

# Fundamentals

Investment Company Institute Research In Brief

Vol. 8 / No. 6

December 1999

1401 H Street, NW  
Suite 1200  
Washington, DC 20005  
202/326-5800  
www.ici.org

Copyright © 1999 by the  
Investment Company Institute

## IRA Ownership in 1999

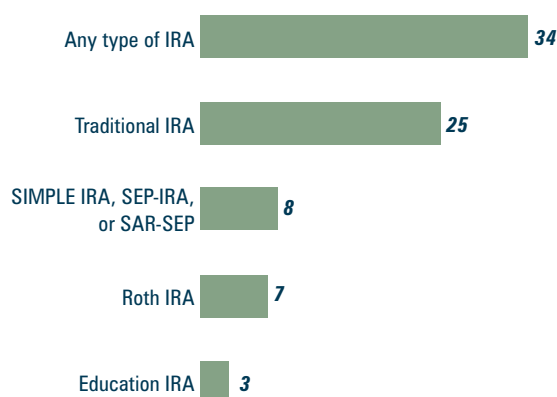
An estimated 34.7 million, or one in three, U.S. households owned Individual Retirement Accounts as of June 1999. The number of households owning IRAs increased 13 percent from 30.6 million one year earlier (Figure 1).<sup>1</sup>

One-quarter of U.S. households held traditional IRAs, still the most common form of IRA ownership.<sup>2</sup> Seven percent of households owned Roth IRAs, despite their availability for only the past two years.<sup>3</sup> Eight percent of households held various employer-based IRAs—SIMPLE IRAs, SEP-IRAs, or SAR-SEPs—and 3 percent had Education IRAs.<sup>4,5</sup>

figure 1

### Ownership of Types of IRAs, 1999<sup>1</sup>

(percent of U.S. households)



Number of respondents = 3,576

figure footnote:

<sup>1</sup>Multiple responses included.

<sup>1</sup> Based upon a nationally representative sample of 3,576 households, the survey was conducted by the Market Policy Division of the Investment Company Institute. The purpose of this annual survey is to track ownership of IRAs and gather demographic, financial, and other aggregate information on household owners.

<sup>2</sup> The Traditional IRA, established in 1974 under the Employee Retirement Income Security Act, permits a maximum deductible annual contribution of \$2,000 for single persons and \$4,000 for married couples. (Individuals participating in qualified employer plans are subject to rules that phase out contribution deductibility at certain income levels.) Earnings are tax-deferred and distributions are taxed as ordinary income at withdrawal. Withdrawals before age 59½ are subject to a 10 percent tax penalty except in cases of disability, death, or payments for higher education or to buy a first house (\$10,000 limit). Distributions must commence after individuals attain age 70½.

<sup>3</sup> The Roth IRA, established in 1997 under the Taxpayer Relief Act, permits a maximum nondeductible annual individual contribution of \$2,000 per year (eligibility subject to phase out and elimination at certain income levels and offset by contributions made to a Traditional IRA). Individuals contributing to employer-sponsored retirement plans are allowed to contribute to Roth IRAs. Earnings are not taxed, and distributions of earnings and principal are tax-free, provided the account is held for at least five years and the account holder is at least age 59½ at the time of withdrawal. Penalty-free early withdrawals can be made for first-home purchases and higher-education expenses after accounts have been open for at least five years. There is no requirement that distributions commence after age 70½.

<sup>4</sup> The SIMPLE IRA, created in 1996 under the Small Business Job Protection Act (SBJPA) for employers with no more than 100 employees, allows employees to make annual elective contributions of up to \$6,000. Employers must match employee elective contributions dollar for dollar up to 3 percent of the employee's compensation, or provide a 2 percent contribution for all eligible employees. Distributions from SIMPLE IRAs are generally taxed under the rules applicable to IRAs. Early withdrawals are usually subject to the early tax withdrawal applicable to IRAs, but those made within two years of the date on which an individual first began to participate in the program are subject to a 25 percent rather than a 10 percent early withdrawal tax.

The Simplified Employee Pension (SEP) IRA, created under the Revenue Act of 1978, is an arrangement established by an employer for each eligible employee. Employees receive immediate vesting in employer contributions, and generally direct investments. Employers can contribute a maximum of 15 percent of compensation annually. The limit on compensation that can be considered when calculating the annual contribution is \$160,000. Distributions from SEP-IRAs are generally taxed under the rules applicable to IRAs. Early withdrawals are subject to the early withdrawal tax applicable to IRAs.

A SAR-SEP is a SEP-IRA with a salary reduction feature. The SBJPA prohibited the formation of new SAR-SEPs after December 31, 1996.

