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IRAs Continue to Be Successful Vehicles for American Savers

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ICI research shows how accounts help workers prepare for retirement

Washington, DC; September 18, 2018—Two reports released by the Investment Company Institute (ICI) today shed light on the characteristics and behaviors of investors with traditional or Roth individual retirement accounts (IRAs). Among other findings, ICI's research provides detail on the typical age of investors in the two account types, how they begin saving in IRAs, and differences in asset allocations between Roth and traditional IRA owners.

"Though there are significant differences between traditional and Roth IRA investors, both provide savers with flexibility and diversification in their retirement savings options," said Sarah Holden, ICI senior director of retirement and investor research. "Traditional IRAs are a popular option for savers who are looking to roll over a workplace retirement plan account, while Roth IRAs are often started with contributions. Both IRAs have options that appeal to workers in various stages of their lifetime savings cycles and help millions of Americans prepare for retirement."

The reports, titled "The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2016" and "The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2016," analyze data from The IRA Investor Database™, which contains account-level data for millions of IRA investors from year-end 2007 through year-end 2016.

Some key findings from the reports include:

Roth IRA investors tend to be younger than traditional IRA investors. At year-end 2016, 31 percent of Roth IRA investors were younger than 40, compared with 16 percent of traditional IRA investors. Only 26 percent of Roth IRA investors were 60 or older, compared with 41 percent of traditional IRA investors. This younger age distribution reflects, in part, the rules governing access to Roth IRAs, which have long been subject to varying limitations on contributions, rollovers, and—until 2010—conversions.

New traditional IRAs are typically opened by rollovers, while Roth IRAs are more often started with contributions. More than 80 percent of new traditional IRAs in 2016 were opened only with rollovers from other tax-deferred retirement savings vehicles, and more than half of traditional IRA investors with an account balance at year-end 2016 had rollovers in their account. By contrast, rollovers are less common with Roth IRAs, and contribution activity plays a more important role in Roth IRAs, with 70 percent of new Roth IRAs opened in 2016 only through contributions.

IRA investors with contributions tend to persist with the contribution activity year-to-year. According to the research, more than seven in 10 traditional IRA investors who contributed in tax year 2015 also contributed in tax year 2016. Persistence in contribution activity was even higher for Roth IRA investors, as 80 percent of Roth IRA investors with contributions in tax year 2015 also contributed in tax year 2016.

Roth IRA assets are allocated more to equities and equity funds than are traditional IRA assets. At year-end 2016, 65 percent of Roth IRA assets were invested in equities and equity funds—mutual funds, exchange-traded funds (ETFs), and closed-end funds—compared with 53 percent of traditional IRA assets. Allocation to target date funds and non–target date balanced funds were similar between Roth IRAs (19 percent) and traditional IRAs (18 percent), but Roth IRAs had less allocated to bonds and bond funds (7 percent) than traditional IRAs (17 percent). Roth IRAs also had a lower allocation to money market funds (7 percent) than traditional IRAs (9 percent). ICI's analysis suggests that some of the differences in allocation reflect the different age distributions, as Roth IRA investors are younger, and younger investors typically weight their portfolios more heavily toward equity investments than older savers.

Withdrawal activity is much lower among Roth IRA investors than traditional IRA investors. In 2016, 4 percent of Roth IRA investors aged 25 or older made withdrawals, compared with 24 percent of traditional IRA investors. In contrast to traditional IRAs, which require investors aged 70½ or older to take required minimum distributions (RMDs), Roth IRAs have no RMDs (unless the Roth IRAs are inherited).

About The IRA Investor Database™

The IRA Investor Database is designed to shed light on key determinants of IRA contribution, rollover, and withdrawal activity, and the types of assets that investors hold in these accounts. The database supplements existing household surveys and IRS tax data about IRA investors and is designed to increase public understanding in this critical area of retirement savings. As of year-end 2016, The IRA Investor Database tracked more than 17 million IRA investors.
