The IRA Investor Profile

TRADITIONAL IRA INVESTORS' ASSET ALLOCATION, 2007 AND 2008

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The IRA Investor Database™

The Investment Company Institute and the Securities Industry and Financial Markets Association have launched a new research project that collects account-level data for more than 10 million IRA investors.

Individual retirement accounts (IRAs) are an important segment of the U.S. retirement market. The aim of this database is to increase public understanding in this area of retirement savings by expanding on the existing household surveys and IRS tax data about IRA investors.

By tapping account-level records, research drawn from this database can provide new and important insights into IRA investor demographics, activities, and asset allocation decisions. The database is designed to shed light on key determinants of IRA contributions, rollover and withdrawal activity, and the types of assets that investors hold in these accounts.

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Key Findings

- **IRAs hold a range of investments, and the largest share of traditional IRA assets are invested in equities and equity funds, both in aggregate and across investor age or income groups.** At year-end 2007, traditional IRA investors had 57.8 percent of their traditional IRA assets invested in equities (individual stocks) and equity funds (equity mutual funds, equity exchange-traded funds [ETFs], and equity closed-end funds). Hybrid funds, which include target date funds, were 13.6 percent of traditional IRA assets, and another 13.5 percent was invested in bonds and bond funds. Money market funds were 14.5 percent of traditional IRA assets.

- **When like securities were grouped together to analyze holdings, equity holdings—equities, equity funds, the equity portion of target date funds, and the equity portion of other hybrid funds—accounted for 66.3 percent of traditional IRA assets at year-end 2007.** Bond holdings were 17.8 percent of the total and money market holdings were 14.9 percent.

- **The pattern of holdings in traditional IRAs tended to vary with investor age, typically as expected across the life cycle.** The percentage of traditional IRA assets invested in bond holdings was higher, the older the traditional IRA investor. For the most part, younger traditional IRA investors tended to have a higher proportion of their accounts invested in equity holdings compared with older investors. For example, traditional IRA investors aged 35 to 39, on average, held 78.6 percent of their traditional IRAs in equity holdings, compared with 59.8 percent of the traditional IRA assets of investors aged 70 to 74. The oldest traditional IRA investors had higher allocations to money market holdings compared with middle-aged traditional IRA investors. The exception to the typically declining equity holdings pattern by age occurred in traditional IRAs held by investors younger than 35, which were more concentrated in money market holdings and less concentrated in equity holdings than expected.

- **The youngest traditional IRA investors (aged 25 to 29) were more heavily invested in money market holdings than any other age group at year-end 2007; it is likely that several factors were at work.** The relatively high allocation to money market holdings among the youngest traditional IRA investors reflected, in part, a preponderance of small balances, which had a higher tendency to be invested in money market funds. Small accounts may be more likely to be invested in money market funds because of the impact of default rollover rules or the economics of managing such small amounts. In addition, some younger traditional IRA investors may have shorter-term goals for the money (e.g., education or home purchase) and desire liquidity in their traditional IRA balances.

- **The pattern of investments among traditional IRA investors was broadly consistent with the patterns observed in 401(k) plans, in aggregate and by investor age.** Equities and equity funds were the largest share of both traditional IRAs and 401(k) plans, in aggregate and by investor age, at year-end 2007. Bonds and bond funds represented higher shares of account assets among older investors compared to younger investors, whether looking at traditional IRAs or 401(k) plans. However, in aggregate traditional IRAs had a higher allocation to bonds and bond funds than 401(k) plans, in part because traditional IRA investors tend to be older compared with 401(k) plan participants. Money market funds had higher shares in traditional IRAs across all age groups and in aggregate, reflecting in part their use as a default investment for small rollovers and perhaps traditional IRA investors' higher demand for liquidity. Target date funds represented higher shares of younger investors' accounts, but were a higher share of 401(k) plan assets in aggregate, likely reflecting their use as default investments in many 401(k) plans.

- **Use of target date funds was relatively limited among traditional IRA investors.** At year-end 2007, 8.9 percent of traditional IRA investors held target date funds, and target date fund assets were 3.8 percent of total traditional IRA assets in The IRA Investor Database.

- **Traditional IRA investors holding target date funds tended to hold one target date fund and allocated most of their accounts to the target date fund.** At year-end 2007, 92.4 percent of traditional IRA investors with target date funds held one target date fund. Target date fund assets represented 90 percent or more of their traditional IRAs for 58.6 percent of traditional IRA investors with target date funds. Although a significant minority (four in 10) held only target date funds, six in 10 traditional IRA investors with target date funds augmented their target date fund investment with other investments.

- **The share of equity investments in traditional IRAs fell between year-end 2007 and year-end 2008, largely the result of the poor stock market returns in 2008.** At year-end 2008, equities and equity funds were 44.3 percent of traditional IRA assets, compared with 57.8 percent at year-end 2007. Hybrid funds, which invest in both stocks and bonds, edged down in share from 13.6 percent at year-end 2007 to 12.9 percent at year-end 2008. Fixed-income investments gained share in traditional IRAs in 2008, with bonds and bond funds rising from 13.5 percent of traditional IRA assets at year-end 2007 to 17.5 percent at year-end 2008 and money market funds rising from 14.5 percent to 23.0 percent of traditional IRA assets.

- **Despite the poor stock market returns, only a slight movement to more conservative investments is discernable among traditional IRA investors between year-end 2007 and year-end 2008.** The IRA Investor Database does not track individuals' trading activity, but can discern a reallocation of assets when an investor moves from a zero or 100 percent allocation to some other allocation. Among traditional IRA investors with balances at both year-end 2007 and year-end 2008, on net, only 2.2 percent stopped owning equities or equity funds by year-end 2008. At year-end 2007, 29.5 percent of these traditional IRA investors held no equities or equity funds, while at year-end 2008, 31.7 percent held none.

Introduction

Role of IRAs in U.S. Retirement Planning

The Employee Retirement Income Security Act (ERISA) in 1974 created individual retirement accounts (IRAs).[1] Thirty-five years later, IRAs have grown to be a significant component of U.S. households' retirement assets. At year-end 2010, IRAs held $4.7 trillion, or more than one-quarter, of the $17.6 trillion in total U.S. retirement assets,[2] and made up 9.9 percent of U.S. households' total financial assets (Figure 1). All told, 48.6 million, or 41.4 percent of, U.S. households owned one or more types of IRAs in mid-2010. Traditional IRAs, the first type of IRA created, are the most common type of IRA.[3]

Because of the important role that IRAs play in U.S. retirement planning, policymakers and researchers seek to understand how individuals use IRAs. These policy questions include how Americans contribute to these accounts. Individuals also use IRAs to preserve and consolidate retirement accumulations from employer-sponsored plans through rollovers, and policymakers want to know how people manage these accounts, including whether there is significant withdrawal of assets prior to retirement ("leakage"). Whether funded by contributions, rollovers, or both, IRAs are managed by individuals, and asset allocation plays an important role in the returns and variation in returns that IRA investors experience. Thus, policymakers and researchers are interested in understanding the asset allocation of IRA balances across investors.

Sources of IRA Data

Researchers have relied primarily on household surveys and Internal Revenue Service (IRS) tax data to examine policy questions about IRAs. There are several publicly available household surveys that researchers use to analyze households' retirement savings,[4] and ICI conducts two annual household surveys that provide information on IRA-owning households.[5, 6] While household surveys provide a comprehensive picture of households' finances and activities, they can suffer from data problems due to inaccurate respondent recall, which often limits the level of detail that can be obtained on specific financial assets or activities.

IRS tax data provide a rich array of information from a variety of sources including Form 1040 (U.S. Individual Income Tax Return), Form 5498 (IRA Contribution Information), and Form 1099-R (Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.).[7] These tabulations provide benchmarks of aggregate IRA-related activity, such as contributions, assets, rollovers into IRAs, conversions, and withdrawals. The tax data, however, do not have information about the types of assets that investors hold in their IRAs.

The IRA Investor Database™

To augment the existing survey information and tax data for IRAs, the Investment Company Institute (ICI) and the Securities Industry and Financial Markets Association (SIFMA)[8] embarked on a new data collection effort—The IRA Investor Database—to examine administrative, or recordkept, data on IRAs.

The IRA Investor Database contains account-level information from a wide range of mutual fund and insurance companies, which provided data for more than 10 million IRA investors in 2007 and 2008.[9] Participating data providers encrypted individual records to protect the identities of individuals, but provided each investor's year of birth; gender; zip code; and IRA assets, contributions, withdrawals, and rollovers. Because IRA recordkeeper systems contain the actual account data, the data provide precise dollar amounts and do not suffer from errors in respondent recall. Throughout this report, the term "IRA investor" refers to a unique IRA investor at a given data provider.[10]

This collection effort brings additional detail to IRA activity—particularly about the incidence and magnitude of contributions, rollovers, and withdrawals across IRA investors. In addition, the collection provides detailed insight into individual asset allocations.

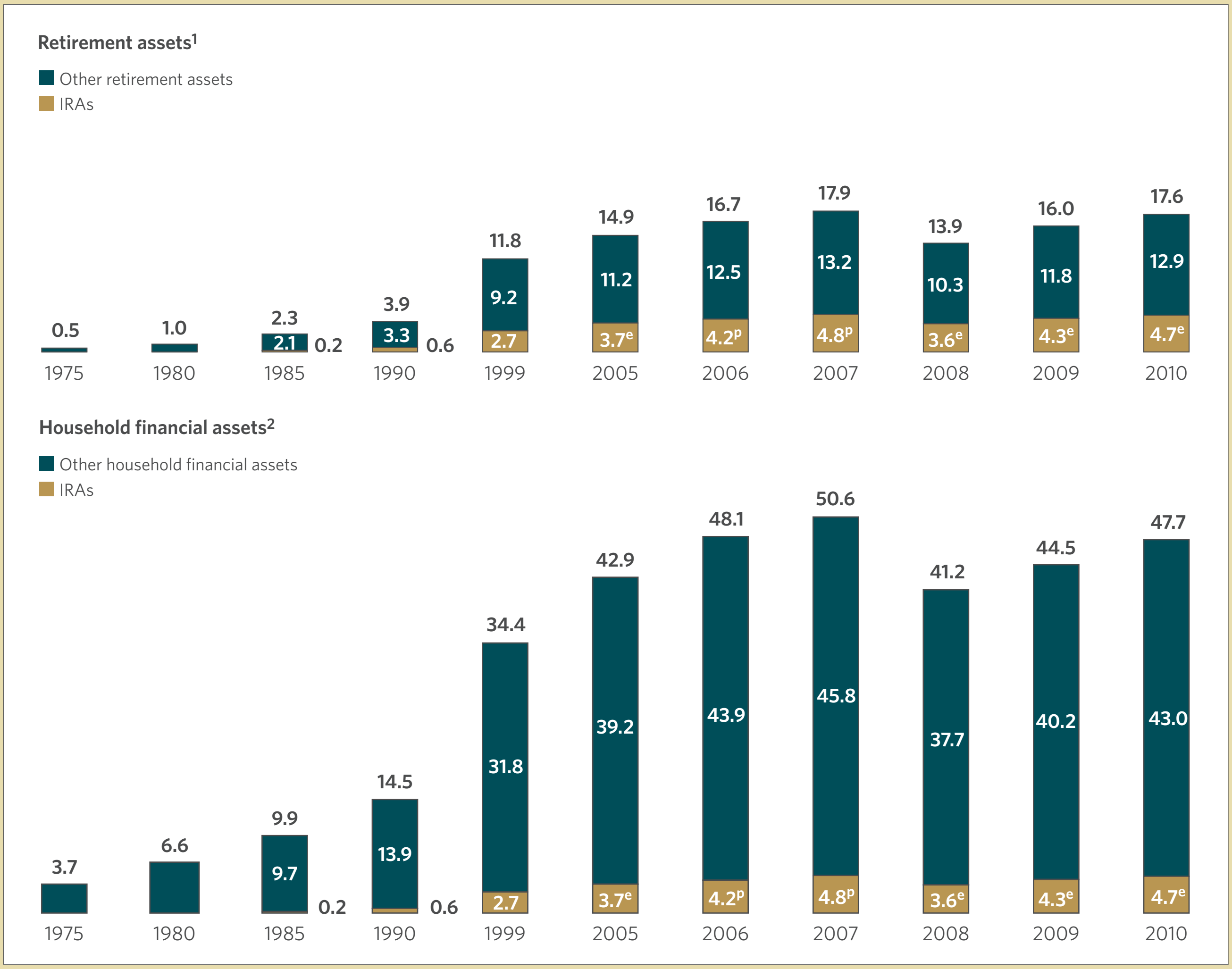
Database Contains a Comprehensive Cross Section of IRA Investors

The IRA Investor Database contains a comprehensive and representative sample of IRA investors, which provides important insights into many IRA investor activities.

FIGURE 1

IRA Assets Represent a Growing Share of Retirement Assets and Household Financial Assets

Trillions of dollars, year-end, selected years



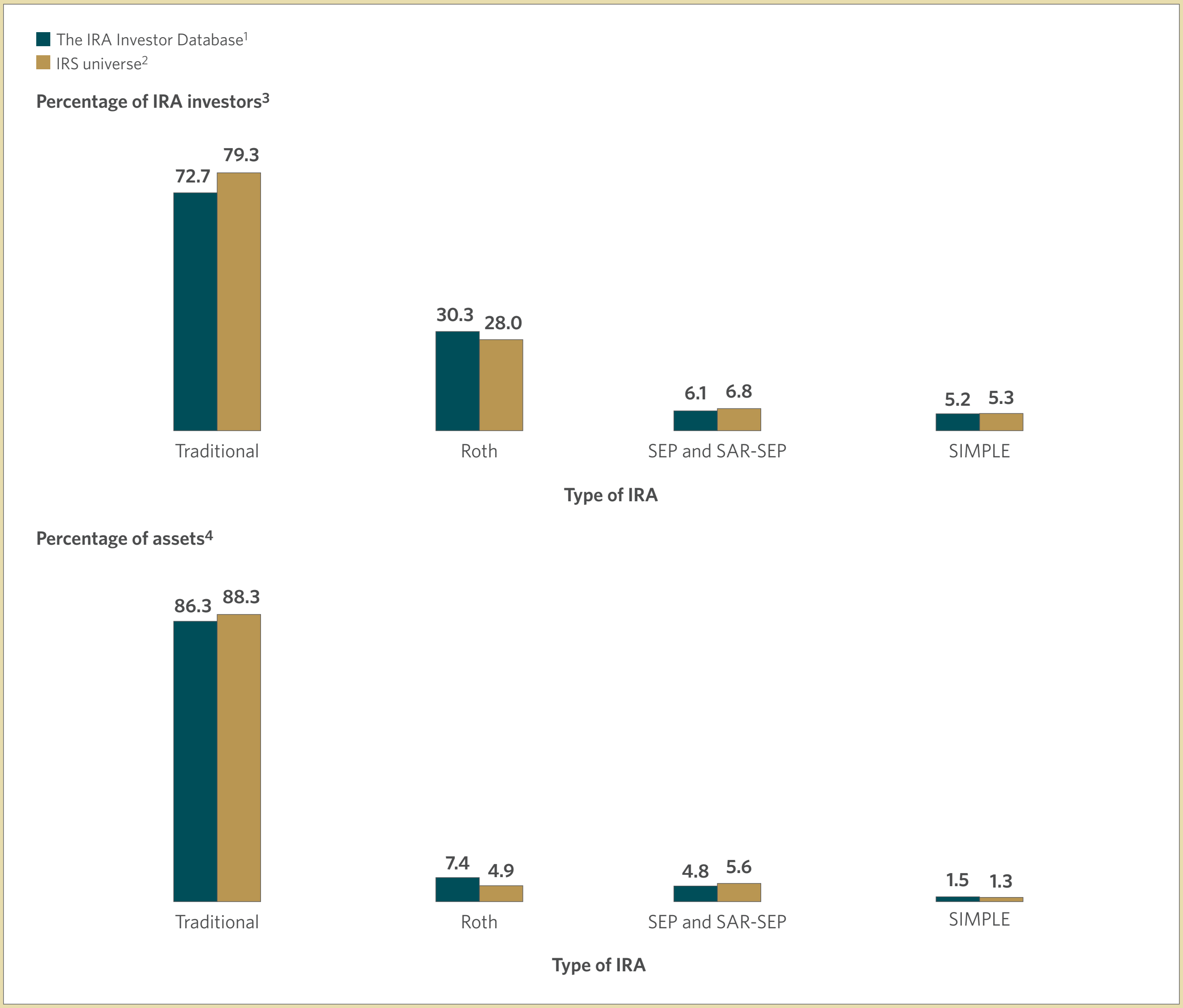
[1] Retirement assets include IRAs, annuities, and employer-sponsored DB and DC plans.
[2] Household financial assets include deposits, fixed-income securities, stocks, retirement savings, mutual funds, equity in noncorporate business, and other financial assets. Financial assets of nonprofit organizations also are included. Household financial assets do not include the household's primary residence.
[e] Data are estimated.
[p] Data are preliminary.
Note: Components may not add to the total because of rounding.
Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

The bulk (72.7 percent) of the IRA investors in the database held traditional IRAs and 86.3 percent of all IRA assets were in traditional IRAs (Figure 2).[11] More than 3 million Roth IRA investors (30.3 percent of IRA investors) held 7.4 percent of all IRA assets.[12] Employer-sponsored IRAs (SEP, SAR-SEP, and SIMPLE IRAs) represented the remainder.[13] The distribution of IRA investors and IRA assets by type of IRA in the database is similar to the universe of IRAs tabulated by the IRS Statistics of Income Division.

FIGURE 2

The IRA Investor Database™ Covers All IRA Types

Distribution of IRA investors and assets, year-end 2007



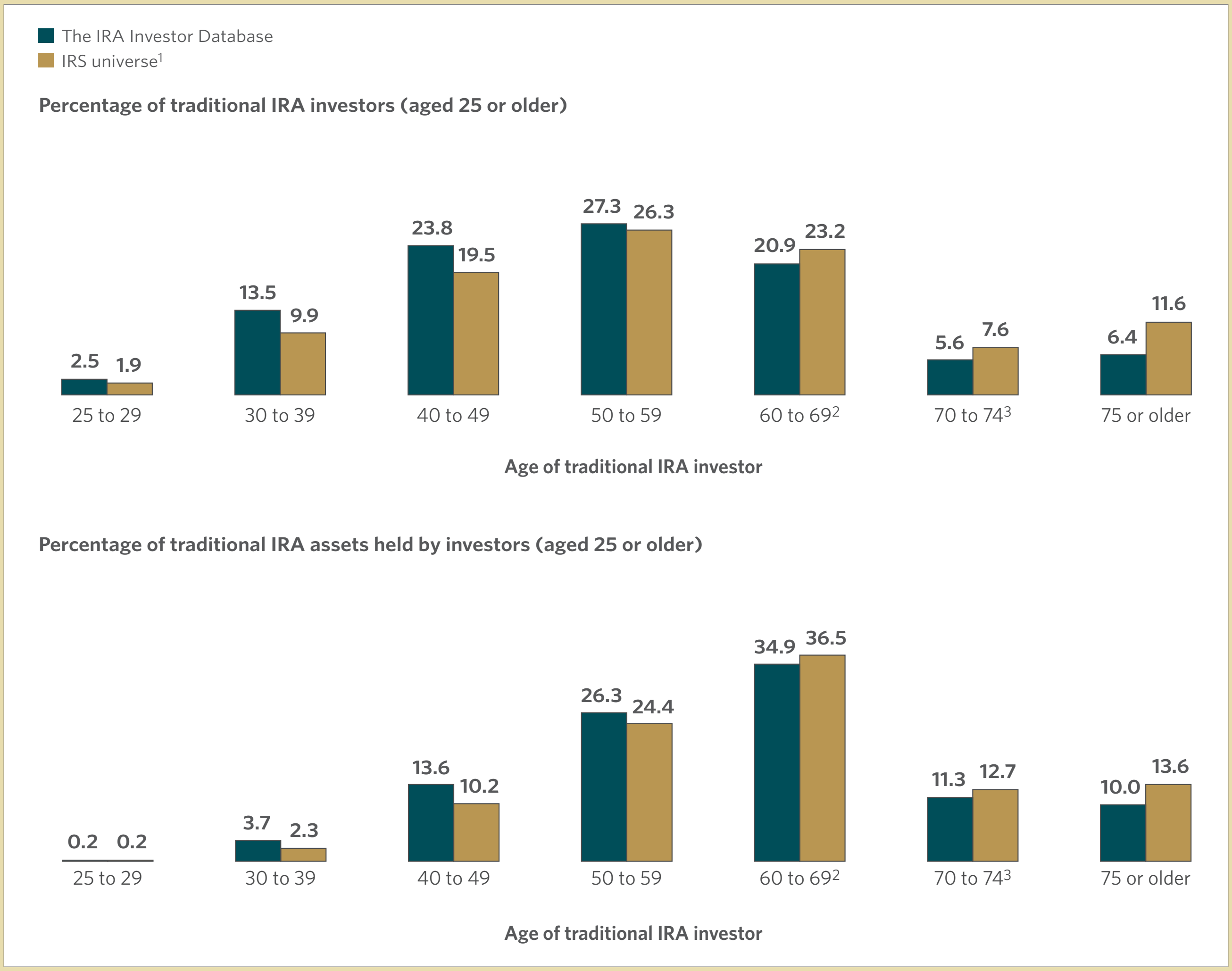
[1]Data are revised. The sample is 10.2 million IRA investors holding $772.0 billion in IRA assets.
[2]IRS Statistics of Income data for 2007 are preliminary.
[3]These percentages add to more than 100 percent because investors may own more than one type of IRA.
[4]These percentages may not add to 100 percent because of rounding.
Note: Figure A.1 in the appendix provides additional detail.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

The IRA Investor Database contains investors from a wide range of ages (Figure 3).[14] The analysis of asset allocation in this report focuses on IRA investors across both the working-age and retired populations—25 years of age or older. The bulk of investors who own traditional IRAs ("traditional IRA investors") in the database are in their peak earning and saving years. At year-end 2007, 51.1 percent of traditional IRA investors were between the ages of 40 and 59 (Figure 3). Another 20.9 percent were 60 to 69, and the remaining 28.0 percent were 25 to 40 or older than 69. The age distribution of traditional IRA investors in the database in 2007 is similar to the age distribution seen in the IRS Statistics of Income universe estimates.

FIGURE 3

Traditional IRA Investors Represent a Wide Cross Section of Age Groups

Distribution of traditional IRA investors (aged 25 or older) and their assets, year-end 2007



[1]IRS Statistics of Income data for 2007 are preliminary.
[2]In the IRS universe, individuals aged 60 to under 70½ are included in this category.
[3]In the IRS universe, individuals aged 70½ to 74 are included in this category.
Note: Percentages may not add to 100 percent because of rounding. The samples are 7.4 million traditional IRA investors (aged 25 or older) in The IRA Investor Database™ and 43.6 million traditional IRA taxpayers (aged 25 or older) from the IRS universe.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

Older traditional IRA investors tend to have accumulated more traditional IRA assets compared with younger traditional IRA investors. For example, the average account balance among traditional IRA investors in their sixties was $150,616 at year-end 2007, compared with $51,581 among traditional IRA investors in their forties and $8,842 among those in their late twenties (Figure 4). The average traditional IRA balances by age group in the working-age population in the database are very similar to the IRS Statistics of Income universe estimates for working-age traditional IRA taxpayers. The average traditional IRA balances by age group in the 70 or older groups in the database were a bit higher than the averages in the IRS Statistics of Income universe estimates.

