The IRA Investor Profile

TRADITIONAL IRA INVESTORS' WITHDRAWAL ACTIVITY, 2007 AND 2008

INVESTMENT COMPANY INSTITUTE®

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The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.

The IRA Investor Database™

In an ongoing effort, the Investment Company Institute and the Securities Industry and Financial Markets Association collect 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

- **Fewer than one in five traditional IRA investors took withdrawals in any given year.** Among traditional IRA investors aged 25 or older in 2007, 18.1 percent took withdrawals from their traditional IRAs in 2007. Among traditional IRA investors aged 25 or older in 2008, 18.1 percent took withdrawals from their traditional IRAs in 2008. These rates of withdrawal activity are lower than those reported by the Internal Revenue Service because The IRA Investor Database covers a portion of the traditional IRA universe and does not reflect withdrawal activity that closes a traditional IRA account.

- **Withdrawal activity increased with investor age, in part reflecting the rules that govern traditional IRA distributions.** Fewer than one in 10 traditional IRA investors aged 59 or younger took withdrawals in 2007, and these investors possibly faced a 10 percent penalty. About one in five traditional IRA investors in their sixties chose to take withdrawals in 2007. Nearly eight in 10 traditional IRA investors aged 70 or older took withdrawals in 2007, reflecting rules requiring distributions from traditional IRAs after age 70½. A similar pattern of traditional IRA withdrawal activity is observed in 2008.

- **Lower-income traditional IRA investors were more likely to have taken withdrawals, compared with higher-income traditional IRA investors.** For example, nearly one-quarter of traditional IRA investors with less than $35,000 in income took withdrawals in 2007, compared with 15.0 percent of traditional IRA investors with income of $140,000 or more.

- **Traditional IRA withdrawal amounts tended to rise with investor age through age 64, before falling off among older investors.** The median amount withdrawn by traditional IRA investors aged 60 to 64 in 2007 was $14,000, compared with a median withdrawal of $3,730 among those aged 25 to 29 and $4,170 among those aged 70 or older. The range of withdrawal amounts tended to be wider the older the traditional IRA investor, likely reflecting their wider range of account values resulting from possibly longer histories with defined contribution plans and IRAs.

- **Younger traditional IRA investors taking withdrawals tended to withdraw less than $6,000, but the withdrawals often were the majority of the account.** For example, 7.7 percent of traditional IRA investors aged 30 to 34 took withdrawals in 2007. Among those taking withdrawals, 44.5 percent took less than $5,000 from their traditional IRAs, and the median amount withdrawn was $5,830. On average, these traditional IRA investors with withdrawals took 62 percent of the IRA balance as a withdrawal. These individuals may have been reacting to financial stresses, taking advantage of exemptions from penalty for certain withdrawals (e.g., to fund a first home purchase or qualified educational expenses), or taking withdrawals from inherited IRAs.

- **Fewer than one in 10 traditional IRA investors younger than 60 took withdrawals in 2007 or 2008, with fewer than one in 20 taking withdrawals in both years.** For example, among those aged 26 to 29 and holding traditional IRAs in both 2007 and 2008, 5.0 percent took withdrawals only in 2007, 3.5 percent took withdrawals only in 2008, and 2.3 percent took withdrawals in both years.

- **Traditional IRA withdrawals when measured as a percentage of the prior year's balance tended to be smaller for older traditional IRA investors and often based on the required minimum distribution (RMD) amount.** For example, among traditional IRA investors present in 2007 and 2008, aged 72 or older in 2008, and taking withdrawals in 2008, 65.3 percent took out up to the RMD percentage, including 58.3 percent taking exactly the RMD. For a traditional IRA investor aged 72, the RMD is 3.9 percent of the prior-year traditional IRA balance.[1]

Introduction

The Role of IRAs in U.S. Retirement Planning

The Employee Retirement Income Security Act (ERISA) of 1974 created individual retirement accounts (IRAs)—tax-deferred accounts for retirement savings.[2] Thirty-eight years later, IRAs have grown to be a significant component of U.S. households' retirement assets. At year-end 2011, IRAs held $4.9 trillion, or more than one-quarter, of the $17.8 trillion in total U.S. retirement assets,[3] and made up 9.7 percent of U.S. households' total financial assets (Figure 1). All told, 46.1 million, or 38.8 percent of, U.S. households owned one or more types of IRAs in mid-2011.[4] Traditional IRAs, the first type of IRA created, are the most common type of IRA.[5]

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. 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 also are interested in understanding the asset allocation of IRA balances across investors. In addition, policymakers want to know how people manage these accounts, including whether there is significant withdrawal of assets prior to retirement ("leakage") and how individuals tap their IRAs throughout retirement.[6]

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,[7] and ICI conducts two annual household surveys that provide information on IRA-owning households.[8, 9] While household surveys provide a comprehensive picture of households' finances and activities and can provide insights into the reasoning behind decisions, 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.).[10] 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)[11] embarked on a 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.[12] Participating data providers encrypted individual records to protect the identities of individuals, but provided each investor's year of birth; gender; average income for the investor's 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.[13]

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.

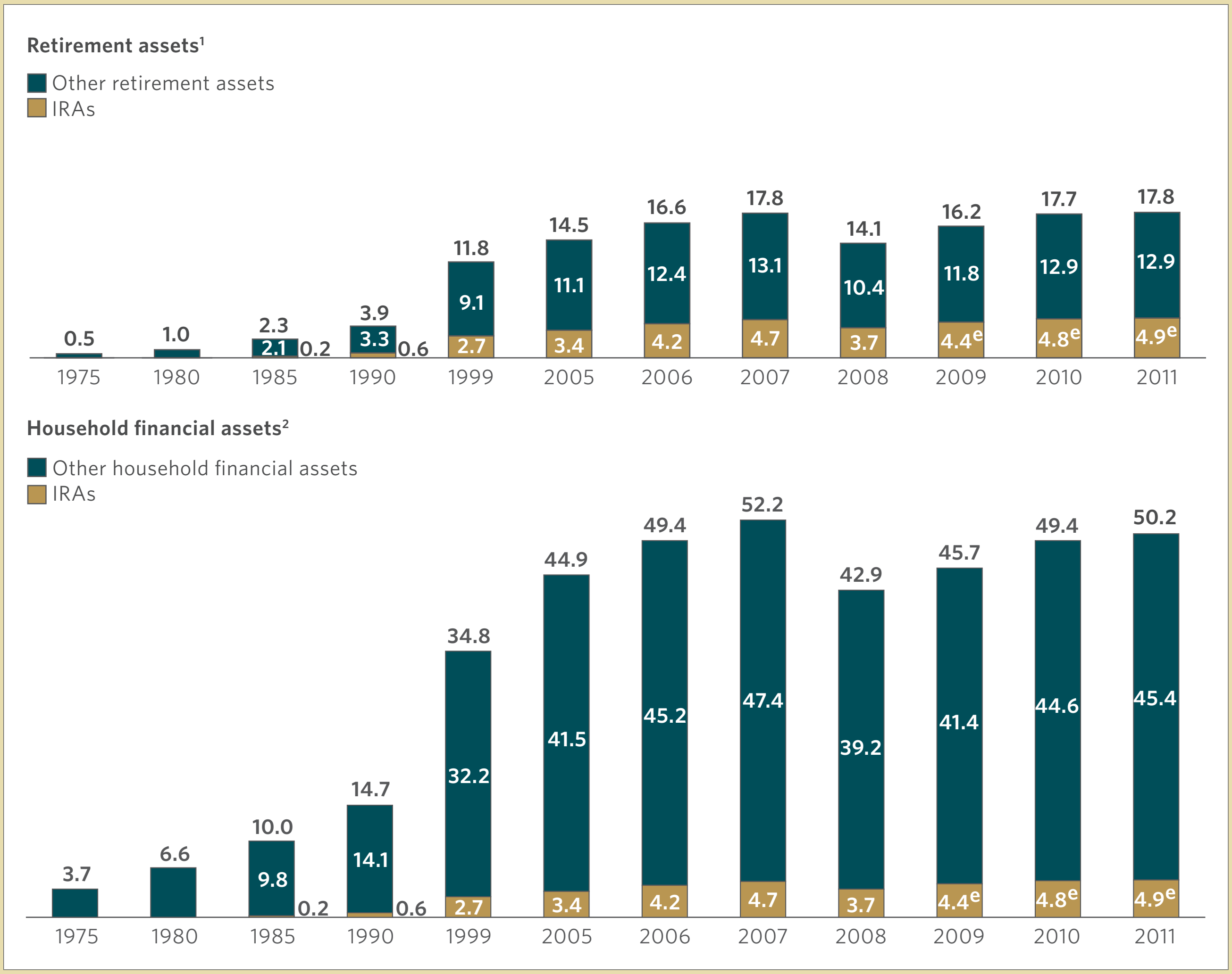
Database Contains a Comprehensive Cross Section of IRA Investors

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

FIGURE 1

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

Trillions of dollars, year-end, selected years



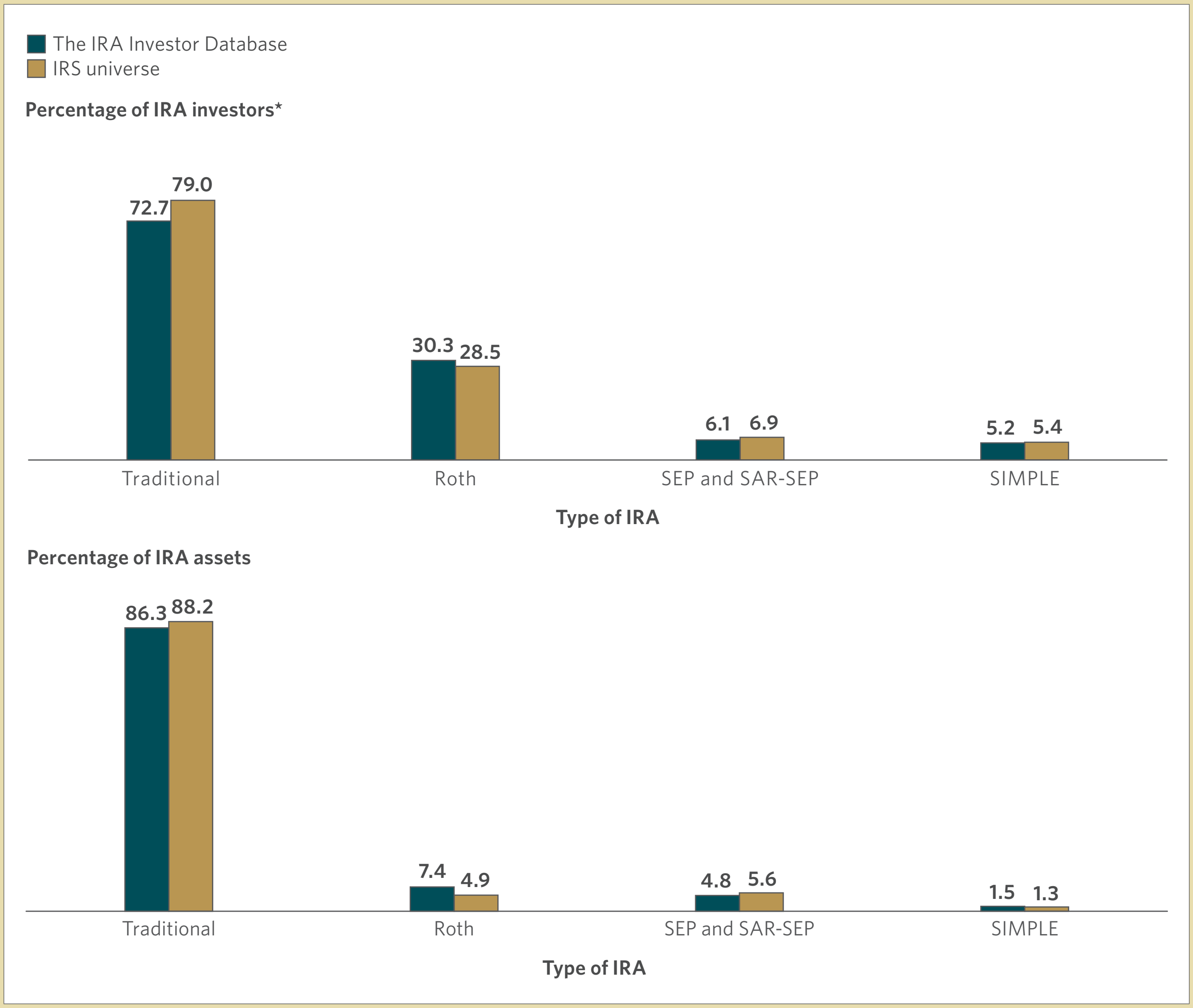
[1]Retirement assets include IRAs, annuities, and employer-sponsored DB and DC plans.
[2]Household financial assets include deposits, fixed-income securities, stocks, retirement savings, mutual funds, equity in noncorporate business, and other financial assets. Financial assets of nonprofit organizations also are included. Household financial assets do not include the household's primary residence.
[e]Data are estimated.
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

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 at year-end 2007 (Figure 2).[14] More than 3 million Roth IRA investors (30.3 percent of IRA investors) held 7.4 percent of all IRA assets.[15] Employer-sponsored IRAs (SEP, SAR-SEP, and SIMPLE IRAs) represented the remainder.[16] 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.[17]

FIGURE 2

The IRA Investor Database™ Covers All IRA Types

Distribution of IRA investors and assets, 2007



These percentages add to more than 100 percent because investors may own more than one type of IRA.

Note: Figure A.1 in the appendix provides additional detail.

