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The Role of IRAs in U.S. Households' Saving for Retirement

Key Findings

- **Four out of 10 U.S. households own IRAs in 2007.** Among IRA-owning households, about three-quarters report they also have employer-sponsored retirement accumulations or have defined benefit plan coverage. All told, 71 percent of all U.S. households have retirement plans through work or IRAs.
- **About one-third of U.S. households have traditional IRAs in 2007.** Traditional IRAs are the most common type of IRA owned, followed by Roth IRAs and employer-sponsored IRAs.
- **IRA growth has been fueled by assets rolled over from employer-sponsored retirement plans.** Almost six out of 10 traditional IRA-owning households indicate their IRAs contain rollovers from an employer-sponsored retirement plan.
- **Although most U.S. households are eligible to make contributions to IRAs, few do so.** Only 14 percent of U.S. households contributed to traditional or Roth IRAs in tax-year 2006, and very few eligible households make "catch-up" contributions.
- **IRA-owning households tend to preserve their IRA assets as long as possible.** Less than one in five households with traditional IRAs took withdrawals in tax-year 2006. The most frequently cited reason for withdrawals is the legal requirement to begin taking minimum distributions.
- **Most households owning traditional IRAs today have a strategy for managing income and assets in retirement.** Eight out of 10 traditional IRA-owning households indicate they have a plan, and among those with a plan, seven out of 10 indicate their strategy is to preserve their IRA assets for as long as possible into retirement.

IRAs Play an Increasingly Important Role in Saving for Retirement

With $4.6 trillion in assets in mid-2007, individual retirement accounts (IRAs) represent more than one-quarter of U.S. total retirement market assets, compared with 14 percent two decades ago.[1] IRAs have also risen in importance on households' balance sheets. In June 2007, IRA assets are 10 percent of all household financial assets, up from 3 percent of assets two decades ago. Forty-six million, or 40 percent of, U.S. households report they have IRAs in May 2007 (Figure 1).[2] Among all IRA-owning households, about three-quarters also participate in employer-sponsored retirement plans. Another 31 percent of U.S.

Sarah Holden, Senior Director, Retirement and Investor Research, and Michael Bogdan, Associate Economist, prepared this report.

Key Terms

- **Individual Retirement Account (IRA)** – An account to which a person can make contributions up to a specified dollar limit. Congress initially designed IRAs to have two roles: (1) to give individuals not covered by a retirement plan at work a tax-advantaged retirement savings plan, and (2) to play a complementary role to the employer-sponsored retirement system by preserving rollover assets at job change or retirement. The term IRA is also applied to individual retirement annuities, which receive similar tax treatment.
- **Traditional IRA** – The first type of IRA, created in 1974. Individuals may make tax-deductible and non-deductible contributions to these IRAs. Earnings on investments in the IRA are tax deferred. Taxable distributions may be taken without penalty starting at age 59½ and must be started once an individual reaches age 70½.
- **Roth IRA** – A Roth IRA is an individual retirement account that permits only after-tax contributions; earnings are not taxed while in the account; and qualified distributions of earnings and principal are generally tax-free.
- **Simplified Employee Pension Plan (SEP) IRA** – A retirement program in which an employer makes contributions to the IRAs on behalf of employees. A Salary Reduction SEP, or "SAR-SEP," IRA is a SEP IRA that allows employees to contribute their own compensation into the IRA. When Congress created the SIMPLE IRA in 1996 (see below), it provided that no new SAR-SEP IRAs could be created after 1996.
- **SIMPLE IRA (Savings Incentive Match Plan for Employees)** – A tax-favored retirement plan created in 1996 that small employers can set up for the benefit of their employees. Both employer and employee contributions are allowed in a SIMPLE IRA plan.
- **401(k) plan** – An employer-sponsored retirement plan that enables employees to make tax-deferred contributions from their salaries to the plan.
- **Rollover** – The shifting of an investor's assets from one qualified retirement plan or account (IRA, 401(k), or other tax-advantaged, employer-sponsored retirement plan) to another—due to changing jobs, for instance—without a tax penalty.
- **Contribution limit** – Federal law establishes limits for the amount an individual may contribute to an IRA, 401(k), or other retirement savings plan in any given year. In 2007, the annual employee contribution limit for 401(k) and similar employer-sponsored retirement plans was $15,500; the annual limit for all traditional and Roth IRAs was $4,000; and $10,500 for SIMPLE IRAs. Individuals age 50 or older can make additional catch-up contributions.
- **Catch-up contribution** – Individuals age 50 or older are permitted to make contributions to an IRA or employer-sponsored retirement savings plan in excess of the annual contribution limit.
- **Distribution** – Individuals may take distributions, that is withdraw funds, from their IRA prior to retirement, but distributions may be subject to federal income tax and/or a penalty. Withdrawals from traditional IRAs before age 59½ may be subject to a 10 percent early withdrawal penalty. The earnings portion of withdrawals from Roth IRAs made within five years of contribution or made before age 59½ are generally subject to income tax and may be subject to the 10 percent penalty. The 10 percent penalty does not apply to withdrawals for certain kinds of expenses, including a first home, certain educational expenses, and qualified medical expenses, among others.
- **Required minimum distribution (RMD)** – Once an IRA owner turns age 70½, distributions from the IRA must begin. Failure to take the required distribution or take only a portion of the required amount will result in a tax penalty. Roth IRAs are not subject to required minimum distributions.