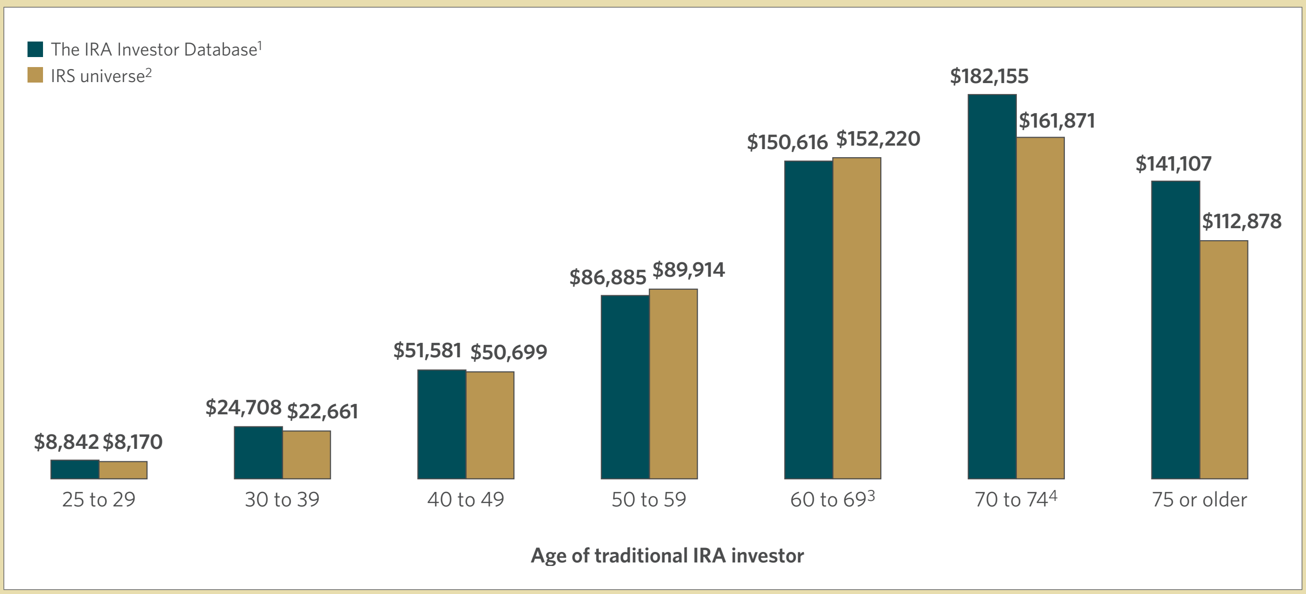
The IRA Investor Database also has information on investor gender for a majority of IRA investors. In the 2007 database, 38.7 percent of traditional IRA investors aged 25 or older are female and 45.5 percent are male. Gender information is unavailable for the remaining 15.7 percent of traditional IRA investors in the database. The age composition within the two genders is broadly similar.[15]

Traditional IRA investors in the database live in areas that represent a wide range of income groups. Income for each IRA investor is proxied by the average income per tax return for taxpayers living in that investor's zip code.[16] In 2007, 23.5 percent of traditional IRA investors aged 25 or older lived in zip codes with average incomes of less than $45,000; another 35.3 percent had average incomes of $45,000 to less than $70,000; another 21.9 percent had average incomes of $70,000 to less than $100,000; and the remaining 19.3 percent lived in zip codes with average incomes of $100,000 or more.[17]

FIGURE 4

Average Traditional IRA Balance by Age of Traditional IRA Investor

Dollars, year-end 2007



[1]Data are revised.
[2]IRS Statistics of Income data for 2007 are preliminary.
[3]In the IRS universe, individuals aged 60 to under 70½ are included in this category.
[4]In the IRS universe, individuals aged 70½ to 74 are included in this category.
Note: The samples are 7.4 million traditional IRA investors (aged 25 or older) in The IRA Investor Database™ and 43.6 million traditional IRA taxpayers (aged 25 or older) from the IRS universe.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

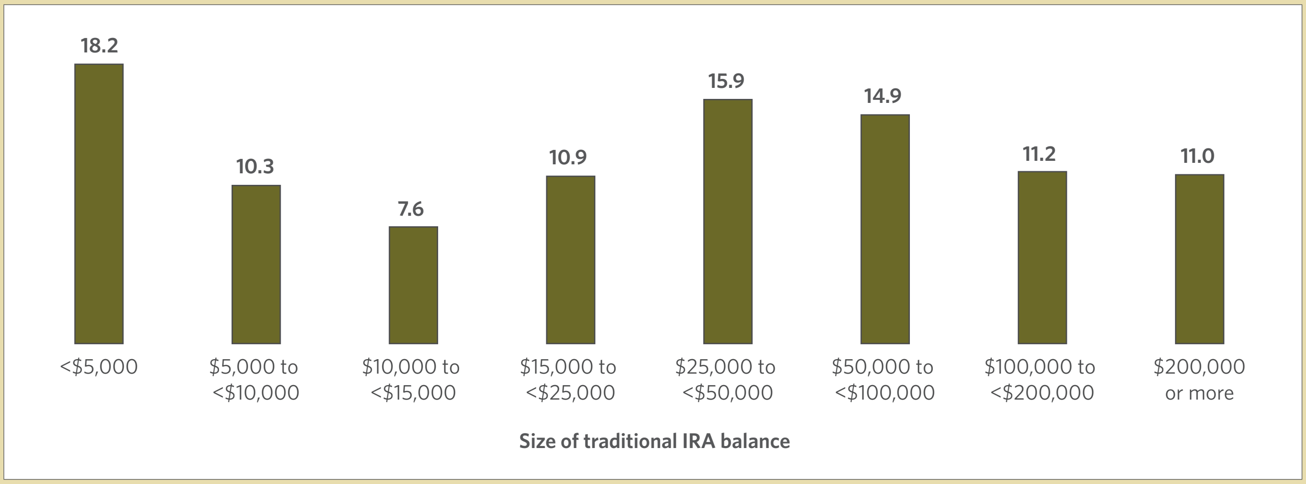
Traditional IRA Balances Span a Wide Range of Amounts

Traditional IRA investors can accumulate assets inside their IRAs through contributions, rollovers, and asset appreciation. Although contributions and asset appreciation tend to cause relatively small changes in traditional IRA balances in any given year, rollover events are often larger because they can contain many years of contributions to employer-sponsored retirement plans at higher legal limits than those for IRAs. In addition, traditional IRA balances tend to increase over time, as investors have more opportunities to contribute and roll over money from retirement plans at their jobs.[18] Because of this, traditional IRA balances are not concentrated in any single range. At year-end 2007, 18.2 percent of traditional IRA investors had account balances under $5,000, while another 22.2 percent had traditional IRA balances of $100,000 or more (Figure 5).

FIGURE 5

Traditional IRA Balances Span a Wide Range of Amounts

Percentage of traditional IRA investors by size of traditional IRA balance, year-end 2007



Note: The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.
Source: The IRA Investor Database™

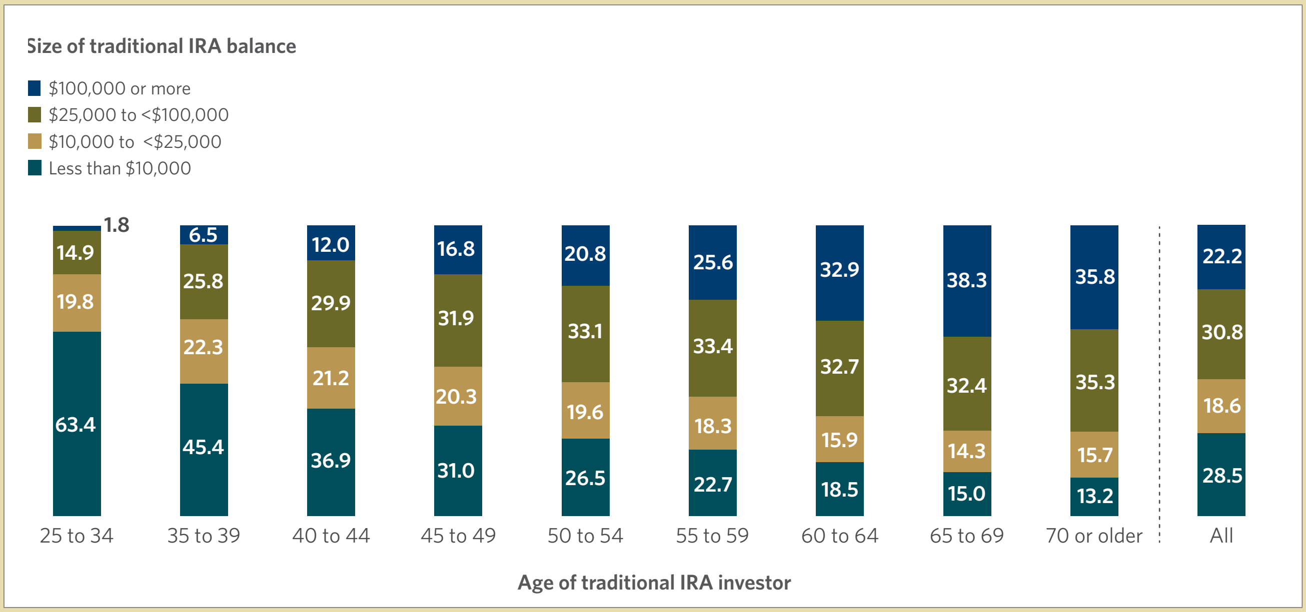
Older investors tend to have larger traditional IRA balances. Among traditional IRA investors aged 35 to 39, 6.5 percent had account balances of $100,000 or more at the end of 2007 (Figure 6). For traditional IRA investors aged 60 to 64, 32.9 percent had account balances of $100,000 or more. Conversely, while 67.7 percent of traditional IRA investors aged 35 to 39 had account balances of less than $25,000, 34.4 percent of traditional IRA investors aged 60 to 64 had similar balances.

Traditional IRA balances varied, even for traditional IRA investors of similar ages. For example, among traditional IRA investors aged 35 to 39, the middle 50 percent of traditional IRA balances (that is, the account balances between the 25th and 75th percentile) ranged from $4,000 to $34,310 (Figure 7). For traditional IRA investors aged 60 to 64, the middle 50 percent of traditional IRA balances ranged from $15,210 to $141,900. The larger range of traditional IRA balances for older investors likely reflects a wider range of experiences. While some older investors may have recently opened a traditional IRA, others may have been steadily contributing over the entire course of their careers. In addition, the range of rollover amounts tends to increase with age and affects IRA balances.[19]

FIGURE 6

Younger Investors Are More Likely to Have Smaller Traditional IRA Balances

Percentage of traditional IRA investors with traditional IRA balances in the specified range by investor age, year-end 2007

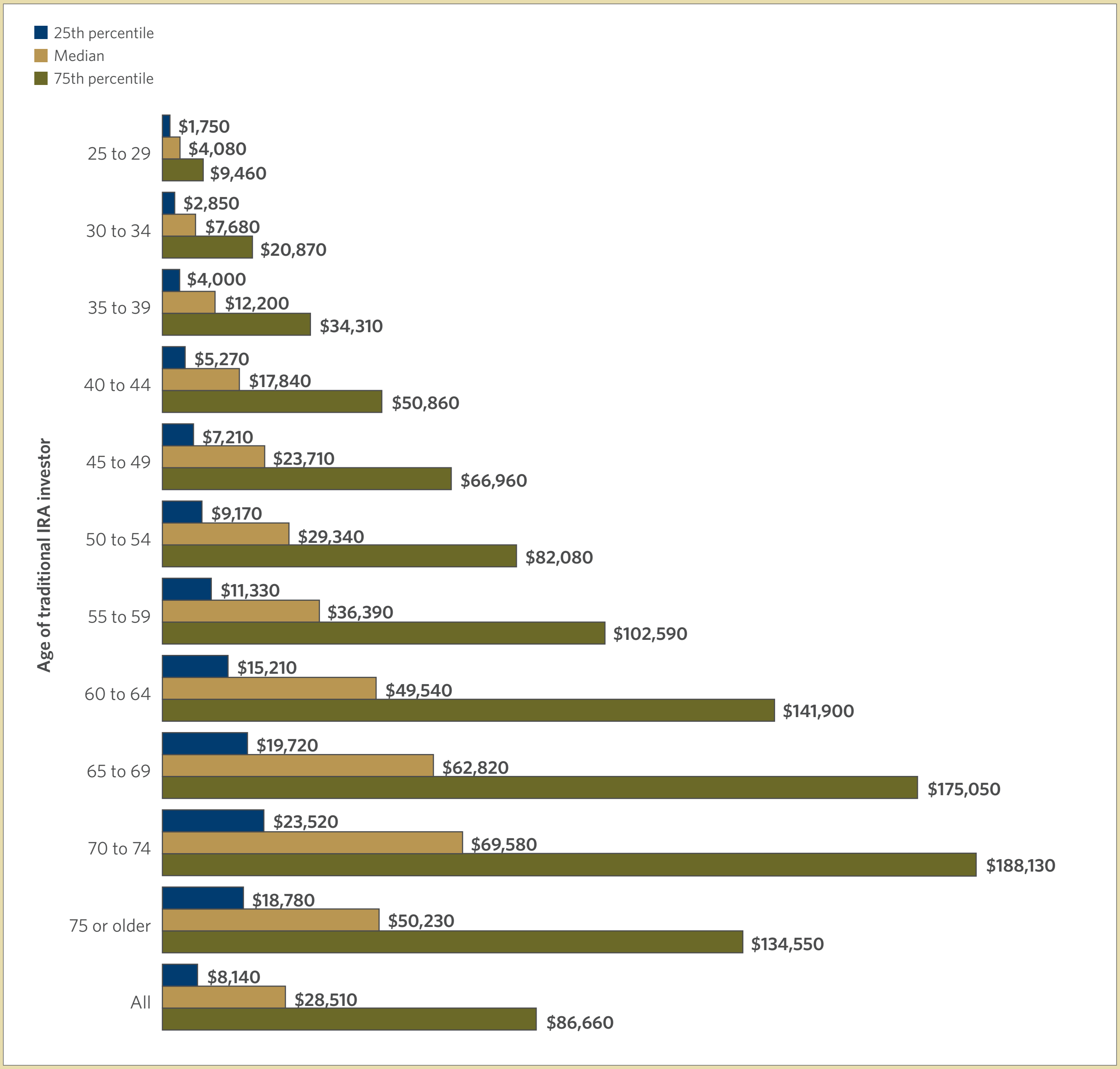


Note: Components may not add to the total because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007; see Figure A.8 in the appendix.
Source: The IRA Investor Database™

FIGURE 7

Traditional IRA Balances Tend to Increase with Investor Age

Quartiles of traditional IRA balances by investor age, year-end 2007



Note: The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.
Source: The IRA Investor Database™

Industrywide Data Find That IRAs Are Invested in a Range of Assets

In aggregate, at year-end 2007, mutual funds managed 48 percent of all IRA assets (Figure 8). Equity mutual funds were the most common type of mutual fund held.[20] Seven percent of IRA assets were invested in bank and thrift deposits and 7 percent were invested in annuities. The remaining 38 percent represented a variety of other securities and investments, such as exchange-traded funds (ETFs), closed-end funds, individual stocks and bonds, and other assets.

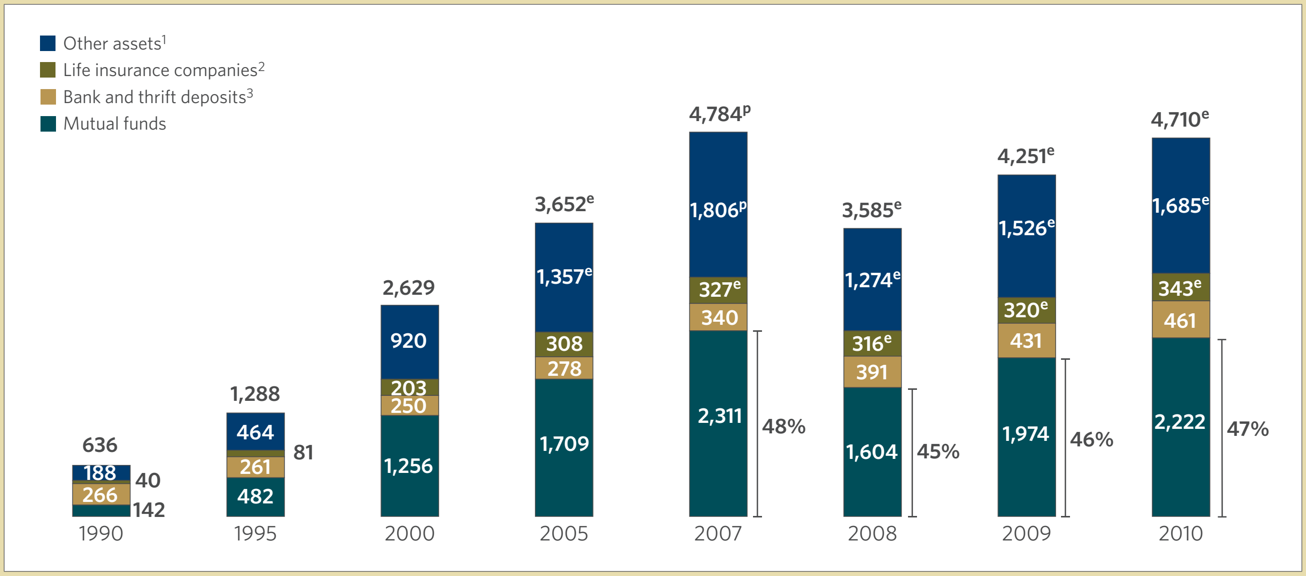
Equities and Equity Funds Account for the Largest Share of Assets Held in The IRA Investor Database

Analysis of the investments in traditional IRAs finds that equities and equity funds account for the largest share of assets held in IRAs, both in aggregate and across investor age or income groups. At year-end 2007, equities and equity funds (such as equity mutual funds, equity ETFs, and equity closed-end funds) accounted for 57.8 percent of the assets held in traditional IRAs (Figure 9). The second largest component was money market funds, representing 14.5 percent of traditional IRA assets. Hybrid funds, also

FIGURE 8

IRAs Are Invested in a Variety of Assets

Billions of dollars, year-end, selected years



[1]*Other assets include individual stocks, individual bonds, closed-end funds, ETFs, and other assets held through brokerage or trust accounts.*

[2]*Life insurance company IRA assets are annuities held by IRAs, excluding variable annuity mutual fund IRA assets, which are included in mutual funds.*

[3]*Bank and thrift deposits include Keogh deposits.*

[e]*Data are estimated.*

[p]*Data are preliminary.*

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division known as balanced or asset allocation funds, were 13.6 percent of traditional IRA assets at year-end 2007. Hybrid funds invest in a mix of equity and fixed-income securities and include target date funds.[21] Bonds and bond funds (such as bond mutual funds, bond ETFs, and bond closed-end funds) comprised 13.5 percent of traditional IRA assets at year-end 2007. When equity securities whether held through equities, equity funds, or hybrid funds—are considered, the share of traditional IRA assets invested in equity holdings is 66.3 percent at year-end 2007.

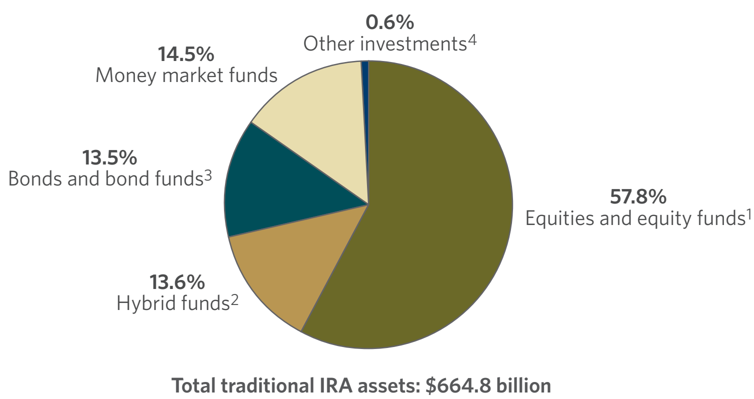
The IRA Investor Profile Research Agenda

This research project aims to gain insight into how individuals use IRAs in the process of planning for retirement. The most commonly held IRAs, traditional IRAs, are analyzed first in this series of reports. Research questions regarding traditional IRA investors will be addressed in the typical order in which IRA investors experience traditional IRAs: opening an IRA with contributions or rollovers, managing the asset allocation, and taking withdrawals.

FIGURE 9

Equities and Equity Funds Represent a Significant Share of IRA Assets

Percentage of traditional IRA assets by investment, year-end 2007



[1]Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.
[2]Hybrid funds invest in a mix of equities and fixed-income securities. Target date funds are included in this category.
[3]Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.
[4]Other investments are 70 percent certificates of deposit and 30 percent unidentifiable assets.
Note: Percentages are dollar-weighted averages. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.
Source: The IRA Investor Database™

Contribution activity. In July 2010, as a first step in the *The IRA Investor Profile* research project, ICI published a report that analyzed contribution activity of the largest pool of IRA investors, working-age (aged 25 to 69) traditional IRA investors.[22] That report focused on traditional IRA investor characteristics (age, income, and gender) and activities (rollovers and withdrawals) that impact contribution activity.

Rollover activity. In December 2010, ICI published a second report describing rollover activity among traditional IRA investors aged 25 to 74.[23] Inflows into traditional IRAs from rollovers have outpaced contributions by a significant margin for many years.[24] Indeed, rollovers fuel IRA ownership and growth across age, income, and gender groups, and thus rollovers are a key to understanding how participants in employer-sponsored retirement plans accumulate and preserve their retirement wealth.[25]

Asset allocation. IRA investors select the investments for their accounts and determine how to allocate their IRA balances across asset classes. This report sheds light on the range of IRA investors' individual asset allocations and how asset allocation across investments and holdings varies with traditional IRA balance, investor age, income, or gender. Policymakers are interested in learning how investors' portfolios change as they get close to retirement.

Withdrawal activity. Because retirement savers decide on the use of their retirement accumulations, another report will analyze traditional IRA withdrawal activity. Although loans are not permitted from IRAs, withdrawals are. Withdrawals from traditional IRAs made before the IRA investor is 59½ typically are subject to a penalty in addition to income taxes.[26] Withdrawals made after the IRA investor is 59½ typically are penalty-free, but still generally subject to income tax. Traditional IRA investors aged 70½ or older are required to take distributions at a minimum level based on remaining life expectancy. This analysis will explore individuals' decisions on when to take distributions from their traditional IRAs, as well as the range of distribution amounts.

Roth IRA investor activity. Future research will apply a similar analysis to Roth IRA investors. Roth IRAs were first available in 1998. Although relatively newer and smaller compared with traditional IRA aggregates, Roth IRAs typically have had higher aggregate contribution inflows than traditional IRAs.[27]

Research Agenda for This Report

Focusing on asset composition inside traditional IRAs, this report seeks to promote better understanding of the factors that are associated with the types of assets held by individual traditional IRA investors. The IRA Investor Database allows analysis of how asset allocation varies by investor characteristics (age, income, and gender) as well as the size of the investor's traditional IRA balance. This report sheds light on (1) the number and types of *investments* and (2) the underlying securities in these products, grouping them into like *holdings*. The *investments* are equities, equity funds (equity mutual funds, ETFs, equity closed-end funds), hybrid funds (e.g., balanced funds, asset allocation funds, and target date funds), bonds, bond funds, and money market funds owned inside traditional IRAs. To analyze the variation in holdings of traditional IRA investors, the underlying securities of traditional IRAs, regardless of the specific investment product, are grouped into like categories of *holdings*—equity holdings, bond holdings, and money market holdings. Study of holdings allows researchers to evaluate individuals' changing exposure to stock market risk in traditional IRAs.

First, this report presents analysis of the 2007 snapshot (cross section) of traditional IRA investors aged 25 or older. Variation in patterns of traditional IRA investments across investors grouped by investor age, size of traditional IRA balance, income, or gender is explored. In addition, the pattern of investments in traditional IRAs is compared with the pattern of investments in 401(k) plan accounts. The investment patterns of 401(k) accounts is used for comparison because IRAs and 401(k) plan accounts both are individually directed investments, with tax-favored treatment, and the goal of saving for retirement. Furthermore, some of the assets in traditional IRAs were rolled over from 401(k) plans. Variation in holdings is then explored across traditional IRA investor characteristics. A separate section focuses on the use of target date funds as investments in traditional IRAs. Next, a similar cross sectional analysis of investments and holdings is applied to the year-end 2008 traditional IRA investors. Finally, because investments can be changed year-to-year, changes in investments between 2007 and 2008 for traditional IRA investors with account balances in both years are examined.

