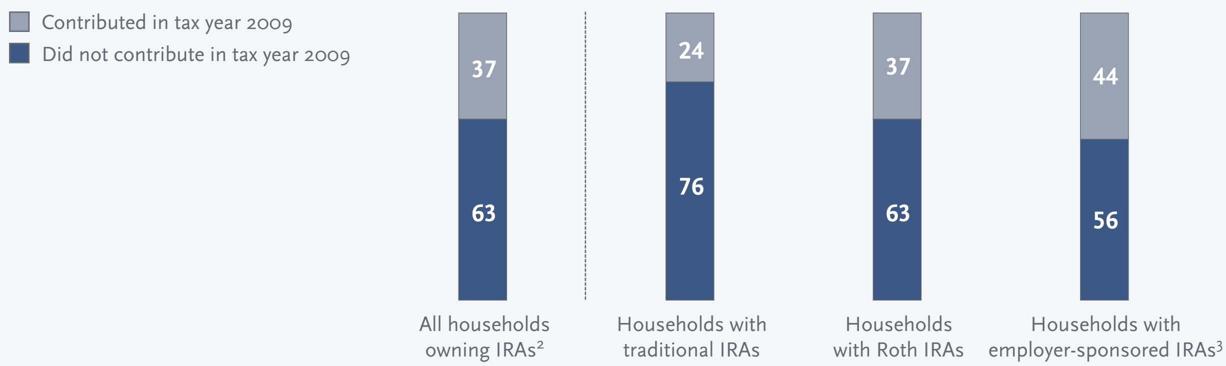
Roth and Employer-Sponsored IRA Owners Are More Likely to Contribute

Traditional IRA owners were less likely than owners of other types of IRAs to have made contributions. Thirty-seven percent of households owning Roth IRAs in 2010 made contributions in tax year 2009 (Figure 14). Forty-four percent of all households owning employer-sponsored IRAs in 2010 made contributions in tax year 2009. In contrast, only 24 percent of traditional IRA–owning households in 2010 contributed to their traditional IRAs in tax year 2009. The lower contribution rate to traditional IRAs is likely due to restrictions on the tax deductibility of contributions, which must be considered by the 82 percent of traditional IRA–owning households that have retirement plan coverage at work.[22] It is also likely that IRA-owning households with employer-sponsored retirement plans are currently saving through these plans.[23] In addition, 16 percent of traditional IRA–owning households were headed by individuals aged 70 or older and may not have been eligible to contribute because of IRS regulations.

Figure 14

Contribution Activity to Roth, Employer-Sponsored IRAs Outpaces Contribution Activity to Traditional IRAs in Tax Year 2009

Percentage of U.S. households owning each type of IRA[1] by contribution status in tax year 2009



Median contribution per household to type of IRA indicated	$4,500	$3,500	$3,000	$3,000

[1] Households may hold more than one type of IRA. Contribution activity reported is for type of IRA indicated. Some of these households may have been ineligible to make contributions.
[2] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).
[3] Employer-sponsored IRAs include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.
Source: Investment Company Institute IRA Owners Survey

The median contribution among households contributing to employer-sponsored IRAs was $3,000 in tax year 2009, while the median contribution to traditional IRAs was $3,500 per household (Figure 14). The median contribution to Roth IRAs was $3,000 per household. In 2009, the traditional and Roth IRA contribution limit was $5,000 for individuals under the age of 50 (Figure 15).[24]

Since tax year 2002, individuals aged 50 or older are eligible to make "catch-up" contributions to their IRAs (Figure 15).[25] Among households aged 50 or older, 43 percent owned traditional or Roth IRAs in 2010 (Figure 16). Among these IRA-owning households, 30 percent made contributions to traditional or Roth IRAs; 38 percent of these contributing households made catch-up contributions. All told, catch-up

