ICI RESEARCH REPORT

The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2012

June 2014

The IRA Investor Database™

The Investment Company Institute and the Securities Industry and Financial Markets Association maintain The IRA Investor Database, which includes account-level information for more than 15 million individual retirement account (IRA) investors.

The aim of this database is to increase public understanding of this important segment of the U.S. retirement market by expanding on the existing household surveys and Internal Revenue Service (IRS) tax data on IRA investors.

By tapping account-level records, research drawn from the 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 contribution, conversion, rollover, and withdrawal activity, and the types of assets that investors hold in these accounts.

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Executive Summary

First available in 1998, Roth individual retirement accounts (IRAs) had accumulated more than $400 billion in assets by year-end 2012 and exceeded $500 billion at year-end 2013. Congress created Roth IRAs to provide a contributory retirement savings vehicle on an after-tax (nondeductible) basis with qualified withdrawals distributed tax-free. Individuals also may invest in Roth IRAs through conversions, a process by which taxes are paid on assets in a non-Roth IRA that move into the Roth IRA. In 2010, income limits on conversion activity were lifted (with special tax treatment of conversions made in 2010 as well). Since 2006, direct rollovers from designated Roth accounts in employer-sponsored retirement plans to Roth IRAs have been permitted, and since 2008, rollovers from non-Roth employer-sponsored retirement plan accounts also have been allowed. Roth IRAs are managed by individuals, and policymakers are interested in how Roth IRA investors fared through the financial crisis and how they manage their Roth IRAs.

Analysis of the contribution, conversion, rollover, withdrawal, and asset allocation activity of 2.5 million consistent Roth IRA investors—those with accounts in every year from 2007 through 2012—can show how consistent Roth IRA investors fared during and after the financial crisis. In addition, analysis of a snapshot of 5.1 million Roth IRA investors in 2012 can provide more detailed insight into how individuals manage their Roth IRAs.

Roth IRA Investors Had Only a Modest Reaction to Financial Stresses

Contributions, Conversions, Rollovers, and Withdrawals. Consistent Roth IRA investors showed little reaction to the steep declines in stock values between October 2007 and March 2009, a recession (December 2007 to June 2009), and rising unemployment rates, though contribution activity did decline a bit in the wake of the financial crisis. Forty-three percent of consistent Roth IRA investors contributed to their Roth IRAs between tax year 2008 and tax year 2012, and more than three-quarters of them contributed in multiple years. Conversion activity increased in response to the change in eligibility, despite the adverse economic backdrop.[1] Rollover activity among Roth IRA investors is extremely rare. Withdrawal rates rose slightly between 2008 and 2012, but still only a very small fraction of Roth IRA investors took money out of their Roth IRAs.

Asset Allocation. Over 2007 to 2012, Roth IRA investors' allocation to equity holdings—equities, equity funds, and the equity portion of balanced funds—edged down, on average, although some of the change merely reflects market movement rather than investor rebalancing. For example, consistent Roth IRA investors aged 23 to 59 in 2012 held 85 percent of their Roth IRA assets in equity holdings at year-end 2007, and 78 percent of their Roth IRA assets were invested in equity holdings at year-end 2012. On movement to or from equity concentration measures of zero or 100 percent of the individual investor's Roth IRA balance, there was little activity among Roth IRA investors between year-end 2007 and year-end 2012. Nearly half of consistent Roth IRA investors had their Roth IRA balances entirely invested in equity holdings at year-end 2007, and that share decreased between year-end 2007 and year-end 2012, to 41 percent.

Account Balances. The movement of Roth IRA balances reflected the impact of investment returns, which relate to asset allocations; investors' contribution, conversion, rollover, and withdrawal activity; and the rules governing Roth IRAs. Roth IRA investors in all age groups saw their account balances increase on average between year-end 2007 and year-end 2012. Although account balances fell considerably following the stock market decline in 2008, the average Roth IRA balance for consistent Roth IRA investors aged 23 to 69 in 2012 was higher at year-end 2009 than at year-end 2007. In contrast to traditional IRA investors who beginning at age 70½ become ineligible to make contributions and typically must begin to take withdrawals, Roth IRA investors may contribute and are not subject to required minimum distributions (RMDs). The average Roth IRA balance for consistent Roth IRA investors aged 70 or older surpassed the year-end 2007 level by year-end 2010.

Snapshot of Roth IRA Investors at Year-End 2012 Provides Additional Insight into Roth IRA Investors' Activities

It also is possible to analyze a snapshot of all Roth IRA investors present in the database in any given year. This report primarily focuses on the 5.1 million Roth IRA investors present in 2012.

New Roth IRAs Often Are Created by Contributions

Investors open Roth IRAs primarily through contributions. In 2012, about seven in 10 new Roth IRAs were opened exclusively with contributions.

More Than Three in 10 Roth IRA Investors Make Contributions to Their Roth IRAs

In any given year, more than three in 10 Roth IRA investors contribute to their Roth IRAs. On average, in recent years, nearly $20 billion of contributions flowed into Roth IRAs per year. In tax year 2012, 30.3 percent of Roth IRA investors aged 18 or older contributed to their Roth IRAs, and more than four in 10 of these contributors did so at the legal limit. Roth IRA investors display persistence in their contribution activity year-to-year. For example, more than two-thirds of Roth IRA investors who contributed at the limit in tax year 2011 did so again in tax year 2012.

Roth IRA Conversion Activity Responds to Rule Changes

Few Roth IRA investors made conversions into their Roth IRAs, but conversion activity picked up in 2010 when income limits on conversions were lifted and taxpayers could choose to pay the taxes on 2010 conversions in 2011 and 2012. In 2010, more than 5 percent of Roth IRA investors made conversions, up from less than 2 percent in recent prior years. In 2011 and 2012, about 2.5 percent of Roth IRA investors made conversions as the lift on income limits continued, but the special tax payment option did not. Roth IRAs with recent conversions tend to have larger balances than those without conversions, particularly among older Roth IRA investors.

Few Roth IRA Investors Have Rollovers

In any given year, less than 2 percent of Roth IRA investors made rollovers.

Fewer Than One in 25 Roth IRA Investors Take Withdrawals

Withdrawals are rare among Roth IRA investors. Fewer than one in 25 Roth IRA investors took withdrawals in 2012. Unlike traditional IRAs, Roth IRAs have a five-year holding period but do not require distributions to start after the investor turns 70½. Similar to traditional IRAs, withdrawals taken from Roth IRAs before the investor reaches age 59½ may incur a penalty, unless an exception applies. Only about 3 percent of Roth IRA investors younger than 60 took withdrawals in 2012, and only about 5 percent of Roth IRA investors aged 60 or older took withdrawals.

Equity Holdings Figure Prominently in Roth IRAs

Roth IRAs hold a range of investments, with the largest share of Roth IRA assets invested in equities and equity funds, both in aggregate and across investor age groups. The pattern of investment holdings in Roth IRAs varies with investor age, typically as expected across the life cycle. For the most part, younger Roth IRA investors had a higher proportion of their accounts invested in equity holdings—equities, equity funds, and the equity portion of balanced funds—than did older investors. On average, Roth IRA investors younger than 45 had about 80 percent of their Roth IRAs invested in equity holdings, while Roth IRA investors aged 60 or older had about two-thirds of their Roth IRAs invested in equity holdings.

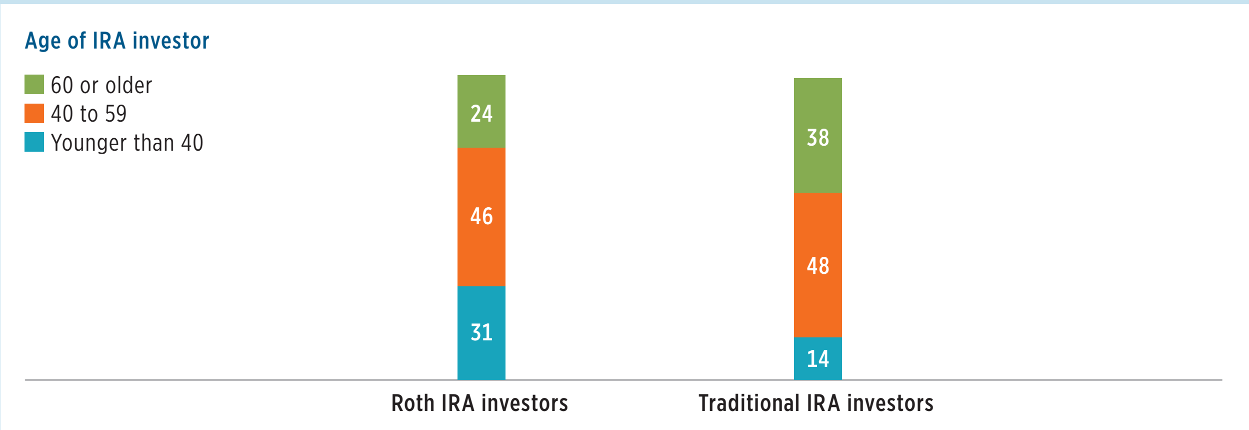
Roth IRA Investors Are Quite Different from Traditional IRA Investors

Roth IRA investors tend to be younger than traditional IRA investors. At year-end 2012, 31 percent of Roth IRA investors were younger than 40, compared with 14 percent of traditional IRA investors (Figure E.1). Only 24 percent of Roth IRA investors were 60 or older, compared with 38 percent of traditional IRA investors. This younger age distribution reflects the rules governing access to Roth IRAs, including income limits on contributions and (until 2010) on conversions, as well as the historically limited scope for rollover activity.

FIGURE E.1

Roth IRA Investors Are Younger Than Traditional IRA Investors

Percentage of IRA investors by type of IRA, year-end 2012



Note: The samples are 5.1 million Roth IRA investors aged 18 or older at year-end 2012 and 10.5 million traditional IRA investors aged 18 or older at year-end 2012.

Source: The IRA Investor Database™

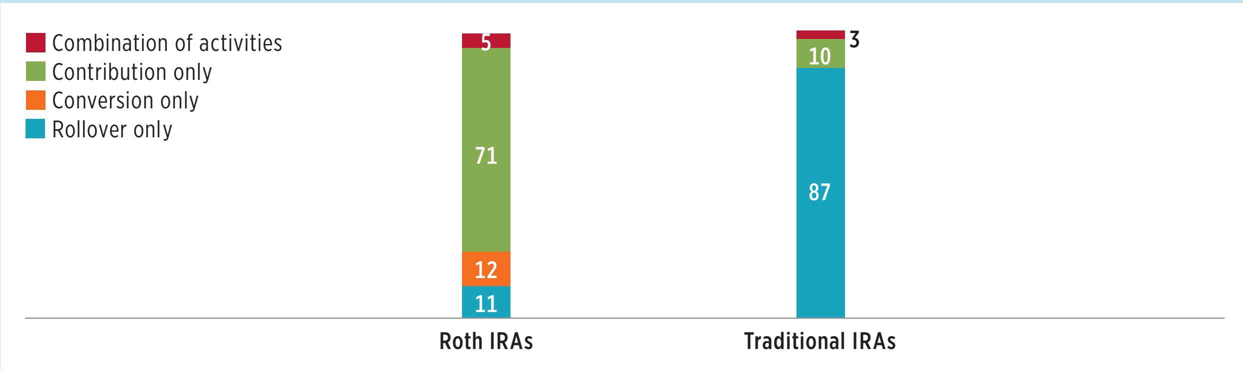
Traditional IRAs were originally created to serve two roles: as a contributory retirement savings account and as a repository for rollovers, while the main focus of Roth IRAs was after-tax contribution activity and tax-free distribution after a suitable time in the account. With the proliferation of retirement accumulations that can be rolled over, whether from defined contribution accounts or as lump-sum distributions from defined benefit plans, most (87 percent) of new traditional IRAs in 2012 were opened only with rollovers (Figure E.2) and about half of traditional IRA–owning households in 2013 report having rollovers in their traditional IRAs.[2] By contrast, rollovers play a less important role in Roth IRAs, and only 17 percent of Roth IRA–owning households in 2013 report that their Roth IRAs contain amounts that were initially in employer-sponsored retirement plans.[3]

Contribution activity is much more important to Roth IRA investors, with the majority of new Roth IRAs (71 percent) opened only with contributions (Figure E.2). In any given year, Roth IRA investors are more likely to make contributions than traditional IRA investors. In tax year 2012, about three in 10 Roth IRA investors (aged 18 or older) made contributions, compared with fewer than one in 10 traditional IRA investors (aged 25 to 69).[4]

FIGURE E.2

New Roth IRAs Often Are Opened with Contributions, New Traditional IRAs Often Are Opened with Rollovers

Percentage of new IRAs opened in 2012 by type of IRA



Note: New IRAs are accounts that did not exist in the IRA Investor Database in 2011 and were opened by one of the paths indicated in 2012. The calculation excludes IRAs that changed financial services firms. The samples are 0.2 million new Roth IRA investors aged 18 or older at year-end 2012 and 0.7 million new traditional IRA investors aged 25 to 74 at year-end 2012. Components may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

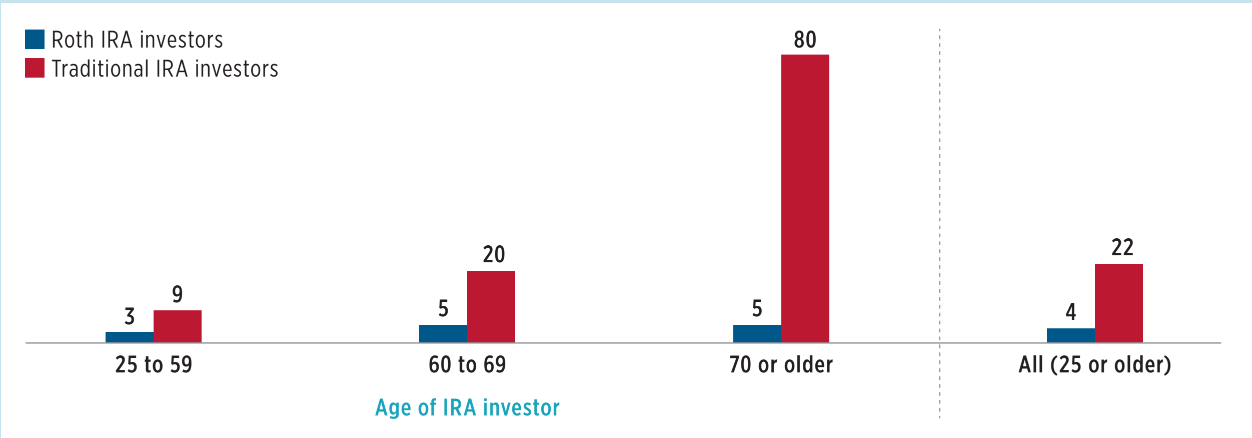
In contrast to traditional IRAs, which require investors aged 70½ or older to take RMDs, Roth IRAs have no RMDs (unless the Roth IRAs are inherited). As a result, withdrawal activity is much lower among Roth IRA investors. In 2012, only 4 percent of Roth IRA investors aged 25 or older made withdrawals, compared with 22 percent of traditional IRA investors (Figure E.3). Early withdrawal penalties can apply to both Roth and traditional IRA investors aged 59½ or younger, and withdrawal activity is lower among investors younger than 60 compared with investors aged 60 or older.

Roth IRA assets are allocated more to equity holdings than are traditional IRA assets. At year-end 2012, 62 percent of Roth IRA assets were invested in equities and equity funds (mutual funds, ETFs, and closed-end funds), compared with 49 percent of traditional IRA assets (Figure E.4). Allocation to target date funds and non–target date balanced funds was similar between Roth IRAs (18 percent) and traditional IRAs (17 percent), but Roth IRAs had less allocated to bonds and bond funds (10 percent) than traditional IRAs (20 percent). Roth IRAs also had lower allocation to money market funds (9 percent) than traditional IRAs (13 percent). Some of the differences in allocation reflect the different age distributions (Figure E.1). Another force at play is the impact of default rollover asset allocation to money market funds and deposits in traditional IRAs.[5]

FIGURE E.3

Roth IRA Investors Rarely Take Withdrawals, Traditional IRA Investors Heavily Impacted by RMDs

Percentage of IRA investors with withdrawals by type of IRA and investor age, 2012



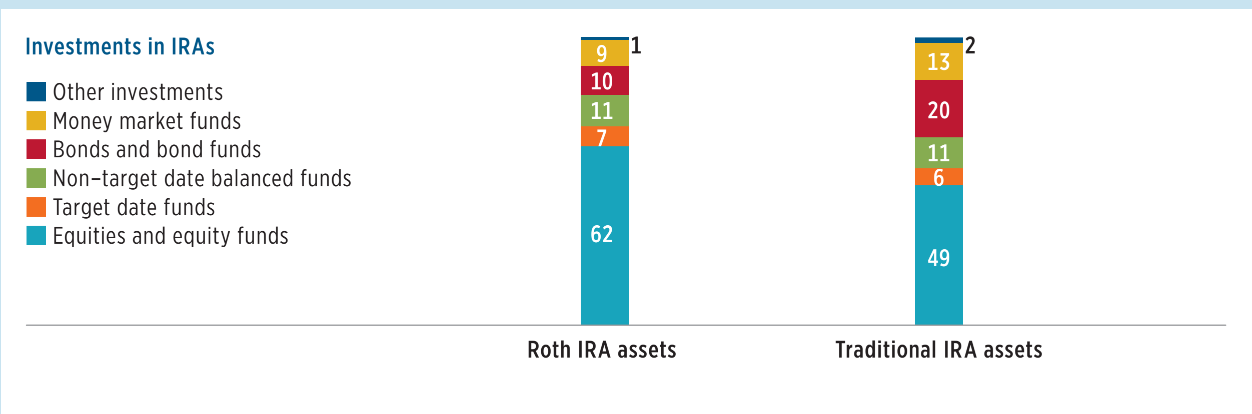
Note: The samples are 4.9 million Roth IRA investors aged 25 or older at year-end 2012 and 10.4 million traditional IRA investors aged 25 or older at year-end 2012.

Source: The IRA Investor Database™

FIGURE E.4

Roth IRA Assets Have a Higher Allocation to Equity Holdings

Percentage of IRA assets by type of IRA, year-end 2012



Note: See Figure 6.1 for descriptions of the investment categories. Percentages are dollar-weighted averages. The samples are 5.1 million Roth IRA investors aged 18 or older at year-end 2012 and 10.4 million traditional IRA investors aged 25 or older at year-end 2012. Components may not add to 100 percent because of rounding.

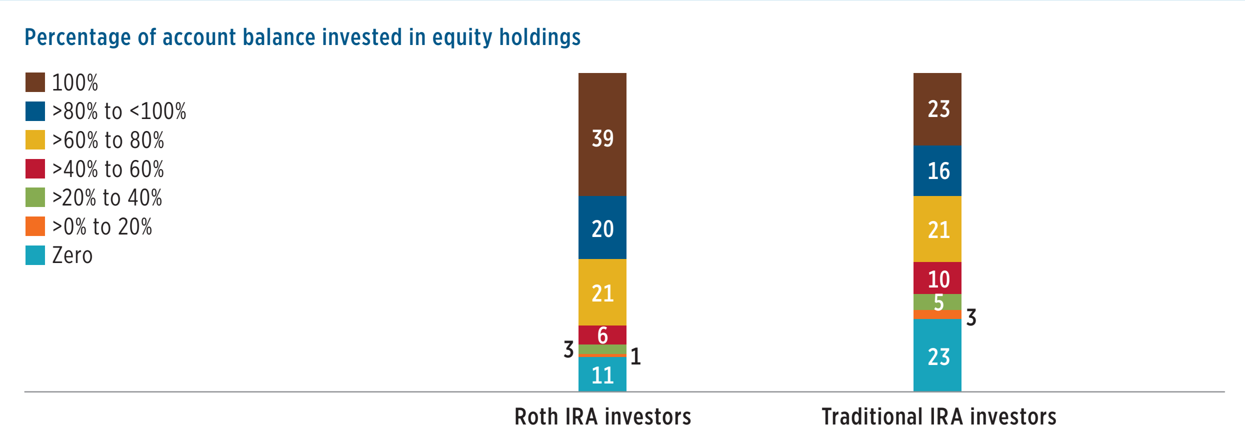
Source: The IRA Investor Database™

Roth IRA investors have higher concentrations in equity holdings than do traditional IRA investors. At year-end 2012, only 11 percent of Roth IRA investors had no equity holdings (equities, equity funds, and the equity portion of balanced funds), while 23 percent of traditional IRA investors held none (Figure E.5). At the other extreme, 39 percent of Roth IRA investors were 100 percent invested in equity holdings, compared with 23 percent of traditional IRA investors fully invested in equity holdings.

FIGURE E.5

Roth IRA Investors Have Higher Concentration in Equity Holdings

Percentage of IRA investors by type of IRA, year-end 2012



Note: Equity holdings are the sum of equities, equity funds, and the equity portion of target date and non–target date balanced funds. The samples are 5.1 million Roth IRA investors aged 18 or older at year-end 2012 and 10.4 million traditional IRA investors aged 25 or older at year-end 2012. Components do not add to 100 percent because of rounding.

Source: The IRA Investor Database™

Some of this higher average concentration in equity holdings reflects the younger average age of Roth IRA investors compared with traditional IRA investors (Figure E.1) and the tendency of younger investors to hold higher concentrations in equity holdings. However, it also is the case that Roth IRA investors within any given age group tend to have higher concentrations in equity holdings. For example, more than half of traditional IRA investors aged 25 to 29 had no equity holdings in their traditional IRAs at year-end 2012,[6] compared with only about 10 percent of Roth IRA investors aged 25 to 29 with no equity holdings in their Roth IRAs at year-end 2012 (see Figure 6.5). About one-third of traditional IRA investors aged 25 to 29 had more than 80 percent of their traditional IRAs invested in equity holdings at year-end 2012, compared with about two-thirds of Roth IRA investors aged 25 to 29.

Fifty-five percent of traditional IRA investors with smaller accounts (a balance of $5,000 or less at year-end 2012) had no equity holdings at year-end 2012, reflecting in part the impact of default rollover investment rules; in contrast, only 16 percent of Roth IRA investors with smaller Roth IRA balances had no equity holdings (see Figure A.5 in the appendix). Even in larger accounts, where default rollover investment rules are likely to have less of an impact, Roth IRA investors tended to have higher allocations to equity holdings at year-end 2012 compared with traditional IRA investors. For example, at year-end 2012, nearly three-fifths of Roth IRA investors with larger accounts (a balance of more than $5,000 at year-end 2012) had more than 80 percent of their Roth IRAs invested in equity holdings, compared with just over two-fifths of traditional IRA investors with larger accounts who had more than 80 percent of their traditional IRAs invested in equity holdings.