Traditional IRA Investors' Asset Allocation in 2007

Background on Investments in Traditional IRAs

IRA investors decide how to allocate their IRA assets to investments such as individual securities (e.g., stocks and bonds), mutual funds, ETFs, closed-end funds, annuities, and other investments. IRA investors may work with professional financial advisers or brokers, or may transact directly through discount brokerage windows, fund supermarkets, or fund companies. Although most investments are allowed to be held inside IRAs, IRS rules prohibit assets such as property purchased for personal use and collectibles such as artwork or antiques (Figure 10). A panoply of regulations governs the IRA itself,[28] the financial professionals working with the IRA investors,[29] and the investments held in the IRAs.[30]

Categorizing and Studying Assets in Traditional IRAs in 2007

In this report, assets in traditional IRAs will be studied in two ways. First, the report examines types of *investments*: equities, equity funds, hybrid funds, bonds, bond funds, money market funds, or other investments. Second, the report examines *holdings*, which groups like assets together by type to see through to underlying holdings within the investments: equity holdings, bond holdings, money market holdings, and other holdings. (See the callout box on page 15.) After looking at traditional IRA assets in aggregate, variations in investment shares and holdings shares across and within traditional IRA investor groups (by investor age, size of traditional IRA balance, investor income, or investor gender) are explored. Holdings are analyzed as dollar-weighted averages and then as a distribution of allocation percentages across accounts among different traditional IRA investor groupings. The latter highlights the range of individual allocations that underlie the averages.

FIGURE 10

Rules Governing the Types of Investments Allowed in IRAs

What is an IRA?

An individual retirement account (IRA) is a trust or custodial account set up in the United States for the exclusive benefit of an individual or an individual's beneficiaries.

What investments are allowed inside of an IRA?

Most investments—including stocks, bonds, mutual funds, ETFs, and closed-end funds—as well as investment properties can be purchased inside of an IRA. The owner of the IRA must have a nonforfeitable right to the IRA at all times.

What transactions are not allowed inside of an IRA?

The IRS prohibits borrowing money from an IRA or using it as collateral for a loan, selling property to an IRA, buying property for personal use, and purchasing a life insurance policy with money in an IRA. In addition, collectibles (such as artwork, antiques, metals, and coins) generally cannot be owned inside of an IRA. However, certain gold and silver coins minted by the United States Treasury Department, as well as certain gold, silver, palladium, and platinum bullion are allowed.

Source: Investment Company Institute summary of IRS regulations (See IRS Publication 590*)*

Many factors influence how investors allocate their traditional IRAs into different types of investments or holdings. For example, investor age, time frame for investing, personal risk tolerance, existence of other savings (both inside and outside of retirement accounts), lifetime earnings expectations, and bequest motives all influence the assets that investors decide to hold inside their IRAs. Although The IRA Investor Database cannot capture the entire scope of an investor's financial situation and personal characteristics, it is possible to use the data in the database to explore how investments and holdings vary across different groups of traditional IRA investors.

Researchers and policymakers are interested in the variation in investments and holdings across IRA and 401(k) plan investors because these buckets represent the two largest components of the U.S. retirement market[31] and they are managed by individuals. Because individuals' investments and holdings have an impact on the growth in individuals' retirement nest eggs over time, it is important to examine them. To study 401(k) plans in this manner, ICI and the Employee Benefit Research Institute (EBRI) examine the investment and holdings of millions of 401(k) plan participants in a collaborative research effort.[32] This research finds that, in general, 401(k) plan participants tend to have diversified and age-appropriate 401(k) portfolios. This IRA investor report uses that data to compare the pattern of investments in traditional IRAs to that of 401(k) plans and finds that the investment pattern is broadly similar between traditional IRA and 401(k) plan assets. Nevertheless, differing age compositions and plan design features lead to some divergence between the two buckets (which will be discussed later in this report).

How the Terms *Investment* and *Holding* Are Used in This Report

This report groups assets in traditional IRAs by *investment* and by *holding*. The motivation for this categorization is that individuals can be invested in multiple and diverse securities through one investment. Analysis that groups underlying securities by the type of holding provides a more comparable and comprehensive view of individual IRA investors' assets.

Investment

The investment groups are based on specific types of product. For example, **equity funds** are pooled investments that primarily hold equity securities, and include equity mutual funds, equity exchange-traded funds (ETFs) and equity closed-end funds. Traditional IRA investors may also own individual stocks, or **equities**, directly. Some investors choose **hybrid funds**, which hold both stocks and fixed-income securities. The hybrid fund category includes balanced funds, asset allocation funds, and target date funds. **Bond funds** are pooled investments that primarily hold bond securities and include bond mutual funds, bond exchange-traded funds (ETFs), and bond closed-end funds. Traditional IRA investors may also hold individual **bonds** directly. **Money market funds** are mutual funds that invest in short-term high-grade fixed-income securities, such as T-bills, treasury securities, and commercial paper. **Other investments** include bank certificates of deposit (CDs) and investments that could not be identified.

Holding

Because individuals holding hybrid funds have exposure to stock, bond, and money market securities through those investments, it is useful to pull those respective parts out of the blended investment to count them in their respective *holding*. **Equity holdings** include equities, equity funds, the equity component of target date funds (which varies with age), and the equity component of non–target date hybrid funds. **Bond holdings** include bond funds, bonds, the bond component of target date funds (which varies with age), and the bond component of non–target date hybrid funds. **Money market holdings** include money market funds, the money market component of target date funds (which varies with age), and the money market component of non–target date hybrid funds. **Other holdings** include other investments and a small amount of holdings of hybrid funds not allocated to the other categories.

Investments in Traditional IRAs in 2007

On average, equities and equity funds represent the largest investment category among traditional IRA investors. At year-end 2007, equities and equity funds were 57.8 percent of traditional IRA assets held by individuals aged 25 or older (Figure 11, first panel). Money market funds were the next largest component, accounting for 14.5 percent of traditional IRA assets. Another 13.6 percent of traditional IRA assets was held in hybrid, or balanced, funds, which invest in a mix of equities and fixed-income securities and include target date funds.[33] Another 13.5 percent of traditional IRA assets was invested in bonds and bond funds.

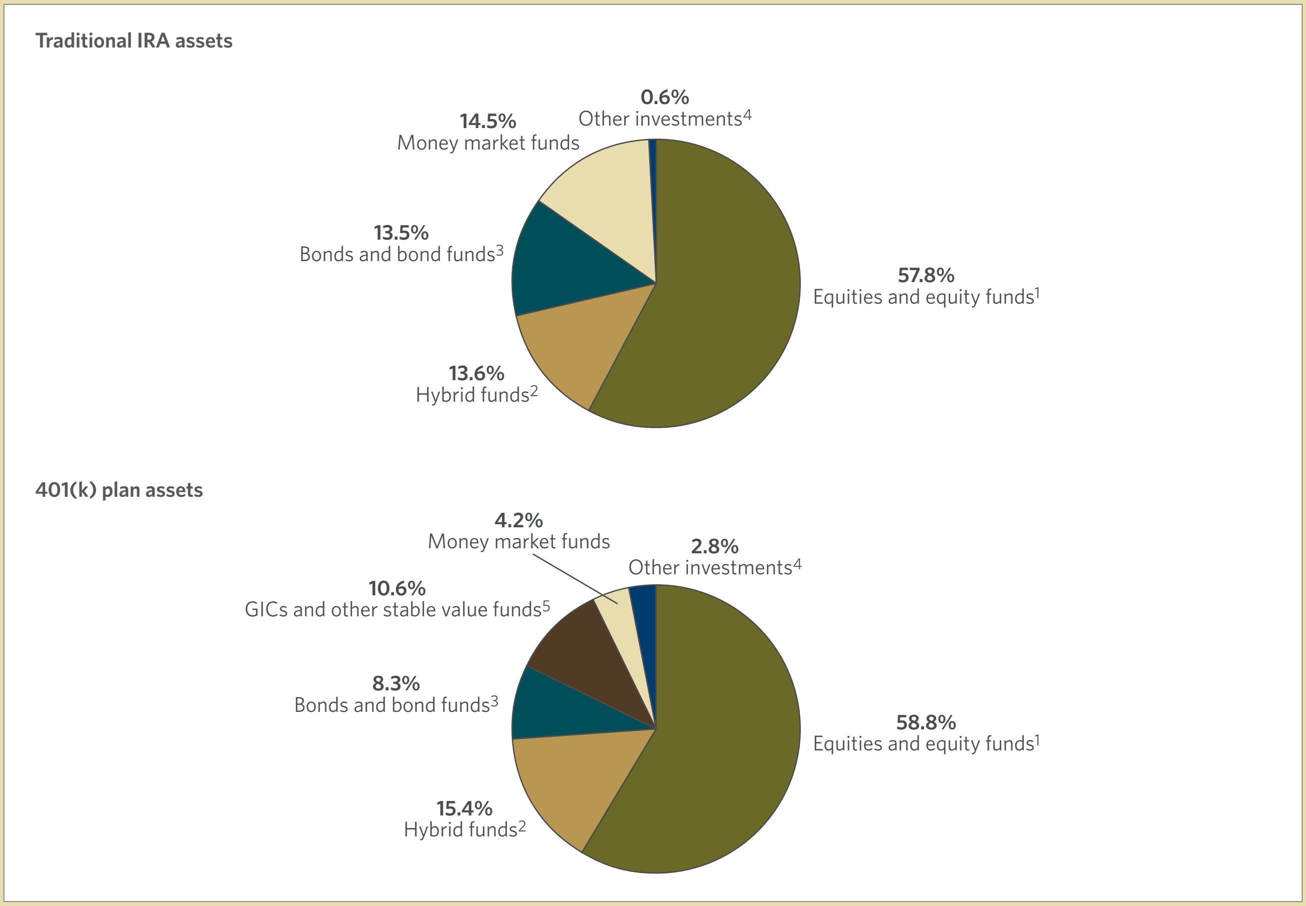
Number of Investments Held in Traditional IRAs in 2007

Traditional IRA investors aged 25 or older held an average of 3.8 investments in 2007; the median number of investments held was two.[34] These figures mask the range of experiences across traditional IRA investors. At year-end 2007, 42.4 percent of traditional IRA investors aged 25 or older held one investment, 40.2 percent held two to five investments, and 17.4 percent held six or more investments.[35] Tallying the number of investments held also understates the degree of diversification of traditional IRA investors, because they often hold mutual funds, which, in turn, hold diversified portfolios of multiple securities.

FIGURE 11

Investments in Traditional IRAs and 401(k) Plans in 2007

Percentage of assets, year-end 2007



[1]Equity funds include equity funds, equity closed-end funds, and equity ETFs. Company stock is included in the 401(k) asset category.
[2]Hybrid funds invest in a mix of equities and fixed-income securities. Target date funds are included in this category.
[3]Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.
[4]Other investments include certificates of deposit and unidentifiable assets.
[5]GICs are guaranteed investment contracts.
Note: Percentages are dollar-weighted averages and may not add to 100 percent because of rounding. The 401(k) data are from the EBRI/ICI 401(k) Database and the sample is 21.8 million 401(k) participants in 2007. Individuals younger than 20 or older than 69 are a negligible share of active 401(k) plan participants. The IRA data are from The IRA Investor Database™ and the sample is 7.4 million traditional IRA investors aged 25 or older in 2007. In the EBRI/ICI 401(k) database, "funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.
Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project and The IRA Investor Database™

Investments in Traditional IRAs Compared with Investments in 401(k) Plans in 2007

On average, investments used by traditional IRA investors at year-end 2007 were broadly similar to the investments observed among 401(k) plan participants. At year-end 2007, research from the EBRI/ICI 401(k) database found that 58.8 percent of 401(k) assets was invested in equities (including company stock, i.e., the stock of the employer) and equity funds, (Figure 11, second panel),[36] compared with 57.8 percent of traditional IRA assets held by individuals aged 25 or older (Figure 11, first panel). While 401(k) participants had 14.8 percent of their assets invested in money funds,[37] guaranteed investment contracts (GICs), and other stable value funds, traditional IRA investors had 14.5 percent of their assets in money market funds. The allocation to hybrid funds also was similar between 401(k) participants (15.4 percent of assets) and traditional IRA investors (13.6 percent of assets), although within that category 401(k) participants were more heavily invested in target date funds[38] compared with traditional IRA investors. Reflecting their older age composition,[39] traditional IRA investors were more heavily invested in bonds and bond funds (13.5 percent of assets) compared with 401(k) participants (8.3 percent of assets[40]).

Holdings in Traditional IRAs in 2007

Because investors can be invested in multiple and diverse securities through one investment, analysis that groups underlying securities by the type of holding provides a more comparable and comprehensive view of individual IRA investors' assets. Seeing through to the underlying securities, it is possible to allocate investments into types of holdings. For example, "equity holdings" sums together equities, equity funds, the equity portion of target date funds (which varies with age),[41] and the equity portion of non–target date hybrid funds.[42] At year-end 2007, nearly two-thirds (66.3 percent) of the traditional IRA assets held by investors aged 25 or older were invested in equity holdings.[43] Bond holdings—bonds, bond funds, the bond portion of target date funds (which varies with age), and the bond portion of non–target date hybrid funds—were 17.8 percent of traditional IRA assets, and money market holdings—money market funds, the money market component of target date funds (which varies with age), and the money market component of non–target date hybrid funds—were 14.9 percent.

Asset Allocation of Traditional IRAs Varied with Investor Age in 2007

Research finds that the asset allocation of investors' portfolios tends to change over the life cycle of investors and older investors typically have higher concentrations of income-generating securities. For example, younger 401(k) participants tend to have higher concentrations in equity securities compared with older 401(k) participants, who tend to hold more fixed-income securities.[44] Among U.S. households owning equities and bonds, there is a tendency to hold higher concentrations of fixed-income securities among older households and many households indicate plans for a more bond-oriented reallocation of assets as they age.[45] The IRA Investor Database provides insight into how the asset allocation of traditional IRAs varies with age. The pattern of holdings in traditional IRAs by investor age was consistent with the patterns observed in 401(k) plans and household balance sheets, with the exception of traditional IRAs held by investors younger than 35, which were more concentrated in money market holdings and less concentrated in equity holdings than expected.

Investments in Traditional IRAs by Investor Age in 2007

Equities and equity funds were the largest component of traditional IRA investors' accounts, on average, representing 57.8 percent of traditional IRA assets at year-end 2007 (Figure 12). With the exception of traditional IRA investors younger than 35, the age pattern of the allocation to equities and equity funds was as expected by financial theory and other research. Traditional IRA investors aged 35 to 49 had about two-thirds of their assets invested in equities and equity funds, on average, and the share invested in equities and equity funds declined through the age groups, with those aged 65 or older having a little over half of their assets invested in equities and equity funds. Traditional IRA investors aged 25 to 29 had 52.2 percent of their assets invested in equities and equity funds, on average, at year-end 2007, and those aged 30 to 34 had 61.0 percent of their assets invested in equities and equity funds.

Younger traditional IRA investors had allocated more of their assets to target date funds, compared with older traditional IRA investors across the full age spectrum. At year-end 2007, 18.8 percent of the traditional IRA assets held by investors aged 25 to 29 was invested in target date funds, on average, compared with 0.8 percent of the assets held by those aged 75 or older (Figure 12). This pattern of target date fund use was expected because target date funds are relatively new investment products and younger investors are more likely to have been introduced to them in 401(k) plans or if they opened their IRAs recently.[46]

Older traditional IRA investors had higher allocations to bonds and bond funds in their traditional IRAs than younger investors, which follows the typical age-based pattern of bond investing seen in other research.[47]

At year-end 2007, 2.9 percent of the traditional IRA assets held by investors aged 25 to 29 was invested in bonds and bond funds, compared with 18.4 percent of the assets held by those aged 75 or older (Figure 12).

Money market fund allocations in traditional IRAs followed a mixed pattern by age, with the highest average allocation occurring among the youngest traditional IRA investors, declining through the 40- to 44-year-old age group, rising through the 65- to 69-year-old age group, before falling among those older (Figure 12). As will be discussed below, some of this pattern is the result of an interaction between the variation in the size of the traditional IRA balance across the age groups and the tendency of the smallest traditional IRA balances to have higher investments in money market funds.

FIGURE 12

Investments in Traditional IRAs by Investor Age in 2007

Percentage of traditional IRA balance by investor age, year-end 2007

		Hybrid funds[2]						
		Equity portion		Non-equity portion				
Investor age	Equities and equity funds[1]	Target date	Non-target date	Target date	Non-target date	Bonds and bond funds[3]	Money market funds	Other investments[4]
25 to 29	52.2	16.6	4.5	2.2	2.8	2.9	18.7	0.1
30 to 34	61.0	12.7	4.0	2.3	2.5	3.9	13.6	0.2
35 to 39	65.6	8.9	4.1	1.6	2.5	4.7	12.4	0.2
40 to 44	67.5	6.1	4.5	1.5	2.8	5.4	11.9	0.2
45 to 49	66.6	4.3	5.2	1.5	3.2	6.6	12.3	0.2
50 to 54	63.9	3.2	5.7	1.6	3.5	8.7	13.0	0.4
55 to 59	59.5	2.4	5.9	1.7	3.7	12.0	14.3	0.6
60 to 64	54.8	1.7	5.9	1.6	3.7	15.7	15.9	0.8
65 to 69	52.9	1.1	6.3	1.3	3.9	17.7	16.1	0.8
70 to 74	52.3	0.4	7.1	1.1	4.4	18.2	15.7	0.8
75 or older	53.2	0.2	8.2	0.6	5.1	18.4	13.6	0.6
All	57.8	2.4	6.1	1.4	3.8	13.5	14.5	0.6

[1]Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.
[2]Hybrid funds invest in a mix of equities and fixed-income securities. The bulk of target date and lifestyle funds is counted in this category.
[3]Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.
[4]Other investments include certificates of deposit and unidentifiable assets.
Note: Percentages are dollar-weighted averages. Row percentages may not add to 100 percent because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.
Source: The IRA Investor Database™

Age Pattern of Investments in Traditional IRAs Was Broadly Similar to the Age Pattern of Investments in 401(k) Plans in 2007

Investments in traditional IRAs, both in aggregate and by age group, typically differed little and in predictable ways from the investments observed in 401(k) plan accounts. Equities (including company stock in 401(k) plans) and equity funds were the largest component in both pools of retirement savings across all age groups (Figure 13). In both 401(k) plans and traditional IRAs, investors in their thirties, forties, or fifties had higher average allocations to equities and equity funds, compared with those younger or older.

Target date funds were more prevalent in 401(k) plans, representing 7.4 percent of the assets at year-end 2007, compared with a 3.8 percent share of traditional IRA assets held by traditional IRA investors aged 25 or older (including investors aged 70 or older who represent a negligible share of 401(k) participants).[48] Target date funds' higher share in the 401(k) database results from a higher concentration of younger 401(k) participants compared with traditional IRA investors[49] and the use of target date funds as a default investment in 401(k) plans.[50] Whether looking at 401(k) plan assets or traditional IRA assets, the average allocation to target date funds falls with investor age (Figure 13). Nevertheless, the average percentage of assets invested in target date funds varied when comparing 401(k) participants and traditional IRA investors in similar age groups, likely reflecting the impact of automatic enrollment in 401(k) plans. On average, 401(k) participants in their forties, fifties, or sixties, had a higher share of their assets in target date funds compared with traditional IRA investors in those age groups. For example, 6.5 percent of 401(k) assets among participants in their sixties was invested in target date funds at year-end 2007, compared with 2.9 percent of traditional IRA assets among investors in their sixties. The pattern reverses among individuals in their twenties or thirties. For example, on average, 13.8 percent of 401(k) assets among participants in their twenties was invested in target date funds at year-end 2007, compared with 18.8 percent of traditional IRA assets among investors aged 25 to 29.

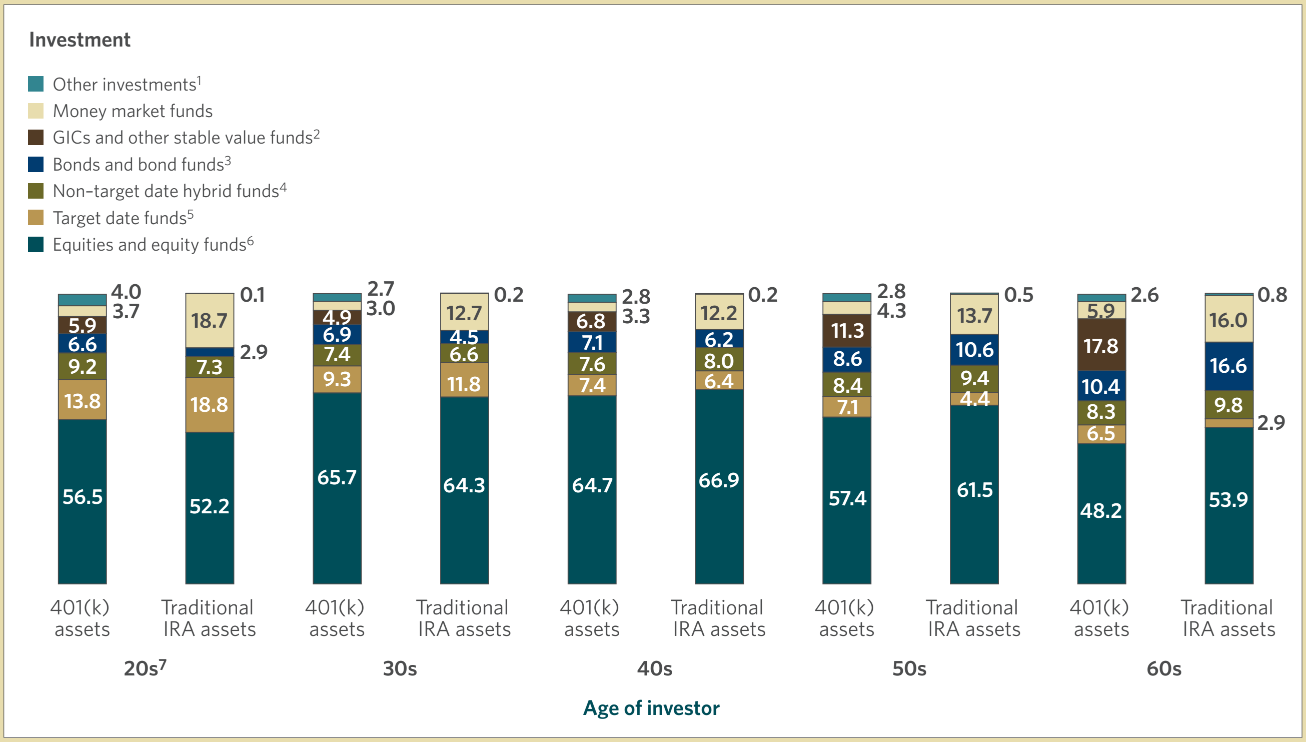
Bonds and bond funds represented a higher share of traditional IRA assets (13.5 percent) than 401(k) plan assets (8.3 percent; Figure 11), because of a higher share of older investors in traditional IRAs.[51] Older investors tended to hold higher concentrations of bonds and bond funds compared with younger investors, whether looking in 401(k) plans or traditional IRAs (Figure 13). But, in addition, traditional IRA investors in their fifties and sixties, on average, had higher allocations to bonds and bond funds compared with 401(k) participants in their fifties and sixties.

Money market funds represented a higher share of traditional IRA assets (14.5 percent) than 401(k) plan assets (4.2 percent; Figure 11). In part, this may result from 401(k) plans sometimes using GICs and other stable value funds as principal-preserving investments. In addition, money market funds are more commonly used as a default investment for small IRA rollovers than they are used as a default investment in 401(k) plans.[52] The pattern of money market funds' share by age was similar between 401(k) plans and traditional IRAs, although the variation by age was much more muted among 401(k) plan participants compared with traditional IRA investors (Figure 13). Across all age groups, money market funds represented a higher share of assets among traditional IRA investors compared with 401(k) participants, particularly among the youngest age groups.

FIGURE 13

Equities and Equity Funds Were the Largest Component of Both Traditional IRA and 401(k) Plan Assets in 2007

Percentage of assets by investment, selected age groups, year-end 2007



[1]Other investments include certificates of deposit and unidentifiable assets.
[2]GICs are guaranteed investment contracts.
[3]Bond funds include bond funds, bond closed-end funds, and bond ETFs.
[4]Hybrid funds invest in a mix of equities and fixed-income securities.
[5]A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.
[6]Equity funds include equity funds, equity closed-end funds, and equity ETFs. Company stock is included in the 401(k) asset category.
[7]In The IRA Investor Database™, this category includes traditional IRA investors aged 25 to 29.