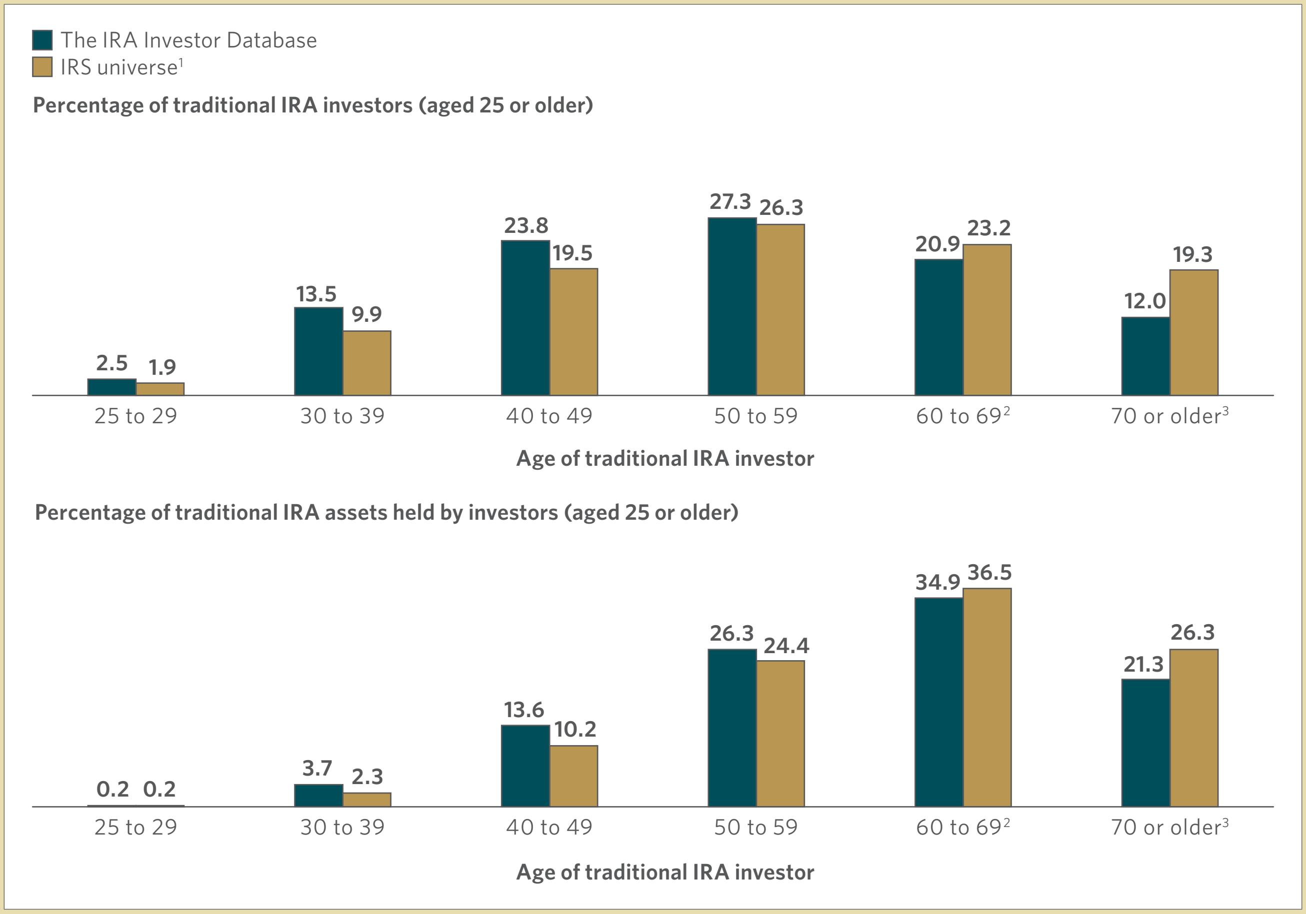
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

The IRA Investor Database contains investors from a wide range of ages (Figure 3).[18] The analysis of withdrawal activity 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. Another 20.9 percent were 60 to 69, and the remaining 28.0 percent were 25 to 39 or 70 or older. 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.[19]

FIGURE 3

Traditional IRA Investors Represent a Wide Cross Section of Age Groups

Distribution of traditional IRA investors (aged 25 or older) and their traditional IRA assets, 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 or older 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 42.9 million traditional IRA taxpayers (aged 25 or older) from the IRS universe. Figure A.2 in the appendix provides additional detail.
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 $150,615 at year-end 2007, compared with $51,586 among traditional IRA investors in their forties and $8,841 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 in the database for traditional IRA investors aged 70 or older were a bit higher than the averages in the IRS Statistics of Income universe estimates for that age group.

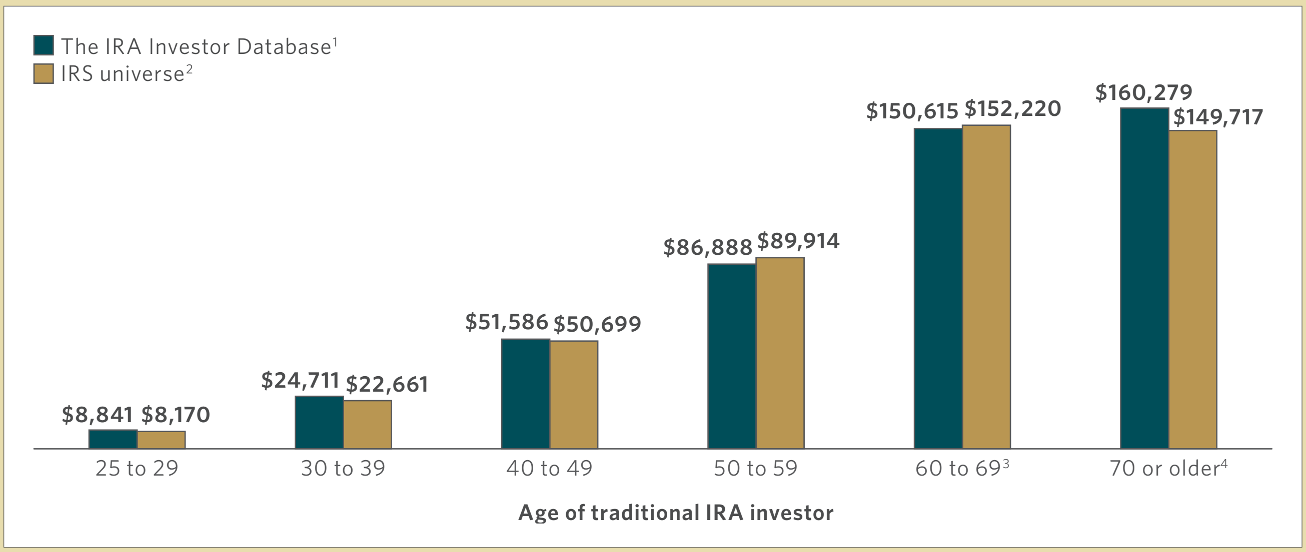
The IRA Investor Database also has information on investor gender for a majority of IRA investors. In the 2007 database, 38.8 percent of traditional IRA investors aged 25 or older are female and 45.7 percent are male. Gender information is unavailable for the remaining 15.5 percent of traditional IRA investors in the database. The age composition within the two genders is broadly similar.[20]

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.[21] 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.[22]

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 or older 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 42.9 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

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.

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.[23] 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.[24] Inflows into traditional IRAs from rollovers have outpaced contributions by a significant margin for many years.[25] Indeed, rollovers fuel IRA ownership and growth across age, income, and gender groups; thus, rollovers are a key to understanding how participants in employer-sponsored retirement plans accumulate and preserve their retirement wealth.[26]

Asset allocation. In September 2011, ICI published a third report exploring the investments IRA investors select for their accounts and how they choose to allocate their IRA balances across asset classes.[27] The 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. This report analyzes 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.[28] 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 using an IRS life expectancy–based calculation. This report explores 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.[29]

Research Agenda for This Report

Focusing on traditional IRA withdrawal activities, this report seeks to promote better understanding of how withdrawal activity varies across traditional IRA investors. Household survey research on traditional IRA–owning households has shed light on when, how, and why those households take distributions, or withdrawals, from their traditional IRAs.[30] Analyzing more than 7 million traditional IRA investors, The IRA Investor Database allows analysis of how withdrawal activity and exact withdrawal amounts vary by investor age, income, and gender. It also is possible to track individual traditional IRA investors over time to shed light on whether withdrawal activity occurs on a year-to-year or on an irregular basis across different investor groups.

This report first presents analysis of the 2007 snapshot (cross section) of traditional IRA investors aged 25 or older. Variation in patterns of traditional IRA withdrawal activity across investors grouped by investor age, income, or gender is explored. Traditional IRA withdrawal amounts also are analyzed. Next, a similar cross-sectional analysis of withdrawal activity is applied to the year-end 2008 traditional IRA investors. Finally, withdrawal activity over time is analyzed among traditional IRA investors with account balances at both year-end 2007 and year-end 2008. In particular, prevalence of the use of RMD to determine the withdrawal amount in 2008 is examined by applying the IRS life expectancy–based calculation to year-end 2007 traditional IRA balances.

Traditional IRA Investors' Withdrawal Activity in 2007

Background on Distributions from Traditional IRAs

Individuals have the option to take withdrawals, or distributions, from their traditional IRAs at any time.[31] However, taxes or penalties may apply depending on the timing of and reason for the distribution. This section of the report presents some background information on traditional IRA distribution rules and requirements and sizes up the aggregate magnitude of distributions from IRAs. This section then analyzes the incidence of withdrawal activity among traditional IRA investors in The IRA Investor Database, exploring how withdrawal activity in 2007 varies with investor age, income, or gender. Withdrawal amounts in 2007, which also vary with investor age, income, and gender, are analyzed.

Distribution Rules

IRA investors can decide when and how to draw down the assets they hold inside their traditional IRAs, although IRS taxes, penalties, or distribution requirements may apply. For investors under the age of 59½, distributions from traditional IRAs generally are subject to income tax as well as a 10 percent penalty. However there are some exceptions to the penalty, including distributions for the purchase of a first home (up to $10,000) or certain qualified higher-education expenses (Figure 5).[32] In addition, individuals with inherited traditional IRAs may be required to take distributions and are able to take distributions without penalty. Given the generally pervasive possibility of penalty, there is little traditional IRA investor withdrawal activity prior to age 59½.[33] Taxpayers older than 59½ but younger than 70½ may take withdrawals without penalty, but are generally not required to do so. Beginning after age 70½, traditional IRA investors typically are required to take annual distributions from their IRAs, referred to as required minimum distributions (RMDs).[34] However, in response to the decline in the stock market in prior years and the related financial market volatility, policymakers suspended RMDs for 2009.[35]

FIGURE 5

Brief Summary of Traditional IRA Withdrawal/Distribution Rules

Age 59½ Rule

Generally, if the traditional IRA investor is under age 59½, he or she must pay an additional 10 percent tax penalty on the taxable portion of the distribution from the traditional IRA.

Exceptions to the 10 percent penalty include the following situations:[1]

» The traditional IRA investor has unreimbursed medical expenses that are more than 7.5 percent of adjusted gross income (AGI).
» The distributions are not more than the cost of the traditional IRA investor's medical insurance while unemployed.
» The traditional IRA investor is disabled.
» The traditional IRA investor is the beneficiary of a deceased IRA owner.
» The distributions are in the form of substantially equal periodic payments (SEPPs), including an annuity.
» The distributions are not more than the traditional IRA investors' qualified higher education expenses.
» The distribution is used to buy, build, or rebuild a first home (up to $10,000).
» The distribution is due to an IRS levy of the qualified plan.
» The distribution is a qualified reservist distribution.

After Age 59½ and Before Age 70½

After the traditional IRA investor reaches age 59½, he or she can receive distributions without having to pay the 10 percent additional tax.[2]

Age 70½ Rule

Generally, traditional IRA investors must start to receive distributions from their traditional IRAs by April 1 of the year following the year in which the investor reaches age 70½.[3] The amount that must be withdrawn is based on remaining life expectancy and is called the required minimum distribution (RMD).

Inherited IRAs

Different distribution rules apply if the traditional IRA has been inherited, depending on the relationship of the beneficiary and the decedent. Beneficiaries may have to continue or initiate RMDs (calculated using an IRS table based on life xpectancy), or withdraw the full account within five years. Amounts withdrawn from inherited IRAs typically are not subject to the 10 percent early withdrawal penalty. However, beneficiaries of a traditional IRA must include in their gross income any taxable distributions they receive.

[1]This list reflects the qualified exemptions for tax year 2011. For a time line indicating when some of these exceptions were implemented, see Figure 9.
[2]The traditional IRA investor will still have to pay income taxes on the amount of the distribution included in gross income.
[3]If the traditional IRA investor opts not to receive the first distribution by December 31 of his or her 70½ year, but by April 1 in the next year, the investor will have two RMDs in that calendar year—the first-year RMD, which must be taken by April 1, and the second-year RMD, which must be taken by December 31.
Source: Investment Company Institute summary of IRS regulations (See IRS Publication 590*)*

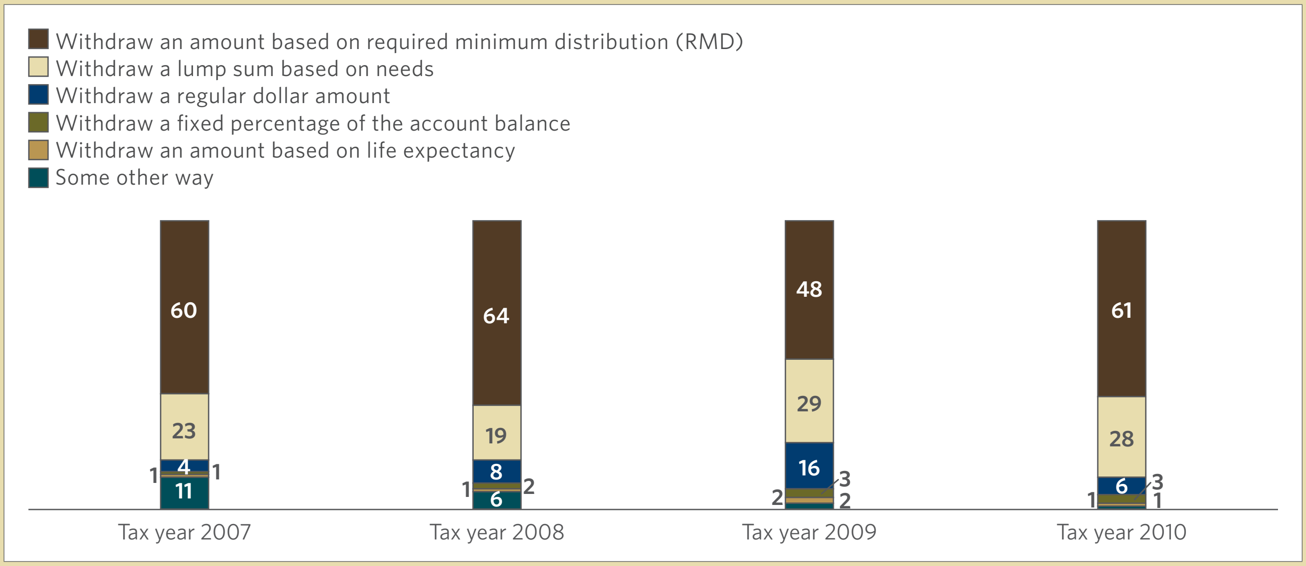
How Traditional IRA Investors Determine Withdrawal Amounts

Household survey data find that traditional IRA–owning households taking withdrawals predominantly indicate that the withdrawal was to fulfill the RMD. On average in recent years, typically six in 10 traditional IRA–owning households taking withdrawals indicated they withdrew an amount based on the RMD (Figure 6). This share fell in 2009 when 48 percent of traditional IRA–owning households taking withdrawals that year indicated they calculated their withdrawals based on the RMD, even though RMDs were suspended in 2009. The second most common way to determine the withdrawal amount was to take a lump sum based on needs. In 2007 and 2008, about one in five traditional IRA–owning households taking withdrawals indicated they took lump-sum distributions based on needs. In 2009 and 2010, about three in 10 traditional IRA–owning households with distributions indicated they took lump-sum distributions based on needs. In part reflecting the rules, the amount withdrawn among younger households is more likely to be a lump sum based on needs, while older households tend to take RMDs (Figure 7). Nearly two-thirds of traditional IRA–owning households aged 59 or younger with distributions in 2010 indicated they look lump sums, compared with fewer than one in 10 withdrawing households aged 70 or older.

FIGURE 6

How Traditional IRA–Owning Households Determine Withdrawal Amounts

Percentage of traditional IRA–owning households with withdrawals; tax years 2007, 2008, 2009, and 2010



Source: Investment Company Institute IRA Owners Survey

FIGURE 7

Younger Traditional IRA–Owning Households Are More Likely to Withdraw Lump Sums

Percentage of traditional IRA–owning households in May 2011 with withdrawals in tax year 2010

		Age of head of household		
	All	59 or younger	60 to 69	70 or older
Withdraw an amount based on required minimum distribution (RMD)	61	14	12	87
Withdraw a lump sum based on needs	28	66	58	9
Withdraw a regular dollar amount	6	9	22	2
Withdraw a fixed percentage of the account balance	3	4	6	1
Withdraw an amount based on life expectancy	1	0	1	1
Some other way	1	7	1	0
Number of respondents	*359*	*64*	*63*	*232*

Source: Investment Company Institute IRA Owners Survey

Traditional IRA withdrawals often are used to pay for living expenses. Thirty-eight percent of traditional IRA–owning households with distributions in 2010 used some or all of their withdrawals to pay for living expenses (Figure 8). Thirty percent moved traditional IRA money to another account, and 17 percent used the money for home purchase, repair, or remodeling. Eleven percent used some or all of the money for healthcare expenses.