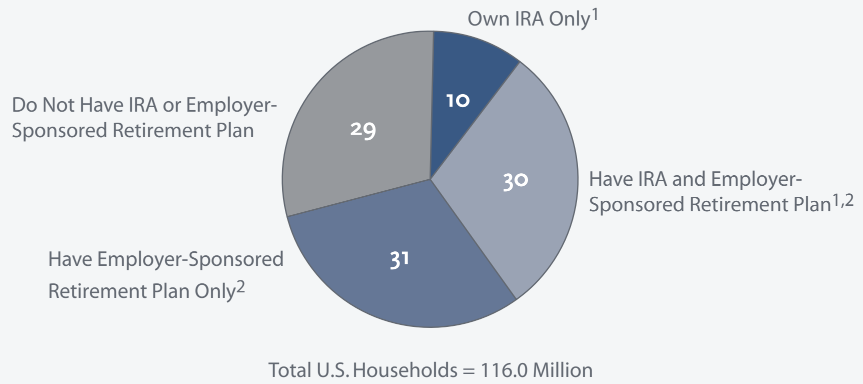
households report employer-sponsored retirement plan accumulations, but no IRAs. All told, 71 percent of all U.S. households have some type of formal, tax-advantaged retirement savings.

Traditional IRAs are the oldest and most common type of IRA. About one-third of U.S. households own traditional IRAs in 2007 (Figure 2). The traditional IRA is a vehicle for rollovers from employer-sponsored retirement plans. Indeed, 59 percent of U.S. households with traditional IRAs indicate their IRAs contain rollover monies.[3] Roth IRAs are the second most frequently owned type of IRA, owned by 15 percent of U.S. households. Employer-sponsored IRAs, which include SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs, are owned by 8 percent of U.S. households.

Figure 1

Many U.S. Households Have Tax-Advantaged Retirement Savings

Percent of U.S. households with IRAs and employer-sponsored retirement plans, 2007



[1] IRAs include traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).
[2] Employered-sponsored retirement plans include defined contribution and defined benefit retirement plans.
sources: Investment Company Institute (Annual Mutual Fund Shareholder Tracking Survey) and U.S. Bureau of the Census

Figure 2

Millions of Households Own IRAs

	Year Created	Number of U.S. Households with Type of IRA,[1] 2007	Percent of U.S. Households with Type of IRA,[1] 2007
Traditional IRA	1974 (Employee Retirement Income Security Act)	37.7 million	32.5%
SEP IRA[2]	1978 (Revenue Act)	9.2 million	7.9%
SAR-SEP IRA[2]	1986 (Tax Reform Act)		
SIMPLE IRA[2]	1996 (Small Business Job Protection Act)		
Roth IRA	1997 (Taxpayer Relief Act)	17.3 million	14.9%
Any IRA[1]		46.2 million	39.8%

[1] Households may own more than one type of IRA.
[2] SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs are employer-sponsored IRAs.
Note: Multiple responses are included.
sources: Investment Company Institute (Annual Mutual Fund Shareholder Tracking Survey) and U.S. Bureau of the Census

IRA Owners Tend to Be Savers, Use More Than One Type of Investment

IRA owners build substantial financial assets. The median financial assets of households with traditional or Roth IRAs is more than five times greater than the median financial assets of households without such IRAs. Those assets include defined contribution retirement plan accounts; 70 percent of traditional or Roth IRA-owning households also have such accounts (Figure 3).

IRA owners typically exhibit the characteristics of individuals who are most likely to save. The financial decisionmakers of households with IRAs tend to be older and are more likely to be married, be employed, and have college or postgraduate degrees than households that do not own IRAs. These are all factors that tend to correlate with a greater propensity to save.[4]

Figure 3

IRA Owners Are Typically Middle-Aged, Married, and Employed

Characteristics of U.S. households, by ownership of traditional or Roth IRAs,[1] 2007

	Households Owning Traditional or Roth IRAs[1]	Households Not Owning Traditional or Roth IRAs
Median Per Household		
Age of Household Sole or Co-Decisionmaker for Investing	54 years	46 years
Household Income	$80,000	$35,000
Household Financial Assets[2]	$250,000	$45,000
Household Financial Assets in IRAs	$50,000	N/A
Share of Household Financial Assets in IRAs	33%	N/A
Percent of Households		
Household Sole or Co-Decisionmaker for Investing:		
Married	62	45
College or Postgraduate Degree	58	19
Employed Full- or Part-Time	70	58
Retired from Lifetime Occupation	30	27
Household Has Defined Contribution Account or Defined Benefit Plan Coverage (total)	80	52
Defined Contribution Retirement Plan Account	70	43
Defined Benefit Plan Coverage	47	23

N/A = not applicable
[1]These households may also own employer-sponsored IRAs. Households whose only IRAs are employer-sponsored IRAs are not included.
[2]Household financial assets include assets in employer-sponsored retirement plans but exclude primary residence.
note: Number of respondents varies. Data for households owning IRAs are from ICI's May 2007 IRA Owners Survey.
Data for households not owning IRAs are from ICI's May 2007 Mutual Fund Shareholder Tracking Survey.
source: Investment Company Institute

Just as 401(k) balances tend to be higher the longer a worker's job tenure,[5] IRA balances tend to rise with length of ownership. In 2007, households owning IRAs for less than five years have median IRA holdings of $7,500, while households owning IRAs for 20 years or more have median IRA holdings of $105,000 (Figure 4). Mean IRA holdings, while considerably higher than the median values, display a similar pattern.

