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IRA Withdrawal Patterns in Times of Crisis

By Zahra Ebrahimi, Ph.D., Employee Benefit Research Institute

AT A GLANCE

One of the provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act that affects retirees is the waiver of required minimum distributions (RMDs) for 2020. The waiver, which applies to all 401(k) and individual retirement account (IRA) owners, provides flexibility so that retirees can avoid liquidating assets at low prices and preserve their assets.

In this *Issue Brief*, we explore historical IRA withdrawal patterns of older Americans, including those taking only RMDs and those taking distributions that exceed the RMD level. We look at prior crises, such as the Great Recession of 2008–2009, to see how withdrawal patterns were affected by both financial hardships and RMD waivers during that time.

Using the Health and Retirement Study (HRS), the Employee Benefit Research Institute (EBRI) examines the IRA withdrawal behavior of older Americans in the 50–70 and 71-and-older age groups, before and after the age of RMDs, from 2002–2016, biennially. We find that:

- Both the share of households reporting IRA withdrawals and the average percentage of their account balances withdrawn went up between 2008 and 2010 for IRA owners ages 50–70, suggesting that during market downturns, households are more likely to withdraw too much, too fast from their IRAs.
- For households ages 71 and older who were subject to RMDs, the 2008 market downturn did not appear to have increased the share withdrawing from their IRAs. However, it did result in increased average withdrawals relative to account balances for those taking withdrawals in excess of the RMD. The 2009 RMD waiver had a modest impact in lowering the share of households who made RMD-only withdrawals.
- IRA withdrawals of households ages 50–70 and those ages 71 and older who withdrew more than the RMD were associated with a decline in the households' other financial assets.
- On average, households ages 71 and older who withdrew only RMDs increased their other financial savings and non-housing wealth.
- Both the share of households taking withdrawals that exceeded RMDs and the average percentage of the IRA balance withdrawn increased as income decreased.

Health and Retirement Study (HRS), public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI (1992–2016).

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IRA Withdrawal Patterns in Times of Crisis

By Zahra Ebrahimi, Ph.D., Employee Benefit Research Institute

Introduction

Saving for retirement has increasingly involved the use of individual retirement accounts (IRAs). According to the Health and Retirement Study (HRS) 2016, 48 percent of married households and 26 percent of single households reported owning such an account.[1] On average, married and single households kept a balance of $139,000 and $44,000 in their account, respectively (including zeros).[2] As balances kept in IRAs are intended to be used to finance spending in retirement, withdrawal behavior from these accounts could impact households' financial security throughout retirement.

Financial hardships caused by economic shocks such as the 2008–2009 Great Recession could lead IRA owners to tap into their account balances to finance their consumption while lowering their retirement financial resources. Additionally, changes in policy could impact withdrawal behaviors. More specifically, IRA holders over 70-½ [3] are required to withdraw specific amounts to avoid tax penalties. But to what extent do IRA owners limit their withdrawals to the stipulated required minimum distributions (RMDs)? Do they simply withdraw RMDs, pay taxes, and transfer them to other forms of savings? Further, to what extent did usage patterns change when the RMD requirement was relaxed in 2009?[4]

To explore these questions, this *Issue Brief* uses the data from HRS 2002–2016 to report the withdrawal behavior of households headed by those 50 and older.[5] The discussion is focused on the share of households with an IRA withdrawal. It considers the ratio of the IRA withdrawal to the account balance and changes in households' financial assets before and after reaching RMD age.

The variables used in this study are as follows:

Retirement Status: derived from the question: At this time do you consider yourself to be completely retired, partly retired, or not retired at all? In this study, those who answered "completely retired" are considered retired. Couple households are considered retired if at least one spouse is "completely retired."

Household Income: sum of labor income, capital income, pension and annuity income, Social Security income, and other income (such as Social Security disability benefits, unemployment and workers' compensation, veterans' benefits, food stamps, alimony, and lump sums from insurance).

Financial Assets: sum of value of stocks and mutual funds; checking, savings, and money market accounts; certificates of deposit (CDs), government savings bonds, Treasury bills, and bonds and bond funds; and other savings.

Non-Housing Wealth: sum of gross value of all other real estate and net value of vehicles owned; individual retirement accounts (IRAs), stocks, and mutual funds; checking, savings, and money market accounts; certificates of deposit (CDs), government savings bonds, Treasury bills, and bonds and bond funds; and any other source of wealth minus debt.

Overall Trend Before, During, and After the Great Recession

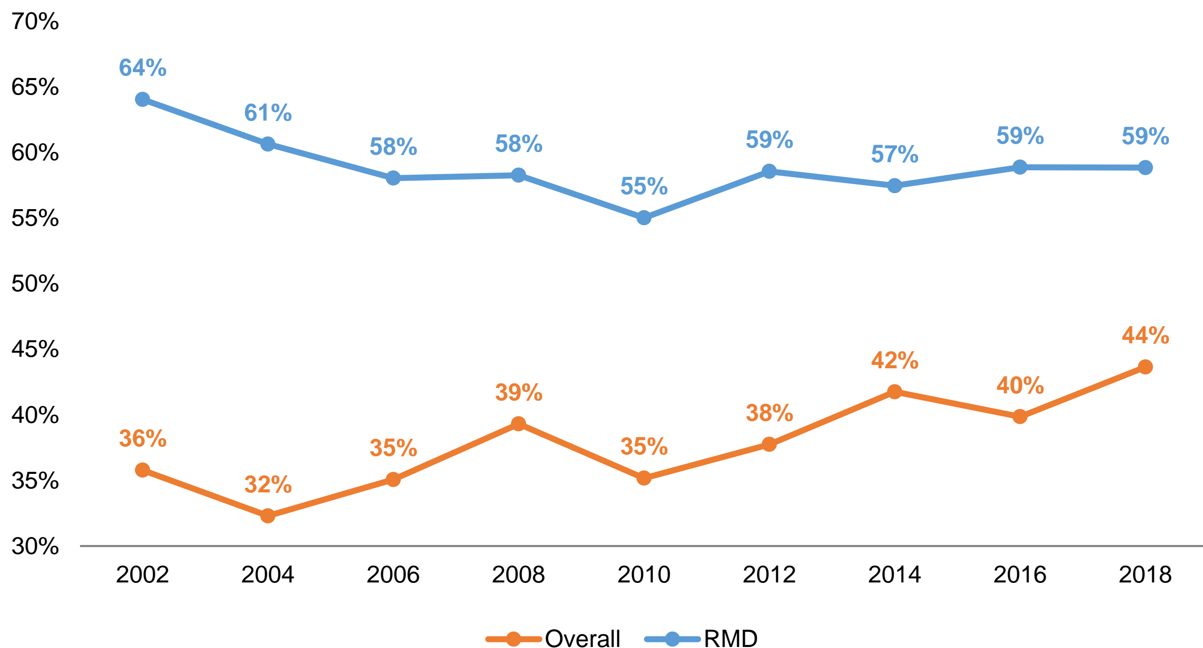
HRS is the primary dataset to study the financial situation of the older population in the United States. In addition to collecting rich data on households' demographics, employment, and retirement status, it provides detailed data on households' income and assets including information on pensions, IRAs, and Keogh accounts. While several changes in the HRS survey instrument on pensions have made any longitudinal analysis of households' pension plans challenging, collected information on IRAs has remained relatively stable over the years. However, HRS survey data on IRA

withdrawals have not been used much in analysis, in part due to the difficulties of processing the raw data. RAND HRS, which provides cleaned, processed, and streamlined collection of HRS variables, added data for withdrawals from IRAs for the first time in their 2019 release. This new addition, which is used in this study, has provided more reliable information for IRA withdrawal analysis.