Introduction

The Role of IRAs in U.S. Retirement Planning

The Employee Retirement Income Security Act (ERISA) of 1974 created individual retirement accounts (IRAs).[7] Forty years later, IRAs have grown to be a significant component of U.S. households' retirement assets. All told, 46.1 million U.S. households, or 37.6 percent, owned one or more types of IRAs in mid-2013.[8] Households held $6.5 trillion in IRAs at year-end 2013, or more than one-quarter of the $22.7 trillion in total U.S. retirement assets,[9] and IRAs accounted for nearly 10 percent of U.S. households' total financial assets (see Figure A.1 in the appendix). Traditional IRAs, the first type of IRA created, are the most common type of IRA.[10] Over the years, policymakers have changed the rules governing traditional IRAs and introduced other types of IRAs. This report focuses on the Roth IRA, a nondeductible individual retirement savings account, created by the Taxpayer Relief Act of 1997.[11] At year-end 2013, Roth IRAs held more than $500 billion and accounted for 8 percent of all IRA assets.[12]

Roth IRAs, first available in 1998, permit only after-tax (nondeductible) contributions. While individuals 70½ or older may not contribute to traditional IRAs, Roth IRAs do not have that age restriction. Roth IRAs also can be created through conversions, a process by which non-Roth IRA assets are withdrawn and converted into Roth IRAs. In addition, direct rollovers from designated Roth accounts in retirement plans to Roth IRAs have been permitted since 2006 and direct rollovers of non-Roth qualified retirement plan accumulations into Roth IRAs have been permitted since 2008. Distributions of both principal and earnings generally are not subject to federal income tax if taken after the Roth IRA owner reaches age 59½, dies, or becomes disabled (provided the five-year holding period is met).[13] Distributions of principal before the Roth IRA owner reaches age 59½ generally are not subject to tax, but investment earnings may be subject to tax and possibly a 10 percent penalty if taken before age 59½, death, or disability. Exemptions to the early distribution penalty for a first-time home purchase, qualified education expenses, and the other exceptions allowed for traditional IRAs also apply to Roth IRA distributions. Unlike traditional IRAs, there are no RMDs during the Roth IRA holder's lifetime.[14]

Whether funded by contributions, conversions, or rollovers, Roth IRAs are managed by individuals, and asset allocation plays an important role in the Roth IRA returns and how they vary by investor. Thus, policymakers and researchers are seeking to better understand the asset allocation of Roth IRA balances across investors. In addition, policymakers want to know how people manage these accounts, including how much they are withdrawing before retirement (leakage) and how they are tapping their Roth IRAs throughout retirement. There also is interest in understanding how Roth IRA investors managed their Roth IRAs during and after the financial crisis.

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,[15] and ICI conducts two annual household surveys that provide information on IRA-owning households.[16, 17] While household surveys provide a comprehensive picture of household finances and activities—and can provide insights into the reasoning behind decisions—they can suffer from inaccurate respondent recall, which can cause data problems and reduce the level of detail that can be obtained on some financial assets or activities. In addition, because Roth IRAs are newer than traditional IRAs, sample sizes for Roth IRAs tend to be smaller than for traditional IRAs.[18]

The IRS collects a rich array of information about IRAs, including contributions, assets, conversions to Roth IRAs, rollovers into IRAs, and withdrawals from IRAs, from a variety of tax returns (e.g., Form 1040) and information returns (e.g., Form 5498 and Form 1099-R). The IRS Statistics of Income Division publishes tabulations of these data and research reports using the data.[19] 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, ICI and the Securities Industry and Financial Markets Association (SIFMA)[20] embarked on a data collection effort—The IRA Investor Database—to examine administrative, or recordkept, data on IRAs. To date, this collection effort has gathered data on IRAs from 2007 through 2012. The IRA Investor Database contains account-level information from a wide range of mutual fund and insurance companies, which provided data for more than 15 million IRA investors in 2012. The database, which contains information about IRA asset levels, investments, contributions, conversions, rollovers, and withdrawals, provides a more complete picture of account-level holdings and activity for IRA investors. Throughout this report, the term *IRA investor* refers to a unique IRA investor at a given data provider.[21] The IRA Investor Database contains data on 15.5 million IRA investors at year-end 2012, of which 68 percent hold traditional IRAs, 33 percent hold Roth IRAs, and 14 percent hold employer-sponsored IRAs (see Figure A.2 in the appendix).[22]

Research Agenda for This Report

This report analyzes data on a group of consistent Roth IRA investors—those holding accounts with the same financial services provider at the end of each year from 2007 through 2012—drawn from The IRA Investor Database to gain insight into how Roth IRA investors fared during and after the financial crisis. In addition, it analyzes Roth IRA contributions, conversions, withdrawals, asset allocation, and account balances in 2012 by investor age.

After setting the scene in terms of financial developments and regulatory changes affecting Roth IRAs, Chapter 1 analyzes the contribution, conversion, rollover, and withdrawal activity for 2.5 million consistent Roth IRA investors (those with accounts at the end of each year from 2007 through 2012). The chapter also explores changes in asset allocation and account balances among consistent Roth IRA investors.

The rest of the report focuses primarily on a snapshot of 5.1 million Roth IRA investors aged 18 or older at year-end 2012. Chapter 2 notes that the vast majority of new Roth IRAs opened in 2012 were opened with contributions. It examines contribution activity by investor age, exploring which Roth IRA investors had contributions and how many of them contributed at the maximum legal limit. Chapter 3 looks at how conversion activity varied by investor age in 2012, and briefly touches upon rollover activity, which is rare. Chapter 4 explores withdrawals, which very few Roth IRA investors take in any given year, likely discouraged by the five-year holding period and early withdrawal penalties. In addition, in contrast to traditional IRA investors, Roth IRA investors are not required to start distributions at age 70½. Chapter 5 reports variation in Roth IRA balances by investor age. Chapter 6 compares the asset allocation of Roth IRA balances among cross sections of Roth IRA investors at year-end 2007 and year-end 2012, focusing on the changes in allocation to equity holdings by investor age.

CHAPTER 1

Roth IRA Investors in the Wake of the Financial Crisis

The IRA Investor Database contains data on millions of IRA investors from year-end 2007 through year-end 2012. It is possible to analyze snapshots, or cross sections, of IRA investors in any given year. In addition, one of the advantages of The IRA Investor Database is that it can show whether investor activities and behaviors are persistent or change from year to year.

This chapter features such an analysis, focusing on the 2.5 million Roth IRA investors who had accounts at the same financial services provider at the end of each year from 2007 through 2012. These Roth IRA investors will be referred to as *consistent Roth IRA investors*. They were aged 23 or older at year-end 2012 (and thus aged 18 or older at year-end 2007, the first year in the database). After reviewing the economic and regulatory influences on Roth IRAs between 2007 and 2012, the chapter examines how consistent Roth IRA investors fared in the wake of the financial crisis, looking at patterns of contribution, conversion, rollover, and withdrawal activities, as well as changes in asset allocation. The chapter also analyzes the movement of their Roth IRA balances from year-end 2007 to year-end 2012.

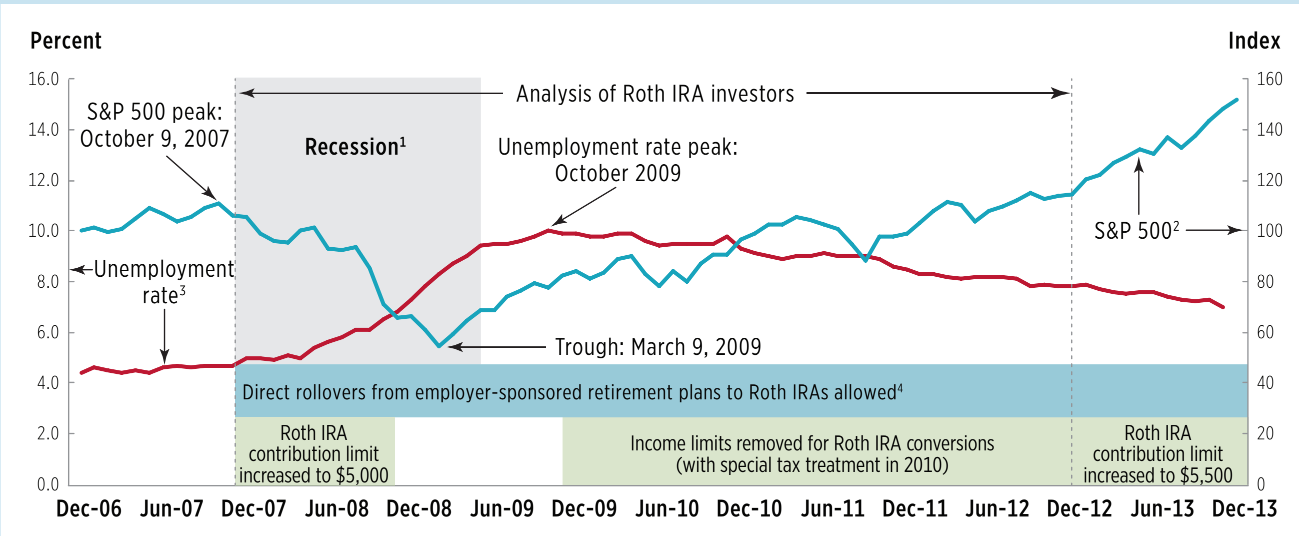
Financial and Regulatory Developments, 2007–2012

Between 2007 and 2012, the United States experienced two dramatic events: a major financial crisis and a deep recession. During that time period, large-cap stocks contracted in value, falling 37.0 percent in 2008 (Figure 1.1), an annual drop exceeded only in 1931 when large-cap stock values fell 43.3 percent over the year.[23] Large-cap stocks peaked in value on October 9, 2007, and fell 56.8 percent to their record low, which occurred on March 9, 2009.[24] Bond market investors also saw rocky returns over this period, as interest rates on many nongovernment fixed-income securities rose, and corporate bond prices declined 22.2 percent between September 9, 2008, and October 17, 2008.[25]

The U.S. economy also contracted sharply, falling into recession between December 2007 and June 2009.[26] The unemployment rate rose, peaking at 10.0 percent in October 2009, and disposable personal income fell.[27] The financial crisis and recession weakened household balance sheets during much of this period. In addition, housing values fell 30.8 percent between June 2006 and March 2009.[28] From 2010 through 2012, as the economy and financial sector began to recover, household income and net worth began to rise again.

FIGURE 1.1

Financial Events and Changing Rules Surrounding Roth IRAs, 2007–2013



[1] The National Bureau of Economic Research dates the most recent recession from December 2007 to June 2009.

[2] The S&P 500 is an index of 500 stocks chosen for market size, liquidity, and industry group representation. The index is normalized to 100 in December 2006.

[3] The unemployment rate is the number of unemployed individuals as a percentage of the labor force and has been seasonally adjusted.

[4] Since 2006, direct rollovers from designated Roth accounts in employer-sponsored retirement plans to Roth IRAs have been permitted, and since 2008, rollovers from non-Roth employer-sponsored retirement plan accounts also have been allowed.

Sources: Bureau of Labor Statistics, NBER, Standard and Poor's, and ICI summary of legislative changes

Roth IRA assets in large part followed the movement of the stock market. Tracked on an annual basis, Roth IRA assets were $232 billion at year-end 2007, but had fallen to $177 billion at year-end 2008 despite contributions and conversions (Figure 1.2). Aggregate Roth IRA assets then rose to $355 billion by year-end 2010, bolstered by $65 billion in conversions. By year-end 2012, Roth IRA assets had risen to $420 billion, rising further to $505 billion at year-end 2013.

FIGURE 1.2

Roth IRA Assets and Flows

Billions of dollars, 1998–2013

	Inflows			Outflows	Total assets[2]
	Contributions	Rollovers[1]	Roth conversions	Withdrawals	*Year-end*
1998	$8.6		$39.3		$56.8
1999	10.7		3.7		76.2
2000	11.6		3.2	$4.7	77.6
2001	11.0		3.1	0.3	79.3
2002	13.2		3.3	1.2	77.6
2003	13.5[e]		3.0[e]	2.3	105.8[e]
2004	14.7		2.8	1.9	139.9
2005	18.0		2.6	0.4	156.1
2006	18.7		2.8	0.4	196.1
2007	18.7		2.2	0.4	232.3
2008	18.2		3.7	3.7	176.6
2009	17.6	$2.7	6.8	0.5	238.6
2010	18.6	7.8	64.8	0.6	354.9
2011	N/A	N/A	N/A	N/A	365.0[e]
2012	N/A	N/A	N/A	N/A	420.0[e]
2013	N/A	N/A	N/A	N/A	505.0[e]

[1] Rollovers are primarily from employer-sponsored retirement plans.

[2] Total assets are the fair market value of assets at year-end.

[e] Data are estimated.

N/A = not available

Sources: Investment Company Institute and Internal Revenue Service Statistics of Income Division

Regulations governing Roth IRAs also changed between 2007 and 2012. In 2008, automatic adjustment for inflation increased the Roth IRA contribution limit for investors younger than 50 from $4,000 to $5,000 (Figure 1.1). For investors aged 50 or older, the limit rose to $6,000 including catch-up contributions (see Figure 2.5). In 2010, the income limits on Roth conversions were lifted,[29] and taxpayers had the option of paying taxes due on amounts converted in 2010 over two years—2011 and 2012. In addition, 2008 marked the beginning of direct rollovers from non-Roth employer-sponsored retirement plan accounts into Roth IRAs.[30]

Changes in Roth IRA Assets

Several factors affect the amount of Roth IRA assets investors hold:

- contributions into Roth IRAs (+);
- conversions of non-Roth IRA assets into Roth IRAs (+);[31]
- rollovers from employer-sponsored retirement plans into Roth IRAs (+);
- distributions, or withdrawals, out of Roth IRAs (-);[32] and
- returns on investments, which vary with asset allocation.

In a typical year, contributions in aggregate provide the largest inflows into Roth IRAs, running at an average of nearly $20 billion a year, between 2005 and 2010 (Figure 1.2). A relatively new activity, rollovers account for only a small amount of inflows into Roth IRAs, although inflows from rollovers increased over the two years measured thus far. Roth conversions have tended to be minor, with the exception of 1998 and 2010, when special tax incentives were available.[33] The tax law change lifting income limits on Roth conversion activity starting in 2010 and providing special tax incentives in 2010 increased Roth conversion activity. Between 2009 and 2010, conversions to Roth IRAs increased nearly ten-fold, from $6.8 billion to $64.8 billion (Figure 1.2).[34] Although official estimates of the exact magnitude of Roth conversions for 2011 and 2012 are not available, The IRA Investor Database shows an uptick in Roth conversion activity in 2010, before falling back to a pace above historical levels in 2011 and 2012. Withdrawals are only a small drag on Roth IRA accumulations, because few Roth IRA investors take withdrawals.

Changes in Consistent Individual Investors' Roth IRA Balances, 2007–2012

When analyzing how investor account balances change over time, having a consistent sample is important. Comparing average account balances across year-end snapshots can lead to false conclusions. For example, the addition of a large number of new investors with smaller balances would pull down the average account balance. This could then be mistakenly described as an indication that balances are declining, but actually would reveal nothing about the experiences of individual investors. Because of this, the following analysis covers Roth IRA investors with account balances at the end of each year from 2007 to 2012.

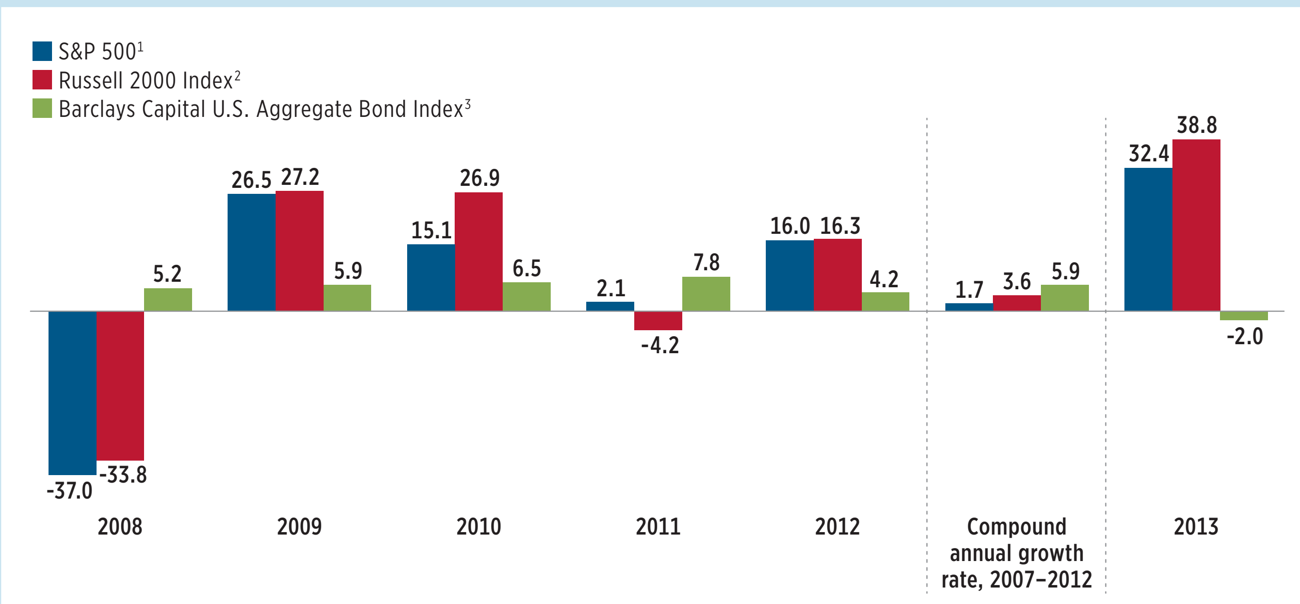
To analyze changes in Roth IRA balances from year-end 2007 to year-end 2012, the flow activity of the Roth IRA investors from 2008 through 2012 needs to be understood. Although detailed information on the exact timing of flows into and out of the Roth IRA balances analyzed is not available, the presence of annual contributions, conversions, rollovers, or withdrawals can be tracked. Because Roth IRA investors younger than 59½ may be subject to penalties if they take withdrawals, they are analyzed as a group. Although all Roth IRA investors aged 59½ or older may withdraw without penalty (provided they meet the five-year holding period) the sample is divided into two additional groups based on age at year-end 2012: 60 to 69, and 70 or older. This enables comparison with traditional IRA investors, who must take withdrawals once they reach age 70½ or be subject to penalty. Contribution, conversion, rollover, and withdrawal activity is analyzed for these three groups of consistent Roth IRA investors.

Finally, investment returns affect the value of assets held in Roth IRAs and will vary depending upon the individual investor's portfolio. Roth IRA investors' concentrations in equity holdings are analyzed from year-end 2007 to year-end 2012. It is not possible to calculate rates of return specific to Roth IRA investors in the database. However, aggregate market return data indicate that from year-end 2007 to year-end 2012, the compound average annual return was 1.7 percent on large-cap equities, 3.6 percent on small-cap equities, and 5.9 percent on bonds (Figure 1.3).

FIGURE 1.3

Domestic Stock and Bond Market Total Return Indexes

Percent change, 2008–2013



[1] The S&P 500 is an index of 500 stocks chosen for market size, liquidity, and industry group representation.

[2] The Russell 2000 Index measures the performance of the 2,000 smallest U.S. companies (based on total market capitalization) included in the Russell 3000 Index (which tracks the 3,000 largest U.S. companies).

[3] Formerly the Lehman Brothers U.S. Aggregate Bond Index, the Barclays Capital U.S. Aggregate Bond Index is composed of securities covering government and corporate bonds, mortgage-backed securities, and asset-backed securities (rebalanced monthly by market capitalization). The index's total return consists of price appreciation/depreciation plus income as a percentage of the original investment.

Sources: Bloomberg, Barclays Global Investors, Frank Russell Company, and Standard & Poor's

Contribution Activity for Consistent Roth IRA Investors, 2008–2012

Roth IRA contribution activity slowed a bit in the wake of the financial crisis. While one might expect a significant reduction in contribution activity in times of financial stress, contribution activity declined only slightly among consistent Roth IRA investors from 2008 through 2012. For example, 24.0 percent of consistent Roth IRA investors aged 23 or older in 2012 made contributions in tax year 2012, while 32.2 percent of them made contributions to their Roth IRAs in tax year 2008, when they were aged 19 or older (Figure 1.4, first panel). The pattern is similar across age groups. For example, 19.6 percent of consistent Roth IRA investors aged 60 to 69 in 2012 made contributions in tax year 2012, while 28.4 percent of them made contributions to their Roth IRAs in tax year 2008, when they were aged 56 to 65 (Figure 1.4, third panel). Some of the decline could have resulted from Roth IRA investors getting older—perhaps moving them to higher incomes and out of eligibility to contribute.

Even during this economically stressful period, Roth IRA contribution activity persisted. For example, 43.2 percent of consistent Roth IRA investors aged 23 or older in 2012 made at least one contribution between tax years 2008 and 2012 (Figure 1.5, first panel). Among those contributing during that period, 34.6 percent contributed in all five years, 13.1 percent contributed in four of the five years, another 13.1 percent contributed in three of the five years, and 15.6 percent contributed in two of the five years. Persistent contribution activity was highest among consistent Roth IRA investors aged 23 to 59 in 2012. However, older consistent Roth IRA investors (aged 60 to 69) also had repeat contribution activity, with 39.8 percent making at least one contribution between tax years 2008 and 2012 (Figure 1.5, third panel). Among Roth IRA investors aged 60 to 69 who were contributing, 28.2 percent did so in all five years. These repeat contributions occurred despite the recession (Figure 1.1) and poor stock market performance during part of the period (Figure 1.3).