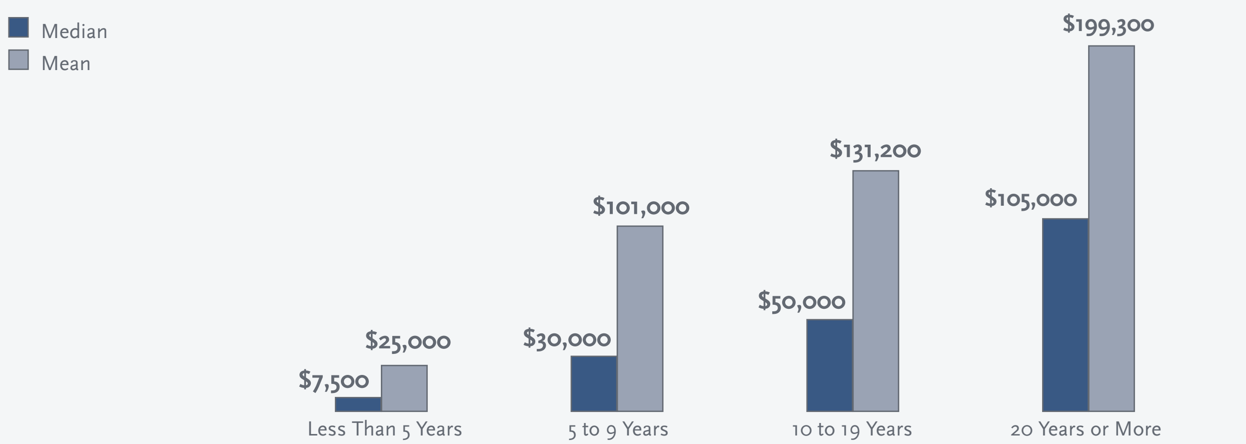
Rollovers to Traditional IRAs Fuel Growth

In 1974, Congress created traditional IRAs with a dual purpose.[6] First, traditional IRAs provide individuals not covered by retirement plans at work with a tax-deferred opportunity to save for retirement. Second, traditional IRAs also give workers changing jobs or retirees a way to preserve the tax-advantaged status of employer-sponsored retirement plan accumulations by allowing transfers, or "rollovers," of plan balances into IRAs.

Figure 4

IRA Assets Increase with Length of Ownership

Median and mean household financial assets in IRAs, by length of ownership, 2007



note: Total IRA assets reported by households owning traditional and/or Roth IRAs in 2007. Households whose only IRAs are employer-sponsored IRAs are not included.

source: Investment Company Institute

Rollover activity has fueled recent IRA growth and helps many Americans preserve their retirement savings. The most recent available data show that households transferred more than $200 billion from employer-sponsored retirement plans to IRAs in 2004.[7] In 2007, more than 22 million U.S. households, or 59 percent of all households owning traditional IRAs, have traditional IRAs that include rollover assets.[8,9] With their most recent rollovers, the vast majority of these households (86 percent) transferred their entire retirement plan balances into traditional IRAs.[10]

Households with rollover assets in their IRAs tend to have higher IRA balances compared with IRAs funded purely by individual contributions. Median traditional IRA holdings that include rollovers are $61,000 in 2007, about double the median traditional IRA holdings ($30,000) that do not include rollovers (Figure 5).

Figure 5

Traditional IRAs Preserve Assets from Employer-Sponsored Retirement Plans

Traditional IRA assets, by employer-sponsored retirement plan rollover activity, 2007

	Traditional IRA Includes Rollover from Employer-Sponsored Retirement Plan[1]	Traditional IRA Does Not Include Rollover from Employer-Sponsored Retirement Plan[2]
Traditional IRA Assets		
Mean	$147,800	$96,800
Median	$61,000	$30,000
Household Financial Assets[3]		
Mean	$404,000	$397,100
Median	$287,000	$300,000

[1] Fifty-nine percent of households owning traditional IRAs have traditional IRAs that include rollovers from employer-sponsored retirement plans.
[2] Forty-one percent of households owning traditional IRAs have traditional IRAs that do not include rollovers from employer-sponsored retirement plans.
[3] Household financial assets include assets in employer-sponsored retirement plans but exclude primary residence.
source: Investment Company Institute