It should also be noted that the HRS survey instrument does not distinguish between Traditional and Roth IRAs. Because the former has been more common historically,[6] we assume all withdrawals are from Traditional IRAs or Keogh accounts whenever the distinction matters. In addition, since HRS surveys are conducted biennially, self-reported withdrawal amounts are for the past two years (or since the last interview).

Figure 1 shows the share of households with an IRA who made an IRA withdrawal as well as the proportion of withdrawals that were only RMDs. As shown, during the Great Recession, the percentage of households who made an IRA withdrawal increased from 35 percent in 2006 to 39 percent in 2008 before it dropped to 35 percent in 2010. This decline could be, in part, a response to the 2009 RMD waiver. This will be explored more later in this *Issue Brief*.

Figure 1
Share of Households With IRA Withdrawal and Share of Household IRA Withdrawals That Were RMDs*

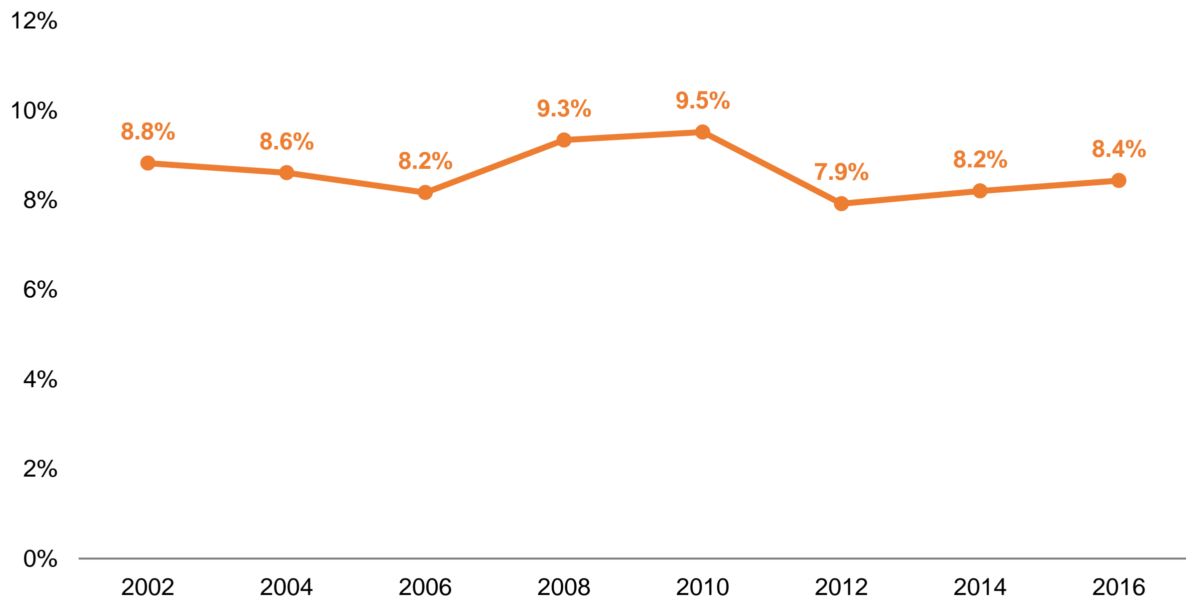


*Conditional on withdrawal.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

The effect of the 2008 market downturn on IRA withdrawal behavior is also reflected in Figure 2. As shown, from 2008–2010, the average percentage of account balances withdrawn increased and remained higher than in other periods. Also, generally, the share of households who made any type of IRA withdrawal trended upward from 2002 (36 percent) to 2016 (40 percent).

To understand the potential factors that shaped the IRA withdrawal trends, households in each survey year are divided into two age groups: 50–70 years old and 71 and older[7] (for couple households, the age of the financial respondent in the household is used). This is because RMDs are only mandated in the data for the latter. In the following sections, the IRA withdrawal behavior of each age group has been analyzed by retirement status and income distribution, and later by saving behavior.

Figure 2
Average Percentage of IRA Balances Withdrawn Biennially*



*Conditional on withdrawal.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

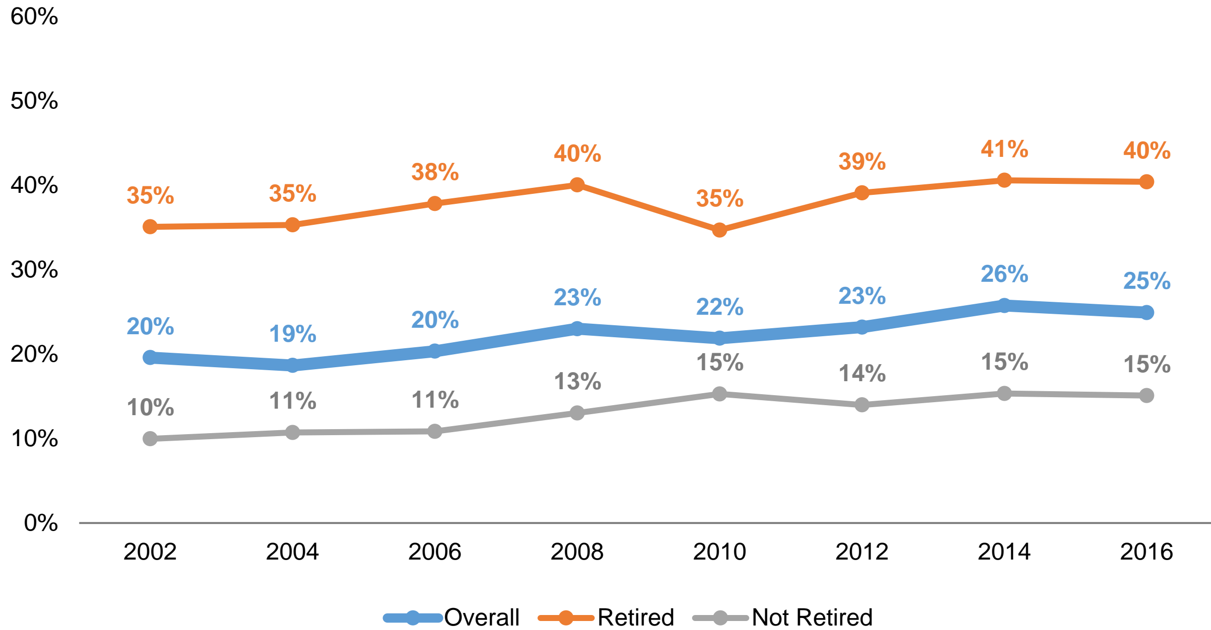
Withdrawal Patterns for Younger Households

As shown in Figure 3, the share of households ages 50–70 who made an IRA withdrawal increased gradually from 20 to 25 percent from 2002–2016, with a 3 percentage point jump in 2008. Additionally, a breakdown of the withdrawal behavior in this age group by retirement status (couple households with at least one spouse retired are considered retired) reveals that the share of households with a withdrawal is much larger for those who are retired compared with those who are not. For both retired and not-retired IRA accountholders, the percentage of those who made a withdrawal increased from 2006–2008: from 38 to 40 percent, and from 11 to 13 percent, respectively. However, the share of retired households with a withdrawal dropped to 35 percent in 2010, while the share of their not-retired counterparts continued to increase to 15 percent in 2010.

Similarly, Figure 4 looks at the share of IRA accountholders with a withdrawal by income quartile. The first thing to note is that the percentage of accountholders who made a withdrawal is much lower for the households in the higher income quartiles compared with those in the lower income quartiles. For example, in 2016, while only 16 percent of the households in the top income quartile reported a withdrawal from their IRA, 41 percent of those in the bottom quartile made an IRA withdrawal. This should come as no surprise since lower-income households are more likely to need additional financial resources. Secondly, while the increasing pattern was consistent across all the income quartiles from 2002–2016, the share of households in the bottom income quartile who made an IRA withdrawal increased the most in 2008 compared with those in the other income quartiles. This trend was followed by a sharp decline to 34 percent in 2010, down from 43 percent in 2008. Most likely, this reflects this cohort's reluctance to further tap into IRA balances that had been depleted by market declines or withdrawals in the prior period. At the same time, the share of households in the second and third income quartiles with an IRA withdrawal in 2010 remained at the same level as in 2008. The percentage of accountholders in the top income quartile taking a withdrawal continued to increase to 14 percent in 2010.

