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New Research from EBRI:

Pre-RMD IRA Withdrawals Larger Than Those of Older Households

WASHINGTON—Those Americans between ages 61 and 70, who are withdrawing money from their individual retirement accounts (IRA), are making withdrawals that are larger, both in absolute dollar amounts and as a percentage of their IRA account balance, than those taken by older households, according to a new report from the nonpartisan Employee Benefit Research Institute (EBRI).

This trend holds true even though those younger retiree age households are not required under current tax rules to start taking required minimum distributions (RMDs) from those IRAs.

Tax rules require that traditional IRA account holders begin to take withdrawals from their IRAs no later than April 1 of the year following the year in which they reach age 70-½, or be subjected to tax penalties.

“As more and more Baby Boomers enter retirement with large portions of their retirement savings in IRAs, their financial security in retirement may well depend on how they manage these accounts post-retirement,” said Sudipto Banerjee, EBRI research associate and author of the report. “Some may be overly cautious in drawing down their IRA balances, sacrificing a more enjoyable retirement, while others may spend too much too soon, jeopardizing their retirement security.”

Also, EBRI found that low-income households were far more likely to make an IRA withdrawal—and to withdraw a larger percent of their account balance—than higher-income families. Households between ages 61 and 70 are also more likely to spend the money than save it, and they are depleting other sources of savings simultaneously. Additionally, among households between ages 71 and 80 that are subject to RMDs, those that had 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.

“There are important questions of concern for policy makers and retirement solutions industry,” noted Banerjee. “Individuals above age 70-½ are required to withdraw stipulated amounts from their traditional IRAs 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? These are some of the questions that this study tries to explore.”

The study is based on data from the University of Michigan’s Health and Retirement Study (HRS), sponsored by the National Institute on Aging, considered the most comprehensive national survey of older Americans.

Full results of the report are published in the May 2013 *EBRI Notes*, “IRA Withdrawals: How Much, When, and Other Saving Behavior,” online at www.ebri.org

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