Figure 15

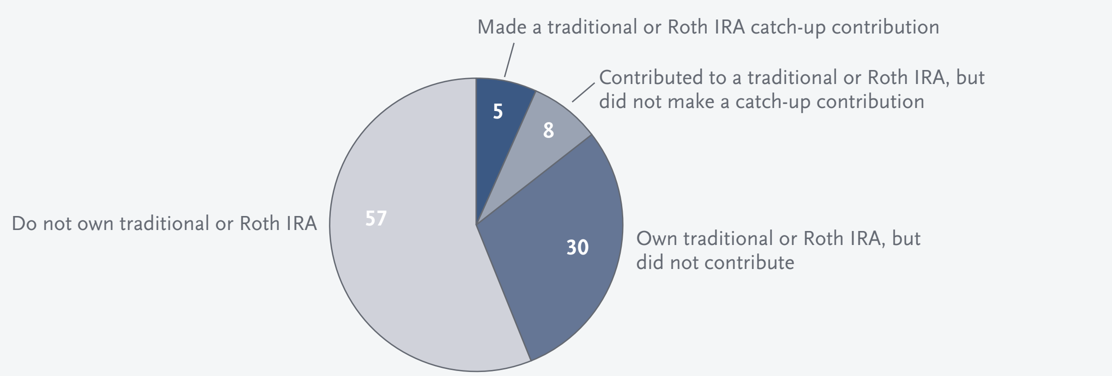
Internal Revenue Code Traditional and Roth IRA Contribution Limits, 2001–2011

**After 2008, traditional 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 16

Traditional and Roth IRA Catch-Up Contributions Are Infrequent

Percentage of U.S. households with individuals aged 50 or older by contribution status in tax year 2009



Note: Catch-up contribution activity is identified if an individual's contribution is greater than the $5,000 limit in tax year 2009 or if the individual indicated that the contribution included catch-up.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and Investment Company Institute IRA Owners Survey

contributions are not prevalent, with only 5 percent of all U.S. households aged 50 or older[26] reporting catch-up contributions.

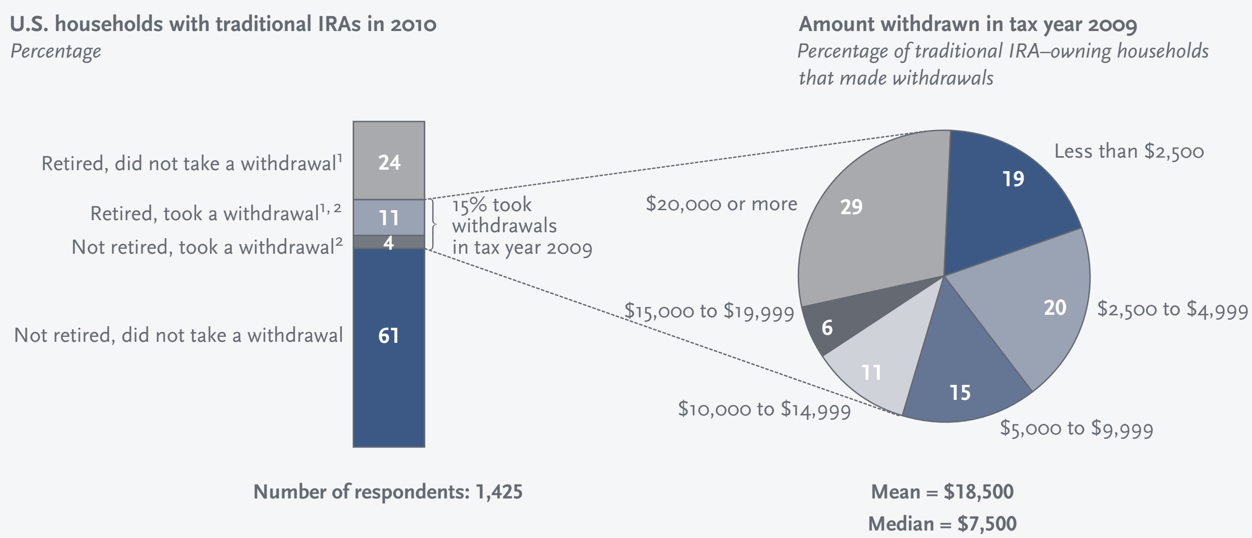
IRA Withdrawals Are Infrequent, Mostly Retirement Related

Few households withdraw money from their IRAs in any given year, and most withdrawals are retirement related. A traditional IRA withdrawal, if taken by an individual prior to age 59½, is generally subject to a 10 percent penalty on the taxable portion of the withdrawal (in addition to the federal, state, and local income tax that may be due).[27] Taxpayers older than 59½ but younger than 70½ may take withdrawals without penalty, but are generally 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). In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009.[28]

