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Individual Retirement Account (IRA) Ownership: Data and Policy Issues

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SUMMARY

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Elizabeth A. Myers
Analyst in Income Security

Individual Retirement Account (IRA) Ownership: Data and Policy Issues

Retirement income in the U.S. can come from multiple sources—Social Security, savings in employer-sponsored plans (e.g., public and private defined benefit plans and defined contribution plans), and private savings (e.g., annuities, other investments, individual retirement accounts [IRAs]). This report focuses on IRAs, which are tax-advantaged accounts for individuals to save for retirement. In 2019, about 25% of U.S. households owned IRAs.

IRAs were first authorized by the Employee Retirement Income Security Act of 1974 (ERISA; P.L. 93-406) for two reasons: (1) to encourage workers without access to employer-sponsored plans to save for retirement and (2) to allow workers with employer plans to roll over their savings and retain tax advantages. Though eligibility was originally limited to workers without pension coverage, subsequent legislation expanded eligibility to nearly all workers. In 1997, Congress authorized a new type of IRA—the Roth IRA.

Traditional and Roth IRAs differ based on their tax treatment. Contributions to traditional IRAs may be deductible from taxable income while withdrawals are included in taxable income. Contributions to Roth IRAs are not deductible, but qualified withdrawals are not included in taxable income; investment earnings grow tax free.

IRAs are funded by contributions and rollovers. Contributions are subject to an annual limit. In 2020, this limit is $6,000 ($7,000 for individuals ages 50 and over). A rollover occurs when assets are transferred from one retirement plan, such as an employer-sponsored 401(k), to another. Rollovers are not subject to the contribution limit. Most inflows to traditional IRAs are from rollovers, while most inflows to Roth IRAs are from contributions.

Individuals with IRAs can choose their investments based on options provided by their financial institutions. Contributions, rollovers, and any investment earnings can be used as a source of income in retirement. To discourage IRA owners from withdrawing funds prior to retirement, the Internal Revenue Code imposes a 10% penalty on most early withdrawals, with several exceptions outlined in Title 26, Section 72(t), of the *United States Code*. Aside from these exceptions, Congress has temporarily exempted early IRA withdrawals from the penalty following certain past events, including multiple natural disasters and, most recently, the Coronavirus Disease 2019 (COVID-19) pandemic.

After reaching age 72, individuals with traditional IRAs must begin taking annual distributions (i.e., withdrawals), known as *required minimum distributions* (RMDs), from their accounts. Individuals with Roth IRAs are not subject to RMDs, though individuals who inherit Roth IRAs may be.

IRA ownership varies based on demographic and socioeconomic characteristics, with higher ownership rates for older, more educated, and higher-income households. Among IRA owners, younger households have higher rates of Roth IRA ownership compared to traditional IRA ownership, while older households have higher rates of traditional IRA ownership.

Stakeholders and policymakers have expressed concern that not enough households have adequate retirement savings due to either a lack of access or participation, inadequate contributions, or early withdrawals from accounts (also known as *leakages*) and have considered various policy options that may address these issues. This report first provides background information on IRAs, including a discussion of their tax treatment and relationship with savings behavior, along with data on IRA ownership, contributions, withdrawals, and savings adequacy. It then outlines policy options that might address some of the issues surrounding IRAs. Among others, these options include

- modifications to the Retirement Savings Contribution Credit;
- implementation of lifetime income disclosures;
- an increase in the age at which the 10% early withdrawal tax penalty applies; and
- an increase in the age after which RMDs must begin for traditional IRA owners.

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Introduction

Congress has provided various tax incentives to encourage individuals to save for retirement. Tax incentives exist for employers to offer retirement plans and for employees to participate in these plans, as well as for individuals to save outside of employer-sponsored plans through Individual Retirement Accounts (IRAs). IRAs—tax-advantaged savings accounts for individuals that are not tied to employers—were first authorized by the Employee Retirement Income Security Act of 1974 (ERISA; P.L. 93-406). ERISA specified that IRAs be available to workers without employer pension coverage. In addition, ERISA permitted individuals with savings in employer plans to roll over these amounts to newly established IRAs, preserving their tax benefits.[1] Contributions to IRAs (now known as *traditional IRAs*) are deductible from taxable income for certain households, and taxation on contributions and any earnings are deferred until withdrawal.

The Roth IRA, introduced in 1997, permits certain households to make non-deductible contributions and receive withdrawals tax-free in retirement. Despite the difference in timing of taxation, traditional and Roth IRAs provide equivalent amounts to spend in retirement under certain assumptions.[2]

IRAs are funded by contributions and rollovers. Traditional and Roth IRA contributions are subject to an annual limit: $6,000 ($7,000 for individuals ages 50 and over) in 2020.[3] In 2017, half of individuals who contributed to their traditional IRAs made the maximum contribution, compared to over one-third of individuals who contributed to their Roth IRAs. A rollover occurs when assets are transferred from one retirement plan, such as a 401(k), to another. Rollovers are not subject to the contribution limit.

Amounts that are withdrawn from IRAs prior to retirement are generally referred to as *leakages* and could represent a loss to retirement savings. Leakages can occur when an individual withdraws funds for a specific reason (e.g., higher education or medical expenses) or during the rollover process. Pre-retirement withdrawals (i.e., those taken before age 59½, death, or disability) face a 10% tax penalty unless an exception in Title 26, Section 72(t), of the *U.S. Code* applies.

The optimal strategy for withdrawing IRA and other assets in retirement can be a challenging task for many households. Some households base their strategy on the annual required minimum distributions (RMDs), while others purchase annuities. Nearly all IRA-owning households receive monthly Social Security benefits, likely insulating them from being without income in retirement.

This report provides background information on traditional and Roth IRAs, including a legislative history, description of assets in IRAs, and a discussion of IRA tax incentives and retirement savings. The report also analyzes policy issues and options related to IRA ownership, savings accumulation, leakages, and asset drawdown by using tabulations from the Internal Revenue

[1] Congressional discussions cited increasing mobility of the workforce as reason for this provision. Prior to rollovers into IRAs, employees who changed jobs may have been able to transfer assets from one employer plan to another, provided both employers agreed to the transfer. See *Congressional Record*, vol. 120, part 4 (February 26, 1974), p. 4300.

[2] These assumptions include identical marginal tax rates at the time of contribution and withdrawal, the same rate of return on investments, and the same time period from contribution to withdrawal.

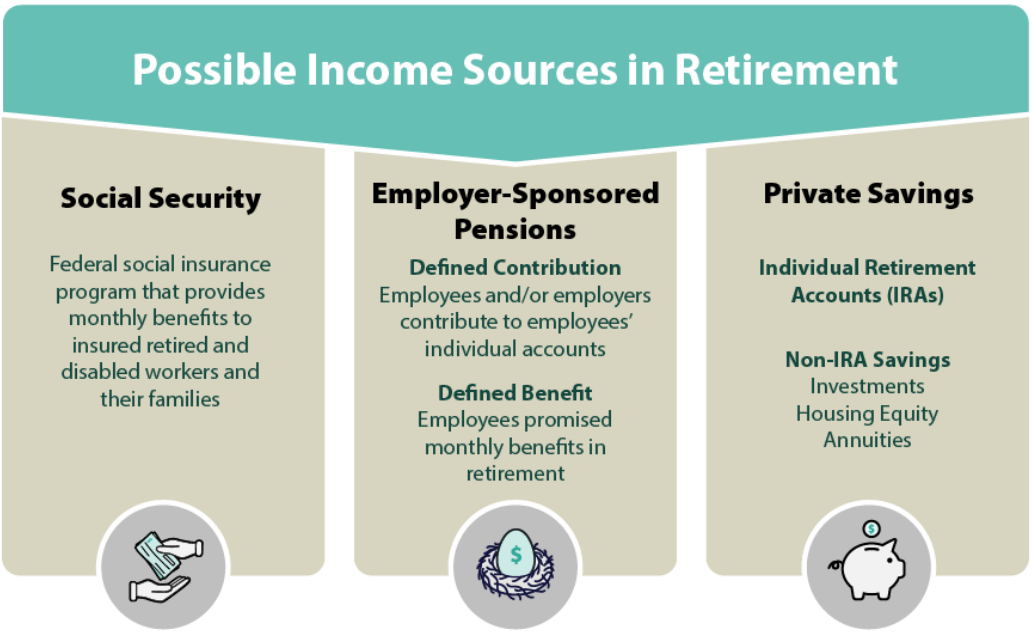
[3] The contribution limit applies to all of an individual's IRAs (e.g., an individual with a traditional IRA and a Roth IRA could contribute $3,000 to each without exceeding the $6,000 limit). Defined contribution plans, such as 401(k) plans, are subject to a higher contribution limit.

Service (IRS) Statistics of Income division and the Investment Company Institute (ICI) data and analysis of the Federal Reserve's Survey of Consumer Finances (SCF).

Background

Retirement income in the United States can come from three main sources: Social Security, employer-sponsored pensions, and private savings (**Figure 1**).[4] IRAs—a component of private savings—accounted for nearly one-third of total U.S. retirement assets at the end of 2019.[5] U.S. retirement assets included public and private defined benefit (DB) plans, defined contribution (DC) plans, annuities, and IRAs.[6] In 2019, about 25% of U.S. households owned IRAs.[7]

Figure 1. U.S. Retirement Income



Source: Congressional Research Service.

IRAs are tax-advantaged retirement savings accounts for individuals and are regulated at the federal level. IRAs may be offered only by either banks or "such other person who demonstrates

[4] For an overview of Social Security, see CRS Report R42035, *Social Security Primer*. For information on employer-sponsored plans, see CRS Report R43439, *Worker Participation in Employer-Sponsored Pensions: Data in Brief*; or CRS Report R46366, *Single-Employer Defined Benefit Pension Plans: Funding Relief and Modifications to Funding Rules*.

[5] ICI, *The US Retirement Market, Fourth Quarter 2019*, Table 1, https://www.ici.org/research/stats/retirement/. Social Security assets are not included in the definition of *U.S. retirement assets*. An annuity is a stream of monthly payments in exchange for a lump sum dollar amount, generally purchased through an insurance company or purchased over time as part of an investment option.

[6] ICI, *The US Retirement Market, Fourth Quarter 2019*, Table 1.

[7] CRS analysis of the Federal Reserve's 2019 SCF. The SCF is a triennial survey conducted on behalf of the Board of Governors of the Federal Reserve and contains detailed information on U.S. household finances, such as the amount and types of assets owned and the amount and types of debt owed, and detailed demographic information on the head of the household and spouse.

to the satisfaction of the Secretary [of the Treasury] that the manner in which such other person will administer the trust will be consistent with the requirements of this section."[8] IRAs are commonly set up through banks, credit unions, mutual funds, life insurance companies, or stock brokerages.

IRAs are funded by individual contributions—which must generally be from earned income—and rollovers of individual savings from employer-sponsored plans, such as a 401(k) plan. Account owners choose how to invest their savings from an array of investment choices offered by the financial institution, such as stocks, bonds, and mutual funds.[9]

IRAs differ from employer-sponsored DC plans—such as 401(k)s, 403(b)s, 457(b)s, and the federal government's Thrift Savings Plan (TSP)—in several ways.[10] First, IRAs are independent of employers and have different withdrawal rules than DC plans.[11] For example, individuals may withdraw funds from IRAs for any reason, while withdrawals from DC plans prior to retirement (1) must be allowed by the plan and (2) must be for a specified hardship reason. Pre-retirement withdrawals from IRAs and DC plans may be subject to a 10% penalty unless an exception applies.[12]

In addition, IRAs have lower contribution limits than do DC plans. In 2020, the maximum annual contribution to an IRA is $6,000 ($7,000 for individuals aged 50 and older), while that for a DC plan is $19,500 ($26,000 for individuals aged 50 and older). In addition to higher contribution limits, DC plans sometimes feature an employer match, in which an employer contributes to an employee's account based on the employee's contribution levels.[13] Finally, IRAs may have higher fees than DC plans do: DC plan sponsors are required by regulation to disclose fees paid on an annual basis, while IRA providers are not required to report fees paid during the year in a participant's annual report.[14]

IRAs are broadly classified as traditional or Roth based on their federal income tax treatment.[15] This report provides data on ownership of traditional and Roth IRAs and highlights policy issues and options surrounding IRA ownership. For more information on rules relating to eligibility,

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[8] See 26 U.S.C. §408(a)(2). Title 26, Section 409(n), of the *Code* describes a bank as (1) a bank described in Title 26, Section 581, (2) an insured credit union, (3) or a corporation that is subject to the supervision of the commissioner of bank (or similar office) in a state.

[9] Some IRA providers do not restrict investment types in IRAs. These IRAs are referred to as *self-directed IRAs*.

[10] Private sector employers can establish 401(k) plans; 403(b) plans are for certain employees of public schools, employees of certain tax-exempt organizations, and certain ministers; 457(b) plans are for state or local governments or a tax-exempt organizations under Section 501(c) of the Internal Revenue Code. Federal government employees are enrolled in the TSP.

[11] There are also employer-sponsored IRAs, such as SEP IRAs, SARSEPs, and SIMPLE IRAs. Employer-sponsored IRAs are not discussed in this report.

[12] For example, exceptions apply to qualified higher education expenses, qualified first-time homebuyers, and health insurance premiums paid while unemployed. See IRS, "Retirement Topics—Exceptions to Tax on Early Distributions," https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions. Temporary exceptions also apply to distributions for residents affected by certain natural disasters or other situations, such as COVID-19. See Appendix in CRS Report RL34397, *Traditional and Roth Individual Retirement Accounts (IRAs): A Primer*.

[13] DC plan contributions may come from employers only, employees only, or both.

[14] See 29 C.F.R. §2550.404a-5. Fees may be charged for opening, maintaining, and closing an IRA and for purchasing, maintaining, and selling investments within the IRA. IRA fees must be disclosed upon opening an IRA. Fees are based on the account's investment types.

[15] Roth IRAs are named for former Senator William Roth.

contributions, and withdrawals from IRAs, see CRS Report RL34397, *Traditional and Roth Individual Retirement Accounts (IRAs): A Primer*.

Legislative History of IRAs

Following ERISA's authorization of IRAs for workers without pension coverage in 1974 (and for workers with employer-sponsored plans to roll over savings), the Economic Recovery Act of 1981 (P.L. 97-34) expanded the availability and deductibility of IRAs to all workers and spouses, including those covered by employer-sponsored pension plans. It also increased contribution limits from $1,500 to $2,000.

Contributions were fully deductible for all IRA owners until 1987. The Tax Reform Act of 1986 (P.L. 99-514) phased out IRA deductibility for individuals based on household income and employer-sponsored pension coverage.

The Taxpayer Relief Act of 1997 (P.L. 105-34) authorized the Roth IRA, which allowed individuals to make non-deductible contributions and then receive these contributions and any investment earnings tax-free in retirement. It also allowed for certain penalty-free withdrawals for higher education and first-time homebuyers.[16]

The Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) increased IRA contribution limits from $2,000 to $3,000, provided for additional *catch-up contributions* for individuals aged 50 and older, and temporarily indexed these contribution limits to inflation. It also provided for a temporary non-refundable tax credit—the Retirement Savings Contribution Credit, or Saver's Credit—for taxpayers with earnings under specified thresholds who contribute to retirement savings accounts.[17]

The Pension Protection Act of 2006 (P.L. 109-280) made permanent the Saver's Credit and the indexing of contribution limits to inflation. It also indexed income limits for the Saver's Credit to inflation.

Prior to 2010, individuals with income above a specified threshold were unable to convert savings in a traditional IRA to a Roth IRA. The Tax Increase Prevention and Reconciliation Act of 2005 eliminated this income restriction for conversions starting in 2010.

Most recently, the Setting Every Community up for Retirement Enhancement Act of 2019 (SECURE Act, enacted as Division O of the Further Consolidated Appropriations Act of 2020 [P.L. 116-94; December 20, 2019]) included multiple provisions that affect IRAs.[18] These include repealing the maximum age to contribute to a traditional IRA (previously 70½), increasing the age after which mandatory withdrawals begin from 70½ to 72, and modifying distribution rules for inherited accounts. **Table 1** outlines IRA-related legislation that is relevant to information in this report.[19]

[16] 26 U.S.C. §72(t)(E) and 26 U.S.C. §72(t)(F). Distributions of up to $10,000 for acquisition costs for first-time homebuyers (i.e., individuals who had no present interest in a main home during the two years prior to acquiring a new home) are not subject to the penalty.

[17] For more information on the Saver's Credit, including a discussion of its effectiveness in supporting low-income taxpayers, see CRS In Focus IF11159, *The Retirement Savings Contribution Credit*.

[18] For more information on a provision in the SECURE Act, see CRS In Focus IF11328, *Inherited or "Stretch" Individual Retirement Accounts (IRAs) and the SECURE Act*.

