ICI RESEARCH REPORT

The IRA Investor Profile

ROTH IRA INVESTORS' ACTIVITY, 2010–2020

JUNE 2024

The Asset Management Industry
SERVING INDIVIDUAL INVESTORS

INVESTMENT COMPANY INSTITUTE

The IRA Investor Database™

The Investment Company Institute maintains an account-level database on millions of individual retirement account (IRA) investors. The aim of this database is to increase public understanding of this important segment of the US retirement market by expanding on the existing household surveys and Internal Revenue Service (IRS) tax data on IRA investors. By tapping account-level records, research drawn from the database can provide important insights into IRA investor demographics, activities, and asset allocation decisions. The database is designed to shed light on key determinants of IRA contribution, conversion, rollover, and withdrawal activity and the types of assets that investors hold in these accounts.

For all reports drawing on this database, visit www.ici.org/research/retirement/ira-investor-database.

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A complete set of data tables containing the figures discussed in this report is located in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-roth-data.xlsx.

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The IRA Investor Profile: Roth IRA Investors' Activity, 2010–2020

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

Executive Summary

First available in 1998, Roth individual retirement accounts (IRAs) had accumulated $1.4 trillion in assets by year-end 2023. Congress created Roth IRAs to provide a contributory retirement savings vehicle on an after-tax (nondeductible) basis with qualified withdrawals distributed tax-free. Individuals also may invest in Roth IRAs through conversions—in a conversion, taxes are paid on assets in a non-Roth IRA that move into a Roth IRA. In 2010, income limits on conversion activity were lifted (with special tax treatment of conversions made in 2010 as well). Since 2006, direct rollovers from designated Roth accounts in employer-sponsored retirement plans to Roth IRAs have been permitted, and since 2008, rollovers from non-Roth employer-sponsored retirement plan accounts also have been allowed. Roth IRAs are managed by individuals, and policymakers are interested in how Roth IRA investors manage their Roth IRAs over time.

Analysis of the contribution, conversion, rollover, withdrawal, and asset allocation activity of 2.0 million consistent Roth IRA investors—those with accounts in every year from 2010 through 2020—can show how consistent Roth IRA investors fared in the wake of the global financial crisis of 2007–2009 as well as their actions shortly after the beginning of the COVID-19 pandemic. In addition, analysis of a snapshot of 4.6 million Roth IRA investors in 2020 can provide more detailed insight into how individuals manage their Roth IRAs.

Roth IRA Investors' Activities, 2010–2020

Contributions, Conversions, Rollovers, and Withdrawals. During the economic recovery immediately following the global financial crisis of 2007–2009, stock values generally increased and unemployment rates decreased. Even though contribution rates among consistent Roth IRA investors aged 28 or older in 2020 declined in each year between tax year 2011 and tax year 2020, about 47 percent made at least one contribution in that ten-year period. Among those contributing during that 10-year period, 84 percent contributed in multiple years. Conversion activity edged up in response to the change in eligibility in 2010; however, few Roth IRA investors have conversions in any year.[1] Rollover activity among Roth IRA investors is extremely rare. Withdrawal rates rose slightly between 2011 and 2020, but still only a very small fraction of Roth IRA investors took money out of their Roth IRAs.

Asset Allocation. From 2010 to 2020, Roth IRA investors' allocation to equity holdings—equities, equity funds, and the equity portion of balanced funds—generally was little changed. For example, consistent Roth IRA investors aged 28 to 59 in 2020 held 86 percent of their Roth IRA assets in equity holdings at year-end 2010, and 88 percent of their Roth IRA assets were invested in equity holdings at year-end 2020. Roth IRA investors in their sixties at year-end 2020 held 78 percent of their Roth IRA assets in equity holdings at year-end 2010, and about 80 percent of their Roth IRA assets were invested in equity holdings at year-end 2020. Allocation to equities among Roth IRA investors in their seventies in 2020 was 72 percent at year-end 2010 compared with 79 percent at year-end 2020. Between year-end 2010 and year-end 2020, few Roth IRA investors changed to or from equity concentrations of zero or 100 percent of their Roth IRA balances. Fifty-one percent of consistent Roth IRA investors had their Roth IRA balances entirely invested in equity holdings at year-end 2010, and that share edged down slightly between year-end 2010 and year-end 2020, to 49 percent.

Account Balances. The movement of Roth IRA balances reflected the impact of investment returns, which relate to investors' contribution, conversion, rollover, and withdrawal activity as well as asset allocations and the rules governing Roth IRAs. Consistent Roth IRA investors in all age groups saw their account balances increase on average between year-end 2010 and year-end 2020. Traditional IRA investors, once they reach a certain age (70½ for individuals born before July 1, 1949, in the time period analyzed), become ineligible to make contributions and typically must begin to take withdrawals.[2] In contrast, Roth IRA investors of the same age may contribute to their Roth IRAs and typically are not subject to required minimum distributions (RMDs).[3]

Snapshot of Roth IRA Investors at Year-End 2020 Provides Additional Insight into Roth IRA Investors' Activities

It also is possible to analyze a snapshot of all Roth IRA investors in the database in any given year. This report primarily focuses on the 4.6 million Roth IRA investors in 2020.

New Roth IRAs Often Are Created by Contributions

Investors open Roth IRAs primarily through contributions. In 2020, more than three-quarters of Roth IRAs were opened exclusively with contributions.

More Than Three in 10 Roth IRA Investors Make Contributions to Their Roth IRAs

In any given year, more than three in 10 Roth IRA investors contribute to their Roth IRAs. On average, in recent years, estimates suggest that about $23 billion of contributions flowed into Roth IRAs per year. In tax year 2020, 35.2 percent of Roth IRA investors aged 18 or older contributed to their Roth IRAs, and more than four in 10 of these contributors did so at the legal limit. Roth IRA investors display persistence in their contribution activity from year to year. For example, nearly eight in 10 Roth IRA investors who contributed at the limit in tax year 2019 did so again in tax year 2020.

Roth IRA Conversion Activity Responds to Rule Changes

Few Roth IRA investors made conversions into their Roth IRAs, but conversion activity picked up in 2010 when income limits on conversions were lifted and taxpayers could choose to pay the taxes on 2010 conversions in 2011 and 2012. In 2010, more than 5 percent of Roth IRA investors made conversions, up from less than 2 percent in recent prior years. Between 2011 and 2018, Roth conversion activity declined again, to an average of about 3 percent before edging up to 4 percent in 2019 and 5 percent in 2020—during these times, there were no income restrictions on conversions, but Roth investors no longer had the special tax payment option. Roth IRAs with recent conversions tend to have larger balances than those without conversions, particularly among older Roth IRA investors.

Few Roth IRA Investors Have Rollovers

In any given year, fewer than 3 percent of Roth IRA investors made rollovers.

Few Roth IRA Investors Take Withdrawals

Withdrawals are rare among Roth IRA investors—only about 3 percent of Roth IRA investors took withdrawals in 2020. Unlike traditional IRAs, Roth IRAs have a five-year holding period but do not require distributions to start after the investor turns a certain age.[4] Similar to traditional IRAs, withdrawals taken from Roth IRAs before the investor reaches age 59½ may incur a penalty, unless an exception applies. Only about 3 percent of Roth IRA investors younger than 60 took withdrawals in 2020, and only about 6 percent of Roth IRA investors aged 60 or older took withdrawals.

Roth IRA Balances Tend to Increase with Investor Age

Roth IRA balances tended to increase with investor age and vary within investor age groups in 2020. At year-end 2020, 50.9 percent of Roth IRA investors aged 18 to 24 had balances less than $5,000 compared with only 6.2 percent of Roth IRA investors aged 75 or older.

Equity Holdings Figure Prominently in Roth IRAs

Roth IRAs hold a range of investments, with the largest share of Roth IRA assets invested in equities and equity funds, both in aggregate and across investor age groups. The pattern of investment holdings in Roth IRAs varies with investor age, typically as expected across the life cycle. For the most part, younger Roth IRA investors had a higher proportion of their accounts invested in equity holdings—equities, equity funds, and the equity portion of balanced funds—than older investors. On average, Roth IRA investors younger than 60 had about 90 percent of their Roth IRAs invested in equity holdings, while Roth IRA investors aged 60 or older had nearly 80 percent of their Roth IRAs invested in equity holdings.

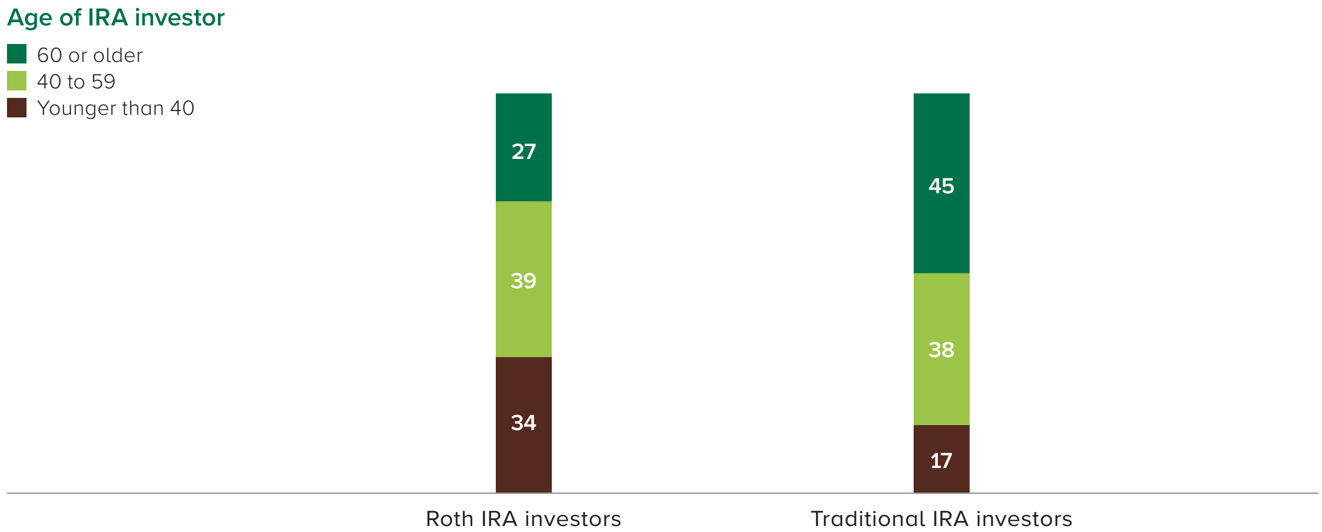
Roth IRA Investors Are Quite Different from Traditional IRA Investors

Roth IRA investors tend to be younger than traditional IRA investors. At year-end 2020, 34 percent of Roth IRA investors were younger than 40, compared with 17 percent of traditional IRA investors (Figure E.1). Only 27 percent of Roth IRA investors were 60 or older, compared with 45 percent of traditional IRA investors. This younger age distribution reflects, in part, the rules governing access to Roth IRAs, including income limits on contributions and (until 2010) on conversions, as well as the historically limited scope for rollover activity.