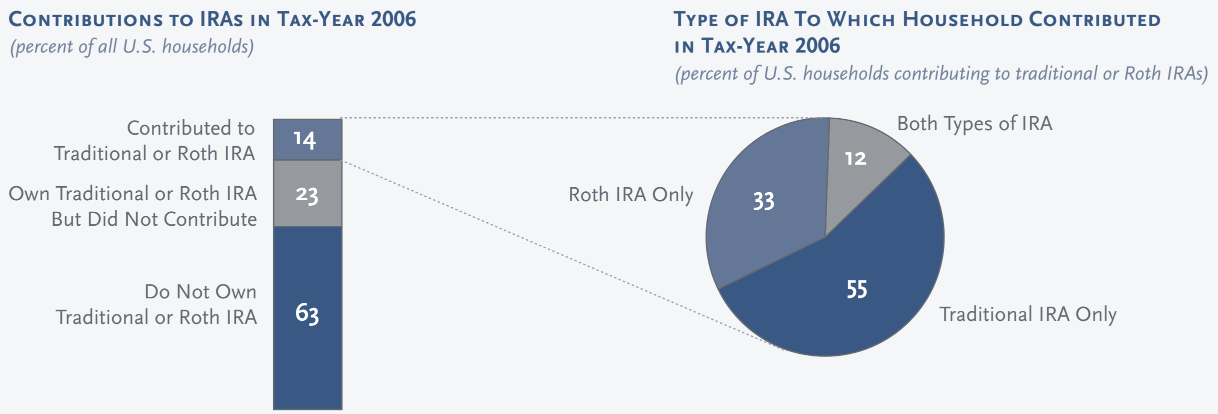
Few Households Make Contributions to IRAs

Although IRAs can help Americans build their retirement savings, the majority of U.S. households does not contribute to them. In tax-year 2006, only 14 percent of all U.S. households made traditional or Roth IRA contributions (Figure 6).

Among households making traditional or Roth IRA contributions in tax-year 2006, about two-thirds made traditional IRA contributions. Nevertheless, traditional IRA owners are less likely than owners of other types of IRAs to make contributions. Forty-five percent of households owning Roth IRAs made contributions in

Figure 6

Very Few Households Contribute to Traditional or Roth IRAs



note: Employer-sponsored IRA contribution activity is not included.
sources: Investment Company Institute and U.S. Bureau of the Census

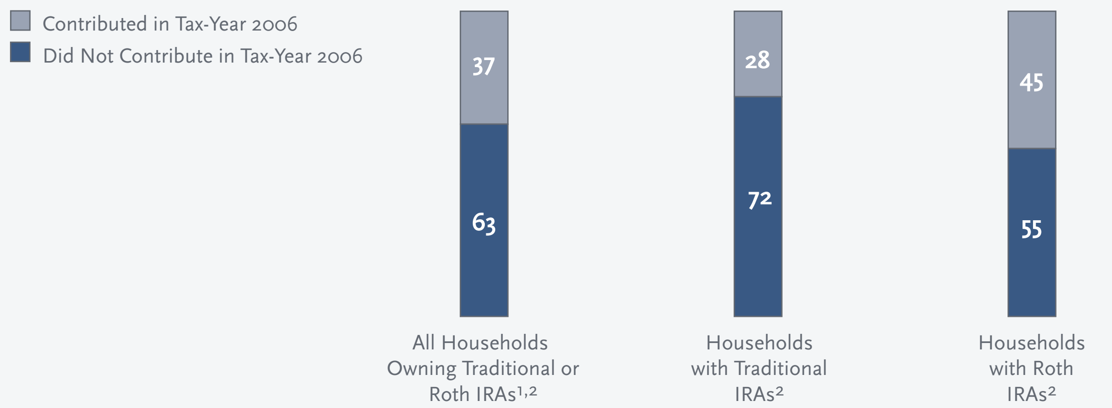
tax-year 2006 (Figure 7).[11] In contrast, only 28 percent of traditional IRA-owning households contributed to their traditional IRAs in tax-year 2006. The lower contribution rate to traditional IRAs is likely due to restrictions on the tax deductibility of contributions, which must be considered by the 80 percent of traditional IRA-owning households that have retirement plan coverage at work (Figure 3). In addition, 16 percent of traditional IRA-owning households are headed by individuals age 70 or older and may not be eligible to contribute due to IRS regulations.

Roth IRA owners are not only more likely to contribute, they also tend to contribute greater amounts. The median amount contributed to Roth IRAs is $4,000 in tax-year 2006, while the median

Figure 7

Roth IRA Contributions Outpace Traditional IRA Contributions in Tax-Year 2006

Percent of households owning each type of IRA, by contribution status in tax-year 2006



	All Households Owning Traditional or Roth IRAs[1,2]	Households with Traditional IRAs[2]	Households with Roth IRAs[2]
Median Contribution Per Household to Type of IRA Indicated	$4,000	$2,900	$4,000

[1] Survey includes households that own traditional IRAs and/or Roth IRAs. Households whose only IRAs are employer-sponsored IRAs are not included.

[2] Households may hold more than one type of IRA. Contribution activity reported is for type of IRA indicated. Some of these households may have been ineligible to make contributions.

source: Investment Company Institute

contribution to traditional IRAs is $2,900 per household (Figure 7). In 2006, the traditional and Roth IRA contribution limit is $4,000 for individuals under the age of 50 (Figure 8).[12]

Since tax-year 2002, individuals age 50 or older are eligible to make "catch-up" contributions to their IRAs (Figure 8). But catch-up contributions are not prevalent.[13] Only 5 percent of all U.S. households with individuals age 50 or older report catch-up contributions in tax-year 2006 (Figure 9). Even among households age 50 or older and owning traditional or Roth IRAs, only 11 percent made catch-up contributions.[14]