Note: Percentages are dollar-weighted averages and may not add to 100 percent because of rounding. The 401(k) data are from the EBRI/ICI 401(k) Database and the sample is 21.8 million 401(k) participants in 2007. Individuals younger than 20 or older than 69 are a negligible share of active 401(k) plan participants. The IRA data are from The IRA Investor Database™ and the sample is 7.4 million traditional IRA investors aged 25 or older in 2007. In the EBRI/ICI 401(k) database, "funds" include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

Sources: EBRI/ICI Participant-Directed Retirement Plan Data Collection Project and The IRA Investor Database™

Holdings in Traditional IRAs by Investor Age in 2007

A similar picture emerges when holdings, rather than investments, are examined. Equity holdings—equities, equity funds, the equity share of target date funds (which varied with age) and the equity share of non–target date funds—represented the largest share of traditional IRA assets (66.3 percent at year-end 2007) and varied with age as expected, with the exception of the youngest traditional IRA investors (Figure 14). At year-end 2007, 73.3 percent of traditional IRA assets held by investors aged 25 to 29 was invested in equity holdings. Investors aged 35 to 39 had 78.6 percent of their traditional IRA assets in equity holdings, the highest of any age group analyzed in this report. Exposure to equity holdings declined for the older age groups, reaching a minimum for investors aged 70 to 74 with 59.8 percent of their traditional IRA assets in equity holdings, before edging up a bit to a 61.6 percent share among traditional IRA investors aged 75 or older.

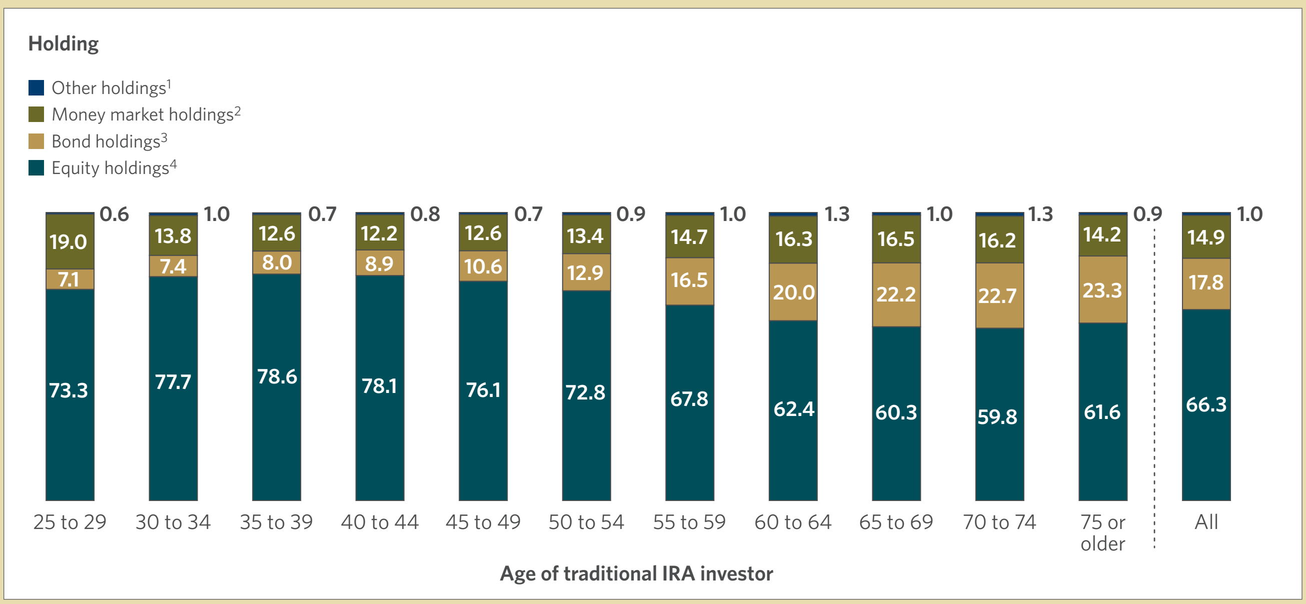
Bond holdings—bonds, bond funds, the bond share of target date funds (which varied with age) and the bond share of non–target date funds—tended to represent a higher share of traditional IRA assets, the older the investor group. At year-end 2007, on average, traditional IRA investors aged 25 to 29 had 7.1 percent of their assets in bond holdings (Figure 14). At the other end of the age spectrum, traditional IRA investors aged 75 or older had 23.3 percent of their assets in bond holdings, on average.

Money market holdings in traditional IRAs had a mixed pattern across the age groups. At year-end 2007, on average, investors aged 25 to 29 had 19.0 percent of their traditional IRA assets invested in money market holdings, the highest allocation across the age groups considered (Figure 14). The share of money market holdings falls through the next few age groups, and traditional IRA investors aged 40 to 44 had 12.2 percent of their traditional IRA assets invested in money market holdings, the lowest allocation across the age groups considered. Money market holdings increased as a share through the next several age groups, and investors aged 65 to 69 had 16.5 percent of their traditional IRAs invested in money market holdings. Finally, traditional IRA investors aged 75 or older had an average allocation of 14.2 percent to money market holdings.

FIGURE 14

Bond Holdings Were a Larger Part of Traditional IRA Assets for Older Investors in 2007

Percentage of traditional IRA balance by investor age, year-end 2007



[1]Other holdings include certificates of deposit and unidentifiable assets.
[2]Money market holdings include money market mutual funds and the money market portion of target date and non–target date hybrid funds.
[3]Bond holdings include bond mutual funds, bond closed-end funds, bond ETFs, individual bonds, the bond portion of target date and non–target date hybrid funds, and other fixed-income securities.
[4]Equity holdings include equity mutual funds, equity closed-end funds, equity ETFs, individual stocks, the equity portion of target date and non–target date hybrid funds, and other equity securities.
Note: Percentages are dollar-weighted averages and may not add to 100 percent because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.
Source: The IRA Investor Database™

Variation in Holdings in Traditional IRAs by Investor Age in 2007

The dollar-weighted averages reported above reflect the patterns of holdings in traditional IRAs, but blend them into averages. For example, while overall 66.3 percent of traditional IRA assets at year-end 2007 were invested in equity holdings (Figure 14), 16.0 percent of traditional IRA investors had no equity holdings and 84.0 percent had at least some equity holdings (Figure 15, first panel). Indeed, more than half of traditional IRA investors had 80 percent or more of their accounts invested in equity holdings, including 28.4 percent who had all of their accounts invested in equity holdings. Traditional IRA investors' exposure to bond holdings was lower than their exposure to equity holdings (Figure 15, second panel). At year-end 2007, 57.9 percent of traditional IRA investors had no bond holdings and only 3.0 percent had high concentrations (80 percent or more) of their accounts in bond holdings. Money market holdings were more prevalent than bond holdings, but tended to be a small share of traditional IRA investors' accounts (Figure 15, third panel). At year-end 2007, 60.3 percent of traditional IRA investors had at least some of their account invested in money market holdings, with 34.0 percent holding less than 10 percent of their accounts in money market holdings and 14.3 percent having high concentrations (80 percent or more).

Concentration of traditional IRA assets by holding also varied with investor age, typically as would be expected given investing patterns found among 401(k) participants and in other household survey research.[53] High concentrations in equity holdings tended to be more common among younger traditional IRA investors compared with those older. For example, five in 10 traditional IRA investors aged 25 to 29 had high concentrations of equity holdings (80 percent or more of their accounts invested in equity holdings), compared with about six in 10 traditional IRA investors in their thirties or forties, and about four in 10 traditional IRA investors aged 65 or older (Figure 15, first panel). The highest concentrations in equity holdings did not occur among the youngest traditional IRA investors, but rather among those in their late thirties (80 percent concentration), early forties (90 percent concentration), or late forties (100 percent invested in equity holdings).

The age pattern of bond holdings among traditional IRA investors was as typical life cycle and risk-based investment analysis would predict. Older traditional IRA investors were much more likely to have bond holdings and to have higher concentrations in bond holdings. For example, about five in 10 traditional IRA investors aged 65 or older had some bond holdings, while fewer than four in 10 traditional IRA investors younger than 50 did (Figure 15, second panel). The percentage of traditional IRA investors with high concentrations in bond holdings (80 percent or more of their accounts invested in bond holdings) rose with investor age: only 0.7 percent of traditional IRA investors aged 25 to 29 had high concentrations in bond holdings compared with 10.4 percent of those aged 75 or older.

Money market holding ownership varied with traditional IRA investor age, first falling with age through age 50, then rising with age through age 74, before falling back a bit among traditional IRA investors aged 75 or older (Figure 15, third panel). At year-end 2007, 67.2 percent of traditional IRA investors aged 25 to 29 held at least some of their traditional IRA balances in money market holdings; 56.9 percent of those aged 45 to 49 had some money market holdings; and 65.9 percent of those aged 70 to 74 and 60.1 percent of those aged 75 or older had some money market holdings.

The pattern of high concentrations of traditional IRAs in money market holdings by age was the reverse of what age-based investing would predict. The youngest traditional IRA investors had the highest concentrations in money market holdings, often a 100 percent allocation, while the oldest traditional IRA investors were less likely to have high concentrations of their accounts in money market holdings. At year-end 2007, 31.8 percent of traditional IRA investors aged 25 to 29 had 100 percent of their traditional IRA balances invested in money market holdings, compared with 9.8 percent of those aged 75 or older (Figure 15, third panel).

FIGURE 15

Distribution of Holdings in Traditional IRAs by Investor Age in 2007

Percentage of traditional IRA investors by percentage of traditional IRA balance invested in the holding indicated, year-end 2007

Investor age	Percentage of account balance invested in equity holdings[1]											
	Zero	1–9%	10–19%	20–29%	30–39%	40–49%	50–59%	60–69%	70–79%	80–89%	90–99%	100%
25 to 29	32.6	0.4	0.5	0.7	0.9	1.2	1.7	8.1	3.3	19.0	12.4	19.0
30 to 34	22.1	0.5	0.6	0.8	1.0	1.4	2.0	8.1	4.5	18.8	16.0	24.3
35 to 39	17.2	0.6	0.7	0.8	1.0	1.4	2.0	8.2	5.0	16.4	17.0	29.5
40 to 44	15.0	0.7	0.7	0.9	1.1	1.5	2.2	9.3	12.0	8.5	16.2	31.9
45 to 49	13.9	0.8	0.8	1.0	1.3	1.7	2.5	10.9	11.6	8.2	14.9	32.4
50 to 54	13.8	0.9	1.0	1.2	1.5	2.0	3.0	17.3	6.6	8.0	13.5	31.4
55 to 59	13.9	1.2	1.2	1.5	1.8	2.4	8.0	13.9	6.5	7.4	12.4	29.6
60 to 64	14.9	1.6	1.6	2.2	2.4	3.5	8.5	14.5	6.4	6.8	11.5	26.1
65 to 69	15.4	1.9	1.9	2.6	3.0	6.3	6.2	15.0	6.1	6.5	10.8	24.2
70 to 74	16.3	1.9	2.2	4.4	3.3	4.1	5.9	15.8	6.2	6.5	10.4	23.2
75 or older	20.5	1.4	1.8	3.1	2.8	3.3	4.5	16.4	5.2	5.8	9.5	25.7
All	16.0	1.1	1.2	1.7	1.8	2.6	4.5	13.0	7.3	9.0	13.3	28.4

Investor age	Percentage of account balance invested in bond holdings[2]											
	Zero	1–9%	10–19%	20–29%	30–39%	40–49%	50–59%	60–69%	70–79%	80–89%	90–99%	100%
25 to 29	64.7	21.9	3.4	1.8	6.8	0.3	0.2	0.1	0.1	(*)	0.2	0.5
30 to 34	63.1	20.9	5.2	2.7	6.4	0.5	0.3	0.2	0.1	0.1	0.2	0.6
35 to 39	64.5	9.3	14.3	3.1	6.6	0.5	0.4	0.2	0.1	0.1	0.2	0.7
40 to 44	64.3	8.6	13.4	3.7	7.5	0.7	0.4	0.2	0.1	0.1	0.2	0.9
45 to 49	62.5	7.7	13.1	4.3	8.9	0.8	0.5	0.3	0.2	0.1	0.2	1.3
50 to 54	59.8	7.4	7.9	9.8	10.4	1.2	0.7	0.4	0.3	0.2	0.3	1.7
55 to 59	56.9	7.0	7.5	6.1	15.9	1.9	1.0	0.6	0.4	0.3	0.5	2.0
60 to 64	53.5	6.9	7.4	6.2	16.4	3.1	1.4	1.0	0.7	0.4	0.7	2.4
65 to 69	50.5	6.9	7.2	6.0	14.2	6.4	1.9	1.4	1.0	0.6	0.9	3.0
70 to 74	48.3	6.9	7.4	6.2	16.3	4.0	2.2	1.6	1.2	0.7	1.0	4.1
75 or older	48.2	5.6	6.3	5.0	16.3	3.2	2.1	1.7	1.2	0.8	1.2	8.4
All	57.9	8.5	9.2	5.5	11.8	2.0	1.0	0.7	0.5	0.3	0.5	2.2

Continued on next page

FIGURE 15 CONTINUED

Distribution of Holdings in Traditional IRAs by Investor Age in 2007

Percentage of traditional IRA investors by percentage of traditional IRA balance invested in the holding indicated, year-end 2007

Investor age	Percentage of account balance invested in money market holdings[3]											
	Zero	1-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80-89%	90-99%	100%
25 to 29	32.8	26.1	2.2	1.7	1.3	1.2	0.9	0.7	0.6	0.4	0.4	31.8
30 to 34	37.7	30.6	2.8	1.9	1.4	1.2	1.0	0.7	0.6	0.5	0.4	21.2
35 to 39	41.5	31.4	3.0	2.0	1.4	1.2	1.0	0.7	0.6	0.5	0.5	16.1
40 to 44	42.9	31.9	3.2	2.1	1.5	1.2	1.0	0.8	0.6	0.5	0.6	13.6
45 to 49	43.1	32.6	3.4	2.1	1.6	1.3	1.0	0.8	0.7	0.6	0.7	12.1
50 to 54	42.4	33.4	3.5	2.3	1.6	1.3	1.1	0.8	0.7	0.6	0.7	11.4
55 to 59	40.6	34.7	3.7	2.4	1.8	1.5	1.2	0.9	0.8	0.7	0.8	10.9
60 to 64	36.7	36.2	4.2	2.7	2.0	1.7	1.4	1.1	1.0	0.9	1.0	11.1
65 to 69	34.7	37.3	4.6	3.0	2.2	1.8	1.5	1.2	1.1	0.9	1.1	10.7
70 to 74	34.1	38.5	4.8	3.0	2.2	1.7	1.5	1.2	1.1	0.9	1.0	10.1
75 or older	39.9	37.0	3.8	2.3	1.7	1.4	1.1	0.9	0.8	0.6	0.7	9.8
All	39.7	34.0	3.6	2.4	1.7	1.4	1.2	0.9	0.8	0.7	0.8	12.8

[1]Equity holdings include equity mutual funds, equity closed-end funds, equity ETFs, individual stocks, the equity portion of target date and non–target date hybrid funds, and other equity securities.

[2]Bond holdings include bond mutual funds, bond closed-end funds, bond ETFs, individual bonds, the bond portion of target date and non–target date hybrid funds, and other fixed-income securities.

[3]Money market holdings include money market mutual funds and the money market portion of target date and non–target date hybrid funds.

(*) = less than 0.05 percent

Note: Row percentages may not add to 100 percent because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.

Source: The IRA Investor Database™

Although it is common to see equity holdings as a share of assets decrease with age, there are a few reasons why the youngest investors in The IRA Investor Database might have lower equity holdings and higher money market holdings. For example, younger investors might be using their traditional IRAs to save for purposes other than retirement. IRS rules allow for penalty-free early withdrawals from traditional IRAs for higher education expenses as well as the purchase of a first home.[54] Household survey data show that younger households are more likely to list education and home purchases among their goals for saving.[55] The IRA Investor Database does not capture an individual investor's entire financial portfolio, so it is possible that younger investors are using retirement plans at work—where early withdrawals for higher education and home purchases are subject to a penalty—for longer-term savings goals. If younger investors are using their traditional IRAs for shorter-term purposes, they might prefer to invest their balances in securities that maintain their principal and are more liquid.

Part of the money market fund and money market holdings patterns also may be explained by regulatory (default rollover rules) or market forces (economics of managing very small amounts) that impact small traditional IRA balances. As will be explored in detail below, the smallest traditional IRAs tended to have highest allocation to money market funds (Figure 16) or money market holdings (Figure 17). These smallest balances are more likely to be held by younger traditional IRA investors. At year-end 2007, 58.1 percent of traditional IRA investors aged 25 to 29 had traditional IRA balances of less than $5,000, compared with 7.0 percent of those aged 75 or older.[56]

Asset Allocation of Traditional IRAs Varied with the Size of Traditional IRA Balance in 2007

The investment and holding patterns of traditional IRAs varied with the size of the traditional IRA balance as they varied with investor age, likely reflecting the fact that account balances tend to rise with investor age.[57] As a result, some of the holdings patterns by traditional IRA balance are the result of the typical life cycle pattern of investing by investor age. Nevertheless, the pattern of the money market fund and money market holdings of the smallest account balance group suggests other factors may be at work.

Investments in Traditional IRAs by Size of Traditional IRA Balance in 2007

Investment in equities and equity funds followed a bell-shaped pattern, rising and then falling with traditional IRA balance size, and the smallest traditional IRA balances had the lowest average allocation to equities and equity funds. At year-end 2007, 49.0 percent of traditional IRA assets in accounts with less than $5,000 was invested in equities and equity funds (Figure 16). Traditional IRAs with at least $5,000 but less than $10,000 held 58.2 percent of their assets in equities and equity funds, compared with about a 60 percent share in traditional IRAs with $10,000 to less than $200,000. Traditional IRAs with $200,000 or more held 56.4 percent of their assets in equities and equity funds.

Use of hybrid funds, which include target date funds,[58] balanced funds, and asset allocation funds, tended to be less prevalent the larger the traditional IRA balance. At year-end 2007, 19.2 percent of assets in traditional IRAs with balances of less than $5,000 was invested in hybrid funds (Figure 16). The highest average allocation to hybrid funds, 22.2 percent of traditional IRA assets, occurred among traditional IRAs with at least $5,000 but less than $10,000. Traditional IRAs with $200,000 or more had the lowest average allocation to hybrid funds, 10.7 percent of their traditional IRA assets. This pattern was mainly driven by target date fund use, which tended to be higher the younger the traditional IRA investor or the smaller the traditional IRA balance.

Just as fixed-income investing tends to rise with age, the share of bonds and bond funds was higher, the larger the traditional IRA balance. At year-end 2007, 3.7 percent of traditional IRA assets in traditional IRAs with less than $5,000 was invested in bonds and bond funds, compared with 17.0 percent of traditional IRA assets in traditional IRAs with $200,000 or more (Figure 16).

The allocation to money market funds showed a mixed pattern by traditional IRA balance, with the smallest traditional IRAs having the highest average allocation to money market funds. Traditional IRAs with balances of less than $5,000, on average, had 28.0 percent of their assets invested in money market funds (Figure 16). For traditional IRA balances of at least $5,000 but less than $10,000, 14.3 percent was invested in money market funds. The percentage invested in money market funds continued to fall through account balances less than $40,000, before rising moderately through the higher account balances. For traditional IRA balances of at least $30,000 but less than $40,000, 12.5 percent was invested in money market funds. For traditional IRA balances of $200,000 or more, 15.1 percent was invested in money market funds.

FIGURE 16

Investments in Traditional IRAs by Size of Traditional IRA Balance in 2007

Percentage of traditional IRA balance by size of traditional IRA balance, year-end 2007

		Hybrid funds[2]						
		Equity portion		Non-equity portion				
Account balance	Equities and equity funds[1]	Target date	Non-target date	Target date	Non-target date	Bonds and bond funds[3]	Money market funds	Other investments[4]
Less than $5,000	49.0	6.5	6.6	1.9	4.2	3.7	28.0	0.1
$5,000 to <$10,000	58.2	7.2	7.8	2.3	4.9	5.1	14.3	0.1
$10,000 to <$20,000	59.8	6.0	8.4	2.2	5.2	5.5	12.7	0.2
$20,000 to <$30,000	60.3	5.3	8.2	2.1	5.2	6.1	12.6	0.2
$30,000 to <$40,000	60.4	4.8	8.3	2.1	5.2	6.4	12.5	0.2
$40,000 to <$70,000	60.4	4.3	8.0	2.0	5.0	7.3	12.8	0.3
$70,000 to <$100,000	60.5	3.6	7.5	1.9	4.7	8.2	13.1	0.4
$100,000 to <$200,000	59.5	3.1	7.0	1.8	4.4	9.9	14.0	0.5
$200,000 or more	56.4	1.3	5.1	1.1	3.2	17.0	15.1	0.8
All	57.8	2.4	6.1	1.4	3.8	13.5	14.5	0.6

[1]Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.
[2]Hybrid funds invest in a mix of equities and fixed-income securities. The bulk of target date and lifestyle funds is counted in this category.
[3]Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.
[4]Other investments include certificates of deposit and unidentifiable assets.
Note: Percentages are dollar-weighted averages. Row percentages may not add to 100 percent because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.
Source: The IRA Investor Database™

On average, traditional IRA investors with the smallest account balances held the highest allocation to money market funds (Figure 16), often holding one investment.[59] Part of this pattern may be caused by regulatory or other market forces. For example, IRAs created by default rollovers from employer-sponsored plans are required to be invested in products that preserve principal.[60] At year-end 2007, 11.4 percent of traditional IRAs with less than $5,000 had rollovers into them in 2007 (still more may have had rollovers prior to 2007).[61] In addition, it may not make economic sense to allocate a small account balance across multiple investments or there may be minimum investment thresholds or account fees for each investment.

Furthermore, part of the money market fund allocation pattern may be explained by the traditional IRA investors' time horizon for these accounts. For example, some traditional IRA investors may be planning to use their balances for a qualified withdrawal in the shorter term (e.g., paying for a first-time home purchase, or paying for education)[62] or for an emergency,[63] and money market funds would provide liquidity for those needs. Indeed, 13.3 percent of these small traditional IRA balances were accounts that had withdrawals in 2007.