[19] Not all IRA-related legislation is discussed in this report. For example, information about qualified charitable distributions from IRAs and spousal IRAs is not included in **Table 1** or this report. See CRS In Focus IF11377, *Qualified Charitable Distributions from Individual Retirement Accounts*.

Table 1. Legislative History of Individual Retirement Accounts

Legislation related to IRA availability, deductibility, and contributions

Public Law	Provision(s)
Employee Retirement Income Security Act of 1974 (P.L. 93-406)	Established IRAs to allow workers without access to employer-sponsored plans to save for retirement and for individuals with employer-sponsored plans to roll over savings and preserve their tax advantages; permitted contributions to be deducted from taxable income
Economic Recovery Act of 1981 (P.L. 97-34)	Expanded IRA availability to all workers under age 70½, increased annual contribution limits from $1,500 to $2,000
Tax Reform Act of 1986 (P.L. 99-514)	Introduced income restrictions for deductibility of contributions, allowed non-deductible contributions for individuals above income limit
Taxpayer Relief Act of 1997 (P.L. 105-34)	Introduced the Roth IRA, allowed for penalty-free withdrawals for higher education and first home purchase expenses
Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16)	Increased contribution limits, added a "catch-up" contribution provision for individuals 50 or older, temporarily indexed contribution and catch-up contribution limits to inflation, introduced the Retirement Savings Contribution Credit
Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222)	Removed income restriction on converting traditional IRAs to Roth IRAs in 2010
Pension Protection Act of 2006 (P.L. 109-280)	Made permanent the Retirement Savings Contribution Credit (and indexed income thresholds to inflation), permanently indexed contribution limits to inflation
Setting Every Community up for Retirement Enhancement Act of 2019 (SECURE Act; P.L. 116-94)	Increased the age after which required distributions must begin (from 70½ to 72), eliminated the age restriction to contribute to traditional IRAs, modified distribution rules for beneficiaries who inherit IRAs

Source: Congressional Research Service.

Notes: The Retirement Saving Contribution Credit is a nonrefundable tax credit for individuals with income under specified thresholds who contribute to retirement accounts.

Traditional IRAs

Traditional IRAs are funded by workers' contributions or rollovers. Traditional IRA contributions are tax deductible for taxpayers who (1) are not covered by workplace retirement plans and (2) are covered by workplace retirement plans but have income below specified limits. Spousal income and pension coverage, if applicable, may affect an individual's ability to deduct contributions. **Appendix A** details traditional IRA deductibility rules.[20]

Individuals can also fund IRAs by rolling over savings from workplace retirement plans or other IRAs. Rollovers preserve the tax benefits of retirement savings. Rollovers are classified as (1) direct transfers, (2) trustee-to-trustee transfers, and (3) 60-day rollovers.[21] Individuals who roll

[20] Individuals not eligible to deduct traditional IRA contributions may still make contributions to what is referred to as *non-deductible traditional IRAs*. Income on earnings is deferred, and earnings are included in taxable income upon withdrawal.

[21] In direct transfers and trustee-to-trustee transfers, funds are moved directly from one account to another or the individual receives a check made payable to the new account. In 60-day rollovers, an individual receives a distribution made payable to the individual and can then transfer part or all of the distribution to another retirement plan within 60 days.

amounts from one IRA to another using the 60-day rollover method may only do so once per 12-month period.[22] Rollovers are not subject to annual contribution limits.

IRA account balances can accrue investment earnings, and the contributions and any investment earnings can be used as a source of income in retirement. The benefits of traditional IRAs compared to placing funds in taxable accounts include the ability to (1) make pretax contributions, which provide larger bases for accumulating investment earnings and, thus, provide larger account balances at retirement than if the money had been placed in taxable accounts; and (2) defer taxes, meaning that taxes are paid when funds are distributed. If an individual's income tax rates in retirement are lower than during working life, traditional IRA holders will pay less in taxes when contributions are withdrawn than when the income was earned.[23]

Roth IRAs

Authorized in 1997, Roth IRAs are an alternative to the traditional IRA that differ in terms of eligibility, tax treatment, and withdrawal flexibility. Unlike traditional IRAs, Roth IRAs have income eligibility limits: Individuals with earnings above specified thresholds are ineligible to contribute. In 2020, this threshold is $139,000 for single filers and $206,000 for married couples filing jointly. Contribution limits are phased out for individuals approaching the income thresholds. Redesignations of traditional IRA assets as Roth IRA assets—known as *conversions*—are not subject to income limits.[24]

Contributions to Roth IRAs are not tax deductible. *Qualified distributions* of contributions and any investment earnings are not included in taxable income. Qualified distributions are those made (1) after age 59½, death, or disability and (2) from accounts that are at least five years old. In contrast to traditional IRAs, individuals with Roth IRAs can withdraw their original contributions at any time and for any reason, penalty-free. Non-qualified withdrawals of investment earnings may be subject to tax and penalty.

If income tax rates are higher in retirement than during working life, Roth IRA holders will pay less in taxes when income is earned than when contributions are withdrawn. **Appendix B** outlines Roth IRA eligibility requirements and contribution limits.

Rollover and Inherited IRAs

Individuals may refer to owning a rollover or inherited IRA. A rollover IRA refers to an IRA that was funded by savings from one's own employer-sponsored retirement plan. An inherited IRA refers to an account that a beneficiary inherited from a deceased account owner.[25] Rollover and inherited IRAs can be traditional or Roth IRAs depending on the type of the previous account.

Individuals can contribute to their rollover IRA after rolling over funds from employer-sponsored plans. The same contribution and withdrawal rules that apply to traditional or Roth IRAs apply to

[22] For more information on the one-rollover-per-year rule, see IRS, "IRA One-Rollover-Per-Year Rule," https://www.irs.gov/retirement-plans/ira-one-rollover-per-year-rule.

[23] Taxpayers might also consider the time value of money. If tax rates are identical at the time of contribution and withdrawal, the taxpayer might still prefer to pay taxes in the future rather than the present because taxes paid in the future are less, in present value terms, than the same amount paid today.

[24] The amount converted is taxed as income.

[25] A nonspouse beneficiary cannot take ownership of an inherited account. Instead, the account becomes an inherited IRA designated for the nonspouse beneficiary in the name of the deceased account owner.

rollover IRAs.[26] Inherited IRAs are subject to several distinct rules. For example, individuals cannot contribute to inherited IRAs, and individuals who inherit Roth IRAs may be required to take annual RMDs (unlike original owners of Roth IRAs).[27]

Table 2 compares features of traditional and Roth IRAs.

Table 2. Overview of Traditional and Roth IRA Features

Feature	Traditional IRA	Roth IRA
Age limits for contributing	None. Minor children may contribute provided they have earned income.[a]	None. Minor children may contribute provided they have earned income.[a]
Income limits for contributing	No.	Yes. Contribution limits are reduced and then phased out for taxpayers above specified income thresholds (e.g., in 2020, phase out begins at $124,000 for single filers and $196,000 for married filing jointly).
Contribution limits	$6,000 in 2020 ($7,000 for individuals aged 50 and older).	$6,000 in 2020 ($7,000 for individuals aged 50 and older).
Deductibility of contributions	Deductible if individual (and spouse, if applicable) is not covered by an employer-sponsored plan coverage. May be deductible if covered by employer-sponsored plan depending on filing status and income.	Not deductible.
Early withdrawal penalty	Subject to 10% penalty prior to reaching age 59½, death, or disability, unless reason for withdrawal meets an exception in 26 U.S.C. §72(t).	Contributions can be withdrawn penalty-free, but earnings withdrawn (1) prior to reaching age 59½, death, or disability and (2) from an account that is not at least five years old are subject to a 10% penalty unless reason for withdrawal meets an exception in 26 U.S.C. §72(t).
Required withdrawals	Yes. An annual required minimum distribution (RMD) must begin in the year following the year in which an individual turns age 72[b].	No, though individuals who inherit Roth IRAs may be subject to RMDs.
Tax treatment of withdrawals	Contributions and any earnings are taxable when withdrawn.	Qualified distributions of contributions and any earnings are received tax free.

Source: Congressional Research Service.

Notes: Total contributions to both a traditional IRA and a Roth IRA in the same year cannot exceed the $6,000 (or $7,000) contribution limit. For more information on IRA contribution and distribution rules, see IRS Publication 590-A, https://www.irs.gov/pub/irs-pdf/p590a.pdf, and IRS Publication 590-B, https://www.irs.gov/forms-pubs/about-publication-590-b.

a. A child under 18 may need a parent or guardian to set up a custodial account.

b. IRA owners are required to take RMDs regardless of work status. Individuals with DC plans may be able to postpone RMDs until they retire.

[26] Qualified retirement plans may, but are not required to, accept rollover contributions from other plans or IRAs.

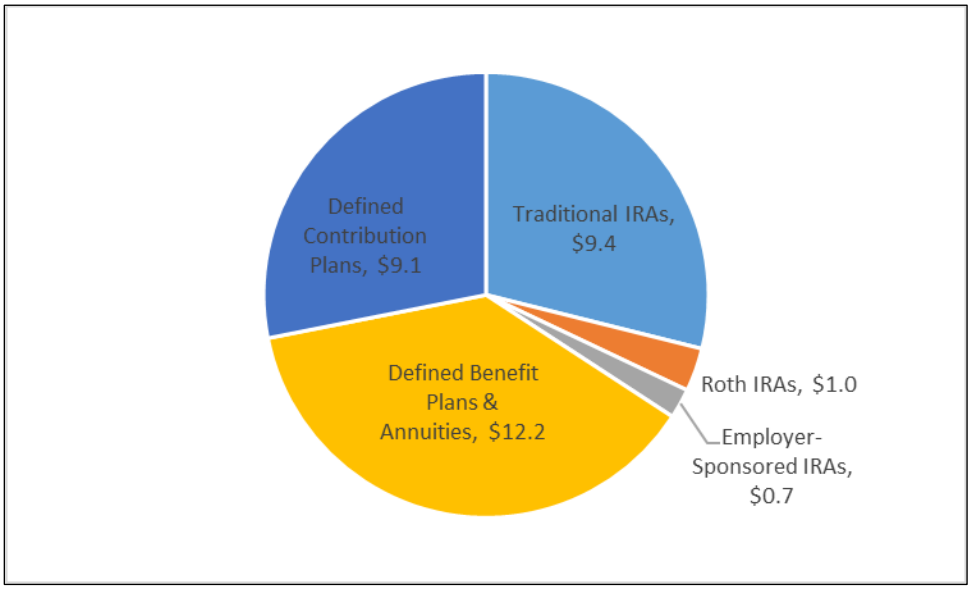
[27] The SECURE Act (Division O of P.L. 116-94) modified distribution rules for inherited IRAs. Certain beneficiaries who inherit account from account owners who die after December 31, 2019, are not subject to RMDs but must deplete the entire account balance within 10 years. See CRS In Focus IF11328, *Inherited or "Stretch" Individual Retirement Accounts (IRAs) and the SECURE Act*.

Assets in IRAs

At the end of 2019, there were $9.4 trillion of assets in traditional IRAs and $1.0 trillion of assets in Roth IRAs.[28] Combined assets in IRAs represented almost one-third of the $32.3 trillion in U.S. retirement assets in that year, which included public and private DB plans, DC plans, annuities, and IRAs (**Figure 2**).[29] DC plans represented about 28% of the assets, while DB plans and annuities comprised the remaining 38%.[30]

Figure 2. U.S. Retirement Assets (in trillions), Q4 of 2019

Total assets of $32.3 trillion



Source: Congressional Research Service representation of data from Investment Company Institute (ICI), *The US Retirement Market, 2nd Quarter 2020*, Tables 1 and 10, https://ici.org/research/stats/retirement.

Notes: Numbers may not sum to total due to rounding. ICI estimated 2019 data. Employer-sponsored IRAs include Simplified Employee Pensions (SEP), SAR-SEPs, and SIMPLE plans. Defined contribution plans include private employer-sponsored DC plans—including 401(k) plans—403(b) plans, 457 plans, and the federal government's TSP.

Tax Expenditures, Benefits, and Savings Behavior

Tax provisions can encourage or discourage certain behaviors, such as saving for retirement. Tax expenditures are revenue losses to the government due to special tax provisions.[31] Tax expenditures can be categorized as exclusions, deductions, deferrals, credits, or special tax rates. Exclusions (not including amounts in taxable income) and deductions (reducing taxable income

[28] See ICI, *The US Retirement Market, Fourth Quarter 2019*, Table 10.

[29] ICI, *The US Retirement Market, Fourth Quarter 2019*, Table 1.

[30] In DB plans, participants receive regular monthly benefit payments in retirement (which some refer to as a "traditional" type of pension).

[31] The Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344) defined tax expenditures as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." For more information on tax expenditures, see CRS Report R44530, *Spending and Tax Expenditures: Distinctions and Major Programs*.

by an amount) decrease an individual's taxable income and, therefore, reduce taxes owed to the government. Credits, such as the Retirement Savings Contribution Credit, reduce tax liability (i.e., the amount that an individual owes in taxes). Credits can be nonrefundable or refundable: Nonrefundable credits can reduce tax liability to zero, while refundable credits provide a refund to the taxpayer if the credit exceeds tax liability.

Since the IRA's introduction in 1974, Congress has modified eligibility requirements, contribution limits, and deductibility of contributions to encourage or limit its use for certain groups of taxpayers. These changes may alter the government revenue that would have been received in the absence of the provision. Any forgone revenue is referred to as a tax expenditure.

IRA Tax Expenditures

Tax expenditures for traditional IRAs—in which contributions may be deductible and withdrawals are taxable—are recorded as deferrals. Tax liability and payment is deferred until a point in the future (e.g., when an individual makes a withdrawal). Annual estimates of retirement expenditures from the Joint Committee on Taxation (JCT) are calculated as the sum of revenue loss due to the tax deduction for contributions in the current year minus the tax revenue from distributions in the current year.[32] Tax expenditures for Roth IRAs—in which contributions are not tax deductible but withdrawals are tax free—are calculated as the forgone revenue on the taxation of investment earnings.[33]

In FY2020, JCT estimated tax expenditures for traditional and Roth IRAs at $27.1 billion (**Table 3**).[34] In comparison, tax expenditures for DB plans (both governmental and private sector) were $96.5 billion, and those for DC plans were $145.1 billion.[35]

Table 3. Traditional and Roth IRA Tax Expenditure Estimates, FY2019-FY2023

Amounts in billions

	FY2019	FY2020	FY2021	FY2022	FY2023	Total FY2019-FY2023
Traditional IRAs	$18.2	$18.9	$19.9	$21.3	$22.5	$100.9
Roth IRAs	$7.7	$8.2	$8.7	$9.5	$10.4	$44.5
Total	$25.9	$27.1	$28.6	$30.8	$32.9	$145.4

Source: CRS representation of Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2019-2023*, December 18, 2019, p. 30, https://www.jct.gov/publications/2019/jcx-55-19/.

Many factors contribute to the actual tax expenditure resulting from retirement savings (e.g., the rate of return on investments and the difference in marginal income tax rates at the time of

[32] See Tax Policy Center, "How Large Are the Tax Expenditures for Retirement Saving?," https://www.taxpolicycenter.org/briefing-book/how-large-are-tax-expenditures-retirement-saving.

[33] See CRS Committee Print CP10003, *Tax Expenditures: Compendium of Background Material on Individual Provisions — A Committee Print Prepared for the Senate Committee on the Budget, 2018*, p. 1014. This report explains how Roth IRA tax expenditures are calculated generally. JCT may use a different or more specific calculation method.

[34] Tax expenditures are calculated as "the sum of the revenue loss attributable to the tax exclusion for current-year contributions and earnings on account balances, minus the revenue from taxation of current-year pension and individual retirement account distributions." See JCT, *Estimates of Federal Tax Expenditures for Fiscal Years 2019-2023*, December 18, 2019, p. 30, https://www.jct.gov/publications.html?func=startdown&id=5238.

[35] JCT, *Estimates of Federal Tax Expenditures for Fiscal Years 2019-2023*, p. 30.

contribution and withdrawal for any given individual). Some researchers have identified issues with the calculation methods used by JCT and have proposed alternative methods.[36]

Equivalence of Traditional and Roth IRAs

A starting point for understanding traditional and Roth IRAs is to note that under certain assumptions, traditional and Roth IRAs provide individuals with identical amounts to spend in retirement. These assumptions include (1) identical tax rates at the time of contribution and withdrawal and (2) equal investment growth in the traditional and Roth accounts.

Stylized examples may help illustrate this concept. An individual who has $100 in pre-tax income and faces a 25% tax rate could contribute $75 to a Roth IRA. Assume the investment doubles in value to $150. In retirement, the qualified withdrawal would not be included in taxable income. The individual would receive $75 plus $75 in investment earnings, or $150.

Alternatively, the same individual could contribute $100 to a deductible traditional IRA.[37] Assume the investment doubles in value to $200. In retirement, the distribution would be taxed at a 25% tax rate. The individual owes taxes of $50 (25% of the $100 contribution plus 25% of the investment earnings). The individual would receive $75 plus $75 in investment earnings, or $150.