Aggregate Distributions from IRAs

The aggregate amounts withdrawn from all types of IRAs have generally risen over time, reaching $216.3 billion in 2008 (Figure 9). In 2009, distributions from all IRAs totaled $179.1 billion, down from the amount observed in 2008, likely reflecting the RMD suspension. All told, distributions from IRAs were reported on 10.5 million tax returns in 2009, down from the 12.1 million peak in 2008. Despite

FIGURE 8

Traditional IRA Withdrawals Often Are Used to Pay for Living Expenses

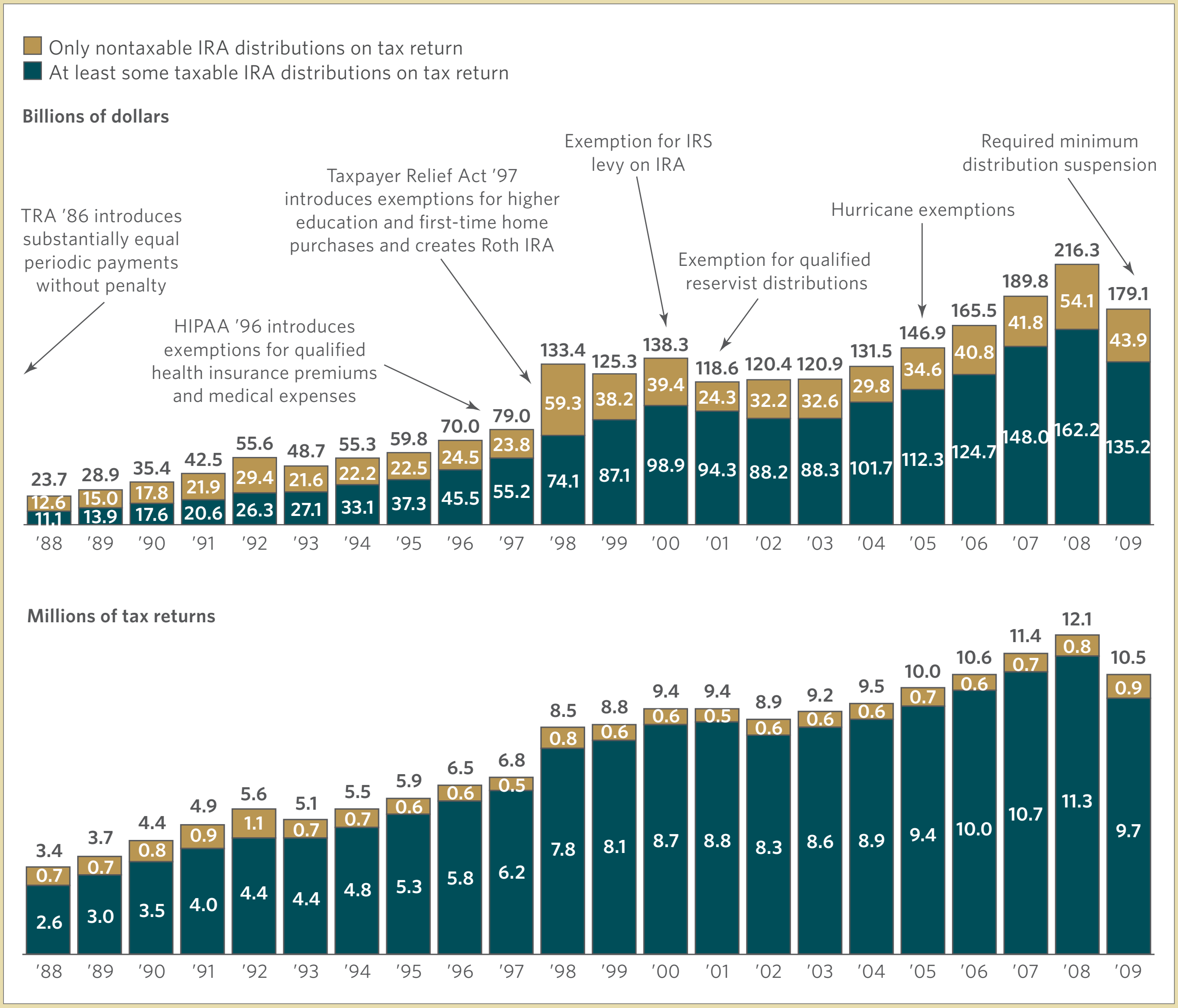
Percentage of traditional IRA–owning households in May 2011 that took withdrawals in tax year 2010

Purpose of traditional IRA withdrawal	
Took withdrawals to pay for living expenses	38
Spent it on a car, boat, or big-ticket item other than a home	7
Spent it on a healthcare expense	11
Used it for an emergency	7
Used it for home purchase, repair, or remodeling	17
Reinvested or saved it in another account	30
Paid for education	4
Some other purpose	12
Number of respondents	*407*

Note: Multiple responses are included.
Source: Investment Company Institute IRA Owners Survey

FIGURE 9

Aggregate IRA Distributions



Note: IRA distributions reported on IRS Form 1040 include taxable and nontaxable amounts. Nontaxable amounts include amounts converted to Roth IRAs, withdrawals of after-tax contributions, and indirect rollovers from IRAs to other IRAs or qualified plans (not trustee-to-trustee). Components may not add to the total because of rounding.

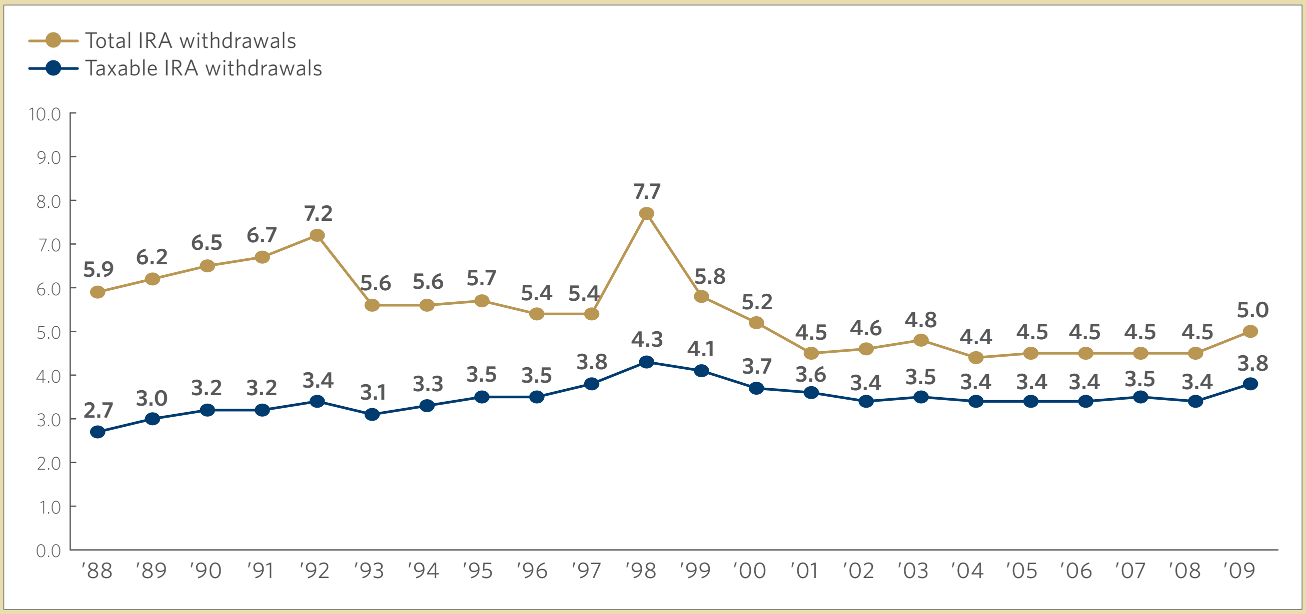
Sources: Internal Revenue Service Statistics of Income Division, Individual Income Tax Returns, Publication 1304, *various years; and summary of legislative changes* their generally upward trend in dollar amounts, aggregate distributions from IRAs have been small relative to total IRA assets. In 2009, only 5.0 percent of assets held at year-end 2008 were withdrawn from IRAs, which was a slight increase from 2008 when distributions were 4.5 percent of assets held at year-end 2007 (Figure 10). Taxable IRA withdrawals (which are largely from traditional IRAs) in 2009 totaled 3.8 percent of IRA assets held at year-end 2008.

The IRS Statistics of Income analysis of IRA-owning taxpayers' withdrawal activity also shows an uptick in 2008. Across all types of IRAs, the percentage of IRA investors taking distributions increased in 2008 in the wake of the financial market crisis of 2007 and during the 2007–2009 recession.[36] For example, among all IRA investors aged 25 to 49, 11.5 percent took withdrawals in 2008, compared with 6.0 percent in 2007.[37] Among all IRA investors aged 65 to 69, 32.5 percent took withdrawals in 2008, compared with 26.7 percent in 2007.

FIGURE 10

Aggregate IRA Distributions Have Been Small Relative to Assets

IRA distributions as a percentage of previous year's total IRA assets, 1988–2009



Note: IRA distributions reported on IRS Form 1040 include taxable and nontaxable amounts. Nontaxable amounts include amounts converted to Roth IRAs, withdrawals of after-tax contributions, and indirect rollovers from IRAs to other IRAs or qualified plans (not trustee-to-trustee).
Sources: Investment Company Institute; Federal Reserve Board; American Council of Life Insurers; and Internal Revenue Service Statistics of Income Division, Individual Income Tax Returns, Publication 1304*, various years*

Withdrawals from Traditional IRAs in 2007

In The IRA Investor Database, 1.3 million, or 18.1 percent, of the 7.4 million traditional IRA investors at year-end 2007, had taken withdrawals from their traditional IRAs in 2007 (Figure 11). Older, lower-income, and male traditional IRA investors were more likely to have taken withdrawals.

Withdrawal activity in The IRA Investor Database is lower than in the IRS universe because it covers a portion of the traditional IRA universe and investors may be taking withdrawals from traditional IRAs held at providers not in the sample. In addition, it is not possible to track the withdrawal activity of traditional IRA investors who have closed their accounts.

FIGURE 11

Withdrawal Activity of Traditional IRA Investors by Age, 2007

Number of traditional IRA investors and traditional IRA investors with withdrawals[1] by age

	Traditional IRA investors		Traditional IRA investors with withdrawals[1]		Memo: percentage of traditional IRA investors who had withdrawals[1]
Age	Number *Thousands*	Share[2] *Percent*	Number *Thousands*	Share[2] *Percent*	
25 to 29	182.2	2.5%	14.5	1.1%	8.0%
30 to 34	378.8	5.1	29.1	2.2	7.7
35 to 39	611.7	8.3	44.2	3.3	7.2
40 to 44	781.5	10.6	56.4	4.2	7.2
45 to 49	969.3	13.2	70.0	5.3	7.2
50 to 54	1,030.2	14.0	72.9	5.5	7.1
55 to 59	982.2	13.3	71.5	5.4	7.3
60 to 64	892.7	12.1	144.9	10.9	16.2
65 to 69	648.5	8.8	135.3	10.2	20.9
70 or older	885.0	12.0	690.9	52.0	78.1
All	7,362.1	100.0	1,329.7	100.0	18.1

[1]Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2007.
[2]Share is the percentage of the total.
Note: Figure A.4 in the appendix provides additional detail by gender.
Source: The IRA Investor Database™

Variation in Traditional IRA Withdrawal Activity in 2007 by Investor Age

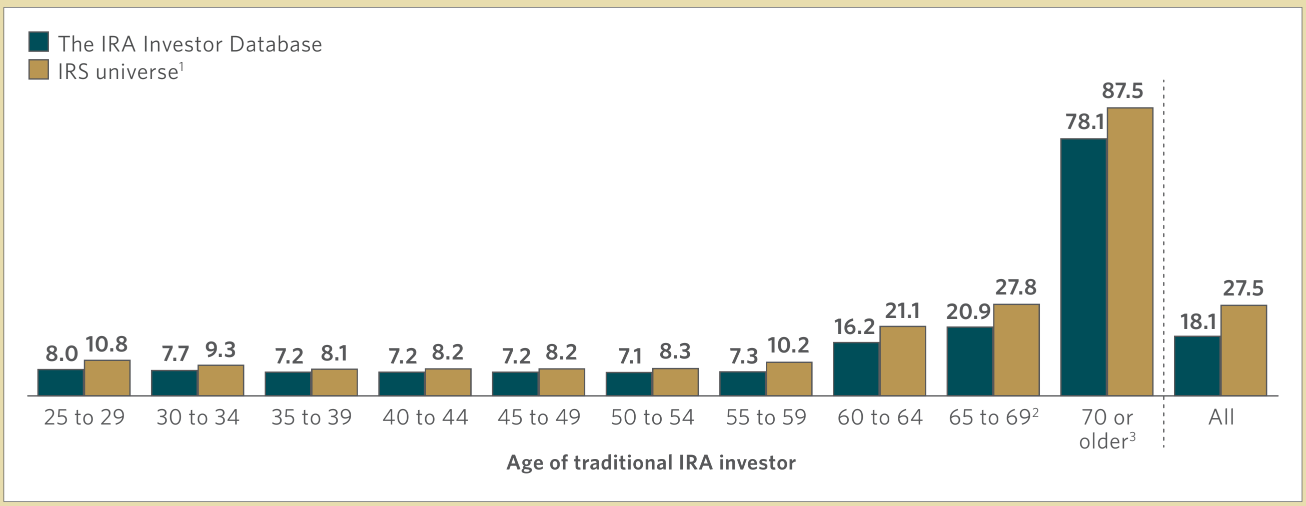
Withdrawal activity is concentrated among older traditional IRA investors. Investors aged 70 or older were much more likely to withdraw money than younger investors, although traditional IRA investors of all ages withdrew money from their traditional IRAs in 2007. In The IRA Investor Database, 18.1 percent of traditional IRA investors took distributions from their traditional IRAs in 2007, and this varied considerably by age (Figure 12). For example, 78.1 percent of traditional IRA investors aged 70 or older took distributions in 2007, compared with less than 20 percent of traditional IRA investors in their sixties and less than 10 percent of traditional IRA investors aged 25 to 59.

There are a few reasons why The IRA Investor Database does not show universal withdrawal rates among traditional IRA investors aged 70 or older, even though traditional IRA investors are required to take distributions beginning at age 70½. First, because age in the database is age at the end of 2007, some traditional IRA investors in this group did not turn 70½ until 2008 and would not have been required to take a distribution until then.[38] In addition, The IRA Investor Database may not capture the complete IRA portfolio of a traditional IRA investor, and thus some traditional IRA investors may have multiple IRAs and may have chosen to take their RMD from a traditional IRA which was not held at a provider in the sample. Although the IRS universe separates individuals younger than age 70½ from those 70½ or older and has a complete picture of an investor's total IRA portfolio, withdrawal rates are still not universal.[39] Fewer than nine in 10 traditional IRA owners in the IRS universe aged 70½ or older took withdrawals in 2007 (Figure 12). The pattern of incidence of withdrawal activity in The IRA Investor Database is broadly similar to the pattern observed in the IRS universe, although incidence of traditional IRA withdrawals tended to be lower in The IRA Investor Database compared with the IRS universe.

