

# Ten Important Facts About IRAs

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# Ten Important Facts About IRAs

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## ***Individual Retirement Accounts (IRAs)***

Individual retirement accounts (IRAs), created by the Employee Retirement Income Security Act of 1974 (ERISA), have helped millions of US households save for retirement. Congress originally designed traditional IRAs to give individuals not covered by retirement plans at work a tax-advantaged savings plan, and to complement the employer-sponsored retirement system by preserving rollover assets at job change or retirement. Since then, policymakers have introduced new types of IRAs and changed rules surrounding IRAs.

1

## IRAs are the largest pool of assets in the US retirement market.

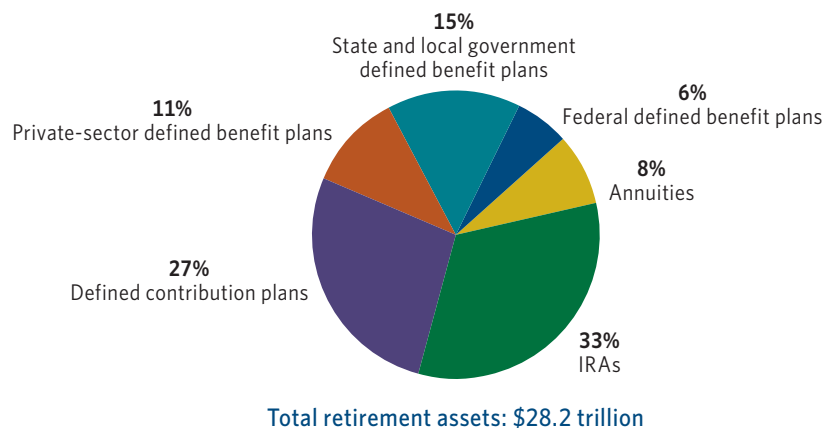
Americans held \$9.2 trillion in individual retirement accounts (IRAs) at year-end 2017, accounting for 33 percent of the \$28.2 trillion in dedicated retirement assets. Forty-seven percent of IRA assets, or

\$4.3 trillion, were invested in mutual funds. The most common type of IRA is the traditional IRA, which was created by the Employee Retirement Income Security Act of 1974 (ERISA).

FIGURE 1

### IRAs Are the Largest Share of US Retirement Assets

Percentage of total US retirement assets, year-end 2017



Note: For definitions of plan categories and a complete list of data sources, see Table 1 in "The US Retirement Market, Second Quarter 2018." Some data are estimated.

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division; see Table 1 in "The US Retirement Market, Second Quarter 2018"

## 2

## The incidence of IRA ownership increases with age.

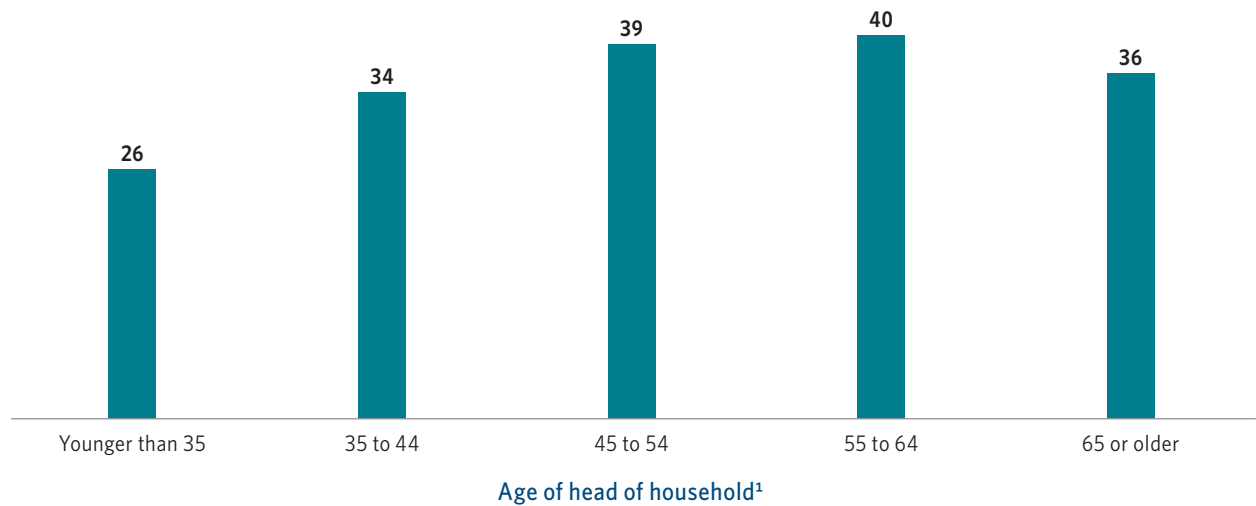
People of all ages own IRAs, but ownership is greatest among the older groups of working-age individuals. This reflects the life-cycle effects on saving; that is,