<sup>5</sup> The Education IRA, created under the Taxpayer Relief Act of 1997, permits a maximum annual nondeductible contribution of \$500 for a child (eligibility subject to phase out and elimination at certain income levels). Withdrawals to pay for higher education are tax-free. The account must be distributed when the individual reaches age 30. The number of households owning Education IRAs was too small to analyze.

figure 2

### Characteristics of Households Owning Traditional and Roth IRAs, 1999

	Traditional IRA	Roth IRA
<b>Median</b>		
Age of household head	49 years	44 years
Household income	\$60,000	\$62,000
Household financial assets <sup>1</sup>	\$150,000	\$100,000
Household financial assets in all types of IRAs	\$34,000	\$40,000
<b>Percent</b>		
Married <sup>2</sup>	70	69
College or post-graduate degree <sup>2</sup>	57	65
Employed full- or part-time <sup>2</sup>	76	89
Retired from lifetime occupation <sup>2</sup>	22	11
Own: <sup>3</sup>		
Checking accounts	98	96
Life insurance	82	80
Bank or thrift savings accounts	80	78
Mutual funds	61	70
Individual stock other than employers'	42	48
Certificates of deposit	37	29
Real estate other than primary residence	32	37
Employers' stock	32	32
Variable annuities	23	25
Individual bonds	22	17
Fixed annuities	12	12
Household has defined-contribution or defined-benefit plan (net): <sup>3</sup>	76	79
Defined-contribution plan: <sup>3</sup>	69	70
401(k) plan	56	58
Some other type of defined-contribution plan	35	29
Defined-benefit plan	49	51
Household has traditional IRA	100	47
Household has Roth IRA	26	100

figure footnotes:

<sup>1</sup>Includes assets in employer-sponsored retirement plans but excludes primary residence.

<sup>2</sup>Percent of household heads.

<sup>3</sup>Multiple responses included.

note: Number of respondents varies.

### Households with Traditional IRAs

An estimated 25.5 million, or three-fourths, of IRA households owned a traditional IRA.

Twenty-six percent of traditional IRA households also owned Roth IRAs, and 76 percent were covered by employer-sponsored retirement plans (Figure 2). Nearly 70 percent participated in defined-contribution plans, and about half were covered by defined-benefit plans.

The median age of individuals heading traditional IRA households was 49 years. Median household income was \$60,000 and household financial assets were \$150,000. Median assets in traditional IRAs was \$20,000, typically in two accounts (Figure 3). Thirty-seven percent of traditional IRA households contributed a median of \$2,000 to their accounts in tax-year 1998. Thirty-nine percent expected to make contributions in tax-year 1999, the expected contribution also a median of \$2,000. Thirty-six percent of traditional IRA households had traditional IRA accounts that included rollovers from employer-sponsored retirement plans.

Eight percent of traditional IRA households expected to convert assets from traditional to Roth IRAs during the 1999 tax year. Separately, 2 percent of traditional IRA households that had converted a traditional IRA to a Roth IRA reconverted to a traditional IRA during the first six months of 1999.

Most traditional IRA households held these accounts at either banks or full-service brokerages (Figure 4). Sixty-five percent invested their traditional IRAs in mutual funds, primarily equity funds, and 34 percent held individual stock (Figure 5).<sup>6</sup>

<sup>6</sup> Household financial assets include holdings in employer-sponsored retirement plans but exclude primary residence.

## Households with Roth IRAs

An estimated 7.1 million households owned Roth IRAs. About two-fifths, or approximately 2.8 million households, were first-time IRA owners (Figure 6). One-third initially funded their Roth IRAs with conversions from traditional IRAs, transferring a median of \$6,000. Two-thirds opened their Roth IRAs with new contributions. Eighty-one percent of Roth IRA owners expected to contribute a median of \$2,000 to these accounts in tax-year 1999.

The median age of individuals heading Roth IRA households was 44 years (Figure 2), five years younger than traditional IRA heads of households. Median household income was \$62,000, and median household financial assets were \$100,000. The majority of Roth IRA households owned one Roth IRA with a median account balance of \$6,000. Three-quarters invested Roth IRA assets in mutual funds (Figure 5).

## Households with Employer-sponsored IRAs

An estimated 8.1 million households owned employer-sponsored IRAs. Heads of these households were a median of 42 years old (Figure 7). Median household income was \$50,000 and household financial assets were \$65,000. Most employer-sponsored IRA owners invested their IRA portfolios in mutual funds (Figure 5).

figure 3

### Characteristics of Households Owning Traditional IRAs, 1999

#### Median<sup>1</sup>

Number of traditional IRAs owned	2
Amount in traditional IRAs	\$20,000
Amount contributed to traditional IRAs for tax-year 1998 <sup>2</sup>	\$2,000
Amount expected to be contributed to traditional IRAs for tax-year 1999 <sup>3</sup>	\$2,000