See **Appendix C** for another example of this equivalence. Note that because an individual's income tax rate in retirement is likely to be different than his or her tax rate while working, in practice, traditional and Roth IRAs would probably not provide equal amounts in retirement.

IRA Tax Benefit

Traditional IRA tax benefits are structured as tax deferrals rather than tax deductions. A tax deduction refers to a one-time reduction in taxable income. A deferral means that tax liability is postponed to some point in the future, so even if an individual deducts contributions, the individual must pay taxes on these contributions (and any earnings) at withdrawal. This implies that the tax benefit of IRAs is not the up-front deduction but rather the difference between the after-tax investment gains resulting from an IRA versus a taxable account. As described in the previous section, traditional IRA tax deferral is equivalent to Roth IRA treatment under certain assumptions. It follows that the tax benefit is also the same.

The benefit of contributing to an IRA rather than a taxable account (e.g., a mutual fund) for an individual eligible to contribute to a traditional or Roth IRA depends on several factors. These

[36] Researchers also identified issues with Treasury's tax expenditure estimates for retirement savings. For example, see Judy Xanthopoulos and Mary Schmitt, *Retirement Savings and Tax Expenditure Estimates*, Retirement Saving Association, September 2016, https://www.asppa.org/sites/asppa.org/files/Comm_2016/16.09%20ARA%20Report%20-%20Retirement%20Savings%20and%20Tax%20Expenditure%20Estimates%20FINAL.pdf. The authors state that current tax expenditure measures overstate costs for provisions that defer taxes compared to provisions that permanently reduce taxes (e.g., a tax credit). The authors suggest that estimates should be made for groups based on contribution level, age, and income to measure the effects of tax deferral (i.e., the benefit that results from taxpayers facing a different tax rate in retirement compared to when the contributions are made) and the benefits of future earnings (assuming a 4% rate of return).

[37] An individual making a $100 deductible contribution to an IRA would, assuming a 25% tax rate, receive a $25 tax deduction, effectively making the traditional IRA contribution equal to a $75 Roth IRA contribution. The traditional IRA contribution is a larger base on which investment earnings can accrue, so the account balance at withdrawal is larger than that of a Roth IRA. Upon withdrawal, the individual would pay taxes on the traditional IRA distribution but not on a Roth IRA distribution, so the after-tax distribution from each would be equivalent.

include the rate of return on investments, the type of investment income (e.g., capital gains versus dividends), and the time period over which investment earnings accrue.[38]

This tax benefit is often described as an effectively tax-free rate of return on investment earnings and applies to both traditional and Roth IRAs.[39]

Continuing with the equivalence example from above, instead of contributing to an IRA, the same individual could contribute to a taxable account. Because contributions to taxable accounts are not deductible, the individual could put $75 into the account. The $75 would accrue investment earnings, and—depending on the type—these earnings would be taxed annually (in the case of dividends) or when the investment is sold (capital gains).[40] If investment earnings in the taxable account accrue at the same rate as those in the traditional and Roth IRA example described earlier, and the individual faces a 25% tax rate on these earnings annually, the individual would receive less in after-tax withdrawals when contributing to a taxable account compared to an IRA.

In practice, traditional and Roth IRA owners may receive an additional benefit if tax rates are different at the time of contribution and withdrawal.[41]

IRAs and Savings Behavior

Retirement savings tax policy can cause individuals to save more or less than they otherwise would in the absence of the policy.[42] Retirement savings tax benefits increase the rate of return on savings, which could affect individuals' savings behavior. The higher return might cause individuals to save more. Alternatively, instead of saving more, individuals could save less but still achieve the same level of saving. This would cause an increase in spending. In practice, behavior is likely a combination of the two effects. Literature suggests that tax benefits might not increase total savings but rather reallocate savings across different accounts.[43]

Absent tax incentives, individuals would likely still save for retirement. Therefore, policymakers who wish to increase retirement savings may wish to consider if a tax incentive would (1) increase the number of individuals who save through IRAs that would otherwise not have saved in the incentive's absence and (2) increase the savings of individuals with IRAs above the level that they would have saved in the incentive's absence.

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[38] See Peter Brady, *The Tax Benefits and Revenue Costs of Tax Deferral*, ICI, 2012, pp. 4-5, https://www.ici.org/pdf/ppr_12_tax_benefits.pdf.

[39] Brady, *The Tax Benefits and Revenue Costs of Tax Deferral*. The author points out that a more exact way to express the effectively tax-free rate of return on investment earnings is to say that the tax benefit is "equivalent to facing a zero rate of tax on the investment income that would have been generated if compensation was first subject to tax and the net-of-tax amount was then contributed to an investment account."

[40] Investment earnings can include dividends, interest, capital gains, and others. Some earnings (e.g., dividends) are taxed annually, while others are taxed when realized.

[41] Note that the benefit might also depend on an individual's eligibility (based on income and tax filing status) to deduct contributions to a traditional IRA (see **Appendix A**).

[42] See Congressional Budget Office, *Tax Policy for Pensions and Other Retirement Saving*, April 1987, Chapter 4, https://www.cbo.gov/sites/default/files/100th-congress-1987-1988/reports/doc05-entire.pdf.

[43] See John Friedman, *Tax Policy and Retirement Savings*, Brown University and NBER, January 30, 2016, https://static1.squarespace.com/static/55693d60e4b06d83cf793431/t/59b7e660f22910a0c04f9def/1505224289048/FRIEDMAN+retirement_tax_policy_submittedjan30.pdf; Orazio Attanasio, James Banks, and Matthew Wakefield, *Effectiveness of Tax Incentives to Boost (Retirement) Saving: Theoretical Motivation and Empirical Evidence*, Institute for Fiscal Studies, 2004, https://www.econstor.eu/handle/10419/71528.

IRA Tax Preferences: Who Benefits?

There appears to be little research on the distribution of IRA tax benefits. Other research focuses on retirement savings more generally. Some researchers believe that retirement savings tax benefits largely benefit higher income groups because these groups are more likely to (1) participate in retirement savings accounts, (2) contribute to retirement savings accounts, and (3) benefit more per dollar of contribution due to higher marginal tax rates than lower-income groups.[44] These researchers found that households in the 80th to 99th percentile of the income distribution received the largest retirement savings tax benefits as a share of pretax income.[45]

Others found that higher-income households benefit more than lower-income households do from tax deferrals—not because they face higher marginal income tax rates but because they contribute more dollars than lower-income households do.[46]

Table 4 describes the percentage of households—based on household income—that contributed to IRAs in 2018 and the median contribution amount for contributing households. The percentage of households with IRA contributions increased from 6.3% in the third quintile of household income to 17.7% in the fifth quintile.[47] Median IRA contribution amounts for contributing households also increased across these quintiles. Contributing households in the third quintile had a median contribution of $1,500 compared to $5,500 in the fifth quintile.

[44] See Eric Toder, Surachai Khitatrakun, and Aravind Boddupalli, *Tax Incentives for Retirement Savings*, Tax Policy Center, May 11, 2020, https://www.taxpolicycenter.org/sites/default/files/publication/159231/tax-incentives-for-retirement-savings.pdf. The researchers were referring to retirement savings in general, but findings are likely separately applicable to IRA savings, because both 401(k)-type plans and traditional IRAs are based on tax deferral. In March 2020, 21% of workers whose average wage fell into the lowest 25% of the wage distribution participated in a DC retirement savings plan compared to 72% of employees who average wage fell into the highest 25% of the wage distribution. See U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States*, March 2020, Table 2: Retirement Benefits: Access, participation, and take-up rates, private industry workers, https://www.bls.gov/ncs/ebs/benefits/2020/employee-benefits-in-the-united-states-march-2020.pdf.

[45] Bureau of Labor Statistics, *National Compensation Survey*, Table 2. In describing tax expenditures for DB and DC plans, the researchers pointed out that contribution limits prevent taxpayers in the top 1% of the income distribution from receiving the same benefit as a share of income than other higher-income taxpayers do. The same is likely true of IRA owners given the relatively lower contribution limits compared to DC plans, the phase-out of traditional IRA deductibility, and the income threshold for Roth IRA eligibility.

[46] See Peter Brady, *How America Supports Retirement: Tackling the Myths That Surround Us*, ICI, February 22, 2016, https://www.ici.org/viewpoints/view_16_how_america_supports_01.

[47] Sample sizes for IRA-contributing households in the first and second quintiles of household income were too small for analysis.

Table 4. Percentage of Households with IRA Contributions in 2018

Percentages represent the proportion of households in each income quintile

Quintile of 2018 Household Income (in 2019 Dollars)	Percentage of Households That Contributed to IRAs	Median 2018 IRA Contribution for Contributing Households
1st quintile ($0-$25,962)	n/a[a]	n/a[a]
2nd quintile ($25,963-$45,815)	n/a[a]	n/a[a]
3rd quintile ($45,816-$74,323)	6.3%	$1,500
4th quintile ($74,324-$127,265)	11.1%	$4,000
5th quintile ($127,266+)	17.7%	$5,500

Source: CRS analysis of the 2019 Survey of Consumer Finances.

Notes: Contributions to traditional, Roth, and rollover IRAs are included in the table.

a. Sample sizes of contributing households within these income categories were too small for analysis.

When savings incentives are viewed in the broader context of the entire U.S. retirement system, it has been observed that lower-income households benefit more from Social Security, while higher-income households benefit more from tax deferrals, such as those in place for IRAs.[48] As a result, some researchers found that the U.S. retirement system as a whole (Social Security and tax-deferred savings accounts) is progressive; households with lower lifetime earnings receive proportionately higher benefits (based on lifetime earnings) from the U.S. retirement system as a whole.[49]

Ownership of Individual Retirement Accounts

IRAs are nearly universally available to workers. Any individual with compensation can establish and contribute to one.[50] Despite this widespread availability, the majority of U.S. households do not own IRAs. Given that some workers have multiple choices surrounding retirement savings, it is difficult to determine the necessity of IRAs for some households. While some workers choose to save for retirement through employer-sponsored plans, other workers might be unaware of IRA savings opportunities or may not have the financial means necessary to contribute to an IRA. Data on IRA ownership may better inform policymakers who seek to increase IRA ownership—either among all households or among certain groups of households.

[48] See Peter Brady, *How America Supports Retirement: No, Benefits Are Not "Tilted" to the Higher Earners*, ICI, February 23, 2016, https://www.ici.org/viewpoints/view_16_how_america_supports_02. *Lifetime earnings* was defined as the present value of total compensation earned from ages 32-66.

[49] Brady, *How America Supports Retirement: No, Benefits Are Not "Tilted" to the Higher Earners*.

[50] Minor children with taxable compensation may contribute to an IRA, though a parent or guardian may have to set up a custodial account. Compensation for the purposes of an IRA includes, for example, wages, salaries, commissions, self-employment income, taxable alimony, and stipend and fellowship payments for students pursuing higher education. Individuals and married couples with income above specified thresholds are not permitted to contribute to Roth IRAs. Traditional IRAs do not have income limitations, but tax deductions are limited. See IRS, Publication 590-A, https://www.irs.gov/pub/irs-pdf/p590a.pdf.

Data on IRA Ownership

Survey of Consumer Finances (SCF)

Much of the analysis in this report uses data from the Federal Reserve's 2019 SCF. The SCF is a triennial survey conducted on behalf of the Board of Governors of the Federal Reserve and contains detailed information on U.S. household finances, such as the amount and types of assets owned, the amount and types of debt owed, and detailed demographic information on the head of the household and spouse. The SCF is designed to be nationally representative of the population of U.S. households, of which there were 128.6 million in 2019. *Household* in the SCF is defined as "the primary economic unit, which consists of an economically dominant single individual or couple (married or living as partners) in a household and all other individuals in the household who are financially interdependent with that individual or couple."

While the SCF generally asks questions at the household level, questions related to IRAs and pensions are asked separately of the head of the household and the spouse (if applicable). To determine household IRA ownership and account balances, CRS aggregated data for the head of household and any spouse. Any additional individual(s) in the household with an IRA is not included in this analysis.

More information about the SCF, including the data and codebook, is available at https://www.federalreserve.gov/econres/scfindex.htm. Because household wealth is highly concentrated, the SCF includes an oversample of relatively wealthy households. Estimates in this report are adjusted using population weights provided in the SCF dataset.

IRA Ownership and Account Balances by Household Characteristic in 2019

CRS analysis of the SCF indicated that 25.3% of households owned an IRA in 2019.[51] IRS data indicated that in 2017 (the most recent data available), 4.5 million taxpayers contributed to a traditional IRA, while 6.8 million contributed to a Roth IRA.[52]

Table 5 provides data on the percentage of U.S. households with IRA accounts based on household characteristics and the median and average account balance for these households in 2019.

Among IRA owners,

- the median account balance was $70,000, and
- the average account balance was $253,799.

IRA ownership rates in 2019 increased with household income and education level of the household head. This is likely due to one or a combination of the following factors: (1) higher-income households have a greater ability to save than lower-income households do, (2) higher-income and higher-educated households may be more inclined to save for retirement than lower-

[51] CRS analysis of the 2019 SCF. IRA-owning households are households where the head of household or spouse, if applicable, indicated owning a traditional, Roth, or rollover IRA. Any additional individual(s) in the household with an IRA is not included in this analysis. Analysis does not include households with Keogh accounts or employer-sponsored IRAs. In the SCF dataset, there were seven observations where an individual other than the head of household or spouse had an IRA but the head of household or spouse did not. There were 24 observations where the head of household or spouse, and an additional individual in the household, had an IRA. Estimates using data by ICI indicated that 36% of U.S. households—or 46.6 million households—owned an IRA in mid-2019 (though its measure included employer-sponsored IRAs, which are not covered in this report). See ICI, *Frequently Asked Questions About Individual Retirement Accounts (IRAs)*, December 2019, https://www.ici.org/faqs/faq/Individual-Retirement-Accounts-(IRAs)-FAQs/ci.faqs_iras.print.

[52] See IRS, *Statistics of Income Tax Stats: Accumulation and Distribution of Individual Retirement Arrangements*, Tables 5 and 6, at https://www.irs.gov/statistics/soi-tax-stats-accumulation-and-distribution-of-individual-retirement-arrangements.

income or less educated households are,[53] or (3) higher-income households are more likely to have access to a workplace DC plan, thus having the ability to set up rollover IRAs when they switch jobs.[54]

Ownership also increased with age, likely due to rollovers from employer-sponsored plans following job separation or retirement or because of an increased focus on retirement saving. Married households were more likely to own IRAs than were single households.

IRA ownership rates also varied across households based on the reported race or ethnicity of the household respondent.[55] The following percentages of households owned IRAs: 31.8% of those with a White, non-Hispanic household respondent; 27.5% of those with a respondent identifying as "other" (e.g., Asian, American Indian/Alaska Native, Native Hawaiian/Pacific Islander, or other); 8.7% of those with a Black household respondent; and 7.8% of those with a Hispanic household respondent.[56]

Among household categories based on race or ethnicity, households with respondents who identified as "Other" had the highest median IRA balance at $100,000, while White, non-Hispanic households had the highest average IRA balance at $271,358.

Table 5. IRA Ownership and Account Balances by Household Characteristic in 2019

	Percentage of U.S. Households with Account	Median Account Balance	Average Account Balance
All Households	25.3%	$70,000	$253,799
Age of the Head of Household:			
Younger than 35	12.0%	$7,000	$22,529
35-44	21.8%	$53,000	$99,142
45-54	28.0%	$62,000	$174,390
55-64	30.1%	$100,000	$316,139
65 and older	32.8%	$125,000	$387,790

[53] The SCF asked respondents about their primary reason for saving. Among households with income greater than or equal to $75,000 in 2018 (updated to 2019 dollars), 41.3% of households indicated that their primary reason was for retirement. Among households with income less than $75,000 in 2018 (updated to 2019 dollars), 18.5% indicated that their primary reason to save was for retirement. Similar trends occurred based on education level of the head of household: Retirement was the primary purpose for saving for 35.3% of households whose head of household had at least a bachelor's degree, compared to 23.1% of those whose head of household had less than a bachelor's degree.

[54] In March 2019, 73% of civilian workers in the highest 25% of the wage distribution had access to a DC plan, compared to 42% of workers in the lowest 25%. See Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States*, March 2019, Table 2: Retirement benefits: Access, participation, and take-up rates, civilian workers, https://www.bls.gov/ncs/ebs/benefits/2019/employee-benefits-in-the-united-states-march-2019.pdf.

[55] The SCF's question about race or ethnicity is asked only of the designated respondent. In 79% of sampled households, the designated respondent was the head of household.

[56] "Other" includes respondents who indicated that they identified as Asian, American Indian/Alaska Native, Native Hawaiian/Pacific Islander, or other. The SCF combined these categories in the public dataset. The SCF allows respondents to indicate more than one race or ethnicity. CRS used the first response to analyze data. Nearly 6% of respondents indicated more than one race or ethnicity (translating to an estimated 6.4% of the U.S. population).