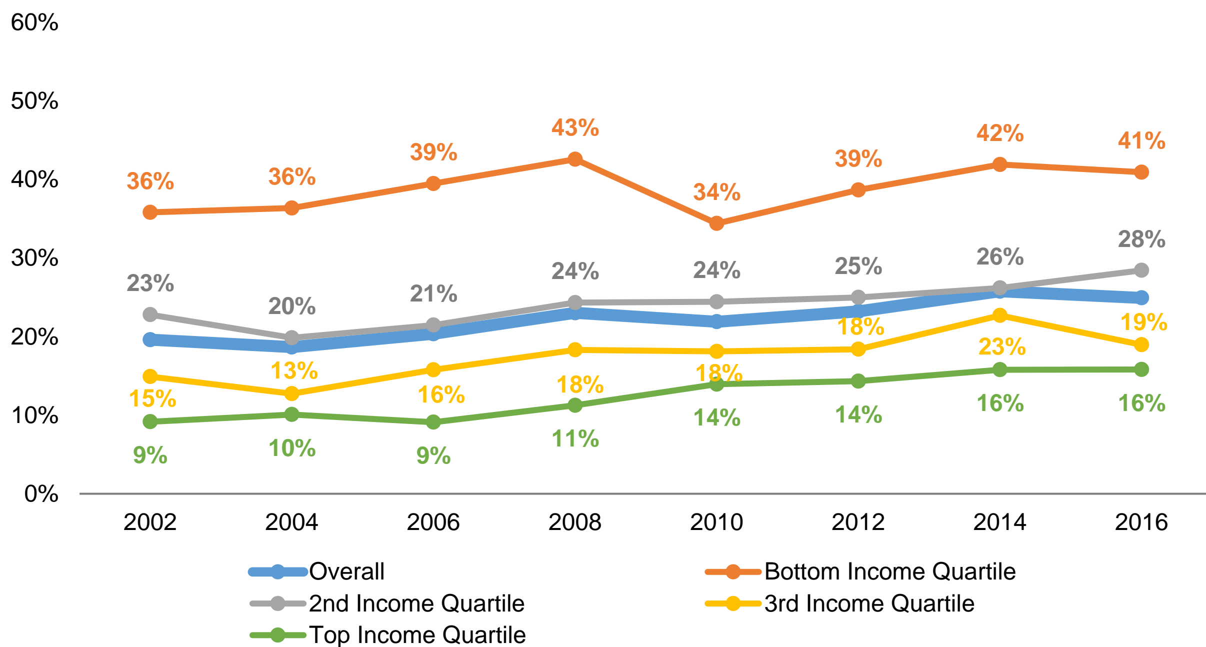
In short, accountholders in all income groups contributed to the overall increase in IRA withdrawal rates from 2002–2016. However, the bottom income quartiles contributed the most to this trend.

Figure 3
Share With IRA Withdrawals by Retirement Status, 50–70 Years Old



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

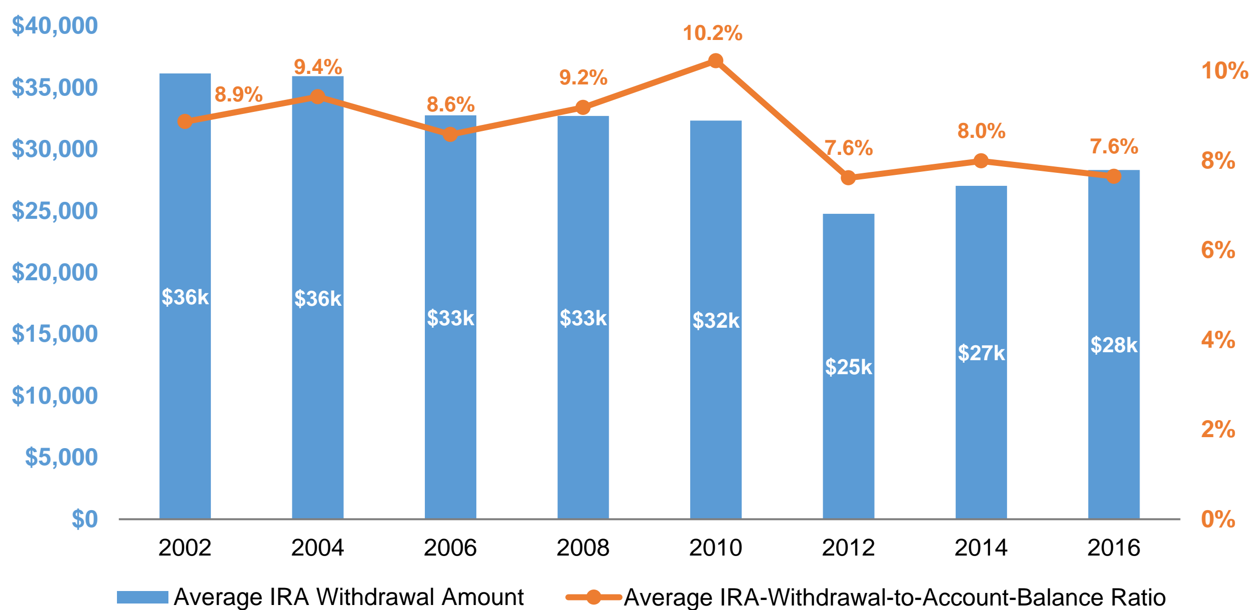
Figure 4
Share With IRA Withdrawals by Income Distribution, 50–70 Years Old



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

While it is not surprising that lower-income households as well as retired households are more likely to withdraw money from their IRAs, it is not so clear how much is withdrawn relative to the balance in their IRA or whether patterns have changed over time. To explore this further, Figure 5 shows the average biennial IRA withdrawal amount as well as the average percentage of the IRA balance withdrawn biennially for households in the 50–70 age group from 2002–2016. As shown, the average amount of IRA withdrawals (in 2016 dollars) for this age group remained relatively steady from 2002–2010 but declined thereafter. At the same time, the average percentage of IRA balances withdrawn had an increasing trend, which peaked at 10.2 percent in 2010 and then declined sharply thereafter. This pattern suggests that households did not adjust their withdrawals relative to their current account balance during the market downturn.