FIGURE E.1

Roth IRA Investors Are Younger Than Traditional IRA Investors

Percentage of IRA investors by type of IRA, year-end 2020



Note: The samples are 4.6 million Roth IRA investors aged 18 or older at year-end 2020 and 6.6 million traditional IRA investors aged 18 or older at year-end 2020.

Source: The IRA Investor Database™

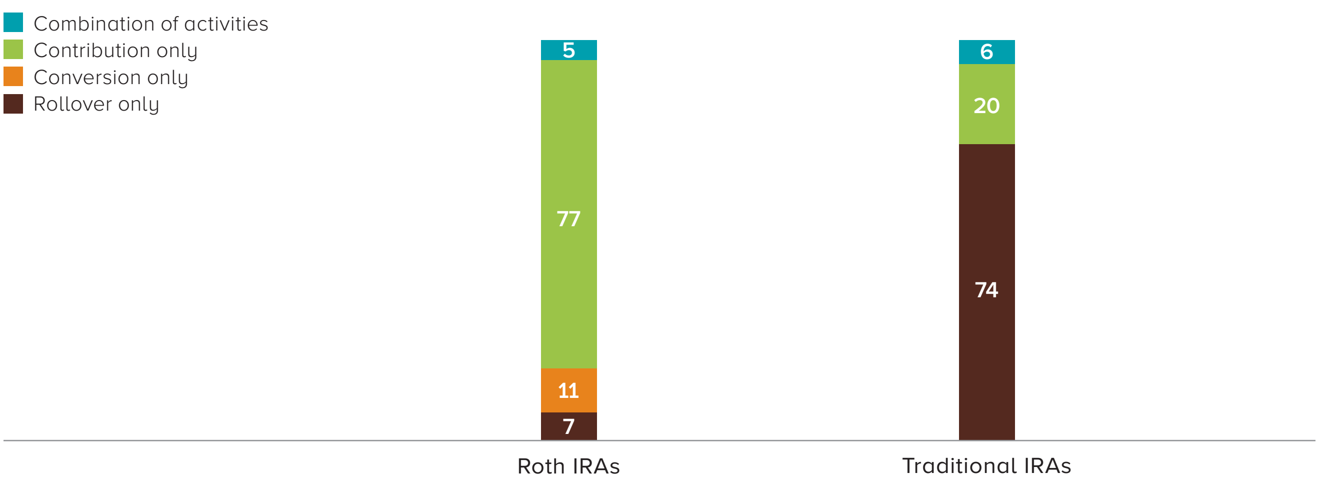
Traditional IRAs were originally created to provide workers with a contributory retirement savings account and a repository for rollovers,[5] while the main focus of Roth IRAs was after-tax contribution activity and tax-free distribution after a suitable time in the account. With the proliferation of retirement accumulations that can be rolled over, whether from defined contribution (DC) accounts or as lump-sum distributions from defined benefit (DB) plans, most (74 percent of) new traditional IRAs in 2020 were opened only with rollovers (Figure E.2) and 62 percent of traditional IRA–owning households in 2023 report having rollovers in their traditional IRAs.[6] By contrast, rollovers play a less important role in Roth IRAs, and only 21 percent of Roth IRA–owning households in 2023 report that their Roth IRAs contain amounts that were initially rolled over from employer-sponsored retirement plans.[7]

Contribution activity is much more important to Roth IRA investors, with the majority of new Roth IRAs (77 percent) opened only with contributions (Figure E.2). In any given year, Roth IRA investors are more likely to make contributions than traditional IRA investors. In tax year 2020, more than one-third of Roth IRA investors (aged 18 or older) made contributions, compared with about one in 10 traditional IRA investors (aged 18 to 69).[8]

FIGURE E.2

New Roth IRAs Often Are Opened with Contributions; New Traditional IRAs Often Are Opened with Rollovers

Percentage of new IRAs opened in 2020 by type of IRA



Note: New IRAs are accounts that did not exist in the IRA Investor Database in 2019 and were opened by one of the paths indicated in 2020. The calculation excludes IRAs that changed financial services firms. The samples are 0.3 million new Roth IRA investors aged 18 or older at year-end 2020 and 0.3 million new traditional IRA investors aged 18 to 74 at year-end 2020.

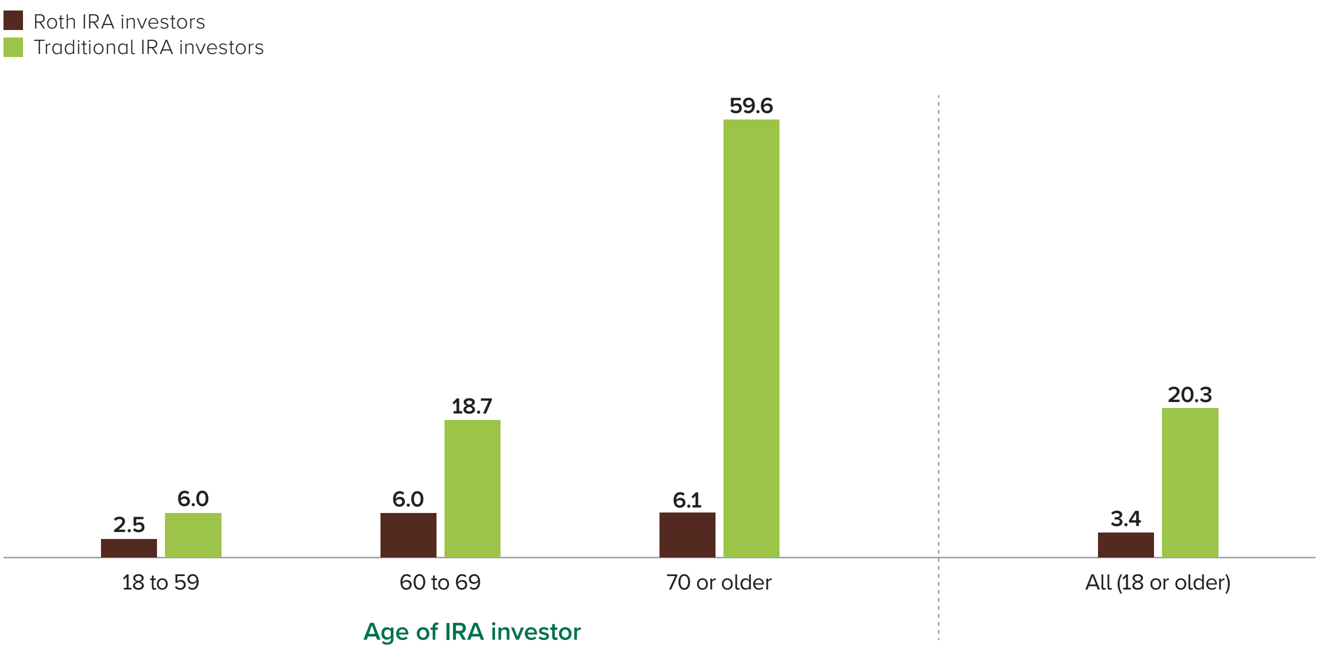
Source: The IRA Investor Database™

In contrast to traditional IRAs, which require investors to take RMDs beginning at a certain age, Roth IRAs have no RMDs (unless the Roth IRAs are inherited).[9] As a result, withdrawal activity is much lower among Roth IRA investors. In 2020, 3 percent of Roth IRA investors aged 18 or older made withdrawals, compared with 20 percent of traditional IRA investors (Figure E.3).[10] Early withdrawal penalties can apply to both Roth and traditional IRA investors aged 59½ or younger, and withdrawal activity is lower among investors younger than 60 compared with investors aged 60 or older.

FIGURE E.3

Roth IRA Investors Rarely Take Withdrawals; Traditional IRA Investors Are Heavily Affected by RMDs

Percentage of IRA investors with withdrawals by type of IRA and investor age, 2020



Note: The samples are 4.6 million Roth IRA investors aged 18 or older at year-end 2020 and 6.6 million traditional IRA investors aged 18 or older at year-end 2020.

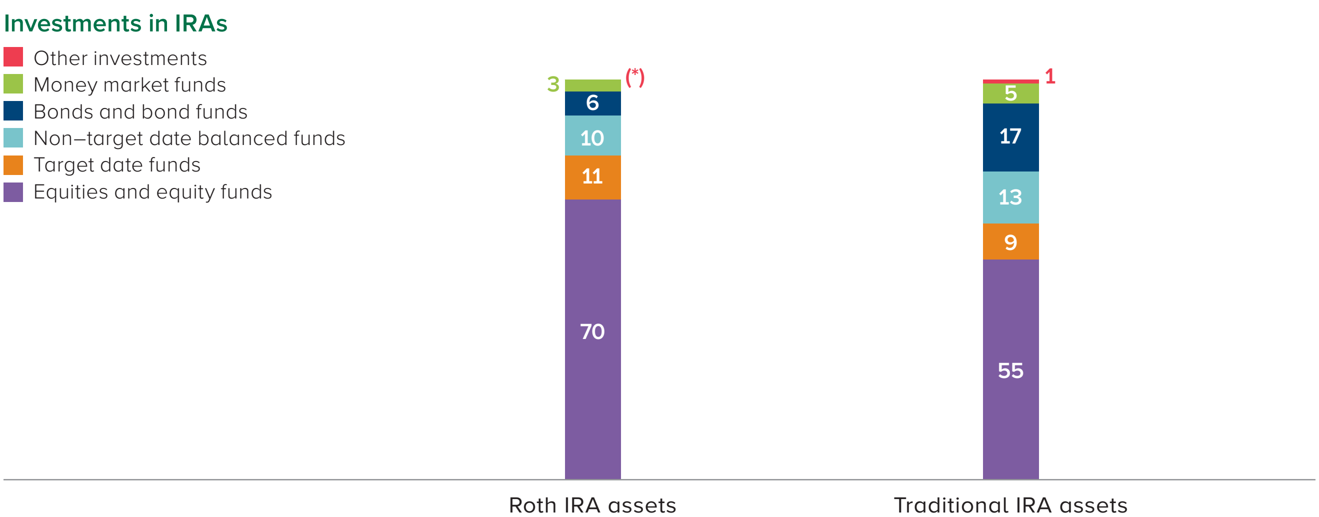
Source: The IRA Investor Database™

Roth IRA assets are allocated more to equity holdings than are traditional IRA assets. At year-end 2020, 70 percent of Roth IRA assets were invested in equities and equity funds—mutual funds, exchange-traded funds (ETFs), and closed-end funds—compared with 55 percent of traditional IRA assets (Figure E.4). Allocation to target date funds and non–target date balanced funds was similar between Roth IRAs (21 percent) and traditional IRAs (22 percent), but Roth IRAs had less allocated to bonds and bond funds (6 percent) than traditional IRAs (17 percent). Roth IRAs also had lower allocation to money market funds (3 percent) than traditional IRAs (5 percent). Some of the differences in allocation reflect the different age distributions (Figure E.1). Another factor is the impact of default rollover asset allocation to money market funds and deposits in traditional IRAs.[11]

FIGURE E.4

Roth IRA Assets Have a Higher Allocation to Equities

Percentage of IRA assets by type of IRA, year-end 2020



Note: See Figure A.26 for descriptions of the investment categories. Percentages are dollar-weighted averages. The samples are 4.6 million Roth IRA investors aged 18 or older at year-end 2020 and 6.6 million traditional IRA investors aged 18 or older at year-end 2020.

