

IRA Owners Consistently Favor Withdrawals From Traditional IRAs: Evidence From the EBRI IRA Database

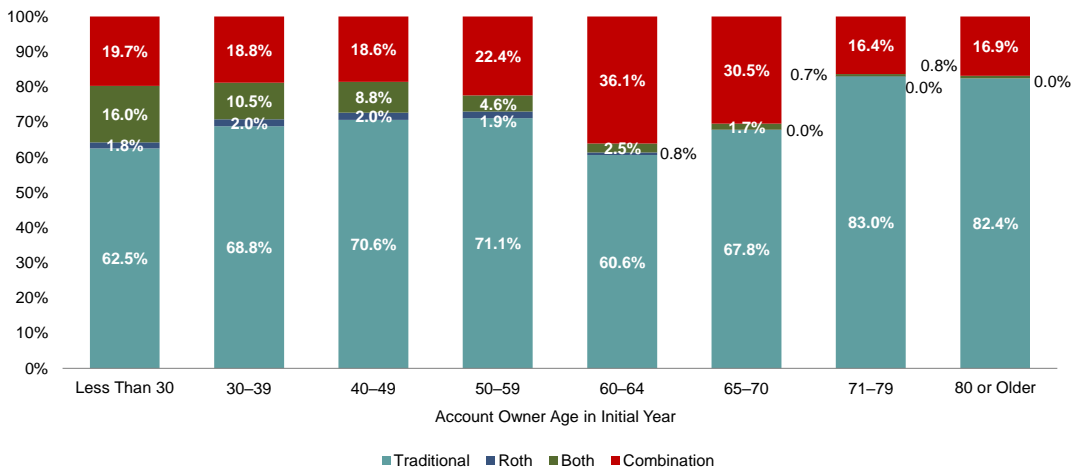
Traditional and Roth individual retirement accounts (IRAs) have different withdrawal and taxation rules that could result in specific withdrawal patterns by their owners. However, the data do not appear to show this outcome. Instead, results from the EBRI IRA Database show that IRA owners consistently favor withdrawals from Traditional IRAs. This is true even for those in age cohorts that do not require Traditional IRA withdrawals.

Traditional IRAs can receive deductible or nondeductible contributions, but at the least any gains accrued in the account are taxable at withdrawal. In addition, owners of Traditional IRAs are required to start making withdrawals starting in the year after they reach age 70½ (increased to age 72 in recent legislation). In contrast, Roth IRAs only have nondeductible (after-tax) contributions, and withdrawals are generally not subject to taxation. Furthermore, owners of Roth IRAs are not required to make withdrawals from them.

Using the EBRI IRA Database, IRA owners who owned both Roth and Traditional IRAs and who took a withdrawal each year over a seven-year period were examined to see whether any withdrawal patterns emerged. This analysis found that more than 80 percent of account owners ages 71 or older took *all* of their annual withdrawals from the Traditional IRA: 83.0 percent for those ages 71–79 and 82.4 percent for those ages 80 or older (see figure). Another 16 percent took a combination of Traditional, Roth, or both over the seven years examined.

Younger workers were more likely to have used some combination of Traditional and Roth IRA withdrawals, but virtually no one took all of their annual withdrawals only from the Roth IRA. The use of a combination of the source of the withdrawals peaked among those ages 60–64 in the initial year and was also relatively high among those ages 65–70. These ages correlate with the ages where most workers retire, so it appears that there is higher use of Roth IRAs as a source of withdrawals among those who are in retirement but have not reached the required withdrawal ages.

Distribution of the Source of Withdrawals for Those Taking Withdrawals Every Year, by Owner Age



Of individual retirement account (IRA) owners who owned both types of IRAs and took a withdrawal each year of the study.
Source: EBRI IRA Database.

However, the source of the *first* year of withdrawals was predominately the Traditional IRA. In fact, use of the Traditional IRA as a withdrawal source was never below 75 percent for any age group and was above 85 percent for the age groups of ages 50 or older. Consequently, very few account owners appear to be starting with a Roth withdrawal then moving to the Traditional when required. It appears instead that the Traditional IRA is the source of the first withdrawal, then a Roth withdrawal comes later either by itself or with the Traditional withdrawal.

Due to the differences in their tax treatment, certain patterns of withdrawals would be expected to emerge between Roth and Traditional IRAs among those who own both. For example, individuals with larger balances would be expected to favor Roth IRAs because their withdrawals are tax free. However, the data do not strongly support this outcome. Instead, results from the EBRI IRA Database show that IRA owners consistently favor withdrawals from Traditional IRAs. Indeed, even age cohorts that are not subject to required withdrawals favor Traditional IRAs as their withdrawal source. This suggests that individuals taking IRA withdrawals could benefit from education explaining how to maximize the dollars available for everyday uses.

The EBRI report, “Withdrawal Activity of Individuals Owning Both Traditional and Roth Individual Retirement Accounts,” is published as the March 26, 2020, *EBRI Issue Brief* and is available online [here](#).

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