Figure 5
Average Biennial IRA Withdrawals: Dollar Amount* and as Percentage of IRA Balances, 50–70 Years Old**



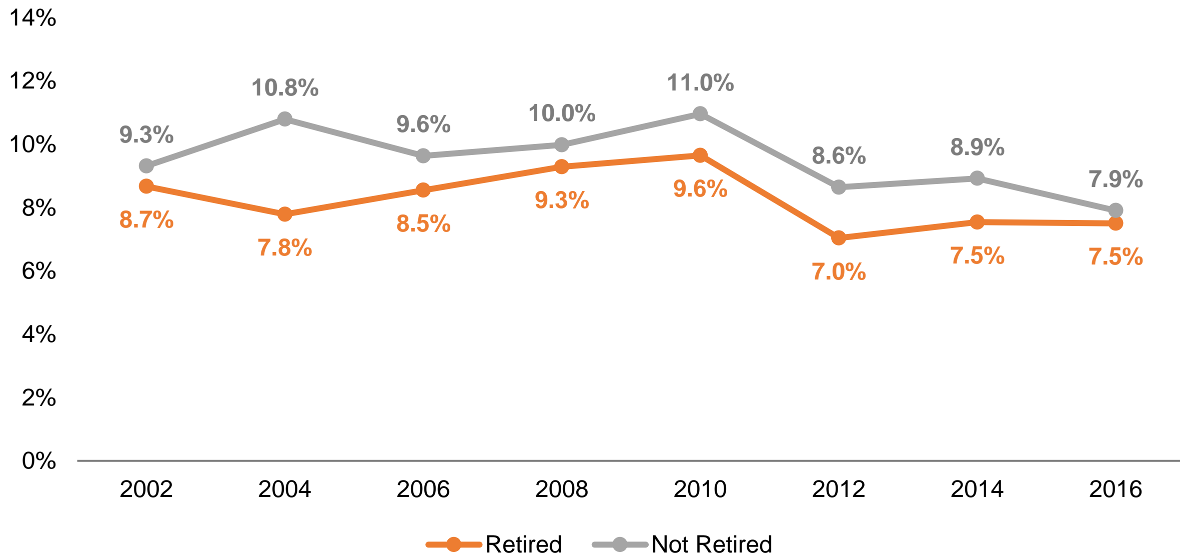
*In 2016 dollars, **conditional on withdrawal.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

A breakdown of this ratio by retirement status in Figure 6 shows that, generally, not-retired households withdrew larger percentages of their IRA balance compared with those who were retired. Combining the results from Figures 3 and 6 indicates that, compared with retired households, not-retired households are less likely to withdraw from their IRAs before the RMDs begin. However, if they do take a withdrawal, it is a higher proportion of their balance than for retired households.

Figure 7 shows the average percentage of IRA balance that is withdrawn biennially by households from ages 50–70 by income quartile. As shown, the average percentage of IRA balance withdrawn decreases with income. However, the bottom income quartile in particular stands out. While households in the bottom income quartile had an average withdrawal rate of 12.5 and 11.2 percent in 2008 and 2010, respectively, the average percentage of IRA balance withdrawn for the second, third, and top income quartiles varied from 7.4–8.6 percent.

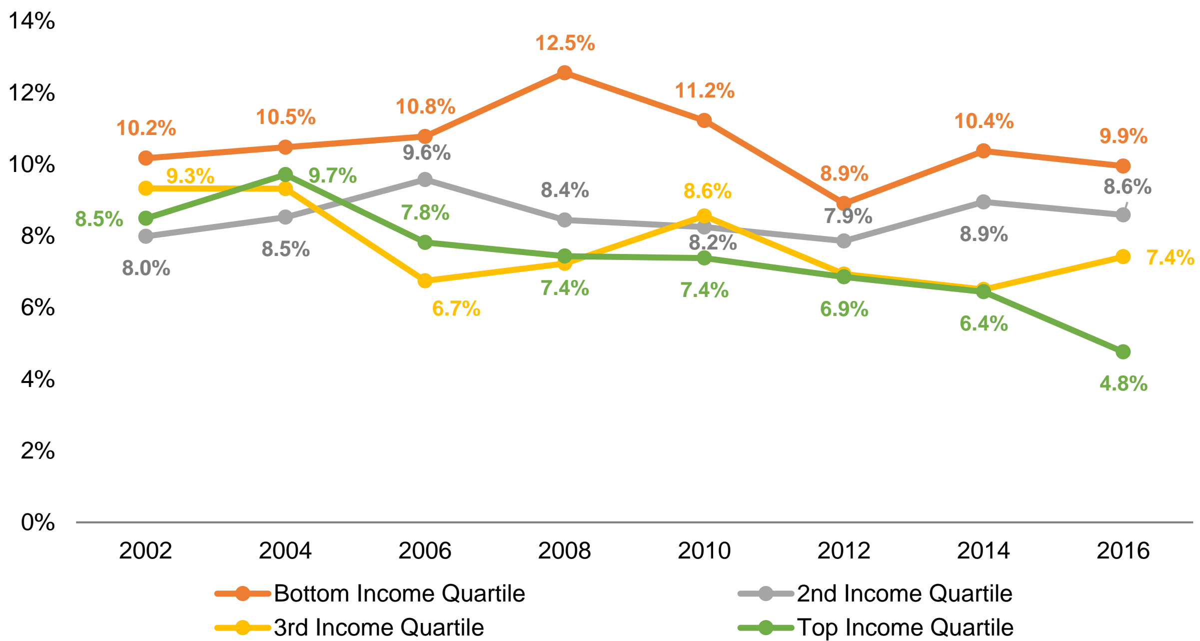
Combining the results of Figures 4 and 7, we find that the percentage of accountholders making an IRA withdrawal before the RMDs begin is much higher for the bottom income quartile. Further, these households are withdrawing their money at a much faster rate than higher-income households. This pattern was more pronounced in 2008.

Figure 6
Average Biennial IRA Withdrawals as a Percentage of IRA Balances* by Retirement Status, 50–70 Years Old



*Conditional on withdrawal.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 7
Average Biennial IRA Withdrawals as a Percentage of IRA Balances* by Income Distribution, 50–70 Years Old



*Conditional on withdrawal.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Withdrawal Patterns for the Older Age Group

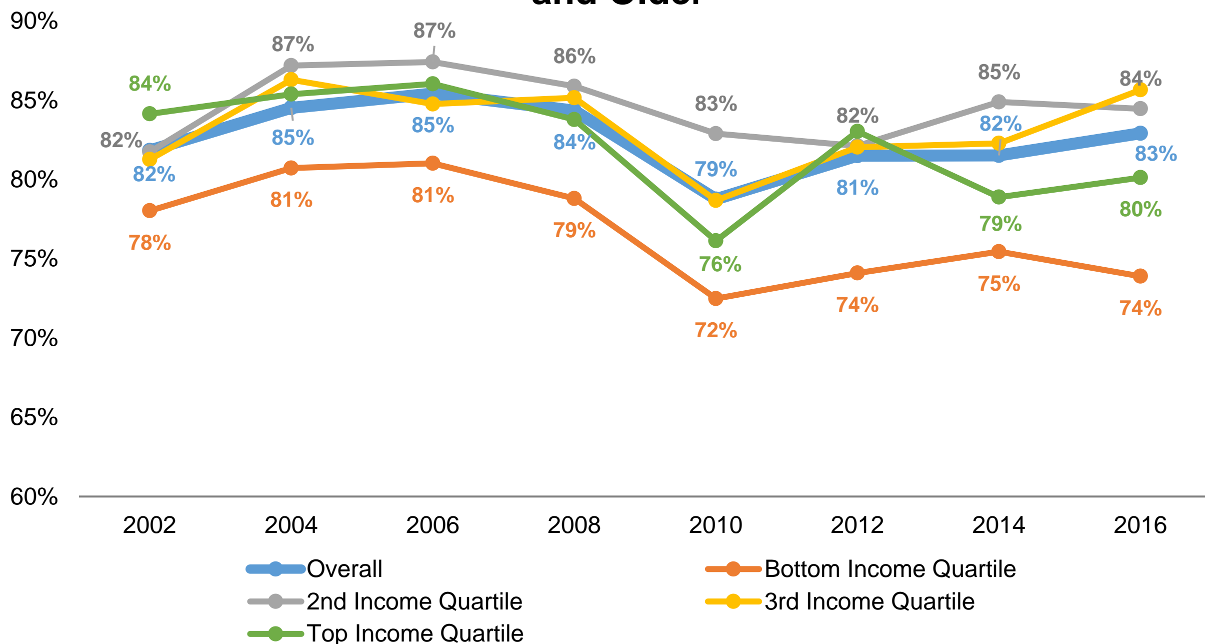
In contrast to the previous age group, IRA owners in the 71-and-older age group have historically been required to take an RMD to avoid a tax penalty (with the exception of 2009, when the Worker, Retiree, and Employer Recovery Act of 2008 waived any RMD in 2009 from IRAs).