FIGURE 12

Withdrawal Rates from Traditional IRAs by Age, 2007

Percentage of traditional IRA investors who took withdrawals by age



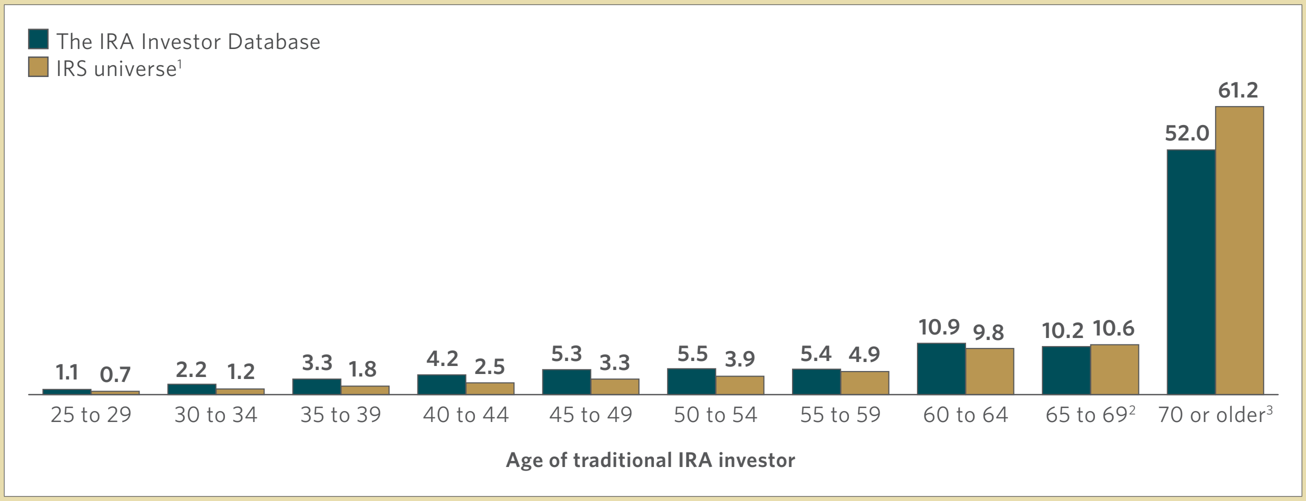
[1]IRS Statistics of Income data for 2007 are preliminary.
[2]In the IRS universe, individuals aged 65 to under 70½ are included in this category.
[3]In the IRS universe, individuals aged 70½ or older are included in this category.
Note: The samples are 7.4 million traditional IRA investors (aged 25 or older) in The IRA Investor Database™ and 42.9 million traditional IRA taxpayers (aged 25 or older) from the IRS universe. Figure 11 provides additional detail.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

Traditional IRA investors aged 70 or older account for the majority of distributions, although traditional IRA distributions were not limited to any single age group. In 2007, 52.0 percent of traditional IRA investors taking distributions were aged 70 or older (Figure 13). Traditional IRA investors in their sixties accounted for another 21.1 percent of investors taking distributions in 2007, with traditional IRA investors aged 25 to 59 accounting for the remaining 27.0 percent. The age composition of traditional IRA investors with withdrawals in 2007 in The IRA Investor Database is broadly similar to the age distribution of traditional IRA investors with withdrawals observed in the IRS universe.

FIGURE 13

More Than Half of Traditional IRA Investors Taking Withdrawals in 2007 Were Aged 70 or Older

Among traditional IRA investors with withdrawals, share by age



[1]IRS Statistics of Income data for 2007 are preliminary.
[2]In the IRS universe, individuals aged 65 to under 70½ are included in this category.
[3]In the IRS universe, individuals aged 70½ or older 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 42.9 million traditional IRA taxpayers (aged 25 or older) from the IRS universe. Figure 11 provides additional detail. Components may not add to 100 percent because of rounding.
Sources: The IRA Investor Database™ and Internal Revenue Service Statistics of Income Division

Variation in Traditional IRA Withdrawal Activity in 2007 by Investor Income

Traditional IRA investors living in higher-income areas tended to have lower withdrawal activity in 2007. Among traditional IRA investors living in the lowest-income zip code groups (less than $35,000), 23.7 percent took withdrawals in 2007 (Figure 14). For those in the highest-income areas ($140,000 or more), only 15.0 percent took withdrawals in 2007. This pattern may indicate that lower-income households were more likely to be affected by economic stresses and thus more likely to need to tap their traditional IRAs.[40]

FIGURE 14

Withdrawal Activity of Traditional IRA Investors by Income, 2007

Number of traditional IRA investors and traditional IRA investors with withdrawals[1] by income[2]

Income[2]	Traditional IRA investors: Number (*Thousands*)	Traditional IRA investors: Share[3] (*Percent*)	Traditional IRA investors with withdrawals[1]: Number (*Thousands*)	Traditional IRA investors with withdrawals[1]: Share[3] (*Percent*)	Memo: percentage of traditional IRA investors who had withdrawals[1]
Less than $35,000	553.8	7.5%	131.5	9.9%	23.7%
$35,000 to <$45,000	1,178.6	16.0	252.9	19.0	21.5
$45,000 to <$50,000	559.8	7.6	111.0	8.3	19.8
$50,000 to <$55,000	555.8	7.5	105.0	7.9	18.9
$55,000 to <$65,000	1,029.4	14.0	187.0	14.1	18.2
$65,000 to <$70,000	452.5	6.1	77.2	5.8	17.1
$70,000 to <$80,000	691.7	9.4	113.7	8.6	16.4
$80,000 to <$100,000	918.9	12.5	141.8	10.7	15.4
$100,000 to <$140,000	696.2	9.5	100.9	7.6	14.5
$140,000 or more	725.5	9.9	108.7	8.2	15.0
All	7,362.1	100.0	1,329.7	100.0	18.1

[1]Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2007.
[2]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.
[3]Share is the percentage of the total.
Note: Figure A.5 in the appendix provides additional detail by gender.
Source: The IRA Investor Database™

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 in which the investor lives.

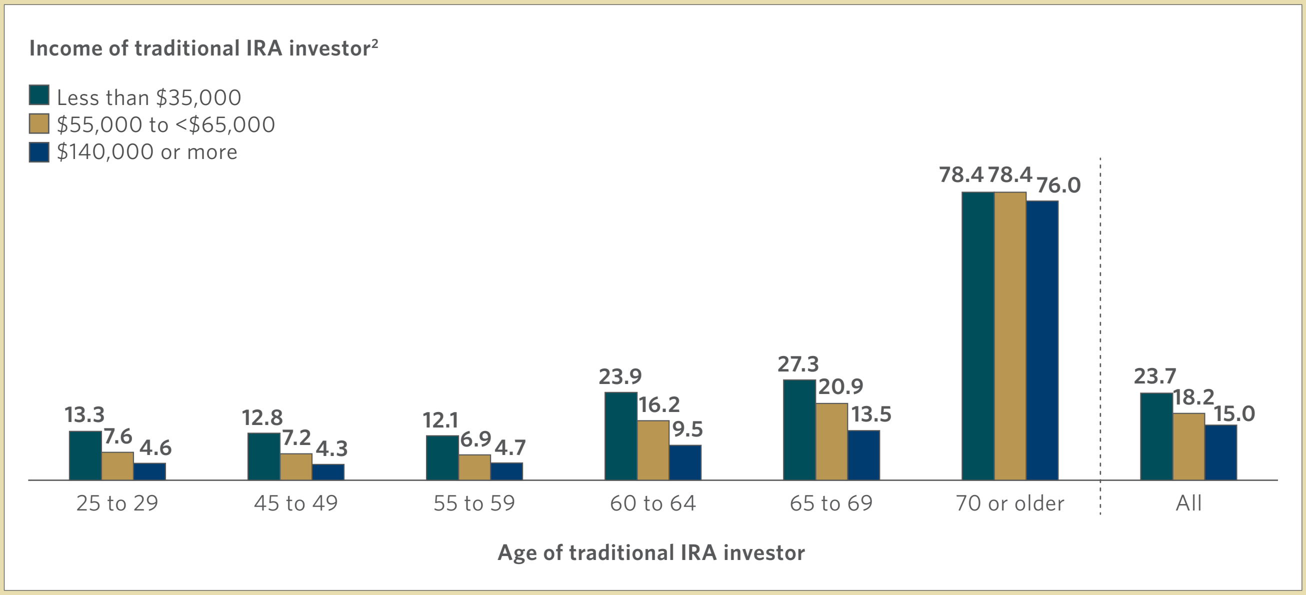
For additional discussion, see the appendix.

This pattern also can be seen when both age and income are analyzed at the same time. Within each age group, the percentage of traditional IRA investors with withdrawals in 2007 tends to fall as investor income rises, although the effect is considerably muted for traditional IRA investors aged 70 or older, for whom distributions are usually required (Figure 15). Among traditional IRA investors aged 25 to 29, 13.3 percent of those in the lowest income group (less than $35,000) took withdrawals in 2007 while only 4.6 percent of those in the highest income group ($140,000 or more) took withdrawals. For investors aged 65 to 69, withdrawals were more frequent, but the pattern is similar. For investors aged 65 to 69 with income of less than $35,000, 27.3 percent took withdrawals in 2007, compared with 13.5 percent of traditional IRA investors in that age group with income of $140,000 or more.

FIGURE 15

Withdrawal Activity of Traditional IRA Investors by Age and Income, 2007

Traditional IRA investors with withdrawals[1] as a percentage of traditional IRA investors by selected age and income groups[2]



[1]Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2007.
[2]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.
Note: The sample is 7.4 million traditional IRA investors aged 25 or older in 2007. Figure A.6 in the appendix provides additional detail.
Source: The IRA Investor Database™

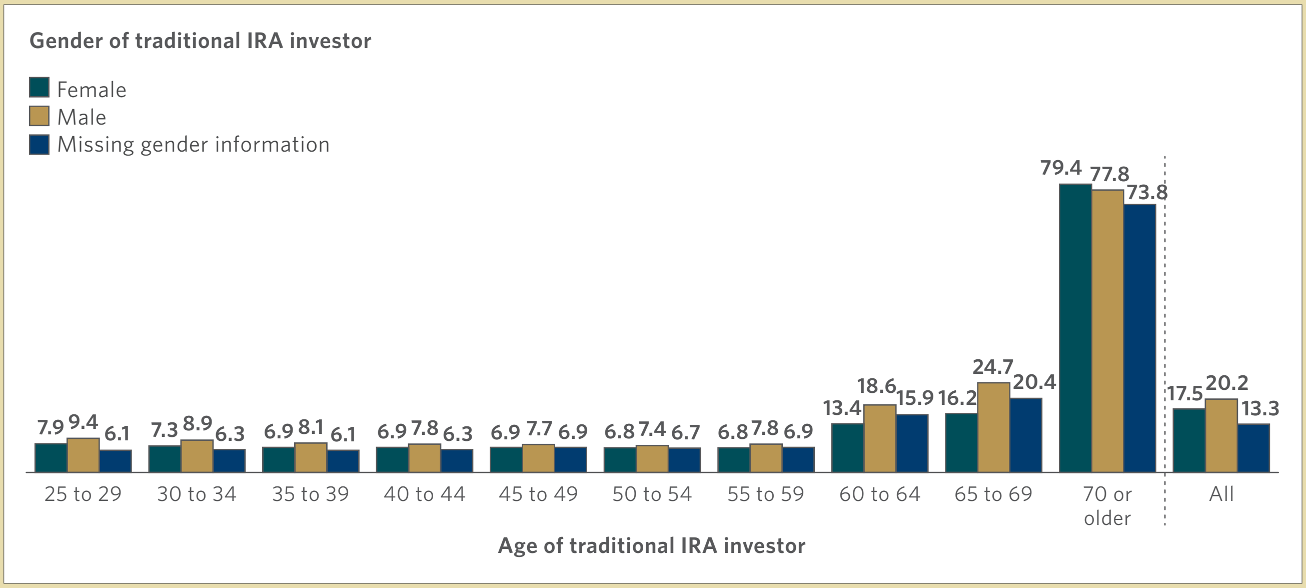
Variation in Traditional IRA Withdrawal Activity in 2007 by Gender

Male traditional IRA investors tended to be slightly more likely than female traditional IRA investors to take withdrawals in 2007 (Figure 16).[41] In 2007, 20.2 percent of male traditional IRA investors took withdrawals, compared with 17.5 percent of female traditional IRA investors. Male traditional IRA investors had higher incidences of withdrawal activity among all but the oldest age group, for whom RMDs likely impacted the rates.

FIGURE 16

Withdrawal Activity of Traditional IRA Investors by Age and Gender, 2007

Traditional IRA investors with withdrawals* as a percentage of traditional IRA investors by age and gender



**Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2007.*
Note: The sample is 7.4 million traditional IRA investors aged 25 or older in 2007. Figure A.6 in the appendix provides additional detail.
Source: The IRA Investor Database™

Traditional IRA Withdrawal Amounts in 2007

There are two statistics generally used to measure "typical" amounts. Although both show that withdrawal amounts generally increase with age before falling for the oldest age groups, the difference between the two measures provides further information about the withdrawal activity of traditional IRA investors. The first measure of a typical withdrawal is the mean, or average, which is $15,840 for the entire population of traditional IRA investors (aged 25 or older) who had withdrawals in 2007 (Figure 17). The second measure of a typical withdrawal is the median, or the value at which half of the withdrawal amounts are below that number and half are above. Among all traditional IRA investors aged 25 or older who had withdrawals in 2007, the median withdrawal amount was $6,470.

The differences between the mean and median withdrawal amounts are explored further below, but the general age pattern for withdrawals is the same for both measures. The mean withdrawal amount was $6,500 in 2007 for traditional IRA investors aged 25 to 29 and rose to $25,780 for traditional IRA investors aged 60 to 64 in 2007 before falling to $11,370 for traditional IRA investors aged 70 or older (Figure 17). The median is below the mean in all age groups, but similarly tends to rise with age from $3,730 for the 25-to-29 age group to $14,000 for the 60-to-64 age group, before falling to $4,170 for traditional IRA investors aged 70 or older.