Figure 8

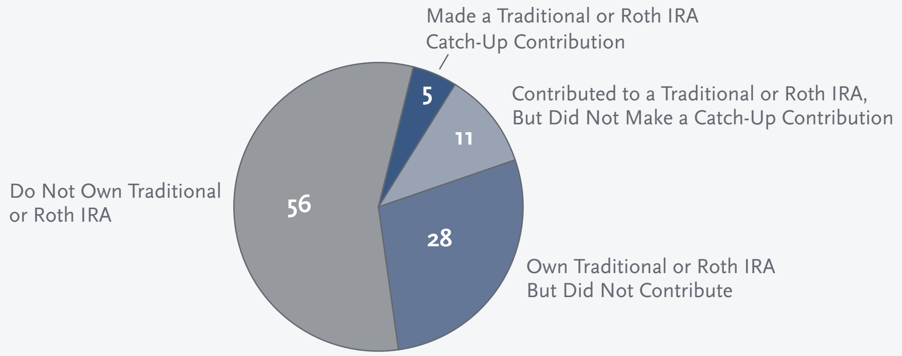
Internal Revenue Code Traditional and Roth IRA Contribution Limits, 2001–2008

[1]*After 2008, traditional IRA contributions are indexed for inflation in $500 increments. IRA catch-up contributions are not indexed for inflation.*
sources: ICI Summary of U.S. Internal Revenue Code

Figure 9

Traditional and Roth IRA Catch-Up Contributions Are Infrequent

Percent of U.S. households with individuals age 50 or older, by contribution status in tax-year 2006



note: Catch-up contribution activity is identified if an individual's contribution is greater than the $4,000 limit in tax-year 2006.
source: Investment Company Institute (2007 Mutual Fund Shareholder Tracking Survey and 2007 IRA Owners Survey)

IRA Withdrawals Infrequent, Mostly Retirement Related

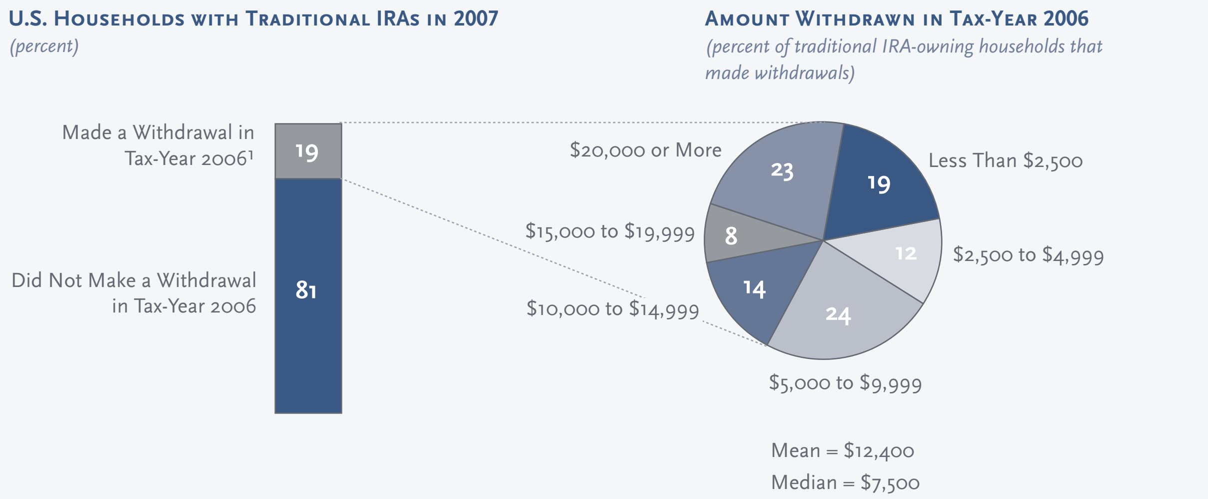
Very few households withdraw money from their IRAs in any given year, and most withdrawals are retirement related. Less than one-fifth of households still owning traditional IRAs made withdrawals from these accounts in tax-year 2006 (Figure 10),[15] and those who did make withdrawals took modest-sized amounts. One-fifth of traditional IRA-owning households making withdrawals in tax-year 2006 took less than $2,500 from their IRAs. Although some withdrawals in dollar amounts appear large, a median of 6 percent of the account balance is typically withdrawn.

A traditional IRA withdrawal, if taken by an individual prior to age 59½, is generally subject to a 10 percent penalty on the taxable portion of the withdrawal (in addition to the federal, state, and local income tax that may be due).[16] Taxpayers older than 59½ but younger than 70½ may take withdrawals without penalty, but are generally not required to do so. Traditional IRA owners age 70½ or older are required to withdraw an annual amount based on life expectancy or pay a penalty for failing to do so: These withdrawals are called required minimum distributions (RMDs). In line with these incentives and disincentives, younger households are much less likely to make withdrawals than older households. Looking at a longer time horizon (1999 through 2006), only 7 percent of traditional IRA-owning households headed by an individual younger than 59 took a complete or partial withdrawal, while 19 percent of households age 59 to 69 took withdrawals. Withdrawal activity is highest among households headed by individuals age 70 or older.

Typically, withdrawals from traditional IRAs are taken to fulfill RMDs. Six out of 10 households owning traditional IRAs making withdrawals in tax-year 2006 did so to satisfy this requirement.[17] Between 1999 and 2006, about half of households taking complete or partial withdrawals cite RMDs as a reason for withdrawing (Figure 11). As would be expected, households headed by an individual age 70 or older are more likely to cite RMDs as a reason for withdrawal.

