

MEMO# 17946

September 2, 2004

UPDATE OF IRS STATISTICS OF INCOME DIVISION IRA INFORMATION

[17946] September 2, 2004 TO: PENSION COMMITTEE No. 41-04 PENSION OPERATIONS ADVISORY COMMITTEE No. 59-04 RESEARCH COMMITTEE No. 21-04 RE: UPDATE OF IRS STATISTICS OF INCOME DIVISION IRA INFORMATION Through a cooperative effort with the Internal Revenue Service (IRS), Statistics of Income (SOI) Division, the Investment Company Institute receives tabulations of IRA market assets and flows derived from tax return and IRS information forms.¹ This ongoing interaction between ICI and the SOI has produced a detailed set of information on IRAs. Compiling statistics from the tax returns and information forms is a slow process for the SOI and the complete set of flow and asset IRA data for tax-year 2001 IRA is just now available. For earlier presentation of some of these statistics as well as estimates of the total IRA market through year-end 2003, see ICI Fundamentals, "Mutual Funds and the U.S. Retirement Market in 2003," June 2004 (available at: <http://www.ici.org/stats/res/fm-v13n2.pdf>). This memorandum updates information presented in ICI Memorandum #17123 (February 20, 2004), "IRS Statistics of Income Division IRA Information," by adding information for tax-year 2001 and revising data for tax-year 2000.² Individuals interested in a more detailed analysis of the tax-year 2000 data are encouraged to download an article in SOI Bulletin, Spring 2004 (available at: <http://www.irs.gov/pub/irs-soi/00retire.pdf>). ¹ All SOI data are based on a stratified weighted sample of individual income tax returns (Form 1040) with matching information returns (Form 5498 and 1099-R). The tabulations are based on information that has not been audited. However, the SOI division has improved its data cleaning process sufficiently to make publication of these data from the information forms possible. For SOI data estimation methodology, see Peter J. Sailer, Michael E. Weber, and Kurt S. Gurka, "Are Taxpayers Increasing the Buildup of Retirement Assets? Preliminary Results from a Matched File of Tax Year 1999 Tax Returns and Information Returns," National Tax Association, Proceedings, 95th Annual Conference on Taxation, 2002; pp. 364-369. ² Most notably, the withdrawals from Roth IRAs in 2000 are lower than previously estimated (Figure 4). ³ Traditional IRAs Traditional IRAs continued to represent the bulk (91 percent) of all IRA assets at year-end 2001 (and indeed, by ICI estimates, through year-end 2003; Figure 1). At year-end 2001, traditional IRAs had \$2,395 billion in assets, with \$1,030 billion (or 43 percent) invested in mutual funds (Figure 2). The bulk of money coming into traditional IRAs is rollovers primarily from qualified pension plans and tax-sheltered annuities, and these rollovers totaled \$187.1 billion in 2001 (Figure 3). Contributions to traditional IRAs totaled \$9.8 billion in 2001, with \$7.4 billion representing deductible contributions. ⁴ Roth IRAs Roth IRA conversions were \$3.1 billion in 2001 (Figure 3), nearly the level of the prior three years, but well below the conversions in 1998 when the income tax on the conversion amount could be spread over four tax years.⁵ Although Roth IRAs are a relatively new type of IRA,⁵ more taxpayers contributed to Roth IRAs in both 2000 and 2001 than contributed

to traditional IRAs. Contributions to Roth IRAs totaled \$11.1 billion in 2001 and \$11.6 billion in 2000 (Figures 3 and 4). At year-end 2001, Roth IRAs had accumulated a total of \$79.3 billion in assets (with \$53 billion, or 67 percent, invested in mutual funds; see the June 2004, ICI Fundamentals mentioned above). Employer-Sponsored IRAs At year-end 2001, SEP (and SAR-SEP) IRAs held \$131.4 billion in assets and SIMPLE IRAs had \$13.6 billion (Figure 3). Contributions to both these types of IRAs totaled \$15.5 billion in 2001. If you have any questions or comments concerning these data, please call me at (202) 326-5915. Sarah A. Holden Senior Economist Research Department Attachment (in .pdf format) 3 For income limits on deductible contributions in 2001, see the IRS Publication 590 for that year at: <http://www.irs.gov/pub/irs-01/p590.pdf>. 4 Roth IRA conversions were \$39.3 billion in 1998; \$3.7 billion in 1999; and \$3.2 billion in 2000 (Figure 4). 5 Roth IRAs were created in the Taxpayer Relief Act of 1997 and were first available in 1998.

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