Figure 8 reports the IRA withdrawal (RMD or other) rates among accountholders with a financial representative of ages 71 and older from 2002–2016. Figure 9 shows the proportion of IRA withdrawals that were RMD-only vs. those that were greater than required. As shown, IRA withdrawal rates for the households in this age group fell from 84 percent in 2008 to 79 percent in 2010 and gradually increased to the pre-financial crisis rates afterward. A breakdown of withdrawal rates in Figure 9 shows that for the most part, the 2010 drop in the IRA withdrawal rate came from a decline in RMD-only withdrawals, reflecting the IRA owners' response to the 2009 RMD waiver. However, this response could have been mitigated in our analysis since IRA withdrawal data are reported biennially.

Figure 8 also shows the IRA withdrawal rates by income quartile. The first pattern that emerges is that, excluding the bottom income quartile, IRA withdrawal rates are inversely correlated with income. For example, in 2016, 84 percent of the IRA owners in the second and third income quartiles reported a withdrawal from their account compared with 80 percent of those in the top income quartile. Further, Figure 10 shows that RMD-**only** withdrawals were much higher among households in the top income quartile compared with those in the lower income quartiles, which consequently made the former more responsive to the 2009 RMD waiver. While RMD-only withdrawals of the households in the top and third income quartiles dropped between 2008 and 2010, the percentage of account owners in the second income cohort who took the RMD increased.

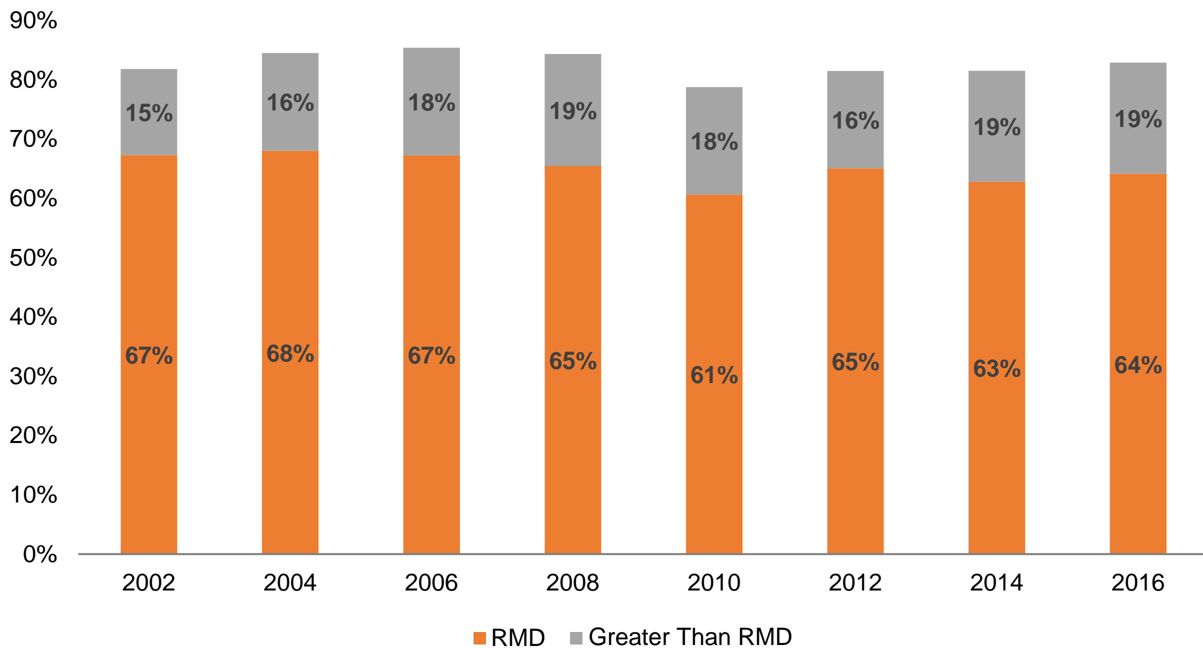
Compared with other income quartiles, households in the bottom income quartile had the lowest RMD-only withdrawal rates (Figure 10), which dropped even further during the 2008–2010 period. This suggests that IRA accountholders in the bottom income group added to their RMD withdrawals at a greater rate than other income groups during the market downturn. Still, as shown in Figure 8, the proportion of lowest-income older workers taking **any** withdrawals declined in 2010, suggesting that, due to insufficient or exhausted account balances, IRA owners in the bottom income group were not able to increase or maintain withdrawals from their accounts during the Great Recession.

Figure 8
Share With IRA Withdrawals by Income Distribution, 71 and Older



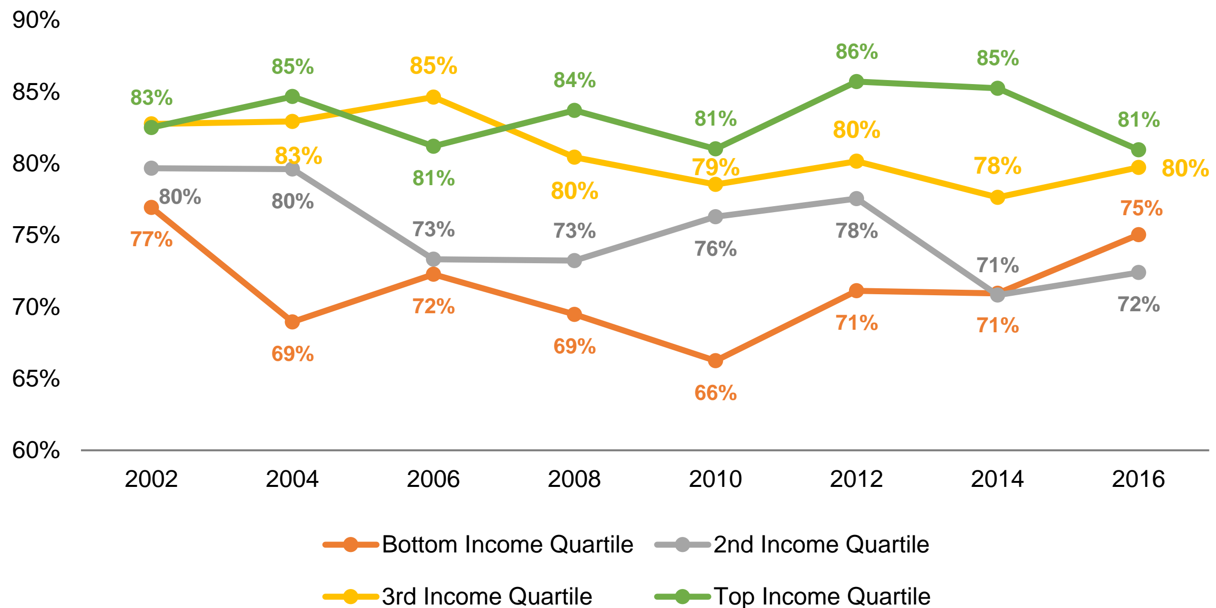
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 9
Share With IRA Withdrawals by RMD, 71 and Older



Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 10
Share of RMD-Only Withdrawals by Income Quartile, 71 and Older

