

ICI VIEWPOINTS

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More People Are Building Nest Eggs with Their IRAs

Individual retirement account (IRA) owners are good stewards of their money. They take a thoughtful approach to preparing for retirement by taking advantage of the dual role of IRAs and by researching important investment decisions, according to recent research from ICI. These are among the findings from [“The Role of IRAs in US Households’ Saving for Retirement, 2017,”](#) which details ICI’s research on IRA-owning households.

Characteristics of IRA Owners

IRA owners typically exhibit characteristics that correlate with a greater propensity to save: the financial decisionmakers of households with IRAs tend to be middle-aged (59 percent are aged 35 to 64) and are more likely to be married, employed, and have college or postgraduate degrees than households that do not own IRAs. More than one-third of US households owned IRAs in 2017, with 27.8 percent in traditional IRAs, and 19.7 percent in Roth IRAs (see Figure 1).

Figure 1

US Household Ownership of Traditional IRAs or Roth IRAs
Percentage of US households, 2017

Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and US Census Bureau

Dual Role of IRAs

Traditional IRAs, which were designed to provide flexibility for retirement savers, can help people save in two ways: rollovers and contributions. That is, they can be used to preserve funds from employer-sponsored plans when workers change jobs, or as a contributory savings vehicle. Roth IRAs also can be used by investors to retain employer-sponsored funds through rollovers or conversions, or as a contribution vehicle—but, with a Roth IRA, this all must be done on an after-tax basis.

Rollovers. Rollovers from employer-sponsored retirement plans have primarily fueled the growth in IRAs. The survey showed that more than half of traditional IRA-owning households said their IRAs contained rollovers from employer-sponsored retirement plans. Among households with rollovers in their traditional IRAs, 82 percent said they had rolled over the entire retirement account balance in their most recent rollover, while 46 percent

said they also had made contributions to their traditional IRAs at some point (see Figure 2).

Figure 2

Traditional IRA-Owning Household Activities Percentage of traditional IRA-owning households, 2017

Source: Investment Company Institute IRA Owners Survey

The three most common reasons for making rollovers were:

- not wanting to leave assets behind at the former employer (cited by 24 percent of traditional IRA-owning households with rollovers);
- wanting to preserve the tax treatment of the savings (cited by 18 percent); and
- wanting to consolidate assets (cited by 17 percent).

Contributions. Although IRAs can help Americans build their retirement savings, the majority of US households do not contribute to them. Twelve percent of US households contributed to traditional or Roth IRAs in tax year 2016, and very few eligible households made catch-up contributions to traditional IRAs or Roth IRAs. Those that do contribute, however, [do so consistently](#).

Through rollovers and contributions, IRA owners are able to build substantial financial assets. The median financial assets of IRA-owning households were seven times greater than the median financial assets of households that did not own IRAs (see Figure 3). Those assets included defined contribution retirement plan accounts—75 percent of households that owned IRAs also owned such accounts.

Figure 3

IRA Assets 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

Most People Wait Until Retirement to Withdraw Money from IRAs

IRA owners are steady savers—they tend roll over money from employer-sponsored retirement plans and leave it to grow, or their accounts grow from consistent contributions. But what about withdrawals? Are these households raiding their accounts when times get tough?

ICI research shows that IRA withdrawals tend to be infrequent and mostly retirement related. Twenty-six percent of traditional IRA-owning households took withdrawals in tax year 2016, and 25 percent did so in tax year 2015.

The majority of traditional IRA withdrawals were made by retirees, accounting for 81 percent of households that made traditional IRA withdrawals. Indeed, in mid-2017, only 8 percent of traditional IRA-owning households headed by individuals younger than 59 took

withdrawals. In keeping with withdrawals being primarily made by retirees, the most common withdrawal amount—made by 71 percent of traditional IRA-owning households—was calculated using the required minimum distribution (RMD) rule.

The survey results reported in “[The Role of IRAs in US Households’ Saving for Retirement, 2017](#)” come from ICI’s Annual Mutual Fund Shareholder Tracking Survey and IRA Owners Survey. For more information, see www.ici.org/ira and www.ici.org/iraresource.

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