FIGURE 17

Traditional IRA Withdrawal Amounts by Age, 2007

Number and amount of withdrawals[1] from traditional IRAs by age

	Traditional IRA investors with withdrawals[1]		Traditional IRA withdrawals[1]		Traditional IRA withdrawal amount	
Age	Number *Thousands*	Share[2] *Percent*	Amount *Millions*	Share[2] *Percent*	Median	Mean
25 to 29	14.5	1.1%	$94.5	0.4%	$3,730	$6,500
30 to 34	29.1	2.2	298.8	1.4	5,830	10,280
35 to 39	44.2	3.3	622.8	3.0	7,590	14,080
40 to 44	56.4	4.2	960.2	4.6	9,000	17,020
45 to 49	70.0	5.3	1,327.2	6.3	9,750	18,960
50 to 54	72.9	5.5	1,479.0	7.0	10,000	20,290
55 to 59	71.5	5.4	1,570.9	7.5	10,450	21,970
60 to 64	144.9	10.9	3,734.2	17.7	14,000	25,780
65 to 69	135.3	10.2	3,113.9	14.8	12,000	23,020
70 or older	690.9	52.0	7,858.0	37.3	4,170	11,370
All	1,329.7	100.0	21,059.4	100.0	6,470	15,840

[1]*Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2007.*
[2]*Share is the percentage of the total.*
Source: The IRA Investor Database™

Range of Withdrawal Amounts in 2007 Tended to Rise with Investor Age

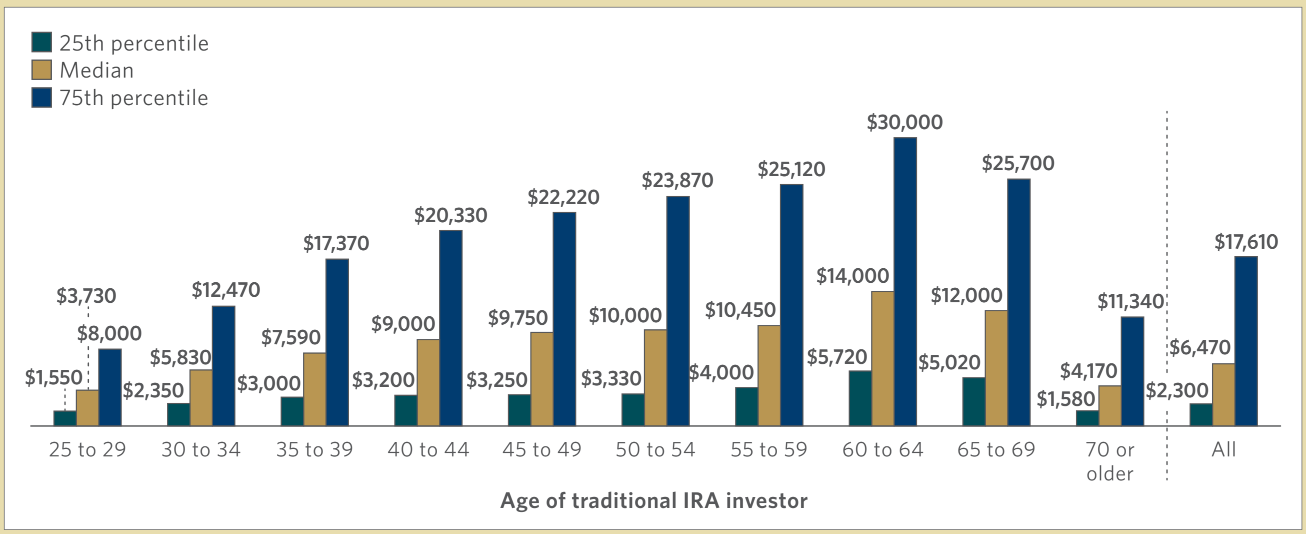
Within each age group, the average (or mean) withdrawal amount was typically much larger than the median. The 25th and 75th percentiles provide a more descriptive view of the range of withdrawal amounts and also help to clarify why the mean was larger than the median within every age group. For the entire population of traditional IRA investors with withdrawals, the 25th percentile withdrawal amount was $2,300 in 2007, the 75th percentile withdrawal amount was $17,610, and the 50th percentile (median) withdrawal amount, as noted above, was $6,470 (Figure 18). The fact that the median was much closer to the 25th percentile than it was to the 75th percentile indicates there was a relatively small group of individuals with very large withdrawals that increased the mean withdrawal amount relative to the median.

The range of withdrawal amounts tended to increase with age, reflecting the diversity of account balances. The spread between the 25th and 75th percentile withdrawal amounts in 2007 was $1,550 to $8,000 for the 25-to-29 age group, reflecting the lower range of accumulations available for withdrawals (Figure 18). For the 60- to 64-year-old traditional IRA investors with withdrawals, the 25th to 75th percentile range of traditional IRA withdrawal amounts was $5,720 to $30,000. The widening differential reflects several forces. For example, older individuals have the possibility of a wider range of contribution and rollover histories, leading to the possibility of larger balances.[42]

FIGURE 18

Amounts Withdrawn from Traditional IRAs in 2007 Tended to Increase with Investor Age

Quartiles of traditional IRA withdrawal amounts by age



Note: The sample is 1.3 million traditional IRA investors aged 25 or older with withdrawals in 2007.
Source: The IRA Investor Database™

Measures of "typical" withdrawals like the mean, median, and even percentile measures do not completely capture how the distribution of withdrawal amounts varied across traditional IRA investors. For example, 11.3 percent of all withdrawals among traditional IRA investors were less than $1,000 in 2007, while 6.9 percent of traditional IRA withdrawals were $50,000 or more (Figure 19).

Some variation in the distribution of traditional IRA withdrawal amounts by investor age is discernible. For example, the youngest traditional IRA investors were less likely to have larger withdrawals (Figure 19), reflecting in part their tendency to have smaller account balances. Younger traditional IRA investors taking withdrawals tended to withdraw less than $6,000, but the withdrawals often were the majority of the account. For example, 7.7 percent of traditional IRA investors aged 30 to 34 took withdrawals in 2007 (Figure 11). Among those taking withdrawals, 44.5 percent took less than $5,000 from their traditional IRAs (Figure 19), and the median amount withdrawn was $5,830 (Figure 17). On average, these traditional IRA investors with withdrawals took 62 percent of the IRA balance as a withdrawal.[43] Pre-retiree and younger-retiree households (traditional IRA investors aged 50 to 69) were more likely to have larger withdrawals. Traditional IRA investors aged 70 or older were less likely to have larger withdrawals, perhaps reflecting in part the impact that RMDs have had on their balances.[44] The most common withdrawal amount among traditional IRA investors aged 70 or older was $2,000 to less than $5,000, which encompasses the RMD for the median account balance in that age group.[45]

FIGURE 19

Distribution of Traditional IRA Withdrawal Amounts by Investor Age, 2007

Percentage of traditional IRA investors with withdrawals* in specified ranges by age

	Amount of traditional IRA withdrawal							
Age	Less than $1,000	$1,000–<$2,000	$2,000–<$5,000	$5,000–<$10,000	$10,000–<$20,000	$20,000–<$50,000	$50,000–<$100,000	$100,000 or more
25 to 29	14.4	15.4	30.1	20.3	13.8	5.3	0.6	0.1
30 to 34	10.8	10.0	23.7	21.3	19.8	12.2	1.9	0.3
35 to 39	9.5	8.0	19.8	19.7	20.9	16.9	4.3	0.9
40 to 44	8.8	7.3	18.0	18.4	20.5	19.5	5.8	1.7
45 to 49	9.0	7.2	16.9	17.5	20.2	20.3	6.6	2.3
50 to 54	8.9	7.3	15.9	17.7	20.0	20.5	7.0	2.7
55 to 59	7.4	6.5	14.7	17.7	20.7	22.3	7.6	3.0
60 to 64	3.4	4.2	12.7	17.8	22.5	26.1	9.4	3.8
65 to 69	3.0	4.5	14.6	19.8	23.9	23.4	7.6	3.1
70 or older	15.8	14.1	24.6	17.3	13.6	10.3	3.0	1.2
All	11.3	10.4	20.4	17.9	17.4	15.7	5.0	1.9

**Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2007.*
Note: The sample is 1.3 million traditional IRA investors aged 25 or older with withdrawals in 2007.
Source: The IRA Investor Database™

Variation in Traditional IRA Withdrawal Amounts in 2007 by Investor Income

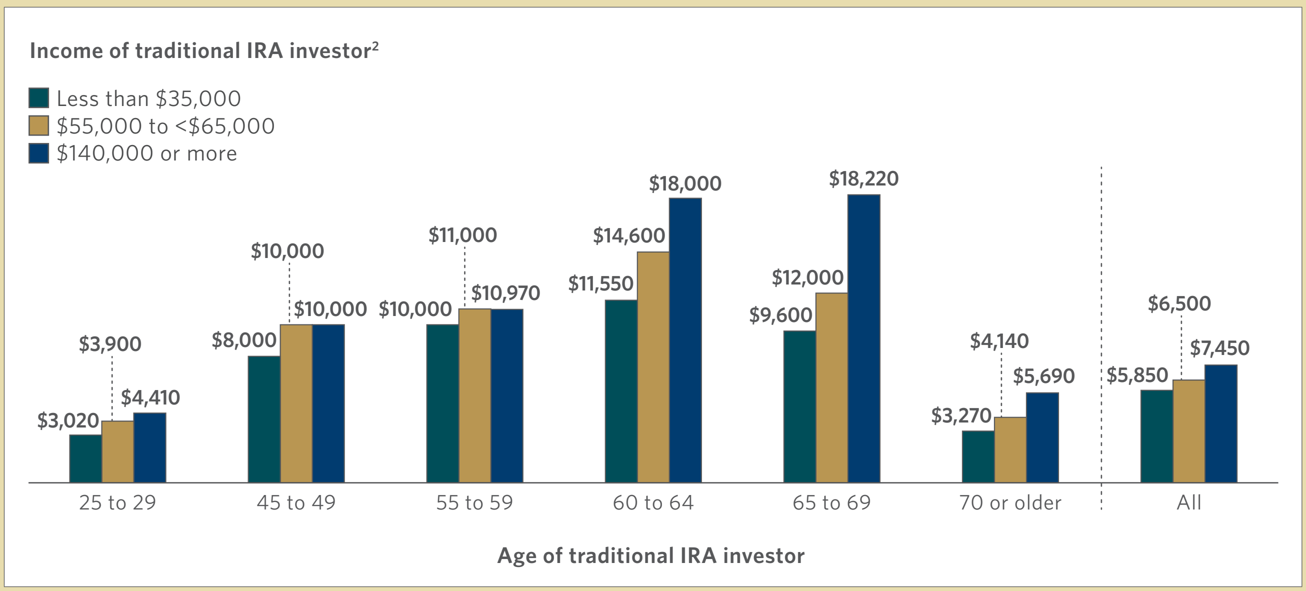
In addition to rising with investor age, traditional IRA withdrawal amounts also tended to rise with investor income. (Investor income is proxied by the average income per tax return for the investor's zip code.[46]) For example, the median withdrawal amount among traditional IRA investors with withdrawals in 2007 and with less than $35,000 in income was $5,850, compared with $7,450 for investors with $140,000 or more in income (Figure 20). Because incomes tend to rise with age, it is important to look at the effect of income separately from the effect of age. For example, among traditional IRA investors aged 25 to 29 with withdrawals in 2007 and with less than $35,000 in income, the median withdrawal amount was $3,020. For investors aged 25 to 29 with withdrawals in 2007 and with $140,000 or more in income, the median withdrawal amount rose to $4,410. The correlation between withdrawal amounts and income can be seen most clearly for investors aged 65 to 69. For traditional IRA investors aged 65 to 69 with withdrawals in 2007 in the lowest income group, the median withdrawal amount was $9,600. For the highest income group aged 65 to 69, the median withdrawal amount was $18,220.

Even for investors of RMD age, the median withdrawal amount rises with investor income. This is likely because higher-income traditional IRA investors tend to have larger IRA balances,[47] and thus their RMDs, which are calculated based on a remaining life expectancy factor as a percentage of their IRA balances, will tend to be larger amounts. For example, among traditional IRA investors aged 70 or older with withdrawals in 2007 and income of less than $35,000, the median withdrawal amount was $3,270. This rises to $5,690 for investors in that age group with income of $140,000 or more (Figure 20).

FIGURE 20

Withdrawal Amounts of Traditional IRA Investors by Age and Income, 2007

Median traditional IRA withdrawal amount among traditional IRA investors with withdrawals[1] by selected age and income groups[2]



[1]Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2007.
[2]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.
Note: The sample is 1.3 million traditional IRA investors aged 25 or older with withdrawals in 2007. Figure A.6 in the appendix provides additional detail.
Source: The IRA Investor Database™

Traditional IRA Investors' Withdrawal Activity in 2008

Withdrawals from Traditional IRAs in 2008

In The IRA Investor Database, 1.4 million, or 18.1 percent, of the 7.8 million traditional IRA investors at year-end 2008, had taken withdrawals from their traditional IRAs in 2008 (Figure 21). The same pace as observed in 2007 (Figure 11), which is in contrast to the IRS universe data that indicate there was higher withdrawal activity in 2008, compared with 2007.[48] Older, lower-income, and male traditional IRA investors were more likely to have taken withdrawals. Withdrawal activity in The IRA Investor Database is lower than in the IRS universe because it covers a portion of the traditional IRA universe and investors may be taking withdrawals from traditional IRAs held at providers not in the sample. In addition, it is not possible to track the withdrawal activity of traditional IRA investors who have closed their accounts.

FIGURE 21

Withdrawal Activity of Traditional IRA Investors by Age, 2008

Number of traditional IRA investors and traditional IRA investors with withdrawals[1] by age

	Traditional IRA investors		Traditional IRA investors with withdrawals[1]		Memo: percentage of traditional IRA investors who had withdrawals[1]
Age	Number *Thousands*	Share[2] *Percent*	Number *Thousands*	Share[2] *Percent*	
25 to 29	213.6	2.7%	13.0	0.9%	6.1%
30 to 34	416.7	5.4	27.3	1.9	6.5
35 to 39	638.1	8.2	43.0	3.0	6.7
40 to 44	798.9	10.3	56.3	4.0	7.0
45 to 49	1,002.9	12.9	72.7	5.2	7.2
50 to 54	1,078.5	13.9	79.5	5.6	7.4
55 to 59	1,026.8	13.2	77.3	5.5	7.5
60 to 64	944.3	12.1	151.2	10.7	16.0
65 to 69	704.9	9.1	144.4	10.2	20.5
70 or older	953.7	12.3	746.7	52.9	78.3
All	7,778.3	100.0	1,411.2	100.0	18.1

[1]Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2008.
[2]Share is the percentage of the total.
Note: Figure A.9 in the appendix provides additional detail by gender.
Source: The IRA Investor Database™

Variation in Traditional IRA Withdrawal Activity in 2008 by Investor Age

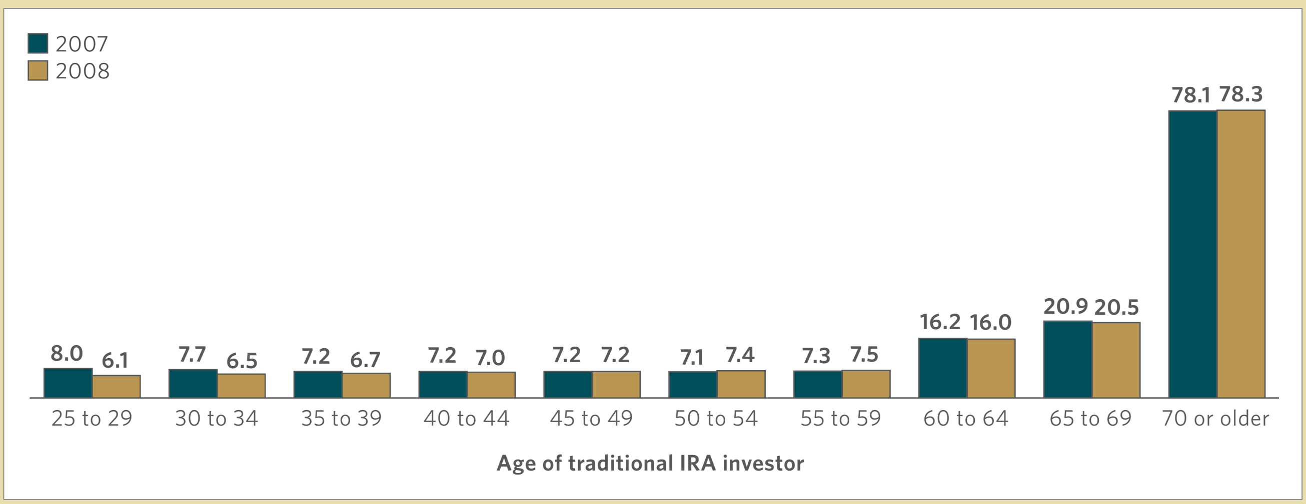
Withdrawal activity is concentrated among older traditional IRA investors in 2008, similar to 2007. Investors aged 70 or older were much more likely to withdraw money than younger investors, although traditional IRA investors of all ages withdrew money from their traditional IRAs in 2008. In The IRA Investor Database, 18.1 percent of traditional IRA investors took distributions from their traditional IRAs in 2008, and this varied considerably by age, as in 2007. For example, 78.3 percent of traditional IRA investors aged 70 or older took distributions in 2008, compared with less than 20 percent of traditional IRA investors in their sixties and less than 10 percent of traditional IRA investors aged 25 to 59 (Figure 22).

