IRA Withdrawals: How Much, When, and Other Saving Behavior, by Sudipto Banerjee, Ph.D., EBRI

- Households between ages 61 and 70 that made withdrawals even though they were not yet required to take IRA distributions (i.e., not subject to the required minimum distribution rules, or RMD) made larger withdrawals than older households, both in absolute dollar amounts as well as a percentage of IRA account balance.

- The bottom-income quartile of this age group had a very high percentage (48 percent) of households that made an IRA withdrawal, and that their average annual percentage of account balance withdrawn (17.4 percent) was higher than the rest of the income distribution.

- Among households between ages 71 and 80 that are subject to RMDs, those that have a withdrawal exceeding the RMD amount had average withdrawal amounts that were more than double the amounts taken by those that withdrew only the RMD amount. The percentage of account balance withdrawn was also much larger for households that withdrew more than the RMD amount.

- Younger households (61 to 70) that made IRA withdrawals spent most of it, while for those between 71 and 80 there was some increase in savings (in CDs and similar holdings) associated with an IRA withdrawal.
IRA Withdrawals: How Much, When, and Other Savings Behavior

By Sudipto Banerjee, Ph.D., Employee Benefit Research Institute

Introduction
As more and more Baby Boomers enter retirement with large portions of their retirement savings in individual retirement accounts (IRAs), their financial security in retirement may well depend on how they manage these accounts post-retirement. Some may be overly cautious in drawing down their IRA balances, sacrificing a more enjoyable retirement. Others may spend too much too soon, jeopardizing their retirement security. Additionally, there are important questions of concern for policy makers and the retirement-solutions industry. For example, people above age 70-½ are required to withdraw stipulated amounts to avoid tax penalties. But do they simply transfer the money to other forms of savings after paying the taxes, or do they spend the money? This study explores this and other questions.

The data for this study come from the University of Michigan’s Health and Retirement Study (HRS), which is sponsored by the National Institute on Aging. The HRS, the most comprehensive national survey of older Americans, is a biennial survey started in 1992 with primary respondents who are at least 50 years old along with their spouses, irrespective of the spouses’ ages. For this article, data from 2002 to 2010 are used to document IRA-withdrawal behavior. Households from all five survey years (2002, 2004, 2006, 2008 and 2010) are combined to form a cross-sectional sample. For example, 65-year-old households would include all households that were 65 in any one of the survey years. The sample includes 12,347 households that made an IRA withdrawal between the ages of 61 and 79.1

IRA-Withdrawal Rates across Different Ages
Figure 1 shows the percentage of households that made an IRA withdrawal at different ages. The ages reported range from 61 to 79 (for couple households, the age of the financial respondent in the household is used). Clearly, the percentage of households making an IRA withdrawal not only increased with age, but also spiked around ages 70 and 71. This would appear to be a direct result of the required minimum distribution (RMD) rules in the Internal Revenue Code, which require that traditional IRA account holders begin to take at least the minimum withdrawal specified from their IRA no later than April 1 of the year following the year in which they reach age 70-½, in order to avoid a tax penalty.2 At age 61, only 22.2 percent of households made an IRA withdrawal, which slowly increased to 40.5 percent by age 69 before jumping to 54.1 percent at age 70 and to 77 percent at age 71. By the age of 79, almost 85 percent of households with an IRA took a distribution.

Although the RMD rule requires households to start taking distributions after age 70-½, not everyone with an IRA who reached that age made a withdrawal. Possible reasons for this could be that the IRA in question was a Roth IRA (Roth IRAs are not subject to the RMD rules), or the account belonged to a spouse who was still less than 70-½ years old. Other studies (Bryant and Sailer (2006), Holden and Schrass (2010), Poterba, Venti and Wise (2013)) have reported similar findings.

Figure 2 shows the percentage of households (self-reported) who took only the RMD to avoid any tax penalty. The percentage of such households also increased with age. At age 71, 71.1 percent of households took the RMD. This increased to 77.4 percent at age 75, 83.2 percent at age 80, and 91.1 percent by age 86. The following sections will show the differences in other withdrawal characteristics and saving behavior of households that took only the RMD and those that took more than the RMD.

IRA-Withdrawal Behavior across Different Age and Income Groups
One of the important advantages of traditional defined benefit (DB) pensions is that, when an annuity option is chosen, the benefit amounts are generally adjusted for mortality risk and protect the beneficiaries from longevity risk.
Figure 1
Percentage of Households Making IRA Withdrawals at Different Ages

![Bar graph showing the percentage of households making IRA withdrawals at different ages.](image)

Source: Employee Benefit Research Institute estimates from Health and Retirement Study (HRS), 2002 to 2010.

Figure 2
Percentage of Households Taking Only the Required Minimum Distributions (RMD), by Age

![Bar graph showing the percentage of households taking only the required minimum distributions (RMD) at different ages.](image)

Source: Employee Benefit Research Institute estimates from Health and Retirement Study (HRS), 2002 to 2010.
Consequently, the beneficiaries need not calculate the complex withdrawal rates. But with the growing prevalence and importance of individual account plans, such as IRAs and 401(k)s, withdrawal rates and strategies are becoming more complicated and more important. The following section describes some features of IRA-withdrawal behavior of older or retired households.