Withdrawal activity among traditional IRA–owning households fell to lower levels in tax year 2009, likely in part due to the suspension of RMDs from traditional IRAs. Fifteen percent of households still owning traditional IRAs in 2010 reported taking withdrawals from these IRAs in tax year 2009 (Figure 17), compared with 19 percent in tax year 2008 and 20 percent in tax year 2007.[29] Among households taking traditional

Figure 17

Withdrawals from Traditional IRAs Are Infrequent



[1] The household was considered retired if either the head of household or spouse responded affirmatively to "are you retired from your lifetime occupation?"
[2] Households that made withdrawals exclude those which closed and no longer own traditional IRAs.
Source: Investment Company Institute IRA Owners Survey

IRA withdrawals in tax year 2009, 73 percent reported someone in the household was retired from their lifetime occupation. Nevertheless, among retired households owning traditional IRAs in 2010, 69 percent did not take a withdrawal in tax year 2009.

In line with the incentives and disincentives of the tax code, younger households were much less likely to have withdrawals than older households. Among traditional IRA–owning households in 2010 headed by individuals younger than 59, only 5 percent took a withdrawal in tax year 2009 (Figure 18).[30] Seventeen

Figure 18

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

Percentage of traditional IRA–owning households, 2008–2010

	Traditional IRA–owning households		
	2008	**2009**	**2010**
Age of head of household* *Percentage of households owning traditional IRAs*			
Younger than 59	62	63	62
59 to 69	22	20	22
70 or older	16	17	16
Traditional IRA withdrawal activity by age* *Percentage of households owning traditional IRAs*			
Younger than 59, did not take a withdrawal	59	60	59
Younger than 59, took a withdrawal	4	3	3
Aged 59 to 69, did not take a withdrawal	17	16	18
Aged 59 to 69, took a withdrawal	5	4	4
Aged 70 or older, did not take a withdrawal	4	5	7
Aged 70 or older, took a withdrawal	11	12	9
Memo: Percentage of traditional IRA–owning households with withdrawals	20	19	15
Incidence of withdrawal activity by age* *Percentage of traditional IRA–owning households by age**			
Younger than 59	6	5	5
59 to 69	24	19	17
70 or older	73	70	53
Age composition of households with withdrawals *Percentage of traditional IRA–owning households with withdrawals*			
Younger than 59	18	16	20
59 to 69	26	20	25
70 or older	56	64	55

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

Note: For traditional IRA–owning households in 2008, figure reports tax year 2007 withdrawal activity. For traditional IRA–owning households in 2009, figure reports tax year 2008 withdrawal activity. For traditional IRA–owning households in 2010, figure reports tax year 2009 withdrawal activity.

Source: Investment Company Institute IRA Owners Survey

percent of households owning traditional IRAs and headed by an individual aged 59 to 69 reported withdrawals. Reflecting the suspension of RMDs in tax year 2009, withdrawal activity among households headed by individuals aged 70 or older fell. Fifty-three percent of these traditional IRA–owning households took withdrawals in tax year 2009, compared with a withdrawal rate among these households of 70 percent in tax year 2008.[31]