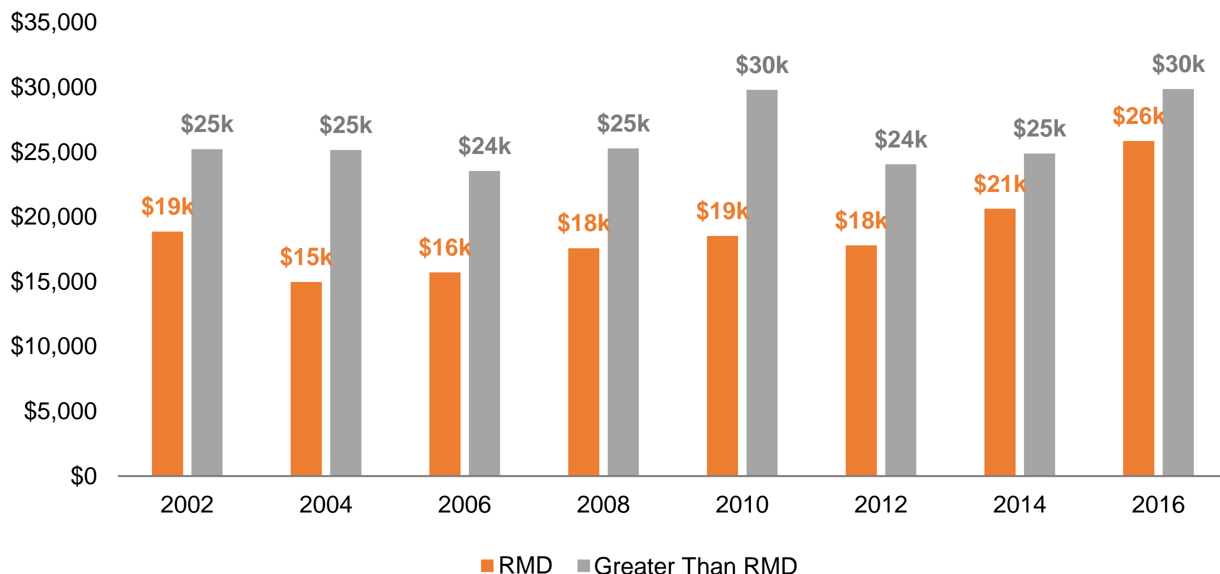


Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Overall, the 2008 market downturn does not appear to have increased the share of older households taking withdrawals from their IRAs in excess of the RMD. In fact, the 2009 RMD waiver seems to have had a modest effect of *decreasing* the share of households who made an RMD-only withdrawal.

Figures 11 shows the average biennial amount of IRA RMD and greater-than-RMD withdrawals, while Figure 12 shows the average percentage of biennial withdrawals taken relative to IRA balances. A few observations can be made here. First, the average dollar amount of withdrawals above the RMD reached a peak in 2010 ($30,000) — much higher than average withdrawals of $19,000 made for RMDs. Second, the upward trend of average RMD amounts could be an indication of the aging[8] population, who are subject to smaller IRAs' life expectancy factors as they grow older and, as a result, are subject to higher RMD levels.

Figure 11
Average Biennial Amount of IRA Withdrawals* by RMD, 71 and Older

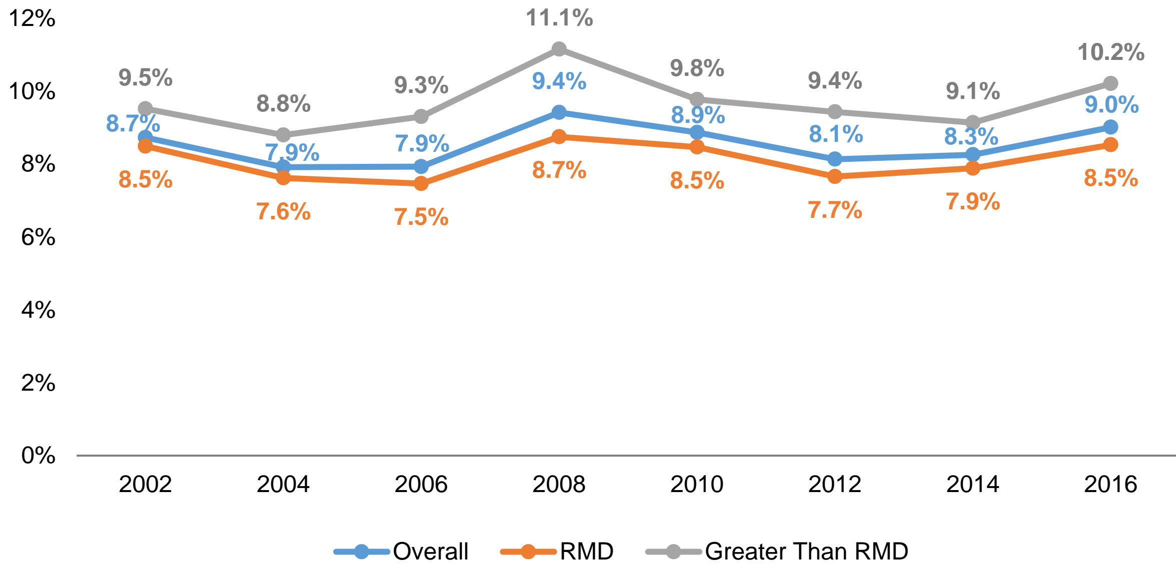


*Conditional on withdrawal, in 2016 dollars.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

As shown in Figure 12, the average percentage of IRA balances withdrawn was higher for those taking more than the RMD amount compared with those only taking the RMD. For instance, in 2016, for households who were only taking RMDs, on average 8.5 percent of the account balances were withdrawn compared with 10.2 percent of account balances for households withdrawing more than RMDs. Also, while this rate remained relatively steady for RMD-only withdrawals from 2002–2016, for withdrawals exceeding the RMD, it peaked at 11.1 percent in 2008, declining until 2016 when it increased again.

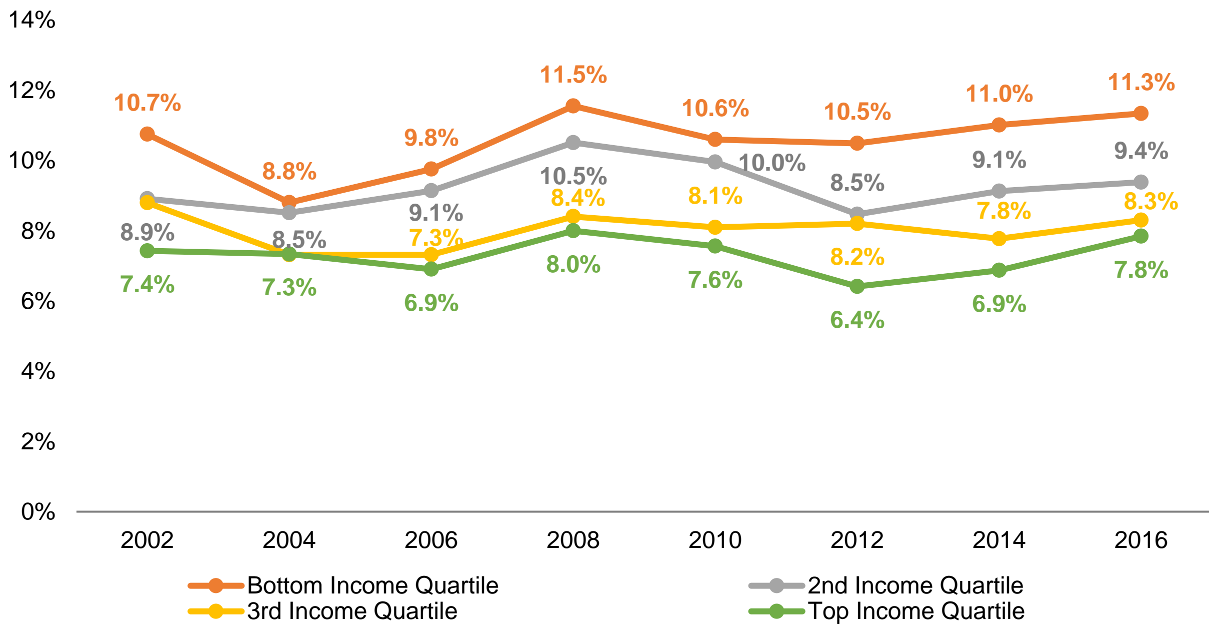
Decomposing the IRA withdrawal rate of the households 71 and older by income quartile reveals that the average percentage of IRA balance withdrawn was the highest for the bottom income quartile and generally dropped as income increased (Figure 13). In 2016, the average withdrawal rate for the bottom income quartile was 11.3 percent, compared with 7.8 percent for households in the top income quartile. Also, in 2008, while the average percentage of account balance withdrawn increased for all income groups, households in the bottom income group had the largest jump. Between 2006 and 2008, the average withdrawal-to-balance ratio for households in the bottom income quartile increased from 9.8 percent to 11.5 percent compared with a 1.1 percentage point increase for the households in the top income quartile.