	Percentage of U.S. Households with Account	Median Account Balance	Average Account Balance
2018 Household Income (in 2019 dollars):			
Less than $30,000	6.7%	$23,200	$95,306
$30,000-$49,999	14.5%	$35,000	$88,,442
$50,000-$74,999	21.8%	$36,000	$108,606
$75,000-$124,999	32.1%	$54,000	$182,863
$125,000 or more	54.0%	$143,000	$406,569
Household Marital Status:			
Married	32.3%	$84,000	$293,737
Single	16.4%	$47,000	$153,721
Single female	16.5%	$44,300	$137,488
Single male	16.3%	$50,000	$177,780
Race or Ethnicity of the Household Respondent[a]:			
White, non-Hispanic	31.8%	$74,000	$271,358
Other[b]	27.5%	$100,000	$233,329
Black/African-American	8.7%	$40,000	$99,828
Hispanic	7.8%	$20,000	$90,227
Education Level of the Head of Household:			
Less than high school	6.1%	$25,000	$64,465
High school graduate	15.5%	$49,000	$128,207
Some college	16.7%	$50,000	$137,535
Associate's degree	21.8%	$42,900	$138,279
Bachelor's degree	37.6%	$84,000	$292,524
Advanced degree (master's, professional, doctorate)	49.7%	$120,000	$374,562

Source: CRS analysis of the 2019 Survey of Consumer Finances (SCF).

Note: Median and average account balances are calculated using the aggregated value of all IRAs among IRA-owning households in 2019. IRA-owning households are households where the head of household or spouse, if applicable, indicates owning an IRA. Any additional individual(s) in the household with an IRA is not included in this analysis. Analysis does not include households with Keogh accounts or employer-sponsored IRAs.

a. The SCF's question about race or ethnicity is asked only of the designated respondent. In 79% of sampled households, the designated respondent was the head of household.

b. "Other" includes respondents who indicated that they identified as Asian, American Indian/Alaska Native, Native Hawaiian/Pacific Islander, or other. The SCF combined these categories in the public dataset. The

SCF allows respondents to indicate more than one race or ethnicity. CRS used the first response to analyze data. Nearly 7% of households had a respondent who indicated more than one race or ethnicity.

IRA Ownership by IRA Type

Table 6 provides data on the percentage of households with IRAs in 2019 that owned traditional, Roth, or rollover IRAs, organized by age group.[57] Households may own multiple types of IRAs.

Several observations can be made from **Table 6**, specifically

- 12% of households headed by someone younger than 35 own IRAs. Roth IRAs are more common than traditional IRAs for these households.
- 32.8% of households headed by someone aged 65 or older own IRAs. Traditional and rollover IRAs are more common than Roth IRAs for these households.[58]

Rollover IRA ownership rates generally increase with age as individuals change jobs or retire.

IRA-owning households aged 55 and older have higher traditional IRA ownership rates (52.9%) than Roth IRA ownership rates (35.8%). One possible reason for this difference is that because Roth IRAs were first authorized in 1997, older households may have spent some of their working years with access to only traditional IRAs (e.g., an individual who was 55 years old in 2019 was 33 years old when Roth IRAs were introduced). Some of these individuals, in their peak earning years, may not have been eligible to contribute to Roth IRAs due to the income eligibility limits.

Table 6. IRA Ownership by IRA Type in 2019

Data in parentheses represents ownership rates among all households in each age group

		For Households with IRAs (or for All Households)		
Age of the Head of the Household	**Has an IRA**	**Has a Traditional IRA**	**Has a Roth IRA**	**Has a Rollover IRA**
Younger than 35	12.0%	30.0% (3.6%)	67.8% (8.1%)	n/a (n/a)[a]
35-44	21.8%	34.4% (7.5%)	66.5% (14.5%)	33.0% (7.2%)
45-54	28.0%	41.5% (11.6%)	53.6% (15.0%)	37.8% (10.6%)
55-64	30.1%	43.7% (13.2%)	41.1% (12.4%)	48.3% (14.5%)
65 and older	32.8%	57.6% (18.9%)	32.4% (10.6%)	40.7% (13.4%)

Source: CRS Analysis of the 2019 Survey of Consumer Finances (SCF).

Notes: The SCF does not provide detail on whether rollover or inherited IRAs are traditional or Roth. Percentages will not sum to 100% because some households have more than one type of IRAs. IRA-owning households are households where the head or household or spouse, if applicable, indicates owning an IRA. Any additional individual(s) in the household with an IRA is not included in this analysis. Analysis does not include households with Keogh accounts or employer-sponsored IRAs.

a. Sample size was too small for analysis.

[57] The SCF does not provide details on whether rollover IRAs are traditional or Roth or whether a household owns an inherited IRA.

[58] Note that households in this age group may have retired and withdrawn all IRA assets or converted assets into annuities, or households in this group may still be working and plan to roll assets into an IRA later.

Characteristics of Households Based on IRA Ownership

In 2019, IRA-owning households were generally older, wealthier, and more likely to be married (or living with a partner) than were non-IRA-owning households. Median net worth of households with an IRA was over nine times higher than that of households without an IRA—$585,100 compared to $64,730.[59] Households with an IRA had more than twice the median income of households without an IRA in 2018.[60]

Table 7 further details characteristics of households based on IRA ownership. Compared to households without an IRA, households with an IRA were

- more likely to have at least a bachelor's degree (61.3% compared to 27.9%) and
- more likely to own their principal residence (86.4% compared to 57.6%).[61]

Table 7. Characteristics of Households Based on IRA Ownership in 2019

	IRA-Owning Households	Non-IRA-Owning Households
Estimated Number of Households	32.5 million	96.1 million
Demographic Characteristics		
Average age of head of household	56.6	50.1
Head of household has at least a bachelor's degree	61.3%	27.9%
Percentage married or living with partner	71.5%	50.8%
Financial Characteristics		
Median net worth	$585,100	$64,730
Average net worth	$1,986,931	$326,913
Median income (in 2018, updated to 2019 dollars)	$107,921	$47,852
Average income (in 2018, updated to 2019 dollars)	$203,583	$73,294
Ownership rate of principal residence[a]	86.4%	57.6%
Retirement Plan Participation		
Has any type of pension (DB or DC) from current or past job	72.1%	52.2%
Has a DB pension from current or past job	40.3%	26.7%
Has a DC account from current job if head of household or spouse is in the labor force	52.0%	32.8%

[59] Based on SCF estimates, the median household net worth was $121,760 in 2019. This estimate does not include wealth in DB pension plans. When the Federal Reserve accounted for DB wealth, median household net worth was nearly $172,000. See Federal Reserve, *Wealth and Income Concentration in the SCF: 1989-2019*, September 28, 2020, https://www.federalreserve.gov/econres/notes/feds-notes/wealth-and-income-concentration-in-the-scf-20200928.htm.

[60] Income is recorded for the year prior to the survey (2018) but updated to 2019 dollars.

[61] *Ownership of principal residence* is defined as the household owning a ranch/farm/mobile home/house/condo/co-op/etc. Ownership does not indicate whether or not the residence is fully paid off.

	IRA-Owning Households	Non-IRA-Owning Households
Account-Type Retirement Savings (includes IRAs, account-type pensions at current job, future account-type pensions to be received, and currently received benefits)		
Has savings	100.0%	33.6%
Median account balance if household has savings	$144,000	$32,000
Average account balance if household has savings	$396,698	$111,304
Account-Type Retirement Savings (not including IRAs)		
Has savings	48.9%	see above
Median account balance if household has savings	$111,840	see above
Average account balance if household has savings	$292,202	see above

Source: CRS Analysis of the 2019 Survey of Consumer Finances (SCF).

Notes: The SCF does not provide data on the value of defined benefit pensions that a household expects to receive in retirement. IRA-owning households are households where the head or household or spouse, if applicable, indicates owning an IRA. Any additional individual(s) in the household with an IRA is not included in this analysis. Analysis does not include households with Keogh accounts or employer-sponsored IRAs. Account-type retirement savings include DC plans, such as a 401(k) or 403(b) or an IRA, in which funds are accumulated in an individual's account.

a. *Ownership of principal residence* is defined as the household owning a ranch/farm/mobile home/house/condo/co-op/etc.

IRAs were originally established so that individuals (1) without access to an employer-sponsored plan could save for retirement and (2) with savings from employer-sponsored plans could roll over savings into similarly tax-advantaged accounts.

Fifteen percent of households in the labor force without employer-sponsored pensions indicated owning an IRA in 2019.[62] A household without a pension might have an IRA for two separate (though not mutually exclusive) reasons: (1) to save for retirement or (2) because it rolled over savings from a past DC plan or other IRA.[63]

Though 15% of households without employer-sponsored pensions indicated owning an IRA, ownership rates varied based on household income. Among households in the labor force without pensions, the following percentages had an IRA in 2019:

- 5.2% of those with income under $30,000;
- 10.6% of those with income from $30,000 through $49,999;
- 18.7% of those with income from $50,000 through $74,999;

[62] *Households in the labor force* is defined as households in which the head of household or spouse is in the labor force, meaning that the individual responded that he or she was working in any capacity, temporarily laid off and expecting or not expecting to return to work, on sick/maternity leave, on sabbatical, unemployed and looking for work, an unpaid volunteer, or an unpaid family worker (e.g., work for a family business without pay). Employer-sponsored pensions include DB and DC plans.

[63] In addition, a household could inherit an IRA.

- 28.5% of those with income from $75,000 through $124,999; and
- 56.2% of those with income $125,000 or higher.[64]

Households in the labor force without pensions that use IRAs to save for retirement are more likely to contribute in a given year than are households that have IRAs due to rollovers. Among IRA-owning households in the labor force without pensions, 35.9% made an IRA contribution in 2018.[65] The median contribution was $4,000; the average was $4,862.[66]

Another reason why households in the labor force without pensions might have IRAs is due to rollovers from previous job retirement accounts. Among these households, 44.4% indicated that they had received payouts or rollovers from previous employer-sponsored pensions that they had subsequently rolled to IRAs (or annuities).[67] Among households that had received payouts or rolled over savings to IRAs (or annuities), 22.9% indicated that they had made IRA contributions in the previous year.

Figure 3 provides a visual representation of the relationship between employer-sponsored retirement plans and IRA ownership rates. **Figure 3** shows, by age group, the percentage of households with an IRA balance, DC balance, or DB pension plan in 2019. The percentage of households with DB pensions increases with the age of the head of household. This likely reflects the shift in the private sector from DB to DC plans over the past four decades.[68] The percentage of households with DC account balances decreases as the percentage with IRA balances increases starting around the 45-54 age group, likely reflecting the increasing incidence of rollovers following job transitions or retirement. It could also reflect that older households may be less likely than younger households to have or have had a DC plan and, thus, may be more likely to contribute to an IRA.

[64] *Income* refers to household income and is reported for 2018 but updated to 2019 dollars.

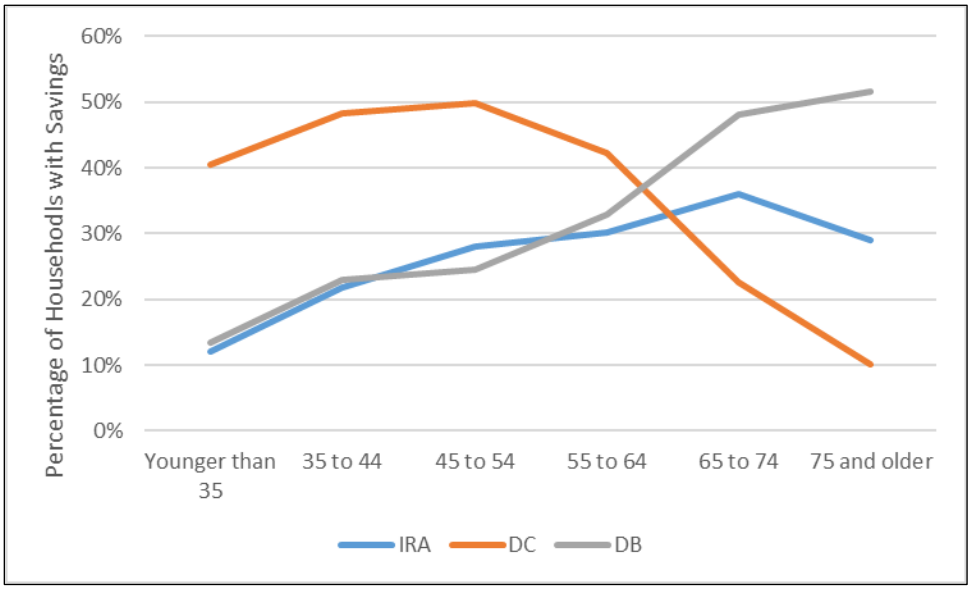
[65] The percentage of households who make IRA contributions is likely skewed toward higher-income households. Sample sizes for households in the lower end of the income distribution who contributed to their IRA were not large enough to analyze.

[66] In 2018, IRA contribution limits were $5,500 ($6,500 for individuals aged 50 and older). Contribution limits apply to individual account holders: Two earners in one household could contribute $5,500 (or $6,500) each.

[67] The SCF does not separate rollovers into annuities from rollovers into IRAs.

[68] In 1975, the year after ERISA was enacted, private sector DB plans had a total of 27.2 million active participants, and private sector DC plans had 11.2 million active participants. In 2017, the most recent year for which there is data, private sector DB plans had 13.5 active participants, and private sector DC plans had 81.2 active participants. See Employee Benefits Security Administration, *Private Pension Plan Bulletin Historical Tables and Graphs: 1975-2017*, September 2019, Table E.7, https://www.dol.gov/sites/dolgov/files/EBSA/researchers/statistics/retirement-bulletins/private-pension-plan-bulletin-historical-tables-and-graphs.pdf.

Figure 3. Percentage of Households in 2019 with an IRA Balance, Defined Contribution (DC) Account Balance, or a Defined Benefit (DB) Pension



Source: CRS analysis of the 2019 Survey of Consumer Finances.

Notes: IRA-owning households are households where the head or household or spouse, if applicable, indicates owning an IRA. Any additional individual(s) in the household with an IRA is not included in this analysis. Analysis does not include households with Keogh accounts. DC account balances are calculated as the sum of non-IRA account-type pension balances for the head of household and spouse, if applicable.

About 75% of U.S. households do not own IRAs. Not all households may be interested in IRA ownership: Some may not have sufficient income to dedicate to an IRA; other households may have employer-sponsored pension savings or other private savings or plan to roll over employer plan savings to IRAs later in their careers.[69] Among households without IRAs, almost half (47.8%) did not have DB or DC pensions from current or past jobs (**Table 7**). Nearly 34% of households without an IRA indicated that they had savings elsewhere in account-type retirement plans, such as a 401(k) plans. Over one-fourth (26.7%) of non-IRA-owning households had DB pensions from current or past jobs.

Other households might intend to rely on Social Security or other savings (e.g., housing equity, annuities) for income in retirement. Though estimates of how Social Security benefits compare to a household's pre-retirement income vary, some researchers found that Social Security provided benefits equal to 90% of pre-retirement income for a retiree who earned a poverty-level wage while working.[70] The percentage of Social Security beneficiaries who receive at least 90% of their income in retirement from Social Security ranges—some researchers have estimated it at 18%, while others have estimated it at nearly 25%.[71]

[69] In March 2019, 71% of civilian workers had access to an employer-sponsored retirement plan, and 56% participated. See Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States*, March 2019, Table 2.

[70] See Andrew Biggs, *How Hard Should We Push the Poor to Save for Retirement*, American Enterprise Institute, 2019, https://www.aei.org/wp-content/uploads/2019/05/Biggs-JOR-How-Hard-Should-We-Push-the-Poor-to-Save.pdf.

[71] See Adam Bee and Joshua Mitchell, "Do Older Americans Have More Income Than We Think?," U.S. Census Bureau, SESHD Working Paper no. 2017-39, July 2017, https://www.census.gov/content/dam/Census/library/working-papers/2017/demo/SEHSD-WP2017-39.pdf; and Irina Dushi, Howard Iams, and Brad Trenkamp, "The Importance of

IRAs and Perceived Retirement Income Adequacy

Because IRAs are just one component within a household's possible retirement income sources, it is difficult to determine the extent to which IRA ownership is associated with adequate retirement income.[72] The SCF includes a question asking respondents to rate their perceived satisfaction of their current retirement income (or the income they expect to receive, if not yet retired) on a scale ranging from "totally inadequate" to "very satisfactory." In 2019, a higher percentage of households with IRAs rated their perceived retirement income as "enough to maintain living standards" or better compared to households without IRAs (85.3% compared to 63.2%).[73] This may be because IRA-owning households tend to have higher income and net worth levels—and are more likely to have workplace pension coverage—than households without IRAs, which may translate into greater retirement security. However, IRA ownership does not guarantee retirement income adequacy. Other factors likely influence retirement preparedness.