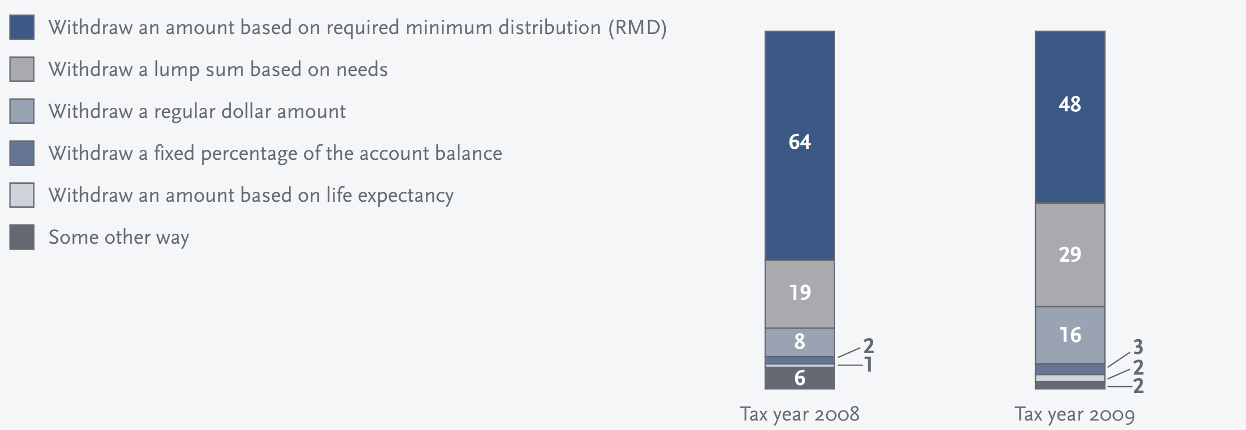
Traditional IRA–owning households who made withdrawals generally took modest-sized amounts. Nineteen percent of traditional IRA–owning households making withdrawals in tax year 2009 took less than $2,500 from their IRAs, and another 20 percent took an amount between $2,500 and $4,999 (Figure 17). Likely as a result of less RMD activity, the mean and median amount withdrawn moved up in tax year 2009. Although some withdrawals in dollar amounts appear large, a median of 8 percent of the account balance was typically withdrawn (the same as in tax year 2008).[32]

Typically, withdrawals from traditional IRAs were taken to fulfill RMDs. Although RMDs were suspended in tax year 2009, some households chose to receive their regular RMD. Forty-eight percent of households owning traditional IRAs in 2010 and making withdrawals in tax year 2009 calculated their withdrawal amount based on RMD, compared to 64 percent in tax year 2008 (Figure 19). Another 29 percent of traditional IRA–owning households

Figure 19

How Traditional IRA Withdrawals Are Determined

Percentage of traditional IRA–owning households with withdrawals in tax years 2008 and 2009



Source: Investment Company Institute IRA Owners Survey

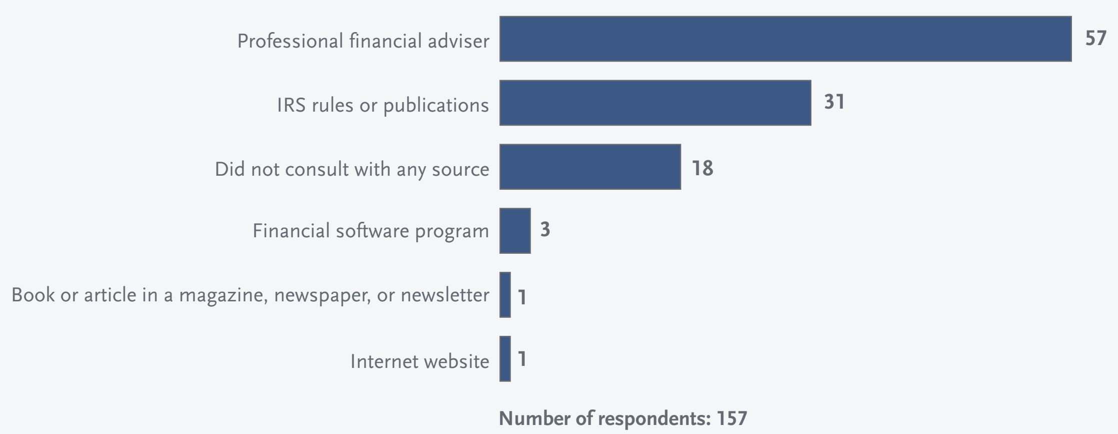
taking withdrawals reported they withdrew lump sums based on needs in tax year 2009, compared to 19 percent in tax year 2008. In tax year 2009, 19 percent reported a scheduled withdrawal amount, either a percentage of the account or a regular dollar amount. In tax year 2008, 10 percent reported a scheduled withdrawal amount. Households headed by individuals aged 70 or older were much more likely to cite RMDs as a reason for withdrawal, while younger households were much more likely to take lump-sum withdrawals based on needs.[33]

Traditional IRA–owning households that took withdrawals in tax year 2009 usually consulted outside sources to determine the amount of the withdrawal. Fifty-seven percent consulted a professional financial adviser to determine the amount to withdraw in tax year 2009 (Figure 20). Thirty-one percent consulted IRS rules or publications.