households tend to focus on retirement-related saving as they get older, and also tend to have rollovers into IRAs as they move through their careers.

FIGURE 2

### IRA Ownership Is Greatest Among 45- to 64-Year-Olds

Percentage of US households within each age group that own IRAs,<sup>1,2</sup> 2017



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

<sup>2</sup> 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; see Figure 3 in "The Role of IRAs in US Households' Saving for Retirement, 2017," *ICI Research Perspective* (December 2017)

3

**IRAs are predominantly held by moderate-income households.**

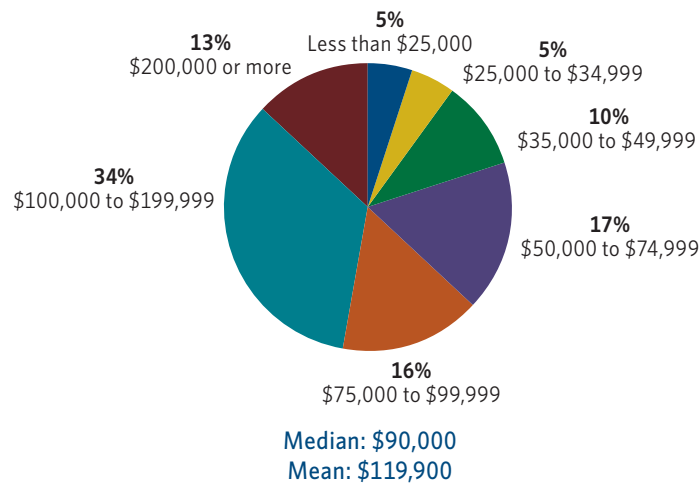
Although IRA ownership tends to increase with household income, the majority of IRA-owning households had moderate incomes. Twenty percent

of households owning IRAs had household income of less than \$50,000, and another 33 percent had household income between \$50,000 and \$100,000.

FIGURE 3

**Most IRA-Owning Households Have Moderate Incomes**

*Percent distribution of households owning IRAs by household income,<sup>1, 2</sup> 2017*



<sup>1</sup> Total reported is household income before taxes in 2016.

<sup>2</sup> 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; see Figure 6 in "The Role of IRAs in US Households' Saving for Retirement, 2017," *ICI Research Perspective* (December 2017)