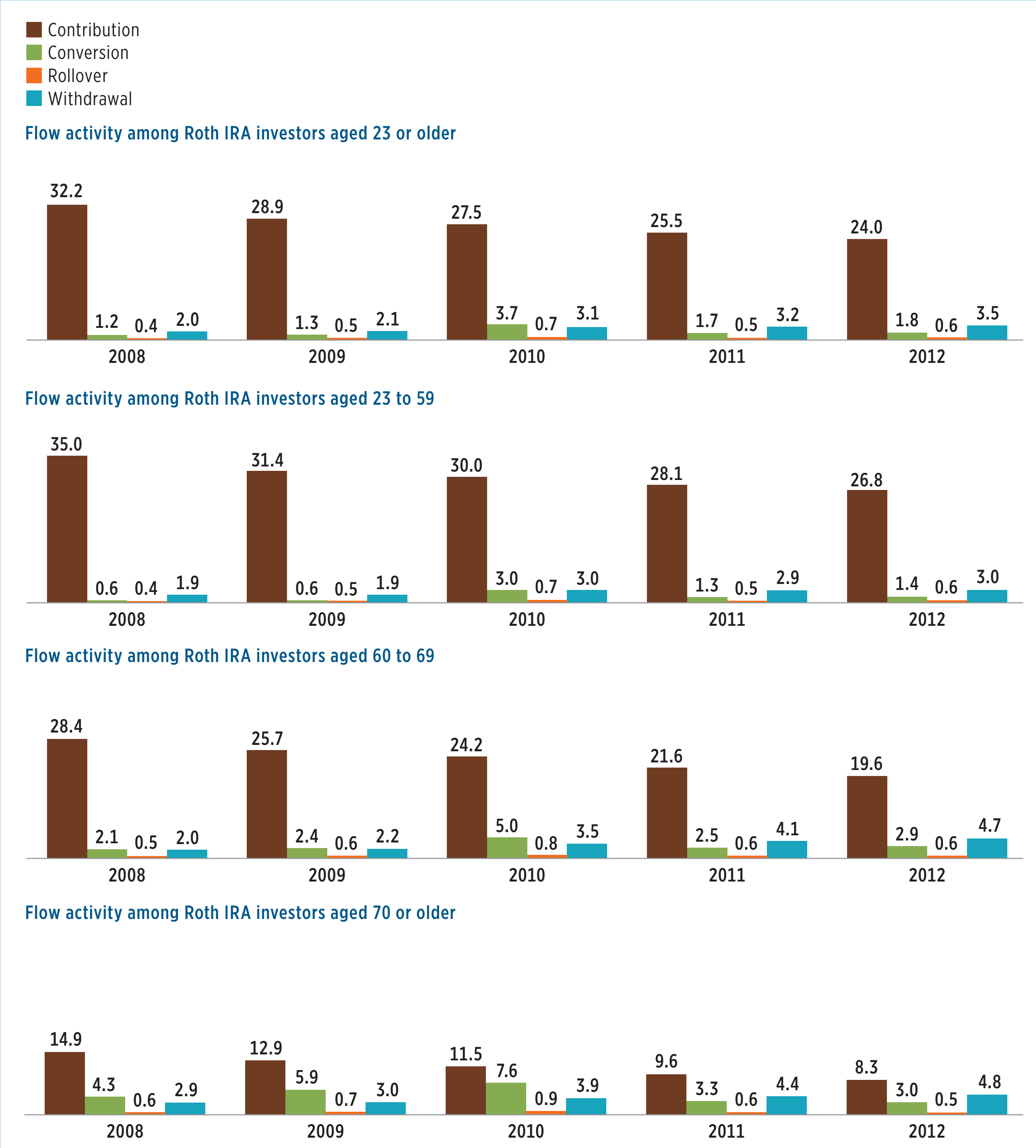
Conversion Activity for Consistent Roth IRA Investors, 2008–2012

A Roth IRA conversion occurs when assets in a non-Roth IRA are transferred to a Roth IRA or redesignated as a Roth IRA.[35] Generally the assets converted are taxable in the year of the conversion. Conversion activity tends to increase when the taxes owed on the amounts converted can be spread over multiple years (Figure 1.2). For example, 3.7 percent of consistent Roth IRA investors aged 23 or older in 2012 made conversions into their Roth IRAs in 2010, compared with a little more than 1 percent in 2008 and 2009 and a little less than 2 percent in 2011 and 2012 (Figure 1.4, first panel).[36] A similar pattern is observed across the 23 to 59 and 60 to 69 age groups, although older Roth IRA investors tended to have higher levels of conversion activity in all years compared with younger ones (Figure 1.4; second, third, and fourth panels). Consistent Roth IRA investors aged 70 or older had the highest levels of conversion activity, which rose from 4.3 percent making conversions in 2008 to 7.6 percent in 2010 before falling back to 3.3 percent in 2011 and 3.0 percent in 2012 (Figure 1.4, fourth panel).

FIGURE 1.4

Factors Influencing Changes in Consistent Individual Investors' Roth IRA Balances, 2008–2012

Percentage of Roth IRA investors with account balances at year-end 2007–2012



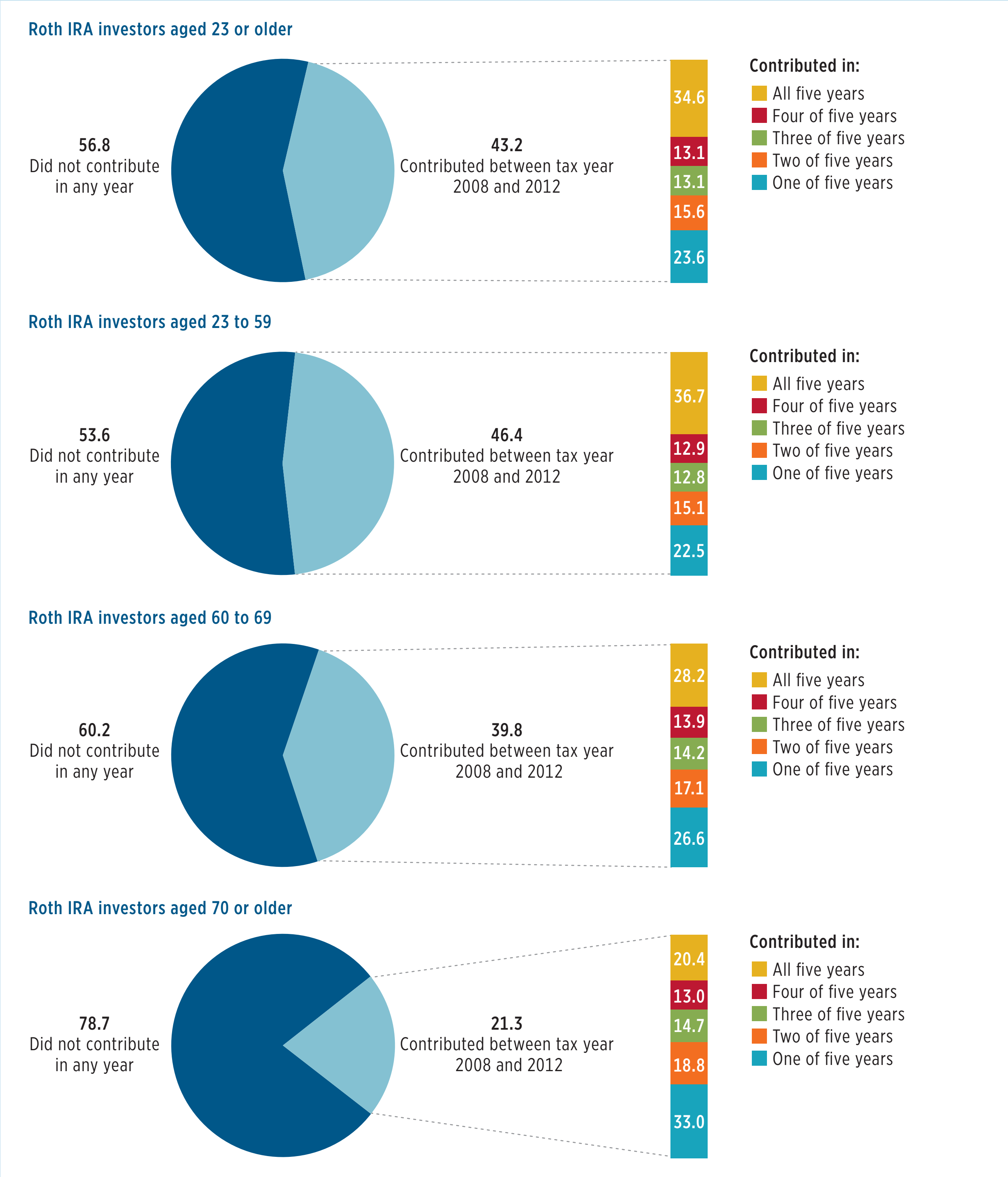
Note: The sample is 2.5 million Roth IRA investors aged 23 or older in 2012 with an account balance from year-end 2007 through year-end 2012. Age is based on the age of the Roth IRA investor in 2012. Activity is for the tax year indicated.

Source: The IRA Investor Database™

FIGURE 1.5

Contribution Activity for Consistent Roth IRA Investors, 2008–2012

Percentage of Roth IRA investors with account balances at year-end 2007–2012



Note: The samples are 2.5 million Roth IRA investors aged 23 or older in 2012, 1.9 million Roth IRA investors aged 23 to 59 in 2012, 0.5 million Roth IRA investors aged 60 to 69 in 2012, and 0.2 million Roth IRA investors aged 70 or older in 2012, all holding Roth IRA balances from year-end 2007 through year-end 2012. Age is based on the age of the Roth IRA investor in 2012. Components may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

Rollovers. Direct rollovers from designated Roth accounts in employer-sponsored retirement plans to Roth IRAs have been permitted since 2006. Before 2008, Roth IRAs generally were not eligible for direct rollovers from non-Roth employer-sponsored retirement plan accounts. The Pension Protection Act of 2006 allowed direct rollovers from non-Roth employer-sponsored plan accounts to Roth IRAs beginning in 2008.[37] Less than 1 percent of consistent Roth IRA investors made rollovers in any study year, regardless of age group (Figure 1.4).

Withdrawal Activity for Consistent Roth IRA Investors, 2008–2012

The investment returns portion of withdrawals from Roth IRAs made within five years of the first contribution or made before age 59½ are generally subject to income tax and may be subject to a 10 percent penalty. For both traditional and Roth IRAs, the 10 percent penalty does not apply to withdrawals made in cases of death or disability; 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 (SEPPs) made for the life or over the life expectancy of the individual.[38] In addition, provided the five-year holding period is satisfied, the investment returns portion of withdrawals made before age 59½ from a Roth IRA in cases of death, disability, or qualified first-time homebuyer expenses are not subject to income tax. In contrast to traditional IRAs, Roth IRAs are not subject to RMDs during the account holder's lifetime.[39]

Very few consistent Roth IRA investors took withdrawals in any year during the study period. Few Roth IRA investors younger than 60 took withdrawals in any given year, likely reflecting, in part, the early withdrawal penalty that may apply. This also was the case among the consistent group of Roth IRA investors aged 23 to 59 at year-end 2012. In 2008, 1.9 percent of them took withdrawals when they were aged 19 to 55 (Figure 1.4, second panel). Withdrawal activity edged up a bit in 2010, 2011, and 2012 compared with the earlier years. In 2010, 3.0 percent of these consistent Roth IRA investors took withdrawals (when they were aged 21 to 57), 2.9 percent took withdrawals in 2011 (when they were aged 22 to 58), and 3.0 percent took withdrawals in 2012.

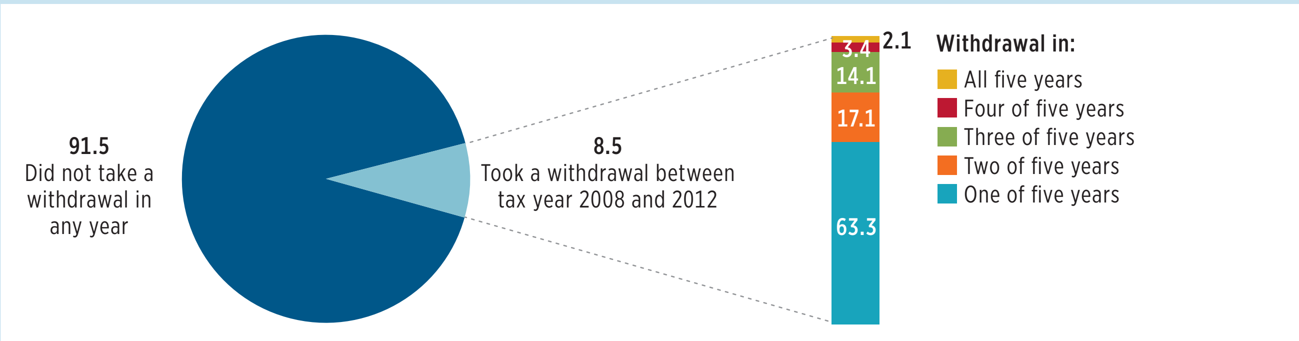
The pattern of withdrawal activity holds for Roth IRA investors aged 60 to 69 in 2012. In 2008, 2.0 percent of this group took withdrawals, when they were aged 56 to 65 (Figure 1.4, third panel). In 2009, 2.2 percent of this group took withdrawals, when they were aged 57 to 66. Withdrawal activity edged up further between 2010 and 2012, rising to 4.7 percent in 2012. Withdrawals for the group aged 70 or older in 2012 also followed a similar pattern (Figure 1.4, fourth panel): 2.9 percent took withdrawals in 2008 and 3.0 percent took withdrawals in 2009. Withdrawal activity then rose over the next three years to 4.8 percent in 2012.

Withdrawal activity is rare among Roth IRA investors, and financial stresses appear to have caught up with only a small number of Roth IRA investors in the wake of the financial crisis. Analyzing the withdrawal activity of consistent Roth IRA investors aged 23 or older in 2012 (those with accounts at the end of each year from year-end 2007 to year-end 2012), 8.5 percent took withdrawals in at least one year between 2008 and 2012 (Figure 1.6). Among those taking withdrawals, 63.3 percent only took withdrawals in one of the five years (2008 through 2012), and 17.1 percent only took withdrawals in two of the five years.

FIGURE 1.6

Withdrawal Activity for Consistent Roth IRA Investors, 2008–2012

Percentage of Roth IRA investors with account balances at year-end 2007–2012



Note: The sample is 2.5 million Roth IRA investors aged 23 or older in 2012 with Roth IRA balances from year-end 2007 through year-end 2012.
Source: The IRA Investor Database™

Equity Investing in Roth IRAs Before and After the Financial Crisis

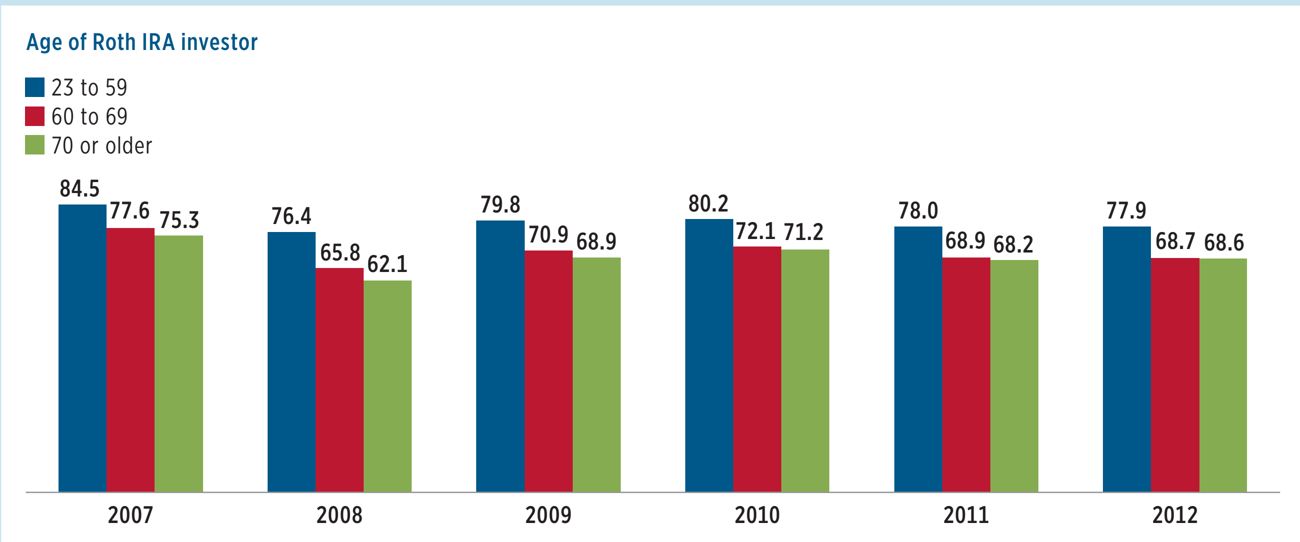
Because, on average, the majority of Roth IRA assets are invested in equity holdings, the movement of the stock market had a large impact on Roth IRA balances between year-end 2007 and year-end 2012. For example, on average, the sample of consistent Roth IRA investors, when they were aged 18 to 54 at year-end 2007, had 84.5 percent of their Roth IRA assets invested in equity holdings—equities, equity funds, and the equity portion of balanced funds (Figure 1.7). As stock values declined in 2008 (Figures 1.1 and 1.3), equity holdings fell to 76.4 percent of this group's Roth IRA assets at year-end 2008 (Figure 1.7). As stock values moved up in 2009 and 2010, equity holdings rose to 80.2 percent of this group's Roth IRA assets by year-end 2010. At year-end 2011, with relatively flat stock prices for the year, this group's equity holdings fell to 78.0 percent of their Roth IRA assets, and remained near that level (77.9 percent) at year-end 2012, when the group was aged 23 to 59.

Older Roth IRA investors generally had lower average allocations to equity holdings, although equity holdings represented significant shares of their assets over the entire period (Figure 1.7). The older investors' average allocation to equity holdings also mirrored the stock market movement. For example, consistent Roth IRA investors aged 60 to 69 in 2012 had 77.6 percent of their Roth IRA assets invested in equity holdings at year-end 2007, when they were aged 55 to 64. Their average allocation to equity holdings fell to 65.8 percent at year-end 2008, before rising to 72.1 percent in 2010 and falling to 68.9 percent at year-end 2011. At year-end 2012, consistent Roth IRA investors aged 60 to 69 had 68.7 percent of their Roth IRA assets invested in equity holdings.

FIGURE 1.7

Equity Holdings Account for the Majority of the Assets in Roth IRAs

Percentage of Roth IRA assets[1] invested in equity holdings[2] by investor age;[3] year-end, 2007–2012



[1] Percentages are dollar-weighted averages.

[2] Equity holdings include equities, equity funds, and the equity portion of balanced funds.

[3] Age is based on the age of the Roth IRA investor in 2012.

Note: Consistent Roth IRA investors are 2.5 million Roth IRA investors aged 23 or older in 2012 with an account balance from year-end 2007 through year-end 2012.

Source: The IRA Investor Database™

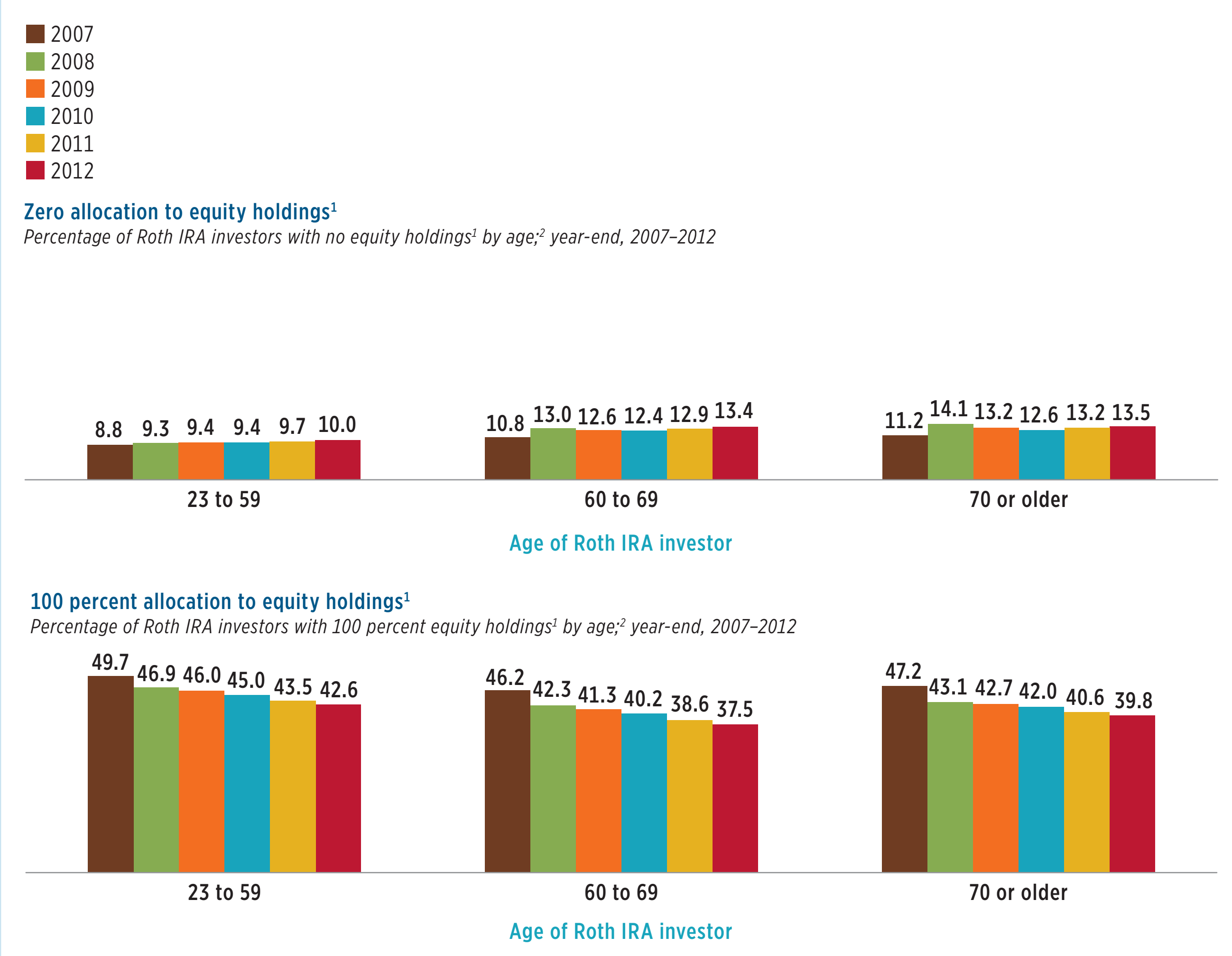
Movement in the share of equity holdings in Roth IRA investors' accounts results from changes in stock values, in addition to reallocation activity by investors. Although information on specific trading activity of Roth IRA investors is not available in the database, activity into or out of zero or 100 percent equity holdings at year-end can be observed.

On these equity concentration measures, there was little activity among Roth IRA investors between year-end 2007 and year-end 2012. For example, analyzing consistent Roth IRA investors aged 23 to 59 at year-end 2012, the data show that 1.2 percent, on net, moved to a zero equity holding allocation—8.8 percent of this group had no equity holdings at year-end 2007 and 10.0 percent had no equity holdings at year-end 2012 (Figure 1.8, upper panel). This net change reflects 2.5 percent of these Roth IRA investors moving from zero equity holdings to at least some, 3.7 percent moving from some to zero, and 6.2 percent sticking with zero holdings in both 2007 and 2012 (Figure 1.9). Older Roth IRA investors displayed slightly higher reallocation activity toward zero equity holdings, but some of their activity could have come in anticipation of retirement rather than in response to financial market movements. Indeed, household survey information indicates households anticipate rebalancing their portfolios as they age.[40]

Nearly half of consistent Roth IRA investors had their entire Roth IRA balances invested in equity holdings, but that share decreased between year-end 2007 and year-end 2012. To be 100 percent invested in equity holdings, the Roth IRA investor would have allocated their full Roth IRA balance to equities or equity funds.[41] Analyzing consistent Roth IRA investors aged 23 to 59 at year-end 2012, the data show that 7.1 percent, on net, moved away from a 100 percent equity holding allocation—49.7 percent of this group at year-end 2007 and 42.6 percent at year-end 2012 were 100 percent invested in equity holdings (Figure 1.8, lower panel). This net change reflects 9.3 percent moving away from the 100 percent allocation to something less, 2.2 percent moving to a 100 percent allocation, and 40.4 percent sticking with 100 percent equity holdings in both 2007 and 2012 (Figure 1.10). Roth IRA investors aged 60 to 64 in 2012 displayed slightly higher reallocation activity away from 100 percent equity holdings, but again, some of their activity may have resulted simply from reallocation in anticipation of retirement rather than in response to the financial market movements.[42]

FIGURE 1.8

Changes in Concentration of Consistent Roth IRA Investors' Equity Holdings Between 2007 and 2012



[1] Equity holdings include equities, equity funds, and the equity portion of balanced funds.

[2] Age is based on the age of the Roth IRA investor in 2012.

Note: Consistent Roth IRA investors are 2.5 million Roth IRA investors aged 23 or older in 2012 with an account balance from year-end 2007 through year-end 2012.