Figure 10

Withdrawals from Traditional IRAs Are Infrequent



[1] *Households that made a withdrawal exclude those which closed and no longer own traditional IRAs.*

note: Number of respondents varies.

source: Investment Company Institute

Figure 11

Traditional IRA Withdrawal Activity by Age of Head of Household, 1999–2006

Percent of traditional IRA-owning households taking withdrawals[1]

	Households with Traditional IRA Withdrawals	Age of Head of Household (Years)		
		Younger Than 59	59 to 69	70 or Older
Reason for Withdrawal[2]				
To Take a Required Minimum Distribution	47	10	13	75
To Pay Living Expenses	20	29	35	11
To Pay for Health Care	9	12	10	7
To Reinvest the Money[3]	7	8	11	6
To Buy a Home	3	6	4	1
To Make a Large Purchase	8	10	15	4
To Pay for Education	3	9	3	1
Other Reason	16	23	23	10
Age of Head of Household				
Younger Than 59	24	100	0	0
59 to 69	22	0	100	0
70 or Older	54	0	0	100
Amount Withdrawn[4]				
Less Than $2,500	29	27	16	35
$2,500 to $4,999	16	17	12	18
$5,000 to $9,999	18	22	17	17
$10,000 to $24,999	22	19	31	18
$25,000 to $49,999	8	7	13	7
$50,000 or More	7	8	11	5
Mean	$14,900	$15,800	$19,900	$12,200
Median	$5,000	$5,000	$10,000	$4,000
Full or Partial Withdrawal from Traditional IRA				
Withdrew Some, But Not All Money	86	69	86	93
Withdrew All Money	14	31	14	7

[1] Eighteen percent of households either still holding traditional IRAs in the year of the survey and having withdrawn some of the assets (15 percent) or having liquidated (3 percent) their traditional IRA during the year prior to the survey are counted as having withdrawals. The denominator includes households still holding traditional IRAs and those households whose withdrawals in the previous year closed their traditional IRAs. Results are pooled over 2000 to 2007 survey years covering withdrawal activity in 1999 to 2006.
[2] Multiple responses included.
[3] Households indicating they were buying investments outside IRAs and/or buying another type of IRA.
[4] Components may not add to 100 percent because of rounding.
note: Number of respondents varies.
source: Investment Company Institute (Annual Mutual Fund Shareholder Tracking Surveys, 2000 to 2007)

Younger households are much more likely to take a withdrawal to pay for living expenses.

Because today's withdrawal activity may not be a good indicator of future withdrawal activity, a new survey question asks traditional IRA owners not taking IRA withdrawals about their future withdrawal intentions. In 2007, seven out of 10 of these owners say it is unlikely they will take withdrawals prior to age 70½. Among traditional IRA-owning households in 2007 that did not take withdrawals in tax-year 2006, 46 percent indicate it is "not likely at all" that they would start IRA withdrawals before required (Figure 12). Another 24 percent report it is "not very likely" that they would take withdrawals prior to age 70½.

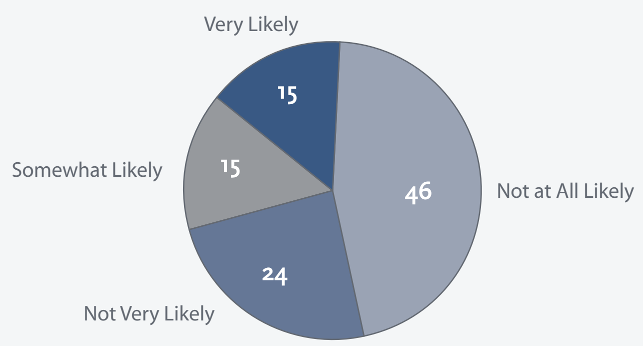
Withdrawals Calculated in a Variety of Ways

Another new survey question asks traditional IRA owners who took withdrawals in tax-year 2006 how they determined the amount to withdraw. About six out of 10 traditional IRA withdrawers indicate they have a systematic withdrawal plan. Fourteen percent report their withdrawals are calculated to meet RMDs, while

Figure 12

Likelihood of Withdrawing from Traditional IRA Before Age 70½

Percent of traditional IRA households that did not take a withdrawal in tax-year 2006



source: Investment Company Institute

another 24 percent cite a life expectancy calculation (Figure 13).[18] Seventeen percent withdraw a fixed percentage of the account each year and 6 percent withdraw an annual fixed dollar amount.

Nearly four out of 10 traditional IRA withdrawers did not indicate a systematic withdrawal plan. Indeed, 35 percent of traditional IRA withdrawers in tax-year 2006 indicate they took a lump sum based on needs (Figure 13).