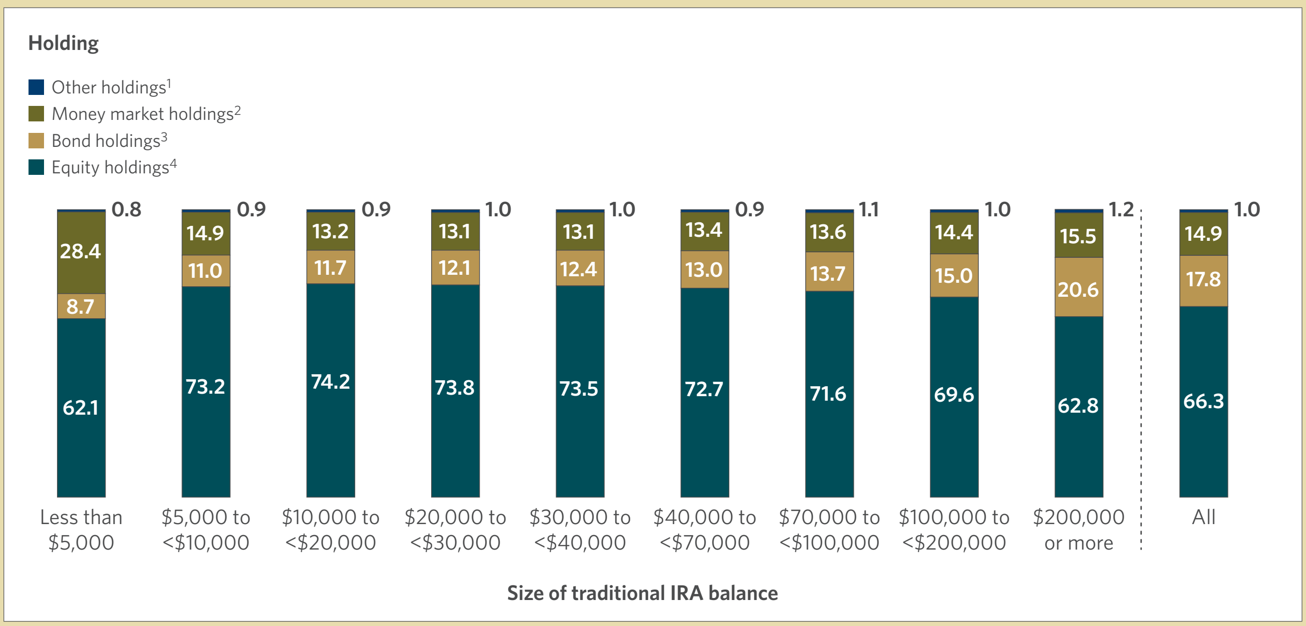
Holdings in Traditional IRAs by Size of Traditional IRA Balance in 2007

Holdings in traditional IRAs also varied with the size of the traditional IRA balance. On average, equity holdings—equities, equity funds, the equity portion of target date funds (which varies with age), and the equity portion of non–target date hybrid funds—which made up a majority of traditional IRA assets across all balance-size categories at year-end 2007, followed a bell-shaped pattern. At year-end 2007, 62.1 percent of traditional IRA assets in accounts with less than $5,000 was invested in equity holdings, compared with 74.2 percent in accounts with $10,000 to less than $20,000, and 62.8 percent in accounts with $200,000 or more (Figure 17). Money market holdings mirrored the equity pattern, on average, first falling as traditional IRA balances increased, then edging up among higher account balances. At year-end 2007, 28.4 percent

FIGURE 17

Equity Holdings Had the Largest Share in Traditional IRAs in 2007

Percentage of traditional IRA balance by size of traditional IRA balance, year-end 2007



[1]*Other holdings include certificates of deposit and unidentifiable assets.*
[2]*Money market holdings include money market mutual funds and the money market portion of target date and non–target date hybrid funds.*
[3]*Bond holdings include bond mutual funds, bond closed-end funds, bond ETFs, individual bonds, the bond portion of target date and non–target date hybrid funds, and other fixed-income securities.*
[4]*Equity holdings include equity mutual funds, equity closed-end funds, equity ETFs, individual stocks, the equity portion of target date and non–target date hybrid funds, and other equity securities.*
Note: Percentages are dollar-weighted averages and may not add to 100 percent because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.
Source: The IRA Investor Database™

of traditional IRA assets in accounts with less than $5,000 was invested in money market holdings, compared with 13.2 percent in accounts with $10,000 to less than $20,000, and 15.5 percent in accounts with $200,000 or more. On average, allocations to bond holdings increased as traditional IRA balances increased. At year-end 2007, 8.7 percent of traditional IRA assets in accounts with less than $5,000 was invested in bond holdings, compared with 11.7 percent in accounts with $10,000 to less than $20,000, and 20.6 percent in accounts with $200,000 or more.

Variation in Holdings in Traditional IRAs by Size of Traditional IRA Balance in 2007

The dollar-weighted averages reported above reflect the pattern of holdings in individual traditional IRAs, but blend them into an average for each traditional IRA balance-size category. For example, on average, traditional IRA investors with less than $5,000 in their accounts had 62.1 percent of their assets invested in equity holdings (Figure 17). Figure 18 reports the distribution of individual holdings allocations among traditional IRA investors in each traditional IRA balance-size category, which highlights the range of experience of traditional IRA investors. At year-end 2007, 41.3 percent of traditional IRA investors with balances of less than $5,000 had no equity holdings at all and 41.9 percent had high concentrations in equity holdings (80 percent or more of their balances) with 28.9 percent fully invested in equity holdings (Figure 18, first panel). The larger the traditional IRA balance, the less likely it was that the account had no equity holdings: only 6.2 percent of accounts of $200,000 or more had no equity holdings. The highest concentration in equity holdings occurred among traditional IRA investors with balances of at least $5,000 but less than $10,000: 59.0 percent of these traditional IRA investors had 80 percent or more of their balances in equity holdings, with 40.5 percent fully invested in equity holdings. High concentrations in equity holdings then tapered down as traditional IRA balances increased, falling to 36.1 percent of traditional IRA investors with balances of $200,000 or more having 80 percent or more of their accounts invested in equity holdings, with only 8.2 percent fully invested in equity holdings.

Individual allocations to bond holdings in traditional IRAs also varied with account size, although concentrations in bond holdings were much more modest compared with equity holdings. At year-end 2007, 78.8 percent of traditional IRA investors with accounts of less than $5,000 had no bond holdings, while 32.1 percent of traditional IRA investors with accounts of $200,000 or more had no bond holdings (Figure 18, second panel). In part reflecting hybrid and target date fund allocations,[64] the bulk of traditional IRA investors who had bond holdings had less than 40 percent of their accounts invested in bond holdings.

Money market holdings were relatively widespread in traditional IRAs across all traditional IRA balance-size categories, but tended to represent a small share of individual traditional IRA investors' balances. Bolstering the relatively high allocation to money market holdings (28.4 percent; Figure 17) observed among traditional IRAs with less than $5,000 is a high percentage (38.6 percent) of those traditional IRA investors with 100 percent of their traditional IRA balances invested in money market holdings at year-end 2007 (Figure 18, third panel). Such concentration in money market holdings drops dramatically to 11.4 percent of traditional IRA investors with balances of at least $5,000 but less than $10,000. The share of traditional IRA investors only owning money market holdings continues to fall as traditional IRA balances rise, and only 3.7 percent of traditional IRA investors with $200,000 or more in their accounts were 100 percent invested in money market holdings. On the other hand, investors with higher account balances were more likely to have a modest investment in money market holdings. At year-end 2007, 19.0 percent of traditional IRA investors with balances of less than $5,000 had 1 percent to 9 percent of their traditional IRA assets invested in money market holdings, compared with 50.7 percent of traditional IRA investors with balances of $200,000 or more.

FIGURE 18

Distribution of Holdings in Traditional IRAs by Size of Traditional IRA Balance in 2007

Percentage of traditional IRA investors by percentage of traditional IRA balance invested in the holding indicated, year-end 2007

	Percentage of account balance invested in equity holdings[1]											
Account balance	**Zero**	**1–9%**	**10–19%**	**20–29%**	**30–39%**	**40–49%**	**50–59%**	**60–69%**	**70–79%**	**80–89%**	**90–99%**	**100%**
Less than $5,000	41.3	0.5	0.4	0.5	0.6	0.8	1.7	9.1	3.3	5.3	7.7	28.9
$5,000 to <$10,000	15.3	0.4	0.4	0.8	1.1	1.5	3.1	13.2	5.1	7.7	10.8	40.5
$10,000 to <$20,000	12.6	0.5	0.7	1.1	1.3	1.8	3.3	13.9	6.2	8.2	11.4	39.2
$20,000 to <$30,000	11.4	0.7	0.9	1.3	1.5	2.1	3.7	13.4	7.1	9.2	12.8	35.7
$30,000 to <$40,000	10.6	0.9	1.1	1.5	1.7	2.4	4.0	13.5	7.7	9.9	13.7	33.2
$40,000 to <$70,000	9.8	1.2	1.3	1.8	1.9	2.8	4.7	13.3	8.6	10.4	15.6	28.5
$70,000 to <$100,000	8.7	1.5	1.5	2.2	2.3	3.2	5.5	13.7	9.5	11.1	17.4	23.4
$100,000 to <$200,000	7.8	1.9	1.9	2.7	2.8	3.9	6.7	14.1	10.4	11.7	18.4	17.6
$200,000 or more	6.2	3.0	2.9	3.9	4.3	6.1	10.2	15.9	11.3	11.1	16.8	8.2
All	16.0	1.1	1.2	1.7	1.8	2.6	4.5	13.0	7.3	9.0	13.3	28.4

	Percentage of account balance invested in bond holdings[2]											
Account balance	**Zero**	**1–9%**	**10–19%**	**20–29%**	**30–39%**	**40–49%**	**50–59%**	**60–69%**	**70–79%**	**80–89%**	**90–99%**	**100%**
Less than $5,000	78.8	3.8	4.2	1.5	8.5	0.3	0.2	0.1	0.1	0.1	0.3	2.1
$5,000 to <$10,000	66.2	5.6	7.2	3.1	12.4	0.8	0.5	0.3	0.2	0.1	0.3	3.2
$10,000 to <$20,000	62.9	6.1	8.2	4.2	12.8	1.0	0.6	0.4	0.3	0.2	0.3	3.0
$20,000 to <$30,000	60.1	7.0	9.4	5.0	12.1	1.3	0.8	0.5	0.3	0.2	0.4	2.8
$30,000 to <$40,000	57.7	7.9	10.2	5.6	12.1	1.5	0.8	0.6	0.4	0.3	0.5	2.6
$40,000 to <$70,000	54.0	9.5	10.9	6.6	11.8	2.0	1.0	0.7	0.5	0.3	0.5	2.2
$70,000 to <$100,000	49.6	11.4	11.6	7.5	12.0	2.6	1.1	0.8	0.6	0.4	0.6	1.7
$100,000 to <$200,000	44.1	13.4	12.3	8.7	12.3	3.4	1.4	1.1	0.8	0.5	0.7	1.3
$200,000 or more	32.1	15.3	12.7	10.8	14.1	6.5	2.8	1.9	1.4	0.8	0.8	0.8
All	57.9	8.5	9.2	5.5	11.8	2.0	1.0	0.7	0.5	0.3	0.5	2.2

	Percentage of account balance invested in money market holdings[3]											
Account balance	**Zero**	**1–9%**	**10–19%**	**20–29%**	**30–39%**	**40–49%**	**50–59%**	**60–69%**	**70–79%**	**80–89%**	**90–99%**	**100%**
Less than $5,000	36.5	19.0	1.5	1.0	0.7	0.6	0.5	0.4	0.3	0.3	0.5	38.6
$5,000 to <$10,000	52.7	28.2	1.7	1.3	1.1	1.1	0.9	0.6	0.4	0.3	0.3	11.4
$10,000 to <$20,000	51.8	30.1	2.2	1.8	1.3	1.1	0.9	0.7	0.6	0.4	0.4	8.8
$20,000 to <$30,000	48.7	32.1	3.1	2.0	1.5	1.2	1.0	0.8	0.7	0.6	0.5	7.7
$30,000 to <$40,000	45.9	34.2	3.5	2.2	1.6	1.3	1.1	0.9	0.8	0.7	0.6	7.1
$40,000 to <$70,000	41.3	37.4	4.1	2.6	1.9	1.5	1.3	1.0	0.9	0.8	0.8	6.4
$70,000 to <$100,000	35.7	41.4	4.7	3.0	2.2	1.8	1.5	1.1	1.1	0.9	1.0	5.7
$100,000 to <$200,000	29.3	45.1	5.8	3.6	2.6	2.1	1.7	1.4	1.2	1.1	1.2	5.1
$200,000 or more	18.3	50.7	8.1	4.9	3.4	2.6	2.1	1.7	1.5	1.3	1.6	3.7
All	39.7	34.0	3.6	2.4	1.7	1.4	1.2	0.9	0.8	0.7	0.8	12.8

[1]Equity holdings include equity mutual funds, equity closed-end funds, equity ETFs, individual stocks, the equity portion of target date and non–target date hybrid funds, and other equity securities.
[2]Bond holdings include bond mutual funds, bond closed-end funds, bond ETFs, individual bonds, the bond portion of target date and non–target date hybrid funds, and other fixed-income securities.
[3]Money market holdings include money market mutual funds and the money market portion of target date and non–target date hybrid funds.
Note: Row percentages may not add to 100 percent because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.
Source: The IRA Investor Database™

Asset Allocation of Traditional IRAs Varied with Investor Income in 2007

Traditional IRA asset allocations—whether looking at investments or holdings—vary somewhat with investor income. On average, lower-income traditional IRA investors displayed slightly more cautious traditional IRA portfolios, compared with higher-income traditional IRA investors.[65] This pattern is consistent with findings from household surveys, which reveal that lower-income households express less willingness to take financial risk[66] and tend to focus on shorter-term goals for their savings.[67] Nevertheless, equities and equity funds represented the majority of traditional IRA assets across all income groups at year-end 2007.

Investments in Traditional IRAs by Investor Income in 2007

The share of traditional IRA assets invested in equities and equity funds tended to rise with investor income, from 53.0 percent among traditional IRA investors with less than $35,000 in income to 61.5 percent among traditional IRA investors with $140,000 or more in income (Figure 19). Bonds and bond funds were a relatively stable share of traditional IRA assets across all income groups, straying very little from the 13.5 percent allocation in aggregate. The share of traditional IRA assets invested in money market funds edged down with investor income, from 16.0 percent of traditional IRA assets among the lowest-income traditional IRA investors to 14.5 percent among the highest-income traditional IRA investors. Running opposite these more conservatively focused investment trends, hybrid funds, which invest in a mixture of stock and fixed-income securities, had a 17.0 percent share of the traditional IRA assets among the lowest-income traditional IRA investors and a 9.7 percent share among the highest-income traditional IRA investors.

2007 IRS Income by Zip Code

The IRA Investor Database contains income information only for a subset of IRA investors. Thus, to carry out an analysis using income, one must develop a proxy for income. Five-digit zip codes are used to assign each IRA investor the average income per tax return for the investor's zip code. This income information came from the Internal Revenue Service, *IRS Statistics of Income (SOI) Individual Tax Statistics Zip Code Data for 2007.* Discussion in the text of "IRA investor income" refers to the average income of tax returns in the zip code area in which the investor lives.

For additional discussion, see the **appendix**.

FIGURE 19

Investments in Traditional IRAs by Income in 2007

Percentage of traditional IRA balance by income,[1] year-end 2007

		Hybrid funds[3]						
		Equity portion		Non-equity portion				
Income[1]	Equities and equity funds[2]	Target date	Non-target date	Target date	Non-target date	Bonds and bond funds[4]	Money market funds	Other investments[5]
Less than $35,000	53.0	3.2	7.3	2.0	4.5	13.3	16.0	0.7
$35,000 to <$45,000	54.6	2.9	7.2	1.8	4.5	13.5	14.8	0.7
$45,000 to <$50,000	55.4	2.8	6.9	1.7	4.3	13.6	14.6	0.7
$50,000 to <$55,000	56.0	2.7	6.8	1.7	4.3	13.6	14.4	0.6
$55,000 to <$65,000	56.8	2.5	6.5	1.5	4.1	13.7	14.3	0.6
$65,000 to <$70,000	57.4	2.4	6.3	1.4	3.9	13.5	14.4	0.6
$70,000 to <$80,000	58.1	2.4	6.0	1.4	3.8	13.4	14.2	0.6
$80,000 to <$100,000	59.1	2.3	5.7	1.3	3.6	13.1	14.3	0.6
$100,000 to <$140,000	60.1	2.0	5.3	1.1	3.3	13.4	14.2	0.6
$140,000 or more	61.5	1.4	4.6	0.8	2.9	13.8	14.5	0.5
All	57.8	2.4	6.1	1.4	3.8	13.5	14.5	0.6

[1]Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.
[2]Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.
[3]Hybrid funds invest in a mix of equities and fixed-income securities. The bulk of target date and lifestyle funds is counted in this category.
[4]Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.
[5]Other investments include certificates of deposit and unidentifiable assets.
Note: Percentages are dollar-weighted averages. Row percentages may not add to 100 percent because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.
Source: The IRA Investor Database™

Holdings in Traditional IRAs by Investor Income in 2007

Seeing through to the underlying securities pulls like securities together to provide a better picture of traditional IRA investors' holdings. It is still the case that equity holdings—equities, equity funds, the equity portion of target date funds (which varies with age), and the equity portion of non–target date hybrid funds—tend to rise with investor income, but the difference between the lowest income group (63.5 percent of their traditional IRA assets invested in equity holdings) and the highest income group (67.5 percent of their traditional IRA assets invested in equity holdings) is more muted (Figure 20). Bond holdings tended to be lower as income increased, ranging from 18.7 percent of traditional IRA assets among traditional IRA investors with less than $45,000 in income to 16.9 percent of traditional IRA assets among traditional IRA investors with $140,000 or more in income. The share of traditional IRA assets invested in money market holdings also tended to edge down as traditional IRA investor income increased.

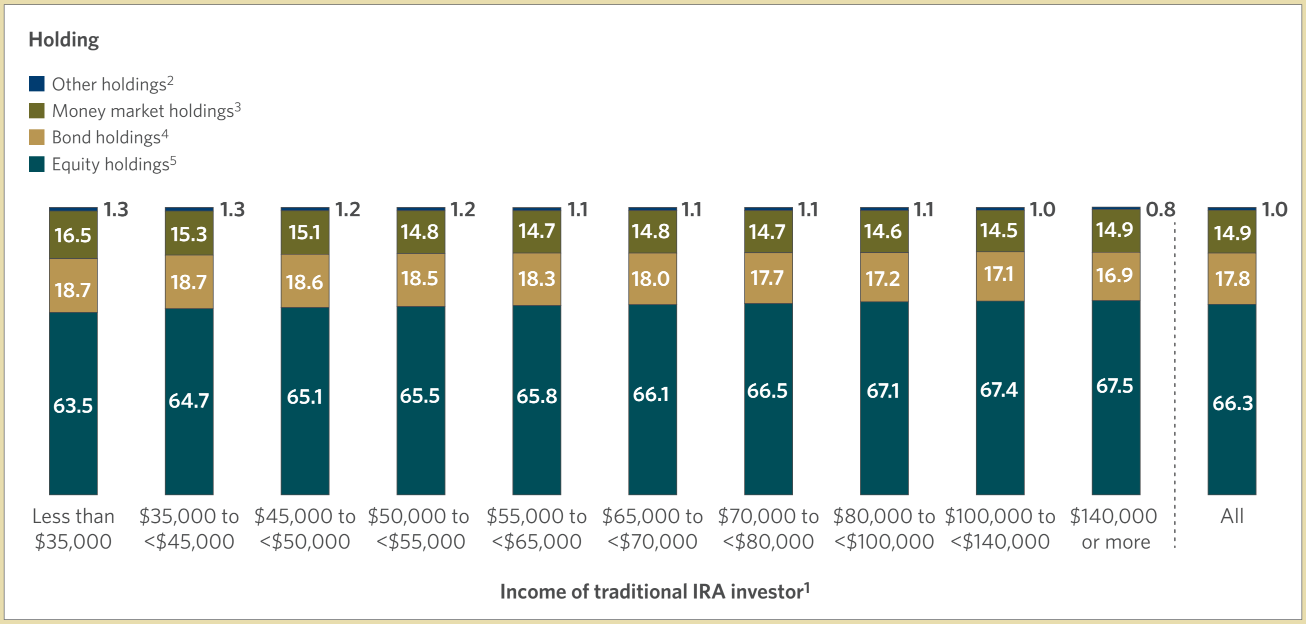
Variation in Holdings in Traditional IRAs by Investor Income in 2007

Lower-income traditional investors were less likely to have equity holdings and less likely to have high concentrations of equity holdings in their traditional IRAs. At year-end 2007, 22.3 percent of traditional IRA investors with annual incomes of less than $35,000 did not have any equity holdings, while only 13.8 percent of traditional IRA investors with annual incomes of $100,000 or more did not have equity holdings (Figure 21, first panel). While 43.6 percent of traditional IRA investors with annual incomes of less than $35,000 had 80 percent or more of their traditional IRA balances invested in equity holdings, 55.2 percent of those with annual incomes of $140,000 or more had such high concentrations. Nevertheless, more than one-quarter of traditional IRA investors with incomes of less than $35,000 had their traditional IRAs fully invested in equity holdings at year-end 2007.

FIGURE 20

Holdings in Traditional IRAs by Income in 2007

Percentage of traditional IRA balance by income,[1] year-end 2007



[1]*Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.*

[2]*Other holdings include certificates of deposit and unidentifiable assets.*

[3]*Money market holdings include money market mutual funds and the money market portion of target date and non–target date hybrid funds.*

[4]*Bond holdings include bond mutual funds, bond closed-end funds, bond ETFs, individual bonds, the bond portion of target date and non–target date hybrid funds, and other fixed-income securities.*

[5]*Equity holdings include equity mutual funds, equity closed-end funds, equity ETFs, individual stocks, the equity portion of target date and non–target date hybrid funds, and other equity securities.*

Note: Percentages are dollar-weighted averages and may not add to 100 percent because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.

Source: The IRA Investor Database™

The uptake of and allocation to bond holdings were relatively consistent across income groups in 2007. At year-end 2007, about two-fifths of traditional IRA investors had bond holdings irrespective of income (Figure 21, second panel). About 3.0 percent of traditional IRA investors had high concentrations of bond holdings (80 percent or more of their traditional IRA balances). Reflecting hybrid and target date fund allocations, the bulk of traditional IRA investors with bond holdings had less than 40 percent of their traditional IRA balances allocated to bond holdings.

Uptake of money market holdings by traditional IRA investors showed very little variation by income, but high concentrations of money market holdings were much more prevalent among lower-income traditional IRA investors. Lower-income traditional IRA investors also were more likely to be entirely invested in money market holdings. At year-end 2007, about six in 10 traditional IRA investors had money market holdings regardless of their income (Figure 21, third panel). However, the lowest-income traditional IRA investor group was nearly twice as likely as the highest-income group to have 100 percent of their traditional IRAs invested in money market holdings. Among traditional IRA investors with annual incomes of less than $35,000, 18.8 percent only had money market holdings, compared with 10.4 percent of traditional IRA investors with annual incomes of $140,000 or more.