Source: The IRA Investor Database™

FIGURE 1.9

Changes in Zero Allocation to Equity Holdings Among Consistent Roth IRA Investors Between 2007 and 2012

Percentage of Roth IRA investors by age; year-end, 2007 and 2012

Age	Zero in 2007	Moved away from zero by 2012	Remained at zero	Moved to zero by 2012	Net change	Zero in 2012
23 to 24	10.8	-5.2	5.7	2.2	-3.0	7.8
25 to 29	10.2	-4.3	5.9	2.5	-1.8	8.4
30 to 34	9.1	-3.2	5.9	3.0	-0.2	8.9
35 to 39	8.2	-2.4	5.8	3.4	0.9	9.1
40 to 44	7.9	-2.1	5.8	3.5	1.4	9.3
45 to 49	8.1	-2.0	6.1	3.7	1.7	9.8
50 to 54	9.1	-2.3	6.8	4.2	1.9	11.0
55 to 59	9.9	-2.7	7.1	4.9	2.1	12.0
60 to 64	10.5	-3.0	7.5	5.7	2.7	13.2
65 to 69	11.3	-3.3	8.0	5.8	2.5	13.8
70 to 74	11.0	-3.2	7.8	5.6	2.4	13.4
75 or older	11.6	-3.0	8.6	5.1	2.1	13.7
All	9.4	-2.7	6.7	4.2	1.5	10.9
23 to 59	8.8	-2.5	6.2	3.7	1.2	10.0
60 to 69	10.8	-3.1	7.7	5.8	2.6	13.4
70 or older	11.2	-3.1	8.1	5.4	2.3	13.5

Note: The sample is 2.5 million Roth IRA investors aged 23 or older in 2012 with an account balance from year-end 2007 through year-end 2012. Equity holdings include equities, equity funds, and the equity portion of balanced funds. Age is based on the age of the Roth IRA investor in 2012.

Source: The IRA Investor Database™

FIGURE 1.10

Changes in 100 percent Allocation to Equity Holdings Among Consistent Roth IRA Investors Between 2007 and 2012

Percentage of Roth IRA investors by age; year-end, 2007 and 2012

Age	100 percent in 2007	Moved away from 100 percent by 2012	Remained at 100 percent	Moved to 100 percent by 2012	Net change	100 percent in 2012
23 to 24	41.7	-7.0	34.7	2.8	-4.3	37.4
25 to 29	43.3	-8.5	34.7	2.4	-6.2	37.1
30 to 34	43.8	-8.8	35.0	2.3	-6.5	37.3
35 to 39	48.6	-9.0	39.6	2.3	-6.7	41.9
40 to 44	52.4	-8.9	43.5	2.2	-6.7	45.7
45 to 49	53.0	-9.0	44.0	2.0	-7.0	46.0
50 to 54	51.6	-9.8	41.8	2.1	-7.7	43.9
55 to 59	48.7	-10.6	38.1	2.2	-8.4	40.3
60 to 64	46.2	-11.5	34.7	2.5	-8.9	37.3
65 to 69	46.2	-11.1	35.0	2.9	-8.3	37.9
70 to 74	47.6	-10.8	36.8	2.9	-8.0	39.7
75 or older	46.7	-9.4	37.3	2.6	-6.8	39.9
All	48.9	-9.8	39.1	2.3	-7.4	41.4
23 to 59	49.7	-9.3	40.4	2.2	-7.1	42.6
60 to 69	46.2	-11.3	34.9	2.7	-8.7	37.5
70 or older	47.2	-10.2	37.0	2.8	-7.5	39.8

Note: The sample is 2.5 million Roth IRA investors aged 23 or older in 2012 with an account balance from year-end 2007 through year-end 2012. Equity holdings include equities, equity funds, and the equity portion of balanced funds. Age is based on the age of the Roth IRA investor in 2012.

Source: The IRA Investor Database™

Changes in Consistent Individual Investors' Roth IRA Balances Between 2007 and 2012 by Investor Age

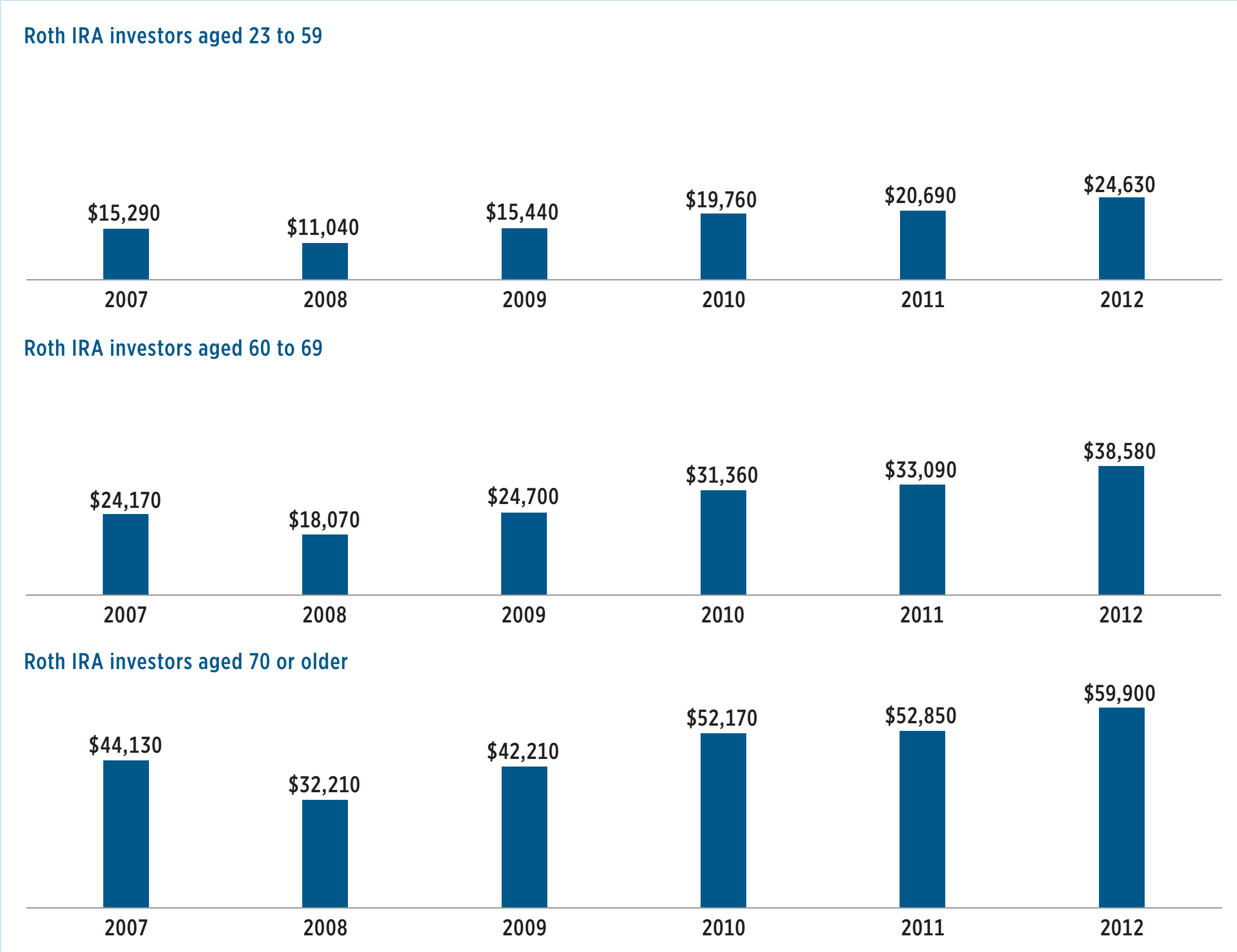
The impact of the financial crisis on consistent Roth IRA investors aged 23 or older in 2012—and their actions in response—varied by age. While exposure to equity holdings, on average, was higher for younger Roth IRA investors, only a small share of Roth IRA investors of any age completely eschewed equity holdings between 2007 and 2012 (Figures 1.8, 1.9, and 1.10). Contribution activity edged back only a bit in the wake of the financial crisis (Figure 1.4). Conversion and rollover activity increased as a result of rule changes, and both can provide boosts to Roth IRA balances. Withdrawal activity edged up in 2010, 2011, and 2012 (Figures 1.4 and 1.6), although very few Roth IRA investors take withdrawals. Altogether, these forces combine to influence the balances held in Roth IRAs.

Roth IRA investors generally saw growth in their Roth IRA balances between year-end 2007 and year-end 2012. All told, the average Roth IRA balance among consistent Roth IRA investors aged 23 to 59 at year-end 2012 was $24,630 at year-end 2012, up more than $9,000 compared with the year-end 2007 average balance of $15,290 (Figure 1.11). The average Roth IRA balance among this group fell to $11,040 in 2008, before rising to $15,440 in 2009, $19,760 in 2010, $20,690 in 2011, and $24,630 at year-end 2012. Movement in the average account balance is not as dramatic as the changes observed in the stock market because the majority of these investors had at least some non-equity investments in their Roth IRAs.[43] In addition, in any given year, about three in 10 had contributions, and fewer than one in 25 had withdrawals (Figure 1.4). Changes in the average account balance varied with investor age (Figure 1.12).

FIGURE 1.11

Roth IRA Balances Among Consistent Roth IRA Investors from 2007 Through 2012

Average Roth IRA balance for consistent Roth IRA investors; year-end, 2007–2012



Note: Consistent Roth IRA investors are 2.5 million Roth IRA investors aged 23 or older in 2012 with an account balance from year-end 2007 through year-end 2012. Age is based on the age of the Roth IRA investor in 2012. See Figure 1.12 for additional detail.

Source: The IRA Investor Database™

FIGURE 1.12

Changes in Roth IRA Balances of Consistent Roth IRA Investors Between 2007 and 2012 by Investor Age

Average Roth IRA balance for consistent Roth IRA investors; year-end, 2007–2012

Age	2007	2008	2009	2010	2011	2012
23 to 24	$5,920	$4,850	$7,360	$9,520	$10,390	$13,040
25 to 29	7,450	6,030	9,240	12,190	13,230	16,460
30 to 34	9,990	7,660	11,430	15,020	15,930	19,460
35 to 39	12,540	9,060	12,970	16,970	17,690	21,290
40 to 44	14,550	10,260	14,360	18,600	19,290	22,950
45 to 49	16,720	11,750	16,260	20,720	21,440	25,360
50 to 54	18,520	13,190	18,090	22,780	23,780	28,090
55 to 59	20,260	14,850	20,300	25,540	26,990	31,780
60 to 64	22,650	16,890	23,270	29,180	30,960	36,140
65 to 69	26,170	19,630	26,570	34,230	35,910	41,780
70 to 74	33,920	25,180	33,860	43,700	44,630	50,990
75 or older	57,560	41,450	53,200	63,330	63,660	71,630
All	19,190	13,990	19,240	24,440	25,490	29,960
23 to 59	15,290	11,040	15,440	19,760	20,690	24,630
60 to 69	24,170	18,070	24,700	31,360	33,090	38,580
70 or older	44,130	32,210	42,210	52,170	52,850	59,900

Note: Consistent Roth IRA investors are 2.5 million Roth IRA investors aged 23 or older in 2012 with an account balance from year-end 2007 through year-end 2012. Age is based on the age of the Roth IRA investor in 2012.

Source: The IRA Investor Database™

CHAPTER 2

Roth IRA Investors' Contribution Activity in 2012

Policymakers created Roth IRAs to provide taxpayers with (1) the option of paying taxes now on contributions going into Roth IRAs, (2) the ability to reinvest interest and dividends without being taxed, and (3) the ability to take qualified withdrawals tax free. There are income restrictions on Roth IRA contribution activity, but in contrast to traditional IRAs, older workers (aged 70½ or older) are permitted to contribute. The majority of new Roth IRAs are opened with contributions. In fact, contributions provide steady inflows into Roth IRAs (see Figure 1.2), and in most years, aggregate contributions to Roth IRAs have been greater than aggregate contributions to traditional IRAs.[44] This chapter analyzes the contribution activity for a snapshot, or cross section, of Roth IRA investors, primarily focusing on how contribution activity varied in 2012 by investor age.

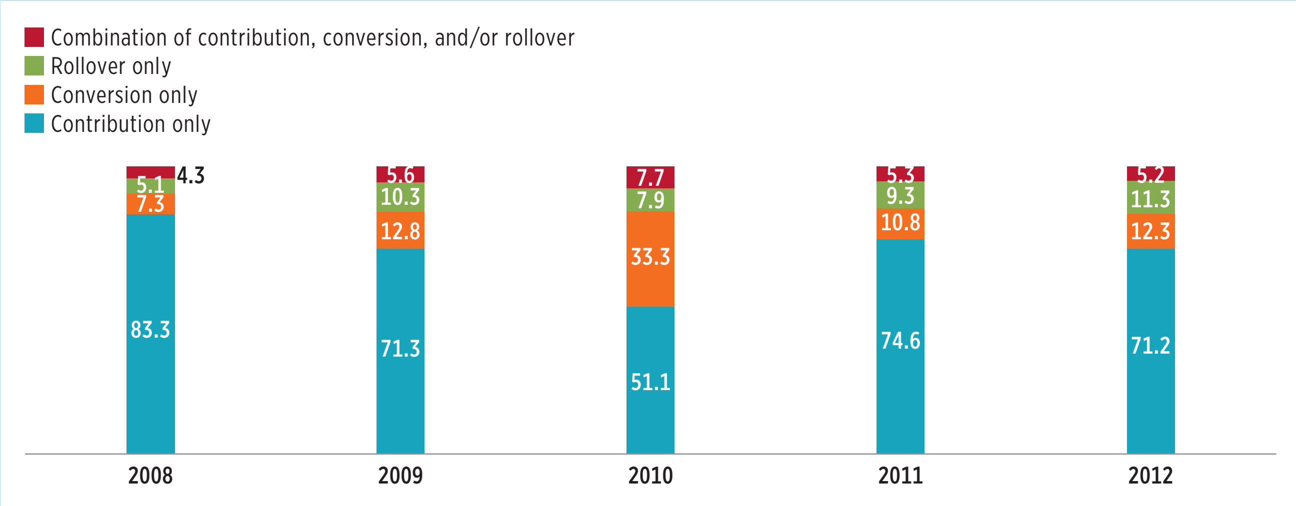
Contributions Often Were the Source of New Roth IRAs in 2012

Although Roth IRAs can be opened with contributions, conversions, or rollovers, contributions tend to be the most common source for new Roth IRAs. In 2012, more than seven in 10 (71.2 percent) new Roth IRAs in The IRA Investor Database were opened only with contributions (Figure 2.1). Another 12.3 percent were opened only with conversions, and 11.3 percent were opened only with rollovers. Another 5.2 percent of new Roth IRAs in 2012 were opened through a combination of contributions, conversions, and/or rollovers. Contributions have historically been the most common way to open a new Roth IRA; however, when special tax treatment is available for conversions, they tend to become more important than usual (see chapter 3 for discussion of conversion activity). For example, in 2010, when the income limits on conversions were lifted and individuals could spread the tax bill over the next two years, one-third of new Roth IRAs were opened only with conversions, while about half were opened only with contributions.

FIGURE 2.1

Paths to Roth IRA Ownership Changed as Tax Rules Changed

Percentage of new Roth IRAs, 2008–2012



Note: New Roth IRAs are accounts that did not exist in The IRA Investor Database in the prior year and were opened by one of the paths in the year indicated. The calculation excludes Roth IRAs that changed financial services firms. See Figure A.4 in the appendix for additional information on 2012.

Source: The IRA Investor Database™

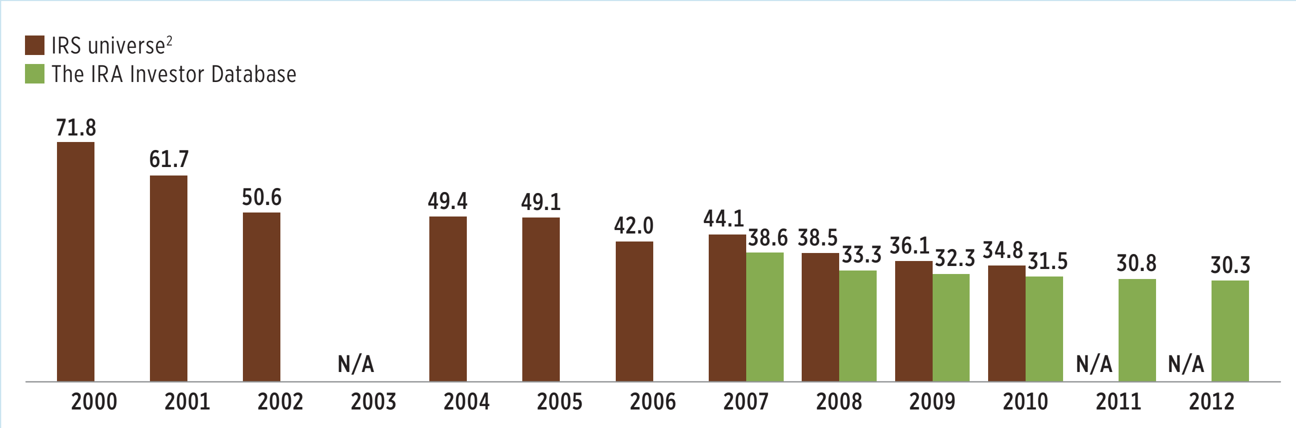
Contributions to Roth IRAs

During the past five years, about three in 10 Roth IRA investors aged 18 or older have made contributions to their Roth IRAs in any given year (Figure 2.2). For example, in tax year 2012, 30.3 percent of Roth IRA investors aged 18 or older made contributions to their Roth IRAs. This recent contribution activity is lower than for earlier years likely because of the growing base of Roth IRA investors, among other factors. As the base of Roth IRA investors grows, so too does the likelihood that some investors experience income growth that moves them out of eligibility to contribute to their Roth IRAs.[45] Some Roth IRA investors may have opened their accounts with conversions and not be eligible to contribute. Some Roth IRA investors may prefer to direct savings into their traditional IRAs.[46] Nevertheless, contribution activity is higher in Roth IRAs (31.1 percent of Roth IRA investors aged 25 to 69 in tax year 2012) than in traditional IRAs (8.4 percent of traditional IRA investors aged 25 to 69 in tax year 2012).[47]

FIGURE 2.2

Roth IRA Contribution Rates

Percentage of Roth IRA investors aged 18 or older with contributions,[1] 2000–2012



[1] Roth IRA contributors are Roth IRA investors aged 18 or older who made contributions to their Roth IRAs in the tax year indicated.

[2] In the IRS universe, data are for Roth IRA investors of all ages.

N/A = not available

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

Contributions to Roth IRAs in 2012 by Investor Age

Younger Roth IRA investors were more likely to contribute to their Roth IRAs than were older Roth IRA investors (Figure 2.3). In part, the lower incidence of contribution activity among older investors results from the fact that it is more likely that some of these investors are no longer eligible to make contributions (having created the Roth IRAs to hold conversions or with contributions made in the past when their incomes were lower and they were eligible to contribute). Among Roth IRA investors aged 18 to 24 making contributions in tax year 2012, 34.7 percent opened their Roth IRA with that contribution. In contrast, only 5.4 percent of Roth IRA investors aged 75 or older in 2012 did the same.

The highest level of contribution activity in tax year 2012, 51.0 percent, was observed among Roth IRA investors aged 18 to 24, and falls across the remaining age groups (Figure 2.3). Among Roth IRA investors in their early forties, 30.0 percent contributed to their Roth IRAs in tax year 2012, while 15.8 percent of Roth IRA investors in their late sixties had contributions. In tax year 2012, 10.3 percent of Roth IRA investors in their early seventies made contributions, as did 7.0 percent of Roth IRA investors aged 75 or older.

FIGURE 2.3

Contribution Activity of Roth IRA Investors in 2012 by Investor Age

Number of Roth IRA investors and Roth IRA contributors[1] by age, 2012

	Roth IRA investors		Roth IRA contributors[1]		Memo:	
Age	Number *Thousands*	Share[2] *Percent*	Number *Thousands*	Share[2] *Percent*	Percentage of Roth IRA investors who made contributions[1]	Percentage of contributions that created new accounts[3]
18 to 24	145.0	2.9%	74.0	4.8%	51.0%	34.7%
25 to 29	350.6	6.9	170.8	11.1	48.7	20.6
30 to 34	525.3	10.4	219.3	14.3	41.8	12.6
35 to 39	546.4	10.8	184.8	12.0	33.8	9.6
40 to 44	596.9	11.8	179.3	11.7	30.0	8.6
45 to 49	580.7	11.4	167.3	10.9	28.8	8.4
50 to 54	599.4	11.8	173.6	11.3	29.0	8.9
55 to 59	579.5	11.4	165.6	10.8	28.6	8.6
60 to 64	492.5	9.7	120.4	7.8	24.5	7.7
65 to 69	347.3	6.8	54.9	3.6	15.8	7.1
70 to 74	182.9	3.6	18.9	1.2	10.3	8.0
75 or older	127.4	2.5	8.9	0.6	7.0	5.4
All	5,074.0	100.0	1,537.7	100.0	30.3	11.7

[1] Roth IRA contributors are Roth IRA investors aged 18 or older who made contributions to their Roth IRAs in tax year 2012.

[2] Share is the percentage of the total.

[3] An account was determined to be "new" in 2012 if the account did not exist in 2011 at the same financial services provider.

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

Source: The IRA Investor Database™

Roth IRA Contribution Amounts in 2012 by Investor Age

Even though older Roth IRA investors are less likely than younger investors to make contributions, they tend to make larger contributions. Among Roth IRA contributors aged 18 to 24, the median contribution was $2,439 in tax year 2012 (Figure 2.4). For Roth IRA contributors aged 45 to 49, the median contribution was $3,510 in tax year 2012. Among contributors aged 55 or older, the median contribution was $6,000, meaning that more than half of those who made contributions did so at the full contribution amount, including catch-up contributions (Figure 2.5).

FIGURE 2.4

Roth IRA Contribution Amounts in 2012 by Investor Age

Number and amount of contributions[1] to Roth IRAs by age, 2012

Age	Roth IRA contributors[1]		Roth IRA contributions[1]		Roth IRA contribution amount	
	Number *Thousands*	Share[2] *Percent*	Amount *Millions*	Share[2] *Percent*	Median	Mean
18 to 24	74.0	4.8%	$201.8	3.9%	$2,439	$2,728
25 to 29	170.8	11.1	504.6	9.7	3,000	2,954
30 to 34	219.3	14.3	633.2	12.2	2,610	2,887
35 to 39	184.8	12.0	531.3	10.2	2,550	2,875
40 to 44	179.3	11.7	531.7	10.2	3,000	2,966
45 to 49	167.3	10.9	525.7	10.1	3,510	3,143
50 to 54	173.6	11.3	660.9	12.7	4,620	3,808
55 to 59	165.6	10.8	686.1	13.2	6,000	4,142
60 to 64	120.4	7.8	535.9	10.3	6,000	4,450
65 to 69	54.9	3.6	252.3	4.9	6,000	4,598
70 to 74	18.9	1.2	86.7	1.7	6,000	4,595
75 or older	8.9	0.6	39.4	0.8	6,000	4,431
All	1,537.7	100.0	5,189.6	100.0	3,760	3,375

[1] Roth IRA contributors are Roth IRA investors aged 18 or older who made contributions to their Roth IRAs in tax year 2012.