For example, perceived retirement income adequacy also varies by net worth regardless of IRA ownership. Non-IRA-owning households in the top two quintiles based on net worth had higher perceived retirement income adequacy than did IRA-owning households in the bottom three net worth quintiles (**Table 8**).

Table 8. Perceived Retirement Income Adequacy Based on Net Worth and IRA Ownership

Percentage of households that rate their perceived retirement income as "adequate to maintain living standards" or higher in 2019

Net Worth Quintile	IRA-Owning Households	Non-IRA-Owning Households
1st	64.1%	49.1%
2nd	62.7%	59.0%
3rd	70.5%	67.5%
4th	84.2%	74.4%
5th	93.0%	81.9%

Source: CRS Analysis of the 2019 Survey of Consumer Finances (SCF).

Notes: The SCF includes a question asking respondents to rate their perceived satisfaction of their current retirement income (or the income they expect to receive, if not yet retired) on a scale ranging from "totally inadequate" to "very satisfactory." IRA-owning households are households where the head or household or spouse, if applicable, indicates owning an IRA. Any additional individual(s) in the household with an IRA is not included in this analysis. Analysis does not include households with Keogh accounts. The 1st net worth quintile represents the lowest quintile of net worth; the 5th indicates the highest.

Increasing IRA Ownership: Policy Options and Considerations

Policy options aimed at increasing IRA ownership depend on the broader policy goal, such as increasing IRA ownership across all households, lower-income households, or households without access to employer-sponsored plans.

Social Security Benefits to the Income of the Aged Population," *Social Security Bulletin* Vol. 77 No. 2 (2017), https://www.ssa.gov/policy/docs/ssb/v77n2/v77n2p1.html.

[72] In addition, retirement income adequacy is difficult to define and varies by household.

[73] Note that perceived retirement income adequacy may differ from retirement income adequacy in practice.

Previous federal and state efforts have aimed to increase IRA ownership. In January 2014, President Obama issued a presidential memorandum that directed Treasury to create the MyRA program. Treasury issued final regulations in December 2014. The MyRA program sought to expand retirement savings options to workers without savings and low-dollar savers by allowing employers to set up payroll deduction Roth IRAs for their employees. In a payroll deduction IRA, amounts are deducted from an employee's paycheck and are deposited into the employee's own IRA account. Employers could, but were not required to, offer myRA accounts to their employees.[74] Treasury ended the MyRA program on September 17, 2018, citing cost-ineffectiveness as reason for the termination.[75] The program had around 30,000 participants with aggregate savings of $34 million.[76]

Several states have enacted or implemented state-facilitated retirement savings programs to increase plan access and savings among private sector workers whose employers do not offer workplace retirement savings plans. As of September 2020, the most common state-facilitated effort is the payroll deduction IRA. When payroll deduction IRAs include an automatic enrollment feature (in which employees are automatically enrolled but can explicitly opt out), these plans are sometimes referred to as automatic (or *auto*) IRAs. Whether federal pension law applies to state-facilitated IRAs is an ongoing issue.[77]

Academic literature provides various recommendations to increase IRA ownership. A study of one state-administered automatic IRA program, OregonSaves, observes that reducing search costs (such as providing a default contribution rate during automatic enrollment) may lead to higher retirement plan participation than in the absence of a plan.[78]

Another study found that automatic enrollment features are associated with higher workplace plan participation.[79] If workplace plan participation is associated with subsequent IRA ownership (due to rollovers), automatic enrollment features or other policy tools that increase workplace plan participation might increase IRA ownership. However, stakeholders and policymakers have raised concerns about rollover information given to participants.[80] Multiple factors are involved in the decision to roll over funds from a 401(k) to an IRA versus keeping funds in a 401(k). These

[74] There were no fees associated with myRA accounts. Account owners could transfer their account balances to private sector IRA providers at any time, but account owners who (1) reached the maximum balance ($15,000) or (2) had the accounts for 30 years had to transfer their accounts to private sector Roth IRAs.

[75] See U.S. Department of the Treasury, "Treasury Announces Steps to Wind Down myRA Program," press release, July 28, 2017, https://www.treasury.gov/press-center/press-releases/Pages/sm0135.aspx.

[76] See letter from Senator Orrin Hatch to Secretary of the Treasury Steven Mnuchin, August 1, 2017, https://www.finance.senate.gov/imo/media/doc/8.1.2017%20myIRA%20Letter.pdf.

[77] For more information, see CRS In Focus IF11611, *State-Administered IRA Programs: Overview and Considerations for Congress*.

[78] See John Chalmers et al., "Auto-Enrollment Retirement Plans for the People: Choices and Outcomes in OregonSaves," Pension Research Council Working Paper, July 2020, https://repository.upenn.edu/cgi/viewcontent.cgi?article=1686&context=prc_papers.

[79] See Brigitte Madrian and Dennis Shea, "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior," *Quarterly Journal of Economics*, vol. 116, no. 4 (2001), https://www.nber.org/papers/w7682.pdf.

[80] See U.S. Senate Committee on Banking, Housing, and Urban Affairs, "Brown, Colleagues Demand Trump Administration Rescind Proposals Leaving Workers' Retirement Savings at Risk," August 7, 2020, https://www.banking.senate.gov/newsroom/minority/brown-colleagues-demand-trump-administration-rescind-proposals-leaving-workers-retirement-savings-at-risk. In the letter, Members of Congress express concern that rollover advice under the Department of Labor's (DOL's) proposed rule might not be made in the participant's best interest.

include fee differences, the number of investment options, penalty-free withdrawal opportunities, and fiduciary protections, among others.[81]

Clarify Treatment of State-Administered Retirement Savings Programs

In August 2016, the U.S. Department of Labor (DOL) issued a safe harbor regulation that established criteria for designing state-administered payroll deduction IRAs "to reduce the risk of ERISA preemption."[82] In December 2016, DOL issued another rule that expanded the applicability of the safe harbor to qualified state political subdivisions, which applied to cities that established payroll deduction IRA programs. In April 2017 and May 2017, Congress used the procedures in the Congressional Review Act (CRA, enacted as part of the Small Business Regulatory Enforcement Fairness Act of 1996; P.L. 104-121) to nullify DOL's regulations creating safe harbors for savings arrangements established by qualified state political subdivisions and by states (P.L. 115-24 and P.L. 115-35, respectively).

Following Congress's actions under the CRA, the issue of ERISA preemption remains uncertain. Despite this uncertainty, some states have indicated that they are continuing with implementation of their programs. Congressional action could resolve the uncertainty legislatively.

For more information on these programs, see CRS In Focus IF11611, *State-Administered IRA Programs: Overview and Considerations for Congress*.

Authorize Automatic IRAs at the Federal Level

Several bills have been introduced that would create automatic IRAs at the federal level, similar to the efforts under the MyRA program and state-facilitated savings programs.[83] Advocates of automatic IRA efforts cite that the coverage gap between workers with and without pension coverage will decrease and that increased savings will reduce the burden on future social assistance programs.[84] In addition, some researchers found that automatic IRAs implemented early on in individuals' careers could increase retirement income for between two-thirds and one-half of individuals in the lowest quarter of the income distribution at age 70.[85]

Others caution that automatically enrolling lower-income individuals into savings plans may have unintended consequences. For example, increased savings could result in decreased standards of living during working years and could result in disqualification from means-tested governments

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[81] See U.S. Government Accountability Office (GAO), *401(k) Plans: Labor and IRS Could Improve the Rollover Process for Participants*, GAO-13-30, March 2013, https://www.gao.gov/assets/660/652881.pdf; and DOL, *Improving Investment Advice for Workers and Retirees*, https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/improving-investment-advice-for-workers-and-retirees. In situations where individuals or organizations provide advice that meets the five-part test to be considered investment advice under ERISA, they must follow fiduciary standards. Whether rollover advice is considered investment advice varies on a case-by-case basis. For example, an individual who provides advice that is not made on a "regular basis" might fail the test and, thus, not be subject to fiduciary standards.

[82] 29 C.F.R. §2510.3-2(h) (2016). *Preemption* refers to federal law superseding conflicting state laws. For more information, see CRS Report R45825, *Federal Preemption: A Legal Primer*.

[83] See, for example, H.R. 3499 in the 115th Congress and S. 2370 in the 116th Congress.

[84] See Representative Richard Neal, press release, August 10, 2020, https://neal.house.gov/media-center/press-releases/rep-neal-introduces-automatic-ira-bill.

[85] See Barbara Butrica and Richard Johnson, *How Much Might Automatic IRAs Improve Retirement Security for Low- and Moderate-Wage Workers?*, Urban Institute, July 2011, https://www.urban.org/sites/default/files/publication/27386/412360-How-Much-Might-Automatic-IRAs-Improve-Retirement-Security-for-Low-and-Moderate-Wage-Workers-.PDF.

programs (e.g., losing Medicaid eligibility due to mandatory withdrawals in retirement).[86] One study found that automatic enrollment in retirement accounts may cause increases in auto loans and first lien mortgage balances.[87] Another found that automatic enrollment may not necessarily have large impacts on household net worth over time.[88]

Some point out that individuals with lower income may not need to save through IRAs to the same degree as individuals with higher income to maintain their pre-retirement standard of living because of Social Security's progressive benefit formula.[89]

If federal automatic IRAs were created, there might be some questions about overlap with existing state-administered programs. In 2012, researchers estimated that 24 million to 43 million workers would be eligible to participate in a federal automatic IRA program.[90]

Eliminate the Roth IRA Income Threshold

Eliminating the income threshold to contribute to Roth IRAs might increase the number of individuals who contribute to Roth IRAs and, therefore, increase IRA ownership.[91] In 2017, taxpayers who were married filing jointly were ineligible to contribute to Roth IRAs if they had adjusted gross income (AGI) of $196,000 or higher. In that year, 13% of taxpayers with AGIs from $100,000 to $200,000 contributed to Roth IRAs.[92] The benefits of repealing the income threshold would accrue mainly to high-income households.

[86] See Andrew G. Biggs, "Stop Pushing Poor People to Save More for Retirement," *MarketWatch*, September 12, 2019, https://www.marketwatch.com/story/stop-pushing-poor-people-to-save-more-for-retirement-2019-09-12.

[87] This study found that when the U.S. Army moved to automatic enrollment in the TSP at a 3% default contribution rate, both the number of employees contributing and the average contribution rate increased, but the move also significantly increased auto loan and mortgage balances. See John Beshears et al., *Borrowing to Save? The Impact of Automatic Enrollment on Debt*, NBER Working Paper no. 25876, May 2019.

[88] Using data from 34 U.S. 401(k) plans, this study estimated that, on average, although automatic enrollment into 401(k) plans increases savings in the plan in the short run, employees tend to respond by saving less in the future, so the long-term impact of automatic enrollment on retirement savings is not significant on average and is significant only for the lowest lifetime earnings groups. See Taha Choukhmane, "Default Options and Retirement Saving Dynamics," June 10, 2019, https://cepr.org/sites/default/files/Choukhmane%20%282019%29%20-%20Default%20Options.pdf.

[89] The Social Security benefit formula is progressive. That is, the formula is weighted to replace a larger share of the pre-retirement earnings of low-wage workers compared with those of higher-wage workers. See Andrew G. Biggs, *How Much Should the Poor Save for Retirement? Data and Simulations on Retirement Income Adequacy Among Low-Earning Households*, *ScholarlyCommons*, 2019, https://repository.upenn.edu/prc_papers/537.

[90] See Benjamin Harris and Ilana Fischer, *The Population of Workers Covered by the Auto IRA: Trends and Characteristics*, AARP Public Policy Institute, February 2012, https://www.aarp.org/content/dam/aarp/research/public_policy_institute/econ_sec/2012/Population-of-Workers-Auto-IRA-Trends-and-Characteristics-Research-Report-AARP-ppi-econ-sec.pdf.

[91] An individual above the income threshold to contribute to a Roth IRA might still own a Roth IRA for several reasons. This individual could have inherited one, contributed to one in the past, or converted savings from a traditional IRA to a Roth IRA.

[92] CRS analysis of IRS, *Statistics of Income 2017 Tax Stats—Accumulation and Distribution of Individual Retirement Arrangements (IRA)*, Table 3, https://www.irs.gov/statistics/soi-tax-stats-accumulation-and-distribution-of-individual-retirement-arrangements. In 2017, single filers with an AGI of $133,000 or more were ineligible to make Roth IRA contributions.

Contribution Amount and Savings Accumulation

Two main factors influence savings accumulation in an IRA: inflows (from contributions and rollovers) and investment earnings.[93] Most inflows to traditional IRAs are from rollovers. In 2017 (the most recent year for which data are available), 96.1% of the inflows to traditional IRAs by dollar amount were from rollovers ($463 billion from rollovers compared to $18.8 billion from contributions).[94] In contrast, most inflows to Roth IRAs come from contributions rather than rollovers or conversions. In 2017, 70.4% of Roth IRA inflows were from contributions ($23.5 billion compared to $9.9 billion from rollovers and $10.0 billion from conversions).[95]

Investment choices also affect the value of an individual's IRA. As individuals are generally responsible for choosing their investment portfolio, adjustment of investment allocations over time (referred to as *portfolio rebalancing*) may play a role in savings accumulation.

Some stakeholders believe that many households' retirement savings are inadequate to maintain pre-retirement standards of living.[96] In 2019, the median IRA account balance was $70,000 (**Table 5**). If a household had no other resources to fund retirement expenses, a $70,000 balance at age 65 would provide a monthly lifetime benefit of about $300 (less if the IRA owner chooses a joint-and-survivor annuity).[97] The average IRA balance—$201,062—would provide a monthly lifetime benefit of around $850 (less for a joint-and-survivor annuity).[98] Though it is likely that most IRA owners also receive Social Security benefits, stakeholders have showed interest in policy options that would increase savings in IRAs. These options generally focus on contributions rather than investment allocations. The following sections provide data on both.

Most recently, the SECURE Act sought to increase IRA savings by eliminating the age restriction to contribute to traditional IRAs and permitting stipend and fellowship payments for students pursuing higher education to be considered wage income for the purposes of IRA contributions.

Data on IRA Contributions

Contributions to IRAs may come only from taxable compensation (e.g., wages, salaries, commissions, self-employment income, and taxable fellowship and stipend payments used in the pursuit of graduate or postdoctoral studies).[99] Prior to 2020, individuals were not allowed to make

[93] Other factors—such as withdrawals, penalties, and the tax rates on withdrawals—can also affect an IRA's value.

[94] CRS analysis of data in ICI, *The US Retirement Market, Fourth Quarter 2019*, Table 11.

[95] Some stakeholders believe that the ability to convert traditional IRA assets to Roth IRA assets (sometimes referred to as a "backdoor" Roth IRA) should be eliminated because it benefits high-income taxpayers who are ineligible to contribute to Roth IRAs. For example, in the 114th Congress, Senator Ron Wyden released a discussion draft that included a provision that would have eliminated Roth conversions. See U.S. Senate Committee on Finance, "Wyden Proposal Would Crack Down on Tax Avoidance in Retirement Plans, Create New Opportunities for Working Americans to Save," press release, September 8, 2016, https://www.finance.senate.gov/ranking-members-news/wyden-proposal-would-crack-down-on-tax-avoidance-in-retirement-plans-create-new-opportunities-for-working-americans-to-save.

[96] See Jennifer Erin Brown, Joelle Saad-Lessler, and Diane Oakley, *Retirement in America: Out of Reach for Working Americans?*, National Institute on Retirement Security, September 2018, https://www.nirsonline.org/wp-content/uploads/2018/09/SavingsCrisis_Final.pdf.

[97] See DOL, Lifetime Income Calculator, https://www.dol.gov/agencies/ebsa/laws-and-regulations/rules-and-regulations/advanced-notices-of-proposed-rulemaking/lifetime-income-calculator.

[98] DOL, Lifetime Income Calculator.

[99] The SECURE Act permitted taxable fellowship and stipend payments to be treated as compensation for the purposes of IRA contributions.

contributions to traditional IRAs past age 70½. The SECURE Act eliminated this age restriction. Contributions to Roth IRAs are allowed at any age provided that the individual has taxable compensation.

The Internal Revenue Code sets annual limits on contributions to traditional and Roth IRAs.[100] In 2020, the contribution limit is $6,000. Individuals aged 50 or older may contribute an additional $1,000, referred to as a *catch-up contribution*. Contribution limits are adjusted for inflation, but catch-up contribution limits are not. The contribution limit applies to all of an individual's IRAs—an individual with both a traditional and Roth IRA may not have aggregate contributions that exceed the limit.

Contributions to traditional IRAs can be made regardless of the individual's income. Contribution eligibility for Roth IRAs is phased out for taxpayers with earnings above specified thresholds. For example, in 2020, individuals filing single or married filing separately with a modified AGI of $139,000 or more are ineligible to contribute to Roth IRAs. Those who are married filing jointly with a modified AGI of $206,000 or more are ineligible to contribute (**Table B-1**).