(*) = less than 0.5 percent

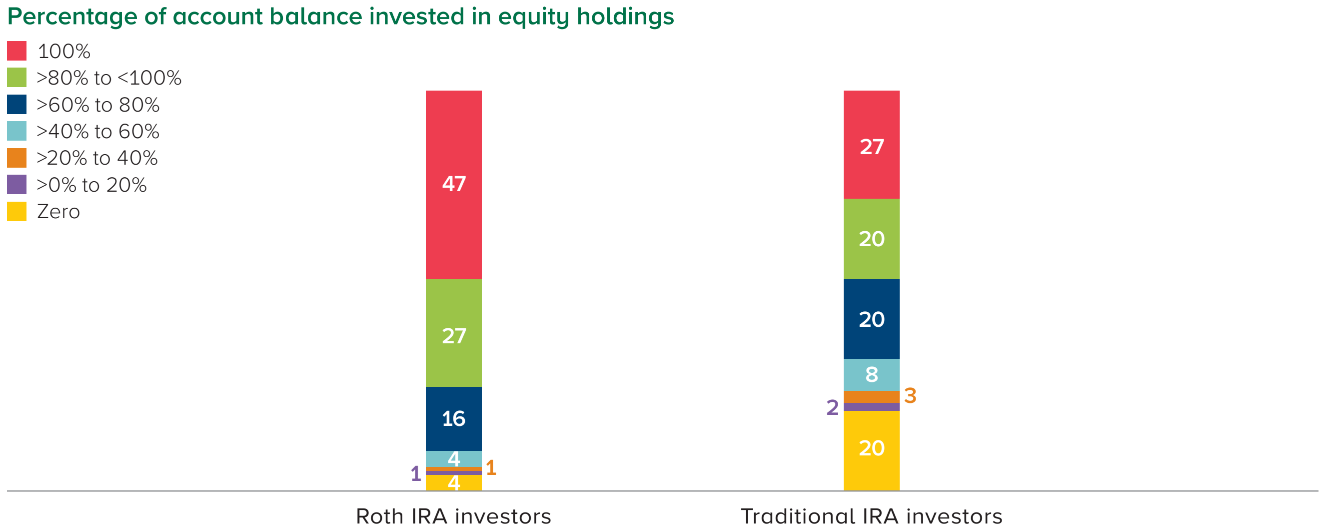
Source: The IRA Investor Database™

Roth IRA investors have higher concentrations in equity holdings than do traditional IRA investors. At year-end 2020, only 4 percent of Roth IRA investors had no equity holdings (equities, equity funds, and the equity portion of balanced funds), while 20 percent of traditional IRA investors held none (Figure E.5). At the other extreme, 47 percent of Roth IRA investors were 100 percent invested in equity holdings, compared with 27 percent of traditional IRA investors fully invested in equity holdings.

FIGURE E.5

Roth IRA Investors Have Higher Concentration in Equity Holdings

Percentage of IRA investors, year-end 2020



Note: Equity holdings are the sum of equities, equity funds, and the equity portion of target date and non–target date balanced funds. The samples are 4.6 million Roth IRA investors aged 18 or older at year-end 2020 and 6.6 million traditional IRA investors aged 18 or older at year-end 2020.

Source: The IRA Investor Database™

Some of this higher average concentration in equity holdings reflects the younger average age of Roth IRA investors compared with traditional IRA investors (Figure E.1) and the tendency of younger investors to hold higher concentrations in equity holdings. However, it also is the case that Roth IRA investors within any given age group tend to have higher concentrations in equity holdings. For example, 35 percent of traditional IRA investors aged 30 to 39 had no equity holdings in their traditional IRAs at year-end 2020,[12] compared with only about 2 percent of Roth IRA investors aged 30 to 39 (see Figure A.29). Fifty-six percent of traditional IRA investors aged 30 to 39 had more than 80 percent of their traditional IRAs invested in equity holdings at year-end 2020,[13] compared with 86 percent of Roth IRA investors aged 30 to 39.

Sixty-two percent of traditional IRA investors with smaller accounts (a balance of $5,000 or less at year-end 2020) had no equity holdings at year-end 2020,[14] reflecting in part the impact of default rollover investment rules; in contrast, only 7 percent of Roth IRA investors with smaller Roth IRA balances had no equity holdings (Figure A.29). Even in larger accounts, where default rollover investment rules are likely to have less of an impact, Roth IRA investors tended to have higher allocations to equity holdings at year-end 2020 compared with traditional IRA investors. For example, at year-end 2020, 74 percent of Roth IRA investors with larger accounts (a balance of more than $5,000 at year-end 2020) had more than 80 percent of their Roth IRAs invested in equity holdings, compared with about 52 percent of traditional IRA investors with larger accounts, who had more than 80 percent of their traditional IRAs invested in equity holdings.[15]

Introduction

The Role of IRAs in US Retirement Planning

The Employee Retirement Income Security Act of 1974 (ERISA) created individual retirement accounts (IRAs).[16] Fifty years later, IRAs have become a significant component of US households' retirement assets. All told, 55.5 million US households, or 42.2 percent, owned one or more types of IRAs in mid-2023.[17] Households held $13.6 trillion in IRAs at year-end 2023, or more than one-third of the $38.3 trillion in total US retirement assets,[18] and IRAs accounted for about 11 percent of US households' total financial assets (Figure A.1). Traditional IRAs, the first type of IRA created, are the most common type.[19] Over the years, policymakers have changed the rules governing traditional IRAs and introduced other types of IRAs. This report focuses on the Roth IRA, a nondeductible individual retirement savings account created by the Taxpayer Relief Act of 1997.[20] At year-end 2023, Roth IRAs held $1.4 trillion and accounted for 10 percent of all IRA assets.[21]

Roth IRAs, first available in 1998, permit only after-tax (nondeductible) contributions. In the past, individuals aged 70½ or older were not allowed to contribute to traditional IRAs, but Roth IRAs did not have that age restriction.[22] Roth IRAs also can be created through conversions, a process by which non-Roth IRA assets are withdrawn and converted into Roth IRAs. In addition, direct rollovers from designated Roth accounts in retirement plans to Roth IRAs have been permitted since 2006 and direct rollovers of non-Roth qualified retirement plan accumulations into Roth IRAs have been permitted since 2008. Distributions of both principal and earnings generally are not subject to federal income tax if taken after the Roth IRA owner reaches age 59½, dies, or becomes disabled (provided the five-year holding period is met).[23] Distributions of principal before the Roth IRA owner reaches age 59½ generally are not subject to tax, but investment earnings may be subject to tax and possibly a 10 percent penalty if taken before age 59½, death, or disability. Like traditional IRAs, there are exceptions to the early distribution penalty for a first-time home purchase, qualified education expenses, and other exceptions. Unlike traditional IRAs, there are no required minimum distributions (RMDs) during the Roth IRA holder's lifetime.[24]

Whether funded by contributions, conversions, or rollovers, Roth IRAs are managed by individuals, and asset allocation plays an important role in the Roth IRA returns and how they vary by investor. Thus, policymakers and researchers are seeking to better understand the asset allocation of Roth IRA balances across investors, as well as understanding how Roth IRA investors managed their Roth IRAs after the financial crisis. In addition, policymakers want to know how people manage these accounts, including how much they are withdrawing before retirement and how they are tapping their Roth IRAs throughout retirement.

Sources of IRA Data

Researchers have relied primarily on household surveys and Internal Revenue Service (IRS) tax data to examine policy questions about IRAs. Several household surveys for analyzing households' retirement savings are publicly available;[25] in addition, ICI conducts two annual household surveys that provide information on IRA-owning households.[26, 27] Though household surveys provide a comprehensive picture of household finances and activities and can provide insights into the reasoning behind decisions, they can suffer from inaccurate respondent recall, which can cause data problems and reduce the level of detail that can be obtained on some financial assets or activities. In addition, because Roth IRAs are newer than traditional IRAs, sample sizes tend to be smaller than for traditional IRAs.[28]

The IRS collects a rich array of information about IRAs, including contributions, assets, conversions to Roth IRAs, rollovers into IRAs, and withdrawals from IRAs, from a variety of tax returns (e.g., Form 1040) and information returns (e.g., Form 5498 and Form 1099-R). The IRS Statistics of Income Division publishes tabulations of these data and research reports using the data.[29] The tax data, however, do not have information about the types of assets that investors hold in their IRAs.

The IRA Investor Database™

To augment the existing survey information and tax data for IRAs, ICI embarked on a data collection effort—the IRA Investor Database—to examine administrative, or recordkept, data on IRAs. To date, this collection effort has gathered data on IRAs from 2007 through 2020. The IRA Investor Database contains account-level information from a wide range of mutual fund and insurance companies, which provided data for more than 11 million IRA investors in 2020. The database, which contains information about IRA asset levels, investments, contributions, conversions, rollovers, and withdrawals, provides a more complete picture of account-level holdings and activity for IRA investors. Throughout this report, the term "IRA investor" refers to a unique IRA investor at a given data provider.[30] The IRA Investor Database contains data on 11.4 million IRA investors at year-end 2020, of which 57 percent hold traditional IRAs, 40 percent hold Roth IRAs, 12 percent hold SIMPLE IRAs, and 5 percent own SEP or SAR-SEP IRAs (see Figure A.31 in the appendix).[31]

Research Agenda for This Report

This report provides insight into how Roth IRA investors fared after the global financial crisis of 2007–2009 by analyzing data drawn from the IRA Investor Database for year-end 2010 through year-end 2020. Chapter 1 analyzes the contribution, conversion, rollover, and withdrawal activity for 2.0 million consistent Roth IRA investors (those with accounts at the end of each year from 2010 through 2020). In addition, this chapter explores changes in asset allocation and account balances among consistent Roth IRA investors. The remaining chapters of the report primarily focus on a snapshot of Roth IRA investors at year-end 2020. Chapter 2 notes that the vast majority of new Roth IRAs opened in 2020 were opened with contributions. It examines contribution activity by investor age, exploring which Roth IRA investors had contributions and how many of them contributed at the maximum legal limit. Chapter 3 looks at how conversion activity varied by investor age in 2020, and briefly touches upon rollover activity, which is rare in Roth IRAs. Chapter 4 explores withdrawals, which very few Roth IRA investors take in any given year, likely discouraged by the five-year holding period and early withdrawal penalties. In addition, in contrast to traditional IRA investors, Roth IRA investors are not required to start distributions at a certain age (unless the Roth IRA is inherited). Chapter 5 reports variation in Roth IRA balances by investor age. Chapter 6 compares the asset allocation of Roth IRA balances among cross sections of Roth IRA investors at year-end 2010 and year-end 2020, focusing on the changes in allocation to equity holdings by investor age.