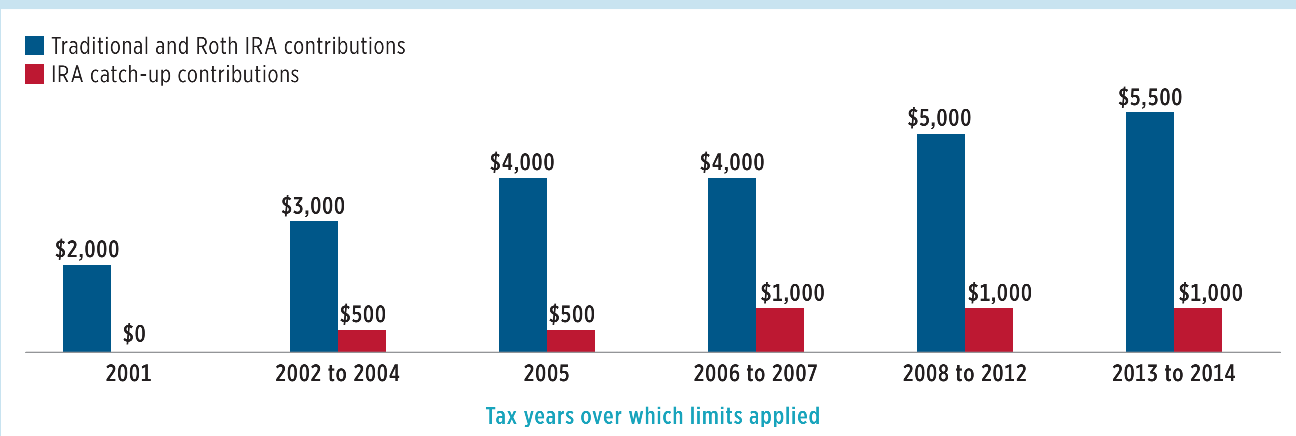
[2] Share is the percentage of the total.

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

Source: The IRA Investor Database™

FIGURE 2.5

Traditional and Roth IRA Contribution Limits Set by the Internal Revenue Code, 2001–2014



Note: After 2008, IRA contributions are indexed for inflation in $500 increments. IRA catch-up contributions are not indexed for inflation.

Source: ICI summary of U.S. Internal Revenue Code

Roth IRA Investors' Contribution Amounts Varied in 2012

Although more than four in 10 Roth IRA contributors contributed the maximum amount in tax year 2012, the amounts investors contributed varied widely. For example, while 34.1 percent of Roth IRA contributors aged 25 to 69 contributed less than $2,000, 24.8 percent contributed $5,000, and 18.9 percent made at least some portion of a catch-up contribution—contributing more than $5,000 up to the maximum of $6,000 (Figure 2.6). Overall, 41.6 percent of all Roth IRA contributors contributed the maximum amount allowed by law, including catch-up contributions for Roth IRA investors aged 50 or older. In fact, 50.8 percent of Roth IRA investors aged 50 or older made the full age-allowed contribution of $6,000 in tax year 2012.

FIGURE 2.6

More Than Four in 10 Roth IRA Contributors Contributed at the Limit in Tax Year 2012

Percentage of Roth IRA contributors[1] contributing the amount indicated by age, 2012

	Amount of Roth IRA contribution[2]									
Age	<$2,000	$2,000	>$2,000 to <$3,000	$3,000	>$3,000 to <$4,000	$4,000	>$4,000 to <$5,000	$5,000[3]	>$5,000 to <$6,000[3]	$6,000
18 to 24	42.5	4.4	7.5	3.8	3.8	1.7	3.2	33.2	0.0	0.0
25 to 29	39.8	2.3	7.4	2.6	3.5	1.1	4.2	39.0	0.0	0.0
30 to 34	41.5	1.8	8.1	2.5	4.1	1.1	5.3	35.7	0.0	0.0
35 to 39	41.4	1.9	8.4	2.8	4.3	1.3	5.6	34.4	0.0	0.0
40 to 44	39.0	2.2	8.3	3.1	4.2	1.5	5.7	36.0	0.0	0.0
45 to 49	34.9	2.4	7.7	3.3	4.1	1.6	5.7	40.2	0.0	0.0
50 to 54	29.8	2.6	6.6	3.9	3.8	1.8	3.1	4.1	2.4	41.9
55 to 59	24.8	2.3	6.0	3.7	3.3	1.5	2.7	2.6	2.3	50.8
60 to 64	19.9	2.1	5.1	3.1	3.3	1.4	2.7	2.5	2.3	57.5
65 to 69	17.5	2.2	4.4	2.8	3.1	1.5	2.7	2.5	2.3	60.9
70 to 74	17.2	2.0	4.7	2.6	3.6	1.7	2.9	3.0	2.8	59.6
75 or older	19.0	2.5	5.1	2.6	4.0	2.1	3.5	3.5	3.1	54.7
All	34.2	2.3	7.2	3.1	3.8	1.4	4.3	24.8	0.8	17.9
Memo:										
25 to 69	34.1	2.2	7.2	3.1	3.8	1.4	4.4	24.8	0.8	18.1

[1] Roth IRA contributors are investors aged 18 or older who made contributions to their Roth IRAs in tax year 2012.

[2] The contribution limit in tax year 2012 was $5,000 for Roth IRA investors younger than 50 and $6,000 for Roth IRA investors aged 50 or older. Income limits may phase these amounts down for some taxpayers.

[3] In total, 41.6 percent of Roth IRA contributors appear to have contributed at the limit. If individuals who were apparently eligible for catch-up contributions, and who contributed at least $5,000 are included, 43.6 percent of Roth IRA contributors made contributions at the limit.

Note: The sample is 1.5 million Roth IRA investors aged 18 or older with contributions in tax year 2012. Row percentages may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

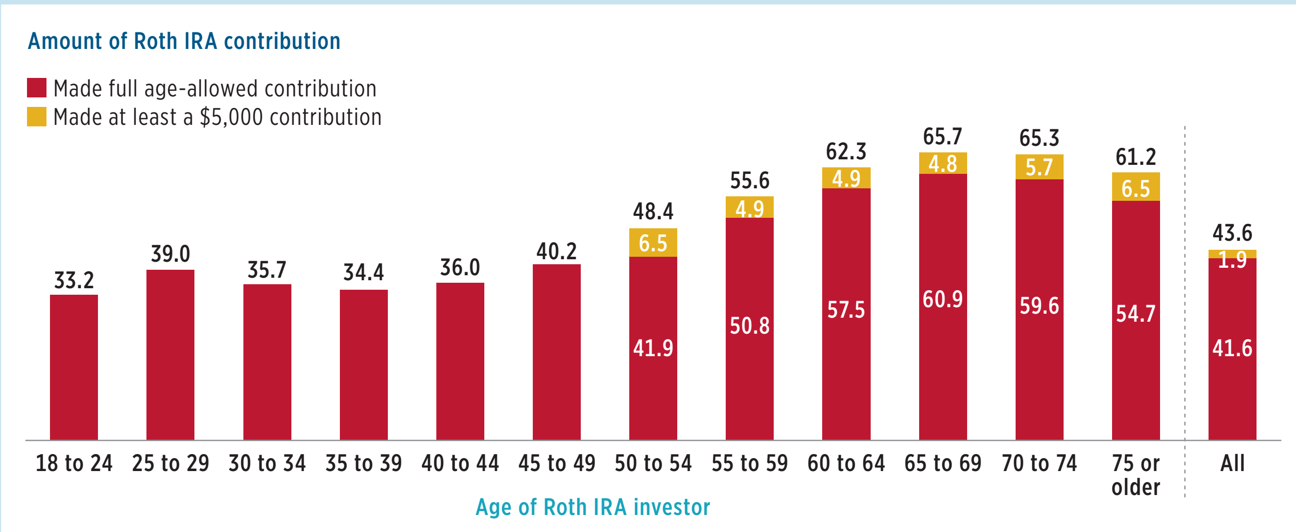
Older Roth IRA Contributors Were More Likely to Contribute at the Limit in 2012

More than four in 10 Roth IRA contributors contributed at the limit in tax year 2012, but older Roth IRA contributors were more likely to contribute at the limit. For example, 33.2 percent of Roth IRA contributors aged 18 to 24 and 35.7 percent of Roth IRA contributors aged 30 to 34 contributed at the $5,000 limit in tax year 2012 (Figure 2.7). Among contributors aged 65 to 69, 60.9 percent contributed at the full $6,000 limit, including catch-up contributions. If investors who contributed at least $5,000 are considered, then 65.7 percent of Roth IRA contributors aged 65 to 69 reached the limit. Overall, 43.6 percent of Roth IRA contributors in tax year 2012 contributed at least $5,000 to their Roth IRAs.

FIGURE 2.7

Older Roth IRA Contributors Were More Likely to Contribute at the Limit in Tax Year 2012

Percentage of Roth IRA contributors[1] contributing at the limit[2] as a percentage of Roth IRA contributors by age, tax year 2012



[1] Roth IRA contributors are Roth IRA investors aged 18 or older who made contributions to their Roth IRAs in tax year 2012.

[2] The contribution limit in tax year 2012 was $5,000 for Roth IRA investors younger than 50 and $6,000 for Roth IRA investors aged 50 or older. Income limits may phase these amounts down for some taxpayers.

Note: Components may not add to the total because of rounding. The sample is 1.5 million Roth IRA investors aged 18 or older with contributions in tax year 2012.

Source: The IRA Investor Database™

Persistence in Contribution Activity Among Roth IRA Investors from 2011 to 2012

In The IRA Investor Database for 2012, there are 4.7 million Roth IRA investors aged 19 or older who also had Roth IRAs at the same financial services firm in the 2011 database. The tracking of the same individual IRA investors over time makes it possible to analyze persistence in contribution activity. The persistence in both the decision to contribute at all and the decision to contribute at the age-allowed limit is very high. This persistence reinforces a key insight about IRA contributors that emerges from the earlier analysis: for Roth IRA investors who make contributions in a given year, the IRA is likely a key saving vehicle.

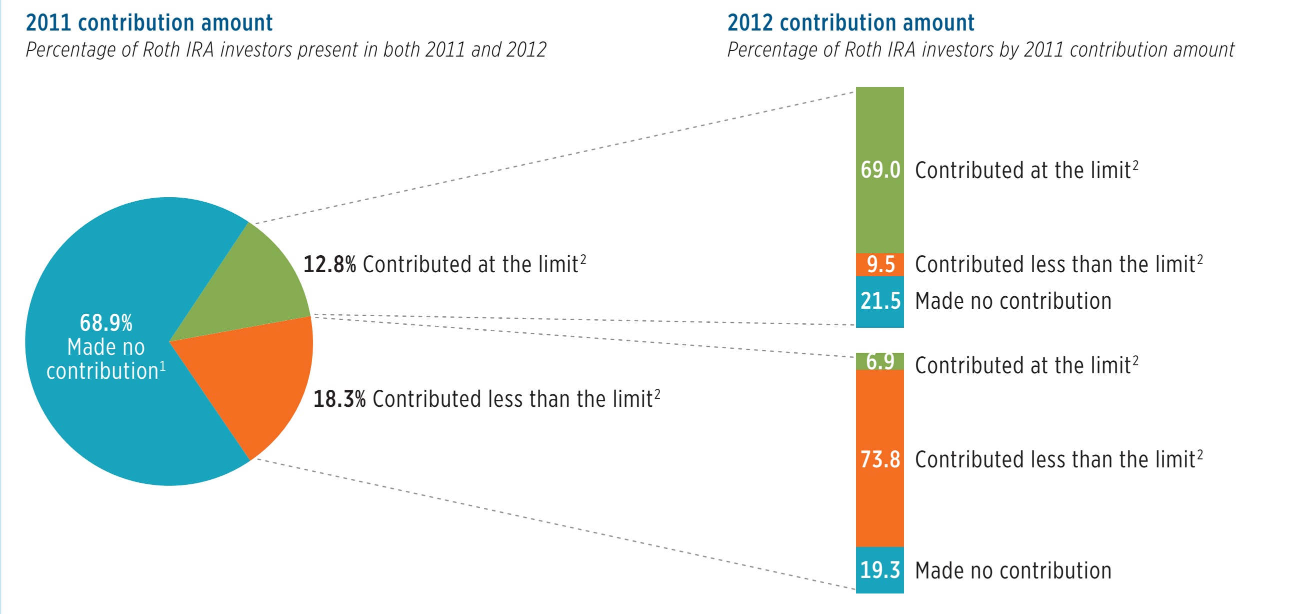
The overall persistence in Roth IRA contribution activity between 2011 and 2012 is 80 percent, which means that eight in 10 Roth IRA investors who contributed in tax year 2011 also contributed in tax year 2012 (Figure 2.8).

Contributions at the Limit Tend to Persist

Most Roth IRA investors who contributed at the full legal limit in tax year 2011 continued to contribute in tax year 2012—and did so at the limit again. Among Roth IRA investors aged 19 or older in 2012 with account balances in both 2011 and 2012, 31.1 percent contributed to their Roth IRAs in tax year 2011, with 12.8 percent contributing at the limit (Figure 2.8). Among those contributing at the limit in tax year 2011, more than three-quarters contributed again in tax year 2012, with 69.0 percent continuing to contribute at the limit. Among those contributing less than the limit in tax year 2011, about eight in 10 contributed again in tax year 2012, with 73.8 percent continuing to contribute less than the limit, and 6.9 percent increasing their contributions up to the full limit. While the legal limits did not change between 2011 and 2012 (Figure 2.5), if an investor turned 50 during 2012, the contribution limit for that individual would have increased by $1,000, the catch-up contribution amount.

FIGURE 2.8

Most Roth IRA Investors at the Limit in Tax Year 2011 Continued to Contribute at the Limit in Tax Year 2012



[1] Among the 68.9 percent of Roth IRA investors who did not contribute in tax year 2011, 2.6 percent contributed at the limit in tax year 2012 and 2.8 percent contributed below the limit in tax year 2012.

[2] The contribution limit in tax year 2011 and 2012 was $5,000 for Roth IRA investors younger than 50 and $6,000 for Roth IRA investors aged 50 or older. Income limits may phase these amounts down for some taxpayers. Investors were considered at the limit if they contributed their full age-allowed amount.

Note: The sample is 4.7 million Roth IRA investors aged 19 or older in 2012 with Roth IRA balances in both 2011 and 2012.

Source: The IRA Investor Database™

CHAPTER 3

Roth IRA Investors' Conversion and Rollover Activity in 2012

Congress created Roth IRAs allowing contributions (subject to income limits), conversions (subject to income limits until 2010), and rollovers. Direct rollovers from designated Roth accounts in retirement plans to Roth IRAs have been permitted since 2006, and direct rollovers of non-Roth qualified retirement plan accumulations into Roth IRAs have been permitted since 2008. Although contributions are the main inflows and avenue to Roth IRAs, conversion activity responds to rule changes designed to promote Roth IRAs. A conversion occurs when an individual withdraws money from a non-Roth IRA, pays the taxes due on the withdrawal, and converts the assets into a Roth IRA.[48] Rollover activity is extremely rare into Roth IRAs to date, but recent rule changes and the increased adoption of Roth features in 401(k) plans may serve to increase Roth rollovers in the future.[49]

This chapter analyzes the conversion activity of Roth IRA investors, focusing on variation in conversion activity in 2012 by investor age. It also explores the variation in Roth IRA balances in 2012 by the presence of recent conversions. Finally, it briefly examines rollover activity among Roth IRAs, where direct rollovers from non-Roth employer-sponsored plan accounts have only been possible since 2008. Direct rollovers from designated Roth accounts in employer-sponsored retirement plans to Roth IRAs have been permitted since 2006.

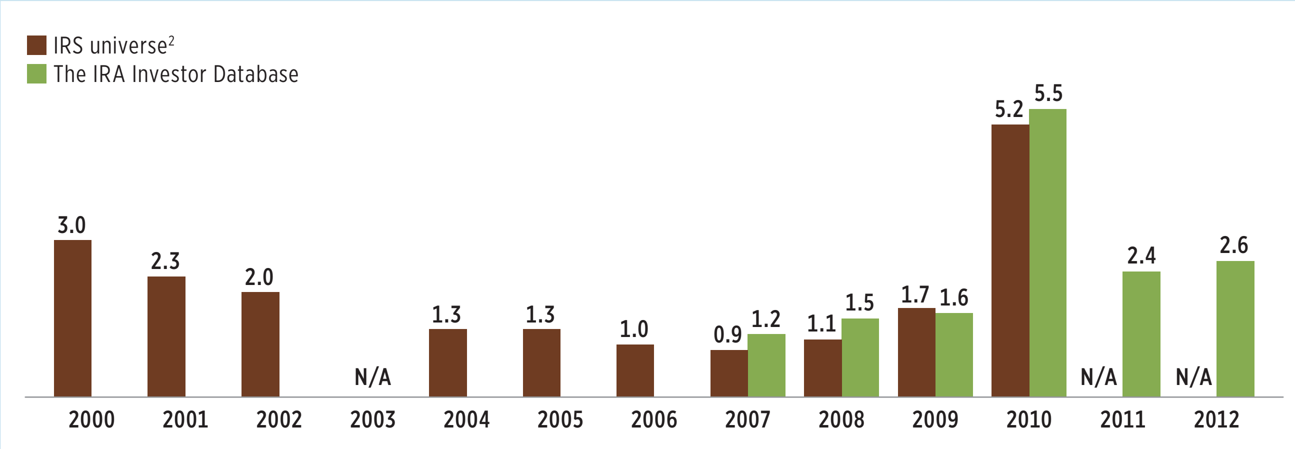
Roth IRA Conversion Activity

Typically, few Roth IRA investors have conversions. Between 2004 and 2009, less than 2 percent of Roth IRA investors had conversions in any given year (Figure 3.1). In 2010, when income limits were lifted for conversions and the taxes owed on amounts converted could be spread over 2011 and 2012,[50] more than 5 percent of Roth IRA investors had conversions. Since 2010, conversion activity has been running higher than prior to 2010, but at lower levels now that the special tax payment option is no longer available. In 2012, 2.6 percent of Roth IRA investors had conversions into their Roth IRAs.

FIGURE 3.1

Roth IRA Investors' Conversion Activity Responds to Tax Law Changes

Percentage of Roth IRA investors aged 18 or older with conversions,[1] 2000–2012



[1] Roth IRA investors with conversions are Roth IRA investors aged 18 or older who had conversions in the year indicated.

[2] In the IRS universe, data are for Roth IRA investors of all ages.

N/A = not available

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

Roth IRA Conversion Activity in 2012 by Investor Age

In 2012, 2.6 percent of Roth IRA investors made conversions, and conversion activity varied by investor age, ranging from 0.8 percent of Roth IRA investors aged 18 to 24 to 5.0 percent of Roth IRA investors aged 65 to 69 (Figure 3.2). Roth IRA conversion activity was distributed across all age groups, though investors aged 60 or older were more likely to have conversions than were younger investors.

The bulk of younger Roth IRA investors making conversions in 2012 did so to open a new account. That includes about seven in 10 Roth IRA investors aged 18 to 24 and about five in 10 Roth IRA investors aged 25 to 29 with conversions in 2012 (Figure 3.2). Still, even among Roth IRA investors aged 65 or older with conversions in 2012, about one in five of those conversions opened new accounts.

FIGURE 3.2

Conversion Activity of Roth IRA Investors in 2012 by Investor Age

Number of Roth IRA investors and Roth IRA investors with conversions[1] by age, 2012

	Roth IRA investors		Roth IRA investors with conversions[1]		Memo:	
Age	Number *Thousands*	Share[2] *Percent*	Number *Thousands*	Share[2] *Percent*	Percentage of Roth IRA investors who made conversions[1]	Percentage of conversions that created new accounts[3]
18 to 24	145.0	2.9%	1.1	0.9%	0.8%	70.7%
25 to 29	350.6	6.9	6.5	4.9	1.9	53.5
30 to 34	525.3	10.4	12.6	9.5	2.4	37.0
35 to 39	546.4	10.8	14.2	10.7	2.6	28.2
40 to 44	596.9	11.8	14.0	10.5	2.4	25.7
45 to 49	580.7	11.4	13.1	9.8	2.3	26.3
50 to 54	599.4	11.8	13.3	9.9	2.2	27.2
55 to 59	579.5	11.4	12.9	9.6	2.2	26.2
60 to 64	492.5	9.7	15.5	11.6	3.1	24.4
65 to 69	347.3	6.8	17.2	12.9	5.0	20.9
70 to 74	182.9	3.6	8.1	6.0	4.4	17.7
75 or older	127.4	2.5	4.9	3.6	3.8	20.1
All	5,074.0	100.0	133.5	100.0	2.6	27.6

[1] Roth IRA investors with conversions are Roth IRA investors aged 18 or older who converted traditional IRA assets to a Roth IRA in tax year 2012.

[2] Share is the percentage of the total.

[3] An account was determined to be "new" in 2012 if the account did not exist in 2011 at the same financial services provider.

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

Source: The IRA Investor Database™

Roth IRA Conversion Amounts in 2012 by Investor Age

Conversion amounts tend to rise with investor age, reflecting the longer amount of time that older investors have had to build retirement accumulations outside of Roth IRAs.[51] The median conversion amount among Roth IRA investors aged 18 to 24 with conversions in 2012 was $2,000, rising to $20,000 for Roth IRA investors aged 65 to 69, before falling slightly to $16,066 for investors aged 75 or older (Figure 3.3). Mean conversion amounts rose from $3,515 among Roth IRA investors aged 18 to 24 with conversions in 2012, to $72,386 among those aged 75 or older. Although Roth IRA investors aged 50 to 74 accounted for half of conversions, nearly three-quarters of the money converted in 2012 came from this group. In fact, Roth IRA investors aged 65 to 69 accounted for nearly one-quarter of all conversion money, reflecting their high average conversion amounts as well as the large number of conversions that came from this age group.

FIGURE 3.3

Roth IRA Investors with Conversions in 2012 by Investor Age

Number and amount of conversions[1] to Roth IRAs by age, 2012

	Roth IRA investors with conversions[1]		Roth IRA conversions[1]		Roth IRA conversion amount	
Age	Number *Thousands*	Share[2] *Percent*	Amount *Millions*	Share[2] *Percent*	Median	Mean
18 to 24	1.1	0.9%	$4.0	0.1%	$2,000	$3,515
25 to 29	6.5	4.9	45.9	1.1	4,890	7,040
30 to 34	12.6	9.5	115.2	2.7	5,000	9,111
35 to 39	14.2	10.7	173.6	4.0	5,000	12,186
40 to 44	14.0	10.5	233.1	5.4	5,025	16,598
45 to 49	13.1	9.8	264.8	6.2	5,068	20,159
50 to 54	13.3	9.9	357.9	8.3	6,408	26,983
55 to 59	12.9	9.6	482.9	11.3	10,587	37,518
60 to 64	15.5	11.6	736.2	17.2	15,896	47,467
65 to 69	17.2	12.9	980.9	22.9	20,000	56,994
70 to 74	8.1	6.0	544.7	12.7	17,266	67,559
75 or older	4.9	3.6	352.7	8.2	16,066	72,386
All	133.5	100.0	4,292.0	100.0	8,920	32,144

[1] Roth IRA investors with conversions are Roth IRA investors aged 18 or older who converted traditional IRA assets to a Roth IRA in tax year 2012.