## 4

## IRA balances tend to rise with length of ownership.

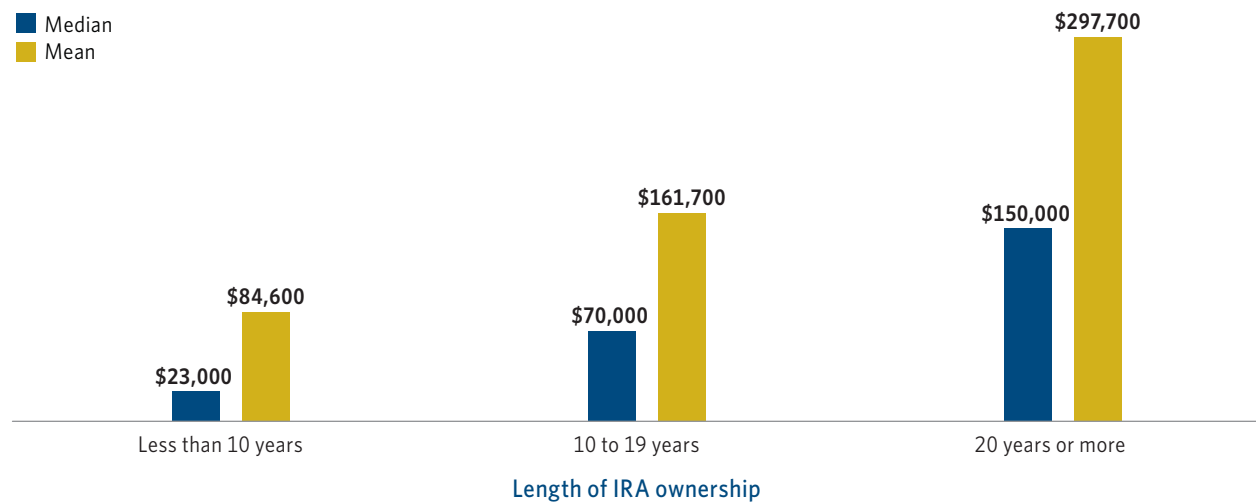
Households' IRA balances tend to be higher the longer they have owned their IRAs. In 2017, households owning IRAs for less than 10 years had median IRA holdings of \$23,000, while households owning IRAs

for 20 years or more had median IRA holdings of \$150,000. Mean IRA holdings, though higher, display a similar pattern.

FIGURE 4

### IRA Balances Increase with Length of IRA Ownership

Median and mean household financial assets in IRAs by length of ownership, 2017



Note: IRAs include traditional IRAs or Roth IRAs.

Source: Investment Company Institute IRA Owners Survey; see Figure 9 in "The Role of IRAs in US Households' Saving for Retirement, 2017," *ICI Research Perspective* (December 2017)

## 5

## Equity holdings figure prominently in traditional IRA investments.

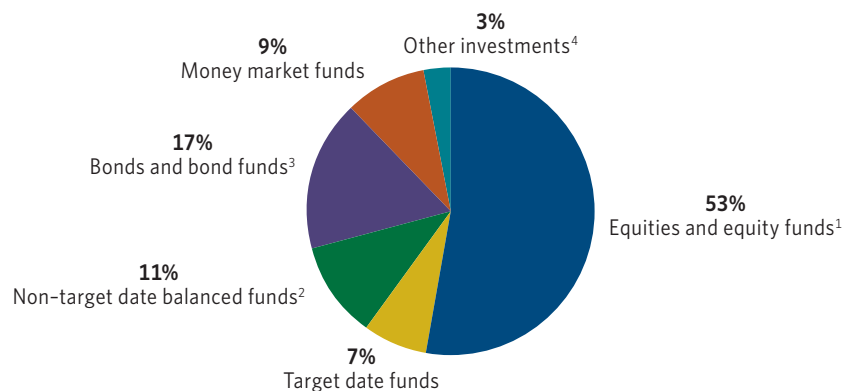
Equities and equity funds were the largest components of traditional IRA investors' accounts, on average, representing 53 percent of traditional IRA assets at year-end 2016. Investors also may hold equities through target date funds and non-target date balanced funds; at year-end 2016, 64 percent of traditional

IRA assets were invested in equity holdings (equities, equity funds, and the equity portion of target date funds and non-target date balanced funds). Asset allocation in traditional IRAs varies with investor age and traditional IRA balance.

FIGURE 5

### Equity Holdings Figure Prominently in Traditional IRA Investments

Percentage of traditional IRA balances, year-end 2016



<sup>1</sup> Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

<sup>2</sup> Balanced funds invest in a mix of equities and fixed-income securities.

<sup>3</sup> Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.

<sup>4</sup> Other investments include certificates of deposit and unidentifiable assets.