#### Percent

Traditional IRA includes conversion from an employer-sponsored retirement plan	36
Contributed to a traditional IRA in tax-year 1998	37
Took a tax deduction for traditional IRA contribution in 1998 <sup>2</sup>	56
Planning to contribute to traditional IRA in tax-year 1999	39
Planning to convert a traditional IRA to a Roth IRA in tax-year 1999	8
Converted to a Roth IRA and reversed it back to a traditional IRA	2
Own traditional IRA: <sup>4</sup>	
Household head	88
Spouse	46
Dependent children	14
Have a traditional IRA for a nonworking spouse	20
Year of first traditional IRA purchase:	
Before 1986	42
1986 to 1990	27
1991 or later	31

figure footnotes:

<sup>1</sup>Data are reported for the household.

<sup>2</sup>Of those who contributed to a traditional IRA in tax-year 1998.

<sup>3</sup>Of those who expected to contribute to a traditional IRA in tax-year 1999.

<sup>4</sup>Multiple responses included.

note: Number of respondents varies.

Figure 4

### Where IRA Account Was Held, 1999<sup>1</sup>

(percent of households owning each type of IRA)

	Traditional IRA	Roth IRA
Bank or savings institution	38	20
Full-service brokerage	29	33
Mutual fund company	25	28
Independent financial planning firm	23	20
Insurance company	12	7
Discount brokerage	8	10
Other	4	3

figure footnote:

<sup>1</sup>Multiple responses included.

note: Number of respondents varies.

figure 5

### Types of Assets Held in IRAs, by Type of IRA, 1999<sup>1</sup>

(percent of households owning each type of IRA)

	Traditional IRA	Roth IRA	Employer-sponsored IRA
Mutual funds (net)	65	75	52
Stock mutual funds	49	53	38
Bond mutual funds	18	15	19
Balanced mutual funds	12	7	6
Money market mutual funds	19	13	18
Individual stock	34	28	27
Bank money market deposit accounts or CDs	28	14	18
Variable annuities	22	16	15
Fixed annuities	17	13	16
Individual bonds	11	5	11
Other	6	5	4

figure footnote:

<sup>1</sup>Multiple responses included.

note: Number of respondents varies.

figure 6

### Characteristics of Households Owning Roth IRAs, 1999

#### Median<sup>1</sup>

Number of Roth IRAs owned by household	1
Amount in Roth IRAs	\$6,000
Amount converted from traditional IRAs to Roth IRAs <sup>2</sup>	\$6,000
Amount contributed to Roth IRAs for tax-year 1998 <sup>3</sup>	\$2,000
Amount expected to contribute to Roth IRA in tax-year 1999 <sup>4</sup>	\$2,000

#### Percent

Roth IRA was first IRA owned	39
Roth IRA was funded by a conversion from a traditional IRA	34
Roth IRA assets were initially from an employer-sponsored retirement plan	12
Taxes for conversion from traditional IRA to Roth IRA were paid out of conversion assets <sup>2</sup>	15
Plan to contribute to Roth IRA in tax-year 1999	81
Own a Roth IRA: <sup>5</sup>	
Respondent	79
Spouse	47
Dependent children	9
Other household member	1
Have a Roth IRA for a nonworking spouse	11
Year Roth IRA first opened:	
1998 calendar year	85
1999 calendar year	15

figure footnotes:

<sup>1</sup>Data reported are for the household.

<sup>2</sup>For Roth IRA owners whose Roth IRAs were funded by a conversion from a traditional IRA.

<sup>3</sup>For Roth IRA owners who had Roth IRAs in tax-year 1998.

<sup>4</sup>For Roth IRA owners who planned to contribute to their Roth IRAs in tax-year 1999.

<sup>5</sup>Multiple responses included.

note: Number of respondents varies.

figure 7

### Characteristics of Households Owning Employer-sponsored IRAs, 1999

#### Median

Age of household head	42 years
Household income	\$50,000
Household financial assets <sup>1</sup>	\$65,000
Household financial assets in all types of IRAs	\$40,000

#### Percent

Married <sup>2</sup>	70
College or post-graduate degree <sup>2</sup>	50
Employed full- or part-time <sup>2</sup>	85
Retired from lifetime occupation <sup>2</sup>	3
Own: <sup>3</sup>	
Checking accounts	97
Life insurance	87
Bank or thrift savings accounts	84
Individual stock	51
Mutual funds	48
Certificates of deposit	26
Real estate other than primary residence	25
Individual bonds	21
Variable annuities	15
Fixed annuities	13

figure footnotes:

<sup>1</sup>Includes assets in employer-sponsored retirement plans but excludes primary residence.

<sup>2</sup>Percent of household heads.

<sup>3</sup>Multiple responses included.

note: Number of respondents varies.