Figure 3 shows the percentage of retired households between ages 61 and 70 that made an IRA withdrawal. The withdrawal rates are reported for different income quartiles separately. Clearly, IRA-withdrawal rates decrease as income increases. In the first- (bottom) income quartile, nearly half (48 percent) of the households made an IRA withdrawal, as did those in the second-income quartile (48.2 percent). But the next two quartiles show significant drops in IRA-withdrawal rates: 42.7 percent of retired households in the third quartile and only 28.8 percent of retired households in the top-income quartile made an IRA withdrawal. This highlights the first area of potential concern: More people in the lower-income groups withdraw money early, i.e., before the RMD kicks in. This should not be surprising, since lower-income households could be expected to be in greater need of money. But are these low-income households withdrawing too much too soon?

Figure 4 shows the percentage of IRA account balance that is withdrawn annually by these retired households between ages 61 and 70. Again, the numbers are reported by income quartile, and clearly, not only does the percentage of IRA account balance withdrawn annually decrease with income, the bottom-income quartile stands out. The average percentage of IRA account balance withdrawn for the second-, third- and top-income quartiles were 13.4 percent, 11.8 percent and 11.5 percent, respectively. Although these withdrawal rates are high, they were still lower than the bottom-income quartile, which had an annual withdrawal rate of 17.4 percent.\(^3\)

Combining the results from Figures 3 and 4, another concern emerges: The percentage of households making an IRA withdrawal before the RMD kicks in is very high in the bottom-income quartile, and these households are withdrawing their money at a much faster rate than the higher-income households. While households in the bottom income quartile have the majority of their total assets outside of IRAs,\(^4\) this trend still could be a cause of concern.

Figure 5 shows the IRA-withdrawal behavior of households between ages 71 and 80 by income quartile. The top panel of Figure 5 shows the average percentage of IRA balance withdrawn by households that withdrew only the RMD amount (self-reported) and those who withdrew more than the RMD amount. A number of observations can be made here: First, for RMDs, the average withdrawal rate does not vary much across income quartiles. This is expected, as RMDs should be driven by differences in age or expected longevity. Second, for non-RMDs, the average percentage of IRA balance withdrawn is highest for the lowest income quartile and generally drops as income increases. For households taking only the RMDs, the average withdrawal rate is 5.8 percent for those in bottom income quartile, but drops to 4.8 percent for those in the top income quartile. For households withdrawing more than the RMD, the bottom income quartile has a withdrawal rate of 16.5 percent which slips to 12.9 percent for the top income quartile.

Secondly, for any income quartile, the average percentage of IRA balance withdrawn was higher for those taking more than the RMD amount. This was expected, but the magnitude of the differences in the withdrawal rates was not previously well-documented. In the bottom-income quartile, the average withdrawal rate for households that took more than the RMD was 16.5 percent, compared with 5.8 percent for RMD-only households, and for every income quartile, non-RMDs had a withdrawal rate more than double the withdrawal rate of the RMDs.

The bottom panel of Figure 5 shows the mean withdrawal amounts (in 2010 dollars) for the same groups. Here also, two clear patterns emerge. First, for both RMD and more-than-RMD withdrawers, the average amount of IRA balance withdrawn increased with income. For example, for those taking only the RMD, the average withdrawal amount in the first-income quartile was $3,871, which increased to $10,745 for those in the top-income quartile. In comparison, the same numbers for those taking more than the RMD were $10,395 and $22,208, respectively. Secondly, in every income quartile, the average amount withdrawn by those taking more than the RMD was more than double the average amount withdrawn by RMD-only households.
Figure 3
Percentage of Retired Households Between Ages 61 and 70
Making IRA Withdrawals, by Income Quartile

Source: Employee Benefit Research Institute estimates from Health and Retirement Study (HRS), 2002 to 2010.

Figure 4
Percentage of IRA Balance Withdrawn Annually by Retired
Households Between Ages 61 and 70, by Income Quartile

Source: Employee Benefit Research Institute estimates from Health and Retirement Study (HRS), 2002 to 2010.
**Spending and Saving IRA Withdrawals**

The HRS asked the households that made an IRA withdrawal 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 were free to choose any number of these options. The results are presented in Figure 6 separately for two age groups: 61–70 and 71–80. For both age groups, a majority of households reported that they spent the IRA withdrawal for regular expenses. However, more households in the younger age group (57.8 percent) reported doing so than the older age group (50.2 percent). More than 1 in 4 households making an IRA withdrawal between ages 61 and 70 reported that they spent all or part of that withdrawal for special purchases, although for the older age group, the number was much smaller (13.5 percent). Only 10.9 percent of households in the younger group reported that they put all or part of their withdrawal in savings, but in comparison, 31.5 percent of households between ages 71 and 80 reported doing so. Taking all these responses together, it can be summarized that younger households (ages 61–70) are more likely to spend their IRA withdrawal than older households (ages 71–80).
Figure 7 shows the average annual IRA-withdrawal amount and the average annual change in different types of household savings during the same year. The results are presented separately for the same two age groups as in Figure 6. Household savings are divided into five different categories: stocks and mutual funds; checking, savings and other money market accounts; certificates of deposit (CDs), government bonds, and Treasury bills; bonds and bond funds; and all other savings.