Figure 20

The Majority of Households Consult with a Professional Financial Adviser to Determine the Amount of Traditional IRA Withdrawals

Percentage of traditional IRA–owning households that made withdrawals in tax year 2009



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 where either the head of household or spouse was retired, half reported using traditional IRA withdrawals to pay for living expenses (Figure 21). Twenty-eight percent of retired households that took a traditional IRA withdrawal in tax year 2009 cited reinvesting or saving the withdrawal amount into another account.[34] Fourteen percent reported using the withdrawal for home purchase, repair, or remodeling, and 9 percent used the withdrawal for an emergency. Sixteen percent reported using the withdrawal for a healthcare expense.

Figure 21

Traditional IRA Withdrawals Often Used to Pay for Living Expenses

Percentage of traditional IRA–owning households[1] in which either the head of household or spouse is retired, 2010

Purpose of traditional IRA withdrawal in retirement[2]	
Took withdrawals to pay for living expenses	50
Spent it on a car, boat, or big-ticket item other than a home	6
Spent it on a healthcare expense	16
Used it for an emergency	9
Used it for home purchase, repair, or remodeling	14
Reinvested or saved it in another account	28
Paid for education	2
Some other purpose	11
Number of respondents	*167*

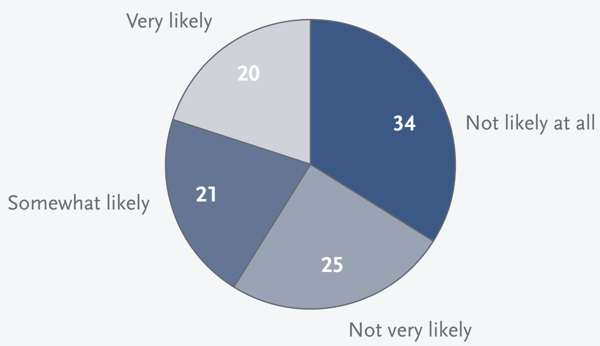
[1] The base of respondents includes the 11 percent of traditional IRA–owning households who were retired and took withdrawals reported in Figure 17.
[2] Multiple responses are included.
Source: Investment Company Institute IRA Owners Survey

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 2009 were asked about their future withdrawal intentions. In 2010, 59 percent of these traditional IRA–owning households say it is unlikely they will take withdrawals prior to age 70½ (Figure 22). Among traditional IRA–owning households in 2010 that did not take withdrawals in tax year 2009, 34 percent indicate it is "not likely at all" that they would start IRA withdrawals before required. Another 25 percent report it is "not very likely" that they would take withdrawals prior to age 70½.

Figure 22

Likelihood of Withdrawing from Traditional IRA Before Age 70½

Percentage of traditional IRA–owning households that did not take a withdrawal in tax year 2009



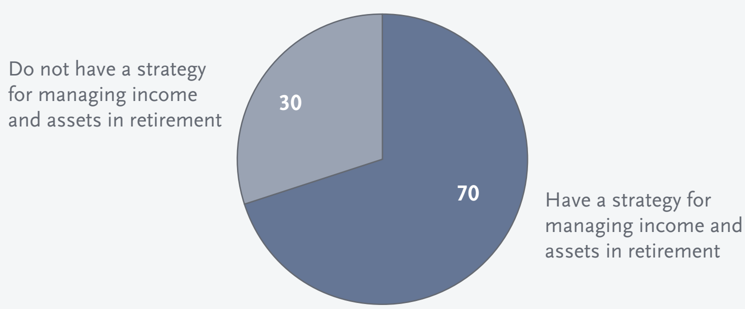
Number of respondents: 1,152

Source: Investment Company Institute IRA Owners Survey

Figure 23

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

Percentage of traditional IRA–owning households, 2010



Number of respondents: 1,388

Source: Investment Company Institute IRA Owners Survey

Most Traditional IRA Owners Have Planned Retirement Strategy

Seventy percent of traditional IRA–owning households in 2010 say they have a strategy for managing income and assets in retirement (Figure 23). These households typically seek advice when building their retirement income strategy. Sixty-two percent of traditional IRA–owning households with a strategy consulted a professional financial adviser when creating the strategy (Figure 24). Twenty-nine percent of households with a strategy consulted written materials (e.g., a book or article in a magazine or newspaper) and 28 percent consulted with friends or family. Seventeen percent used a website to help create their retirement income and asset management strategy. Only 8 percent created their investment strategy on their own.

