New America Foundation

Asset Building Program

Solving the Retirement Puzzle

The Potential of myRAs to Build a Personal Safety Net

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The growing recognition that millions of Americans are ill-prepared for retirement has prompted a number of state and federal policy proposals to promote retirement security. Yet even the most promising proposals fail to acknowledge a prerequisite to sustaining long-term savings: access to flexible resources that can be tapped in an emergency or can support productive investments that can pay off over the long haul. One recently announced effort – the Obama Administration's myRA program – is designed to facilitate access to a savings vehicles for the mostly low- and middle-income Americans who miss out on current savings opportunities. As currently designed, the program is unlikely to have a significant impact at scale on the long-term prospects of this group of workers. But with certain adjustments and policy reforms, myRAs could facilitate the creation of personal safety nets that would both provide short-term financial stability and lay the foundation for a secure retirement. Short-term, flexible savings are a crucial but overlooked piece required to solve the retirement puzzle.

Changes to the retirement savings landscape over the last thirty years have left far too many workers financially underprepared for their golden years. Whereas many workers could once rely on a traditional pension for a steady and sufficient income throughout retirement,[1] today, pensions have nearly disappeared. The defined-contribution (DC) plans that have largely replaced them, such as the 401(k), shift investment risk and often significant costs onto individual workers, thereby jeopardizing the long-term financial security of millions of Americans.

A major consequence of the shift from defined-benefit (DB) plans to the 401(k) model has been a concentration of retirement account access in the highest-income earners. Almost 90 percent of those in the top quartile of earners own a retirement account, compared to only about a quarter of those in the lowest quartile.[2] Overall, nearly half of all American households own no retirement assets, and the proportion of households that have access to an account through their employer is even lower for those in certain subgroups such as low-wage workers and workers at small employers.[3] Access is particularly poor among workers of color. For example, only 33 percent of Hispanic employees have access to a plan through their workplace compared to 58 percent for white employees.[4]

Even workers who have access to a plan often do not save enough. The median balance of a household nearing retirement (aged 55-64) is $100,000, which works out to $416 a month, or $5,000 a year, for a 20-year retirement.[6]

[1] Employee Benefit Research Institute (2013).

[2] Rhee (2013b).

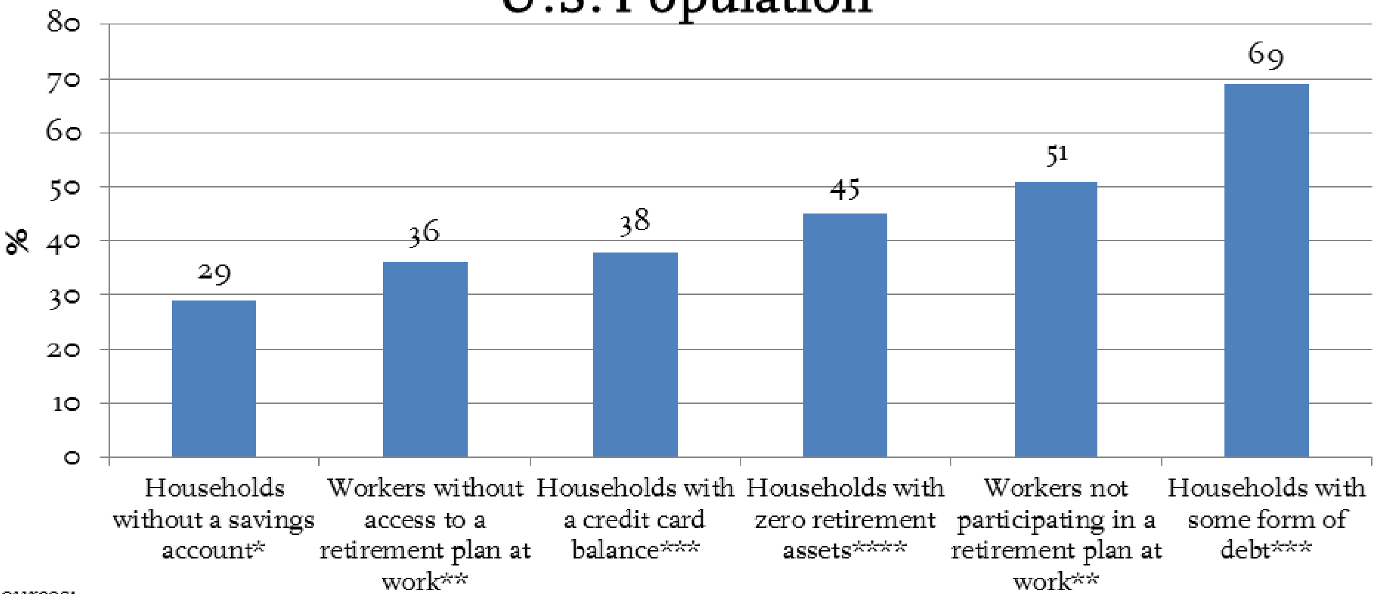
[3] Rhee (2013a); Rhee (2013b).

