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ICI Study: Despite Financial Stresses Since the 2008 Crisis, Most Investors in Traditional IRAs Reacted Moderately

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By 2011, Traditional IRA Balances of Investors Under Age 70 Surpassed Precrisis Levels

Washington, DC, October 17, 2013 - Despite a severe financial crisis in 2008 and the financial stresses in its wake, investors in traditional individual retirement accounts (IRAs) reacted moderately, with little change in their contribution, rollover, and withdrawal activity, according to Investment Company Institute (ICI) research released today. For all age groups younger than 70, investors in traditional IRAs saw their account balances, on average, come back to above precrisis levels by 2011.

The report, The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2011, examines how traditional IRA investors fared during and after the 2008 financial crisis by analyzing the contribution, rollover, withdrawal, and asset allocation activity of 5.8 million "consistent" traditional IRA investors (those with accounts in every year between year-end 2007 and year-end 2011). The report is based on The IRA Investor Database™, a joint project by ICI and the Securities Industry and Financial Markets Association (SIFMA).

"As the biggest component of retirement assets in the United States, it's important to look at IRAs when examining Americans' retirement resources," said ICI president and CEO Paul Schott Stevens. "The research shows that traditional IRA investors generally successfully shepherded their accounts through the financial crisis."

“Consistent investors in traditional IRAs largely stayed the course in investing in their traditional IRAs, reacting moderately to financial stresses during and since the financial crisis,” said Sarah Holden, senior director of retirement and investor research at ICI. “Average account balances generally have bounced back for the consistent investors, and the data show only slight changes in these investors’ contribution, rollover, and withdrawal rates.”

Contribution and Rollover Activity Decreased Only Slightly Between 2008 and 2011

According to the ICI study, even with dramatic declines in stock values between October 2007 and March 2009, a recession from December 2007 to June 2009, and rising unemployment rates, consistent traditional IRA investors showed little reaction to financial events, though their contribution and rollover activity declined slightly between 2008 and year-end 2011. In tax year 2008, 10.4 percent of these traditional IRA investors aged 25 to 59 contributed to their traditional IRAs; that rate fell to 9.0 percent in tax year 2011. Over the same period, rollover activity into traditional IRAs by the same age group of consistent traditional IRA investors fell a bit, from 4.3 percent having rollovers in 2008 to 3.2 percent in 2011.

Withdrawal Activity Increased Slightly after 2009

In 2011, 7.1 percent of consistent traditional IRA investors aged 25 to 59 took withdrawals, compared with 7.8 percent in 2010 and 5.6 percent in 2008. Withdrawal activity is highly concentrated among older traditional IRA investors, reflecting tax rules. The majority of traditional IRA investors taking withdrawals were 60 or older, the age at which penalty-free distributions generally can begin, and a significant number were 70 or older, when required minimum distribution (RMD) rules apply.

Average Traditional IRA Balances by 2011 Exceeded Precrisis Levels for Most Age Groups

The average balance for consistent traditional IRA investors aged 25 to 69 rose between year-end 2007 and year-end 2011, despite falling during 2008. (Changes in traditional IRA balances reflect contributions, rollovers, withdrawals, and investment returns). Traditional IRA investors in all age groups except for those 70 or older saw their account balances increase on average between 2007 and 2011. Beginning at age 70½, individuals are no longer eligible to make contributions to traditional IRAs and withdrawals typically must begin, putting downward pressure on account balances among older traditional IRA investors. Increased Roth conversion activity in 2010 also may have put downward pressure on average traditional IRA balances.

IRAs Are a Key Component of the Retirement Market, with Important Differences from 401(k)s

Traditional IRAs held an estimated $4.7 trillion at year-end 2012, representing nearly one-quarter of total U.S. retirement market assets. IRAs were created by Congress so that individuals could accumulate retirement assets either by rolling over balances from employer-sponsored retirement plans—which helps consolidate and preserve those assets—or through contributions.

Investor activity in traditional IRAs differs from 401(k) plans in a number of ways, although individuals manage accounts in both savings vehicles. Traditional IRAs often are established by rollovers, while 401(k) accounts generally are fueled by contributions. Traditional IRAs typically are held by older investors, compared with 401(k) accounts. In addition, because the IRA investor base is older than the investor base for 401(k) plans, taking required withdrawals is a concern for many IRA investors. In contrast, overall withdrawal activity in 401(k) plans runs at very low levels. The majority of traditional IRA and 401(k) account balances is invested in equity holdings, although target date funds play a larger role in 401(k) plan investing.

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

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