FIGURE 21

Distribution of Holdings in Traditional IRAs by Income in 2007

Percentage of traditional IRA investors by percentage of traditional IRA balance invested in the holding indicated, year-end 2007

	Percentage of account balance invested in equity holdings[2]											
Income[1]	Zero	1-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80-89%	90-99%	100%
Less than $35,000	22.3	1.1	1.1	1.8	1.8	2.7	5.0	13.7	6.9	8.0	10.0	25.6
$35,000 to <$45,000	18.0	1.1	1.1	1.7	1.8	2.6	4.9	14.2	7.2	8.4	10.9	28.0
$45,000 to <$50,000	16.7	1.1	1.1	1.7	1.8	2.6	4.8	13.9	7.2	8.8	11.9	28.3
$50,000 to <$55,000	16.2	1.1	1.1	1.7	1.8	2.6	4.7	13.8	7.3	9.0	12.4	28.3
$55,000 to <$65,000	15.7	1.1	1.2	1.7	1.9	2.6	4.6	13.4	7.4	9.1	12.9	28.6
$65,000 to <$70,000	15.1	1.1	1.2	1.7	1.8	2.6	4.5	13.2	7.4	9.2	13.6	28.7
$70,000 to <$80,000	14.6	1.1	1.1	1.7	1.8	2.6	4.5	12.7	7.5	9.4	14.0	29.0
$80,000 to <$100,000	14.2	1.2	1.2	1.6	1.8	2.6	4.3	12.2	7.5	9.5	14.8	29.1
$100,000 to <$140,000	13.8	1.2	1.2	1.6	1.8	2.6	4.2	11.8	7.6	9.6	16.0	28.7
$140,000 or more	13.8	1.3	1.3	1.7	1.9	2.6	4.1	11.1	7.1	9.3	16.7	29.2
All	16.0	1.1	1.2	1.7	1.8	2.6	4.5	13.0	7.3	9.0	13.3	28.4

	Percentage of account balance invested in bond holdings[3]											
Income[1]	Zero	1-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80-89%	90-99%	100%
Less than $35,000	57.6	7.4	8.7	5.6	13.1	2.2	1.0	0.7	0.5	0.3	0.5	2.4
$35,000 to <$45,000	56.4	7.7	9.1	5.7	13.4	2.2	1.0	0.7	0.5	0.3	0.4	2.5
$45,000 to <$50,000	56.6	8.2	9.2	5.7	12.9	2.2	1.0	0.7	0.5	0.3	0.4	2.3
$50,000 to <$55,000	56.7	8.3	9.3	5.7	12.7	2.1	1.0	0.7	0.5	0.3	0.5	2.2
$55,000 to <$65,000	57.2	8.5	9.3	5.7	12.1	2.1	1.0	0.7	0.5	0.3	0.5	2.2
$65,000 to <$70,000	57.6	8.7	9.3	5.6	11.8	2.0	1.0	0.7	0.5	0.3	0.5	2.1
$70,000 to <$80,000	58.0	8.9	9.4	5.6	11.4	2.0	1.0	0.6	0.4	0.3	0.5	2.0
$80,000 to <$100,000	58.7	9.1	9.4	5.5	10.7	1.9	0.9	0.6	0.4	0.3	0.5	2.0
$100,000 to <$140,000	59.5	9.3	9.2	5.3	10.1	1.8	0.9	0.6	0.4	0.3	0.5	2.0
$140,000 or more	61.2	8.9	8.5	5.0	9.4	1.8	0.9	0.7	0.5	0.3	0.6	2.2
All	57.9	8.5	9.2	5.5	11.8	2.0	1.0	0.7	0.5	0.3	0.5	2.2

Continued on next page

FIGURE 21 CONTINUED

Distribution of Holdings in Traditional IRAs by Income in 2007

Percentage of traditional IRA investors by percentage of traditional IRA balance invested in the holding indicated, year-end 2007

	Percentage of account balance invested in money market holdings[4]											
Income[1]	Zero	1–9%	10–19%	20–29%	30–39%	40–49%	50–59%	60–69%	70–79%	80–89%	90–99%	100%
Less than $35,000	38.3	30.9	3.0	2.0	1.5	1.3	1.1	0.9	0.8	0.7	0.8	18.8
$35,000 to <$45,000	40.8	32.7	3.2	2.1	1.5	1.3	1.1	0.8	0.7	0.6	0.7	14.5
$45,000 to <$50,000	40.4	33.6	3.4	2.2	1.6	1.3	1.1	0.9	0.8	0.6	0.7	13.5
$50,000 to <$55,000	40.1	34.1	3.4	2.3	1.6	1.3	1.1	0.9	0.8	0.6	0.7	13.1
$55,000 to <$65,000	40.0	34.3	3.6	2.3	1.7	1.4	1.1	0.9	0.8	0.7	0.7	12.5
$65,000 to <$70,000	39.7	34.8	3.7	2.4	1.7	1.4	1.2	0.9	0.8	0.7	0.8	12.0
$70,000 to <$80,000	39.9	34.7	3.8	2.5	1.8	1.5	1.2	0.9	0.8	0.7	0.8	11.6
$80,000 to <$100,000	39.8	34.8	3.9	2.5	1.8	1.5	1.2	0.9	0.8	0.7	0.8	11.2
$100,000 to <$140,000	38.9	35.4	4.2	2.7	1.9	1.5	1.2	0.9	0.9	0.7	0.8	10.8
$140,000 or more	38.6	35.2	4.4	2.8	2.0	1.6	1.3	1.0	0.9	0.8	0.8	10.4
All	39.7	34.0	3.6	2.4	1.7	1.4	1.2	0.9	0.8	0.7	0.8	12.8

[1]Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.
[2]Equity holdings include equity mutual funds, equity closed-end funds, equity ETFs, individual stocks, the equity portion of target date and non–target date hybrid funds, and other equity securities.
[3]Bond holdings include bond mutual funds, bond closed-end funds, bond ETFs, individual bonds, the bond portion of target date and non–target date hybrid funds, and other fixed-income securities.
[4]Money market holdings include money market mutual funds and the money market portion of target date and non–target date hybrid funds.
Note: Row percentages may not add to 100 percent because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007.
Source: The IRA Investor Database™

Holdings in Traditional IRAs by Investor Gender in 2007

Holdings in traditional IRAs were broadly similar between female and male traditional IRA investors.[68] At year-end 2007, 67.2 percent of traditional IRA assets owned by female traditional IRA investors was invested in equity holdings—equities, equity funds, the equity portion of target date funds (which varied with age), and the equity portion of non–target date hybrid funds—compared with 65.5 percent of male traditional IRA investors' assets and 68.0 percent of the assets held by traditional IRA investors missing gender information (Figure 22).[69] Bond holdings were 17.8 percent of traditional IRA assets owned by female traditional IRA investors, compared with 18.3 percent of male traditional IRA investors' assets and 15.1 percent of assets held by the traditional IRA investors missing gender information. Money market holdings in traditional IRAs also were similar across the genders.

Traditional IRA Investors' Use of Target Date Funds in 2007

A target date fund is a type of hybrid fund that rebalances its underlying portfolio to be less focused on growth and more focused on income as it approaches and passes the target date.[70] Because target date funds are usually offered in five- or 10-year increments, there is usually an available fund with a target date close to an investor's planned retirement date. An investor wishing to tailor his or her portfolio to a more aggressive or more conservative allocation might add another fund in addition to investing in the appropriate target date fund.

At year-end 2007, 8.9 percent of traditional IRA investors in The IRA Investor Database owned target date funds.[71] Among traditional IRA investors who owned target date funds, a substantial majority owned one target date fund,

FIGURE 22

Holdings in Traditional IRAs by Gender in 2007

Percentage of traditional IRA balance by gender, year-end 2007

[1]Other holdings include certificates of deposit and unidentifiable assets.
[2]Money market holdings include money market mutual funds and the money market portion of target date and non–target date hybrid funds.
[3]Bond holdings include bond mutual funds, bond closed-end funds, bond ETFs, individual bonds, the bond portion of target date and non–target date hybrid funds, and other fixed-income securities.
[4]Equity holdings include equity mutual funds, equity closed-end funds, equity ETFs, individual stocks, the equity portion of target date and non–target date hybrid funds, and other equity securities.
Note: Percentages are dollar-weighted averages and may not add to 100 percent because of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007. At year-end 2007, 38.7 percent of traditional IRA investors aged 25 or older are female, 45.5 percent are male, and gender information is unavailable for the remaining 15.7 percent.
Source: The IRA Investor Database™

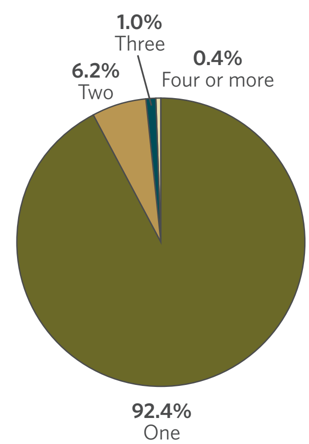
and most of the remainder owned two (Figure 23). At year-end 2007, 92.4 percent of traditional IRA investors aged 25 or older who owned target date funds owned one, and another 6.2 percent owned two target date funds. Only 1.0 percent owned three target date funds, and less than one-half of 1 percent owned four or more.

Although a substantial minority of traditional IRA investors with target date funds only held one target date fund and no other investments, a majority of traditional IRA investors with target date funds supplemented their traditional IRA portfolio with another investment. Among traditional IRA investors who owned target date funds, nearly four in 10 held only target date funds, usually one target date fund at year-end 2007 (Figure 24). More than one-quarter of target date fund–owning traditional IRA investors owned one non–target date fund in addition to their target date fund investment and more than one-third owned two or more non–target date funds in addition to their target date fund investment. Investors

FIGURE 23

Number of Target Date Funds Owned by Traditional IRA Investors Who Owned Target Date Funds in 2007

Among traditional IRA investors owning target date funds,* percentage of traditional IRA investors by number of target date funds* owned, year-end 2007



**A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.*
Note: In 2007, 8.9 percent of traditional IRA investors aged 25 or older owned target date funds. The sample is 653,000 traditional IRA investors aged 25 or older who owned target date funds in 2007.
Source: The IRA Investor Database™

FIGURE 24

Ownership of Other Investments Among Traditional IRA Investors Who Owned Target Date Funds in 2007

Among traditional IRA investors owning target date funds,[1] number of non–target date funds owned in traditional IRAs by number of target date funds owned, year-end 2007

	Number of other investments[2]			
Number of target date funds[1]	Zero	One	Two or more	All
One	37.4	26.1	28.9	92.4
Two or more	1.5	1.4	4.7	7.6
All	38.9	27.5	33.7	100.0

[1]A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.
[2]Other investments include equities, equity funds, non–target date hybrid funds, bonds, bond funds, money market funds, certificates of deposit, and unidentified assets.
Note: Components may not add to the total because of rounding. In 2007, 8.9 percent of traditional IRA investors aged 25 or older owned target date funds. The sample is 653,000 traditional IRA investors aged 25 or older who owned target date funds in 2007.
Source: The IRA Investor Database™

may complement their target date funds with other investments to tailor their portfolios to more aggressive or more conservative allocations, while still benefiting from the automatic rebalancing and diversification of target date funds.

Target Date Fund Use in Traditional IRAs Varied with Investor Age in 2007

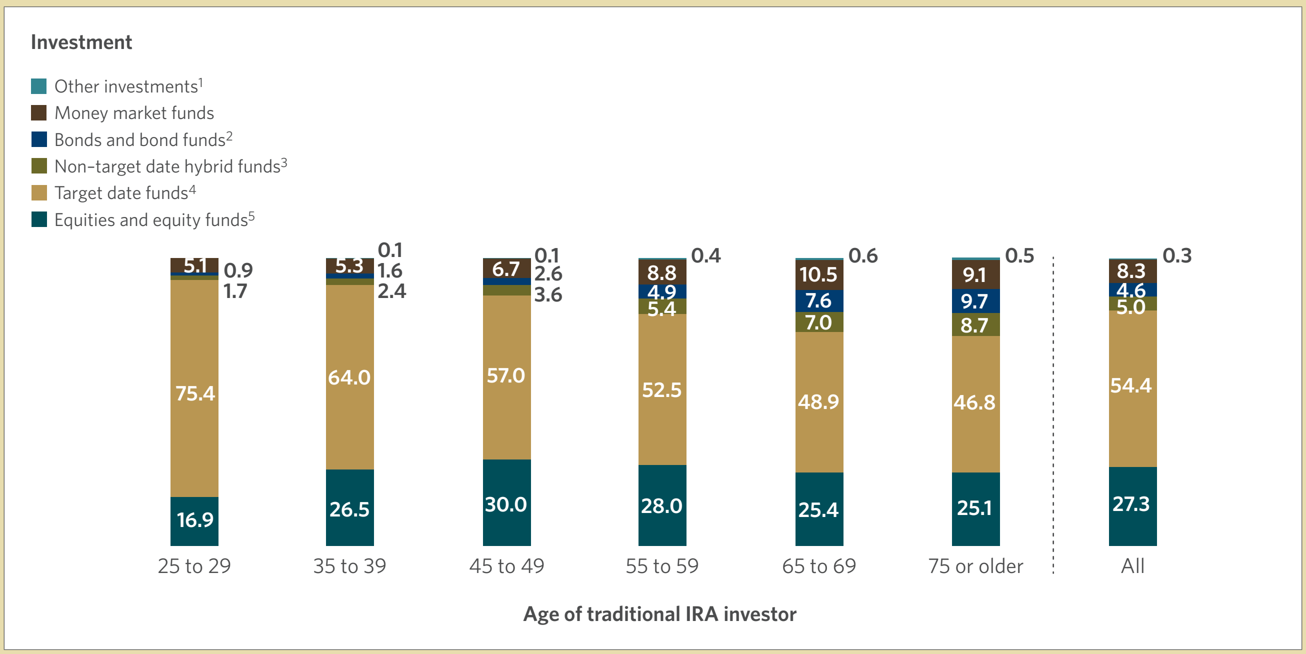
Among traditional IRA investors with target date funds, the allocation to target date funds tended to be higher the younger the investor. At year-end 2007, among traditional IRA investors aged 25 to 29 and holding target date funds, 75.4 percent of their traditional IRA assets was invested in target date funds (Figure 25).[72] In contrast, this share was 46.8 percent of traditional IRA assets among traditional IRA investors aged 75 or older.

Holding only target date funds can be a sensible choice because target date funds provide diversification of assets both at a point in time as well as over time, as they transition towards a more income-oriented portfolio. However, some investors may choose to augment a target date fund with other assets to adjust their portfolio to match their individual risk preferences or other financial goals, while still benefitting from the diversification and rebalancing that target date funds offer. Both strategies are evident among traditional IRA investors in 2007, although the tinkering with the portfolio appears to be at the margin within traditional IRAs. Among traditional IRA investors owning target date funds, 38.8 percent had their entire traditional IRA balances invested in target date funds, and 61.5 percent had at least 80 percent of their account balance invested in target date funds (Figure 26).[73]

FIGURE 25

Younger Traditional IRA Investors Who Owned Target Date Funds Held a Larger Portion of Their Account Balances in Target Date Funds in 2007

Percentage of traditional IRA balance among traditional IRA investors owning target date funds, selected groups, year-end 2007



[1]Other investments include certificates of deposit and unidentifiable assets.
[2]Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.
[3]Hybrid funds invest in a mix of equities and fixed-income securities.
[4]A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.
[5]Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.
Note: Percentages are dollar-weighted averages and may not add to 100 percent because of rounding. In 2007, 8.9 percent of traditional IRA investors aged 25 or older owned target date funds. The sample is 653,000 traditional IRA investors aged 25 or older who owned target date funds in 2007.
Source: The IRA Investor Database™

Younger traditional IRA investors who owned target date funds were more likely to have a substantial portion of their assets invested in target date funds. For traditional IRA investors aged 25 to 29 who owned target date funds, 74.6 percent had at least 80 percent of their traditional IRA balances invested in target date funds, with 48.0 percent fully invested in target date funds (Figure 26). However, even for the oldest groups of traditional IRA investors owning target date funds, nearly half had 80 percent or more of their account balances invested in target date funds. This result likely reflects the fact that target date funds are a relatively recent innovation, and thus, younger investors are more likely to have been introduced to them in 401(k) plans or if they opened their IRAs more recently.[74]

FIGURE 26

Distribution of Traditional IRA Allocation to Target Date Funds Among Investors Who Owned Target Date Funds by Investor Age in 2007

Among traditional IRA investors owning target date funds,* percentage of traditional IRA investors by investor age, year-end 2007

Investor age	Percentage of account balance invested in target date funds*										
	1–9%	10–19%	20–29%	30–39%	40–49%	50–59%	60–69%	70–79%	80–89%	90–99%	100%
25 to 29	2.8	3.4	3.9	3.2	3.2	3.5	2.6	2.7	2.5	24.1	48.0
30 to 34	4.1	5.0	4.8	3.8	3.8	3.9	2.8	2.9	2.7	23.6	42.5
35 to 39	5.4	6.2	5.5	4.1	3.9	3.9	2.9	2.9	2.9	21.9	40.3
40 to 44	6.8	7.0	5.9	4.4	4.1	4.0	2.8	2.9	2.8	20.0	39.4
45 to 49	7.5	7.1	6.1	4.5	4.1	3.9	2.7	2.8	2.8	19.1	39.4
50 to 54	7.9	7.4	6.1	4.5	4.2	4.0	2.9	2.8	2.7	17.9	39.4
55 to 59	8.7	7.6	6.2	4.8	4.4	4.3	2.9	2.8	2.9	17.6	37.8
60 to 64	10.0	8.1	6.4	5.1	4.9	4.1	3.2	3.3	3.3	17.8	33.6
65 to 69	11.0	8.4	6.9	5.6	4.9	4.3	3.2	3.2	3.4	17.8	31.3
70 to 74	11.4	9.4	7.7	5.7	5.4	4.9	3.3	3.2	3.2	18.4	27.5
75 or older	10.2	9.5	7.4	5.9	5.8	5.1	3.1	3.2	2.6	18.2	29.1
All	7.2	6.9	5.8	4.5	4.2	4.0	2.9	2.9	2.9	19.8	38.8

**A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.*

Note: Row percentages may not add to 100 percent because of rounding. In 2007, 8.9 percent of traditional IRA investors aged 25 or older owned target date funds. The sample is 653,000 traditional IRA investors aged 25 or older who owned target date funds in 2007.

Source: The IRA Investor Database™

Traditional IRA Investors' Asset Allocation in 2008

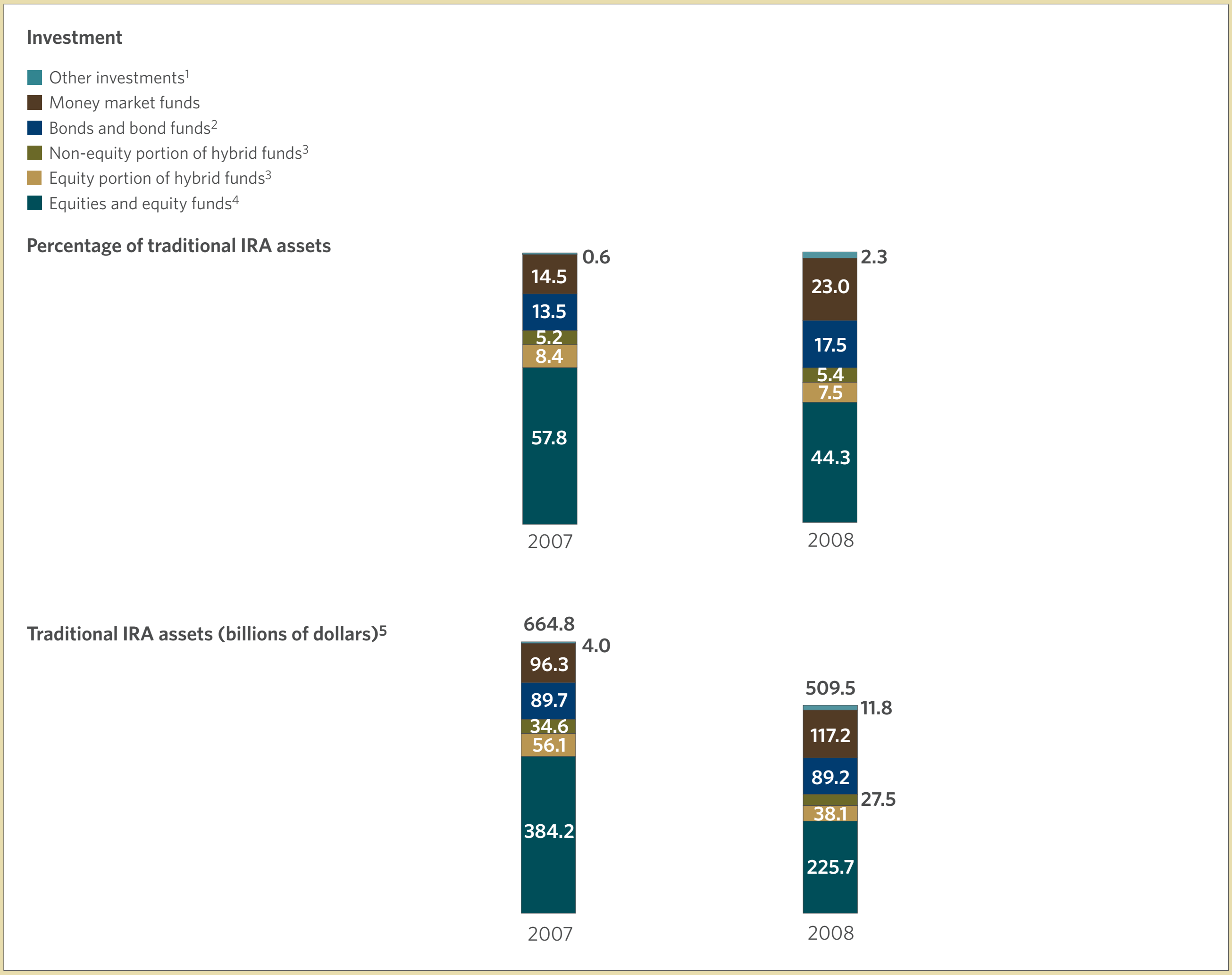
Asset allocation and aggregate assets in traditional IRAs changed between year-end 2007 and year-end 2008, largely reflecting the significant decline in U.S. stock values over the year. Indeed, the S&P 500 total return index fell 37.0 percent in 2008.[75] This section compares investments in traditional IRAs at year-end 2008 to investments in traditional IRAs at year-end 2007. Variation of holdings in traditional IRAs in aggregate and by investor age in 2008 also is explored. Finally, some traditional IRA investor re-allocation activity will be discerned by studying traditional IRA investors present in both 2007 and 2008 who changed from or to a 0 percent or 100 percent allocation in a given investment by year-end 2008.

Investments in Traditional IRAs at Year-End 2008 Compared with Year-End 2007

Equities and equity funds fell as a share of traditional IRA assets between year-end 2007 and year-end 2008. At year-end 2007, 57.8 percent of assets held by traditional IRA investors aged 25 or older were invested in equities and equity funds, and by year-end 2008, that share had dropped to 44.3 percent (Figure 27). Because stock values declined significantly during 2008, the equities and equity fund share in traditional IRAs was expected to be lower even if there were no response from investors. However, it is possible that some investors chose to move their investments away from stock investments and into more fixed-income investments.[76]

FIGURE 27

Equities and Equity Funds in Traditional IRAs Were Lower at Year-End 2008 Compared with Year-End 2007



[1]Other investments include certificates of deposit and unidentifiable assets. At year-end 2007, other investments are 70 percent certificates of deposit and 30 percent unidentifiable assets. At year-end 2008, other investments are 87 percent certificates of deposit and 13 percent unidentifiable assets.
[2]Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.
[3]Hybrid funds invest in a mix of equities and fixed-income securities. The bulk of target date and lifestyle funds is counted in this category.
[4]Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.
[5]Components may not add to the total because of rounding.
Note: Percentages are dollar-weighted averages. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007 and 7.8 million traditional IRA investors aged 25 or older in 2008.
Source: The IRA Investor Database™

Over the year, money market funds increased as a percentage of traditional IRA assets, rising from 14.5 percent of traditional IRA assets at year-end 2007 to 23.0 percent at year-end 2008 (Figure 27). Bonds and bond funds also gained share in traditional IRAs, rising from 13.5 percent of traditional IRA assets at year-end 2007 to 17.5 percent at year-end 2008. Target date funds maintained their 3.8 percent share of traditional IRA assets in both years,[77] while non–target date hybrid funds edged back a bit from 9.9 percent of traditional IRA assets at year-end 2007 (Figure 12) to 8.9 percent at year-end 2008 (Figure 28).[78]

FIGURE 28

Investments in Traditional IRAs by Investor Age in 2008

Percentage of traditional IRA balance by investor age, year-end 2008

		Hybrid funds[2]						
		Equity portion		Non-equity portion				
Investor age	Equities and equity funds[1]	Target date	Non-target date	Target date	Non-target date	Bonds and bond funds[3]	Money market funds	Other investments[4]
25 to 29	36.9	14.7	3.7	2.3	2.7	3.9	30.8	5.0
30 to 34	48.1	12.6	3.5	2.8	2.6	5.4	23.3	1.7
35 to 39	53.8	9.2	3.6	2.0	2.7	6.5	21.2	1.0
40 to 44	55.9	6.4	4.0	1.9	3.0	7.4	20.5	0.9
45 to 49	54.9	4.7	4.6	1.7	3.4	9.0	20.8	1.0
50 to 54	51.6	3.4	5.0	1.8	3.7	11.5	21.7	1.3
55 to 59	46.5	2.5	5.0	1.8	3.8	15.1	23.1	2.2
60 to 64	41.3	1.7	4.8	1.7	3.6	19.4	24.5	3.0
65 to 69	39.2	1.1	5.0	1.4	3.8	21.9	24.5	3.2
70 to 74	38.4	0.5	5.7	1.2	4.3	23.2	23.8	2.8
75 or older	39.5	0.2	7.0	0.8	5.2	24.1	21.1	2.1
All	44.3	2.3	5.1	1.5	3.8	17.5	23.0	2.3

[1]Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.
[2]Hybrid funds invest in a mix of equities and fixed-income securities. The bulk of target date and lifestyle funds is counted in this category.
[3]Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.
[4]Other investments include certificates of deposit and unidentifiable assets.
Note: Percentages are dollar-weighted averages. Row percentages may not add to 100 percent because of rounding. The sample is 7.8 million traditional IRA investors aged 25 or older in 2008.
Source: The IRA Investor Database™

Investment Patterns in Traditional IRAs in 2008 Were Similar to Investment Patterns in Traditional IRAs in 2007

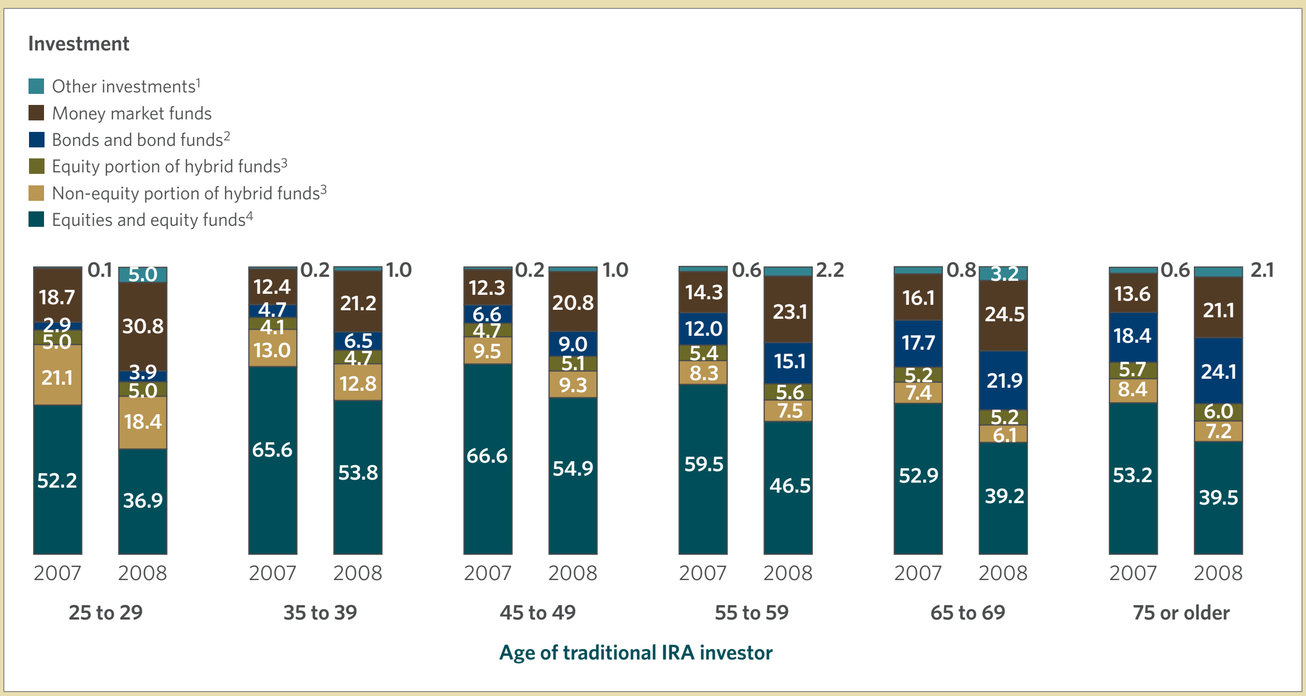
The variations in investments in traditional IRAs by investor age within a given year and across the two years were similar between year-end 2007 and year-end 2008. On average, equities and equity funds continued to be the largest component of traditional IRA investors' assets across all age groups, and the share of traditional IRA assets invested in equities and equity funds fell across each of the age groups between 2007 and 2008. For example, 54.9 percent of traditional IRA assets held by traditional IRA investors aged 45 to 49 were invested in equities and equity funds at year-end 2008, compared with a 66.6 percent allocation at year-end 2007 (Figure 29). Investment in hybrid funds was little changed as a percentage of investors' portfolios across the age groups between 2007 and 2008. The share of traditional IRA assets invested in bonds and bond funds increased across all age groups and more dramatically the older the traditional IRA investor. For example, at year-end 2008, 6.5 percent of traditional IRA assets held by investors aged 35 to 39 were invested in bonds and bond funds, compared with a 4.7 percent share at year-end 2007. Among traditional IRA investors aged 75 or older, 24.1 percent of traditional IRA assets were invested in bonds and bond funds at year-end 2008, compared with 18.4 percent at year-end 2007. Money market funds' shares rose across all age groups.

