

ICI Research: Age-Appropriate Asset Allocation Typical in Traditional IRAs

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Washington, DC, September 19, 2011 - Investors in traditional IRAs are, for the most part, investing age appropriately, with younger investors tending to have a higher proportion of their accounts allocated to equity investments compared to older investors, who are more heavily tilted towards bond investments, according to research released today by the Investment Company Institute. This is the third report based on a database unveiled in July 2010 that collects account-level data of more than 10 million individual retirement accounts (IRAs).

The IRA Investor Profile: Traditional IRA Investors' Asset Allocation, 2007 and 2008—based on *The IRA Investor Database™*, a joint project by ICI and the Securities Industry and Financial Markets Association (SIFMA)—digs deeper than previous IRA research, revealing not only investor allocations in aggregate, but also how traditional IRA owners are investing across age and income groups. These findings provide a framework for considering the policy issues surrounding the use of this retirement savings vehicle.

“This research reveals that in traditional IRAs, the pattern of holdings tended to vary with investor age, typically as expected across the life cycle,” said Sarah Holden, Senior Director of Retirement and Investor Research at ICI. “This age-appropriate investing pattern is similar to what our 401(k) research has consistently shown with respect to plan participants’ investments in their 401(k) accounts.”

Nevertheless, Holden noted that some differences are discernable between the two groups. “Traditional IRA investors, who are somewhat older on average, tended to have higher shares of their accounts in fixed-income investments,” she said. “And target date funds were a higher share of 401(k) assets compared with traditional IRAs, reflecting in part their role as a default investment in the 401(k) plan space.”

Traditional IRA Investors Are Older, On Average, and Have Higher Fixed-Income Investments Compared with 401(k) Participants



Note: For definitions of investment categories, see Figure 11 in the report. Components may not add to the total because of rounding. In 401(k) plans, GICs and other stable value funds are included in the bond, bond funds, and money market funds category.

Sources: The IRA Investor Database™ and EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

Largest Share of Traditional IRA Investors' Assets Are Invested in Equities and Equity Funds

The largest portion of traditional IRA assets was invested in individual stocks and equity funds, both in aggregate and across investor age or income groups at year-end 2007 and year-end 2008. However, over the course of 2008, traditional IRA investors' share of their traditional IRA assets invested in individual stocks and equity funds (including equity mutual funds, equity exchange-traded funds, and equity closed-end funds) fell to 44.3 percent from 57.8 percent, largely as the result of negative stock market returns in 2008. The report also finds that at year-end 2008:

- Hybrid funds, including target date funds, represented 12.9 percent of investors' assets in traditional IRAs, on average, down from 13.6 percent at year-end 2007.
- Bonds and bond funds had climbed to 17.5 percent, from 13.5 percent of traditional IRA assets at year-end 2007.
- Money market funds had risen 8.5 percentage points, to 23.0 percent of traditional IRA assets, from 14.5 percent at year-end 2007.
- More broadly, equity holdings—equities, equity funds, the equity portion of target date funds and the equity portion of other hybrid funds—represented 51.7 percent of traditional IRA assets at year-end 2008, down from nearly two-thirds (66.3 percent) of traditional IRA assets at year-end 2007.

Another noteworthy finding is that the youngest traditional IRA investors (aged 25 to 29) were more heavily invested in money market holdings than any other age group at year-end 2007. This is likely attributable to a number of factors, including both a preponderance of small balances, which have a higher tendency to be invested in money market funds, and the possibility that some of these investors may have shorter-term goals for the money in their traditional IRAs.

Traditional IRAs and 401(k) Plans: Investors' Allocations Are Broadly Consistent

The pattern of investments among traditional IRA investors was broadly consistent with the patterns observed in 401(k) plans, in aggregate and by investor age. Equities and equity funds represented the largest share of both traditional IRAs and 401(k) plan assets, in aggregate and by investor age. In addition, whether looking at traditional IRAs or 401(k) plans, bonds and bond funds represented higher shares of account assets among older investors compared to younger investors. However, a number of differences were observed in investing patterns in traditional IRAs compared with 401(k) plans:

In aggregate, traditional IRAs had a higher allocation to bonds and bond funds than 401(k) plans, in part because traditional IRA investors tend to be older compared with 401(k) plan participants.

- Money market funds had higher shares in traditional IRAs in aggregate and across all age groups, reflecting in part their use as a default investment for small rollovers and perhaps traditional IRA investors' higher demand for liquidity.
- Target date funds represented a higher share of 401(k) plan assets in aggregate, likely reflecting their use as default investments in many plans.

The appendix to this study contains additional relevant data drawn from [The IRA Investor Database™](#).

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

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