Note: The sample is 11.9 million traditional IRA investors aged 25 or older in 2016. Percentages are dollar-weighted averages.

Source: The IRA Investor Database™; see Figure 6.1 in "The IRA Investor Profile: Traditional IRA Investors' Activity, 2007-2016," *ICI Research Report* (September 2018)



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**Although few traditional IRA investors make contributions, those who do display persistence.**

In tax year 2015, 9 percent of traditional IRA investors with traditional IRAs at year-end 2015 and year-end 2016 made contributions to their traditional IRAs, and more than half of those contributing did so at the limit. In addition, individuals using traditional IRAs as

a contributory savings vehicle tend to contribute from year to year: 63 percent of traditional IRA investors who contributed at the limit in 2015 also did so in 2016.

FIGURE 6

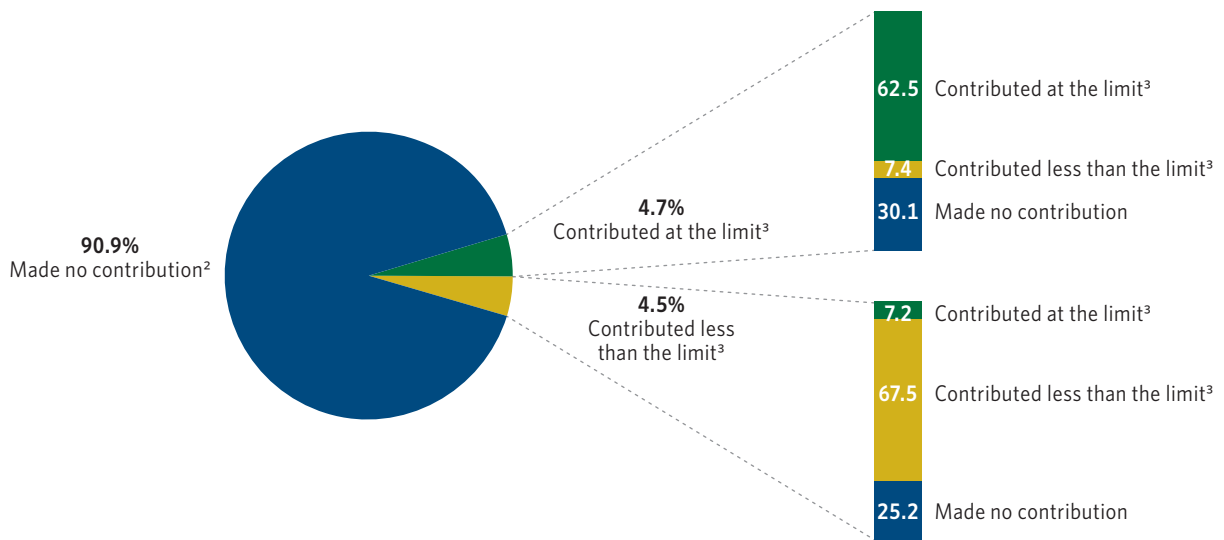
**Six in 10 Traditional IRA Investors at the Limit in Tax Year 2015 Continued to Contribute at the Limit in Tax Year 2016**

**2015 contribution amount<sup>1</sup>**

Percentage of traditional IRA investors present in both 2015 and 2016

**2016 contribution amount<sup>1</sup>**

Percentage of traditional IRA investors by 2015 contribution amount



<sup>1</sup> Contributions include both deductible and nondeductible traditional IRA contribution amounts.

<sup>2</sup> Among the 90.9 percent of traditional IRA investors who did not contribute in 2015, 1.2 percent contributed at the limit in 2016 and 1.0 percent contributed below the limit in 2016.

<sup>3</sup> The contribution limit in tax years 2015 and 2016 was \$5,500 for traditional IRA investors younger than 50 and \$6,500 for traditional IRA investors aged 50 or older. Income limits may phase these amounts down for deductible contributions for some taxpayers. Investors were considered at the limit if they contributed their full age-allowed amount.