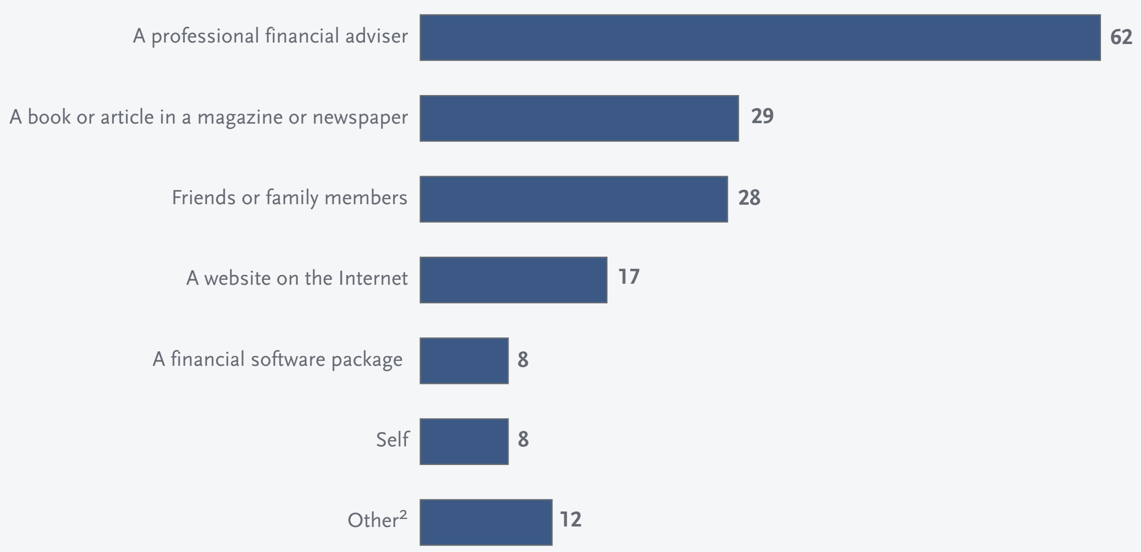
Expected Role of IRA Withdrawals in Retirement

Traditional IRA–owning households that were either (1) not retired or (2) retired but did not take withdrawals in tax year 2009, reported a pattern for the expected role of future IRA withdrawals in retirement

Figure 24

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

Percentage of traditional IRA–owning households that indicated they have a strategy for managing income and assets in retirement,[1] 2010



Number of respondents: 967

[1] *Multiple responses are included.*

[2] *Among respondents indicating "other," 6 percent consulted themselves, 1 percent consulted their employer, 1 percent used information seen on TV, and the remaining 4 percent did not specify the other source.*

Source: Investment Company Institute IRA Owners Survey

that is similar to the use of withdrawals among those who withdrew in tax year 2009. Two-thirds of these households reported they plan to use IRA withdrawals to pay for living expenses in retirement (Figure 25). Sixty-four percent reported they plan to use IRA withdrawals for an emergency. When asked to select a primary role for future IRA withdrawals in retirement, 58 percent expected the primary role of IRA withdrawals will be to pay for living expenses in retirement.

Figure 25

Expected Role of IRA Withdrawals in Retirement

Percentage of traditional IRA–owning households,[1] excluding retiree households with withdrawals, 2010

Plan for future IRA withdrawals in retirement[2]	
Take withdrawals to pay for living expenses	67
Spend it on a car, boat, or big-ticket item other than a home	12
Spend it on a healthcare expense	31
Use it for an emergency	64
Use it for home purchase, repair, or remodeling	22
Reinvest or save it in another account	40
Pay for education	12
Some other plan	10
Primary plan for future IRA withdrawals in retirement	
Take withdrawals to pay for living expenses	58
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	17
Use it for home purchase, repair, or remodeling	4
Reinvest or save it in another account	10
Pay for education	3
Some other plan	1
Number of respondents	*1,248*

[1]The base of respondents includes the 24 percent of traditional IRA–owning households who were retired but did not take withdrawals (who were asked about their future plans), the 4 percent of nonretired households that took withdrawals, and the 61 percent of nonretired households that did not take withdrawals.

