

VIDEO

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Focus on Funds: Individual Retirement Accounts Serve a Diverse Range of Investors

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ICI is an authoritative source of information on individual retirement accounts (IRAs). In the December 8, 2017, edition of *Focus on Funds*, ICI Senior Director of Retirement and Investor Research Sarah Holden describes the Institute's latest research on who's investing, what they hold, and how they use their savings.

Transcript

Stephanie Ortballs-Tibbs, director, ICI media relations: Individual retirement accounts, or IRAs, just marked yet another milestone. I talked with ICI Senior Director of Retirement and Investor Research Sarah Holden to get the latest on this important retirement saving vehicle.

Sarah Holden, senior director of retirement and investor research, ICI: Right from the start, it had two purposes in mind—contributions, as well as preserving balances as you change jobs over your career. The traditional IRA represents most of the IRA assets today—85 percent of them—but catching up is Roth.

The Roth IRA was created in 1997. It offers folks a different tax treatment. I can put in an after-tax contribution—so, pay the taxes now—and if I follow the rules, I will withdraw the money tax-free in retirement. The Roth has now grown to be about \$0.7 trillion in assets today.

Ortbals-Tibbs: And that's a vehicle that some younger people use when they're starting off in their careers because the tax treatment can be favorable to them when they're in that lower income bracket.

Holden: Yes, we see that a lot of our Roth investors are younger than our traditional IRA

investors. So the Roth investors, if you are a young person just starting your career, chances are you're in a lower tax rate right now—so you don't mind paying taxes on those contributions going in, and then you get the nice tax-free withdrawals when you get to retirement.

Ortbals-Tibbs: What do we know about traditional IRA savers versus Roth IRA savers?

Holden: When we look at the traditional IRA investors, they tend to be a bit older than the Roth IRA investors, and this is because many of them came to have a traditional IRA through a rollover. Eighty-five percent of new traditional IRAs are actually opened with a rollover—and in order to have a rollover, you do need to have worked for a while. So, you're changing jobs and you have an accumulation to move.

Ortbals-Tibbs: Let's also talk about investment compositions. What do IRA savers seem to gravitate toward?

Holden: IRA investors, like our 401(k) investors, are very focused on the long-term saving and having growth in their accounts, so they tend to concentrate in equities. And we see that the Roth IRA investors have even more equities than the traditional IRA investors. And this in part reflects the fact that they are younger.

Ortbals-Tibbs: As you noted, long-term savers are using these accounts for retirement savings. When they reach that point in their lives where they're going to start tapping into that account, what do we see there in the data? How and when do they start taking withdrawals?

Holden: We see that, in general, IRA investors tend to hold off tapping the account. When we look at the traditional IRA investors, very few of them take any money out until they literally have to.

When you turn 70½, as a traditional IRA investor, the government requires that you take out a certain amount of money—and that's when we see the bulk of the withdrawal activity happening. There's very little withdrawal activity prior to that time for the investor.

With the Roth IRA, there aren't the required minimum distributions. And so we see that, in any given year, only about 4 percent of Roth investors are taking money out. So, again, preserving that nest egg for their later years.

Ortbals-Tibbs: Sarah, for those who want to learn more about individual retirement accounts, there's a wealth of information out there, including on our website.

Holden: Yes, there are lots of choices to make—there's traditional versus Roth, are you rolling over or are you contributing, what kind of investing do you want to do in it?

We have a [resource center devoted to IRAs](#) where you can find FAQs on IRAs, as well as all of our research highlighting how folks have managed and made decisions in these accounts.

Additional Resources

- [Release: IRA-Owning Households Access IRAs Through a Full Range of Financial Services Firms](#)
- [IRA Resource Center](#)

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