Note: The sample is 8.9 million traditional IRA investors aged 25 to 69 in 2016 with traditional IRA balances at both year-end 2015 and year-end 2016. Percentages may not add to 100 percent because of rounding.

Source: The IRA Investor Database™; see Figure 2.7 in "The IRA Investor Profile: Traditional IRA Investors' Activity, 2007-2016," ICI Research Report (September 2018)

## 7 Rollovers from employer-sponsored retirement plans have fueled growth in IRAs.

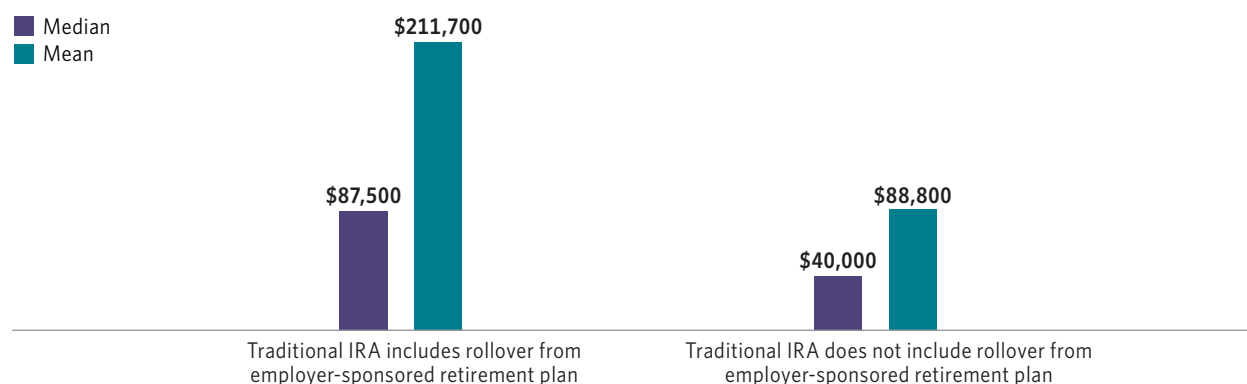
Fifty-seven percent of traditional IRA-owning households in 2017 indicated their traditional IRAs contained rollovers from employer-sponsored retirement plans. Among households with rollovers in their traditional IRAs, 82 percent indicated they had rolled over the entire retirement account balance in their most recent rollover. 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 \$87,500 in 2017, compared with median traditional IRA holdings of \$40,000 for balances that did not include rollovers.

FIGURE 7

### Traditional IRAs Preserve Assets from Employer-Sponsored Retirement Plans

*Traditional IRA assets by employer-sponsored retirement plan rollover activity, 2017*



Note: Fifty-seven percent of traditional IRA-owning households in 2017 had rollovers in their traditional IRAs.

Source: Investment Company Institute IRA Owners Survey; see Figure 14 in "The Role of IRAs in US Households' Saving for Retirement, 2017," *ICI Research Perspective* (December 2017)

8

## A large majority of individuals consult a financial professional when rolling over assets to a traditional IRA from a former employer's retirement plan.