Figures referenced in this report are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-roth-data.xlsx.

CHAPTER 1

Following Roth IRA Investors over Time

The IRA Investor Database contains data on millions of IRA investors from year-end 2007 through year-end 2020, which makes it possible to analyze snapshots, or cross sections, of IRA investors in any given year. In addition, one of the advantages of the IRA Investor Database is the ability to explore activity for the same investors from year to year to see whether activities and behaviors are persistent or changing.

Figures for this chapter feature such an analysis, focusing on the group of 2.0 million Roth IRA investors who had accounts at the same financial services provider at the end of each year from 2010 through 2020. These Roth IRA investors, who will be referred to as consistent Roth IRA investors, were 18 or older at year-end 2010 and 28 or older at year-end 2020. Figures for this chapter examine how consistent Roth IRA investors fared in the wake of the financial crisis. Specifically, patterns of contribution (Figures A.2 and A.3), conversion (Figure A.2), and withdrawal activities (Figures A.2 and A.4) are explored, as well as changes in asset allocation (Figures A.5 to A.8). Finally, the movement of their Roth IRA balances from year-end 2010 to year-end 2020 is analyzed (Figure A.9).

Figures referenced in this chapter (A.1 through A.9) are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-roth-data.xlsx.

CHAPTER 2

Roth IRA Investors' Contribution Activity in 2020

Policymakers created Roth IRAs to provide taxpayers with (1) the option of paying taxes now on contributions going into a retirement account, (2) the ability to reinvest interest and dividends without being taxed, and (3) the ability to take qualified withdrawals tax-free. There are income restrictions on Roth IRA contribution activity, but in contrast to traditional IRAs, older workers (aged 70½ or older in the time period analyzed) are permitted to contribute.[32] The majority of new Roth IRAs are opened with contributions. In fact, contributions provide steady inflows into Roth IRAs (Figure A.30), and in most years, aggregate contributions to Roth IRAs have been greater than aggregate contributions to traditional IRAs.[33] This chapter analyzes the contribution activity for a snapshot, or cross section, of Roth IRA investors, primarily focusing on how contribution activity varied in 2020 by investor age.

Figures referenced in this chapter (A.10 through A.16) are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-roth-data.xlsx.

Contributions Often Were the Source of New Roth IRAs in 2020

Roth IRAs can be opened with contributions, conversions, or rollovers, but contributions tend to be the most common source for new Roth IRAs. In 2020, more than three-quarters (77.1 percent) of new Roth IRAs in the IRA Investor Database were opened only with contributions (Figure A.10). Another 10.9 percent were opened only with conversions, and 7.3 percent were opened only with rollovers. Another 4.7 percent of new Roth IRAs in 2020 were opened through a combination of contributions, conversions, and/or rollovers. Contributions have historically been the most common way to open a new Roth IRA; however, when special tax treatment is available for conversions, they tend to become more important than usual (see chapter 3 for discussion of conversion activity). For example, in 2010, when the income limits on conversions were lifted and individuals could spread the tax bill over the next two years, one-third of new Roth IRAs were opened only with conversions, while about half were opened only with contributions (Figure A.10).

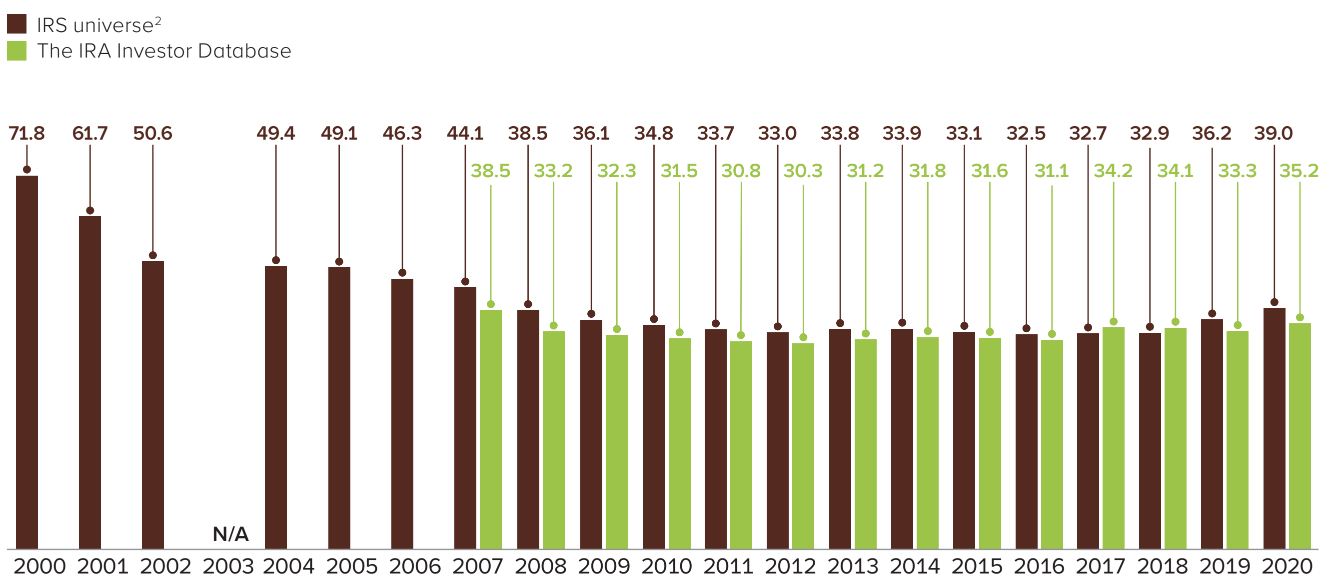
Contributions to Roth IRAs

Between 2008 and 2020, about three in 10 Roth IRA investors aged 18 or older have made contributions to their Roth IRAs in any given year (Figure 2.1). For example, in tax year 2020, 35.2 percent of Roth IRA investors aged 18 or older made contributions to their Roth IRAs. This recent contribution activity is slightly lower than for the earliest years, likely because of the growing base of Roth IRA investors, among other factors. As the base of Roth IRA investors grows, so too does the likelihood that some investors experience income growth that moves them out of eligibility to contribute to their Roth IRAs.[34] Some Roth IRA investors who were ineligible to contribute may have opened their accounts with conversions. Others may prefer to direct savings into their traditional IRAs.[35] Nevertheless, contribution activity is higher in Roth IRAs (38.5 percent of Roth IRA investors aged 18 to 69 versus 10.6 percent of traditional IRA investors aged 18 to 69 in tax year 2020).[36]

FIGURE 2.1

Roth IRA Contribution Rates

Percentage of Roth IRA investors aged 18 or older with contributions[1]



[1] This group is Roth IRA investors aged 18 or older who made contributions to their Roth IRAs in the tax year indicated.

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

N/A = not available

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

Contributions to Roth IRAs in 2020 by Investor Age

Younger Roth IRA investors were more likely to contribute to their Roth IRAs than were older Roth IRA investors (Figure A.11). Part of the reason for the lower incidence of contribution activity among older investors is the increased likelihood that some of these investors are no longer eligible to make contributions (having created the Roth IRAs to hold conversions or with contributions made in the past when their incomes were lower and they were therefore eligible to contribute). Among Roth IRA investors aged 18 to 24 making contributions in tax year 2020, 47.1 percent opened their Roth IRA with that contribution. In contrast, only 5.1 percent of Roth IRA investors aged 75 or older in 2020 did the same.

The highest level of contribution activity in tax year 2020, 67.4 percent, was observed among Roth IRA investors aged 18 to 24 (Figure A.11). This level fell across the remaining age groups—for example, in tax year 2020, 36.9 percent of Roth IRA investors in their early forties, 16.9 percent of Roth IRA investors in their late sixties, 8.8 percent of Roth IRA investors in their early seventies, and 4.3 percent of Roth IRA investors aged 75 or older made contributions.

Roth IRA Contribution Amounts in 2020 by Investor Age

In 2020, the Roth IRA contribution limit was $6,000 for individuals younger than 50 and $7,000 for individuals aged 50 or older because of catch-up contributions (Figure A.13). Even though older Roth IRA investors are less likely than younger investors to make contributions, they tend to make larger contributions. Among Roth IRA contributors aged 18 to 24, the median contribution was $2,950 in tax year 2020 (Figure A.12). For Roth IRA contributors aged 45 to 49, the median contribution was $3,900 in tax year 2020. The median contribution amount peaks for Roth IRA investors aged 65 to 69. Among contributors aged 75 or older, the median contribution was $6,500.

Roth IRA Investors' Contribution Amounts Varied in 2020

Although four in 10 Roth IRA contributors contributed the maximum amount in tax year 2020, the amounts investors contributed varied widely. For example, while 33.2 percent of Roth IRA contributors aged 18 to 69 contributed $2,000 or less, 32.9 percent contributed $6,000, and 12.8 percent made at least some portion of a catch-up contribution—contributing more than $6,000 up to the maximum of $7,000 (Figure A.14). Overall, 43.7 percent of all Roth IRA contributors contributed the maximum amount allowed by law, including catch-up contributions for Roth IRA investors aged 50 or older. In fact, 41.9 percent of Roth IRA investors aged 50 or older made the full age-allowed contribution of $7,000 in tax year 2020.

Older Roth IRA Contributors Were More Likely to Contribute at the Limit in 2020

About 44 percent of Roth IRA contributors contributed at the limit in tax year 2020, and older Roth IRA contributors were more likely to contribute at the limit. For example, 35.1 percent of Roth IRA contributors aged 18 to 24 and 49.7 percent of Roth IRA contributors aged 30 to 34 contributed at the $6,000 limit in tax year 2020 (Figure A.15). Among contributors aged 65 to 69, 49.0 percent contributed at the full $7,000 limit, including catch-up contributions. If investors who contributed at least $6,000 are considered, then 53.8 percent of Roth IRA contributors aged 65 to 69 reached the limit. Overall, 45.9 percent of Roth IRA contributors in tax year 2020 contributed at least $6,000 to their Roth IRAs.

Persistence in Contribution Activity Among Roth IRA Investors from 2019 to 2020

In the IRA Investor Database for 2020, there are 4.2 million Roth IRA investors aged 19 or older who also had Roth IRAs at the same financial services firm in the 2019 database. The tracking of the same individual IRA investors over time makes it possible to analyze persistence in contribution activity. The persistence in both the decision to contribute at all and the decision to contribute at the age-allowed limit is very high. This reinforces a key insight about IRA contributors that emerges from the earlier analysis: for Roth IRA investors who make contributions in a given year, the IRA is likely a key saving vehicle.

The overall persistence in Roth IRA contribution activity between 2019 and 2020 is 85 percent, which means that more than eight in 10 Roth IRA investors who contributed in tax year 2019 also contributed in tax year 2020 (Figure A.16).