[2] Share is the percentage of the total.

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

Source: The IRA Investor Database™

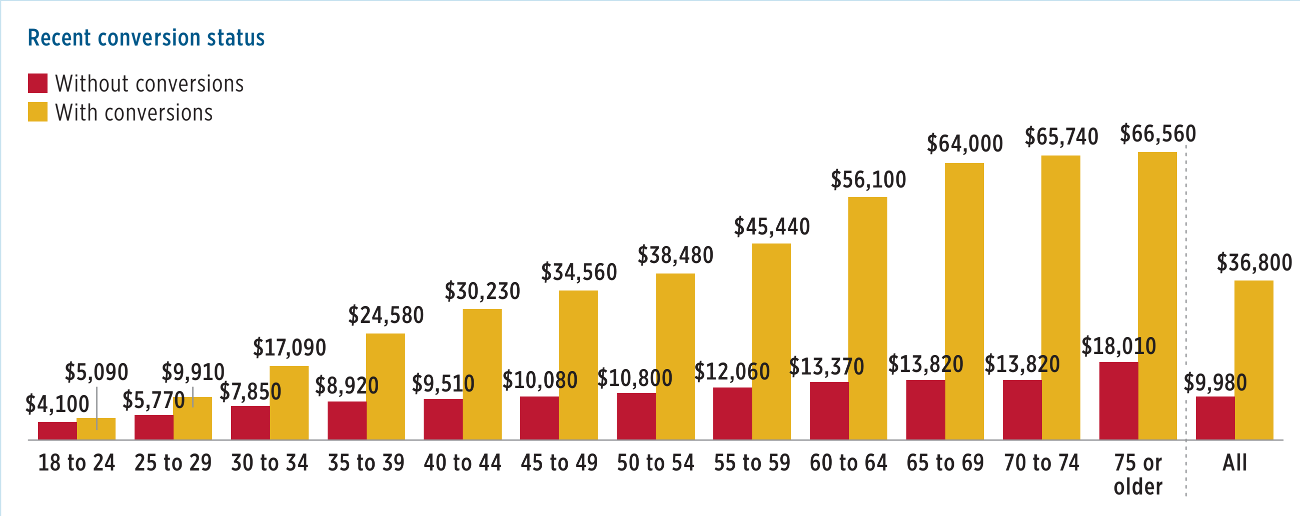
Conversions Tend to Have a Strong Positive Impact on Roth IRA Balances

Conversions into Roth IRAs appear to have a substantial, positive impact on the size of account balances.[52] The impact of recent conversions can be seen most clearly among older Roth IRA investors. For example, among Roth IRA investors aged 70 to 74 with conversions between 2007 and 2012, the median Roth IRA balance at year-end 2012 was $65,740, compared with $13,820 for those without conversions, or nearly five times as much (Figure 3.4). Household survey data also find a substantial effect of conversions on Roth IRA balances.[53]

FIGURE 3.4

Recent Conversions Provide a Significant Boost to Roth IRA Balances

Median account balances among Roth IRA investors by age, year-end 2012



Note: Recent conversions are those that occured between 2007 and 2012. Conversions made prior to 2007, as well as conversions made prior to a change in financial services provider, cannot be identified in the database. The sample is 5.1 million Roth IRA investors aged 18 or older at year-end 2012. See Figure 3.2 for sample counts by age group.

Source: The IRA Investor Database™

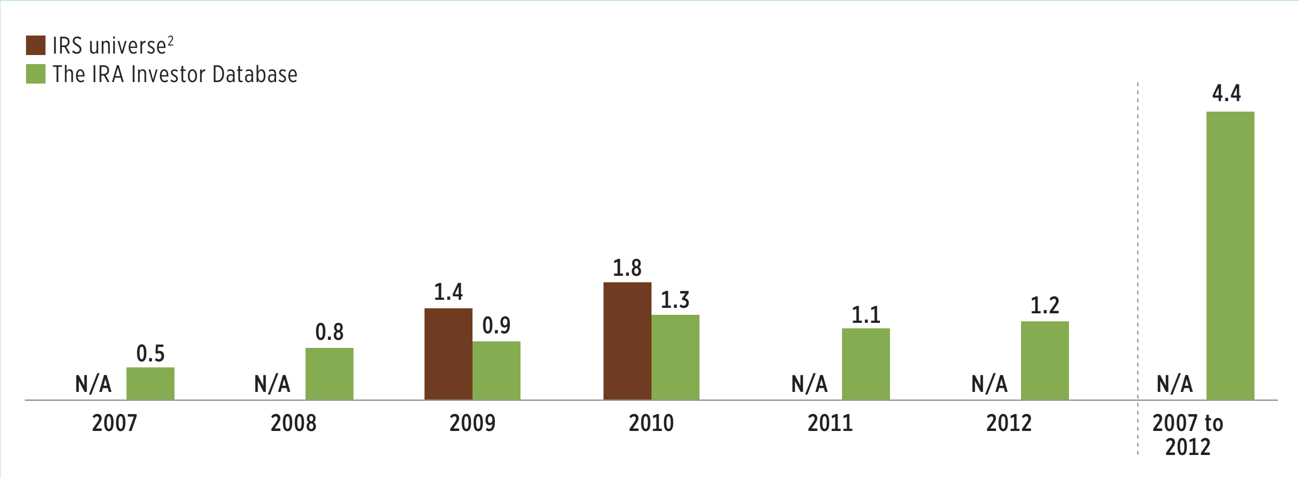
Roth IRA Rollover Activity Is Rare

Roth IRAs have always been permitted to accept rollovers from other Roth IRAs, and since 2006 they have been able to accept rollovers directly from designated Roth accounts in employer-sponsored retirement plans (which could be established starting in 2006). Direct rollovers of non-Roth qualified retirement plan accumulations into Roth IRAs have been permitted since 2008. In the data, rollovers between IRAs generally are not reported as rollovers; rather, the database tends to capture rollovers from employer-sponsored retirement plans to IRAs. In any given year, less than 2 percent of Roth IRA investors had rollovers into their Roth IRAs (Figure 3.5). Because rollovers tend not to be repeated year-to-year, it is important to cumulate rollover activity. Even then, only 4.4 percent of Roth IRA investors at year-end 2012 had made rollovers into their Roth IRAs between 2007 and 2012.[54]

FIGURE 3.5

Very Few Roth IRA Investors Have Rollovers

Percentage of Roth IRA investors aged 18 or older with rollovers,[1] 2007–2012



[1] Roth IRA investors with rollovers are Roth IRA investors aged 18 or older who had rollovers into their Roth IRAs in the year or years indicated.

[2] In the IRS universe, data are for Roth IRA investors of all ages.

Note: Rollovers made prior to 2007, as well as rollovers made prior to a change in financial services providers, cannot be identified in the database.

N/A = not available

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

The low level of rollover activity in Roth IRAs is in stark contrast to the high rollover activity in traditional IRAs. Traditional IRAs most often are opened with rollovers from employer-sponsored retirement plans (defined benefit and defined contribution), and in any given year nearly one in 10 traditional IRA investors have rollovers.[55] In 2010, $288.4 billion in rollovers flowed into traditional IRAs,[56] compared with rollovers of $7.8 billion into Roth IRAs (see Figure 1.2). Rollovers tend to occur as individuals change jobs or retire, and thus, it is typically a different group of individuals with rollovers each year.[57] Household survey data indicate that about half of traditional IRA–owning households in 2013 had rollovers in their traditional IRAs, while only 17 percent of Roth IRA–owning households indicated that some of the assets in their Roth IRAs initially were employer-sponsored retirement plan assets.[58]

CHAPTER 4

Roth IRA Investors' Withdrawal Activity in 2012

IRA investors can decide when and how to draw down the assets they hold inside their Roth IRAs, although IRS penalties or distribution requirements may apply. This chapter first briefly reviews the distribution, or withdrawal, rules governing Roth IRAs. It then analyzes the withdrawal activity of Roth IRA investors, primarily focusing on variation in withdrawal activity in 2012 by investor age.

The main distribution rules governing access to Roth IRAs involve whether five years have elapsed since the tax year of the first contribution to the Roth IRA and the investor's age.[59] For investors younger than 59½, distributions from Roth IRAs may be subject to a 10 percent penalty. However, as is also the case with traditional IRAs, 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.[60] Unlike traditional IRAs, income tax typically is not due on qualified Roth IRA distributions and there are no required minimum distributions (RMDs) for the original Roth IRA investor. However, inherited Roth IRAs must be distributed pursuant to RMD rules.[61]

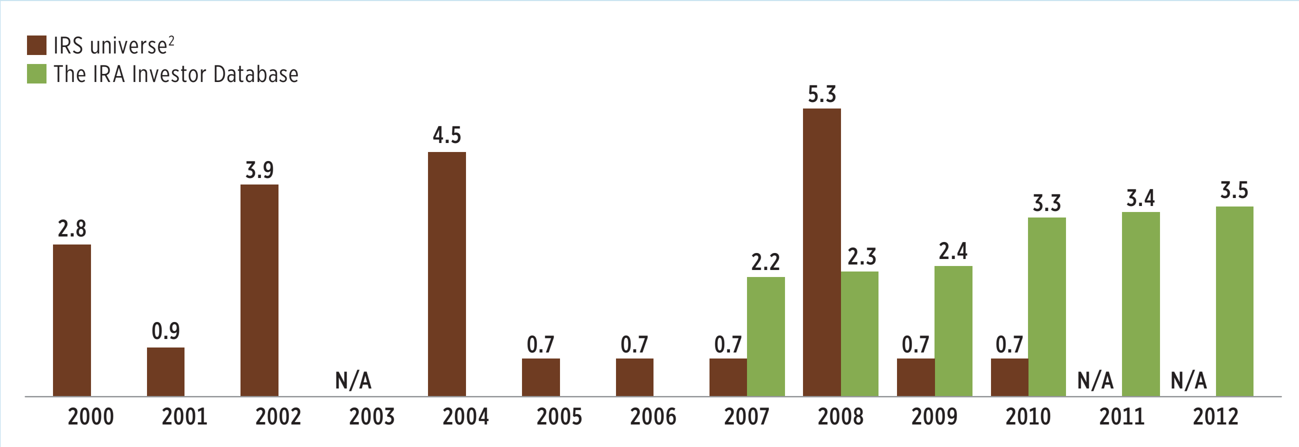
Roth IRA Withdrawal Activity

Very few Roth IRA investors take withdrawals from their Roth IRAs in any given year. Nevertheless, the percentage of Roth IRA investors taking distributions from their Roth IRAs in any given year has risen somewhat in the wake of the financial crisis. Analysis of Roth IRA investors in The IRA Investor Database in 2007, 2008, and 2009 shows that nearly 2.5 percent of Roth IRA investors had distributions in each of those years (Figure 4.1). The percentage taking distributions edged up to 3.3 percent in 2010, 3.4 percent in 2011, and 3.5 percent in 2012.

FIGURE 4.1

Withdrawal Activity of Roth IRA Investors

Percentage of Roth IRA investors with withdrawals,[1] 2000–2012



[1] The figure reports the percentage of Roth IRA investors aged 18 or older at year-end who had withdrawals from their Roth IRAs in the tax year indicated.

[2] In the IRS universe, data are for Roth IRA investors of all ages.

N/A = not available

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

Roth IRA Withdrawal Activity in 2012 by Investor Age

Not only do few Roth IRA investors take withdrawals in any given year, but withdrawal activity varies little across investor age. In The IRA Investor Database, only 3.5 percent of Roth IRA investors took withdrawals from their Roth IRAs in 2012, and withdrawal activity ranges from 2.3 percent of Roth IRA investors aged 18 to 24 taking withdrawals to 5.1 percent of Roth IRA investors aged 75 or older taking withdrawals (Figure 4.2). There is only little variation in withdrawal activity between Roth IRA investors facing the age-related penalty (those younger than 59½) and those older. On average, about 3 percent of Roth IRA investors younger than 60 took withdrawals, compared with nearly 5 percent of Roth IRA investors aged 60 or older. Withdrawal activity of the oldest Roth IRA investors varied little from the others, as RMDs generally do not apply.

FIGURE 4.2

Withdrawal Activity of Roth IRA Investors in 2012 by Investor Age

Number of Roth IRA investors and Roth IRA investors with withdrawals[1] by age, 2012

	Roth IRA investors		Roth IRA investors with withdrawals[1]		
Age	Number *Thousands*	Share[2] *Percent*	Number *Thousands*	Share[2] *Percent*	Memo: percentage of Roth IRA investors who had withdrawals[1]
18 to 24	145.0	2.9%	3.3	1.8%	2.3%
25 to 29	350.6	6.9	10.6	5.9	3.0
30 to 34	525.3	10.4	17.1	9.6	3.3
35 to 39	546.4	10.8	17.8	10.0	3.3
40 to 44	596.9	11.8	19.7	11.1	3.3
45 to 49	580.7	11.4	19.2	10.8	3.3
50 to 54	599.4	11.8	19.3	10.8	3.2
55 to 59	579.5	11.4	17.6	9.9	3.0
60 to 64	492.5	9.7	22.6	12.6	4.6
65 to 69	347.3	6.8	16.5	9.2	4.7
70 to 74	182.9	3.6	8.3	4.7	4.5
75 or older	127.4	2.5	6.5	3.6	5.1
All	5,074.0	100.0	178.4	100.0	3.5
Memo:					
25 to 59	3,778.8	76.7	121.3	69.3	3.2
60 to 69	839.8	17.0	39.0	22.3	4.6
70 or older	310.3	6.3	14.8	8.5	4.8
25 or older	4,928.9	100.0	175.1	100.0	3.6

[1] Roth IRA investors with withdrawals are Roth IRA investors aged 18 or older who had withdrawals from their Roth IRAs in tax year 2012.

[2] Share is the percentage of the total.

Note: Withdrawals resulting from excess contributions generally are excluded. Components may not add to the total because of rounding.

Source: The IRA Investor Database™

Roth IRA Withdrawal Amounts in 2012 by Investor Age

Roth IRA withdrawal amounts tend to increase with investor age (Figure 4.3). In 2012, the median distribution among Roth IRA investors aged 18 to 24 with withdrawals was $1,148. This number generally rose with age, peaking at $5,000 for investors aged 75 or older. The average Roth IRA withdrawal amounts followed a similar pattern, although at higher levels, rising from $2,819 among the youngest Roth IRA investors to $16,076 among the oldest.

FIGURE 4.3

Roth IRA Withdrawals in 2012 by Investor Age

Number and amount of withdrawals[1] from Roth IRAs by age, 2012

	Roth IRA investors with withdrawals[1]		Roth IRA withdrawals[1]		Roth IRA withdrawal amount	
Age	Number *Thousands*	Share[2] *Percent*	Amount *Millions*	Share[2] *Percent*	Median	Mean
18 to 24	3.3	1.8%	$9.2	0.7%	$1,148	$2,819
25 to 29	10.6	5.9	39.9	3.2	2,000	3,777
30 to 34	17.1	9.6	79.1	6.4	2,500	4,631
35 to 39	17.8	10.0	92.9	7.5	2,500	5,225
40 to 44	19.7	11.1	105.7	8.5	2,500	5,360
45 to 49	19.2	10.8	109.9	8.8	2,500	5,721
50 to 54	19.3	10.8	116.9	9.4	2,450	6,058
55 to 59	17.6	9.9	116.5	9.4	2,700	6,608
60 to 64	22.6	12.6	201.8	16.2	4,000	8,945
65 to 69	16.5	9.2	166.3	13.4	4,000	10,096
70 to 74	8.3	4.7	101.7	8.2	3,986	12,237
75 or older	6.5	3.6	104.3	8.4	5,000	16,076
All	178.4	100.0	1,244.2	100.0	3,000	6,975

[1] Roth IRA investors with withdrawals are Roth IRA investors aged 18 or older who had withdrawals from their Roth IRAs in tax year 2012.

[2] Share is the percentage of the total.

Note: Withdrawals resulting from excess contributions generally are excluded. Components may not add to the total because of rounding.

Source: The IRA Investor Database™

CHAPTER 5

Roth IRA Investors' Balances at Year-End 2012

The amounts accumulated in Roth IRAs depend on contributions, conversions, rollovers, withdrawals, and investment returns, which are based on how the assets are allocated. Contribution, conversion, rollover, and withdrawal activity in Roth IRAs is governed by Internal Revenue Code regulations. Roth IRA investors have access to a wide range of investment options available in the retail financial services market.[62] This chapter analyzes the variation in Roth IRA balances in 2012 by investor age.

Roth IRA Balances in 2012 by Investor Age

Older investors tend to have larger Roth IRA balances. The median Roth IRA balance was $10,880 at year-end 2012, but the amount invested varied widely across investors (Figure 5.1).[63] Roth IRA balances tend to increase with investor age. The median Roth IRA balance for investors aged 18 to 24 was $4,120, compared with $23,200 for investors aged 75 or older.

Roth IRA balances varied even among Roth IRA investors of similar ages, as evidenced by the difference between the 25th percentile, median (50th percentile), and 75th percentile for individual age groups. For example, among Roth IRA investors aged 60 to 64, the median balance was $15,130 at year-end 2012, but the 25th percentile balance was $5,910, and the 75th percentile balance was $37,930 (Figure 5.1). This range reflects the variety of histories for these IRA investors, which are affected by variation in factors such as timing and patterns of contribution, conversion, and rollover activity; asset allocations; withdrawals; and lengths of time investing in Roth IRAs.[64]

FIGURE 5.1

Roth IRA Balances in 2012 Tended to Increase with Investor Age

25th percentile, median, and 75th percentile account balances among Roth IRA investors by age; year-end 2012

Age	25th percentile	Median	75th percentile
18 to 24	$1,740	$4,120	$8,900
25 to 29	2,670	5,930	14,290
30 to 34	3,360	8,370	19,580
35 to 39	3,830	9,660	22,940
40 to 44	4,040	10,260	25,010
45 to 49	4,310	10,820	27,340
50 to 54	4,610	11,760	29,500
55 to 59	5,270	13,000	32,690
60 to 64	5,910	15,130	37,930
65 to 69	6,270	16,990	42,250
70 to 74	6,750	18,260	46,980
75 or older	8,000	23,200	63,700
All	4,300	10,880	27,560

Note: The sample is 5.1 million Roth IRA investors aged 18 or older at year-end 2012.

Source: The IRA Investor Database™

Distribution of Roth IRA Balances by Size in 2012

Perhaps reflecting their limited history (Roth IRAs were first available in 1998) and the restrictions placed on Roth IRAs (e.g., income restrictions on contributions, income restrictions on conversions [until 2010], restrictions on rollovers), Roth IRA balances tend to be small.[65] At year-end 2012, 28.6 percent of Roth IRA balances in The IRA Investor Database were less than $5,000, and another 18.7 percent were between $5,000 and $10,000 (Figure 5.2). Some of the variation in Roth IRA balances is explained by differences in contribution, conversion, and rollover activity. Because of this, as well as differing withdrawal activity and asset allocations, there is a wide distribution of the resulting Roth IRA balance amounts, and 3.3 percent of Roth IRA investors had account balances of $100,000 or more.

The range of Roth IRA balances is most pronounced by investor age. Younger Roth IRA investors were more likely to have small balances than older Roth IRA investors in 2012. For example, although 56.3 percent of Roth IRA investors aged 18 to 24 had balances of less than $5,000, that percentage fell for each successive age group, reaching a minimum of 15.4 percent of Roth IRA investors aged 75 or older (Figure 5.2). At the other extreme, while a negligible number of younger Roth IRA investors had balances of $100,000 or more, this percentage rose with age, and 16.2 percent of Roth IRA investors aged 75 or older had such large balances.

FIGURE 5.2

Roth IRA Balances in 2012 by Investor Age

Percentage of Roth IRA investors by age, year-end 2012

	Size of Roth IRA balance								
Age	Less than $5,000	$5,000 to <$10,000	$10,000 to <$20,000	$20,000 to <$30,000	$30,000 to <$40,000	$40,000 to <$70,000	$70,000 to <$100,000	$100,000 to <$200,000	$200,000 or more
18 to 24	56.3	21.4	14.2	4.3	2.0	1.7	0.2	(*)	(*)
25 to 29	42.1	21.9	19.5	8.2	4.5	3.3	0.3	0.1	(*)
30 to 34	35.0	20.2	20.3	10.1	6.4	6.7	0.9	0.3	(*)
35 to 39	32.0	19.1	20.3	10.7	6.8	8.7	1.7	0.7	0.1
40 to 44	30.5	18.6	19.8	10.7	6.8	9.6	2.5	1.2	0.3
45 to 49	28.8	18.5	19.4	10.6	7.0	10.3	3.0	1.8	0.5
50 to 54	27.0	18.5	19.4	10.5	7.0	10.8	3.5	2.3	0.9
55 to 59	23.6	18.6	19.7	10.9	7.2	11.7	4.4	2.8	1.2
60 to 64	20.5	17.6	19.5	11.1	7.7	13.1	5.3	3.6	1.7
65 to 69	18.8	16.7	18.9	11.2	7.9	13.2	5.5	4.8	2.9
70 to 74	17.4	16.4	18.6	11.1	7.5	12.6	5.6	6.1	4.6
75 or older	15.4	14.3	16.7	10.2	7.4	13.1	6.7	8.7	7.5
All	28.6	18.7	19.4	10.3	6.8	9.8	3.1	2.2	1.1

Note: The sample is 5.1 million Roth IRA investors aged 18 or older at year-end 2012. Row percentages may not add to 100 percent because of rounding.

(*) = less than 0.05 percent

Source: The IRA Investor Database™

CHAPTER 6

Snapshots of Investments in Roth IRAs at Year-End 2007 and Year-End 2012

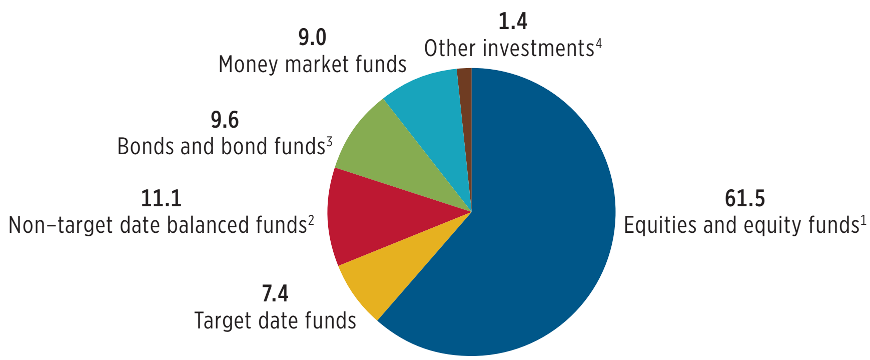
IRA investors allocate their IRA assets to individual securities (e.g., stocks and bonds), mutual funds, ETFs, closed-end funds, annuities, deposits, and other investments.[66] This chapter analyzes the average dollar-weighted asset allocation of Roth IRA balances at year-end 2012 by investor age. Snapshots of Roth IRA asset allocations at year-end 2012 are compared with the asset allocation at year-end 2007. In addition, snapshots of individual Roth IRA investors' concentrations in equity holdings—that is, the percentage of individual Roth IRA balances invested in equities, equity funds, and the equity portion of balanced funds—between year-end 2007 and year-end 2012 also are compared.