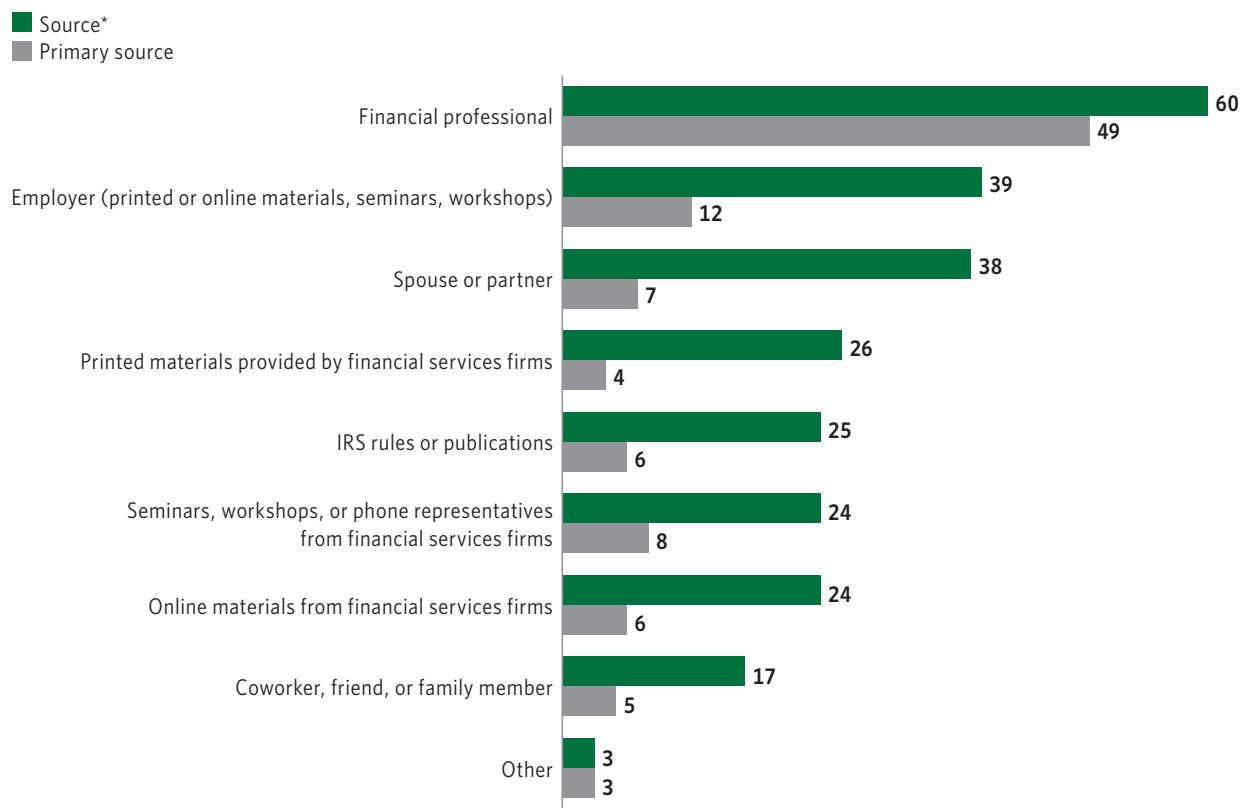
Traditional IRA-owning households generally researched the decision to roll over money from their former employer's retirement plan into a traditional IRA. Sixty-six percent consulted multiple sources of information. The most common source was financial

professionals, who were consulted by 60 percent of traditional IRA-owning households with rollovers. Thirty-nine percent of traditional IRA-owning households with rollovers consulted materials provided by their employers.

FIGURE 8

### Sources of Information Consulted for Rollover Decision

Percentage of traditional IRA-owning households with rollovers, 2017



\* Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey; see Figure 13 in "The Role of IRAs in US Households' Saving for Retirement, 2017," *ICI Research Perspective* (December 2017)