[2]Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey

Additional Reading

"The Evolving Role of IRAs in U.S. Retirement Planning," *Investment Company Institute Perspective*. This report 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 report 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, Second Quarter 2010," *Investment Company Institute Fundamentals*. Available at www.ici.org/pdf/fm-v19n3-q2.pdf.

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 2010, the catch-up limit was $1,000 for IRAs, $2,500 for SIMPLE plans, and $5,500 for 401(k) plans.

contribution limit: Federal law establishes limits for the amount an individual may contribute to an IRA, 401(k), or other retirement savings plan in any given year. In 2010, the annual employee contribution limit for 401(k)s and similar employer-sponsored retirement plans was $16,500; the annual limit for traditional and Roth IRAs was $5,000; and the annual limit for SIMPLE IRAs was $11,500. The limit on the sum of employee and employer contributions for DC plans in 2010 was $49,000. Individuals aged 50 or older can make additional "catch-up" contributions.

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

defined benefit (DB) plan: An employer-sponsored pension plan where 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 and employer contributions and 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 are generally subject to income tax and may be subject to the 10 percent penalty (along with the after-tax contribution portion in some circumstances). 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 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 they wish 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 play a complementary role to the employer-sponsored retirement system by preserving rollover assets at job separation or retirement. The term IRA is also applied 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: An individual retirement account, first available in 1998, that permits only aftertax (nondeductible) contributions. Earnings on investments in this IRA are not taxed. Distributions of both principal and earnings are generally not subject to federal income tax if taken after age 59½. 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. There are no required distributions during the account holder's lifetime.

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.

Simplified Employee Pension Plan (SEP) IRA: A retirement program in which an employer makes contributions to the 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 the IRA. When Congress created the SIMPLE IRA in 1996, it provided that an employer could not establish a new SAR-SEP plan after 1996.

traditional IRA: The first type of IRA, 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 principal 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 Brady, Holden, and Short 2010.

Key terms related to IRAs and retirement savings are presented in the glossary of this report. For additional information and the rules governing IRAs, see Internal Revenue Service 2009.

2 Households' total financial assets were $43.7 trillion as of June 2010 and $14.5 trillion at year-end 1990. See Federal Reserve Board 2010.

3 Data in this issue of *Fundamentals* on the number and percentage of households owning IRAs are based on ICI's Annual Mutual Fund Shareholder Tracking Survey conducted in May 2010 of 4,200 randomly selected, representative U.S. households. The standard error for the total sample is ± 1.5 percentage points at the 95 percent confidence level. For further discussion and additional results from this survey, see Bogdan, Sabelhaus, and Schrass 2010 and Sabelhaus, Bogdan, and Schrass 2010.

The demographic and financial characteristics of IRA owners are derived from a separate May 2010 IRA Owners Survey of 1,800 representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). The standard error for the total sample is ± 2.3 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called Education IRAs).

4 See Figures 10 and 11 for additional information on rollover activities and Figure A15 in the appendix for additional information on traditional IRA owners with rollovers.

5 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 2009.

6 See Brady and Sigrist 2008 for discussion of the life-cycle model and household survey results regarding savings goals.

7 See Sabelhaus and Schrass 2009.

8 For discussion of retirement saving by different income groups, see Brady and Sigrist 2008 and Sabelhaus, Bogdan, and Schrass 2008.

9 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 Sigrist 2008 and Sabelhaus, Bogdan, and Schrass 2008.

10 Willingness to take risk among IRA-owning households was similar to that among mutual fund–owning households. Among households owning mutual funds, 30 percent were willing to take substantial or above-average financial risk for similar levels of financial gain. See Bogdan, Sabelhaus, and Schrass 2010.

[11] 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 2011 (forthcoming).

[12] See Holden, VanDerhei, and Alonso 2010.