For more year-end 2008 information on traditional IRA investors[79] and the patterns of their investments[80] and holdings in 2008, see the appendix, which contains additional details on the patterns of traditional IRA investments and holdings by investor age, size of traditional IRA balance, investor income, and investor gender.[81]

FIGURE 29

Equities and Equity Funds in Traditional IRAs Were Lower in 2008 Than in 2007 for All Age Groups

Percentage of traditional IRA assets, selected age groups, year-end 2007 and year-end 2008

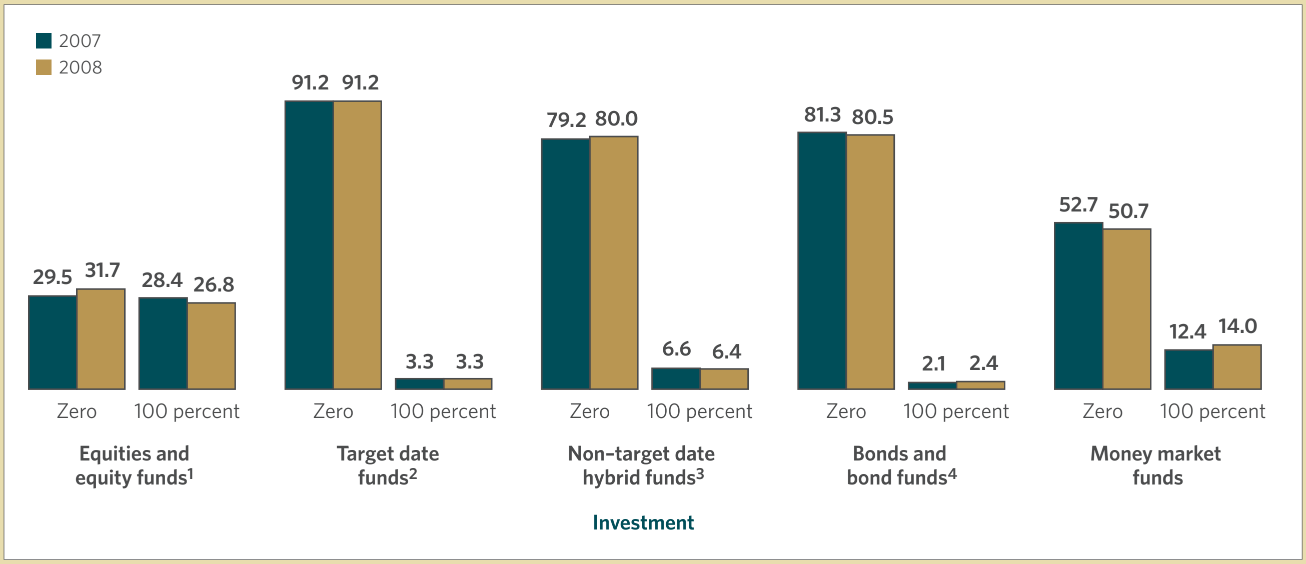


[1]Other investments include certificates of deposit and unidentifiable assets.
[2]Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.
[3]Hybrid funds invest in a mix of equities and fixed-income securities. The bulk of target date and lifestyle funds is counted in this category.
[4]Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.
Note: Percentages are dollar-weighted averages and may not add to 100 percent becasue of rounding. The sample is 7.4 million traditional IRA investors aged 25 or older in 2007 and 7.8 million traditional IRA investors aged 25 or older in 2008.
Source: The IRA Investor Database™

FIGURE 30

Changes in All or Nothing Investment Shares Among Traditional IRA Investors, 2007–2008

Percentage of traditional IRA investors aged 25 or older with account balances at year-end 2007 and year-end 2008



[1] *Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.*
[2] *A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.*
[3] *Hybrid funds invest in a mix of equities and fixed-income securities.*
[4] *Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.*
Note: The sample includes the 6.9 million traditional IRA investors aged 25 or older with accounts at the end of each year from 2007 through 2008. A given investor may be counted in multiple investment categories. For example, an investor who is 100 percent invested in equities will be counted as "zero" in each of the other investment categories.
Source: The IRA Investor Database™

Changes in Individual Traditional IRA Investors' Investments Between 2007 and 2008

In addition to studying how average investments changed between 2007 and 2008, it also is possible to look at how investors who were present in the database in both years changed their investments. As mentioned above, it is possible that investors shifted their assets away from equity investments and towards more principal-preserving investments such as money market funds in response to the market downturn in 2008. Because The IRA Investor Database only contains a snapshot of asset allocation at year-end, it is not possible to examine all the changes investors may have made during the year. However, changes can be inferred by looking at how many traditional IRA investors were either entirely invested (100 percent) or had no investments (0 percent) in a particular investment in their traditional IRA at the end of both years. This measure does not capture all re-allocations, but provides some insight into traditional IRA investors who must have affirmatively shifted the composition of their portfolios between year-end 2007 and year-end 2008.

Between year-end 2007 and year-end 2008, among the 6.9 million traditional IRA investors with account balances in both years, the percentages of participants holding either all or none of their traditional IRA balances in any particular investment were little changed (Figure 30). For example, at year-end 2007, 29.5 percent of these traditional IRA investors held no equities or equity funds. At year-end 2008, 28.3 percent continued to hold no equities or equity funds, but 1.2 percent of traditional IRA investors held equities or equity funds at year-end 2008 when they had held none at year-end 2007 (Figure 31, first panel). Conversely, the investment allocation to equities and equity funds changed for 3.4 percent of traditional IRA investors from holding such equities or equity funds at year-end 2007 to holding none at year-end 2008. On net, the percentage of traditional IRA investors holding no equities or equity funds edged up only slightly from 29.5 percent to 31.7 percent between year-end 2007 and year-end 2008 (Figures 30 and 31).

Between year-end 2007 and year-end 2008, there was a small decline in the percentage of traditional IRA investors allocating 100 percent of their traditional IRA balances to equities and equity funds (Figure 30). At year-end 2007, 28.4 percent of traditional IRA investors with accounts in both 2007 and 2008 were 100 percent invested in equities and equity funds. At year-end 2008, 26.0 percent continued to hold 100 percent of their traditional IRA balances in equities and equity funds (Figure 31, first panel). In addition, 0.8 percent of traditional IRA investors had increased their traditional IRAs' investment allocation to equities and equity funds to 100 percent at year-end 2008 from lower shares at year-end 2007. However, 2.4 percent of traditional IRA investors reduced their allocation to equities and equity funds from 100 percent to less than all of their account. On net, the percentage of traditional IRA investors with their full account balance invested in equities or equity funds edged down slightly in 2008 to 26.8 percent of traditional IRA investors.

The all or nothing investment in target date funds, non–target date hybrid funds, and bonds and bond funds, experienced even more stability, with about similar percentages of traditional IRA investors holding all or none of their balances in each of these investments in both years (Figure 30). Money market funds experienced similar activity levels as equities and equity funds, but in the opposite direction. Among the 6.9 million traditional IRA investors aged 25 or older with accounts in both 2007 and 2008, the number holding no money market funds edged down while the number only invested in money market funds edged up. At year-end 2007, 52.7 percent of these traditional IRA investors held no money market funds. At year-end 2008, 50.1 percent continued to hold no money market funds, but 2.6 percent of traditional IRA investors held money market funds at year-end 2008 when they had held none at year-end 2007 (Figure 32, first panel). Conversely, the investment allocation to money market funds changed for 0.6 percent of traditional IRA investors from holding money market funds at year-end 2007 to holding none at year-end 2008. On net, the percentage of traditional IRA investors holding no money market funds edged down slightly from 52.7 percent to 50.7 percent between year-end 2007 and year-end 2008 (Figures 30 and 32).

Between year-end 2007 and year-end 2008, there was a small increase in the percentage of traditional IRA investors allocating 100 percent of their traditional IRA balances to money market funds (Figure 30). At year-end 2007, 12.4 percent of traditional IRA investors with accounts in both 2007 and 2008 were 100 percent invested in money market funds. At year-end 2008, 11.4 percent continued to hold 100 percent of their traditional IRA balances in money market funds (Figure 32, first panel). In addition, 2.6 percent of traditional IRA investors had increased their investment allocation to money market funds to 100 percent at year-end 2008 from lower shares at year-end 2007. However, 1.0 percent of traditional IRA investors reduced the investment allocation to money market funds from 100 percent to less than all of their accounts. On net, the percentage of traditional IRA investors with their full account balances invested in money market funds edged up slightly in 2008 to 14.0 percent of traditional IRA investors.

More Investment Activity Involving Equities and Equity Funds Was Discernable Among Older Traditional IRA Investors

Older traditional IRA investors were more likely to move their traditional IRA assets completely out of equities and equity funds between year-end 2007 and year-end 2008, compared with younger investors. Only 2.4 percent of traditional IRA investors younger than 50 moved from owning some equities or equity funds to owning none between year-end 2007 and year-end 2008, compared with 4.1 percent of those aged 50 or older (Figure 31, second and third panels). Movement away from a 100 percent allocation was more subdued and more similar between the two age groups: 2.1 percent of traditional IRA investors younger than 50 moved from a 100 percent allocation to equities or equity funds to less than all of their account between year-end 2007 and year-end 2008, compared with 2.5 percent of those aged 50 or older.

FIGURE 31

Changes in Consistent Traditional IRA Investors' Investment in Equities and Equity Funds, 2007–2008

Percentage of traditional IRA investors, year-end 2007 and year-end 2008

Percentage of traditional IRA balance invested in equities and equity funds

Percentage in 2007	Percentage in 2008: Zero	1 to 19	20 to 39	40 to 59	60 to 79	80 to 99	100	Total in 2007[1]
All traditional IRA investors								
Zero	28.3	0.3	0.2	0.2	0.2	0.3	0.1	29.5
1 to 19	0.4	2.5	0.2	0.1	0.1	0.1	(*)	3.3
20 to 39	0.4	1.4	2.5	0.3	0.1	0.1	(*)	4.8
40 to 59	0.5	0.4	2.3	3.7	0.4	0.3	(*)	7.6
60 to 79	0.5	0.3	0.4	2.9	5.3	0.7	0.1	10.2
80 to 99	0.8	0.4	0.4	0.6	2.6	10.9	0.5	16.2
100	0.8	0.2	0.2	0.2	0.2	0.8	26.0	28.4
Total in 2008[2]	31.7	5.4	6.2	7.9	8.9	13.1	26.8	100.0

Percentage in 2007	Percentage in 2008: Zero	1 to 19	20 to 39	40 to 59	60 to 79	80 to 99	100	Total in 2007[1]
Traditional IRA investors aged 25 to 49								
Zero	30.2	0.3	0.2	0.2	0.2	0.4	0.1	31.6
1 to 19	0.2	1.6	0.1	0.1	0.1	0.1	(*)	2.2
20 to 39	0.2	0.9	1.8	0.2	0.1	0.1	(*)	3.3
40 to 59	0.3	0.2	1.6	2.9	0.3	0.3	(*)	5.7
60 to 79	0.4	0.2	0.3	2.4	5.0	0.7	0.1	9.0
80 to 99	0.8	0.3	0.3	0.5	2.9	12.8	0.6	18.3
100	0.5	0.1	0.1	0.2	0.2	0.9	27.8	29.9
Total in 2008[2]	32.6	3.6	4.5	6.4	8.7	15.4	28.7	100.0

Percentage in 2007	Percentage in 2008: Zero	1 to 19	20 to 39	40 to 59	60 to 79	80 to 99	100	Total in 2007[1]
Traditional IRA investors aged 50 or older								
Zero	27.0	0.4	0.2	0.2	0.1	0.2	0.1	28.1
1 to 19	0.5	3.1	0.2	0.1	0.1	0.1	(*)	4.0
20 to 39	0.5	1.7	2.9	0.3	0.1	0.1	(*)	5.7
40 to 59	0.7	0.5	2.8	4.3	0.4	0.2	(*)	9.0
60 to 79	0.6	0.4	0.5	3.2	5.6	0.6	0.1	11.0
80 to 99	0.8	0.4	0.4	0.6	2.5	9.6	0.5	14.8
100	0.9	0.2	0.2	0.2	0.2	0.7	24.8	27.3
Total in 2008[2]	31.1	6.6	7.3	8.9	9.1	11.5	25.6	100.0

[1]Percentages across the row may not add to the total because of rounding.
[2]Percentages in the column may not add to the total because of rounding.
(*) = less than 0.05 percent
Note: The sample includes the 6.9 million traditional IRA investors aged 25 or older with accounts at the end of each year from 2007 through 2008. Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.
Source: The IRA Investor Database™

FIGURE 32

Changes in Consistent Traditional IRA Investors' Investment in Money Market Funds, 2007–2008

Percentage of traditional IRA investors, year-end 2007 and year-end 2008

Percentage of traditional IRA balance invested in money market funds

Percentage in 2007	Percentage in 2008: Zero	1 to 19	20 to 39	40 to 59	60 to 79	80 to 99	100	Total in 2007[1]
All traditional IRA investors								
Zero	50.1	0.9	0.3	0.2	0.2	0.2	0.9	52.7
1 to 19	0.4	19.8	2.2	0.7	0.4	0.4	1.1	25.0
20 to 39	0.1	0.8	1.5	1.2	0.2	0.1	0.2	4.1
40 to 59	(*)	0.4	0.2	0.8	0.8	0.2	0.2	2.6
60 to 79	(*)	0.2	0.1	0.1	0.6	0.5	0.1	1.7
80 to 99	(*)	0.1	0.1	0.1	0.1	0.9	0.1	1.5
100	0.1	0.5	0.1	0.1	0.1	0.1	11.4	12.4
Total in 2008[2]	50.7	22.7	4.4	3.2	2.5	2.5	14.0	100.0

Percentage in 2007	Percentage in 2008: Zero	1 to 19	20 to 39	40 to 59	60 to 79	80 to 99	100	Total in 2007[1]
Traditional IRA investors aged 25 to 49								
Zero	49.8	0.8	0.2	0.2	0.1	0.1	0.5	51.8
1 to 19	0.3	20.0	2.1	0.6	0.4	0.3	1.0	24.6
20 to 39	0.1	0.7	1.2	1.1	0.2	0.1	0.1	3.6
40 to 59	(*)	0.4	0.2	0.6	0.8	0.1	0.1	2.2
60 to 79	(*)	0.2	0.1	0.1	0.5	0.5	0.1	1.4
80 to 99	(*)	0.1	(*)	(*)	0.1	0.7	0.1	1.1
100	0.1	0.6	0.1	0.1	0.1	0.1	14.2	15.4
Total in 2008[2]	50.3	22.8	3.9	2.8	2.1	1.9	16.1	100.0

Percentage in 2007	Percentage in 2008: Zero	1 to 19	20 to 39	40 to 59	60 to 79	80 to 99	100	Total in 2007[1]
Traditional IRA investors aged 50 or older								
Zero	50.2	1.0	0.3	0.3	0.2	0.2	1.1	53.3
1 to 19	0.4	19.7	2.3	0.7	0.5	0.5	1.2	25.3
20 to 39	0.1	0.9	1.7	1.2	0.3	0.2	0.2	4.5
40 to 59	0.1	0.4	0.2	0.9	0.9	0.2	0.2	2.8
60 to 79	(*)	0.2	0.1	0.1	0.7	0.6	0.2	1.9
80 to 99	(*)	0.2	0.1	0.1	0.1	1.1	0.2	1.7
100	0.1	0.4	0.1	0.1	0.1	0.1	9.5	10.4
Total in 2008[2]	50.9	22.7	4.7	3.4	2.7	2.9	12.6	100.0

[1]Percentages across the row may not add to the total because of rounding.
[2]Percentages in the column may not add to the total because of rounding.
(*) = less than 0.05 percent
Note: The sample includes the 6.9 million traditional IRA investors aged 25 or older with accounts at the end of each year from 2007 through 2008.
Source: The IRA Investor Database™

Additional Reading

- *The IRA Investor Profile:*
  - ***Traditional IRA Investors' Contribution Activity, 2007 and 2008***, Investment Company Institute. Available at www.ici.org/pdf/rpt_10_ira_contributions.pdf.
  - ***Traditional IRA Investors' Rollover Activity, 2007 and 2008***, Investment Company Institute. Available at www.ici.org/pdf/rpt_10_ira_rollovers.pdf.

  These reports are the first two reports of the IRA Investor Profile report series, following a life-cycle approach to investing.

- "**The Individual Retirement Account at Age 30: A Retrospective**," *Investment Company Institute Perspective*. This report provides a summary of the growth and development of the IRA market. Available at www.ici.org/pdf/per11-01.pdf.
- "**The Evolving Role of IRAs in U.S. Retirement Planning**," *Investment Company Institute Perspective*. This report describes how the evolution of employer-sponsored retirement plans has elevated the importance of IRAs for many U.S. households and highlights the significant role that IRAs play in retirement and retirement planning. Available at www.ici.org/pdf/per15-03.pdf.
- "**The Role of IRAs in U.S. Households' Saving for Retirement, 2010**," *Investment Company Institute Fundamentals*. This study reports information from two ICI household surveys. Available at www.ici.org/pdf/fm-v19n8.pdf.
- "**Frequently Asked Questions About Individual Retirement Accounts**," Investment Company Institute. Available at www.ici.org/faqs/faqs_iras.

Notes

1 For a history of IRAs, see Holden et al. 2005. For a discussion of the changing role of IRAs, see Sabelhaus and Schrass 2009.

2 ICI reports total IRA and total retirement market assets on a quarterly basis. For additional information on the U.S. retirement market at year-end 2010, see Investment Company Institute 2011b. The Federal Reserve Board reports U.S. households' financial assets on a quarterly basis (see U.S. Federal Reserve Board 2011).

3 For additional discussion of IRA-owning households, see Holden and Schrass 2010a and 2010b.

4 One of the frequently analyzed household surveys is the Survey of Consumer Finances (SCF), which is administered by the Federal Reserve Board. The SCF is a triennial interview survey of U.S. families sponsored by the Board of Governors of the Federal Reserve System and the U.S. Department of Treasury. The sample design of the survey aims to measure a broad range of financial characteristics. The sample has two parts: (1) a standard geographically based random sample and (2) a specially constructed oversampling of wealthy families. Weights are used to combine the two samples to represent the full population of U.S. families. The 2007 SCF interviewed 4,422 families, which represent 116.1 million families. Data available on the Federal Reserve Board's website are altered to protect the privacy of individual respondents and include weights. For an overview of the 2007 SCF results, see Bucks et al. 2009. For a full description of the SCF and recent SCF data, see www.federalreserve.gov/pubs/oss/oss2/scfindex.html. For a special panel analysis that resurveyed households from the 2007 SCF again in 2009, see Bricker et al. 2011.

Researchers interested in the behavior of older households use another publicly available household survey, the Health and Retirement Study (HRS), which is administered by the University of Michigan. For an extensive bibliography of papers using HRS data, see www.umich.edu/~hrswww/pubs/biblio.html.

Another household survey that is often used is the Survey of Income and Program Participation (SIPP), which is administered by the U.S. Census Bureau. For a complete description, see www.census.gov/sipp/intro.html.

5 ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each spring to gather information on the demographic and financial characteristics of U.S. households. The May 2010 survey was based on a sample of 4,200 U.S. households selected by random digit dialing, of which 1,738 households, or 41.4 percent, owned IRAs. All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2010 sample of households is ± 1.5 percentage points at the 95 percent confidence level. For the 2010 survey results, see Bogdan, Sabelhaus, and Schrass 2010. For reporting of 2010 IRA incidence, see Holden and Schrass 2010a.

6 ICI typically conducts the IRA Owners Survey each spring to gather information on characteristics and activities of IRA-owning households in the United States. The May 2010 survey was based on a sample of 1,800 randomly selected, representative U.S. households owning traditional IRAs, Roth IRAs, and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs). All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the total sample is ± 2.3 percentage points at the 95 percent confidence level. IRA ownership does not include ownership of Coverdell education savings accounts (formerly called education IRAs). For results from the 2010 survey, see Holden and Schrass 2010a and 2010b.

7 For the most recent tabulations of individual income tax return data, see Internal Revenue Service 2011. For the most recent tabulations of the IRA data from Forms 5498 and 1099-R, see the results for tax year 2004 presented in Bryant 2008. For earlier years and explanation of the IRS methodology for the IRA data, see Sailer, Weber, and Gurka 2003; Sailer and Nutter 2004; and Bryant and Sailer 2006.

8 The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks, and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation, and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

[9] See Figure A.1 in the appendix.

[10] While it is possible to track the same individuals over time within the same data provider, it is not possible to link individuals across providers. Therefore, it is possible that some IRA investors will be counted more than once if they own IRAs across multiple service providers. For additional detail on the variables collected and the data collection methodology, see the appendix.

[11] For the most recent published IRS Statistics of Income data (tax year 2004), see Bryant 2008. For the 2010 ICI IRA Owners Survey results, see Holden and Schrass 2010a and 2010b.

[12] Roth IRAs were first made available in 1998 under the Taxpayer Relief Act of 1997. For additional information on Roth IRAs, see Investment Company Institute 2011b and Holden and Schrass 2010a and 2010b.