Contributions at the Limit Tend to Persist

Most Roth IRA investors who contributed at the full legal limit in tax year 2019 continued to contribute in tax year 2020—and did so at the limit again. Among Roth IRA investors aged 19 or older in 2020 with account balances in both 2019 and 2020, 33.6 percent contributed to their Roth IRAs in tax year 2019, with 13.1 percent contributing at the limit (Figure A.16). Among those contributing at the limit in tax year 2019, more than eight in 10 contributed again in tax year 2020, with 78.0 percent continuing to contribute at the limit. Among those contributing less than the limit in tax year 2019, more than eight in 10 contributed again in tax year 2020, with 74.0 percent continuing to contribute less than the limit, and 10.9 percent increasing their contributions up to the full limit.

CHAPTER 3

Roth IRA Investors' Conversion and Rollover Activity in 2020

When Congress created Roth IRAs, contributions (subject to income limits), conversions (subject to income limits until 2010), and rollovers were allowed. Direct rollovers from designated Roth accounts in retirement plans to Roth IRAs have been permitted since 2006, and direct rollovers of non-Roth qualified retirement plan accumulations into Roth IRAs have been permitted since 2008. Although contributions are the main inflows to, and origin of, Roth IRAs, conversion activity responds to rule changes designed to promote Roth IRAs. A conversion occurs when an individual withdraws money from a non-Roth IRA, pays the taxes due on the withdrawal, and converts the assets into a Roth IRA.[37] Rollover activity is extremely rare into Roth IRAs to date, but recent rule changes and the increased adoption of Roth features in 401(k) plans may serve to increase Roth rollovers in the future.[38]

This chapter analyzes the conversion activity of Roth IRA investors, focusing on variation in conversion activity in 2020 by investor age. It also briefly examines rollover activity among Roth IRAs, where direct rollovers from non-Roth employer-sponsored plan accounts have only been possible since 2008. Direct rollovers from designated Roth accounts in employer-sponsored retirement plans to Roth IRAs have been permitted since 2006. Finally, it explores the variation in Roth IRA balances in 2020 by the presence of recent conversions and recent rollovers.

Figures referenced in this chapter (A.17 through A.19) are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-roth-data.xlsx.

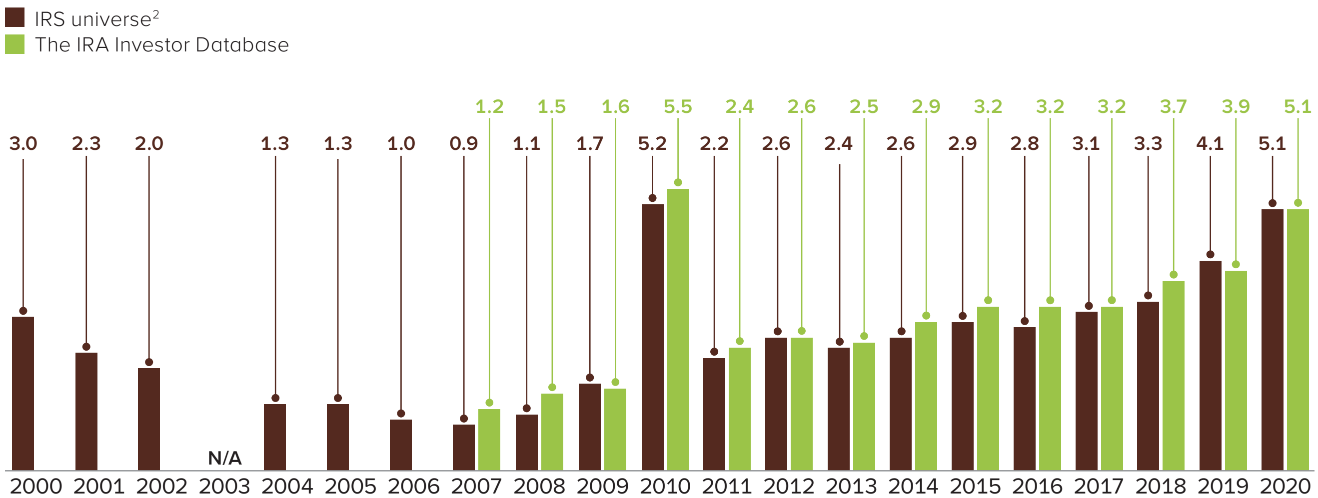
Roth IRA Conversion Activity

Typically, few Roth IRA investors have conversions. Between 2004 and 2009, less than 2 percent of Roth IRA investors had conversions in any given year (Figure 3.1). In 2010, when income limits were lifted for conversions and the taxes owed on amounts converted could be spread over 2011 and 2012,[39] more than 5 percent of Roth IRA investors had conversions. From 2010 to 2018, conversion activity hovered at lower levels now that the special tax payment option is no longer available. In 2019, conversion activity edged up to 4.1 percent. In 2020, 5.1 percent of Roth IRA investors had conversions into their Roth IRAs.

FIGURE 3.1

Roth IRA Investors' Conversion Activity Responds to Tax Law Changes

Percentage of Roth IRA investors aged 18 or older with conversions[1]



[1] This group is Roth IRA investors aged 18 or older who had conversions in the year indicated.

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

N/A = not available

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

Roth IRA Conversion Activity in 2020 by Investor Age

In 2020, 5.1 percent of Roth IRA investors made conversions, and conversion activity varied by investor age. For example, 1.1 percent of Roth IRA investors aged 18 to 24 had conversions, compared with 7.6 percent of Roth IRA investors aged 35 to 39, 3.4 percent of Roth IRA investors aged 55 to 59, and 6.8 percent of Roth IRA investors aged 65 to 69 (Figure A.17). Roth IRA conversion activity was distributed across all age groups.

The bulk of younger Roth IRA investors making conversions in 2020 did so to open a new account. That includes more than half of Roth IRA investors aged 18 to 24 and about a third of Roth IRA investors aged 25 to 29 with conversions in 2020 (Figure A.17). Still, even among Roth IRA investors aged 75 or older with conversions in 2020, 23.1 percent of those conversions opened new accounts.

Roth IRA Conversion Amounts in 2020 by Investor Age

Conversion amounts tend to rise with investor age, reflecting the longer amount of time that older investors have had to build retirement accumulations outside of Roth IRAs.[40] The median conversion amount among Roth IRA investors aged 18 to 24 with conversions in 2020 was $4,840, rising to $26,410 for Roth IRA investors aged 65 to 69 and $26,000 for investors aged 75 or older (Figure A.18). Mean conversion amounts rose from $4,930 among Roth IRA investors aged 18 to 24 with conversions in 2020, to $62,790 among those aged 75 or older. Although Roth IRA investors aged 50 or older accounted for 41 percent of conversions, more than 75 percent of the money converted in 2020 came from this group. In fact, Roth IRA investors aged 65 to 69 accounted for nearly one-quarter of all conversion money, reflecting their high average conversion amounts as well as the large number of conversions that came from this age group.

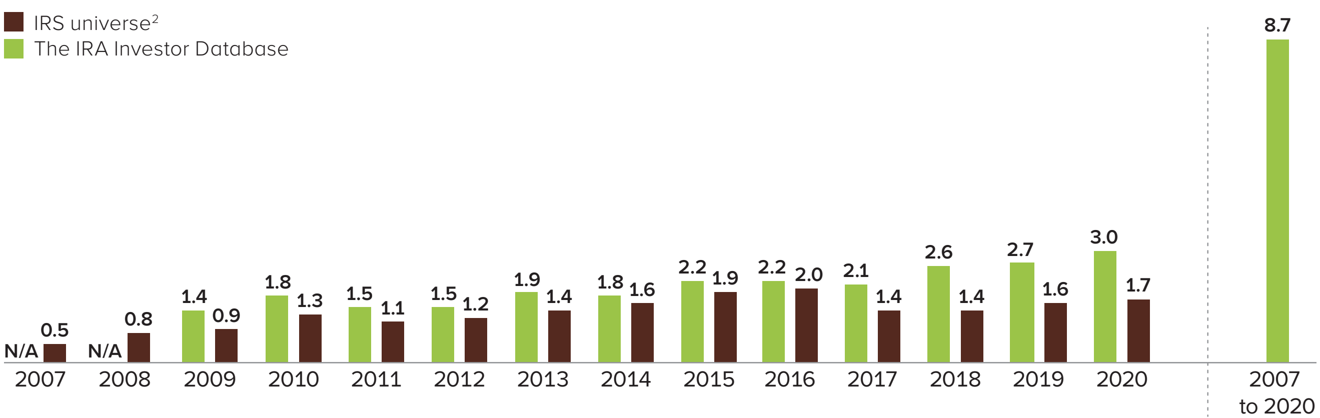
Roth IRA Rollover Activity Is Rare

Roth IRAs have always been permitted to accept rollovers from other Roth IRAs, and since 2006, they have been able to accept rollovers directly from designated Roth accounts in employer-sponsored retirement plans (which could be established starting in 2006). Direct rollovers of non-Roth qualified retirement plan accumulations into Roth IRAs have been permitted since 2008. In the database, rollovers between IRAs generally are not reported as rollovers; rather, it tends to capture rollovers from employer-sponsored retirement plans to IRAs. In any given year, only about 2 percent of Roth IRA investors had rollovers into their Roth IRAs (Figure 3.2). This low number could be explained by the fact that rollovers tend not to be repeated from year to year—but even when rollover activity is aggregated from 2007 to 2020, only 8.7 percent of Roth IRA investors at year-end 2020 had made rollovers into their Roth IRAs.[41]

FIGURE 3.2

Very Few Roth IRA Investors Have Rollovers

Percentage of Roth IRA investors aged 18 or older with rollovers[1]



[1] This group is Roth IRA investors aged 18 or older who had rollovers into their Roth IRAs in the year or years indicated.

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

Note: Rollovers made prior to 2007, as well as rollovers made prior to a change in financial services providers, cannot be identified in the database.

N/A = not available

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

The low level of rollover activity in Roth IRAs is in stark contrast to the high rollover activity in traditional IRAs. Traditional IRAs most often are opened with rollovers from employer-sponsored retirement plans (defined benefit and defined contribution), and in any given year about one in 10 traditional IRA investors aged 18 to 74 have rollovers.[42] In 2020, $594.8 billion in rollovers flowed into traditional IRAs,[43] compared with rollovers of $17.5 billion into Roth IRAs (see Figure A.30). Rollovers tend to occur as individuals change jobs or retire, and thus, typically different groups of individuals have rollovers each year.[44] Household survey data indicate that 62 percent of traditional IRA–owning households in 2023 had rollovers in their traditional IRAs, while only 21 percent of Roth IRA–owning households indicated that some of the assets in their Roth IRAs initially were employer-sponsored retirement plan assets.[45]

Conversions and Rollovers Tend to Have a Positive Impact on Roth IRA Balances

Conversions into Roth IRAs appear to have a substantial, positive impact on the size of account balances.[46] The impact of recent conversions can be seen most clearly among older Roth IRA investors. For example, among Roth IRA investors aged 70 to 74 with conversions between 2010 and 2020, the median Roth IRA balance at year-end 2020 was $134,050, compared with $30,850 for those without recent conversions or rollovers (Figure A.19). Household survey data also find a substantial effect of conversions on Roth IRA balances.[47] Recent rollovers into Roth IRAs also have a positive impact on the size of account balances, especially among older Roth IRA investors.

