

# Policy Focus

## MyRA

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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### WHAT YOU NEED TO KNOW

**W**ith half of American households lacking any retirement savings, President Obama has decided to attack the problem by announcing a new government program called My Retirement Accounts.

Modeled on the Roth IRA, the new MyRAs will allow those who haven't started saving for retirement to put away as little as \$5 every pay period into a retirement savings account invested in Treasury bonds. The program would be available to individuals who earn up to \$129,000 a year (and couples up to \$191,000) and the account would move with an enrollee even as he changes jobs. The MyRA would also be guaranteed against losses.

The program's legitimate goal is to create an easy, secure and affordable way for those with modest incomes to start saving. However, while saving for retirement is important, there is little to suggest that a government-run program will be effective in encouraging Americans to save more. MyRAs also could backfire by encouraging workers to assume that saving as little as \$5 a month is sufficient for retirement planning.

Finally, Americans don't just lack retirement savings, they lack savings of any kind. The private financial service sector already offers programs and vehicles that encourage Americans, even those with modest incomes, to save. Rather than create a duplicative government savings program, policymakers should encourage savings across the board and focus on reducing barriers to job creation, which remains Americans' greatest financial vulnerability.

## WHY YOU SHOULD CARE

We want Americans to make prudent financial decisions and to save for the future, but the MyRA program isn't the best way to achieve that goal:

- **Small Contributions Will Limit Effectiveness:**

Deducting \$5, \$10 or even \$25 per pay period and putting it into a retirement account of Treasury bonds is not going to grow enough to help pay for retirement, and pushing such savings practices may discourage some people from stretching to invest more.

- **Bias Toward Government Investment Vehicle Could Limit Returns:**

MyRA investments would be limited to government bonds, which provide very modest returns of 1.0 to 2.0 percent. Encouraging young Americans to invest so cautiously could lead them to miss the opportunity for greater asset accumulation.

- **Inflation Could Offset Modest Gains:**

If inflation rises to the historic rate of 2.5 percent, all the gains from investing in MyRAs would disappear.

- **Government Programs Rarely Work As Intended:**

There is already a pre-existing tax credit program to get workers to save for retirement that isn't accomplishing the goal.

The best way to encourage Americans to save is reform taxes and boost incomes by facilitating job creation.

## MORE INFORMATION

*Let's do more to help Americans save for retirement. Today, most workers don't have a pension. A Social Security check often isn't enough on its own. And while the stock market has doubled over the last five years, that doesn't help folks who don't have 401(k)s. That's why ... I will direct the Treasury to create a new way for working Americans to start their own retirement savings: MyRA.*

**President Barack Obama,  
State of the Union, January 28, 2014**

**P**resident Obama makes an important point when urging more Americans to save for retirement, as he did during this year's State of the Union. According to the White House, half of all American households have zero retirement savings. That's 75 million Americans. The government ought to be doing more to encourage Americans to save.

As with any new government proposal, however, it is important to look at the details to understand the positives and, in this case, the considerable negatives of what Mr. Obama calls My Retirement Accounts.

### What is the MyRA?

MyRAs would allow individuals who earn up to \$129,000 a year (and couples who earn up to

\$191,000 a year) to start a retirement account with as little as \$25 and make additional contributions of as little as \$5. The program, like the name, is similar to a Roth IRA, which is funded with after-tax contributions and is tax-free when withdrawn at retirement. Earnings taken before the enrollee is 59½ will be taxed. Assets in a MyRA would be invested in Treasury bonds and backed by the federal government against losses.

The money invested will earn the same interest rate that is available to federal employees in the Thrift Savings Plan Government Securities Investment Fund, which in 2013 earned 1.89 percent.

The account can move with the individual if he changes jobs since it is a private account belonging to the employee. The Treasury Department says MyRAs are “designed to help savers start on a path to long-term saving and serve as a stepping stone to the broader array of retirement products available in today’s marketplace.” Once the assets grow to \$15,000, the MyRA must be rolled over into a private-sector Roth IRA.

[The White House touts the ease of use](#)—contributions will be automatically deducted from their paychecks and placed in the MyRA—as a key selling point of the MyRA, as well as that the accounts are guaranteed not to lose money. “Contributions to the account are invested in a Treasury [bond], which means it will be backed by the full faith and credit of the United States.... so

the account balance will never decrease in value, and will earn the same interest rate that is available to federal employees for their retirement savings,” the White House web site explains.

Requiring that MyRAs be invested in Treasury bonds and providing an auto-deduction option solves a problem that stymied a previous iteration of this ‘starter savings account’ idea. Molly Brogan Day, a spokeswoman for the National Small Business Association, explained that her organization has been skeptical of previous proposals because they “put the administrative and financial onus squarely on small firms.” With the government in charge of managing these accounts and only one investment option available those issues have now been resolved so MyRAs now look more attractive for employers.

While based on a noble goal, the MyRA still carries considerable flaws, which make it an unnecessary and potentially counterproductive program.

## MyRA’s Low Rates of Return

While the Administration boasts that MyRA assets would be protected against losses, individuals interested in MyRAs ought to be concerned about the very low rate of return on their investment over time. Particularly, younger workers ought to consider more aggressive investment options in order to maximize their returns and accrue more assets through the power

of compound interest overtime.