[13] The simplified employee pension (SEP) IRA was created under the Revenue Act of 1978. The salary reduction (SAR)-SEP IRA was created under the Tax Reform Act of 1986. The Small Business Job Protection Act of 1996 prohibited the formation of new SAR-SEP IRAs after December 31, 1996, but introduced the savings incentive match plan for employees (SIMPLE) IRAs, which were first available in 1997. For additional information on employer-sponsored IRAs, see Investment Company Institute 2011b and Holden and Schrass 2010a and 2010b.

[14] See Figure A.2 in the appendix for a comparison of the full set of traditional IRA data for 2007 in The IRA Investor Database with the 2007 IRS Statistics of Income traditional IRA data ("IRA universe").

[15] See Figure A.4 in the appendix.

[16] Individual IRA investor income is proxied by the average income per tax return for the traditional IRA investor based on his or her five-digit zip code. The income averages are taken from the IRS Statistics of Income (SOI) Individual Tax Statistics Zip Code data file, available at www.irs.gov/taxstats/indtaxstats/article/0,,id=96947,00.html. Traditional IRA investors are grouped into approximate deciles of income and analyzed on the basis of that grouping. See additional discussion in the appendix.

[17] See Figure A.6 in the appendix.

[18] ICI household survey results find that traditional IRA balances tend to increase with the length of time the household owns the traditional IRA, and traditional IRAs with rollovers tend to be larger than traditional IRAs without rollovers, on average (see Holden and Schrass 2010b). Research from the EBRI/ICI 401(k) database finds that 401(k) balances also tend to rise with job tenure (see Holden, VanDerhei, and Alonso 2010). The EBRI/ICI 401(k) database at year-end 2009 covered 20.7 million 401(k) plan participants, in 51,852 plans, holding $1.2 trillion in assets.

[19] For a discussion of the variation in rollover activity and rollover amounts, see Holden, Sabelhaus, and Bass 2010b.

[20] At year-end 2007, equity mutual funds were 65 percent of mutual fund assets in IRAs, or 32 percent of all IRA assets (see Investment Company Institute 2011b).

[21] A target date fund pursues a long-term investment strategy, using a mix of asset classes, or asset allocation, that the fund provider adjusts to become less focused on growth and more focused on income over time. The asset allocation path that the target date fund follows to shift its focus from growth to income over time is typically referred to as the "glide path." Since discussions of asset allocation usually focus on the percentage of the portfolio invested in equities, the glide path generally reflects the declining percentage of equities in the portfolio as it approaches and passes the target date, which is usually indicated in the fund's name. The target date generally is the date at which the typical investor for whom that fund is designed would reach retirement age and stop making new investments in the fund.

[22] See Holden, Sabelhaus, and Bass 2010a.

[23] See Holden, Sabelhaus, and Bass 2010b.

[24] See Investment Company Institute 2011b.

[25] See Sabelhaus and Schrass 2009.

[26] The 10 percent penalty applies to the taxable portion of the withdrawal. There are some exemptions to the 10 percent penalty. For example, distributions used to pay for first time home purchase (up to $10,000), higher education expenses, or health insurance if unemployed. In addition, exemption from the penalty has been granted to individuals affected by hurricanes or military service. Furthermore, amounts taken out as substantially equal periodic payments (SEPPs) are also exempt. For additional details, see Internal Revenue Service, *Publication 590,* www.irs.gov/pub/irs-pdf/p590.pdf.

[27] See Investment Company Institute 2011b, which reports a history of IRS Statistics of Income tabulations.

[28] In the Internal Revenue Code, §408 and the associated regulations contain the central set of rules for traditional IRAs. There are rules concerning the tax treatment of the money and rules for the protection of the investor that apply to the IRA provider, including disclosure and reporting standards. For example, Code §408 requires that all IRAs be held for the exclusive benefit of the IRA owner or beneficiaries, and the interest must be non-forfeitable. IRAs can be accounts held by a trustee or custodian or annuity contracts issued by an insurance company. Custodial accounts are treated as trusts if the assets are held by a bank (regulated by the FDIC) or approved non-bank custodian (approved and regulated by the IRS). For additional discussion, see Holden 2009.

IRA providers also are subject to annual reporting requirements, including contributions and the fair market value of the IRA reported on IRS Form 5498 and distributions reported on IRS Form 1099-R. Each year, IRA custodians must provide a required minimum distribution (RMD) notice to traditional IRA owners aged 70½ or older. In addition, the IRS oversees the language of IRA documents, with IRA providers generally using model IRA forms from the IRS or prototype documents submitted to the IRS for approval.

[29] Financial planners, advisers, or brokers may have fiduciary obligations or be subject to other rules of practice. For example, investment advisers are regulated and subject to fiduciary obligations to clients under the Investment Advisers Act of 1940 and/or under state adviser laws. These standards, meant to prevent advisers from overreaching or taking advantage of a client, require them to act in the client's best interest. The Advisers Act also imposes obligations on advisers relating to fees and advertising. Brokers, on the other hand, are subject to rules of fair practice and advertising rules under FINRA's jurisdiction. Securities recommendations of brokers must be suitable and appropriate for the customer and brokers must disclose conflicts of interest on a transactional basis. For additional discussion, see Holden 2009.

[30] For example, mutual funds are regulated by the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940 and the Securities Act of 1933. For additional information on the structure and regulation of mutual funds, see Investment Company Institute 2011a. Bank and savings deposits are governed by banking or thrift regulations. Insurance company products are regulated by state insurance commissions. For a discussion of the range of regulation governing IRAs, see Holden 2009.

[31] At year-end 2010, IRAs had $4.7 trillion in assets (see Figure 1) and DC plans had $4.5 trillion, of which, $3.1 trillion were 401(k) plan assets. See Investment Company Institute 2011b.

[32] See Holden, VanDerhei, and Alonso 2010 for the year-end 2009 update. The annual EBRI/ICI 401(k) updates are available back to 1996.

[33] A target date fund pursues a long-term investment strategy, using a mix of asset classes, or asset allocation, that the fund provider adjusts to become less focused on growth and more focused on income over time. The asset allocation path that the target date fund follows to shift its focus from growth to income over time is typically referred to as the "glide path." Since discussions of asset allocation usually focus on the percentage of the portfolio invested in equities, the glide path generally reflects the declining percentage of equities in the portfolio as it approaches and passes the target date, which is usually indicated in the fund's name. The target date generally is the date at which the typical investor for whom that fund is designed would reach retirement age and stop making new investments in the fund.

[34] Ownership of a single investment, however, may still represent a diversified portfolio of multiple financial securities. For example, holding a single balanced, index, or target date fund, would count as one investment, but represents diversified holding of multiple individual securities. See Figure A.11 in the appendix for the distribution of number of investments by traditional IRA investors aged 25 or older at year-end 2007.

Preliminary research analyzing 1.4 million participants drawn from the 2000 EBRI/ICI 401(k) database finds, on average, 401(k) plan participants had 10.4 distinct options but, on average, choose only 2.5 (see Holden and VanDerhei 2001). The Vanguard Group 2011 finds that DC plan participants in their recordkeeping system held an average of 3.6 investment options in 2007, 3.4 investments in 2008, 3.4 investments in 2009, and 3.3 investments in 2010.

[35] See Figure A.11 in the appendix for the distribution of number of investments owned in traditional IRAs by investor age at year-end 2007. Figure A.12 in the appendix reports the investment held among traditional IRA investors holding one investment at year-end 2007.

[36] In 401(k) plans, equity funds additionally include equity collective investment trusts and separately managed equity accounts. See Holden et al. 2008. The EBRI/ICI database at year-end 2007 covered 21.8 million 401(k) plan participants, in 56,232 plans, holding $1.4 trillion in assets.

[37] In the EBRI/ICI 401(k) database, money funds include money market mutual funds as well as collective investment trusts, separately managed accounts, and any other pooled security primarily invested in short-term money market instruments. Money funds were 4.2 percent of 401(k) plan participants' assets at year-end 2007, and GICs and other stable value funds were 10.6 percent. See Figure 18 in Holden et al. 2008.

[38] A target date fund pursues a long-term investment strategy, using a mix of asset classes, or asset allocation, that the fund provider adjusts to become less focused on growth and more focused on income over time. The asset allocation path that the target date fund follows to shift its focus from growth to income over time is typically referred to as the "glide path." Since discussions of asset allocation usually focus on the percentage of the portfolio invested in equities, the glide path generally reflects the declining percentage of equities in the portfolio as it approaches and passes the target date, which is usually indicated in the fund's name. The target date generally is the date at which the typical investor for whom that fund is designed would reach retirement age and stop making new investments in the fund.

[39] At year-end 2007, about one-third of traditional IRA investors were aged 60 or older (see Figures A.2, A.4, and A.5 in the appendix), compared with fewer than one-tenth of 401(k) plan participants (see Figure A.5 in the appendix and Figure 4 in Holden et al. 2008).

[40] In 401(k) plans, bond funds additionally include bond collective investment trusts and separately managed bond accounts.

[41] For target date funds, investors were assumed to be in a fund whose target date was nearest to their 65th birthday. The equity portion was estimated using the industry average equity percentage for the assigned target date fund calculated using Morningstar data.

[42] At year-end 2007, 61 percent of hybrid mutual fund assets was invested in equities (see Investment Company Institute, Quarterly Supplementary Data). This ratio was used to calculate the equity component of non–target date hybrid funds.

[43] See Figure A.14 in the appendix and Figure 14.

[44] For a comparison of the asset allocation of traditional IRA investors with 401(k) plan participants' asset allocation, see the discussion on page 19 and Figure 13. The asset allocation of 401(k) participants by age in 2007 comes from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project (see Holden et al. 2008). For the most recent EBRI/ICI update, which is for year-end 2009, see Holden, VanDerhei, and Alonso 2010.

[45] For discussion of how U.S. households' investments change over the life cycle, see Sabelhaus, Bogdan, and Schrass 2008.

[46] For the pattern of use of target date funds in 401(k) plans, see Holden et al. 2008. For the pattern of traditional IRA opening by age, see Holden, Sabelhaus, and Bass 2010b.

[47] See notes 44–45.

[48] ICI data on target date mutual funds indicate that DC plans hold more target date mutual fund assets than IRAs. Of the $183 billion in target date mutual fund assets in aggregate at year-end 2007, 72 percent was held in DC plans, 21 percent was held in IRAs, and 7 percent was held by other investors (see Investment Company Institute 2011b).

[49] At year-end 2007, 12 percent of 401(k) plan participants were in their twenties, 25 percent were in their thirties, and 30 percent were in their forties (see Figure A.5 in the appendix and Figure 4 in Holden et al. 2008). At year-end 2007, only about 2 percent of traditional IRA investors were aged 25 to 29, 13 percent were in their thirties, and 24 percent were in their forties (see Figures A.2, A.4, and A.5 in the appendix).

[50] Among 401(k) plans with automatic enrollment in 2007, 48.7 percent used target date funds as the default investment option; 21.0 percent used lifestyle funds; 16.0 percent used a balanced fund; 6.3 percent used a stable value fund; 1.0 percent used a money market fund; 4.0 percent used a professionally managed account; and 3.0 percent used some other investment. See Profit Sharing/401k Council of America 2008.

[51] See note 49.

[52] See note 60 for discussion of default rollover rules and note 50 for default investment options in 401(k) plans with automatic enrollment.

[53] For discussion of the asset allocation of 401(k) participants by age, see Holden et al. 2008, and Holden, VanDerhei, and Alonso 2010. For discussion of how U.S. households' investments change over the life cycle, see Sabelhaus, Bogdan, and Schrass 2008.

[54] See *IRS Publication 590*, www.irs.gov/pub/irs-pdf/p590.pdf.

[55] The Federal Reserve Board's Survey of Consumer Finances finds this result. For example, in 2007, 14 percent of U.S. households aged 21 to 29 indicate saving for a home is their primary savings goal, compared with 5 percent of all households aged 21 to 64. For additional detail, see Brady and Bogdan 2011.

An annual ICI survey in 2010 finds that 44 percent of mutual fund–owning households younger than 40 indicate that saving to finance education is one of their financial goals for their mutual fund investments, with 13 percent indicating it is their primary financial goal. In contrast, only 13 percent of mutual fund–owning households aged 65 or older indicate education saving is a financial goal, with only 2 percent saying it is their primary financial goal. Younger mutual fund–owning households were also more likely to indicate they were saving for a house or other large item. For additional detail, see Figure 6.8 in Schrass and Bogdan 2011.

[56] See Figure A.8 in the appendix. For median traditional IRA balances at year-end 2007 by investor age, income, and gender, see Figure A.9 in the appendix. For average traditional IRA balances at year-end 2007 by investor age, income, and gender, see Figure A.10 in the appendix.

[57] See Figures 4, 6, and 7.

[58] A target date fund pursues a long-term investment strategy, using a mix of asset classes, or asset allocation, that the fund provider adjusts to become less focused on growth and more focused on income over time. The asset allocation path that the target date fund follows to shift its focus from growth to income over time is typically referred to as the "glide path." Since discussions of asset allocation usually focus on the percentage of the portfolio invested in equities, the glide path generally reflects the declining percentage of equities in the portfolio as it approaches and passes the target date, which is usually indicated in the fund's name. The target date generally is the date at which the typical investor for whom that fund is designed would reach retirement age and stop making new investments in the fund.

[59] See Figure A.11 in the appendix for the distribution of number of investments held in traditional IRAs by size of traditional IRA balance. At year-end 2007, 74.9 percent of traditional IRA investors with balances of less than $5,000 held one investment in their traditional IRAs. Among them, 50.9 percent held a money market fund as their one investment (see Figure A.12 in the appendix).

[60] A provision in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) requires qualified DC plans that cash out small balances to automatically roll over any balance greater than $1,000 but not more than $5,000 into an IRA when an employee separates, unless the employee chooses to receive the balance as a distribution or chooses to transfer the balance to another retirement plan. See Internal Revenue Code §401(a)(31)(B).

In cases where the retirement plan balance is automatically rolled over into an IRA by the employer, DOL's safe harbor provisions state that "the rolled-over funds shall be invested in an investment product designed to preserve principal and provide a reasonable rate of return, whether or not such return is guaranteed" (see page 58020 www.dol.gov/ebsa/regs/fedreg/final/2004021591.pdf; 29 CFR Part 2550.404a-2(c)(3)(i) and (ii)). Such safe harbor investment products would typically include money market funds maintained by registered investment companies, and interest-bearing savings accounts and certificates of deposit of a bank or a similar financial institution.

[61] Rollover activity prior to 2007 is not observable in the IRA data. Rollover activity tends to be cumulative over time as different groups of investors make rollovers year-to-year. For discussions of rollover activity, see Holden, Sabelhaus, and Bass 2010; Holden and Schrass 2010a and 2010b; and Sabelhaus and Schrass 2009.

[62] See note 26 and *IRS Publication 590*, www.irs.gov/pub/irs-pdf/p590.pdf.

[63] Younger traditional IRA–owning households tend to make withdrawals for emergencies. For analysis of IRA withdrawal activity, see Holden and Schrass 2010a; Holden and Reid 2008; Lin 2006; and Amromin and Smith 2003.

[64] See note 21 for a description of target date funds and notes 41 and 42 for a description of how target date fund and non–target date hybrid fund assets are allocated to the asset holdings in this report.

[65] Individual IRA investor income is proxied by the average income per tax return for the traditional IRA investor based on his or her five-digit zip code. The income averages are taken from the IRS Statistics of Income (SOI) Individual Tax Statistics Zip Code data file, available at www.irs.gov/taxstats/indtaxstats/article/0,,id=96947,00.html. Traditional IRA investors are grouped into approximate deciles of income and analyzed on the basis of that grouping. See additional discussion in the appendix.

[66] For example, ICI survey data find that 12 percent of households with less than $50,000 in income were willing to take above-average or substantial financial risk in 2008 compared with 54 percent of households with income of $150,000 or more. See Figure A.7 in the appendix.

[67] Lower-income households are more likely to indicate they are saving for more near-term goals than retirement (see Brady and Bogdan 2011).

[68] For investments in traditional IRAs at year-end 2007 by investor age and gender, see Figure A.13 in the appendix.

[69] For holdings in traditional IRAs at year-end 2007 by investor age and gender, see Figure A.14 in the appendix. For the distribution of holdings in traditional IRAs across female traditional IRA investors, see Figure A.15 in the appendix. For the distribution of holdings in traditional IRAs across male traditional IRA investors, see Figure A.16 in the appendix.

[70] A target date fund pursues a long-term investment strategy, using a mix of asset classes, or asset allocation, that the fund provider adjusts to become less focused on growth and more focused on income over time. The asset allocation path that the target date fund follows to shift its focus from growth to income over time is typically referred to as the "glide path." Since discussions of asset allocation usually focus on the percentage of the portfolio invested in equities, the glide path generally reflects the declining percentage of equities in the portfolio as it approaches and passes the target date, which is usually indicated in the fund's name. The target date generally is the date at which the typical investor for whom that fund is designed would reach retirement age and stop making new investments in the fund.

[71] Target date fund use is more widespread among 401(k) plan participants. At year-end 2007, 25.1 percent of 401(k) plan participants invested at least some of their accounts in target date funds (including target date mutual funds and target date collective investment trusts). See Figure 28 in Holden et al. 2008.

[72] See Figure A.17 in the appendix for all age groupings.

[73] For the distribution of target date fund ownership in traditional IRAs at year-end 2007 among investors with target date funds by size of traditional IRA balance, investor income, or gender, see Figure A.18 in the appendix.

[74] See note 46.

[75] See Morningstar 2011.

[76] There is some survey evidence indicating that investors did become more conservative in response to the financial market downturn. In a household survey fielded by ICI in the fall of 2010, households owning financial investments were asked if they had changed how their assets were invested between 2008 and 2010 in response to the economic stresses of the prior three years. Thirty-seven percent of these households responded that they had shifted their investments to be more conservative, compared to only 11 percent who responded that they had shifted their investments to be less conservative. For additional information, see Holden, Bass, and Reid 2011.

[77] The patterns of target date fund use among traditional IRA investors in 2008 were similar to those seen in 2007. For analysis of target date fund use by traditional IRA investors in 2008, see Figures A.38–A.41 in the appendix.

[78] Some of the stability of these investments' share of the total may result from their design. Both target date funds and non–target date hybrid funds retained similar percentages of equity and non-equity assets between year-end 2007 and year-end 2008. This is because hybrid funds hold a mixture of both equity and fixed-income securities, and generally rebalance to maintain a specified allocation even as the prices of these different asset classes fluctuate. This automatic rebalancing helps investors buy securities when prices are low and sell them when prices are high.

[79] For background information on the demographic composition of traditional IRA investors by investor age, income, and gender, see Figures A.3 and A.19–A.21 in the appendix. For information of the range of size of traditional IRA balances at year-end 2008, see Figure A.22 in the appendix. For median traditional IRA balances at year-end 2008 by investor age, income, and gender, see Figure A.23 in the appendix. For average traditional IRA balances at year-end 2008 by investor age, income, and gender, see Figure A.24 in the appendix.

[80] See Figure A.25 in the appendix for the distribution of number of investments owned in traditional IRAs by investor age at year-end 2008. Figure A.26 in the appendix reports the investment held among traditional IRA investors holding one investment at year-end 2008.

[81] See Figures A.27–A.37 in the appendix.

Glossary

bond. A debt security issued by a company, municipality, or government agency. A bond investor lends money to the issuer and, in exchange, the issuer promises to repay the loan amount on a specified maturity date; the issuer usually pays the bondholder periodic interest payments over the life of the loan.

bond fund. A fund that concentrates its investments in bonds.

closed-end fund. A type of investment company that issues a fixed number of shares that trade intraday on stock exchanges at market-determined prices. Investors in a closed-end fund buy or sell shares through a broker, just as they would trade the shares of any publicly traded company.

defined benefit (DB) plan. An employer-sponsored pension plan where the amount of future benefits an employee will receive from the plan is defined, typically by a formula based on salary history and years of service. The amount of contributions the employer is required to make will depend on the investment returns experienced by the plan and the benefits promised. Contrast **defined contribution plan**.

defined contribution (DC) plan. An employer-sponsored retirement plan, such as a 401(k) plan or a 403(b) plan, in which contributions are made to individual participant accounts. Depending on the type of DC plan, contributions may be made by the employee, the employer, or both. The employee's benefits at retirement or termination of employment are based on the employee and employer contributions and earnings and losses on those contributions. See also **401(k) plan**. Contrast **defined benefit plan**.

distribution. Individuals may take distributions (that is, withdraw funds) from their IRAs prior to retirement, but distributions may be subject to federal income tax, a tax penalty, or both. Withdrawals from traditional IRAs before age 59½ are subject to income tax and 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 (along with the after-tax contribution portion in some circumstances). For both traditional IRAs and Roth IRAs, the 10 percent penalty does not apply to withdrawals made in cases of death or disability, or if used for certain medical expenses, first-time homebuyer expenses, qualified higher-education expenses, health insurance expenses of unemployed individuals, or as part of a series of substantially equal periodic payments made for the life or over the life expectancy of the individual. In addition, provided the five-year holding period is satisfied, the earnings portion of early withdrawals from a Roth IRA made in cases of death, disability, or first-time homebuyer expenses are not subject to income tax.

equity fund. A fund that concentrates its investments in stocks.

exchange-traded fund (ETF). An investment company, typically a mutual fund or unit investment trust, whose shares are traded intraday on stock exchanges at market-determined prices. Investors may buy or sell ETF shares through a broker just as they would the shares of any publicly traded company.

401(k) plan. A type of DC plan that allows employees to choose to contribute a portion of their salaries into the plan, which defers income taxes on the amounts contributed. Like a traditional IRA, no taxes are due until distributions are taken from the account. Starting in 2006, plans could choose to allow employees to make Roth contributions to a 401(k) plan. These contributions are claimed as taxable income in the year of the contribution, but no taxes are due on qualified distributions. Most 401(k) plans also allow employees to choose how they wish to invest their accounts. See also **defined contribution plan**.

hybrid fund. A fund that invests in a mix of equity and fixed-income securities.

individual retirement account (IRA). A tax-deferred or tax-free retirement account that allows contributions of a limited yearly sum. 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 separation or retirement. The term IRA is also applied to individual retirement annuities, which receive similar tax treatment.

money market fund. A mutual fund that invests in short-term, high-grade fixed-income securities, and seeks the highest level of income consistent with preservation of capital (i.e., maintaining a stable share price).

mutual fund. An investment company that buys a portfolio of securities selected by a professional investment adviser to meet a specified financial goal (investment objective). Mutual funds can have actively managed portfolios, where a professional investment adviser creates a unique mix of investments to meet a particular investment objective, or passively managed portfolios, in which the adviser seeks to track the performance of a selected benchmark or index. One hallmark of mutual funds is that they issue "redeemable securities," meaning that the fund stands ready to buy back its shares at their current net asset value.

required minimum distribution (RMD). Minimum distribution rules require that beginning at age 70½, the entire amount of a traditional IRA be distributed over the expected life of the individual (or the joint lives of the individual and designated beneficiary). Distributing less than the required amount will result in a tax penalty. Roth IRAs are not subject to required minimum distributions during the account holder's lifetime.

risk/return tradeoff. The principle that an investment must offer higher potential returns as compensation for the likelihood of higher volatility in returns.

rollover. The transfer 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.

Roth IRA. An individual retirement account, first available in 1998, that permits only after-tax (nondeductible) contributions. Earnings on investments in this IRA are not taxed. Distributions of both principal and earnings are generally not subject to federal income tax if taken after age 59½. Distributions of principal before age 59½ are not subject to tax, but investment earnings are generally subject to tax and a 10 percent penalty if taken before age 59½. There are no required distributions during the account holder's lifetime. See also **distribution**.

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.

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, it provided that an employer could not establish a new SAR-SEP plan after 1996.

stock. A share of ownership or equity in a corporation.

target date fund. Hybrid funds that follow a predetermined reallocation of risk over a working career and into retirement for a person expecting to retire at the target date of the fund (which is usually included in the fund's name). These funds invest in a mix of asset classes and typically rebalance their portfolios over time to become less focused on growth and more focused on income. Also known as *lifecycle fund*.

traditional IRA. The first type of IRA, created in 1974. Individuals may make tax-deductible and nondeductible contributions to these IRAs. Taxes on IRA investment earnings are deferred until they are distributed. Upon distribution, both principal and earnings are subject to federal income tax. Generally, distributions before age 59½ are subject to income tax and a 10 percent penalty.

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