Traditional IRA contributions may be deductible for individuals who do not have employer-sponsored pension coverage or for those whose earned income falls below certain thresholds (**Appendix A**). Contributions to Roth IRAs are not deductible. However, because Roth IRA contributions are not deductible, the effective contribution limit for Roth IRAs is higher relative to traditional IRAs.[101]

Table 9 describes taxpayer contributions to traditional and Roth IRAs in 2017 (the most recent year for which data are available), respectively. Over 2 million more taxpayers contributed to Roth IRAs than to traditional IRAs in 2017.[102]

Among taxpayers who contributed to traditional IRAs in 2017

- half made the maximum contribution for their age group; and
- the average contribution for those who did not contribute the maximum increased by age group, ranging from about $1,460 for those under age 30 to $2,610 for those 60 and older.[103]

More than five times the number of taxpayers under age 30 contributed to Roth IRAs than traditional IRAs, though roughly the same percentage of each group contributed the maximum amount permitted. Among taxpayers who contributed to Roth IRAs in 2017:

- over one-third contributed the maximum amount for their age group; and

[100] Rollovers, which are transfers of assets from a retirement plan to an IRA (or other retirement plan), and conversions—redesignations of traditional IRA assets as Roth IRA assets—do not count toward annual contribution limits.

[101] To illustrate, consider an individual who wants to contribute the maximum $6,000 contribution in a given year. In a traditional IRA, the individual contributes $6,000, deducting this amount from taxable income (essentially, a "pre-tax" contribution—the contribution amount and any earnings will be taxed at withdrawal). If, instead, the individual contributes $6,000 to a Roth IRA, the contribution is not deductible and is essentially an after-tax contribution—no further taxation will occur on the contribution, making the $6,000 contribution effectively higher.

[102] Note that taxpayers ineligible to deduct traditional IRA contributions may prefer to contribute to Roth IRAs due to the tax advantages.

[103] Note that not all taxpayers are eligible to deduct part or all of their traditional IRA contributions. Deductibility may factor into a taxpayer's choice to contribute the maximum amount. In 2017, taxpayers were not permitted to contribute to traditional IRAs after reaching age 70½.

- the average contribution for those who did not contribute the maximum increased by age group, ranging from about $1,790 for those under age 30 to $2,720 for those 60 and older.[104]

[104] In 2017, the IRA contribution limit for individuals under 50 was $5,500. Individuals aged 50 and over could contribute an additional $1,000 "catch-up" contribution, or $6,500. The maximum contribution for Roth IRAs is phased out for taxpayers approaching the maximum income threshold, which may contribute to the lower percentage of those contributing the maximum to Roth IRAs as compared to traditional IRAs. In addition, individuals who contribute the maximum amount permitted but divide their contributions between traditional and Roth IRAs are not captured in the data as having contributed to the maximum.

Table 9. Contributions to Traditional and Roth IRAs in 2017

	Traditional IRAs			Roth IRAs		
Age Group	**Number of Contributing Taxpayers**	**Percentage of Contributing Taxpayers Contributing the Maximum Amount ($5,500 or $6,500)**	**Average Contribution of Taxpayers Who Did Not Contribute the Maximum Amount**	**Number of Contributing Taxpayers**	**Percentage of Contributing Taxpayers Contributing the Maximum Amount ($5,500 or $6,500)**	**Average Contribution of Taxpayers Who Did Not Contribute the Maximum Amount**
Under 30	233,115	35.4%	$1,456	1,175,163	34.0%	$1,792
30 under 40	668,913	46.7%	$1,883	1,620,759	31.4%	$1,888
40 under 50	867,146	51.3%	$2,066	1,394,130	26.6%	$2,000
50 under 60	1,399,744	48.8%	$2,499	1,417,525	37.4%	$2,473
60 under 70½ (traditional), 60 under 70 (Roth)	1,316,200	54.7%	$2,608	995,486	48.8%	$2,718
70 or older (Roth)	n/a	n/a	n/a	161,042	56.3%	$2,247
All age groups	4,485,118	50.0%	$2,279	6,764,105	35.3%	$2,119

Source: CRS Analysis of *IRS Statistics of Income 2017 Tax Stats—Accumulation and Distribution of Individual Retirement Arrangements (IRA)*, Tables 5 and 6.

Notes: In 2017 (the latest year for which data is available), there were 145.8 million taxpayers. In 2017, the IRA contribution limit for individuals under 50 was $5,500. Individuals aged 50 and older could contribute an additional $1,000 "catch-up" contribution, or $6,500. Prior to 2020, individuals could not contribute to a traditional IRAs in or after the year in which they turned 70½. Maximum contributions refer only to taxpayers who contribute the exact amount of the limit. The maximum contribution for taxpayers whose earned income falls below the contribution limit is lower and is not captured in this table. In addition, the contribution limit applies to all of an individual's IRAs, so individuals who contribute the maximum amount but split contributions between traditional and Roth IRAs will not be recorded in the data as having contributed the maximum amount.

Data on IRA Investments

After individuals roll over funds or contribute to an IRA, they can invest savings in multiple investment options offered by their financial institutions, such as stocks, bonds, and mutual funds. At the end of 2016, ICI estimated that, among traditional IRA assets held by individuals aged 25 and older, on average

- 64% were invested in equities and equity funds (including the equity portion of target-date funds),
- 17.7% were held in balanced funds (which included equity and non-equity portions in target date and non-target date funds), and
- 16.6% were held in bonds and bond funds.[105]

In comparison, at the end of 2016, among Roth IRA assets held by individuals aged 18 and older, on average

- 77.8% were invested in equities and equity funds (including the equity portion of target-date funds),
- 18.9% were held in balanced funds (which included equity and non-equity portions in target date and non-target date funds), and
- 7.1% were held in bonds and bond funds.[106]

On average, a higher percentage of Roth IRA assets were invested in equities and equity funds compared to traditional IRAs, and a higher percentage of traditional IRA assets were invested in bonds compared to Roth IRAs. The Employee Benefit Research Institute estimated that, overall, 59.8% of Roth IRA assets were held in equities compared to 49.0% of traditional IRA assets in 2016.[107]

IRAs and Portfolio Rebalancing

Some suggest that investment portfolios should become more conservative—with increasing allocations to bonds and decreasing allocations to equities—as individuals age.[108] ICI data indicated that in 2016, traditional IRA owners aged 30-54 had, on average, more than 70% of their assets in equities or equity funds (which includes the equity portion of target-date funds) compared to about 60% for investors aged 65 or older.[109] ICI data indicated a similar trend for Roth IRA investment portfolios.

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[105] Balanced funds include a mix of stocks and bonds. Target date funds typically include a mix of stocks and bonds that generally becomes more conservative as an individual approaches retirement age. Percentages are dollar-weighted averages. See ICI, *The IRA Investor Profile: Traditional IRA Investors' Activity, 2007-2016*, September 2018, p. 57, https://www.ici.org/pdf/rpt_18_ira_traditional.pdf.

[106] Percentages are dollar-weighted averages. See ICI, *The IRA Investor Profile: Roth IRA Investors' Activity, 2007-2016*, September 2018, p. 59, https://www.ici.org/pdf/rpt_18_ira_roth_investors.pdf.

[107] Estimates were based on the organization's own IRA database. See Craig Copeland, *EBRI IRA Database: IRA Balances, Contributions, Rollovers, Withdrawals, and Asset Allocation, 2016 Update*, Employee Benefit Research Institute, August 13, 2018, p. 32, https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_456_iras-13aug18.pdf. It appears that the percentage in equities does not include the equity portion of balanced funds.

[108] See, for example, Burton Malkiel, *A Random Walk down Wall Street: Including a Life-Cycle Guide to Personal Investing* (New York: W. W. Norton and Company, 1999).

[109] See ICI, *The IRA Investor Profile: Traditional IRA Investors' Activity, 2007-2016*, p. 57.

ICI collected data on investment trends among traditional IRA owners that had account balances at the end of each year from 2007 through 2016 (whom ICI refers to as *consistent investors*). The percentage of households aged 70 and older in 2016 that invested 100% of their traditional IRA assets in equities was lower than that of younger households. Among households aged 27-59 in 2016 and those aged 60-69 in 2016, the percentage that held 100% of their traditional IRA assets in equities decreased from 2007 to 2016.[110]

The percentage of consistent Roth IRA investors aged 70 and older in 2016 that invested 100% of their assets in equities was similar to those aged 60-69.[111] Across each age group and within each year, a higher percentage of Roth IRA investors had 100% of their assets in equities compared to traditional IRA investors.

It is difficult to know whether the portfolio rebalancing strategy described above is optimal for IRA-owning households. These households are generally wealthier than non-IRA-owning households and may be more likely to take risks in their investment portfolios. The SCF asks households to rate their willingness to take financial risks on a scale of zero (not willing to take risks) to 10 (very willing to take risks). In 2016, the median value for IRA-owning households was five, and the median value for non-IRA-owning households was four.

IRA Savings Accumulation: Policy Options and Considerations

Policy options that could increase how much IRA owners save include modifying contribution limits or deductibility of contributions. Another option that might increase IRA savings is providing information about future balances to current participants by implementing lifetime income disclosures.

As previously noted, the effectiveness of tax incentives for retirement savings is not clear. For example, savings incentives related to IRAs may increase savings in IRAs but coincide with a decrease in other forms of savings, such as in an employer-sponsored plan (or vice versa), so that aggregate household savings may not change. Literature is mixed on whether increased contributions to IRAs represent new savings or a reshuffling of existing assets. Some researchers found that 9% of IRA contributions represented new national savings, while others found a smaller effect—specifically, that increases in the contribution limit between 1983 and 1986 resulted in little to no increase in national saving.[112]

Modify Saver's Credit

The Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) established the Saver's Credit—a nonrefundable tax credit for individuals under specified income thresholds who contribute to a retirement account (such as an employer-sponsored DC plan or IRA). The credit was subsequently made permanent in the Pension Protection Act of 2006 (P.L. 109-280).[113]

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[110] See ICI, *The IRA Investor Profile: Traditional IRA Investors' Activity, 2007-2016*, p. 20. Equities include equities, equity funds, and the equity portion of balanced funds (which include target-date funds).

[111] See ICI, *The IRA Investor Profile: Roth IRA Investors' Activity, 2007-2016*, p. 26.

[112] See Orazio Attanasio and Thomas DeLeire, "The Effect of Individual Retirement Accounts on Household Consumption and National Saving," *Economic Journal*, vol. 112, no. 481 (July 2002); and William Gale and John Karl Scholz, "IRAs and Household Saving," *American Economic Review*, vol. 84, no. 5 (December 1994), http://www.jstor.org/stable/2117770.

[113] The act also indexed to inflation the credit's income limits for eligibility.

Eligible individuals may claim credits equal to 10%, 20%, or 50% of their contributions based on their income and contributions to IRAs or retirement plans. The maximum credit is $1,000 for single filers and $2,000 for taxpayers married filing jointly. For example, in 2020, a single filer with an AGI of $39,000 or less can claim a credit of $1,000 for making a $2,000 contribution. **Appendix D** provides information on eligibility for the credit.

In 2018, the average credit claim was $187.[114] The credit was claimed by

- 6.0% of all tax returns,
- 7.4% of those with an AGI of $10,000 to $25,000 (with an average claim of $170), and
- 15.0% of those with an AGI of $25,000 to $50,000 (with an average claim of $200).[115]

Some researchers found that 9.3% of tax returns were eligible to claim the credit in 2016, with 5.03% actually claiming the credit.[116] Under current law, since individuals under certain income thresholds may not have any tax liability or owe taxes that are less than the full amount of the credit, the benefit of a nonrefundable credit may be limited.

Legislation has proposed expanding the credit or making the credit refundable.[117] Some proposals would deposit the credit into the individual's retirement account rather than against their tax liability, while others would provide a matching amount for individuals who deposited the credit amounts into their retirement accounts.[118] Others would expand the credit and simplify it to a single rate of 50% (rather than a tiered structure).[119]

The JCT estimates that the Saver's Credit reduces tax revenue by $1.2 billion per year in FY2020.[120] President Obama's 2011 budget proposed expanding the credit (by making it available to families with income up $85,000) and making it refundable. The cost estimate was $29.8 billion over FY2011-FY2020.[121] For more information on the Saver's Credit, including a discussion of its effectiveness in supporting low-income taxpayers, see CRS In Focus IF11159, *The Retirement Savings Contribution Credit*.

Modify Contribution Limits

Increasing contribution limits might increase contributions, leading to higher IRA balances for some individuals. Recent data indicate that half of taxpayers who contribute to traditional IRAs and over one-third of those who contribute to Roth IRAs contribute the maximum amount allowed by law (**Table 9**). If IRA contribution limits were to approach or be equal to DC plan

[114] CRS analysis of IRS, *Statistics of Income*, Table 3.3: All Returns: Tax Liability, Tax Credits, and Tax Payments, 2018, https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income.

[115] Ibid.

[116] See Jennifer Brown and David John, *Improving the Saver's Credit for Low- and Moderate-Income Workers*, National Institute on Retirement Security, September 2017, https://www.nirsonline.org/wp-content/uploads/2017/11/final_savers_credit_report_sept_2017.pdf.

[117] See, for example, S. 1431 in the 116th Congress.

[118] See S. 3781 in the 115th Congress and H.R. 837 in the 113th Congress.

[119] See H.R. 8696 in the 116th Congress.

[120] See JCT, *Estimates of Federal Tax Expenditures for Fiscal Years 2019-2023*, p. 29.

[121] See Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2011*, p. 160, https://www.govinfo.gov/content/pkg/BUDGET-2011-BUD/pdf/BUDGET-2011-BUD.pdf.

contribution limits, it is possible that employers would be less likely to offer workplace savings plans.[122] However, employers likely offer DC plans for other reasons, such as employee recruiting and retention, and increases in IRA contribution limits may not affect these employers' employee benefits.

Targeted contribution limit increases could increase savings for certain households. For example, contribution limits could be increased for those without access to employer-sponsored plans, though it is not clear how many IRA-owning households without pension coverage already contribute the maximum amount.

Some policymakers have proposed increasing the IRA catch-up contribution limit for individuals over age 50 or indexing it to inflation—under current law, catch-up contributions for DC plans are adjusted for inflation.[123] In tax year 2017, data indicated that 51.6% of individuals aged 50 and older who contributed to traditional IRAs contributed the maximum amount.[124] In the same year, 43.0% of individuals aged 50 and older who contributed to Roth IRAs contributed the maximum amount.[125]

Modify Deductibility of Traditional IRA Contributions

Appendix A describes the deductibility of traditional IRA contributions for households with and without retirement plans at work. For example, a taxpayer of any filing status who does not have access (and whose spouse, if applicable, does not have access) to a workplace retirement plan may deduct the full amount of his or her contributions, regardless of income. Single taxpayers who do have access to workplace plans but have income at or below $65,000 in 2020 may deduct the full amount of their contributions. Those making $75,000 or more may not deduct any of their contributions.[126] Modifying any of the components of deductibility—including income thresholds, the amount of the deduction, or the differences in deductibility between households with and without retirement plan coverage at work—might affect IRA saving behavior.

The Tax Reform Act of 1986 (P.L. 99-514) phased out deductibility for taxpayers who both (1) had pension coverage and (2) exceeded an income threshold.[127] Following these changes, deductible contributions decreased from $37.8 billion in 1986 to $14.1 billion in 1987, then to $11.9 billion in 1988 and to $10.8 billion in 1989.[128]

Implement Lifetime Income Disclosures

IRAs and private sector DC plans are subject to federal disclosure requirements, though specific requirements differ between them. Among other requirements, IRA providers must provide an

[122] However, some employers, such as those that do not offer an employer match, may not be influenced by an increase in the IRA contribution limit.

[123] See, for example, S. 1431 and H.R. 8696 in the 116th Congress.

[124] CRS analysis of IRS, *Statistics of Income 2017 Tax Stats—Accumulation and Distribution of Individual Retirement Arrangements (IRA)*, Table 5.

[125] CRS analysis of IRS, *Statistics of Income 2017 Tax Stats—Accumulation and Distribution of Individual Retirement Arrangements (IRA)*, Table 6.

[126] For taxpayers married filing jointly who have access to workplace savings plans, those making $104,000 or less may deduct the full amount of their contributions. Those making $124,000 or more may not deduct any of their contributions.

[127] Income thresholds varied based on tax filing status.