[4] Rhee (2013a).

[5] Employee Benefit Research Institute (2013).

[6] Rhee (2013b).

Figure 1: Selected Savings Characteristics of U.S. Population



Sources:
*Federal Deposit Insurance Corporation (2012).
** U.S. Bureau of Labor Statistics (2013).
***Vornovytskyy, Gottschalck, and Smith (2012).
****Rhee (2013b).

As a result of this widespread savings shortfall, a quarter of retirees rely solely on Social Security payments, which average $1,294 a month or $15,528 annually, for household income.[7]

Another factor undermining retirement security is the low level of accessible savings on the ledger of many Americans' household balance sheets. About 30 percent of American households do not have a savings account,[8] and 44 percent of households are considered liquid asset poor, meaning they lack the resources to live at the poverty line for three months in the absence of income.[9] New research shows that about a third of American households up and down the income spectrum live "hand-to-mouth."[10] Many of those families have assets, but the assets they hold are illiquid, meaning they cannot easily be accessed to meet immediate needs.

This lack of accessible savings endangers not only a family's short-term financial security by increasing reliance on debt,[11] but also long-term retirement security by forcing families to draw down long-term savings to meet immediate needs. About one-fourth of all households with a DC retirement plan will use some or all of their retirement assets for non-retirement needs.[12] The widespread use of emergency withdrawals from retirement funds is particularly problematic in light of findings from the Government Accountability Office, which showed that even a modest hardship withdrawal of $5,000 from a 401(k) could reduce the balance available in retirement by between 5 and 12 percent.[13] The counterintuitive conclusion is that government policy must first support the accumulation of short-term, flexible savings in order to promote retirement security. This is perhaps the most overlooked piece to

[7] Social Security Administration (2014).
[8] Federal Deposit Insurance Corporation (2012).
[9] CFED (2014).
[10] Kaplan, Violante, and Weidner (2014).

[11] Lopez-Fernandini (2010).
[12] Fellowes and Willemin (2013).
[13] Government Accountability Office (2009).

solving the retirement puzzle for low- and middle-income families.

MyRAs could help to achieve this dual goal of promoting both short- and long-term financial security by serving as an entry point onto the savings continuum, rather than specifically as a means to accumulate assets restricted to retirement.

The savings and retirement crisis has recently elicited responses from policymakers at both the state and federal levels. California, for example, is in the process of designing a new retirement savings program that will automatically enroll all of the state's private-sector workers who lack access to an employer-sponsored plan.[14] Other states are exploring similar proposals.[15] At the federal level, Senator Tom Harkin (D-IA) recently introduced legislation that would establish a similar program nationally.[16] President Obama and members of Congress have proposed a national Automatic IRA plan, which would offer accounts to workers regardless of their employers' willingness or ability to offer a plan.[17] However, federal legislative action on retirement security proposals has been limited to bill introductions, and no plan appears likely to be implemented in the near future.