On average, equities and equity funds represent the largest investment category among Roth IRA investors. At year-end 2012, on average, equities and equity funds were 61.5 percent of Roth IRA assets held by individuals aged 18 or older (Figure 6.1). Balanced, or hybrid, funds, which invest in a mix of equities and fixed-income securities and include target date funds[67] were the next largest component, accounting for 18.5 percent of Roth IRA assets. At year-end 2012, 9.6 percent of Roth IRA assets were held in bonds and bond funds, and 9.0 percent of Roth IRA assets were invested in money market funds.

FIGURE 6.1

Equity Holdings Figure Prominently in Roth IRA Investments

Percentage of Roth IRA balances, year-end 2012



[1] Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

[2] Balanced funds invest in a mix of equities and fixed-income securities.

[3] Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.

[4] Other investments include certificates of deposit and unidentifiable assets.

Note: The sample is 5.1 million Roth IRA investors aged 18 or older at year-end 2012. Percentages are dollar-weighted averages.

Source: The IRA Investor Database™

Investments in Roth IRAs in 2012 by Investor Age

Equities and equity funds were the largest component of Roth IRA investors' accounts, on average, representing 61.5 percent of Roth IRA assets at year-end 2012 (Figure 6.2). Investors also may hold equities through balanced funds; at year-end 2012, nearly three-quarters (73.4 percent) of Roth IRA assets were invested in equity holdings (equities, equity funds, and the equity portion of balanced funds). The age pattern of allocation to equity holdings typically was as expected by financial theory and other research: older investors tended to have lower shares in equity holdings. Roth IRA investors younger than 45 had about 80 percent of their assets invested in equity holdings, on average. The share invested in equity holdings generally declined through the age groups, with those aged 45 to 49 having 78.1 percent of their assets invested in equity holdings and those aged 75 or older having 67.6 percent of their assets invested in equity holdings.

FIGURE 6.2

Investments in Roth IRAs in 2012 by Investor Age

Percentage of Roth IRA balance by investor age; year-end 2012

		Balanced funds[2]							
		Equity portion		Non-equity portion					
Age	Equities and equity funds[1]	Target date	Non–target date	Target date	Non–target date	Bonds and bond funds[3]	Money market funds	Other investments[4]	Memo: equity holdings[5]
18 to 24	57.2	13.4	9.0	2.1	5.9	3.3	7.4	1.6	79.6
25 to 29	56.5	17.3	6.2	3.7	4.1	3.6	7.3	1.4	80.0
30 to 34	59.5	16.1	5.7	3.1	3.7	3.9	6.9	1.1	81.3
35 to 39	64.3	11.1	5.5	2.7	3.6	4.7	7.1	1.0	80.9
40 to 44	66.5	8.3	5.6	2.1	3.6	5.3	7.5	1.1	80.4
45 to 49	66.2	5.9	6.0	2.4	3.9	6.3	8.2	1.1	78.1
50 to 54	63.4	4.7	6.8	2.4	4.4	7.9	9.1	1.4	74.9
55 to 59	60.1	3.4	7.6	2.6	5.0	10.3	9.6	1.4	71.1
60 to 64	57.8	2.3	8.0	2.2	5.2	12.7	10.1	1.7	68.1
65 to 69	59.2	1.2	7.2	1.5	4.7	14.0	10.3	1.8	67.6
70 to 74	60.8	0.6	6.3	1.1	4.1	14.7	10.6	1.9	67.7
75 or older	60.9	0.2	6.5	0.9	4.3	15.4	10.1	1.8	67.6
All	61.5	5.2	6.7	2.2	4.4	9.6	9.0	1.4	73.4

[1] Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

[2] Balanced funds invest in a mix of equities and fixed-income securities. Most target date and lifestyle funds are counted in this category.

[3] Bond funds include bond mutual funds, bond closed-end funds, and bond ETFs.

[4] Other investments include certificate of deposits and unidentifiable assets.

[5] Equity holdings are the sum of equities and equity funds and the equity portion of target date and non–target date balanced funds.

Note: The sample is 5.1 million Roth IRA investors aged 18 or older at year-end 2012. Percentages are dollar-weighted averages. Row percentages may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

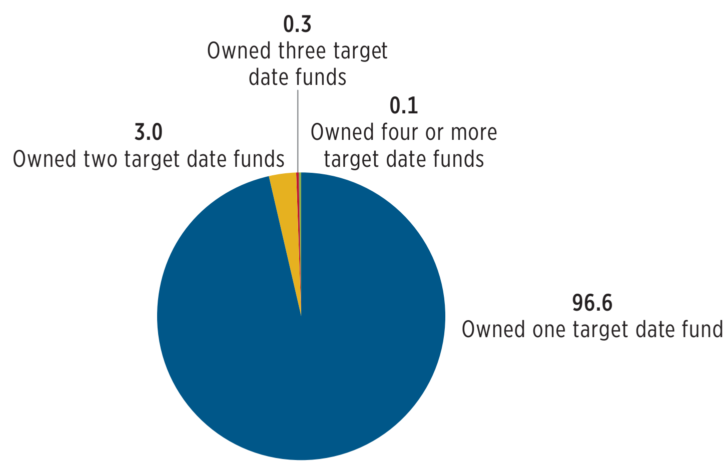
Younger Roth IRA investors tended to have more of their assets invested in target date funds, compared with older Roth IRA investors. At year-end 2012, 15.5 percent of the Roth IRA assets held by investors aged 18 to 24 was invested in target date funds, on average, and 21.0 percent of the assets held by those aged 25 to 29 was invested in target date funds (Figure 6.2). The share of target date funds then fell by age to 1.1 percent among Roth IRA investors aged 75 or older. This pattern of target date fund use was expected because target date funds are relatively new investment products and younger investors are more likely to have been introduced to them either in their 401(k) plans or if they recently opened their IRAs.[68]

At year-end 2012, target date funds were 7.4 percent of Roth IRA assets and 12 percent of Roth IRA investors in The IRA Investor Database owned target date funds.[69] Among Roth IRA investors who owned target date funds, nearly all owned one target date fund, and the bulk of the remainder owned two (Figure 6.3). At year-end 2012, 96.6 percent of Roth IRA investors aged 18 or older who owned target date funds owned one, and another 3.0 percent owned two target date funds. Only 0.4 percent of Roth IRA investors holding target date funds owned three or more.

FIGURE 6.3

Number of Target Date Funds Owned by Roth IRA Investors with Target Date Funds in 2012

Among Roth IRA investors owning target date funds, percentage of Roth IRA investors by number of target date funds owned; year-end 2012*



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

Note: The sample is 0.6 million Roth IRA investors aged 18 or older who owned target date funds at year-end 2012.

Source: The IRA Investor Database™

Older Roth IRA investors had higher allocations to bonds and bond funds in their Roth IRAs than younger investors, which follows the typical age-based pattern of bond investing seen in other research.[70] At year-end 2012, 3.3 percent of the Roth IRA assets held by investors aged 18 to 24 was invested in bonds and bond funds, compared with 15.4 percent of the assets held by those aged 75 or older (Figure 6.2).

Money market fund allocations in Roth IRAs generally followed a rising pattern by age (Figure 6.2). At year-end 2012, Roth IRA investors younger than 45 had about 7 percent of their Roth IRA assets invested in money market funds. Roth IRA investors aged 45 to 49 had 8.2 percent of their Roth IRA assets invested in money market funds. This percentage rose with investor age to 10.6 percent among Roth IRA investors aged 70 to 74, before edging back a bit to 10.1 percent among Roth IRA investors aged 75 or older.

Snapshots of Allocation to Equity Holdings Between 2007 and 2012

Since 2007, the percentage of Roth IRA balances invested in equity holdings (equities, equity funds, and the equity portion of balanced funds) has declined. At year-end 2007, 81.1 percent of Roth IRA balances held by investors aged 18 or older was invested, on average, in equity holdings (Figure 6.4). By year-end 2012, that share had fallen to 73.4 percent. This decline occurred in the category of equities and equity funds, while the share of Roth IRA balances allocated to the equity portion of target date funds and non–target date balanced funds edged up from 10.0 percent at year-end 2007 to 11.9 percent at year-end 2012. This analysis looks at dollar-weighted averages, and some of the change reflects the relative performance of equity holdings over time.

In addition to observing how Roth IRA balances are invested in aggregate, another way to explore the changes in allocation to equity holdings is to look at the distribution of shares in equity holdings held by individual investors. Looking at the data this way shows that, while the share of balances invested in equity holdings has decreased, this is partly a move toward more-diversified portfolios. For example, at year-end 2007, 67.4 percent of Roth IRA investors had more than 80 percent of their balances invested in equity holdings, compared with 59.1 percent of Roth IRA investors at year-end 2012 (Figure 6.5). Some of this decline was balanced by an increase in more moderate allocations to equity holdings. At year-end 2007, 22.9 percent of Roth IRA investors had some equity holdings, but allocated no more than 80 percent of their account balances to equity holdings. That share rose to 30.5 percent by year-end 2012. The share of Roth IRA investors with no equity holdings only increased a bit, from 9.6 percent at year-end 2007 to 10.5 percent at year-end 2012.

FIGURE 6.4

Share of Roth IRA Balances Allocated to Equity Holdings Has Declined Since 2007

Percentage of Roth IRA balance by investor age, year-end 2007 and year-end 2012

	2007				2012			
Age	Equities and equity funds	Equity portion of target date funds	Equity portion of non–target date balanced funds	Total	Equities and equity funds	Equity portion of target date funds	Equity portion of non–target date balanced funds	Total
18 to 24	64.3	13.4	6.3	84.0	57.2	13.4	9.0	79.6
25 to 29	66.6	14.5	4.9	86.0	56.5	17.3	6.2	80.0
30 to 39	73.9	8.3	4.7	86.9	62.2	13.4	5.6	81.2
40 to 49	74.6	4.6	5.4	84.6	66.3	7.0	5.8	79.1
50 to 59	69.9	2.9	6.6	79.4	61.7	4.0	7.2	72.9
60 to 69	69.1	1.1	6.3	76.5	58.5	1.8	7.6	67.9
70 or older	68.6	0.2	5.8	74.6	60.8	0.4	6.4	67.6
All	71.1	4.2	5.8	81.1	61.5	5.2	6.7	73.4

[1] Equity funds include equity mutual funds, equity closed-end funds, and equity ETFs.

[2] Balanced funds invest in a mix of equities and fixed-income securities.

Note: The samples are 3.1 million Roth IRA investors aged 18 or older at year-end 2007 and 5.1 million Roth IRA investors aged 18 or older at year-end 2012. Percentages are dollar-weighted averages.

Source: The IRA Investor Database™

FIGURE 6.5

Exposure to Equity Holdings Has Declined Among Roth IRA Investors Between 2007 and 2012

Percentage of Roth IRA investors by age; year-end, 2007 and 2012

	Percentage of account balance invested in equity holdings						
	2007						
Age	**Zero**	**>0% to 20%**	**>20% to 40%**	**>40% to 60%**	**>60% to 80%**	**>80% to <100%**	**100%**
18 to 24	10.4%	0.3%	0.9%	2.0%	15.9%	27.0%	43.4%
25 to 29	9.2	0.5	1.1	2.3	12.2	30.5	44.2
30 to 39	8.1	0.6	1.2	2.4	11.6	25.0	51.1
40 to 49	8.7	0.8	1.5	2.7	19.8	13.9	52.7
50 to 59	10.3	1.1	2.1	5.9	19.1	13.3	48.2
60 to 69	11.6	1.3	2.6	6.9	16.7	13.3	47.5
70 or older	12.5	1.7	3.9	4.4	16.3	14.0	47.2
All	9.6	0.9	1.7	3.9	16.4	18.1	49.3
	2012						
Age	**Zero**	**>0% to 20%**	**>20% to 40%**	**>40% to 60%**	**>60% to 80%**	**>80% to <100%**	**100%**
18 to 24	10.0%	0.6%	1.3%	2.5%	19.6%	27.2%	38.8%
25 to 29	9.5	0.7	1.6	3.2	16.3	31.6	37.0
30 to 39	8.8	0.9	1.7	3.3	15.3	30.0	40.0
40 to 49	9.4	1.1	2.0	3.7	23.9	16.4	43.6
50 to 59	11.0	1.5	2.8	8.1	22.8	14.8	39.0
60 to 69	12.9	2.0	3.9	10.9	21.5	14.0	34.8
70 or older	13.3	2.8	5.2	6.6	20.4	14.1	37.7
All	10.5	1.4	2.6	5.9	20.6	19.7	39.4

Note: The samples are 3.1 million Roth IRA investors aged 18 or older at year-end 2007 and 5.1 million Roth IRA investors aged 18 or older at year-end 2012. Equity holdings are the sum of equities, equity funds, and the equity portion of balanced funds. Row percentages may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

Appendix

Role of IRAs in U.S. Households' Balance Sheets

Traditional IRAs, the first type of IRA, were created in 1974 under the Employee Retirement Income Security Act (ERISA).[71] IRAs provide all workers with a contributory retirement savings vehicle and, through rollovers, give workers leaving jobs a means to preserve the tax benefits and growth opportunities that employer-sponsored retirement plans provide. Policymakers have since changed the rules governing traditional IRAs and have added more types of IRAs—employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) and after-tax IRAs (Roth IRAs).

Households held $6.5 trillion in IRAs at year-end 2013 (Figure A.1). IRAs accounted for nearly 10 percent of U.S. households' total financial assets. At year-end 2013, assets in traditional IRAs (the most common type of IRA) were $5.6 trillion, or 85 percent of all IRA assets. At year-end 2013, Roth IRA assets were more than $500 billion and accounted for 8 percent of all IRA assets. Assets in employer-sponsored IRAs were more than $400 billion and were 7 percent of all IRA assets at year-end 2013.

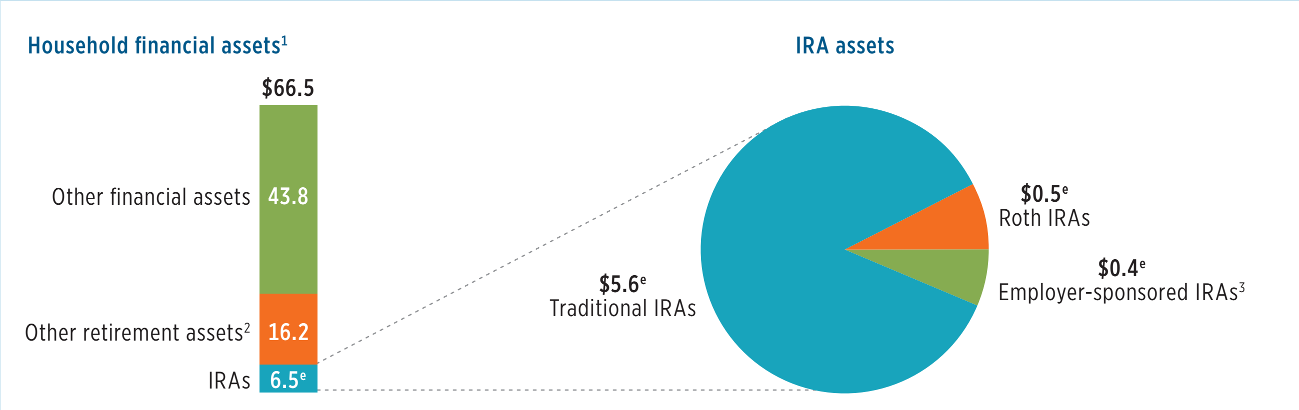
The IRA Investor Database Contains a Comprehensive Cross Section of IRA Investors

The IRA Investor Database contains a comprehensive and representative sample of IRA investors, which provides important insights into many IRA investor activities. The bulk (68 percent) of the IRA investors in the database held traditional IRAs and 81 percent of all IRA assets were in traditional IRAs at year-end 2012 (Figure A.2). More than 5 million Roth IRA investors (33 percent of IRA investors) held 11 percent of all IRA assets. Employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs) represented the remainder. 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 for earlier years.[72]

FIGURE A.1

Role of IRAs in U.S. Households' Balance Sheets

Trillions of dollars; year-end 2013



[1] Household financial assets include deposits, fixed-income securities, stocks, retirement savings, mutual funds, equity in noncorporate businesses, and other financial assets. Financial assets of nonprofit organizations are also included. Household financial assets do not include the household's primary residence.

[2] Other retirement assets include annuities and employer-sponsored defined benefit and defined contribution plans.

[3] Employer-sponsored IRAs include SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs.

[e] Data are estimated.

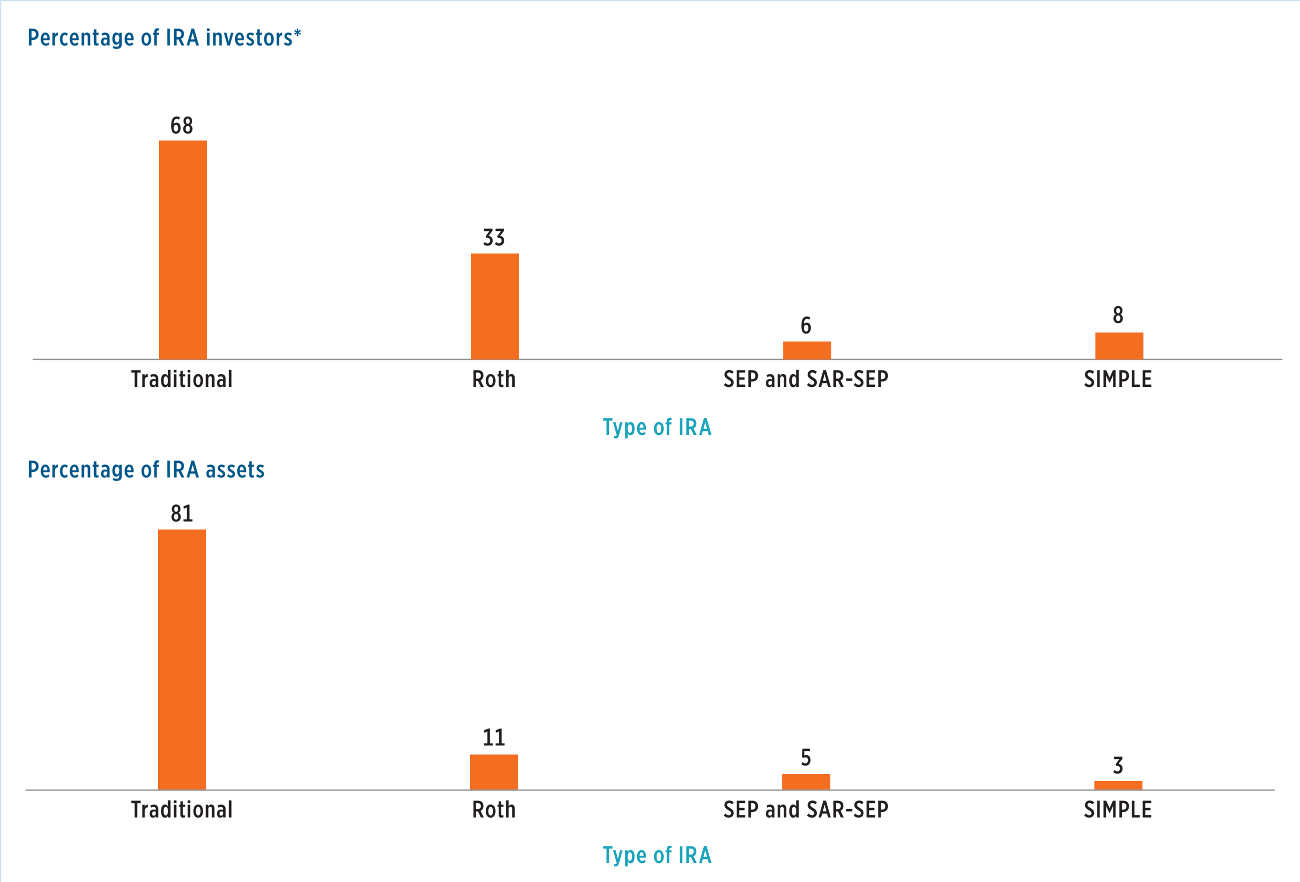
Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division; see Investment Company Institute 2014

FIGURE A.2

The IRA Investor Database Covers All IRA Types

Distribution of IRA investors and assets, percentage of total, year-end 2012



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

Note: The sample is 15.5 million IRA investors with $1,161 billion in assets at year-end 2012.

Sources: The IRA Investor Database™

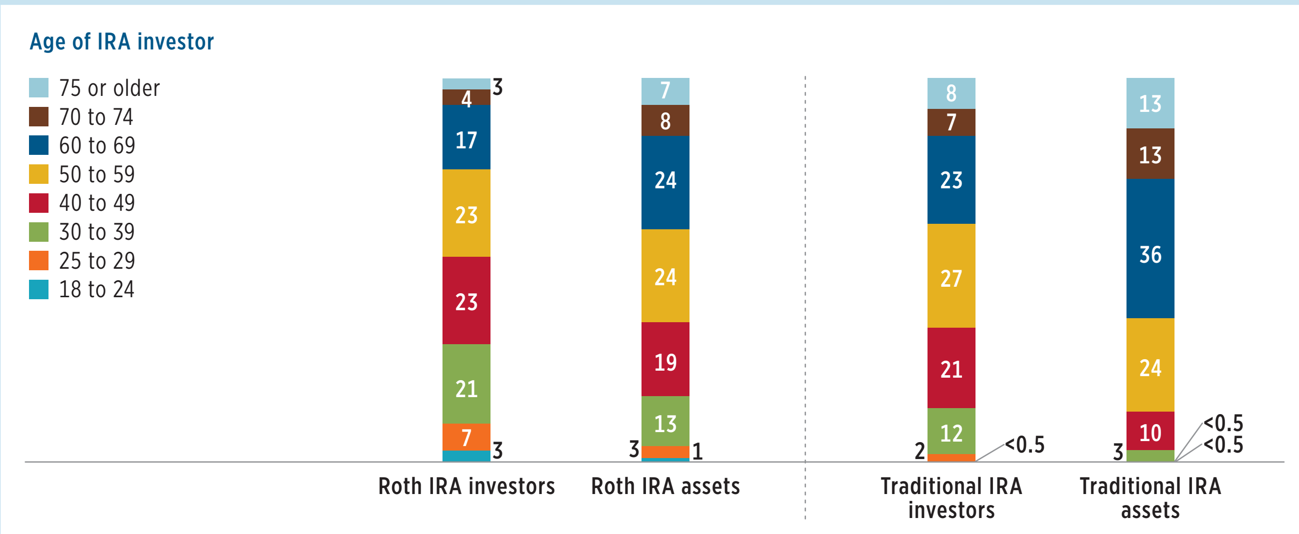
The IRA Investor Database contains investors from a wide range of ages (Figure A.3). The analysis of Roth IRA activity in this report focuses on all Roth IRA investors across both the working-age and retired populations—18 years of age or older. The bulk of investors who own Roth IRAs in the database are in their peak earning and saving years. At year-end 2012, 67 percent of Roth IRA investors were between the ages of 30 and 59. Another 17 percent were aged 60 to 69, and the remaining 17 percent were aged 18 to 29 or aged 70 or older.