The IRA Investor Database does not show universal withdrawal rates among traditional IRA investors aged 70 or older for two key reasons, even though traditional IRA investors are required to take distributions beginning at age 70½. First, because age in the database is age at the end of 2008, some traditional IRA investors in this group did not turn 70½ until 2009 and would not have been required to take a distribution until then.[49] Second, The IRA Investor Database may not capture the complete IRA portfolio of a traditional IRA investor, and thus some traditional IRA investors may have multiple IRAs and may choose to take their RMD from a traditional IRA that was not held at a provider in the sample. Although the IRS universe separates individuals younger than age 70½ from those 70½ or older and has a complete picture of an investor's total IRA portfolio, withdrawal rates are still not universal.[50] The pattern of incidence of withdrawal activity in The IRA Investor Database in 2008 is very similar to the pattern of incidence in 2007, which is broadly similar to the pattern observed in the IRS universe.[51] However, the incidence of traditional IRA withdrawals tended to be lower in The IRA Investor Database compared with the IRS universe.

FIGURE 22

Withdrawal Rates from Traditional IRAs, 2007 and 2008

Percentage of traditional IRA investors who took withdrawals by age



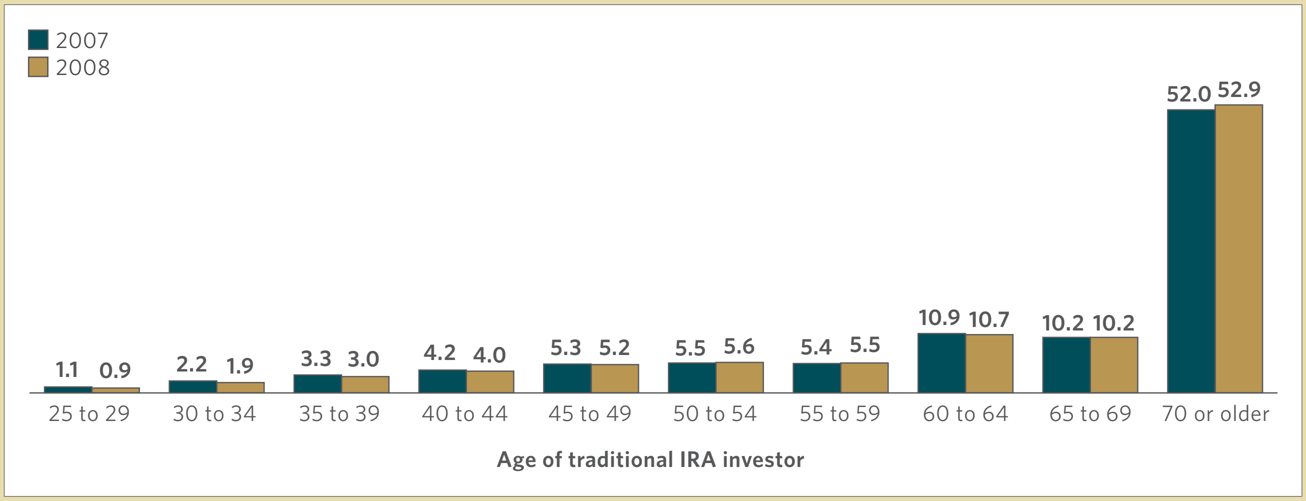
Note: The samples are 7.4 million traditional IRA investors (aged 25 or older) in 2007 and 7.8 million traditional IRA investors (aged 25 or older) in 2008. Figures 11 and 21 provide additional detail.
Source: The IRA Investor Database™

The majority of withdrawals in 2008 was taken by traditional IRA investors aged 70 or older, although traditional IRA withdrawals were not limited to any single age group. In 2008, 52.9 percent of traditional IRA withdrawals were taken by traditional IRA investors aged 70 or older (Figure 23). Traditional IRA investors in their sixties accounted for another 20.9 percent of investors taking withdrawals in 2008, with traditional IRA investors aged 25 to 59 accounting for the remaining 26.1 percent. The age composition of traditional IRA investors with withdrawals in 2008 in The IRA Investor Database is very similar to 2007, which is broadly similar to the age distribution of traditional IRA investors with withdrawals observed in the IRS universe.

FIGURE 23

More Than Half of Traditional IRA Investors Taking Withdrawals Were Aged 70 or Older, 2007 and 2008

Among traditional IRA investors with withdrawals, share by age



Note: The samples are 1.3 million traditional IRA investors (aged 25 or older) with withdrawals in 2007 and 1.4 million traditional IRA investors (aged 25 or older) with withdrawals in 2008.
Percentages do not add to 100 percent because of rounding.
Source: The IRA Investor Database™

Variation in Traditional IRA Withdrawal Activity in 2008 by Investor Income

Withdrawal activity by traditional IRA investors in 2008 tended to be lower the higher-income the area where the investor lived. Among traditional IRA investors living in the lowest-income zip code groups (less than $35,000), 22.5 percent took withdrawals in 2008 (Figure 24). For those in the highest-income areas ($140,000 or more), only 15.6 percent took withdrawals in 2008.

FIGURE 24

Withdrawal Activity of Traditional IRA Investors by Income, 2008

Number of traditional IRA investors and traditional IRA investors with withdrawals[1] by income[2]

	Traditional IRA investors		Traditional IRA investors with withdrawals[1]		Memo: percentage of traditional IRA investors who had withdrawals[1]
Income[2]	Number *Thousands*	Share[3] *Percent*	Number *Thousands*	Share[3] *Percent*	
Less than $35,000	603.4	7.8%	136.0	9.6%	22.5%
$35,000 to <$45,000	1,255.7	16.1	264.8	18.8	21.1
$45,000 to <$50,000	592.5	7.6	116.4	8.2	19.7
$50,000 to <$55,000	588.5	7.6	111.2	7.9	18.9
$55,000 to <$65,000	1,084.8	13.9	199.0	14.1	18.3
$65,000 to <$70,000	476.9	6.1	82.5	5.8	17.3
$70,000 to <$80,000	728.3	9.4	122.0	8.6	16.8
$80,000 to <$100,000	965.4	12.4	152.4	10.8	15.8
$100,000 to <$140,000	729.7	9.4	109.3	7.7	15.0
$140,000 or more	753.2	9.7	117.6	8.3	15.6
All	7,778.3	100.0	1,411.2	100.0	18.1

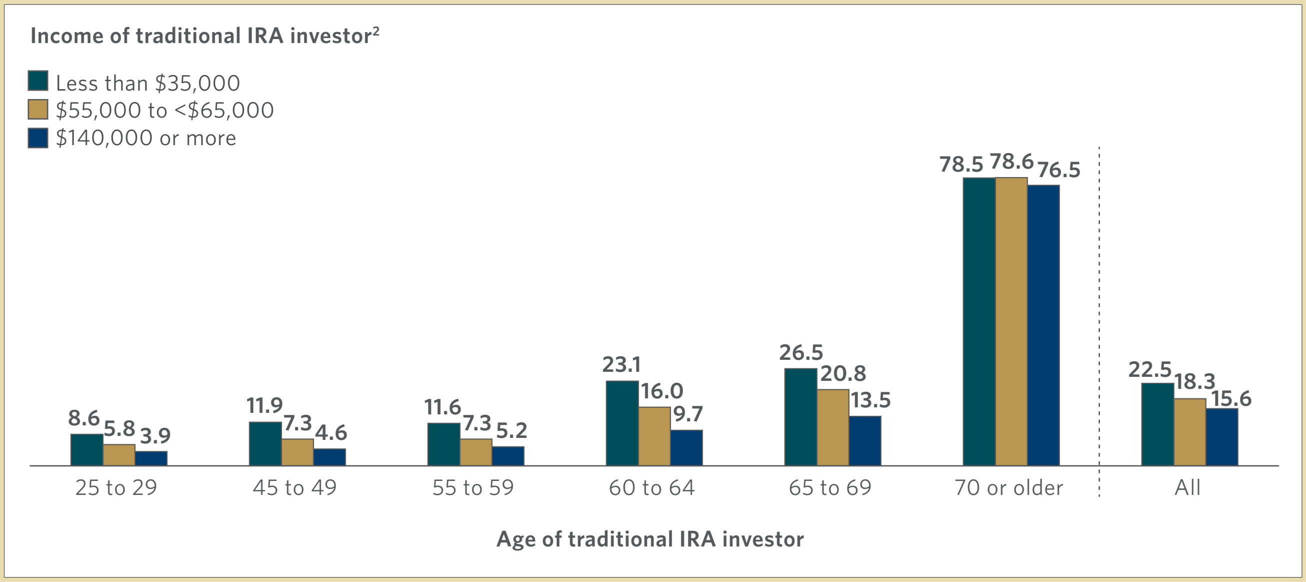
[1]Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2008.
[2]Income for each IRA investor is proxied by the 2007 average income for taxpayers living in that investor's zip code. See the appendix for details.
[3]Share is the percentage of the total.
Note: Figure A.10 in the appendix provides additional detail by gender.
Source: The IRA Investor Database™

This pattern also can be seen when both age and income are analyzed at the same time. Within each age group, the percentage of traditional IRA investors with withdrawals in 2008 tends to fall as investor income rises, although the effect is considerably muted for traditional IRA investors aged 70 or older, for whom distributions are usually required (Figure 25). Among traditional IRA investors aged 25 to 29, 8.6 percent of those in the lowest income group (less than $35,000) took withdrawals in 2008 while only 3.9 percent of those in the highest income group ($140,000 or more) took withdrawals. For investors aged 65 to 69, withdrawals were more frequent, but the pattern by income is similar. For investors aged 65 to 69 with income of less than $35,000, 26.5 percent took withdrawals in 2008, compared with 13.5 percent of traditional IRA investors in that age group with income of $140,000 or more.

FIGURE 25

Withdrawal Activity of Traditional IRA Investors by Age and Income, 2008

Traditional IRA investors with withdrawals[1] as a percentage of traditional IRA investors by age and income[2]



[1]Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2008.
[2]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.
Note: The sample is 7.8 million traditional IRA investors aged 25 or older in 2008. Figure A.11 in the appendix provides additional detail.
Source: The IRA Investor Database™

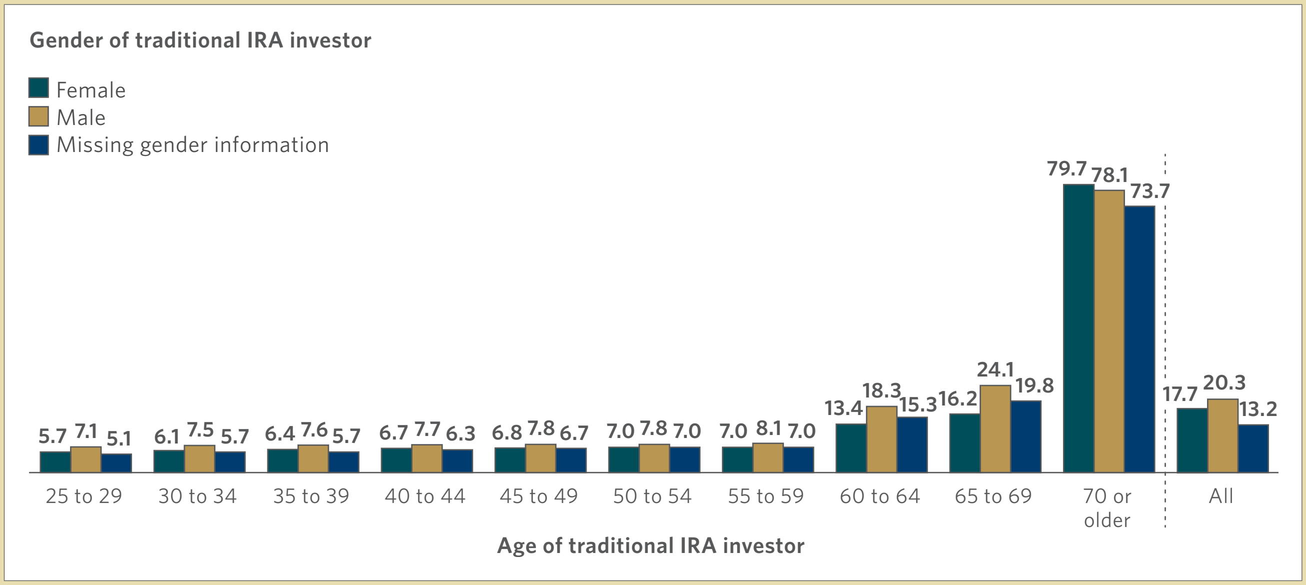
Variation in Traditional IRA Withdrawal Activity in 2008 by Gender

Male traditional IRA investors tended to be slightly more likely than female traditional IRA investors to take withdrawals in 2008 (Figure 26).[52] In 2008, 20.3 percent of male traditional IRA investors took withdrawals, compared with 17.7 percent of female traditional IRA investors. Male traditional IRA investors had higher incidences of withdrawal activity among all but the oldest age group, for whom RMDs likely impacted the rates.

FIGURE 26

Withdrawal Activity of Traditional IRA Investors by Age and Gender, 2008

Traditional IRA investors with withdrawals* as a percentage of traditional IRA investors by age and gender



*Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2008.
Note: The sample is 7.8 million traditional IRA investors aged 25 or older in 2008. Figure A.11 in the appendix provides additional detail.
Source: The IRA Investor Database™

Traditional IRA Withdrawal Amounts in 2008

Two statistics generally used to measure "typical" amounts—mean and median—for traditional IRA withdrawal amounts generally increased with age before falling for the oldest age groups. The mean, or average, traditional IRA withdrawal in 2008 was $16,470 for the entire population of traditional IRA investors (aged 25 or older) who had withdrawals in 2008 (Figure 27). The mean withdrawal amount was $5,970 in 2008 for traditional IRA investors aged 25 to 29 and rose to $27,010 for traditional IRA investors aged 60 to 64 in 2008 before falling to $12,090 for traditional IRA investors aged 70 or older. The median traditional IRA withdrawal in 2008 was $6,500 among all traditional IRA investors (aged 25 or older) who had withdrawals in 2008. The median is below the mean in all age groups, but similarly tended to rise with age from $3,000 for the 25-to-29 age group to $14,000 for the 60-to-64 age group, before falling to $4,490 for traditional IRA investors aged 70 or older.