## 9 Most IRA owners consult a financial professional when creating a retirement strategy.

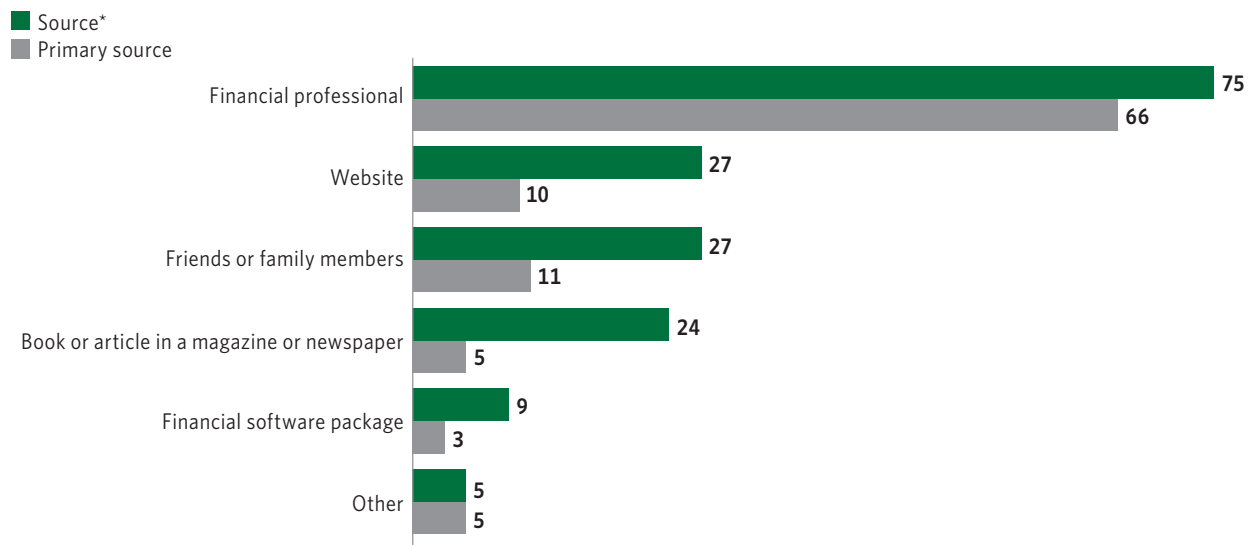
Sixty-nine percent of traditional IRA-owning households reported that they have a strategy for managing income and assets in retirement. Creating their strategy often involved multiple steps, including setting aside emergency funds, developing a retirement income plan, reviewing asset allocation, reviewing insurance policies, determining retirement expenses, and determining when to take Social Security benefits.

These households typically seek help when building their retirement income and asset management strategy. Specifically, 75 percent of traditional IRA-owning households with a strategy consulted a financial professional when creating the strategy, and 66 percent indicated that a financial professional was the primary source consulted when developing their strategy.

FIGURE 9

### IRA-Owning Households Often Consult a Financial Professional to Create a Retirement Strategy

Percentage of traditional IRA-owning households that indicated they have a strategy for managing income and assets in retirement, 2017



\* Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey; see Figure 27 in "The Role of IRAs in US Households' Saving for Retirement, 2017," *ICI Research Perspective* (December 2017)

10

**IRA withdrawals are infrequent and mostly retirement related, and most households consult a financial professional when taking withdrawals.**

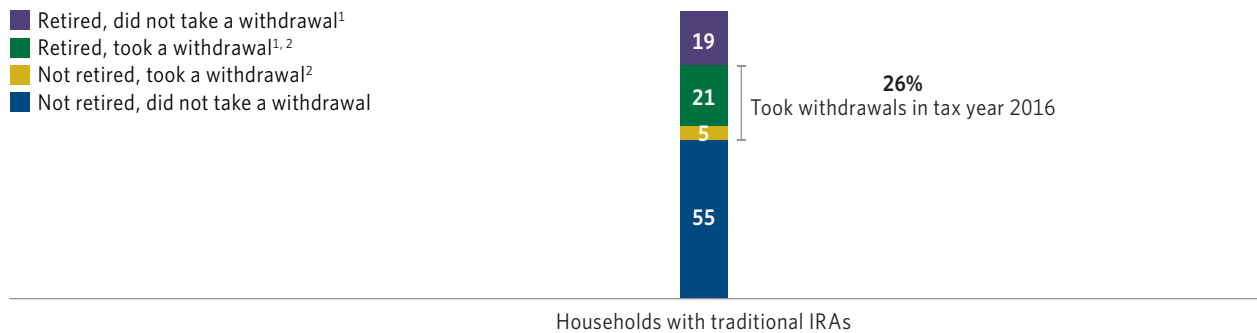
Few households withdraw money from their IRAs in any given year, and most withdrawals are retirement related. Twenty-six percent of households owning traditional IRAs in 2017 reported taking withdrawals from these IRAs in tax year 2016. Among households taking traditional IRA withdrawals in tax year 2016, 81 percent reported that someone in the household was retired from their lifetime occupation. Nevertheless, 48 percent of retired households owning

traditional IRAs in 2017 did not take withdrawals in tax year 2016. The most common amount withdrawn was the required minimum distribution, or RMD (the amount that traditional IRA owners must withdraw after turning 70½). Sixty-four percent of traditional IRA-owning households with withdrawals consulted a financial professional to determine the withdrawal amount.