In his 2014 State of the Union, President Barack Obama announced his Administration's intention to create a new type of savings vehicle for workers who lack coverage through their employers. The myRA, or "my Retirement Account," proposal can be implemented administratively, offering a new savings mechanism to underserved workers. In an op-ed following the announcement, Treasury Secretary Jacob Lew described the myRA program's basic features:

> This account is designed to help low- and middle-income workers, who are too often overlooked or ignored, begin saving for retirement… You will be able to start saving with an initial deposit of as little as $25 and contribute as little as $5 each payday. If an employer chooses to participate, contributions are made through automatic payroll deductions, making them hassle-free. There are no fees—100% of any contribution goes into the account and is invested in a Treasury security…. [T]he account is portable and can be easily rolled into a Roth IRA. And if myRA savers ever need to, they can withdraw their contributions tax-free, at any time.[18]

Widespread skepticism about the program's potential to have a meaningful impact on household savings followed President Obama's formal myRA announcement.[19] This skepticism is justified to some extent because the program's success depends on the degree to which employers choose to offer the program and the degree to which workers choose to participate. While participation rates cannot accurately be predicted, the myRA proposal is intended to address at least one significant obstacle for striving workers: the lack of access to a savings vehicle.

[14] Sprague (2013).

[15] In Connecticut, S.B. 249 (session 2014) would "create a state-administered retirement savings plan for low-income private sector workers." In Washington state, H.B. 2474 (session 2013-2014) would create "the save toward a retirement today retirement savings plan." H.B. 2474 passed the Washington House of Representatives on February 14, 2014. In Illinois, S.B. 2758 (98th General Assembly) would establish "a retirement savings program in the form of an automatic enrollment payroll deduction IRA." S.B. 2758 passed the Illinois State Senate on April 9, 2014.

[16] In January 2014, Senator Tom Harkin (D-IA) introduced the USA Retirement Funds Act in the 113th Congress (S. 1979). The act is also known as the Universal, Secure, Adaptable (USA) Retirement Funds Act of 2014.

[17] The Obama Administration has consistently included a proposal for the Auto-IRA in its recent budget proposals, most recently in its FY 2015 budget.

[18] Lew (2014).

[19] A quick scan of media responses to the proposal turns up headlines such as these: "Obama's 'myRA' plan is a start, but it won't save retirement" in the *Washington Post* (Singletary 2014); "Obama's 'MyRA' retirement plans may have limited advantages" for CNBC (Schoen 2014); "Obama MyRA proposal unlikely to boost retirement savings" in the *Los Angeles Times* (Hamilton 2014).

In this regard, the myRA proposal follows the example of other recent legislative proposals to address the retirement savings crisis. Providing increased access to a savings vehicle is a common feature of major retirement proposals introduced in the 113th Congress. The Secure Annuities for Employee Retirement Act of 2014 would allow employers who currently do not offer a plan to establish a "starter 401(k)."[20] The Retirement Security Act of 2014 would make it easier for small businesses to offer retirement plans to their employees by banding together into "multiple employer plans."[21] The Automatic IRA Act of 2013 would require all employers covered by the law to offer a default retirement plan and would set up default contributions for employees.[22] The USA Retirement Funds Act of 2014 would similarly require employers to offer a default savings plan with a default contribution rate and also require annuitization of the assets in most cases. This is the most expansive of the proposals. It requires participation by all employers that do not currently offer a retirement plan, regardless of the number of employees; it would make a retirement plan available to the self-employed; and sets the default contribution rate at double that of the Automatic IRA Act (6 percent compared to 3 percent).[23]

Connecting families without retirement assets to a "starter" account that can eventually put them on a path to long-term retirement security is one approach to improving access to the retirement savings system. However, Americans' poor experiences with the DC retirement model show that a successful savings system must also work to ensure short-term financial stability. MyRAs could help to achieve this dual goal of promoting both short- and long-term financial security by serving as an entry point onto the savings continuum, rather than specifically as a means to accumulate assets restricted to retirement. Common sense and modern financial advice recognize that savings needs exist on a continuum, and that saving for emergencies and short-term purposes is a necessary first step before committing to saving money in long-term, restricted assets like retirement accounts. However, current policy actively emphasizes retirement savings and ignores short-term savings. Although introduced by President Obama as a retirement account, the myRA can reform existing policy to recognize needs across the savings continuum.