CHAPTER 4

Roth IRA Investors' Withdrawal Activity in 2020

IRA investors can decide when and how to draw down the assets they hold inside their Roth IRAs, although IRS penalties or distribution requirements may apply. This chapter first briefly reviews the distribution, or withdrawal, rules governing Roth IRAs. It then analyzes the withdrawal activity of Roth IRA investors, primarily focusing on variation in withdrawal activity in 2020 by investor age and size of Roth IRA balance.

The main distribution rules governing access to Roth IRAs involve whether five years have elapsed since the tax year of the first contribution to the Roth IRA and the investor's age.[48] For investors younger than 59½, distributions from Roth IRAs may be subject to a 10 percent penalty. However, as with traditional IRAs, there are some exceptions to the penalty, including distributions for the purchase of a first home (up to $10,000) or certain qualified higher-education expenses.[49] Unlike traditional IRAs, income tax typically is not due on qualified Roth IRA distributions and there are no RMDs for the original Roth IRA investor. However, inherited Roth IRAs must be distributed pursuant to RMD rules.[50]

Figures referenced in this chapter (A.20 through A.23) are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-roth-data.xlsx.

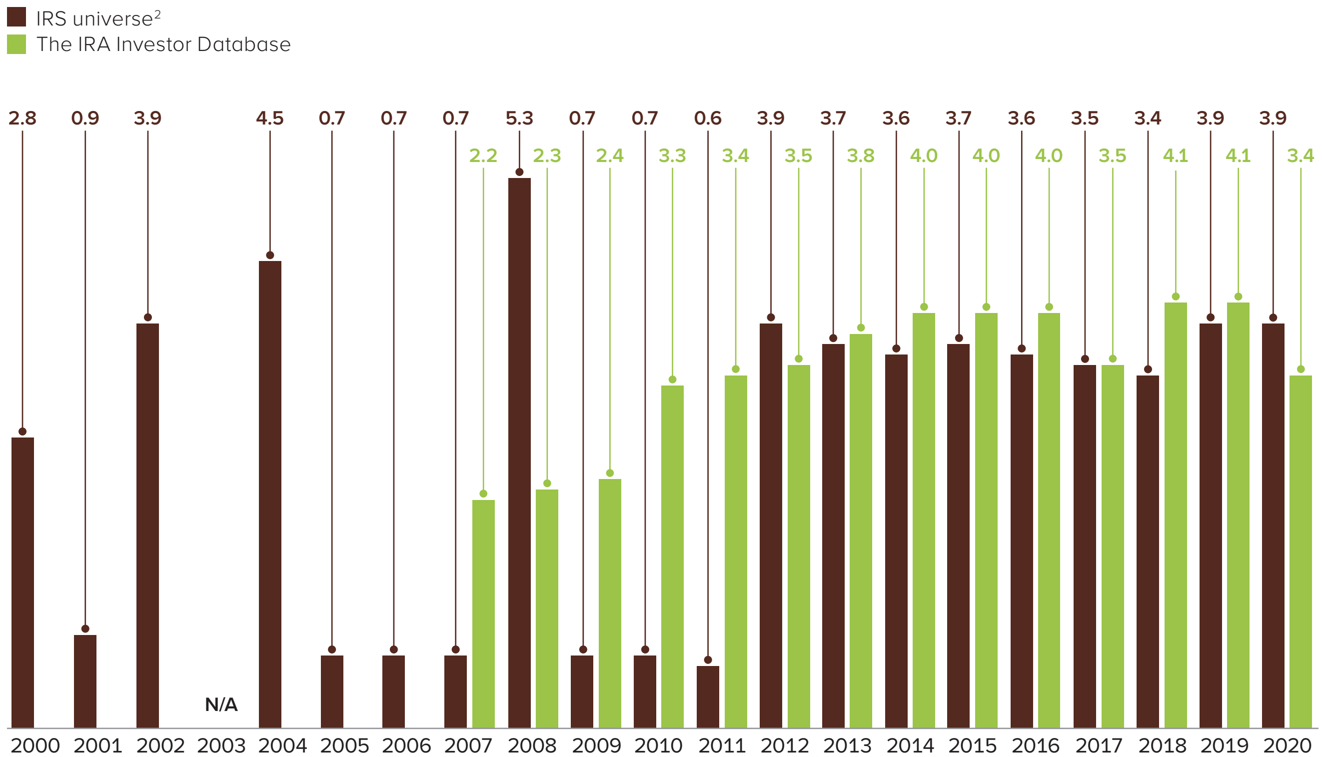
Roth IRA Withdrawal Activity

Very few Roth IRA investors take withdrawals from their Roth IRAs in any given year. Nevertheless, the percentage of Roth IRA investors taking distributions from their Roth IRAs in any given year has risen somewhat in the wake of the financial crisis. Analysis of Roth IRA investors in the IRA Investor Database in 2007, 2008, and 2009 shows that nearly 2.5 percent of Roth IRA investors had distributions in each of those years (Figure 4.1). The percentage taking distributions edged up to 3.3 percent in 2010, 3.4 percent in 2011, 3.5 percent in 2012, 3.8 percent in 2013 to 4.0 percent in 2014, 2015, and 2016. The percentage taking distributions declined to 3.5 percent in 2017 before rising to 4.1 percent in 2018 and 2019. In 2020, the share of Roth IRA investors taking distributions declined to 3.4 percent.

FIGURE 4.1

Withdrawal Activity of Roth IRA Investors

Percentage of Roth IRA investors with withdrawals[1]



[1] The figure reports the percentage of Roth IRA investors aged 18 or older at year-end who had withdrawals from their Roth IRAs in the tax year indicated.

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

N/A = not available

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

Roth IRA Withdrawal Activity in 2020 by Investor Age

Not only do few Roth IRA investors take withdrawals in any given year, but withdrawal activity varies little across investor age. In the IRA Investor Database, only 3.4 percent of Roth IRA investors took withdrawals from their Roth IRAs in 2020, and withdrawal activity ranges from 2.0 percent of Roth IRA investors aged 18 to 24 to 6.4 percent among Roth IRA investors aged 65 to 69, edging down to 6.1 percent of Roth IRA investors aged 75 or older (Figure A.20). Withdrawal activity does not vary much between Roth IRA investors facing the age-related penalty (those younger than 59½) and those older. On average, 2.5 percent of Roth IRA investors younger than 60 took withdrawals, compared with 6.0 percent of Roth IRA investors aged 60 or older. Withdrawal activity of the oldest Roth IRA investors varied little from the others, as RMDs generally do not apply (unless the Roth IRAs are inherited).

Roth IRA Withdrawal Amounts in 2020 by Investor Age

Roth IRA withdrawal amounts tend to be higher among older Roth IRA investors (Figure A.21). In 2020, the median distribution among Roth IRA investors aged 18 to 24 with withdrawals was $1,500, for those 25 to 29 it was $3,000, and for those 30 to 34 it was $4,250. The median withdrawal among Roth IRA investors aged 35 to 59 was $5,000, while those aged 60 or older typically took more than $5,000 in withdrawals. The average Roth IRA withdrawal amounts increased with investor age, rising from $3,450 among the youngest Roth IRA investors to $22,330 among the oldest.

Roth IRA Withdrawal Activity in 2020 by Age and Account Balance

In the IRA Investor Database for 2020, there are 4.2 million Roth IRA investors aged 19 or older who also had Roth IRAs at the same financial services firm in the 2019 database. The tracking of the same individual IRA investors over time makes it possible to analyze the size of Roth IRA withdrawals in relation to year-end 2019 Roth IRA balances. Few Roth IRA investors take withdrawals in any given year, and withdrawal activity varies little across investor age and account size (Figure A.22). In the IRA Investor Database, only 3.6 percent of Roth IRA investors aged 19 or older who also had Roth IRAs at the same financial services firm in the 2019 database took withdrawals from their Roth IRAs in 2020. Withdrawal activity among Roth IRA investors tends to be low because RMDs generally do not apply (unless the Roth IRAs are inherited).

Overall, the median percentage of the account balance withdrawn in 2020 decreases with the size of the Roth IRA balance (Figure A.23). Among Roth IRA investors aged 19 or older with withdrawals in 2020 who also had Roth IRAs at the same financial services firm in the 2019, a median of 25.4 percent of the account balance was withdrawn. The withdrawal ratio is higher for accounts with less than $5,000 and decreases as the size of the account balance increases. The impact of the rules surrounding inherited IRAs can also be seen in the amounts that Roth IRA investors withdraw. Younger Roth IRA investors with withdrawals in 2020 most likely reflect inherited Roth IRAs, which are subject to the RMD rules. For example, Roth IRA investors aged 25 to 29 with withdrawals in 2020 withdrew a median of 1.7 percent of their prior year's account balance for those with account balances of $100,000 or more (Figure A.23). This is significant, because IRS rules require investors aged 25 to 29 with inherited Roth IRAs to withdraw a minimum of 1.7 percent to 1.8 percent (depending on age) of the prior year's account balance.[51] Similarly, the IRS requires individuals aged 30 to 34 to withdraw a minimum of 1.9 percent to 2.0 percent of the prior year's balance, which corresponds to the median percentage withdrawn of 2.0 percent for Roth IRA investors aged 30 to 34 in 2020 with account balances of $100,000 or more.

CHAPTER 5

Roth IRA Investors' Balances at Year-End 2020

The amounts accumulated in Roth IRAs depend on contributions, conversions, rollovers, withdrawals, and investment returns, which are based on how the assets are allocated. Contribution, conversion, rollover, and withdrawal activity in Roth IRAs is governed by Internal Revenue Code regulations. Roth IRA investors have access to a wide range of investment options available in the retail financial services market.[52] This chapter analyzes the variation in Roth IRA balances in 2020 by investor age.

Figures referenced in this chapter (A.24 through A.25) are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-roth-data.xlsx.