There are a number of things to note from Figure 7. First, the average withdrawal for those between ages 61 and 70 ($16,655) was much higher than that of those between 71 and 80 ($10,557). Secondly, for the younger group, an IRA withdrawal was not associated with any significant increase in any kind of savings. In fact, for those between 61 and 70, an IRA withdrawal was associated with a significant decrease in the holdings of stocks and mutual funds (-$2,235), checking and savings (-$1,870), and other savings (-$6,555). This suggests that households that are making an “early” IRA withdrawal are also depleting their other savings.

The patterns for the older age group (71 to 80) are different in some aspects. First, as noted before, their average IRA withdrawal amount was much lower. Secondly, this group showed an average holdings increase of $1,525 in CDs, government bonds, and Treasury bills. Further, the drops in most of the other savings categories were much smaller than those making withdrawals in the younger group. For example, the drop in other savings (-$659) for this age group was only about one-tenth of the drop (-$6,555) for the younger age group.

Figure 8 shows the same savings categories as Figure 7, but only for the older age group (71 to 80) and breaks the amounts into two groups: households that took only the RMD and those that took more than the RMD. The average IRA-withdrawal amount for more-than-RMD households ($16,981) was more than double the average withdrawal amount for RMD-only households ($8,162). It can also be noted that the average more-than-RMD withdrawal amount was very close to the average withdrawal amount reported in Figure 7 for those between 61 and 70.

However, the more-than-RMD withdrawals were associated with average increases in two savings categories: $1,656 in CDs, government bonds and Treasury bills, and $1,544 in other savings. Additionally, households taking only the RMD also reported an average increase ($1,335) in CDs, government bonds and Treasury bills, as well as an average increase of $1,238 in stocks and mutual funds, although it cannot be determined how much of the increase in stocks and mutual funds was from new investments and how much of it was a result of returns on earlier holdings. Finally, both groups experienced similar drops in checking and savings account balances.

Conclusion

This study explores IRA withdrawal behavior of older Americans using a nationally representative sample. The data show that households between ages 61 and 70 that made withdrawals even though they were not yet legally required to take IRA distributions (i.e., not subject to the RMD) made larger withdrawals than older households, withdrawals larger both in absolute dollar and as a percentage of IRA account balance. It is also important to note that the bottom-income quartile of this age group had a very high percentage (48 percent) of households that made an IRA withdrawal, and that their average annual percentage of account balance withdrawn (17.4 percent) was higher than the rest of the income distribution.

Among households between ages 71 and 80 that are subject to RMDs, there are also some important patterns. Households that have a withdrawal exceeding the RMD amount had average withdrawal amounts that were more than double the amounts taken by those that withdrew only the RMD amount. The percentage of account balance withdrawn was also much larger for households that withdrew more than the RMD amount. Finally, younger households (ages 61 to 70) that made IRA withdrawals spent most of it. For these households, an IRA withdrawal was not associated with an increase in any other type of savings. On the other hand, for those between 71 and 80, there was some increase in savings (in CDs and similar holdings) associated with an IRA withdrawal.
Figure 7
Average Annual IRA Withdrawal Amount and Annual Change in Different Types of Household Savings in 2010 Dollars, by Age Group

Source: Employee Benefit Research Institute estimates from Health and Retirement Study (HRS), 2002 to 2010.

Figure 8
Average Annual IRA Withdrawal Amount and Annual Change in Different Types of Household Savings in 2010 Dollars, by RMDa for Households Between Ages 71–80

Source: Employee Benefit Research Institute estimates from Health and Retirement Study (HRS), 2002 to 2010.

a Required minimum distribution.
References


Endnotes

1 The post-World War II generation born between 1946 and 1964.

2 The HRS sample is nationally representative but it is much smaller in size compared with the EBRI IRA Database, an ongoing project that collects data from IRA plan administrators. For year-end 2011, the EBRI IRA Database contains information on 20.5 million accounts for 16.6 million unique individuals with total assets of $1.456 trillion. It also has much more detailed account information than the HRS. For example, for each account within the database, the IRA type, the account balance, any contributions and rollovers during the year, the asset allocation, and certain demographic characteristics of the account owner are also included.

3 The exact date of birth of the respondents is not known, which leads to some error in the age variable. Some 70-1/2-year-olds could be classified as 70 and some as 71. This could be the reason why a spike is observed at both ages 70 and 71 and not only at age 71. But it should be noted that the age 71 spike is much larger than the age 70 spike.

4 The reported percentage of IRA balance withdrawn is equivalent to the percentage of end-of-year IRA balance. For example, the total amount withdrawn between 2008 and 2010 is first annualized, and then this annualized amount is reported as a percentage of 2010 IRA account balance.

5 The percentage of total non-housing assets accumulated in IRA accounts is 8.3 percent, 17 percent, 21.8 percent, and 25 percent, respectively, for income quartiles 1, 2, 3, and 4 for retired households between 61 and 70.
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