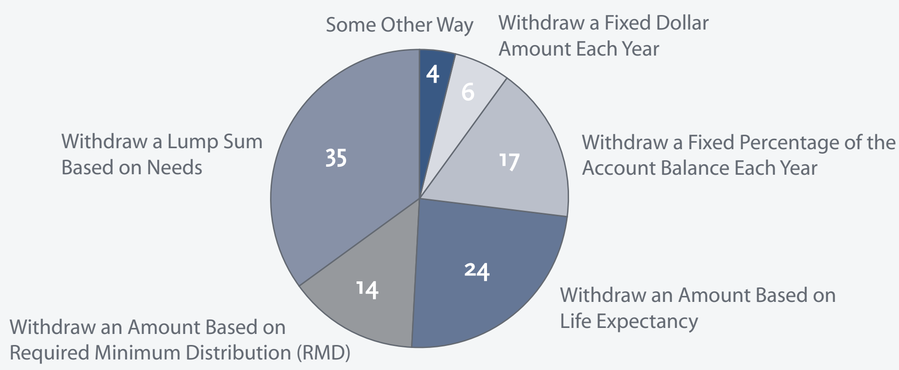
Most Traditional IRA Owners Have Planned Retirement Strategy

Eighty percent of households with traditional IRA assets say they have a strategy for managing income and assets in retirement (Figure 14). With respect to the planned role for their traditional IRA assets in retirement, seven out of 10 traditional IRA owners with a strategy plan to preserve their IRA assets as long as possible.

Figure 13

How Traditional IRA Withdrawals Are Determined

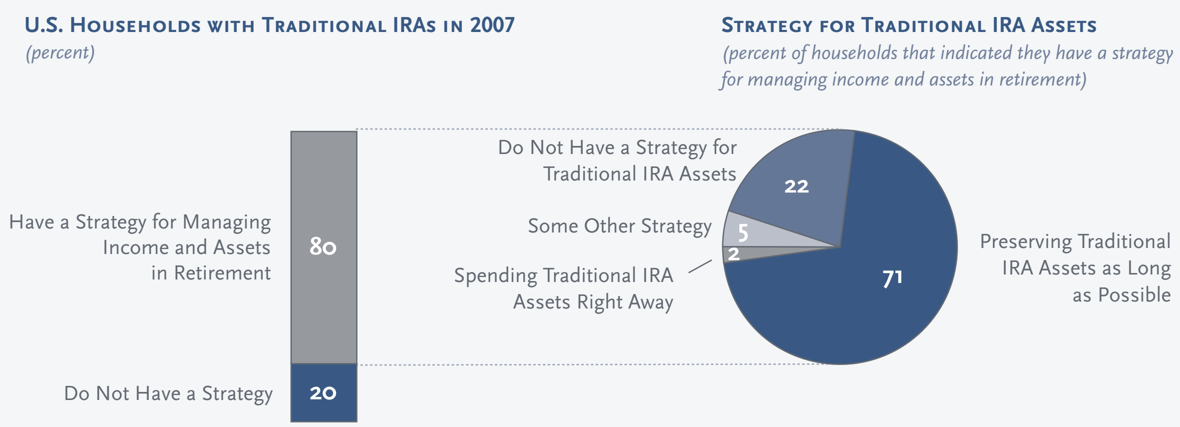
Percent of traditional IRA-owning households with withdrawals in tax-year 2006



source: Investment Company Institute

Figure 14

Preserving Traditional IRA Assets Is Main Retirement Strategy for Owners



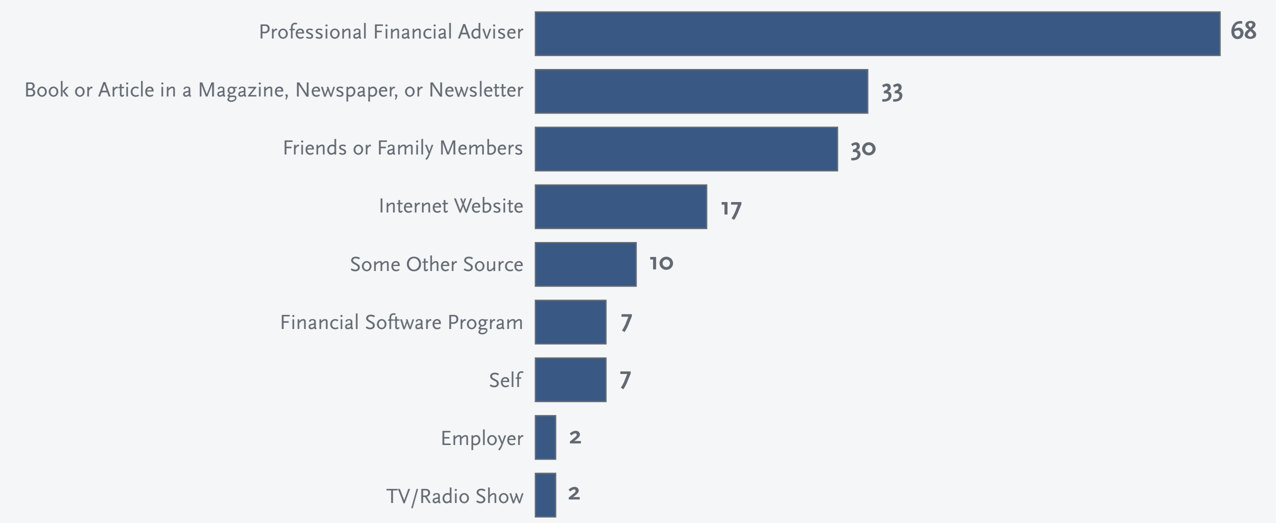
source: Investment Company Institute

Traditional IRA owners typically seek advice when building their retirement income strategy. About two-thirds of traditional IRA households with a strategy consulted a professional financial adviser when creating the strategy (Figure 15). About one-third of households with a strategy consulted written materials (e.g., book, article, newsletter) and 30 percent consulted with friends or family. Seventeen percent used an Internet website to help create their retirement income and asset management strategy. Only 7 percent create their investment strategy on their own.