Figure 12
Average Biennial IRA Withdrawals as a Percentage of IRA Balances* by RMD, 71 and Older



*Conditional on withdrawal.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 13
Average Biennial IRA Withdrawals as a Percentage of IRA Balances* by Income Distribution, 71 and Older



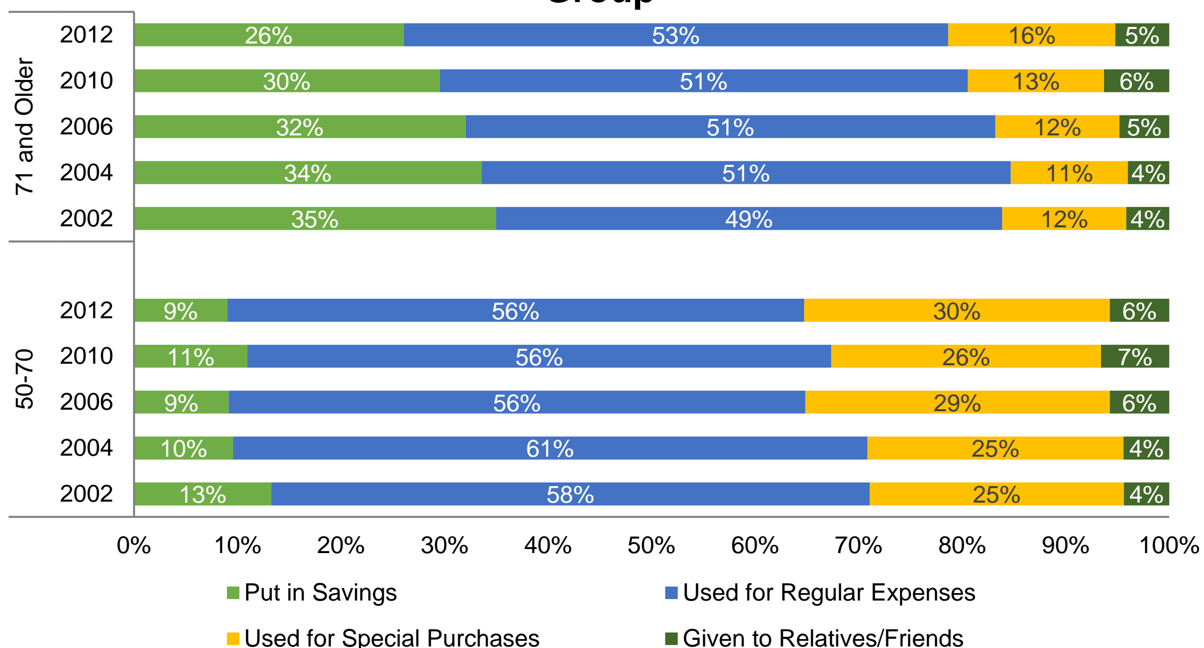
*Conditional on withdrawal.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

How Are IRA Withdrawals Spent?

It bears noting that just because an IRA balance is withdrawn, doesn't mean it was spent. In this section, we examine the proportion of balances taken from IRAs that were put into savings vs. used for actual expenditures. We rely on selected interviews from 2002–2012,[9] where HRS survey households who made an IRA withdrawal were asked how they spent the money withdrawn. Respondents were given four options: put in savings, used for regular expenses, used for special purchases, and given to friends or relatives. Respondents could choose any number of these options. Figure 14 summarizes the responses for each option by age group and survey year. For both the younger and older age groups, a majority of households tended to report that they spent the IRA withdrawal on regular expenses. However, more households in the younger age group reported doing so than in the older age group. Similarly, the share of households reporting that they spent all or part of the withdrawal on special purchases varied from 25–30 percent for the 50–70 age group, compared with 11–16 percent of the households 71 and older.

While only 1 in 10 households in the 50–70 age group reported that they put all or part of their withdrawal in savings, the share of those 71 and older who reported doing so ranged from 26 to 35 percent. Overall, the responses suggest that younger households are more likely to withdraw from their IRAs to cover their regular or unexpected needs, while older households are more likely to withdraw from their IRAs — in part due to RMDs — and save in other accounts.

Figure 14
Households Reporting Different Ways They Spent Money Withdrawn From Their IRAs, by Age Group*



* This was asked of households who had an IRA withdrawal.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

To explore further, changes in households' financial assets are reported for both age groups. Figure 15 shows the average biennial change in financial assets of households in the 50–70 age group who made and did not make an IRA withdrawal from 2002–2016. As shown, a withdrawal from IRAs in the 50–70 age group is not associated with an increase in household financial assets in any survey years with the exception of 2012, when they increased by $10,000. On the contrary, IRA withdrawals in this age group seem to be associated with a significant decline in households' financial assets. This could suggest that households who are making early (i.e. before RMDs necessitate them) IRA withdrawals are also depleting other savings. This point becomes more obvious when we compare the average biennial

change in financial assets of this age group for the households with and without an IRA withdrawal. For example, households in the 50–70 age group who made an IRA withdrawal on average lost $50,000 between 2006 and 2008 (likely due to the consequences of the 2007–2008 financial crisis). Meanwhile, on average, the financial assets of those from the same age group who did not make an IRA withdrawal only dropped by $5,000. This pattern could suggest that IRA accountholders at pre-RMD ages who lost their financial savings in both the 2002 and 2008 market downturns were more likely to tap into their IRA balances.

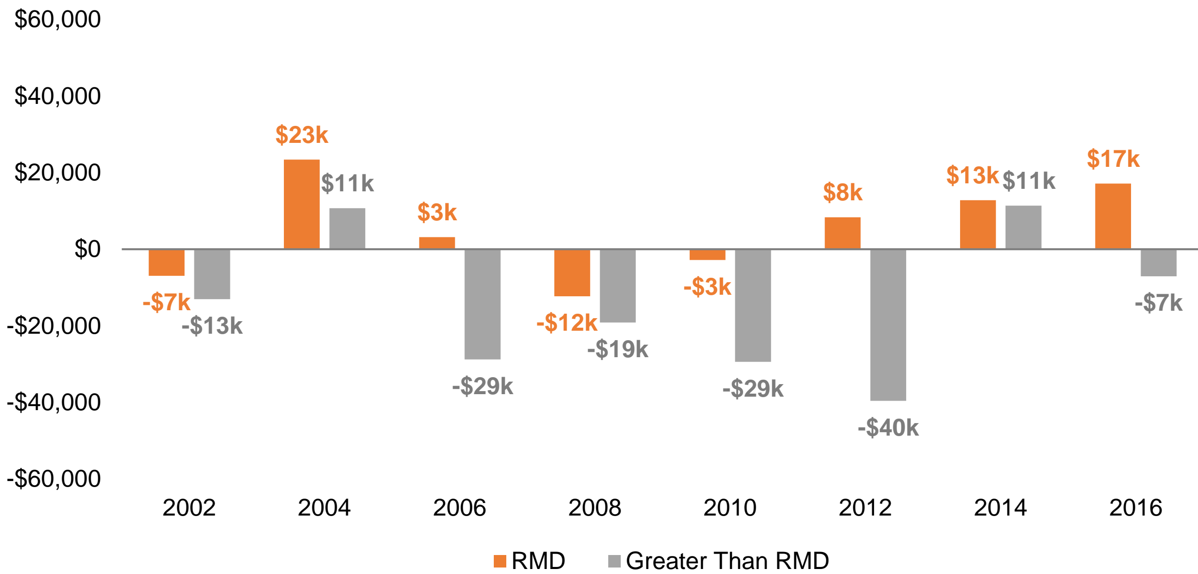
Figure 15
Average Biennial Change in Financial Assets,* Conditional on Withdrawal Status, 50–70 Years Old