FIGURE 27

Traditional IRA Withdrawal Amounts by Age, 2008

Number and amount of withdrawals[1] from traditional IRAs by age

	Traditional IRA investors with withdrawals[1]		Traditional IRA withdrawals[1]		Traditional IRA withdrawal amount	
Age	**Number** *Thousands*	**Share[2]** *Percent*	**Amount** *Millions*	**Share[2]** *Percent*	**Median**	**Mean**
25 to 29	13.0	0.9%	$77.4	0.3%	$3,000	$5,970
30 to 34	27.3	1.9	272.2	1.2	5,100	9,980
35 to 39	43.0	3.0	586.2	2.5	7,000	13,630
40 to 44	56.3	4.0	928.6	4.0	8,380	16,490
45 to 49	72.7	5.2	1,359.2	5.8	9,000	18,700
50 to 54	79.5	5.6	1,640.9	7.1	9,870	20,640
55 to 59	77.3	5.5	1,756.6	7.6	10,000	22,730
60 to 64	151.2	10.7	4,082.8	17.6	14,000	27,010
65 to 69	144.4	10.2	3,508.7	15.1	12,000	24,310
70 or older	746.7	52.9	9,029.8	38.9	4,490	12,090
All	1,411.2	100.0	23,242.4	100.0	6,500	16,470

[1]Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2008.
[2]Share is the percentage of the total.
Source: The IRA Investor Database™

Range of Withdrawal Amounts in 2008 Tended to Rise with Investor Age

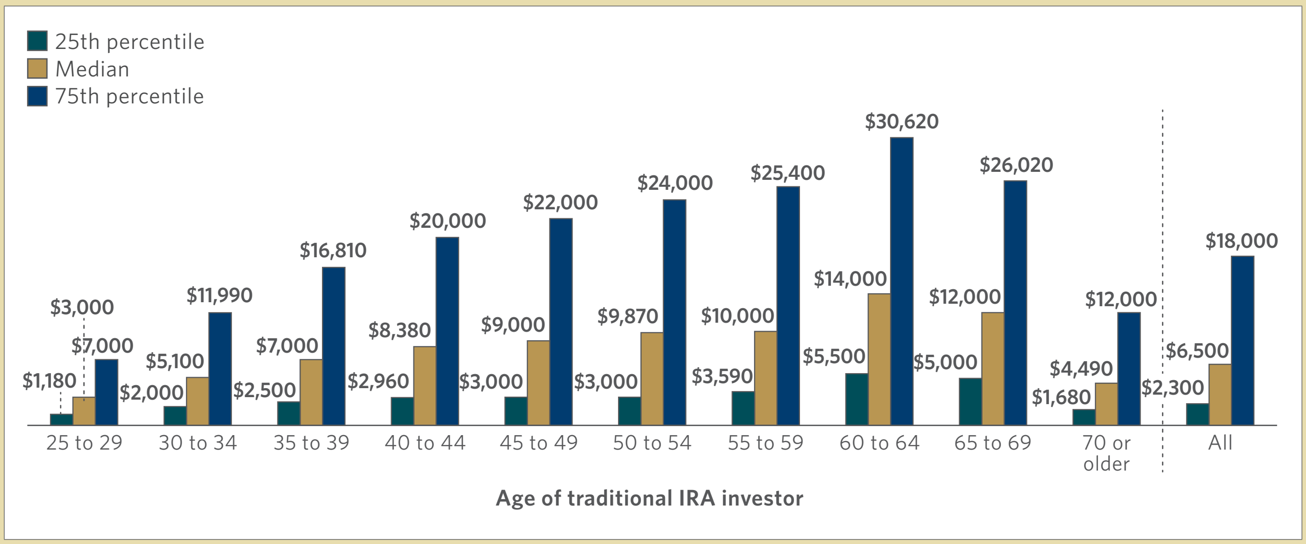
Within each age group, the mean withdrawal amount was typically much larger than the median. The 25th and 75th percentiles provide a more descriptive view of the range of withdrawal amounts and also help to clarify why the mean was larger than the median within every age group. For the entire population of traditional IRA investors with withdrawals, the 25th percentile withdrawal amount was $2,300 in 2008, the 75th percentile withdrawal amount was $18,000, and the 50th percentile (median) withdrawal amount, as noted above, was $6,500 (Figure 28). The fact that the median was much closer to the 25th percentile than it was to the 75th percentile indicates there was a relatively small group of individuals with very large withdrawals that increased the mean withdrawal amount relative to the median.

The range of withdrawal amounts tended to increase with age, reflecting the diversity of account balances. The spread between the 25th and 75th percentile withdrawal amounts in 2008 was $1,180 to $7,000 for the 25-to-29 age group, reflecting the lower range of accumulations available for withdrawals (Figure 28). For the 60- to 64-year-old traditional IRA investors with withdrawals, the 25th to 75th percentile range of traditional IRA withdrawal amounts was $5,500 to $30,620. The widening differential reflects several forces. For example, older individuals have the possibility of a wider range of contribution and rollover histories, leading to the possibility of larger balances.[53]

FIGURE 28

Amounts Withdrawn from Traditional IRAs in 2008 Tended to Increase with Investor Age

Quartiles of traditional IRA withdrawal amounts by age



Note: The sample is 1.4 million traditional IRA investors aged 25 or older with withdrawals in 2008.
Source: The IRA Investor Database™

There was a wide distribution of withdrawal amounts across traditional IRA investors in 2008, similar to 2007. For example, 11.5 percent of all withdrawals among traditional IRA investors were less than $1,000 in 2008, while 7.2 percent of withdrawals were $50,000 or more (Figure 29).

Some variation in the distribution of traditional IRA withdrawal amounts by investor age is discernible in 2008, similar to 2007. For example, the youngest traditional IRA investors were less likely to have larger withdrawals (Figure 29), reflecting in part their tendency to have smaller account balances. Younger traditional IRA investors taking withdrawals tended to withdraw less than about $5,000, but the withdrawals often were the majority of the account. For example, 6.5 percent of traditional IRA investors aged 30 to 34 took withdrawals in 2008 (Figure 21). Among those taking withdrawals, 47.6 percent took less than $5,000 from their traditional IRAs (Figure 29), and the median amount withdrawn was $5,100 (Figure 27). On average, these traditional IRA investors with withdrawals took 66 percent of the IRA balance as a withdrawal.[54] Pre-retiree and younger-retiree households (traditional IRA investors aged 50 to 69) were more likely to have larger withdrawals. Traditional IRA investors aged 70 or older were less likely to have larger withdrawals, perhaps reflecting in part the impact that RMDs have had on their balances.[55] The most common withdrawal amount among traditional IRA investors aged 70 or older was $2,000 to less than $5,000, which often represents the RMD amount.[56]

FIGURE 29

Distribution of Traditional IRA Withdrawal Amounts by Investor Age, 2008

Percentage of traditional IRA investors with withdrawals* in specified ranges by age

	Amount of traditional IRA withdrawal							
Age	Less than $1,000	$1,000–<$2,000	$2,000–<$5,000	$5,000–<$10,000	$10,000–<$20,000	$20,000–<$50,000	$50,000–<$100,000	$100,000 or more
25 to 29	19.7	16.9	28.4	17.3	12.4	4.6	0.6	0.1
30 to 34	13.9	10.6	23.1	19.6	19.0	11.4	2.0	0.3
35 to 39	11.8	8.7	19.6	18.5	20.3	16.4	4.0	0.9
40 to 44	10.3	8.0	17.8	17.8	20.0	18.9	5.7	1.5
45 to 49	10.2	7.7	16.9	17.4	19.3	19.6	6.5	2.4
50 to 54	9.8	7.6	16.1	16.9	19.3	20.1	7.2	3.1
55 to 59	8.5	7.0	15.3	16.7	19.7	21.6	7.8	3.5
60 to 64	4.1	4.5	12.8	17.1	22.0	25.6	9.6	4.4
65 to 69	3.4	4.6	14.6	19.5	23.5	22.8	7.8	3.7
70 or older	15.0	13.5	24.2	17.7	14.2	10.9	3.2	1.3
All	11.5	10.3	20.3	17.7	17.3	15.7	5.1	2.1

**Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2008.*
Note: The sample is 1.4 million traditional IRA investors aged 25 or older with withdrawals in 2008.
Source: The IRA Investor Database™

Variation in Traditional IRA Withdrawal Amounts in 2008 by Investor Income

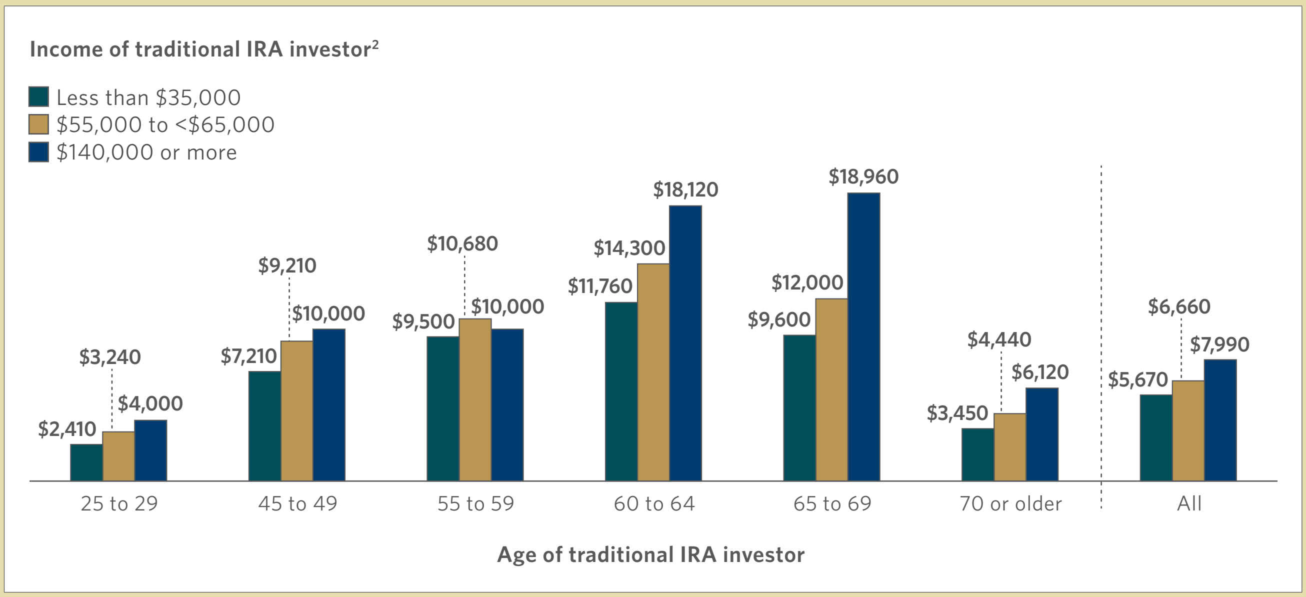
In addition to rising with investor age, traditional IRA withdrawal amounts also tended to rise with investor income. (Investor income is proxied by the average income per tax return for the investor's zip code.[57]) For example, the median withdrawal amount among traditional IRA investors with withdrawals in 2008 and with less than $35,000 in income was $5,670, compared with $7,990 for investors with $140,000 or more in income (Figure 30). Because incomes tend to rise with age, it is important to look at the effect of income separately from the effect of age. For example, among traditional IRA investors aged 25 to 29 with withdrawals in 2008 and with less than $35,000 in income, the median withdrawal amount was $2,410. For investors aged 25 to 29 with withdrawals in 2008 and with $140,000 or more in income, the median withdrawal amount rose to $4,000. The correlation between withdrawal amounts and income can be seen most clearly for investors aged 65 to 69. For traditional IRA investors aged 65 to 69 with withdrawals in 2008 in the lowest income group, the median withdrawal amount was $9,600. For the highest income group aged 65 to 69, the median withdrawal amount rose to $18,960.

Even for investors of RMD age, the median traditional IRA withdrawal amount rises with investor income. This is likely because higher-income traditional IRA investors tend to have larger IRA balances,[58] and thus their RMDs, which are calculated based on a remaining life expectancy factor as a percentage of their IRA balances, will tend to be larger amounts. For example, among traditional IRA investors aged 70 or older with withdrawals in 2008 and income of less than $35,000, the median withdrawal amount was $3,450. This rises to $6,120 for investors in that age group with income of $140,000 or more (Figure 30).

FIGURE 30

Withdrawal Amounts of Traditional IRA Investors by Age and Income, 2008

Median traditional IRA withdrawal amount among traditional IRA investors with withdrawals[1] by selected age and income groups[2]



[1]*Traditional IRA investors with withdrawals are traditional IRA investors (aged 25 or older) who had withdrawals from their traditional IRAs in 2008.*
[2]*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.*
Note: The sample is 1.4 million traditional IRA investors aged 25 or older with withdrawals in 2008. Figure A.10 in the appendix provides additional detail.
Source: The IRA Investor Database™

Traditional IRA Investors’ Withdrawal Activity over Time

One of the fundamental elements of The IRA Investor Database is the ability to track individuals over time. This feature makes it possible to identify traditional IRA investors owning accounts at year-end 2007 and year-end 2008 and to analyze their withdrawal activities in one or both of the years. It also permits the calculation of RMDs for 2008 based on year-end 2007 traditional IRA balances to explore whether traditional IRA investors tend to withdraw that minimum amount or more.

Repeat Withdrawal Activity

In The IRA Investor Database, 6.9 million traditional IRA investors had accounts at year-end 2007 and year-end 2008. Younger traditional IRA investors were much less likely to take withdrawals from their traditional IRAs or repeat withdrawals, compared with older investors. For example, among traditional IRA investors aged 26 to 59 in 2008, 3.2 percent took withdrawals only in 2007, 2.8 percent took withdrawals only in 2008, and 3.5 percent took withdrawals in both years (Figure 31). Withdrawals

FIGURE 31

Year-to-Year Withdrawal Activity Among Traditional IRA Investors, 2007 and 2008

Percentage of traditional IRA investors with account balances at year-end 2007 and year-end 2008

Age	Did not take a withdrawal	Only took a withdrawal in 2007	Only took a withdrawal in 2008	Took a withdrawal in both 2007 and 2008
26 to 29	89.2	5.0	3.5	2.3
30 to 34	89.9	4.6	3.0	2.5
35 to 39	90.5	3.9	2.8	2.8
40 to 44	90.6	3.4	2.8	3.2
45 to 49	90.6	3.1	2.7	3.6
50 to 54	90.7	2.8	2.7	3.9
55 to 59	90.6	2.3	2.8	4.3
60 to 64	80.8	3.8	5.5	10.0
65 to 69	74.6	4.9	5.5	14.9
70 or older	16.8	3.6	10.7	68.9
All	78.0	3.5	4.4	14.1
Memo:				
26 to 59	90.5	3.2	2.8	3.5
60 to 69	78.1	4.3	5.5	12.1
70 or older	16.8	3.6	10.7	68.9

Note: The sample is 6.9 million traditional IRA investors aged 26 or older at year-end 2008 with traditional IRA balances at year-end 2007 and year-end 2008. Age is the age of the traditional IRA investor at year-end 2008.
Source: The IRA Investor Database™

and repeat withdrawals become more frequent among the older traditional IRA investors. For example, 12.1 percent of traditional IRA investors aged 60 to 69 in 2008 took withdrawals in both years. Repeat withdrawal activity rises further among traditional IRA investors as RMD activity commences.