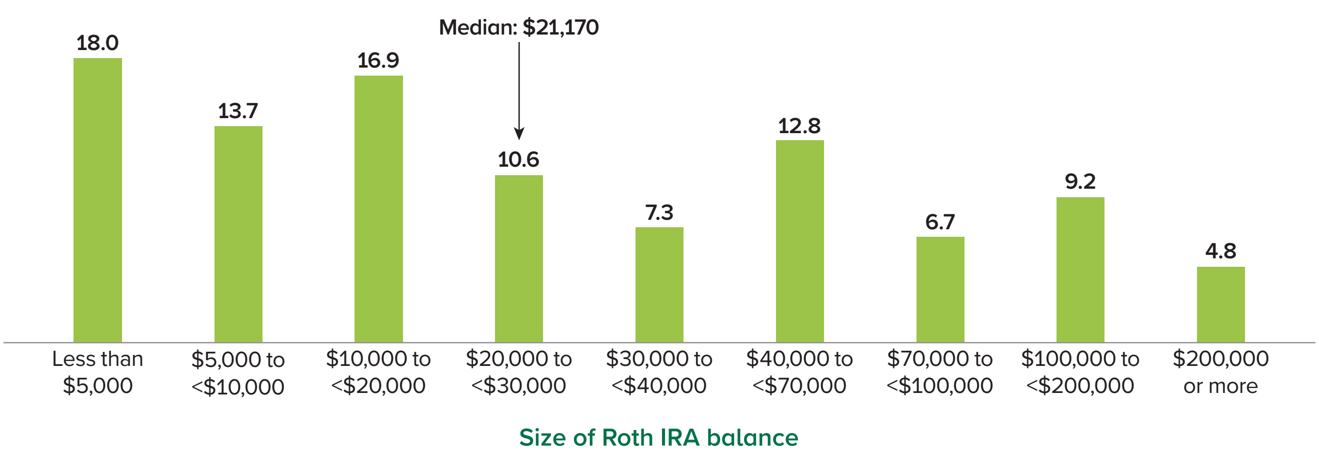
Roth IRA Balances in 2020 by Investor Age

Older investors tend to have larger Roth IRA balances. The median Roth IRA balance was $21,170 at year-end 2020, but the amount invested varied widely across investors (Figure 5.1).[53] Roth IRA balances tend to increase with investor age. The median Roth IRA balance for investors aged 18 to 24 was $4,800, compared with $45,070 for investors aged 75 or older (Figure A.24).

FIGURE 5.1

Distribution of Roth IRA Balances by Size

Percentage of Roth IRA investors by size of Roth IRA balance, year-end 2020



Note: The sample is 4.6 million Roth IRA investors aged 18 or older at year-end 2020.
Source: The IRA Investor Database™

Roth IRA balances varied even among Roth IRA investors of similar ages, as evidenced by the difference between the 25th percentile, median (50th percentile), and 75th percentile for individual age groups. For example, among Roth IRA investors aged 60 to 64, the median balance was $29,100 at year-end 2020, but the 25th percentile balance was $10,240, and the 75th percentile balance was $80,020 (Figure A.24). This range reflects the variety of histories for these IRA investors, which are affected by variation in factors such as timing and patterns of contribution, conversion, and rollover activity; asset allocations; withdrawals; and lengths of time investing in Roth IRAs.[54]

Distribution of Roth IRA Balances by Size in 2020

Perhaps reflecting their limited history (Roth IRAs were first available in 1998) and the restrictions placed on Roth IRAs (e.g., income restrictions on contributions, income restrictions on conversions until 2010, restrictions on rollovers), Roth IRA balances tend to be small.[55] At year-end 2020, 18.0 percent of Roth IRA balances in the IRA Investor Database were less than $5,000, and another 13.7 percent were between $5,000 and $10,000 (Figure 5.1). However, there is a wide distribution of the Roth IRA balances; for example, 14.0 percent of Roth IRA investors had account balances of $100,000 or more. Some of the variation in Roth IRA balances is explained by differences in contribution, conversion, and rollover activity; differing withdrawal activity and asset allocations also contribute to the variation.

The range of Roth IRA balances is most pronounced by investor age. Younger Roth IRA investors were more likely than older Roth IRA investors to have small balances in 2020. For example, although 50.9 percent of Roth IRA investors aged 18 to 24 had balances of less than $5,000, that percentage fell for each successive age group, reaching a minimum of 6.2 percent of Roth IRA investors aged 75 or older (Figure A.25). At the other extreme, while a negligible number of younger Roth IRA investors had balances of $100,000 or more, this percentage rose with age, and 29.2 percent of Roth IRA investors aged 75 or older had such large balances.

CHAPTER 6

Snapshots of Investments in Roth IRAs at Year-End 2010 and Year-End 2020

IRA investors decide how to allocate their IRA assets to individual securities (e.g., stocks and bonds), mutual funds, ETFs, closed-end funds, annuities, deposits, and other investments.[56] This chapter analyzes the average dollar-weighted asset allocation of Roth IRA balances at year-end 2020 by investor age. Snapshots of Roth IRA asset allocations at year-end 2020 are compared with the asset allocation at year-end 2010. In addition, snapshots of individual Roth IRA investors' concentrations in equity holdings—that is, the percentage of individual Roth IRA balances invested in equities, equity funds, and the equity portion of balanced funds—between year-end 2010 and year-end 2020 also are compared.

Figures referenced in this chapter (A.26 through A.29) are available in a Microsoft Excel file located at www.ici.org/files/2024/24-rpt-ira-roth-data.xlsx.

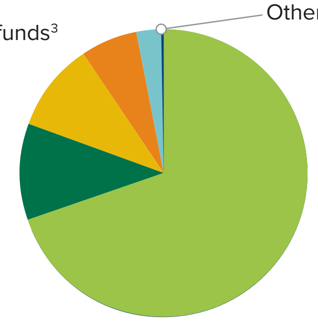
Investments in Roth IRAs in 2020

On average, equities and equity funds represent the largest investment category among Roth IRA investors. At year-end 2020, on average, equities and equity funds were 69.9 percent of Roth IRA assets held by individuals aged 18 or older (Figure 6.1). Balanced, or hybrid, funds—which invest in a mix of equities and fixed-income securities and include target date funds[57]—were the next largest component, accounting for 20.9 percent of Roth IRA assets. At year-end 2020, 6.3 percent of Roth IRA assets were held in bonds and bond funds, and 2.8 percent of Roth IRA assets were invested in money market funds.

FIGURE 6.1

Equity Holdings Figure Prominently in Roth IRA Investments

Percentage of Roth IRA balances, year-end 2020



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

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

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

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

Note: The sample is 4.6 million Roth IRA investors aged 18 or older at year-end 2020. Percentages are dollar-weighted averages. Components do not add to 100 percent because of rounding.

Source: The IRA Investor Database™

Investments in Roth IRAs in 2020 by Investor Age

Equities and equity funds were the largest component of Roth IRA investors' accounts, on average, representing 69.9 percent of Roth IRA assets at year-end 2020 (Figure A.26). Investors also may hold equities through balanced funds; at year-end 2020, 84.2 percent of Roth IRA assets were invested in equity holdings (equities, equity funds, and the equity portion of balanced funds). As expected by financial theory and other research, older investors tended to have lower shares in equity holdings. Roth IRA investors younger than 50 had about 91 percent of their assets invested in equity holdings, on average. The share invested in equity holdings generally declined through the age groups, with those aged 50 to 54 having 86.9 percent of their assets invested in equity holdings and those aged 75 or older having 78.7 percent of their assets invested in equity holdings.

Younger Roth IRA investors tended to have more of their assets invested in target date funds, compared with older Roth IRA investors. At year-end 2020, 22.5 percent of the Roth IRA assets held by investors aged 18 to 24 were invested in target date funds, on average, and 26.6 percent of the assets held by those aged 25 to 29 were invested in target date funds (Figure A.26). The share of target date funds then fell by age to 1.8 percent among Roth IRA investors aged 75 or older. This pattern of target date fund use was expected because target date funds are relatively new investment products and younger investors are more likely to have been introduced to them if they recently opened their IRAs, or in their 401(k) plans.[58]

At year-end 2020, target date funds were 10.9 percent of Roth IRA assets and 18.5 percent of Roth IRA investors in the IRA Investor Database owned target date funds.[59] Among Roth IRA investors who owned target date funds, nearly all owned one target date fund, and the bulk of the remainder owned two (Figure A.27). At year-end 2020, 95.7 percent of Roth IRA investors aged 18 or older who owned target date funds owned one, and another 3.6 percent owned two target date funds. Only 0.7 percent of Roth IRA investors holding target date funds owned three or more.

Older Roth IRA investors had higher allocations to bonds and bond funds in their Roth IRAs than younger investors, which follows the typical age-based pattern of bond investing seen in other research.[60] At year-end 2020, 1.2 percent of the Roth IRA assets held by investors aged 18 to 24 were invested in bonds and bond funds, compared with 11.2 percent of the assets held by those aged 75 or older (Figure A.26).

Money market fund allocations in Roth IRAs generally followed a rising pattern by age (Figure A.26). At year-end 2020, Roth IRA investors younger than 40 had about 1 percent of their Roth IRA assets invested in money market funds, while Roth IRA investors aged 70 or older had 4 percent in money market funds.

Snapshots of Allocation to Equity Holdings Between 2010 and 2020

Since 2010, the percentage of Roth IRA balances invested in equity holdings (equities, equity funds, and the equity portion of balanced funds) has increased across all age groups. At year-end 2010, 76.0 percent of Roth IRA balances held by investors aged 18 or older was invested, on average, in equity holdings (Figure A.28). By year-end 2020, that share had increased to 84.2 percent. This analysis looks at dollar-weighted averages, and some of the change reflects the relative performance of equity holdings over time.

In addition to observing how Roth IRA balances are invested in aggregate, another way to explore the changes in allocation to equity holdings is to look at the distribution of shares in equity holdings held by individual investors. Looking at the data this way shows that, while the share of balances invested in equity holdings has increased, this is partly a move toward more-diversified portfolios. For example, at year-end 2010, 9.6 percent of Roth IRA investors had no equity holdings, compared with 3.7 percent in 2020 (Figure A.29). Much of this decrease was balanced by an increase in allocations to equity holdings of more than 80 percent. At year-end 2010, 63.8 percent of Roth IRA investors had more than 80 percent of their balances invested in equity holdings, compared with 74.5 percent at year-end 2020.

Notes

[1] 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 2011.

[2] The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 repealed the maximum age for making traditional IRA contributions and increased the age at which RMDs must start from 70½ to 72 for individuals who did not reach 70½ in 2019. The Coronavirus Aid, Relief, and Economic Security (CARES) Act (enacted March 27, 2020) suspended RMDs in 2020. Neither of these changes affected IRA investors between 2010 to 2019.

[3] Individuals with inherited Roth IRAs must take distributions from the accounts. See note 50 and Internal Revenue Service 2024b.

[4] Individuals with inherited Roth IRAs must take distributions from the accounts. See note 50 and Internal Revenue Service 2024b.

[5] See Holden et al. 2005.

[6] See Schrass and Holden 2024 and Holden and Schrass 2024.

[7] See Holden and Schrass 2024.

[8] See Schrass and Holden 2024.

[9] Neither SECURE Act nor CARES Act changes affected IRA investors between 2010 and 2019; see note 2.

[10] The percentage taking distributions from traditional IRAs was lower than in previous years, likely due, to some extent, the suspension of RMDs from traditional IRAs. For more information on traditional IRA withdrawal activity, see Schrass and Holden 2024 and Holden and Schrass 2024. For information on retirement plan participants' reactions to the RMD suspension of 2009, see Brown, Poterba, and Richardson 2014. For a discussion of how RMD rules affect traditional IRA withdrawals, see Mortenson, Schramm, and Whitten 2016.

[11] See Schrass and Holden 2024.

[12] Ibid.

[13] Ibid.

[14] Ibid.

[15] Ibid.