*In 2016 dollars.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figures 16 and 17 show the biennial change in the financial assets and non-housing wealth of households 71 and older from 2002–2016, respectively. The results are presented separately for those who make RMD-only withdrawals and those who withdrew more than the RMD. The first point to note is, for the most part, households who took RMD-only withdrawals on average reported an increase in their financial savings and non-housing wealth. In contrast, for households with more-than-RMD withdrawals, on average, withdrawals were associated with drops in the average financial assets as well as non-housing wealth. This suggests that households with such withdrawals are also depleting their other savings.

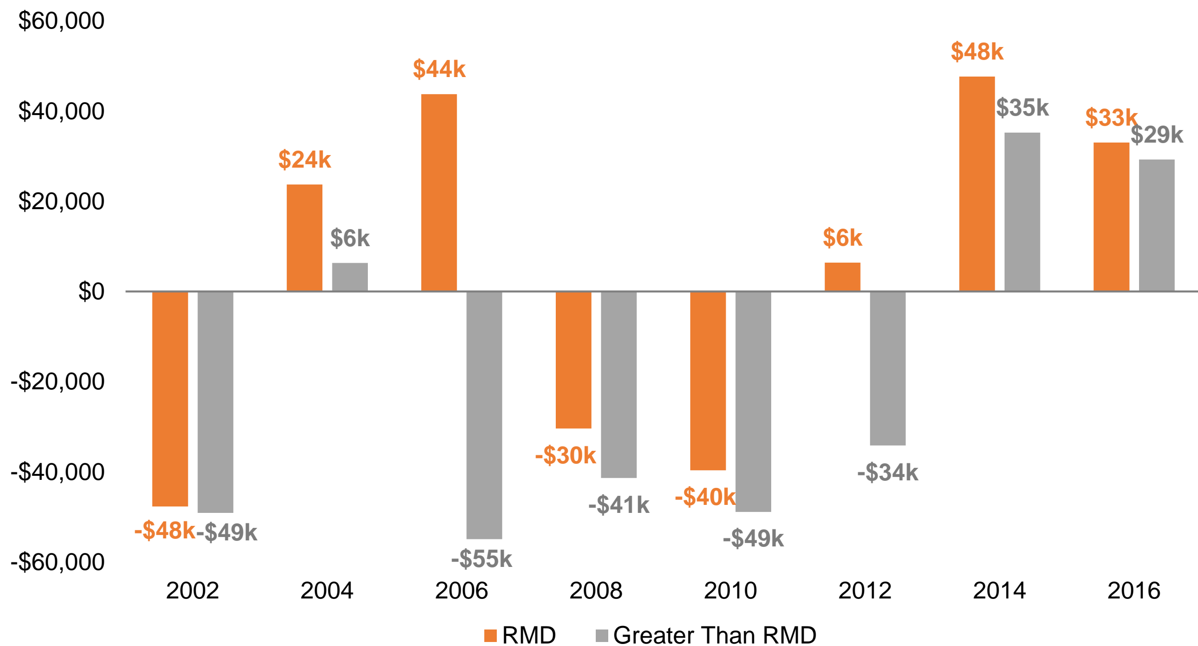
Second, during market-downturn periods such as the 2002 dot-com bubble and the 2008–2009 financial crisis, on average, financial assets and non-housing wealth of households with both types of withdrawals decline. However, the average decline for those making more-than-RMD withdrawals was larger than those making RMD-only. This could suggest that, compared with households withdrawing more than the RMD, households with RMD-only withdrawals — who are also more likely in the top income quartiles, according to Figure 10 — had other financial means and could maintain their IRA withdrawals at RMD levels despite the losses to their financial assets.

Figure 16
Average Biennial Change in Financial Assets,* Conditional on RMD Status, 71 and Older



*Conditional on withdrawal, in 2016 dollars.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Figure 17
Average Biennial Change in Non-Housing Wealth,* Conditional on RMD Status, 71 and Older



*Conditional on withdrawal, in 2016 dollars.
Source: Employee Benefit Research Institute estimates from the Health and Retirement Study (HRS).

Conclusion

This study documents the IRA withdrawal behavior of older Americans reported in the HRS from 2002–2016, with a specific interest in the effect of the 2008 market downturn and the 2009 RMD waiver.

The data show that for IRA owners ages 50–70, both the share of households reporting IRA withdrawals and the average percentage of their account balances withdrawn went up between 2008 and 2010. Not-retired households in this age group were less likely to withdraw from their IRAs. However, if they did so, a larger percentage of their accounts was withdrawn. Additionally, the share of accountholders making an IRA withdrawal before the RMD necessitated it was much higher in the bottom income quartile, and these households withdrew their money at a much faster rate than the higher-income households. This pattern was more pronounced in 2008, suggesting that during market downturn periods, households are more likely to withdraw too much, too fast from their IRA balance.

For households 71 and older who were subject to RMDs, the 2008 market downturn does not appear to have increased the share withdrawing from their IRA. However, it did result in increased average withdrawals relative to account balances for those taking withdrawals in excess of the RMD. Inversely, the 2009 RMD waiver seems to have had a modest impact in reducing the share of households who made RMD-only withdrawals. However, this effect could have been mitigated in our analysis since IRA withdrawal data are reported biennially.

Finally, the IRA withdrawals of the households ages 50–70 and those 71 and older who withdrew more than the RMD were associated with a decline in households' other financial assets. At the same time, on average, the financial assets and non-housing wealth of those with RMD-only withdrawals declined by much less or even increased.

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[1] Research by ICI shows 36 percent of U.S. households owned an IRA in 2019 (ICI 2019).

[2] The distribution of balances is skewed. The 90th percentile value among married households was $430,000; among single households, the 90th percentile value was $110,000.

[3] 72 if they reach the age of 70-½ after December 31, 2020, but this is beyond the scope of this study.

[4] This waiver applied to IRA participants as well as beneficiaries otherwise required to take the RMD in 2009. It also applied if the IRA owner turned 70-½ in 2009 and delayed their 2009 RMD until April 1, 2010.

[5] The Employee Benefit Research Institute's (EBRI's) own IRA database with information on 24.2 million accounts owned by 19.1 million unique individuals and with total assets of $2.36 trillion is one of the largest databases of its kind, tracking account- and individual-level administrative data on IRA balances, contributions, asset allocations, and distributions. Annual cross-sectional, longitudinal, and other specific topics analyses using this database are available here.

[6] Based on the EBRI IRA database, in 2016, 28 percent of Traditional IRA owners took a withdrawal compared with 3.8 percent of Roth IRA owners (Copeland 2018).

[7] HRS is a longitudinal panel that surveys participants every two years, and a new cohort is added to the sample every 5–6 years. This study does not track the same households and instead tracks withdrawal behavior of the households in the same age range over the years.

[8] While the median age of the households' financial representative in this sample remained constant, in 2006, the 75th percentile and maximum ages were 78 and 88, respectively, compared with 80 and 98 in 2016.

[9] 2008 is excluded since the number of responses to this question in the 2008 survey was significantly lower than in other years, most likely due to the errors in the survey instrument.

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