Americans' poor experiences with the DC retirement model show that a successful savings system must also work to ensure short-term financial stability.

This brief is organized into three sections. The first will provide an overview of the myRA proposal as described by the Obama administration. The second will provide a critique of the program based on a set of principles that can be used to assess savings policies in general. The third will provide recommendations for improving myRAs based on the design features discussed in the second section.

The myRA Proposal

The myRA proposal is designed to address a key shortcoming of the existing retirement savings system by establishing a new savings mechanism for workers who do not have access to a plan through their employer. Employers that do not already provide a plan will be able to offer myRAs to their employees by early 2015.[24] Participating workers will make contributions through an automatic payroll deduction, and the accounts will be portable as they move from one job to the next, which is

[20] The SAFE Retirement Act of 2013 was introduced by Senator Orrin Hatch (R-UT) in the 113th Congress on July 9, 2013 as S. 1270.

[21] The Retirement Security Act of 2014 was introduced by Senators Susan Collins (R-ME) and Bill Nelson (D-FL) in the 113th Congress on January 29, 2014 as S. 1970. A companion bill was introduced in the House by Representative Bruce Braley (D-IA) on April 2, 2014 as H.R. 4376.

[22] The Automatic IRA Act of 2013 was introduced by Representative Richard E. Neal (D-MA) in the 113th Congress on May 16, 2013 as H.R.2035.

[23] The USA Retirement Funds Act of 2014 was introduced by Senator Tom Harkin (D-IA) in the 113th Congress on January 30, 2014 as S. 1979.

[24] Obama (2014).

important for reducing the account "leakage" that often occurs during increasingly common career transitions.

MyRAs will adopt the same rules and tax treatment as a Roth IRA. In all cases, accountholders will be able to withdraw amounts equal to their contributions without penalty, and since they have already paid taxes on these funds, there is no additional taxation. As a result, although the accounts are referred to as retirement accounts, the funds contributed to them may be used at any time to respond to emergencies or meet other immediate needs. Workers will be eligible to participate in a myRA so long as their modified adjusted gross income remains below established Roth limits, currently $129,000 for an individual, or $191,000 for a married couple.[25] Contributions, up to the Roth IRA limits ($5,500 a year in 2014), are made from after-tax resources, and earnings are not subject to further taxation.

The myRA proposal is designed to address a key shortcoming of the existing retirement savings system by establishing a new savings mechanism for workers who do not have access to a plan through their employer.

Withdrawal of earnings will be tax-free and penalty-free after five years for qualified uses. These purposes include buying a home or paying for expenses after becoming disabled. Other pre-retirement withdrawals do not trigger a penalty, but the accountholder has to report the earnings as income. These types of withdrawals include using the earnings to pay for post-secondary education or paying for excessive medical expenses. Non-qualified distributions of earnings from the account are subject to a 10% penalty if they are made before the accountholder turns 59 ½. The amount withdrawn must also be reported as income and subjected to normal taxation.

Unlike a typical DC plan, the myRA will offer only one investment option: a new Treasury security with the same variable interest rate as the G Fund of the federal government's Thrift Savings Plan. The G Fund recorded an average annual return of 1.89 percent as of December 2013, and 2.32 percent for the previous five-year period.[26] A unique feature of the myRA, among other retirement accounts, is that its underlying investments will be backed by the U.S. government and will be protected against losses. While the interest rate on these accounts will outperform that of most savings accounts offered on the market, the return on deposits will be modest when compared to the historic track record of investment accounts.

The accounts have low barriers to entry: there are no fees, and contributions can be as little as $5 following an initial minimum investment of $25. Workers can save in the accounts for thirty years or until they accumulate $15,000, at which point the account balance will need to be rolled into a Roth IRA managed by a private financial institution. Even before one of these triggering events (reaching the thirty-year time limit or achieving the maximum $15,000 in contributions), participants will have the option of rolling the funds into a private account at any time.[27] The U.S. Department of the Treasury will oversee the implementation of the program. The Treasury will begin piloting the accounts in 2014 with a limited set of employers in order to refine the program for a larger rollout.