FIGURE 10

**Withdrawals from Traditional IRAs Are Infrequent, Retirement Related**

*Percentage of US households with traditional IRAs in 2017*



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

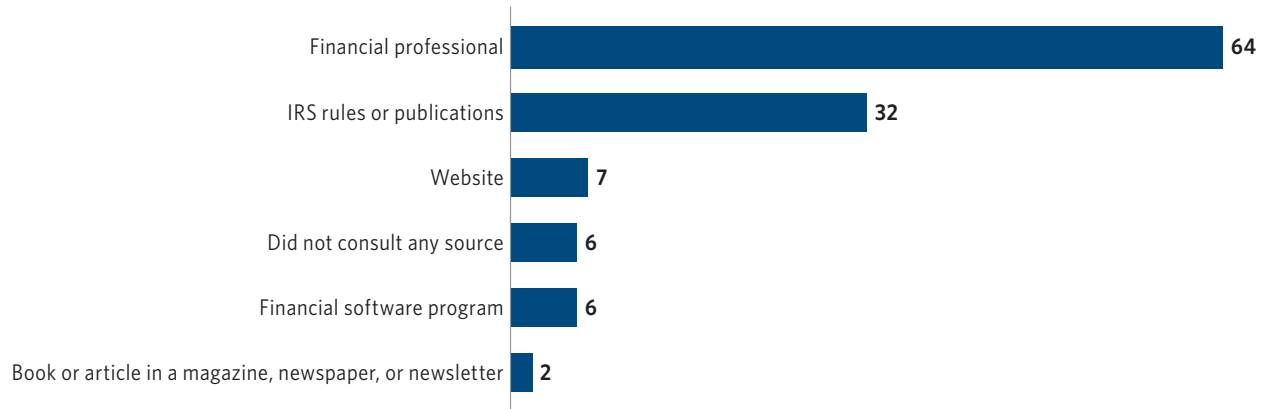
<sup>2</sup> Households that made a withdrawal exclude those that closed and no longer own traditional IRAs.

Source: Investment Company Institute IRA Owners Survey; see Figure 21 in "The Role of IRAs in US Households' Saving for Retirement, 2017," *ICI Research Perspective* (December 2017)

FIGURE 11

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

Percentage of traditional IRA-owning households in 2017 that made withdrawals in tax year 2016



Note: Multiple responses are included.

Source: Investment Company Institute IRA Owners Survey; see Figure 25 in “The Role of IRAs in US Households’ Saving for Retirement, 2017,” *ICI Research Perspective* (December 2017)

### *Additional Reading*

- » **The IRA Investor Profile**  
[www.ici.org/research/retirement/retirement\\_security/ira\\_database](http://www.ici.org/research/retirement/retirement_security/ira_database)
- » **The Role of IRAs in US Households' Saving for Retirement, 2017**  
[www.ici.org/pdf/per23-10.pdf](http://www.ici.org/pdf/per23-10.pdf)
- » **Ten Important Facts About Roth IRAs**  
[www.ici.org/pdf/ten\\_facts\\_roth\\_iras.pdf](http://www.ici.org/pdf/ten_facts_roth_iras.pdf)
- » **The Evolving Role of IRAs in US Retirement Planning**  
[www.ici.org/pdf/per15-03.pdf](http://www.ici.org/pdf/per15-03.pdf)
- » **Individual Retirement Account Resource Center**  
[www.ici.org/iraresource](http://www.ici.org/iraresource)



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