[128] See Sarah Holden et al., *The Individual Retirement Account at Age 30: A Retrospective*, ICI, 2006, Figure 3, https://www.retirementplanblog.com/wp-content/uploads/sites/304/2006/11/per11-01.pdf.

annual report for a participant.[129] The annual report must contain, among other items, information on the amount of contributions to and distributions from the account and the name and address of the trustee or issuer.[130]

Unlike DC plans (as required by the SECURE Act), IRA providers are not required to provide lifetime income disclosures to participants. The SECURE Act required that, following DOL guidance, private sector DC plans include these disclosures in their annual benefit statements to participants.[131] Lifetime income disclosures provide information on how a participant's total DC balance would be converted into a lifetime income stream (e.g., in terms of monthly payments during retirement).[132] These disclosures might help participants better evaluate the adequacy of their retirement savings. There appears to be little research on the effect of such disclosures, though one study found that participants who were given income projections and information about how to change plan enrollment were more likely to increase contribution levels than were participants without this information.[133]

Leakages from IRAs

Early withdrawals, or those taken before an individual reaches age 59½, are sometimes referred to as *leakages*. Some stakeholders are interested in minimizing leakage, because it can negatively affect individuals' future retirement income (though individuals could later contribute enough to make up for lost savings).[134] Other stakeholders are less concerned with early access to retirement funds, citing retirement accounts' ability to double as emergency savings funds.[135] Flexibility to access IRA funds prior to retirement could factor into an individual's initial decision to use an IRA for savings.[136] However, flexibility might also cause individuals to draw down IRA assets prior to retirement and erode these savings.

To discourage pre-retirement withdrawals, the Internal Revenue Code generally imposes a 10% tax penalty on the taxable amount of withdrawals before an individual reaches age 59½, dies, or becomes disabled. The penalty does not apply if the reason for the distribution is listed in Title

[129] See 26 C.F.R. §1.408-5, *Annual reports by trustees or issuers*.

[130] An endowment contract is a type of annuity that also provides life insurance protection.

[131] DOL released an interim final rule in August 2020, available at https://www.dol.gov/agencies/ebsa/key-topics/retirement/lifetime-income.

[132] The SECURE Act specified that monthly payment amounts be calculated based on a single life annuity and a qualified joint and survivor annuity (QJSA) using assumptions as prescribed by DOL. In a single life annuity, one participant receives a monthly benefit until death. In a QJSA, a surviving spouse continues to receive monthly benefit after a spouse's death. Single life annuities generally provide higher monthly payments than QJSAs do. This information may benefit participants by providing a long-term perspective on savings, which might better inform participants about their financial situations in retirement.

[133] See Gopi Shah Goda, Colleen Flaherty Manchester, and Aaron Sojourner, *What will My Account Really Be Worth? An Experiment on Exponential Growth Bias and Retirement Saving*, NBER Working Paper 17927, March 2012, https://www.nber.org/papers/w17927.pdf.

[134] See Office of Senator Mike Enzi, "Kohl, Enzi Offer Legislation to Protect 401(k) Retirement Savings," press release, May 18, 2011, https://www.enzi.senate.gov/public/index.cfm/2011/5/kohl-enzi-offer-legislation-to-protect-401-k-retirement-savings.

[135] See Anne Tergesen and Alice Uribe, "Should You Tap Retirement Funds in a Crisis? Increasingly, People Say Yes," *Wall Street Journal*, June 4, 2020, https://www.wsj.com/articles/should-you-tap-retirement-funds-in-a-crisis-increasingly-people-say-yes-11591283926.

[136] See Robert Argento, Victoria Bryant, and John Sabelhaus, *Early Withdrawals from Retirement Accounts During the Great Recession*, November 2013, https://www.irs.gov/pub/irs-soi/14rpearlywithdrawalretirement.pdf.

26, Section 72(t), of the *U.S. Code*. Exceptions for the penalty for early withdrawals from IRAs (but not DC plans) include withdrawals for certain higher education expenses, health insurance premiums, and "first-time" home purchases.

Some stakeholders have questioned the disparate treatment of IRA and DC penalty exceptions.[137] For example, individuals with IRAs may withdraw funds for qualified higher education expenses penalty-free, but individuals with 401(k) plans may not. Even if a 401(k) plan permits withdrawals for higher education expenses due to employee hardship, the penalty would still apply. In addition, individuals with DC plans who retire during or after the year they turn age 55 (age 50 for qualified public safety officers) are not subject to the 10% penalty, but those with an IRA are.[138]

In addition to the exceptions provided in Title 26, Section 72(t), of the *U.S. Code*, Congress has exempted early IRA and DC plan withdrawals from the penalty following certain past events, including multiple natural disasters and the COVID-19 pandemic.[139] In these cases, Congress has allowed individuals to recontribute amounts to accounts. Amounts that are recontributed do not count toward contribution limits.

While leakage can occur when an individual withdraws funds for a specific reason (e.g., higher education or medical expenses), it can also occur—intentionally or unintentionally—during the rollover process. Rollovers are classified as (1) direct transfers, (2) trustee-to-trustee transfers, and (3) 60-day rollovers. In direct transfers and trustee-to-trustee transfers, funds are moved directly from one account to another or the individual receives a check made payable to the *new account*. In a 60-day rollover, an individual receives a check with an amount payable to the *individual* and has 60 days to roll over the amount to another retirement account. In a 60-day rollover, an employer-sponsored DB or DC retirement plan must withhold 20% of the amount for income tax purposes and the individual must use other funds to roll over the full amount of the distribution.[140] Any portion of the distribution not rolled over is included in taxable income. IRA distributions are subject to 10% withholding for income tax purposes unless the individual opts out of withholding or chooses a different withholding amount.

Amounts that are not rolled over within 60 days are sometimes described as *cashouts* and are generally considered to be leakage from retirement savings. The cashout amount may also be includible in taxable income and subject to the 10% early withdrawal penalty. The Government Accountability Office (GAO) found that cashouts of 401(k) account balances of $1,000 or more from account owners aged 25-55 totaled $9.8 billion in 2013.[141]

Data on Early Withdrawals from IRAs

Estimates of leakages from IRAs vary widely, perhaps due to varying definitions of which withdrawal situations are included as leakages or because individuals taking withdrawals from IRAs are not required to report the reason for doing so. Some researchers consider any taxable

[137] See Natalie Choate, "The 401(k) Early Withdrawal Penalty: It's Not Fair!," Morningstar, December 14, 2018, https://www.morningstar.com/articles/904454/the-401k-early-withdrawal-penalty-its-not-fair.

[138] See 26 U.S.C. §72(t).

[139] See CRS Report R45864, *Tax Policy and Disaster Recovery*.

[140] See IRS, "Rollovers of Retirement Plan and IRA Distributions," https://www.irs.gov/retirement-plans/plan-participant-employee/rollovers-of-retirement-plan-and-ira-distributions.

[141] GAO, *Retirement Savings: Additional Data and Analysis Could Provide Insight into Early Withdrawals*, GAO 19-179, March 2019, p. 12, https://www.gao.gov/products/GAO-19-179.

withdrawal from IRAs—even those that are exempt from the 10% penalty, such as withdrawals for higher education expenses—to be leakage, because there is no guarantee that the individual will eventually replace these funds, while others focus on penalized taxable distributions only.[142]

The GAO found that in 2013, 12% of individuals aged 25-55 withdrew about $39.5 billion (in 2017 dollars) from their IRAs.[143] This amount corresponded to about 3% of that group's IRA assets in that year.[144] GAO's 2013 estimate included penalized and non-penalized distributions and exceeds ICI's 2018 estimate, which found that 3% of non-retired traditional IRA owners took withdrawals.[145]

Other researchers found that about half of taxable distributions for individuals under age 55 were penalized distributions.[146] These researchers estimated that in 2010, the following groups of taxpayers withdrew penalized amounts from retirement accounts (which includes both IRAs and DC plans):

- 3.8% of those younger than age 50,
- 4.8% of those aged 50-54, and
- 3.9% of those aged 55-58.[147]

The average penalized withdrawal amount for taxpayers under age 50 was $8,100.[148] About half of penalized withdrawals were less than $3,100.[149]

Stakeholders may be interested in knowing if early withdrawal incidence changes during or following an economic decline. In response to the 2007-2009 recession, researchers found that early withdrawal incidence modestly increased. In 2004, about 13.3% of taxpayers under age 55 with pension coverage or retirement accounts (which include IRAs and DC plans) took taxable distributions, compared to 13.7% in 2007 and 15.4% in 2010.[150]

Leakages from IRAs: Policy Options and Considerations

Though estimates of the amount of leakages differ, it appears that the majority of IRA owners do not take early withdrawals in a given year. However, should policymakers be interested in either

[142] For example, Argento, Bryant, and Sabelhaus (*Early Withdrawals from Retirement Accounts During the Great Recession*) estimate leakages using taxable distributions and taxable penalized distributions, noting that "whether or not a penalty applies to the early withdrawal depends on factors that may or may not be indicative of the 'leakage' concept we are trying to capture." Peter Brady and Steven Bass (*Decoding Retirement: A Detailed Look at Retirement Distributions Reported on Tax Returns*, January 21, 2020, https://www.irs.gov/pub/irs-soi/20rpdecodingretirement.pdf) estimate leakages using penalized distributions.

[143] This amount is equivalent to $42.0 billion in 2020 dollars.

[144] See GAO, *Retirement Savings*, p. 11.

[145] See Sarah Holden and Daniel Schrass, *The Role of IRAs in US Households' Saving for Retirement*, ICI, 2019, Figure 24, https://www.ici.org/pdf/per25-10.pdf.

[146] Holden and Schrass, *The Role of IRAs in US Households' Saving for Retirement*.

[147] See Brady and Bass, *Decoding Retirement*. IRAs and employer-sponsored DC plans estimates are reported jointly. Unpenalized taxable distributions include, among others, payments made to beneficiaries after inheriting accounts, those to an account owner who becomes disabled before reaching age 59½, and payments to an alternate payee under a qualified domestic relations order. IRAs also do not penalize distributions used for the purchase of a first-time home, qualified education expenses, and those by unemployed individuals for health insurance premiums.

[148] Brady and Bass, *Decoding Retirement*. This estimate refers to employer-sponsored DC plans and IRAs.

[149] Brady and Bass, *Decoding Retirement*.

[150] See Argento, Bryant, and Sabelhaus, *Early Withdrawals from Retirement Accounts During the Great Recession*.

expanding withdrawal flexibility (essentially, treating IRAs as tax-preferred savings accounts rather than as retirement accounts) or reducing leakages, available policy options include permitting IRA loans, allowing recontributions for certain withdrawals, and increasing the age at which the early withdrawal penalty applies.

Permit IRA Loans

Loans are not permitted from IRAs.[151] Loans may be preferable to withdrawals because individuals can pay back the borrowed amounts—with interest—to their own accounts, which may help preserve retirement savings. However, an account balance may not grow to the same extent had the individual not taken a loan. In addition, an individual could default on the loan and may be subject to tax and penalties on the outstanding balance. IRA loans could reduce early withdrawals but might also create administrative difficulties for providers. For example, IRA providers may have to manage the logistics of repayments and communicate to participants when they miss payments or default on a loan.[152]

Allow Recontributions for Certain Withdrawals

Congress could expand the circumstances in which individuals are permitted to recontribute amounts that were withdrawn. In response to certain past natural disasters and the COVID-19 pandemic, qualifying individuals may recontribute amounts withdrawn from retirement accounts.[153] Allowing recontributions could help individuals restore their retirement savings, though it could modify IRAs from serving as tax-advantaged retirement accounts to serving as tax-advantaged savings accounts.

Increase Age Before Which 10% Penalty Applies

A GAO report mentions that increasing the age before which the 10% early withdrawal penalty applies from 59½ to 62 would align with the earliest age that an individual can claim Social Security benefits and, therefore, "may encourage individuals to consider a more comprehensive retirement strategy."[154] However, raising this age may penalize individuals who shift to working part-time and use IRA assets as supplemental income or individuals who lose their jobs later in their careers and need to access assets. As previously mentioned, individuals with DC plans who separate from their employers during or after the year in which they turn age 55 (age 50 for qualified public safety officers) are permitted to withdraw funds from their employer-sponsored DC accounts penalty-free, while individuals with IRAs are not. In addition, an increase in the age at which the penalty no longer applies could discourage individuals from using IRAs to save for retirement.

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[151] Some may refer to the process of withdrawing from an IRA and then subsequently rolling it back to the same or different account within the 60-day rollover deadline as an IRA loan. This is an unofficial term that is distinct from an actual loan with loan terms. A 401(k) plan may, but is not required to, offer loans. In general, individuals may borrow the lesser of 50% of their vested 401(k) account balance or $50,000.

[152] See GAO, *Retirement Savings*, p. 31. Loans from DC plans are typically repaid via payroll deduction, which is not a tool available to IRA providers.

[153] See, for example, Section 2202 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136). Amounts may be recontributed over a three-year period.

[154] See GAO, *Retirement Savings*, p. 31. For more information on claiming Social Security benefits, see CRS Report R42035, *Social Security Primer*.

Asset Drawdown

Determining the optimal strategy for withdrawing IRA and other retirement assets can be a challenging task for many households. This task factors in a household's expected longevity, tax consequences, future financial needs, and any bequest motives, among others. Nearly all individuals with IRAs also receive monthly benefits from Social Security, which likely insulates them from being without income but also introduces another income source to consider into the drawdown decision.[155]

To ensure that retirees use assets in their tax-advantaged retirement accounts primarily for retirement purposes rather than for estate planning or as a tax shelter, an individuals with a traditional IRA is required by law to withdraw a specified amount each year after reaching 72, referred to as a required minimum distribution (RMD).[156] Failure to take the RMD results in a 50% excise tax on the amount that was required to have been distributed.[157] Roth IRAs are not subject to RMDs, though beneficiaries who inherit Roth IRAs may be.[158]

Strategies to withdraw from IRAs include withdrawals based on RMDs, "the 4% rule," fixed-dollar withdrawals, fixed-percentage withdrawals, systematic withdrawals, or a "buckets" strategy.[159] Another strategy is for households to use IRA assets to delay claiming Social Security (and thus, receive larger Social Security benefits than if they had claimed earlier).[160]

Other households may choose to guarantee lifetime payments by purchasing an annuity.[161] An annuity is a stream of monthly payments in exchange for a lump-sum dollar amount, generally purchased through an insurance company or purchased over time as part of an investment option.[162] Annuities come in multiple forms. A fixed annuity guarantees a specified monthly payment, while the payment amount of a variable annuity fluctuates with the value of the underlying investments. Annuities also differ based on the payment schedule: An immediate annuity begins payments to the purchaser shortly after purchase, while a deferred annuity starts payment at a specified date in the future. The duration of annuity payments can be based on a

[155] See Dushi, Iams, and Trenkamp, "The Importance of Social Security Benefits to the Income of the Aged Population."

[156] See 26 U.S.C. §401(a)(9). Though individuals must take yearly withdrawals, they are not required to spend withdrawal amounts and could instead place them in a taxable account. The SECURE Act, passed in December 2019, included a provision that increased the age after which individuals must begin receiving RMDs from traditional IRAs from 70½ to 72. Individuals who turned age 70½ on or after January 1, 2020, must begin taking RMDs after reaching age 72.

[157] In two instances, Congress has suspended the penalty for failing to take the RMD—in 2009 and 2020, following the 2007-2009 economic recession and the 2020 COVID-19 pandemic, respectively. For more information, see CRS Insight IN11349, *The CARES Act and Required Minimum Distributions (RMDs): Options for Certain Individuals*.

[158] For more information on the SECURE Act and inherited accounts, see CRS In Focus IF11328, *Inherited or "Stretch" Individual Retirement Accounts (IRAs) and the SECURE Act*.

[159] For example, a household that chooses a fixed-dollar withdrawal takes out the same amount over several years. Households that choose a systematic withdrawal strategy withdraw only investment income so that the principal can continue to grow. For more information on these methods, see BlackRock, "What Are My Retirement Withdrawal Strategies?," https://www.blackrock.com/us/individual/education/retirement/withdrawal-rules-and-strategies.

[160] See Susan Garland, "Tap an IRA Early, Delay Social Security," Kiplinger, April 26, 2013, https://www.kiplinger.com/article/retirement/t051-c000-s004-tap-an-ira-early-delay-social-security.html. For Social Security claiming ages, see CRS Report R44670, *The Social Security Retirement Age*.

[161] Note that households who purchase annuities equal to 100% of their IRA assets would no longer be considered IRA-owning households.

[162] Annuity contracts are generally regulated by state law.

single life or structured as a joint-and-survivor annuity, which continues to provide payments to a surviving spouse after an individual dies.

Data on Asset Drawdown Patterns and Annuities for IRA-Owning Households

Because the SCF does not collect data on the same households over time, it is difficult to determine drawdown patterns and, relatedly, the incidence of households outliving assets. Households that had an IRA but exhausted their assets before 2019 would not be included in the SCF data as IRA-owning households. It is possible that households that have exhausted their assets used their IRA savings strategically, such as to delay claiming Social Security benefits. It is also possible that these households exhausted funds for living expenses and now face financial insecurity.