These low rates of return are particularly troublesome once inflation is taken into account. As [Money Morning Chief Financial Strategist Keith Fitz-Gerald](#) explains: “These things are going to pay out at 1 percent to 1.5 percent at a time when real inflation is running at 2.5 percent, and that’s only according to ‘official’ government figures... And that’s not even taking into consideration the interest rate risk when rates start to rise a year or two from now.”

Another drawback of Obama’s new venture is that there is already evidence that government-sponsored behavior modification, in this case getting more people to start saving for retirement, doesn’t work. Indeed, MyRA follows in the footsteps of the [Retirement Savings Contribution Credit](#), which is designed to lower participants’ tax burden in the form of a credit on one’s income tax. “[This credit] was designed to encourage the working poor to save for retirement, but from every study that I’ve seen, it hasn’t made a dent in the savings rates,” [explains certified financial planner Scott Hanson](#). Some 50 million tax filers per year are eligible, and though the program essentially pays middle and low-income earners to save for retirement, [on average only 5 million make claims](#).

In fact, according to a study by the Transamerican Center for Retirement Studies, only 20 percent of filers even know the credit exists. Given that MyRA does not offer a financial

incentive for additional savings—just ease of access to saving vehicles—it seems unlikely that it would be more successful than the savings credit.

## Discouraging More Aggressive, Needed Saving

Proponents highlighted the small contributions necessary to start a MyRA as a key selling point. Yet that may also be a drawback, in creating a low expectation for saving. The *Washington Post’s* personal finance columnist [Michelle Singletary](#) [explains](#): “I’m concerned that folks may think that saving \$5, \$10 or even \$20 every paycheck, will be enough even over 30 years. It won’t be. If workers get used to saving small amounts of money, they may not stretch themselves to do more.”

Moreover, the MyRA proposal overlooks a more fundamental problem: While saving for retirement is vitally important, Americans also lack savings for an emergency, a priority that should preempt savings for retirement.

[As financial journalist Paula Pant put it](#), “Regardless of how important your other goals are, building an emergency fund should always come first....[it] is money that you set aside for worst-case-scenarios. If you get laid off from work, if your car’s engine breaks or if your home’s furnace explodes... It’s your safety net.”

According to [a just released study](#) from the Corporation for Enterprise Development, 44 percent of American households lack the savings

needed for a financial crisis, suggesting that almost half of Americans are “on the brink of financial calamity.” That “almost half” of Americans are exactly the people Obama’s MyRA accounts are targeting. And if they are ruined financially today, what does it matter if they haven’t saved enough for tomorrow?

### Private Starter Savings Options Already Exist

The private sector already offers ample opportunity for Americans to start saving. Retail banks allow automatic transfers between accounts so that a percentage of each paycheck can go directly to savings. Most private sector employers already offer direct deposit, which means you can have your paychecks divided between checking and savings, much like the automatic-deduction feature of MyRAs that President Obama has championed. But according to the Consumer Federation of America, although 66 percent of all employees use direct deposit, only 23 percent of employees split their paycheck into different accounts, meaning that many don’t take advantage of the opportunity to save.

Ironically, the existence of MyRAs could crowd out some existing private investment options. Smaller companies that had offered retirement savings vehicles may cease to do so, leaving their employees to use the government’s more limited savings option.

Rather than creating a new government savings vehicle, policymakers should make it easier for men and women to save on their own. Reforming the tax code to reduce taxes on savings would be a good place to start. This idea ought to have bipartisan support. As the centrist [New America Foundation](#) recently explained, “a large-scale and systematic reform of the tax code offers an opportunity to more effectively promote increased saving and asset building as a means to help families increase their financial security and economic mobility.”

#### **A Way to Cajole Americans Into Buying U.S. Government Debt?**

MyRA’s primary purpose may be to encourage more Americans to save for retirement, but cynics note that the program could also benefit the Treasury Department, by providing a new set of captive customers for U.S. Government debt.

China is currently the United States’ largest foreign creditor, holding some \$1.3 trillion of our debt. But Chinese enthusiasm for U.S. debt is waning, as Yi Gang, a deputy governor at China’s central bank [recently explained](#), “It’s no longer in China’s favor to accumulate foreign-exchange reserves.” Since this Administration isn’t cutting spending to balance the budget, it needs a new buyer.

As [John Girouard at Forbes explained](#): “The federal government is stuck with a lot of unpopular bonds and one sure-fire way to get rid of them is to sell them to the American public as a retirement savings vehicle. It’s a wolf in sheep’s clothing.”

## WHAT YOU CAN DO

You can help educate Americans about why we need to encourage private savings, not create a government-run savings program.

- **Get Informed:** To learn more about ways to save for retirement, visit:
  - [Independent Women's Forum](#)
  - [The Department of Labor](#)
  - [The Forbes Retirement Guide](#)
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

- **Become a Leader in the Community:** Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.
- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

## ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website [www.iwf.org](http://www.iwf.org) to get more information and consider making a donation to IWF.

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