The Required Minimum Distribution Rule Often Determines the Withdrawal Amount

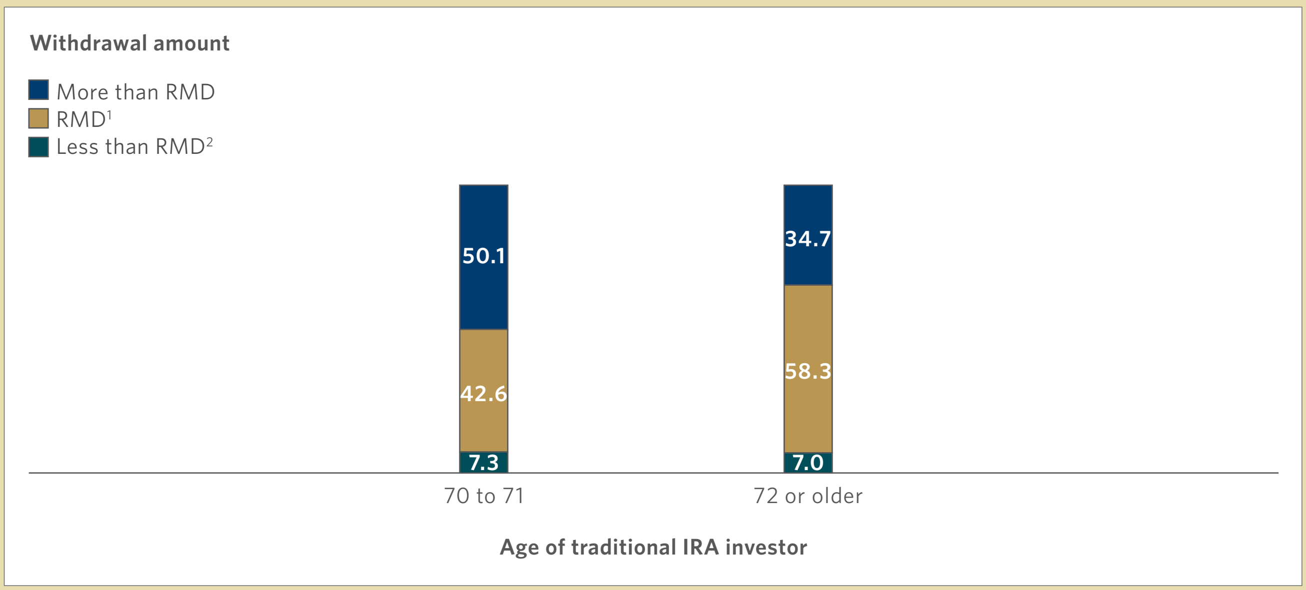
Household survey results reveal that traditional IRA–owning households with withdrawals often indicate that they calculated the withdrawal amount to meet the RMD rule (Figures 6 and 7). As shown in the call out box, the RMD rule uses a factor related to remaining life expectancy to dictate how much money needs to be distributed each year from the traditional IRA. Individuals failing to take their RMDs face stiff penalties on the amount that should have been withdrawn.[59]

Traditional IRA investors in The IRA Investor Database also often use the RMD to determine their withdrawal amounts. Using the IRS Uniform Lifetime Table for single life expectancy, it is possible to identify withdrawal amounts that fulfill the RMD. For example, among traditional IRA investors with traditional IRAs at year-end 2007 and year-end 2008, aged 70 to 71 at year-end 2008, and taking withdrawals in 2008, about half took up to the RMD amount as a withdrawal, including 42.6 percent who took exactly the RMD based on the traditional IRA investor's life expectancy factor published by the IRS (Figure 32). Among traditional IRA investors present in 2007 and 2008, aged 72 or older in 2008, and taking withdrawals in 2008, 65.3 percent took out up to the RMD percentage, including 58.3 percent taking exactly the RMD.

FIGURE 32

Required Minimum Distributions Often Were Used to Determine Withdrawal Amounts in 2008

Percentage of traditional IRA investors aged 70 or older in 2008 with account balances at year-end 2007 and year-end 2008 who took withdrawals in 2008



[1]The RMD calculation is based on the IRS Uniform Lifetime Table for single IRA owners or married IRA owners with spouses who are not more than 10 years younger and are the sole beneficiaries of their IRAs.
[2]These taxpayers may be using another RMD calculation (e.g., Joint Life and Last Survivor Expectancy) or taking a withdrawal from an IRA at another provider.
Note: The sample is the 732,000 traditional IRA investors aged 70 or older in 2008 with account balances at year-end 2007 and year-end 2008 and who took withdrawals in 2008.
Sources: The IRA Investor Database™ and Investment Company Institute Summary of IRS regulations (see IRS Publication 590).

How Are RMDs Calculated?

Upon reaching age 70½, traditional IRA investors are required to begin taking withdrawals from their traditional IRAs. These required minimum distributions (RMDs) are based on the remaining life expectancy of the traditional IRA owner or the remaining joint life expectancy of the traditional IRA owner and his or her spouse (if the spouse is more than 10 years younger than the traditional IRA investor).

Example:

Suppose a traditional IRA investor who was 72 at year-end 2008 had a traditional IRA balance at the previous year-end of:

$76,770 = traditional IRA balance at year-end 2007*

According to the IRS Uniform Lifetime Table, the remaining single life expectancy factor for an individual aged 72 is 25.6 years, which translates into a withdrawal rate of 3.9 percent. If that individual were to fulfill the RMD using the traditional IRA observed, then he or she would have made a RMD in 2008 of:

$76,770 x (1/25.6) = $2,999 required minimum distribution amount

*This is the median traditional IRA balance at year-end 2007 for traditional IRA investors aged 72 at year-end 2008.

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.

» *Traditional IRA Investors' Asset Allocation, 2007 and 2008*, Investment Company Institute. Available at www.ici.org/pdf/rpt_11_ira_asset.pdf.

These reports are the first three 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 study 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 paper 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, 2011," *ICI Research Perspective*. This study reports information from two ICI household surveys. Available at http://www.ici.org/pdf/per17-08.pdf.

» "Frequently Asked Questions About Individual Retirement Accounts," Investment Company Institute. Available at www.ici.org/faqs/faqs_iras.

Notes

[1] This calculation uses the IRS Uniform Lifetime Table for unmarried IRA owners, married owners whose spouses are not more than 10 years younger, and married owners whose spouses are not the sole beneficiaries of their IRAs. Other IRA owners may be subject to a different withdrawal formula. For more information, see callout box on page 37.

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

[3] 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 2011, see Investment Company Institute 2012b. The Federal Reserve Board reports U.S. households' financial assets on a quarterly basis (see U.S. Federal Reserve Board 2012).

[4] For additional discussion of IRA-owning households, see Holden and Schrass 2011a and 2011b.

[5] Ibid.

[6] At retirement, defined contribution plan account owners often choose to roll over their balances to IRAs. See Sabelhaus, Bogdan, and Holden 2008.

[7] 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 2010 SCF interviewed 6,492 families, which represent 117.6 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 2010 SCF results, see Bricker et al. 2012. 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 in 2009, see Bricker et al. 2011. For an overview of the 2007 SCF results, see Bucks et al. 2009.

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.

[8] 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 2011 survey was based on a sample of 4,216 U.S. households selected by random digit dialing, of which 1,636 households, or 38.8 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 2011 sample of households is ± 1.5 percentage points at the 95 percent confidence level. For the 2011 survey results, see Bogdan, Holden, and Schrass 2011. For reporting of 2011 IRA incidence, see Holden and Schrass 2011a.

[9] 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 2011 survey was based on a sample of 2,300 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 ± 2.0 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 2011 survey, see Holden and Schrass 2011a and 2011b.

[10] 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; results for tax years 2005, 2006, 2007, and 2008 are available on the IRS website: www.irs.gov/taxstats/indtaxstats/article/0,,id=129406,00.html#ira; and see results for tax year 2008 in Bryant 2012. 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.

[11] 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, DC, is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

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

[13] 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.

[14] For references to the most recent published IRS Statistics of Income data, see note 10. For the 2011 ICI IRA Owners Survey results, see Holden and Schrass 2011a and 2011b.

[15] 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 2012b and Holden and Schrass 2011a and 2011b.

[16] 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 2012b and Holden and Schrass 2011a and 2011b.

[17] See Figure A.3 in the appendix for a comparison of The IRA Investor Database to the 2008 IRS universe estimates.

[18] 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 (IRS universe).

[19] See Figure A.3 in the appendix for a comparison of The IRA Investor Database to the 2008 IRS universe estimates.

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

[21] 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.

[22] See Figure A.5 in the appendix.

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

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

[25] See Investment Company Institute 2012b.

[26] See Sabelhaus and Schrass 2009.

[27] See Holden and Bass 2011.

[28] 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.

[29] See Investment Company Institute 2012b, which reports a history of IRS Statistics of Income tabulations.

[30] For example, see Holden and Schrass 2011a and 2011b.

[31] This report will use the terms "withdrawal" and "distribution" interchangeably. The Internal Revenue Service, Publication 590, www.irs.gov/pub/irs-pdf/p590.pdf, asks "When Must You Withdraw Assets?" but then describes distribution rules.

[32] For more information, see Internal Revenue Service, *Publication 590*, www.irs.gov/pub/irs-pdf/p590.pdf.

[33] For analysis of withdrawal activity among traditional IRA–owning households, see Holden and Schrass 2011a. Regression analysis in Holden and Reid 2008 suggests that the additional 10 percent tax puts a damper on withdrawal activity.

[34] The IRS rules indicate a traditional IRA investor must commence RMDs by April 1 following the calendar year in which the investor turns 70½. For additional details, see Internal Revenue Service, *Publication 590*, www.irs.gov/pub/irs-pdf/p590.pdf.

[35] As part of the Worker, Retiree, and Employer Recovery Act of 2008, required minimum distributions were waived for 2009.

[36] The National Bureau of Economic Research (NBER), which publishes its assessment of U.S. business cycles, indicated that the two most recent recessions occurred from March 2001 through November 2001, and from December 2007 through June 2009. See National Bureau of Economic Research 2010.

[37] See Figure A.12 in the appendix; and Bryant 2012 and Internal Revenue Service 2012.

[38] See Figure 5 and *IRS Publication 590*, www.irs.gov/pub/irs-pdf/p590.pdf.

[39] See Figure 12 and Bryant 2008.

[40] For example, Lin 2006 analyzes IRA withdrawal activity among Health and Retirement Study (HRS) households and finds an increased probability of withdrawals among older workers within two years after an involuntary job loss. Amromin and Smith 2003 analyze a panel of taxpayers from 1987 through 1996 and find that IRA withdrawals with penalty (among taxpayers younger than 59½) are more likely among households that experience adverse shocks (e.g., income shocks; demographic shocks, such as divorce; and lump sum consumption needs, such as home or educational expenses). Bershadker and Smith 2006, also analyze the panel of taxpayers, but focus on taxpayers aged 63 to 65 in 1987. They find that only 12 percent of those taxpayers were "early tappers," taking withdrawals more than two years prior to retirement. See additional discussion in Holden and Reid 2008.

[41] Regression analysis of the variables correlated with the probability of taking a withdrawal found a significantly positive coefficient on the dummy variable for gender (0 = female, 1 = male). The other independent variables included in the regression were age, a dummy for investor RMD eligibility (variable = 1, if the investor was of RMD age), account balance, and income. All variables were significant.

[42] See discussion of the variation in rollover amounts in Holden, Sabelhaus, and Bass 2010b.

[43] The percentage withdrawn is calculated as the withdrawal amount divided by the remaining year-end traditional IRA balance with the withdrawal amount added back in (i.e., [withdrawal]/[account + withdrawal]). This calculation is an estimate because the exact timing of the withdrawal during the year is not known. Thus, the exact account balance at the time of the withdrawal is not known.

[44] There may be a cohort effect as well. These older individuals did not experience full careers with DC plans, which often generates rollover IRAs, and thus may have relatively less reliance on IRA balances. Indeed, successive cohorts of U.S. households have higher rates of IRA or DC plan account ownership over time. See Investment Company Institute 2012a (Figure 7.4) and Sabelhaus and Schrass 2009.

[45] This calculation uses the IRS Uniform Lifetime Table for unmarried IRA owners, married owners whose spouses are not more than 10 years younger, and married owners whose spouses are not the sole beneficiaries of their IRAs. Other IRA owners may be subject to a different withdrawal formula. For more information, see call out box on page 37.

[46] See call out box and discussion on page 37.

[47] For lower-income households, Social Security replaces a much higher fraction of pre-retirement earnings, which may reduce their need for additional retirement savings. The basic retirement benefit formula in Social Security is progressive, replacing a much higher fraction of pre-retirement earnings for lower earners. The differences in replacement rates across the earnings distribution are substantial, with retired workers in the bottom quintile of household lifetime earnings receiving Social Security replacement rates that are more than double the replacement rates for workers in the top quintile of household lifetime earnings. For individuals born in the 1940s, the Congressional Budget Office projects that Social Security benefits will replace, on average, 71 percent of average household lifetime earnings for the lowest household lifetime earnings quintile and 30 percent of average household lifetime earnings for the highest household lifetime earnings quintile. See Congressional Budget Office 2011.

[48] The IRS universe data indicate that 33.3 percent of traditional IRA taxpayers took withdrawals in 2008, compared with 27.3 percent in 2007. See Bryant 2012 and Internal Revenue Service 2012.

[49] See Figure 5 and *IRS Publication 590*, www.irs.gov/pub/irs-pdf/p590.pdf.

[50] See Figure 22 and Bryant 2008.

[51] See Figure 12.

[52] Regression analysis of the variables that may impact the probability of taking a traditional IRA withdrawal found a significantly positive coefficient on the dummy variable for gender (0 = female, 1 = male). The other independent variables included in the regression were age, a dummy for investor RMD eligibility (variable = 1 if the investor was of RMD age), account balance, and income. All variables were significant.

[53] See discussion of the variation in rollover amounts in Holden, Sabelhaus, and Bass 2010b.

[54] The percentage withdrawn is calculated as the withdrawal amount divided by the remaining year-end traditional IRA balance with the withdrawal amount added back in (i.e., [withdrawal]/[account + withdrawal]). This calculation is an estimate because the exact timing of the withdrawal during the year is not known. Thus, the exact account balance at the time of the withdrawal is not known.

[55] There also may be a cohort effect. See note 40.

[56] See discussion at note 41.

[57] See callout box on page 18.

[58] See discussion at note 47.

[59] The penalty is a 50 percent excise tax on the amount not distributed as required. See *IRS Publication 590*, www.irs.gov/pub/irs-pdf/p590.pdf.

Glossary

asset allocation. A method of investing by which investors include a range of different investment classes—such as stocks, bonds, and cash alternatives or equivalents—in their portfolios.

distribution. See **withdrawals**.

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.

individual retirement account (IRA). A tax-deferred or tax-favored 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 retirement assets at job separation or retirement through rollovers. The term IRA also applies to individual retirement annuities, which receive similar tax treatment.

required minimum distribution (RMD). Minimum distribution rules require that beginning after age 70½, the entire amount of a traditional IRA be distributed over the life of the individual (or the joint lives of the individual and designated beneficiary), or over a period not extending beyond the life expectancy of the individual (or the joint life expectancy of the individual and designated beneficiary). More rapid distributions are permitted, but distributing less than the required amount will result in a tax penalty. Roth IRAs are not subject to required minimum distributions during the account owner's lifetime.

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. Distributions from Roth IRAs (including earnings) are generally not subject to federal income tax if taken after age 59½ and after a five-year holding period. Before age 59½, distributions of principal are not subject to federal income tax, but distributions of investment earnings are generally subject to tax and a 10 percent penalty (with some exceptions). There are no required distributions from a Roth IRA during the account owner's lifetime.

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 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.

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

withdrawals. Individuals may take distributions (that is, withdraw funds) from their IRAs prior to retirement, but withdrawals 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 limited 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 federal income tax.

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