

MEMO# 28093

May 5, 2014

Institute Published Study Analyzing Traditional IRA Investors' Activity

[28093]

May 5, 2014

TO: BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 20-14
BROKER/DEALER ADVISORY COMMITTEE No. 23-14
TRANSFER AGENT ADVISORY COMMITTEE No. 25-14 RE: INSTITUTE PUBLISHED STUDY
ANALYZING TRADITIONAL IRA INVESTORS' ACTIVITY

Earlier this week, the Investment Company Institute (ICI) published a research report update providing insights into how traditional IRA investors fared between 2007—prior to the financial crisis—and 2012. According to the study, even with dramatic declines in stock values between October 2007 and March 2009, a recession from December 2007 to June 2009, and rising unemployment rates, consistent traditional individual retirement account (IRA) investors showed little reaction to financial events.

The IRA Investor Profile: Traditional IRA Investors' Activity, 2007-2012

Analysis of 5.5 Million Consistent Traditional IRA Investors

Traditional IRAs are a key component of the U.S. retirement system. Traditional IRAs are managed by individuals, and policymakers are interested in understanding how traditional IRA investors navigated through the financial crisis. By analyzing the contribution, rollover, withdrawal, and asset allocation activity of 5.5 million “consistent” traditional IRA investors (those with accounts in every year between 2007 and 2012), it is possible to determine how these investors fared during and in the wake of the financial crisis.

The data suggest that traditional IRA investors with accounts from year-end 2007 through year-end 2012 showed little reaction to the financial events. Contribution and rollover activity declined only a bit in the wake of the financial crisis. Withdrawal rates rose slightly between 2008 and 2012, but still only a small fraction of younger traditional IRA investors took money out of their traditional IRAs.

Traditional IRA investors' allocation to equity holdings fell, on average, although some of the change merely reflects relative market movement rather than investors' rebalancing. For example, among consistent traditional IRA investors younger than 60, about three-quarters of their traditional IRA assets were invested in equity holdings—which includes

equities, equity funds, and the equity portion of balanced funds—at year-end 2007, and about two-thirds of their traditional IRA assets were invested in equity holdings at year-end 2012. Between year-end 2007 and 2012, few traditional IRA investors changed to or from equity concentrations of zero or 100 percent of their traditional IRA balances. A significant minority of consistent traditional IRA investors had all of their traditional IRA balances invested in equity holdings, and only slight net movement away from that full concentration occurred between year-end 2007 and year-end 2012.

The movement of traditional IRA balances reflected the impact of investment returns; investors' contribution, rollover, conversion, and withdrawal activity; and the rules governing traditional IRAs. Although account balances fell considerably following the stock market decline in 2008, the average traditional IRA balance for consistent traditional IRA investors aged 25 to 69 was higher at year-end 2012 than at year-end 2007. Beginning at age 70½, individuals are no longer eligible to make contributions to traditional IRAs and typically must begin to take withdrawals, putting downward pressure on account balances among older traditional IRA investors. Increased Roth conversion activity in 2010 also may have put downward pressure on average traditional IRA balances.

Analysis of 10.4 Million Traditional IRA Investors at Year-End 2012

The report also analyzes a snapshot of 10.4 million traditional IRA investors at year-end 2012, first exploring which traditional IRA investors had contributions and how many of them contributed at the limit. Next, the report examines rollover activity by investor age and notes that the vast majority of new traditional IRAs opened in 2012 were opened with rollovers. Withdrawal activity, analyzed next, varies significantly with investor age and in reaction to rules governing withdrawals. Finally, variation in traditional IRA balances and asset allocation by investor age is explored.

This report uses data from The IRA Investor Database™. The full analysis of the traditional IRA investors can be found in the report, The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2012, which is available at www.ici.org/pdf/rpt_14_ira_traditional.pdf. The ICI news release is available at www.ici.org/pressroom/news/14_news_ira_profile.

In addition, ICI research pulled together Ten Important Facts About IRAs, which is available at www.ici.org/pdf/ten_facts_iras.pdf on ICI's new Individual Retirement Accounts (IRAs) Resource Center www.ici.org/iraresource.

If you have any questions or comments concerning any of this research, please call me at (202) 326-5915 or email me at sholden@ici.org.

Sarah Holden
Senior Director, Retirement & Investor Research