Roth IRA investors tend to be younger than traditional IRA investors. For example, at year-end 2012, 54 percent of Roth IRA investors were younger than 50, compared with nearly 36 percent of traditional IRA investors (Figure A.3). Thirty-six percent of the assets in Roth IRAs were held by Roth IRA investors younger than 50, whereas less than 14 percent of traditional IRA assets were held by traditional IRA investors younger than 50.

FIGURE A.3

Roth IRA Investors Represent a Wide Cross Section of Age Groups

Percentage of total, year-end 2012



Note: The sample is 5.1 million Roth IRA investors (aged 18 or older) holding $128.5 billion in Roth IRA assets at year-end 2012 and 10.5 million traditional IRA investors (aged 18 or older) holding $933.2 billion in traditional IRA assets at year-end 2012. Components may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

Contributions Often Were the Source of New Roth IRAs in 2012

Although Roth IRAs can be opened with contributions, conversions, or rollovers, contributions tend to be the most common source for new Roth IRAs. In 2012, more than half (52.1 percent) of new Roth IRAs in The IRA Investor Database were opened with just a contribution (Figure A.4). Nine percent of new Roth IRAs were opened with just a conversion, 8.3 percent were opened with just a rollover, and another 3.8 percent were opened with some combination of a contribution, conversion, or a rollover. The remaining new Roth IRAs (26.9 percent) were transfers from one financial services firm to another and thus were unlikely to represent new IRAs. If these transfer accounts are excluded, 71.2 percent of new Roth IRAs in 2012 were opened exclusively with contributions.

FIGURE A.4

Sources of New Roth IRAs in 2012 by Investor Age

Roth IRA activity of new Roth IRA investors,[1] 2012

	New Roth IRA investors[1]		Source of new account[1, 2]				
Age	Number *Thousands*	Share[3] *Percent*	Only contribution	Only conversion	Only rollover	Combination of contribution, conversion, or rollover	Changed financial services firm[4]
18 to 24	31.9	9.8%	78.2	1.4	2.9	2.4	15.1
25 to 29	48.5	14.9	67.6	4.3	8.4	5.4	14.3
30 to 34	43.2	13.3	59.0	7.6	8.3	5.2	19.9
35 to 39	32.2	9.9	51.5	9.8	8.5	4.0	26.1
40 to 44	29.9	9.2	48.0	9.7	8.5	3.6	30.2
45 to 49	28.4	8.7	46.1	9.9	9.3	3.4	31.3
50 to 54	31.3	9.6	46.2	9.4	9.2	3.2	32.0
55 to 59	30.3	9.3	44.4	9.4	8.6	2.9	34.8
60 to 64	23.9	7.3	35.9	13.8	10.3	3.3	36.7
65 to 69	14.9	4.6	23.8	21.9	10.0	3.1	41.2
70 to 74	6.6	2.0	21.0	19.9	9.0	2.4	47.7
75 or older	3.8	1.2	11.5	24.5	6.9	1.2	55.8
All	325.0	100.0	52.1	9.0	8.3	3.8	26.9
18 to 24	27.1	8.3%	92.1	1.6	3.5	2.8	
25 to 29	41.6	12.8	78.9	5.0	9.8	6.3	
30 to 34	34.6	10.6	73.7	9.4	10.4	6.5	
35 to 39	23.8	7.3	69.7	13.3	11.5	5.5	
40 to 44	20.9	6.4	68.7	13.9	12.2	5.1	
45 to 49	19.5	6.0	67.1	14.4	13.5	5.0	
50 to 54	21.3	6.6	67.9	13.8	13.5	4.7	
55 to 59	19.8	6.1	68.0	14.4	13.2	4.4	
60 to 64	15.1	4.6	56.8	21.7	16.3	5.2	
65 to 69	8.8	2.7	40.5	37.2	17.0	5.3	
70 to 74	3.4	1.1	40.1	38.0	17.2	4.7	
75 or older	1.7	0.5	26.1	55.5	15.6	2.8	
All	237.6	73.1	71.2	12.3	11.3	5.2	

[1] New Roth IRAs are accounts that exist in The IRA Investor Database in 2012 but did not exist in The IRA Investor Database in 2011.

[2] Row percentages may not add to 100 percent because of rounding.

[3] Share is the percentage of the total.

[4] These accounts are often asset transfers to a new financial services provider and thus are unlikely to represent a new Roth IRA investor.

Source: The IRA Investor Database™

Exposure to Equity Holdings Among Roth IRA Investors by Account Size

Between 2007 and 2012, the share of Roth IRA balances with high concentrations in equity holdings decreased in Roth IRAs with balances of $5,000 or less and in Roth IRAs with balances of more than $5,000. Although the share of balances with high concentrations in equity holdings has decreased, this is partly a move toward more-diversified portfolios. For example, at year-end 2007, 64.9 percent of Roth IRA investors with Roth IRA balances of $5,000 or less had more than 80 percent of their balances invested in equity holdings, compared with 60.8 percent at year-end 2012 (Figure A.5). For Roth IRA investors with Roth IRA balances of more than $5,000, 68.6 percent had more than 80 percent of their balances invested in equity holdings at year-end 2007, compared with 58.4 percent at year-end 2012. Some of this decline was balanced by an increase in more moderate allocations to equity holdings for both groups of Roth IRA investors. At year-end 2007, 18.7 percent of Roth IRA investors with Roth IRA balances of $5,000 or less had some equity holdings, but allocated no more than 80 percent of their account balances to equity holdings. That share rose to 22.9 percent by year-end 2012 for this group. For Roth IRA investors with Roth IRA balances of more than $5,000, 24.8 percent had some equity holdings, but allocated no more than 80 percent of their account balances to equity holdings at year-end 2007. By year-end 2012, that share rose to 33.4 percent. The share of Roth IRA investors with no equity holdings only increased slightly for both groups of Roth IRA investors between year-end 2007 and year-end 2012.

FIGURE A.5

Exposure to Equity Holdings Among Roth IRA Investors by Account Size, 2007 and 2012

Percentage of Roth IRA investors by age, year-end 2007 and year-end 2012

Age		Zero	>0% to 20%	>20% to 40%	>40% to 60%	>60% to 80%	>80% to <100%	100%
Equity holdings in all Roth IRAs								
18 to 24	2007	10.4	0.3	0.9	2.0	15.9	27.0	43.4
	2012	10.0	0.6	1.3	2.5	19.6	27.2	38.8
25 to 29	2007	9.2	0.5	1.1	2.3	12.2	30.5	44.2
	2012	9.5	0.7	1.6	3.2	16.3	31.6	37.0
30 to 39	2007	8.1	0.6	1.2	2.4	11.6	25.0	51.1
	2012	8.8	0.9	1.7	3.3	15.3	30.0	40.0
40 to 49	2007	8.7	0.8	1.5	2.7	19.8	13.9	52.7
	2012	9.4	1.1	2.0	3.7	23.9	16.4	43.6
50 to 59	2007	10.3	1.1	2.1	5.9	19.1	13.3	48.2
	2012	11.0	1.5	2.8	8.1	22.8	14.8	39.0
60 to 69	2007	11.6	1.3	2.6	6.9	16.7	13.3	47.5
	2012	12.9	2.0	3.9	10.9	21.5	14.0	34.8
70 or older	2007	12.5	1.7	3.9	4.4	16.3	14.0	47.2
	2012	13.3	2.8	5.2	6.6	20.4	14.1	37.7
All	2007	9.6	0.9	1.7	3.9	16.4	18.1	49.3
	2012	10.5	1.4	2.6	5.9	20.6	19.7	39.4

Age		Zero	>0% to 20%	>20% to 40%	>40% to 60%	>60% to 80%	>80% to <100%	100%
Equity holdings in Roth IRAs with balances of $5,000 or less								
18 to 24	2007	14.5	0.2	0.4	1.1	18.3	26.0	39.5
	2012	11.8	0.4	0.7	1.5	20.2	24.7	40.8
25 to 29	2007	15.8	0.4	0.6	1.3	12.8	26.6	42.6
	2012	13.9	0.4	0.8	1.7	16.6	24.2	42.4
30 to 39	2007	15.6	0.5	0.7	1.4	11.3	21.0	49.5
	2012	15.4	0.5	0.8	1.7	14.5	21.2	46.0
40 to 49	2007	15.9	0.5	0.7	1.3	20.1	8.8	52.6
	2012	16.2	0.7	0.9	1.7	21.5	10.6	48.5
50 to 59	2007	17.0	0.6	0.9	3.7	16.9	8.4	52.6
	2012	17.3	0.7	1.1	4.4	20.4	9.7	46.4
60 to 69	2007	18.9	0.6	0.9	4.4	13.8	8.6	52.8
	2012	20.7	0.8	1.3	5.7	18.2	9.1	44.1
70 or older	2007	21.6	0.6	2.2	1.3	13.1	7.4	53.8
	2012	21.9	1.3	2.4	2.0	17.8	8.6	45.9
All	2007	16.3	0.5	0.7	2.0	15.5	15.2	49.7
	2012	16.4	0.7	1.0	2.7	18.5	15.0	45.8

Continued on the next page

FIGURE A.5 CONTINUED

Exposure to Equity Holdings Among Roth IRA Investors by Account Size, 2007 and 2012

Percentage of Roth IRA investors by age, year-end 2007 and year-end 2012

Age		Zero	>0% to 20%	>20% to 40%	>40% to 60%	>60% to 80%	>80% to <100%	100%
Equity holdings in Roth IRAs with balances of more than $5,000								
18 to 24	2007	5.2	0.5	1.5	3.2	12.8	28.4	48.4
	2012	7.8	0.9	2.1	3.9	18.8	30.3	36.3
25 to 29	2007	4.3	0.6	1.5	3.2	11.7	33.4	45.4
	2012	6.3	1.0	2.2	4.3	16.1	37.0	33.1
30 to 39	2007	4.1	0.7	1.4	2.9	11.7	27.2	52.0
	2012	5.6	1.0	2.1	4.2	15.7	34.5	36.9
40 to 49	2007	5.5	0.9	1.8	3.4	19.6	16.1	52.7
	2012	6.5	1.3	2.4	4.5	24.9	18.9	41.5
50 to 59	2007	8.0	1.3	2.5	6.7	19.9	15.0	46.7
	2012	8.8	1.7	3.3	9.4	23.6	16.6	36.6
60 to 69	2007	9.5	1.5	3.1	7.7	17.6	14.7	45.9
	2012	11.0	2.3	4.6	12.1	22.3	15.2	32.6
70 or older	2007	10.5	2.0	4.3	5.1	17.0	15.4	45.8
	2012	11.6	3.1	5.8	7.5	20.9	15.2	36.0
All	2007	6.5	1.0	2.2	4.8	16.8	19.5	49.1
	2012	8.1	1.6	3.2	7.2	21.4	21.6	36.8

Note: The samples are 3.1 million Roth IRA investors aged 18 or older at year-end 2007 and 5.1 million Roth IRA investors aged 18 or older at year-end 2012. There are 1.0 million Roth IRA investors aged 18 or older with Roth IRA balances of $5,000 or less at year-end 2007 and 1.5 million at year-end 2012. There are 2.1 million Roth IRA investors aged 18 or older with Roth IRA balances of more than $5,000 at year-end 2007 and 3.6 million at year-end 2012. Equity holdings are the sum of equities, equity funds, and the equity portion of balanced funds. Row percentages may not add to 100 percent because of rounding.

Source: The IRA Investor Database™

Notes

[1] Prior to 2010, there were restrictions on conversions based on household income. In 2010, the income limits for Roth conversions were lifted. For additional detail, see Internal Revenue Service 2011.

[2] See Holden and Bass 2014 and Holden and Schrass 2013a and 2013b.

[3] See Holden and Schrass 2013b.

[4] See Holden and Bass 2014.

[5] Ibid.

[6] Ibid.

[7] For a history of IRAs, see Holden et al. 2005.

[8] For additional discussion of IRA-owning households, see Holden and Schrass 2013a and 2013b.

[9] ICI reports total IRA assets and total retirement market assets on a quarterly basis. For additional information on the U.S. retirement market at year-end 2013, see Investment Company Institute 2014.

[10] See Holden and Schrass 2013a and Investment Company Institute 2014.

[11] For a history of IRAs, see Holden et al. 2005. For a discussion of the changes to IRAs included in the Taxpayer Relief Act of 1997, see Joint Committee on Taxation 1997 (page 43), which indicates that Roth IRAs were created because

> the Congress believed that some individuals would be more likely to save if funds set aside in a tax-favored account could be withdrawn without tax after a reasonable holding period for retirement or certain special purposes. Some taxpayers might find such a vehicle more suitable for their savings needs.

[12] See Investment Company Institute 2014.

[13] See Internal Revenue Service 2014a for the complete requirements for qualified Roth distributions.

[14] Individuals with inherited Roth IRAs must take distributions from the accounts. See Internal Revenue Service 2014a.

[15] 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. 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.

[16] 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 2013 survey was based on a sample of 4,001 U.S. households selected by random digit dialing, of which 1,504 households, or 37.6 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 2013 sample of households is ± 1.6 percentage points at the 95 percent confidence level. For the 2013 survey results, see Burham, Bogdan, and Schrass 2013. For reporting of 2013 IRA incidence, see Holden and Schrass 2013a.

[17] 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 2013 survey was based on a sample of 3,006 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 ± 1.8 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 2013 survey, see Holden and Schrass 2013a and 2013b.

[18] For example, in the 2010 Survey of Consumer Finances, 9.6 percent of U.S. households owned Roth IRAs, based on 695 respondents indicating they had Roth IRAs. In the ICI Annual Mutual Fund Shareholder Tracking Survey, 15.6 percent of U.S. households indicated they owned Roth IRAs, and in the ICI IRA Survey, 1,249 respondents had Roth IRAs.

[19] For the latest tabulations, see Bryant and Gober 2013.

[20] 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 develop policies and practices which strengthen financial markets and which encourage capital mobility, 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.

[21] While it is possible to track the same individuals over time within the same data provider, it is not possible to link individuals across providers. Therefore, it is possible that some IRA investors will be counted more than once if they own IRAs across multiple service providers. For additional detail on the variables collected and the data collection methodology, see Holden and Bass 2014.

[22] These percentages add to more than 100 percent because individuals may hold more than one type of IRA.

[23] Another significant annual drop occurred in 1937, when large-cap stocks contracted 35.0 percent in value. See Morningstar 2014.

[24] This change is based on the S&P 500 total return index.

[25] See Citigroup Corporate 10+ Year bond index.

[26] See National Bureau of Economic Research 2010.

[27] For unemployment statistics, see U.S. Bureau of Labor Statistics 2014. For information on households' balance sheets and disposable personal income, see U.S. Federal Reserve Board 2014.

[28] See Standard & Poor's Case-Shiller Home Price Indices.

[29] The ability to contribute to Roth IRAs is restricted based on household income. Prior to 2010, there were restrictions on conversions based on household income; starting in 2010, the income limits for Roth conversions were lifted. For additional detail, see Internal Revenue Service 2011 and 2014a.

[30] The ability to roll over non-Roth employer-sponsored retirement plan accounts to Roth IRAs was initially subject to the same income restrictions as conversions. Income restrictions on conversions were lifted in 2010. See Internal Revenue Service 2009 and 2011.

[31] Some of the amounts converted include amounts originating in employer-sponsored retirement plans that were rolled over to traditional IRAs and then converted.

[32] Distributions also can result from recharacterization of contributions, but statistically, these amounts have been negligible.

[33] In 1998, individuals doing Roth IRA conversions could spread the tax bill generated over four years (1998 to 2001). In 1998, $39.3 billion was converted (see Figure 1.2). For more information, see discussion in Campbell, Parisi, and Balkovic 2000. In 2010, individuals doing Roth IRA conversions could choose to pay the taxes in 2011 and 2012. For more information, see Internal Revenue Service 2011.

[34] See Bryant and Gober 2013.

[35] See note 31.

[36] Conversion rates are lower among these consistent Roth IRA investors than in the annual cross-sectional snapshots (see Figure 3.1) because conversions can open new Roth IRAs (see Figures 3.2 and 2.1). The consistent Roth IRA investors have existing Roth IRAs by 2008.

[37] For a complete discussion of the specific rules and the change, see Internal Revenue Service 2009.

[38] See Internal Revenue Service 2014a.

[39] Inherited Roth IRAs are subject to RMD rules. See Internal Revenue Service 2014a.

[40] See Sabelhaus, Bogdan, and Schrass 2008.

[41] Because no target date funds have a 100 percent equity allocation, investors with a 100 percent allocation to target date funds would not be counted as having 100 percent equity holdings.

[42] See Sabelhaus, Bogdan, and Schrass 2008.

[43] At year-end 2007, 50.3 percent of consistent Roth IRA investors aged 23 to 59 at year-end 2012 had less than a full allocation to equity holdings, including 8.8 percent who had no equity holdings at all (see Figures 1.9 and 1.10). At year-end 2012, 57.4 percent had less than a full allocation to equity holdings, including 10.0 percent who had no equity holdings at all (see Figures 1.9 and 1.10).

[44] See Investment Company Institute 2014.

[45] There are income limits on eligibility to make Roth IRA contributions. See Internal Revenue Service 2014a.

[46] For example, in 2012, contribution rates among Roth IRA investors aged 25 to 69 increased from 31.1 percent to 34.9 percent if contributions to traditional IRAs at the same financial services firm were included.

[47] For traditional IRA contribution activity in 2012, see Holden and Bass 2014.

[48] Some of the amounts converted include amounts originating in employer-sponsored retirement plans that were rolled over to traditional IRAs and then converted. Generally the assets converted are taxable in the year of the conversion to the Roth IRA. See Internal Revenue Service 2014a.

[49] A Roth IRA rollover may include the transfer of an investor's assets from a designated Roth account such as a Roth 401(k) to a Roth IRA—due to changing jobs, for instance—without tax consequences. A Roth IRA rollover may include the transfer of non-Roth employer-sponsored retirement plan accounts into Roth IRAs (which is generally taxable in the year of the rollover).

[50] See Internal Revenue Service 2011.

[51] The investor may have a traditional IRA that has been open for many years, or may have rollovers from employer-sponsored retirement plans in the traditional IRAs. The EBRI/ICI 401(k) database finds that 401(k) balances tend to rise with investor age and job tenure (see Holden et al. 2013). In addition, at retirement, defined contribution plan account owners often choose to roll over their balances to IRAs. See Sabelhaus, Bogdan, and Holden 2008 and The Vanguard Group 2014.

[52] Individuals may have significant accumulations outside of Roth IRAs, perhaps through the higher contribution limits for employer-sponsored retirement plans, the steady buildup of assets that can occur in these plans over the course of a career, and the longer availability of traditional IRAs. While direct rollovers from employer-sponsored retirement plans to Roth IRAs have not always been permitted, individuals have had (and still have) the option of rolling over those accumulations into a traditional IRA and then converting the traditional IRA into a Roth IRA. Household survey information indicates that 17 percent of Roth IRA-owning households reported that some of their Roth IRA assets were initially in an employer-sponsored retirement plan; see Holden and Schrass 2013b.

[53] See Holden and Schrass 2013b.

[54] This statistic undercounts the percentage of Roth IRA investors in 2012 with rollovers in their Roth IRAs because some may have had rollovers prior to 2007 and those rollovers cannot be identified in the database. In addition, rollovers made at a prior financial services firm cannot be identified in the database.

[55] See Holden and Bass 2014.

[56] See Investment Company Institute 2014 and Bryant and Gober 2013. In addition, $3.5 billion was rolled over into SEP IRAs and SAR-SEP IRAs in 2010.

[57] See Sabelhaus and Schrass 2009; Holden, Sabelhaus, and Bass 2010b; and Holden and Bass 2014.

[58] See Holden and Schrass 2013a and 2013b.

[59] For the complete rules governing distributions from Roth IRAs, see Internal Revenue Service 2014.

[60] For more information, see Internal Revenue Service 2014a.

[61] Individuals with inherited Roth IRAs must take distributions from the inherited Roth IRA. In general, the entire balance of the inherited Roth IRA must be distributed by the end of the fifth calendar year after the year of the owner's death unless the balance is paid out to the beneficiary over the life or life expectancy of the beneficiary. See Internal Revenue Service 2014a.

[62] See Internal Revenue Service 2014a for investment restrictions. Roth IRA investors can generally select from the full range of mutual funds, ETFs, closed-end funds, stocks, bonds, bank, and annuity products.

[63] While the IRS Statistics of Income Division is able to aggregate IRAs across financial services providers for a given taxpayer, The IRA Investor Database is not. Nevertheless, The IRA Investor Database has slightly higher average Roth IRA balances. At year-end 2010, the average Roth IRA balance in the database is $25,319, compared with the average reported by the IRS, $21,268 (2010 is the latest IRS data available; see Bryant and Gober 2013).

[64] In The IRA Investor Database it is not possible to determine the tenure of existing IRAs. ICI household surveys find that traditional and Roth IRA balances tend to increase with length of IRA ownership (see Holden and Schrass 2013b). Similarly, 401(k) balances tend to increase with job tenure (see Holden et al. 2013).

[65] The IRS Statistics of Income data also find that taxpayers with Roth IRAs have, on average, less than taxpayers with traditional IRAs. At year-end 2010 (latest available), the average balance among taxpayers with Roth IRAs was $21,268, compared with an average of $100,940 in traditional IRAs. See Bryant and Gober 2013.

[66] Household survey data indicate that Roth IRA–owning households hold their Roth IRAs at a variety of financial services firms. In 2013, three-quarters of Roth IRA–owning households held their Roth IRAs through investment professionals (e.g. full-service brokers, independent financial planning firms, bank or savings institutions, or insurance companies) and 30 percent held their Roth IRAs through direct sources (e.g. mutual fund companies or discount brokers). See Holden and Schrass 2013b.

[67] A target date fund pursues a long-term investment strategy, using a mix of asset classes, or asset allocation, that the fund provider adjusts to become less focused on growth and more focused on income as the fund approaches and passes the target date, which is usually mentioned in the fund's name. The asset allocation path that the target date fund follows to shift its focus from growth to income over time is typically referred to as the "glide path." Since discussions of asset allocation usually focus on the percentage of the portfolio invested in equities, the glide path generally reflects the declining percentage of equities in the portfolio as it approaches and passes the target date. The target date generally is the date at which the typical investor for whom that fund is designed would reach retirement age and stop making new investments in the fund. For additional information on target date funds, see ICI's Target Retirement Date Funds Resource Center at www.ici.org/trdf.

[68] For the pattern of use of target date funds in 401(k) plans, see Holden et al. 2013.

[69] Target date fund use is more widespread among 401(k) plan participants. At year-end 2012, 41.0 percent of 401(k) plan participants invested at least some of their accounts in target date funds (including target date mutual funds and target date collective investment trusts); see Holden et al. 2013. Target date fund use is similar among traditional IRA investors and Roth IRA investors, despite more direct influence of rollovers on traditional IRAs. At year-end 2012, 11 percent of traditional IRA investors held target date funds, and target date funds were 5.7 percent of traditional IRA assets; see Holden and Bass 2014.

[70] For a discussion of how U.S. household investments change over the life cycle, see Sabelhaus, Bogdan, and Schrass 2008. For the pattern of equity versus bond investing across 401(k) participants by age, see Holden et al. 2013. For the pattern of equity versus bond investing across traditional IRA investors by age, see Holden and Bass 2014.

[71] For a history of IRAs, see Holden et al. 2005.

[72] See Bryant and Gober 2013.

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