Using its own database, ICI found that 94% of traditional IRA-owning households aged 70 and older took withdrawals based on their RMD amount in tax year 2018.[163] Original owners of Roth IRAs are not subject to RMDs: ICI found that 5.9% of Roth IRA owners aged 70 or older took withdrawals in tax year 2016.[164]

At the end of 2019, 7.2% of U.S. retirement assets were held in annuities.[165] CRS analysis of the SCF indicated that 4.7% of households had annuities in 2019. Annuities have not been popular in practice, perhaps because Social Security already provides lifetime payments or because retirees are hesitant to pay a relatively large lump sum in exchange for smaller monthly payments.[166] In addition, an individual who wishes to make bequests or wants greater withdrawal flexibility might prefer to maintain an IRA over an annuity.

IRA Asset Drawdown: Policy Options and Considerations

Asset drawdown can be a complicated decision for households. On one hand, households risk outliving their savings by withdrawing their funds too early. On the other hand, households risk reducing their consumption to a degree that affects their standard of living by withdrawing too conservatively in earlier retirement years. Policymakers have proposed options that would increase drawdown flexibility for households by (1) increasing the age after which traditional IRA owners must begin taking RMDs or (2) eliminating the RMD for traditional IRA owners with account balances below a specified threshold.[167]

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[163] See Holden and Schrass, *The Role of IRAs in US Households' Saving for Retirement*, Figure 24.

[164] See ICI, *The IRA Investor Profile: Roth IRA Investors' Activity, 2007-2016*, Figure 4.2.

[165] CRS analysis of data in ICI, *The US Retirement Market, Fourth Quarter 2019*, Table 1. U.S. retirement assets included public and private DB plans, DC plans, annuities, and IRAs.

[166] For more information on the "annuity puzzle," see Fiona Stewart, "Policy Issues for Developing Annuities Markets," OECD Working Papers on Insurance and Private Pensions No. 2, January 2007, https://www.oecd.org/daf/fin/insurance/37977188.pdf; and Martin Baily and Benjamin Harris, "Can Annuities Become a Bigger Contributor to Retirement Security?," Brookings Institution, June 2019, https://www.brookings.edu/wp-content/uploads/2019/06/ES_20190624_BailyHarris_Annuities.pdf.

[167] Though not discussed in this report, some researchers have proposed Individual Tontine Accounts as a way to provide lifetime income to retirees. For more information, see Richard Fullmer and Michael Sabin, "Individual Tontine Accounts," *Journal of Accounting and Finance*, vol. 19, no. 8 (2018), doi.org/10.33423/jaf.v19i8.2615.

Policymakers seeking to expand or promote lifetime income options may be interested in policies surrounding annuities.[168] One type of deferred annuity—the qualifying longevity annuity contract (QLAC)—is currently available to IRA owners. Individuals who purchase a QLAC receive guaranteed lifetime income payments that begin at a specified age (as late as age 85). Modifying rules surrounding QLACs could increase their usage.

Increase Age to Begin Taking RMDs from Traditional IRAs

The SECURE Act increased the age after which RMDs must begin from 70½ to 72. Some policymakers have proposed further increasing this age, which could allow funds to remain in the account for a longer period of time and continue to accrue investment earnings.[169] As previously mentioned, the RMD assures that tax-deferred retirement accounts that have been established to provide income during retirement are not used as permanent tax shelters or as vehicles for transmitting wealth to heirs.

The benefits of this policy would likely accrue to households that have the ability to further postpone account withdrawals rather than households that rely on annual withdrawals to meet necessary expenses. However, this policy may better align with an aging workforce and increased longevity.[170]

Eliminate RMD for Certain Traditional IRA Owners

Eliminating RMDs for traditional IRA-owning households with balances under a specified threshold is another policy option.[171] Congress has twice suspended the RMD—in 2009, in response to the 2007-2009 recession, and in 2020, in response to the COVID-19 pandemic. Two separate studies on the 2009 RMD suspension—using different samples—found that roughly one-third of individuals subject to RMD rules who took distributions in 2008 did not take them in 2009.[172] In both studies, the likelihood of not taking a distribution increased with account balance and decreased with an account holder's age. It is unclear how many households would benefit from this policy, as households with lower retirement assets may rely on annual withdrawals regardless of whether they are required.

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[168] Most recently, the SECURE Act included a provision that aimed to facilitate greater adoption of annuity distribution options in DC plans by creating a safe harbor for annuity provider selection. Future research will be helpful in determining if the provision increases annuity usage. The SECURE Act's provision did not apply to IRAs, as many IRA providers already offer annuity products. See Section 109 of Division O of P.L. 116-194.

[169] See, for example, S. 1431 and H.R. 8696 in the 116th Congress. S. 1431 would increase the age to 75 for calendar years after 2029.

[170] See U.S. Senate Special Committee on Aging, *America's Aging Workforce: Opportunities and Challenges*, December 2017, https://www.aging.senate.gov/imo/media/doc/Aging%20Workforce%20Report%20FINAL.pdf; and U.S. House Committee on Ways and Means, Chairman Richard E. Neal, *The Setting Every Community Up For Retirement Enhancement Act of 2019*, https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SECURE%20Act%20section%20by%20section.pdf.

[171] See, for example, S. 1431 and H.R. 8696 in the 116th Congress. These bills include provisions that would eliminate the RMD for individuals whose aggregate retirement savings do not exceed $100,000.

[172] See Jacob A. Mortenson, Heidi R. Schramm, and Andrew Whitten, "The Effects of Required Minimum Distribution Rules on Withdrawals from Traditional IRAs," *National Tax Journal*, vol. 72, no. 3 (September 2019); and Jeffrey Brown, James Poterba, and David Richardson, "Do Required Minimum Distributions Matter? The Effect of the 2009 Holiday on Retirement Plan Distributions," NBER Working Paper 20464, September 2014, http://www.nber.org/papers/w20464. In 2009, RMDs had to begin after account owners reached age 70½.

Since Roth IRAs are not subject to RMDs, eliminating them for individuals with traditional IRAs (even if under a threshold account balance) would result in disparate tax treatment for individuals who instead chose to save using a Roth IRA. Contributions to Roth IRAs are not deductible from taxable income (and therefore described as "after-tax" contributions). Eliminating the RMD for traditional IRAs would allow individuals to defer taxes throughout their entire lives, resulting in disparate tax treatment.

Modify Rules Surrounding QLACS

In 2014, a Treasury regulation created a type of deferred annuity called a qualifying longevity annuity contract (QLAC).[173] Individuals with DC plans or traditional IRAs can use savings to fund QLACs, which guarantee lifetime income payments that begin at a specified age (as late as age 85). Individuals can use 25% of their account balance—up to $135,000—to purchase QLACs. The amount used to purchase a QLAC is not subject to RMDs until the account owner turns age 85. This allows account owners to defer taxation on QLAC assets until that point.

Stakeholders have suggested several modifications to QLAC rules that may increase usage of this lifetime income option. These include increasing the amount that can be used to purchase QLACs and clarifying protections for surviving spouses for QLACs with joint-and-survivor annuities following divorce.[174] In the 116th Congress, S. 1431 and H.R. 8696 include both of these provisions.

Though QLACs can provide retirees with a lifetime income option, they may not be widely used because of some of the same reasons that annuities are not widely used. In addition, low interest rates are generally associated with decreased annuity purchases: Total annuity sales in the first six months of 2020 were 16% lower than sales in the same time period of 2019.[175] As of September 2020, interest rates are hovering around 0.13%.[176]

Given that QLACs are a relatively new type of annuity option, there does not appear to be much research on existing household QLAC usage. In addition, many surveys used to study retirement income do not include questions about QLAC holdings.[177] Future research could provide insight into the usage and benefits, if any, of QLACs.

[173] See 26 C.F.R. Parts 1 and 602.

[174] See Insured Retirement Institute, *2020 Federal Retirement Security Blueprint*, https://www.myirionline.org/docs/default-source/advocacy-files/2020-blueprints/iri_federal_advocacy-blueprint_2020.pdf.

[175] See Retirement Income Journal, "Low Interest Rates Shock Sales of Most Annuities," August 20, 2020, https://retirementincomejournal.com/article/low-interest-rates-shock-sales-of-most-annuities/.

[176] See 1-Year Treasury Bill: Secondary Market Rate, FRED, Federal Reserve Bank of St. Louis, September 18, 2020, https://fred.stlouisfed.org/series/DTB1YR.

[177] See Constantijn Panis and Michael Brien, "Innovations and Trends in Annuities: Qualifying Longevity Annuity Contracts," October 24, 2016, https://www.dol.gov/sites/dolgov/files/EBSA/researchers/analysis/retirement/innovations-and-trends-in-annuities.pdf.

Appendix A. Traditional IRA Deductibility Rules

Deductibility of traditional IRA contributions depends on tax filing status, AGI, and whether the individual (or spouse, if applicable) is covered by a workplace retirement plan.

Table A-1. Deductibility of Traditional IRA Contributions for Individuals Not Covered by Retirement Plans at Work for 2019 and 2020

Filing Status	2019 AGI	2020 AGI	Deduction Allowed
Single, head of household, qualifying widow(er), or married filing jointly or separately with a spouse who is not covered by a plan at work	Any amount	Any amount	Full deduction
Married filing jointly with a spouse who is covered by a plan at work	$193,000 or less	$196,000 or less	Full deduction
	More than $193,000 but less than $203,000	More than $196,000 but less than $206,000	Partial deduction
	$203,000 or more	$206,000 or more	No deduction
Married filing separately with a spouse who is covered by a plan at work	Less than $10,000	Less than $10,000	Partial deduction
	$10,000 or more	$10,000 or more	No deduction

Source: IRS Publication 590-A, http://www.irs.gov/publications/p590a/ and *2020 Limitations Adjusted as Provided in Section 415(d), etc.*, Notice 2019-59, https://www.irs.gov/pub/irs-drop/n-19-59.pdf.

Table A-2. Deductibility of Traditional IRA Contributions for Individuals Covered by Retirement Plans at Work for 2019 and 2020

Filing Status	2019 AGI	2020 AGI	Deduction Allowed
Single or head of household	$64,000 or less	$65,000 or less	Full deduction
	More than $64,000 but less than $74,000	More than $65,000 but less than $75,000	Partial deduction
	$74,000 or more	$75,000 or more	No deduction
Married filing jointly or qualifying widow(er)	$103,000 or less	$104,000 or less	Full deduction
	More than $103,000 but less than $123,000	More than $104,000 but less than $124,000	Partial deduction
	$123,000 or more	$124,000 or more	No deduction
Married filing separately	Less than $10,000	Less than $10,000	Partial deduction
	$10,000 or more	$10,000 or more	No deduction

Source: IRS Publication 590-A, http://www.irs.gov/publications/p590a/ and *2020 Limitations Adjusted as Provided in Section 415(d), etc.*, Notice 2019-59, https://www.irs.gov/pub/irs-drop/n-19-59.pdf.

Appendix B. Roth IRA Eligibility and Contribution Limits

Roth IRA eligibility is limited by income. Contributions are phased out as individuals approach the income threshold based on their filing status.

Table B-1. Roth IRA Eligibility and Contribution Limits in 2019 and 2020

Filing Status	2019 AGI	2019 Contribution Limits	2020 Modified AGI	2020 Contribution Limits
Single, head of household, married filing separately (and did not live with spouse at any time during the year)	Less than $122,000	$6,000 ($7,000 if 50 years or older) or AGI, whichever is smaller	Less than $124,000	$6,000 ($7,000 if 50 years or older) or AGI, whichever is smaller
	At least $122,000 but less than $137,000	Reduced contribution limit	At least $124,000 but less than $139,000	Reduced contribution limit
	$137,000 or more	Ineligible to contribute	$139,000 or more	Ineligible to contribute
Married filing separately and lived with spouse at any time during the year	Less than $10,000	Reduced contribution limit	Less than $10,000	Reduced contribution limit
	$10,000 or more	Ineligible to contribute	$10,000 or more	Ineligible to contribute
Married filing jointly, qualifying widow(er)	Less than $193,000	$6,000 ($7,000 each if 50 and older) or AGI, whichever is smaller	Less than $196,000	$6,000 ($7,000 each if 50 and older) or AGI, whichever is smaller
	At least $193,000 but less than $203,000	Reduced contribution limit	At least $196,000 but less than $206,000	Reduced contribution limit
	$203,000 or more	Ineligible to contribute	$206,000 or more	Ineligible to contribute

Source: IRS Publication 590-A, http://www.irs.gov/publications/p590a/; and IRS, "401(k) Contribution Limit Increases to $19,500 for 2020; Catch-Up Limit Rises to $6,500," press release, https://www.irs.gov/newsroom/401k-contribution-limit-increases-to-19500-for-2020-catch-up-limit-rises-to-6500.

Notes: Individuals aged 50 and older can make additional $1,000 catch-up contributions. The AGI limit for eligibility has been adjusted for inflation since 2007. Beginning in 2009, the traditional and Roth IRA contribution limit has also been adjusted for inflation. A worksheet for computing reduced Roth IRA contribution limits is provided in IRS Publication 590-A.

Appendix C. Equivalence of Traditional and Roth IRAs

Traditional and Roth IRAs provide an individual with identical amounts to spend in retirement if (1) tax rates are the same at the time of contribution and withdrawal and (2) there is equal investment growth in the traditional and Roth accounts. In a traditional IRA, the contribution is deducted from taxable income and can accrue investment returns until withdrawal. At the time of withdrawal, the withdrawal amount is included in taxable income.

In a Roth IRA, the contribution is not deductible (and so is made with "after-tax" income). In the example below, an individual contributing 10% of either pre-tax income (traditional) or post-tax income (Roth) would contribute $5,000 to a traditional IRA and, with a 25% tax rate, a $3,750 contribution to a Roth IRA.

At the time of withdrawal (assuming retirement age), the $3,750 contribution to the Roth IRA, assuming a 50% investment return, would amount to $5,625 to spend in retirement. The original $5,000 contribution to a traditional IRA, also assuming a 50% investment return, would amount to $7,500 but, after facing a 25% tax rate, would also equal $5,625.

Table C-1. Equivalence of Traditional and Roth IRA Distributions

	Traditional Account	Roth Account
Contributions		
Income	$50,000	$50,000
Contribution to traditional account (10% of income)	$5,000	–
Taxable income	$45,000	$50,000
Taxes paid (25% tax rate)	$11,250	$12,500
After-tax income	$33,750	$37,500
Contribution to Roth account (7.5% of income, 10% of after-tax income)	–	$3,750
Income after taxes and retirement plan contributions	$33,750	$33,750
Distributions		
Future account balance (assume 50% investment growth)	$7,500	$5,625
Taxes paid on distribution from traditional account (25% tax rate)	$1,875	–
Amount to spend from retirement accounts	**$5,625**	**$5,625**
Taxes paid	**$13,125**	**$12,500**

Source: Congressional Research Service.

Notes: "All else being equal" includes assumptions such as (1) the identical effective tax rate on income when the funds are contributed and distributed and (2) equal investment growth in the traditional and Roth accounts. In practice, households typically have lower effective taxes in retirement than when working. For illustrative purposes, an effective income tax rate of 25% and an investment return of 50% are assumed. The equivalence result does not depend on the time frame or on using specific tax and investment growth rates.

Appendix D. Retirement Savings Contribution Credit

The Retirement Savings Contribution Credit is a tax credit available to taxpayers who contribute to employer-sponsored DC retirement plans or IRAs.

Table D-1. Retirement Savings Contribution Credit in 2019 and 2020

Filing Status	2019 Income Limits	2020 Income Limits	Percentage Credit
Single, married filing separately, qualifying widow(er)	$1-$19,250	$1-$19,500	50%
	$19,251-$20,750	$19,501-$21,250	20%
	$20,751-$32,000	$21,251-$32,500	10%
	more than $32,000	more than $32,500	0%
Head of household	$1-$28,875	$1-$29,250	50%
	$28,876-$31,125	$29,251-$31,875	20%
	$31,126-$48,000	$31,876-$48,750	10%
	more than $48,000	more than $48,750	0%
Married filing jointly	$1-$38,500	$1-$39,000	50%
	$38,501-$41,500	$39,001-$42,500	20%
	$41,501-$64,000	$42,501-$65,000	10%
	more than $64,000	more than $65,000	0%

Source: IRS Publication 590-A, http://www.irs.gov/publications/p590a/; and IRS, "401(k) Contribution Limit Increases to $19,500 for 2020; Catch-Up Limit Rises to $6,500," press release, https://www.irs.gov/newsroom/401k-contribution-limit-increases-to-19500-for-2020-catch-up-limit-rises-to-6500.

Notes: Individuals aged 50 and older can make additional $1,000 catch-up contributions. The AGI limit for eligibility has been adjusted for inflation since 2007. Beginning in 2009, the traditional and Roth IRA contribution limit has also been adjusted for inflation. A worksheet for computing reduced Roth IRA contribution limits is provided in IRS Publication 590-A.

Author Information

Elizabeth A. Myers
Analyst in Income Security

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