[16] For a history of IRAs, see Holden et al. 2005.

[17] For additional discussion of IRA-owning households, see Holden and Schrass 2024.

[18] ICI reports total IRA assets and total retirement market assets on a quarterly basis. For additional information on the US retirement market through 2024:Q1, see Investment Company Institute 2024.

[19] See Holden and Schrass 2024 and Investment Company Institute 2024.

[20] For a history of IRAs, see Holden et al. 2005. For a discussion of the changes to IRAs included in the Taxpayer Relief Act of 1997, see Joint Committee on Taxation 1997 (page 43), which indicates that Roth IRAs were created because "Congress believed that some individuals would be more likely to save if funds set aside in a tax-favored account could be withdrawn without tax after a reasonable holding period for retirement or certain special purposes. Some taxpayers might find such a vehicle more suitable for their savings needs."

[21] See Investment Company Institute 2024.

[22] The SECURE Act of 2019 repealed the maximum age for making traditional IRA contributions, but that change would not have affected IRA investors prior to 2020.

[23] See Internal Revenue Service 2024b for the complete requirements for qualified Roth distributions.

[24] Individuals with inherited Roth IRAs must take distributions from the accounts. See Internal Revenue Service 2024b.

[25] One of the frequently analyzed household surveys is the Survey of Consumer Finances (SCF), which is administered by the Federal Reserve Board. The SCF is a triennial interview survey of US families sponsored by the Board of Governors of the Federal Reserve System and the US Department of Treasury. The sample design of the survey aims to measure a broad range of financial characteristics. The sample has two parts: (1) a standard geographically based random sample and (2) a specially constructed oversampling of wealthy families. Weights are used to combine the two samples to represent the full population of US families. The 2022 SCF interviewed 4,602 families, representing 131.3 million families. Data available on the Federal Reserve Board's website are altered to protect the privacy of individual respondents and include weights. For an overview of the 2022 SCF results, see Aladangady et al. 2023. For a full description of the SCF and recent SCF data, see www.federalreserve.gov/econres/scfindex.htm. For an overview of the 2019 SCF results, see Bhutta et al. 2020. For an overview of the 2016 SCF results, see Bricker et al. 2017. For an overview of the 2013 SCF results, see Bricker et al. 2014. For a special panel analysis that resurveyed households from the 2007 SCF in 2009, see Bricker et al. 2011. Researchers interested in the behavior of older households use another publicly available household survey, the Health and Retirement Study (HRS), which is administered by the University of Michigan. For an extensive bibliography of papers using HRS data, see https://hrs.isr.umich.edu/publications/biblio. The Survey of Income and Program Participation (SIPP), which is administered by the US Census Bureau, is another commonly used household survey. For a complete description, see www.census.gov/sipp.

[26] ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each year to gather information on the demographic and financial characteristics of US households. The most recent survey was conducted from May to June 2023 and was fielded on the KnowledgePanel®, a probability based online panel designed to be representative of the US population. The KnowledgePanel® is designed and administered by Ipsos. Ipsos is one of the largest market research and polling companies globally, operating in 90 markets and employing over 18,000 people. The Annual Mutual Fund Shareholder Tracking Survey sample for 2023 included 6,073 US households, of which 42.2 percent owned IRAs. The standard error for the 2023 sample of households is ± 1.3 percentage points at the 95 percent confidence level. For the 2023 survey results, see Holden, Schrass, and Bogdan 2023. For reporting of 2023 IRA incidence, see Holden and Schrass 2024.

[27] ICI conducts the IRA Owners Survey each year to gather information on the characteristics and activities of IRA-owning households in the United States. The most recent survey was conducted in June 2023 using the KnowledgePanel®, a probability-based online panel designed to be representative of the US population. The KnowledgePanel® was designed and administered by Ipsos, an online consumer research company. The 2023 sample of IRA owners included 3,255 representative US households owning traditional IRAs or Roth IRAs. All surveys were conducted online with the member of the household aged 18 or older who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the total sample is ± 1.7 percentage points at the 95 percent confidence level. In 2023, households owning traditional or Roth IRAs were surveyed, and thus households only owning employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) or Coverdell education savings accounts (formerly called education IRAs) are not included. For results from the 2023 survey, see Holden and Schrass 2024.

[28] For example, in the 2022 Survey of Consumer Finances, 16.1 percent of US households owned Roth IRAs, based on 864 respondents indicating they had Roth IRAs. In the 2022 ICI Annual Mutual Fund Shareholder Tracking Survey, 24.6 percent of US households indicated they owned Roth IRAs.

[29] For the latest published tabulations, see Internal Revenue Service, Statistics of Income Division 2024.

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

[31] These percentages add to more than 100 percent because individuals may hold more than one type of IRA.

[32] Neither SECURE Act nor CARES Act changes affected IRA investors between 2010 and 2019; see note 2.

[33] See Investment Company Institute 2024.

[34] There are income limits on eligibility to make Roth IRA contributions. See Internal Revenue Service 2024a.

[35] For example, in 2020, contribution rates among Roth IRA investors aged 18 to 69 increased from 38.5 percent to 41.8 percent if contributions to traditional IRAs at the same financial services firm were included.

[36] For traditional IRA contribution activity in 2020, see Schrass and Holden 2024.

[37] Some of the amounts converted include amounts originating in employer-sponsored retirement plans that were rolled over to traditional IRAs and then converted. Generally, the assets converted are taxable in the year of the conversion to the Roth IRA. See Internal Revenue Service 2024a.

[38] A Roth IRA rollover may include the transfer of an investor's assets from a designated Roth account such as a Roth 401(k) to a Roth IRA—due to changing jobs, for instance—without tax consequences. A Roth IRA rollover also may include the transfer of a non-Roth employer-sponsored retirement plan account into a Roth IRA (which is generally taxable in the year of the rollover).

[39] See Internal Revenue Service 2011.

[40] The investor may have a traditional IRA that has been open for many years, or may have rollovers from employer-sponsored retirement plans in the traditional IRAs. The EBRI/ICI 401(k) database finds that 401(k) balances tend to rise with investor age and job tenure (see Holden, Bass, and Copeland 2022). In addition, at retirement, defined contribution plan account owners often choose to roll over their balances to IRAs. See Sabelhaus, Bogdan, and Holden 2008 and Clark 2023.

[41] This statistic undercounts the percentage of Roth IRA investors in 2020 with rollovers in their Roth IRAs because some may have had rollovers prior to 2007, and those rollovers cannot be identified in the database. In addition, rollovers made at a prior financial services firm cannot be identified in the database.

[42] See Schrass and Holden 2024.

[43] See Investment Company Institute 2024; Bryant and Gober 2013; and Internal Revenue Service, Statistics of Income Division 2024. In addition, $6.1 billion was rolled over into SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs in 2020.

[44] See Sabelhaus and Schrass 2009; Holden, Sabelhaus, and Bass 2010b; and Schrass and Holden 2024.

[45] See Holden and Schrass 2024.

[46] Individuals may have significant accumulations outside of Roth IRAs, perhaps through the higher contribution limits for employer-sponsored retirement plans, the steady buildup of assets that can occur in these plans over the course of a career, and the longer availability of traditional IRAs. Though direct rollovers from employer-sponsored retirement plans to Roth IRAs have not always been permitted, individuals have had (and still have) the option of rolling over those accumulations into a traditional IRA and then converting the traditional IRA into a Roth IRA. Household survey information indicates that 21 percent of Roth IRA–owning households reported that some of their Roth IRA assets were initially in an employer-sponsored retirement plan; see Holden and Schrass 2024.

[47] See Holden and Schrass 2024.

[48] For the complete rules governing distributions from Roth IRAs, see Internal Revenue Service 2024b.

[49] For more information, see Internal Revenue Service 2024b.

[50] Individuals with inherited Roth IRAs must take distributions from the inherited Roth IRA. In general, the entire balance of the inherited Roth IRA must be distributed by the end of the fifth calendar year after the year of the owner's death unless the balance is paid out to the beneficiary over the life or life expectancy of the beneficiary. See Internal Revenue Service 2024b.

[51] Among those Roth IRA investors with inherited Roth IRAs with withdrawals taking less than the self RMD amount, it is possible that they used a Roth IRA at another financial services firm to fulfill the RMD. In addition, some may not be required to take RMDs yet. See Internal Revenue Service 2024b.

[52] See Internal Revenue Service 2024a for investment restrictions. Roth IRA investors can generally select from the full range of mutual funds, ETFs, closed-end funds, stocks, bonds, bank, and annuity products.

[53] Though the IRS Statistics of Income Division is able to aggregate IRAs across financial services providers for a given taxpayer, the IRA Investor Database is not. Nevertheless, the IRA Investor Database has comparable average Roth IRA balances. For example, at year-end 2020, the average Roth IRA balance in the database is $53,460, compared with $52,240 reported by the IRS (2020 is the latest published IRS data available). See Internal Revenue Service, Statistics of Income Division 2024.

[54] In the IRA Investor Database, it is not possible to determine the tenure of existing IRAs. ICI household surveys find that traditional and Roth IRA balances tend to increase with length of IRA ownership (see Holden and Schrass 2024). Similarly, 401(k) balances tend to increase with job tenure (see Holden, Bass, and Copeland 2022).

[55] The IRS Statistics of Income data also find that taxpayers with Roth IRAs have, on average, lower account balances than taxpayers with traditional IRAs. At year-end 2020, the average balance among taxpayers with Roth IRAs was $52,240, compared with an average of $211,379 in traditional IRAs. See Internal Revenue Service, Statistics of Income Division 2024.

[56] Household survey data indicate that Roth IRA–owning households hold their Roth IRAs at a variety of financial services firms. In 2023, 63 percent of Roth IRA–owning households held their Roth IRAs through investment professionals (e.g., full-service brokers, independent financial planning firms, bank or savings institutions, or insurance companies) and 30 percent held their Roth IRAs through direct sources (e.g., mutual fund companies or discount brokers). See Holden and Schrass 2024.

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

[58] For the pattern of use of target date funds in 401(k) plans, see Holden, VanDerhei, and Bass 2021 and Holden, Bass, and Copeland 2022.

[59] Target date fund use is more widespread among 401(k) plan participants. At year-end 2020, 59 percent of 401(k) plan participants invested at least some of their accounts in target date funds (including target date mutual funds and target date collective investment trusts); see Holden, Bass, and Copeland 2022. Target date fund use is slightly lower among traditional IRA investors than for Roth IRA investors, despite more direct influence of rollovers on traditional IRAs. At year-end 2020, 14.6 percent of traditional IRA investors held target date funds, and target date funds were 9.2 percent of traditional IRA assets; see Schrass and Holden 2024.

[60] For a discussion of how US household investments change over the life cycle, see Sabelhaus, Bogdan, and Schrass 2008. For the pattern of equity versus bond investing across 401(k) participants by age, see Holden, VanDerhei, and Bass 2021 and Holden, Bass, and Copeland 2022. For the pattern of equity versus bond investing across traditional IRA investors by age, see Schrass and Holden 2024.

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