FIGURE 15

MOST IRA OWNERS CONSULT PROFESSIONAL FINANCIAL ADVISER WHEN CREATING STRATEGY

Percent of traditional IRA-owning households that indicated they have a strategy for managing income and assets in retirement, 2007



note: Multiple responses are included.
source: Investment Company Institute

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Notes

1 See Investment Company Institute (December 2007).

2 Data in this issue of *Fundamentals* on the number and percentage of households owning IRAs are based on ICI's Mutual Fund Shareholder Tracking Survey conducted in May 2007 of 3,977 randomly selected, representative U.S. households (the standard error for the total sample is ± 1.6 percentage points at the 95 percent confidence level). The incidence estimates presented here for 2007 are calculated using a revised estimation procedure. As is usual in the course of household survey work, researchers periodically re-examine the estimation procedures used to ensure that results published are representative of the millions of households in the United States. ICI engaged in such a process this year and the IRA incidence figures here reflect a new weighting procedure. For a discussion of the new weighting methodology, see Holden and Bogdan (November 2007). The new weights, which match the census region, age distribution, income distribution, and educational attainment of the U.S. population, slightly reduced the incidence of ownership of IRAs and therefore the number of households owning IRAs (see Figure A2 in the Appendix, which contains additional data on household ownership of IRAs and is available at www.ici.org/pdf/fm-v17n1_appendix.pdf).

The demographic and financial characteristics of IRA owners are derived from a separate May 2007 IRA Owners Survey of 599 randomly selected, representative U.S. households owning traditional or Roth IRAs (the standard error for the total sample is ± 4.0 percentage points at the 95 percent confidence level). IRA ownership does not include ownership of Coverdell Education Savings Accounts (formerly called Education IRAs) or households whose only IRAs are employer-sponsored IRAs (SIMPLE IRAs, SEP IRAs, and SAR-SEP IRAs).

Key terms related to IRAs and retirement saving are presented on page 2 of this report. For additional information and the rules governing IRAs, see Internal Revenue Service (IRS) *Publication 590*.

3 See Figures A10 and A11 in the Appendix for additional information on traditional IRA owners with rollovers.

4 See Holden, Ireland, Leonard-Chambers, and Bogdan (February 2005) for a discussion of the relationship between demographic characteristics and the propensity to save.

5 See Holden, VanDerhei, Alonso, and Copeland (August 2007).

6 For a brief history of IRAs and a discussion of the various features of different IRA types, see Holden, Ireland, Leonard-Chambers, and Bogdan (February 2005).

7 See Brady and Holden (July 2007).

[8] Prior to 2008, Roth IRAs generally were not eligible for direct rollovers from employer-sponsored retirement plan accounts. The Pension Protection Act of 2006 allows direct rollovers from employer-sponsored plans to Roth IRAs starting in 2008. For a complete discussion of the specific rules and the change, see IRS *Publication 590*.

[9] The percentage of households reporting rollover IRA assets shows a sharp increase in this year's survey. In 2005, 43 percent of traditional IRA-owning households reported having rollover assets in their IRAs (see West and Leonard-Chambers (January 2006)); in 2004, 46 percent of households said they had rollovers in their IRAs (see Investment Company Institute (February 2005)). Tabulations of the Federal Reserve Board's 2004 Survey of Consumer Finances data find that 37 percent of traditional IRA-owning households had rollovers in their IRAs in 2004. For a description of the Survey of Consumer Finances, see Bucks, Kennickell, and Moore (March 2006).

[10] See Figures A10 and A11 in the Appendix for additional information on traditional IRA owners with rollovers.

[11] The 2005 IRA Owners Survey asked employer-sponsored IRA owners about their contribution activity in their employer-sponsored IRAs. About half of employer-sponsored IRA owners in 2005 made contributions to their employer-sponsored IRAs in tax-year 2004 (see West and Leonard-Chambers (January 2006)).

[12] See IRS *Publication 590* for details on income restrictions and other qualifications for contribution eligibility.

[13] The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) created catch-up contributions, which permit individuals age 50 or older to make additional contributions to qualified retirement plans and IRAs above the annual deferral limits. Households that may make catch-up contributions to Roth IRAs are those with incomes within the limits to contribute to a Roth IRA and in which a household member is age 50 or older. Households that may make catch-up contributions to traditional IRAs are those in which a household member is at least age 50 years old but less than 70½ years old.

[14] This group may include households ineligible to make deductible contributions to traditional IRAs.

[15] Data exclude households that closed and no longer own traditional IRAs.

[16] Over the years, Congress has created exceptions to the early withdrawal penalty, including first-time home purchase, certain medical expenses, certain educational expenses, and if the withdrawals are made as substantially equal periodic payments (SEPPs) based on a life expectancy calculation. For additional discussion of IRA withdrawal rules and activity see Holden and Reid (January 2008).

[17] See Figure A17, which reports 2007 IRA Owners Survey data, in the Appendix.

[18] Virtually all of those taking withdrawals saying they were based on life expectancy had an individual age 70 or older heading (or in) the household. It is likely that they are withdrawing the RMD, but simply did not recognize the term.

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