[13] 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.

[14] Prior to 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 2009.

[15] 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.

[16] Rollover data for 2007 are preliminary from IRS Statistics of Income Division. For historical data, see Brady, Holden, and Short 2010 and Bryant 2008.

[17] Tabulations of the Federal Reserve Board's 2007 Survey of Consumer Finances data find that 41 percent of traditional IRA–owning households had rollovers in their IRAs in 2007, compared with 56 percent of IRA-owning households in ICI's 2007 IRA Owners Survey. For a description of the Survey of Consumer Finances, see Bucks et al. 2009.

[18] See Figure A15 in the appendix for additional information on traditional IRA owners with rollovers.

[19] Among households making IRA contributions, the 53 percent contributing to traditional IRAs includes the 40 percent only contributing to traditional IRAs plus 85 percent of the 15 percent that contributed to more than one type of IRA (Figure 13).

[20] Among households making IRA contributions, the 41 percent contributing to Roth IRAs includes the 31 percent only contributing to Roth IRAs plus 67 percent of the 15 percent that contributed to more than one type of IRA (Figure 13).

[21] Among households making IRA contributions, the 23 percent contributing to employer-sponsored IRAs includes the 14 percent only contributing to employer-sponsored IRAs plus 57 percent of the 15 percent that contributed to more than one type of IRA (Figure 13).

[22] See Figure A13 in the appendix.

[23] See Holden, Sabelhaus, and Bass 2010.

[24] See Internal Revenue Service 2009 for details on income restrictions and other qualifications for contribution eligibility.

[25] 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 that may make catch-up contributions to Roth IRAs are those with incomes within the limits to contribute to a Roth IRA and in which a household member is aged 50 or older. Households that may make catch-up contributions to traditional IRAs are those in which 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 2009.

[26] This group may include households ineligible to make deductible contributions to traditional IRAs.

[27] Over the years, Congress has created exceptions to the early withdrawal penalty, including first-time home purchase, certain medical expenses, certain educational expenses, and if the withdrawals are 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 2009.

[28] 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 2009.

[29] Data exclude households that closed and no longer owned traditional IRAs. For traditional IRA withdrawal activity in tax year 2007, see Holden and Schrass 2010a. For traditional IRA withdrawal activity in tax year 2008, see Holden and Schrass 2010b.

[30] The withdrawal activity observed in ICI's IRA Owners Surveys shows similar results compared with data reported by the IRS based on tabulations of individual taxpayers' information returns. Data reported in Bryant 2008 indicate that among all IRA-owning taxpayers in 2004, 24 percent took a withdrawal. Incidence of withdrawal activity indicated that 10 percent of IRA-owning taxpayers younger than 60 took withdrawals in 2004; 23 percent of IRA-owning taxpayers aged 60 to 69 took withdrawals; and 93 percent of IRA-owning taxpayers aged 70 or older took withdrawals.

[31] Prior to tax year 2009, withdrawal activity among households with a head of household aged 70 or older is not 100 percent because it may be the case that the traditional IRA owner is a younger spouse or partner who is not yet required to make withdrawals. In 2008, the Worker, Retiree, and Employer Recovery Act suspended RMDs from traditional IRAs and other retirement accounts for tax year 2009 (see note 28).

[32] See Holden and Schrass 2010b.

[33] Among traditional IRA–owning households in 2010 with a head of household aged 70 or older and taking a withdrawal in tax year 2009, 79 percent indicated their withdrawal was based on the RMD rules and only 9 percent took lump sums based on needs. In contrast, among withdrawing households younger than age 70, 59 percent took lump sums based on needs. Among traditional IRA–owning households in 2009 with a head of household aged 70 or older and taking a withdrawal in tax year 2008, 92 percent indicated their withdrawal was based on the RMD rules and only 3 percent took lump sums based on needs. In contrast, among withdrawing households younger than age 70, 54 percent took lump sums based on needs. In 2009 and 2010, some younger households indicated their withdrawals were RMDs, which likely reflects they owned inherited IRAs.

[34] Among the 28 percent of households that reported reinvesting or saving the amount of the traditional IRA withdrawal into another account, 90 percent reported withdrawing the amount based on RMD.

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