In theory, the myRA is designed to serve as an entry point for new savers focused on retirement. It provides, at no additional cost to the employer or employee, a basic, risk-free mechanism for saving. The myRA has been described as a "starter retirement account" because of the low rate of

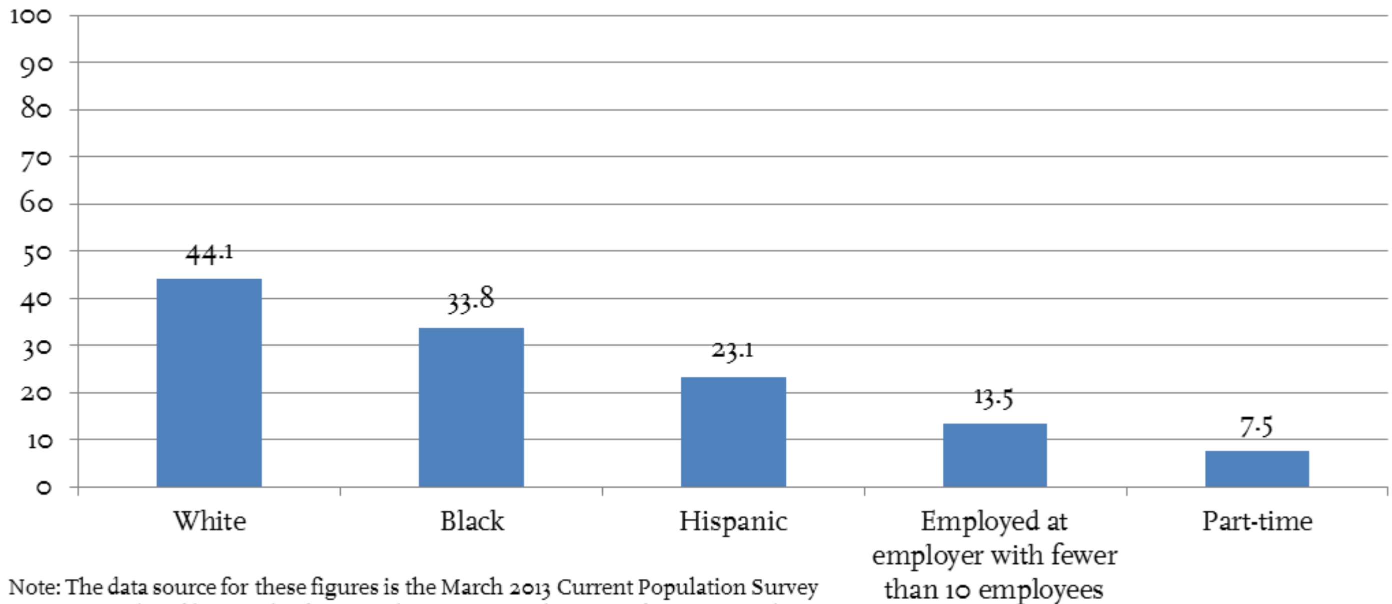
[25] Internal Revenue Service (2014).

[26] Thrift Savings Plan (2014).

[27] U.S. Department of the Treasury (2014).

Figure 2: Percent of Workers Participating in an Employer-sponsored Retirement Plan

Private-sector wage and salary workers, aged 21-64



Note: The data source for these figures is the March 2013 Current Population Survey (CPS), as analyzed by Copeland (2013). The survey population used to generate these figures is not directly comparable to that used in the U.S. Bureau of Labor Statistics (2013) data used elsewhere in this paper. However, the CPS data, unlike the BLS, permits analysis of plan participation by race, shown here.

return and the relatively low limit on maximum account balances. These features ensure that the myRA will not seriously compete with existing employer-provided DC plans, which offer much greater gains over time. However, by permitting the flexible withdrawal of contributions, myRAs provide a mechanism for supporting short-term needs before the saver commits to longer-term, restricted savings. In effect, a myRA can function as a relatively high-yield savings account that will allow workers to build savings and financial security and eventually transition to longer-term saving objectives.

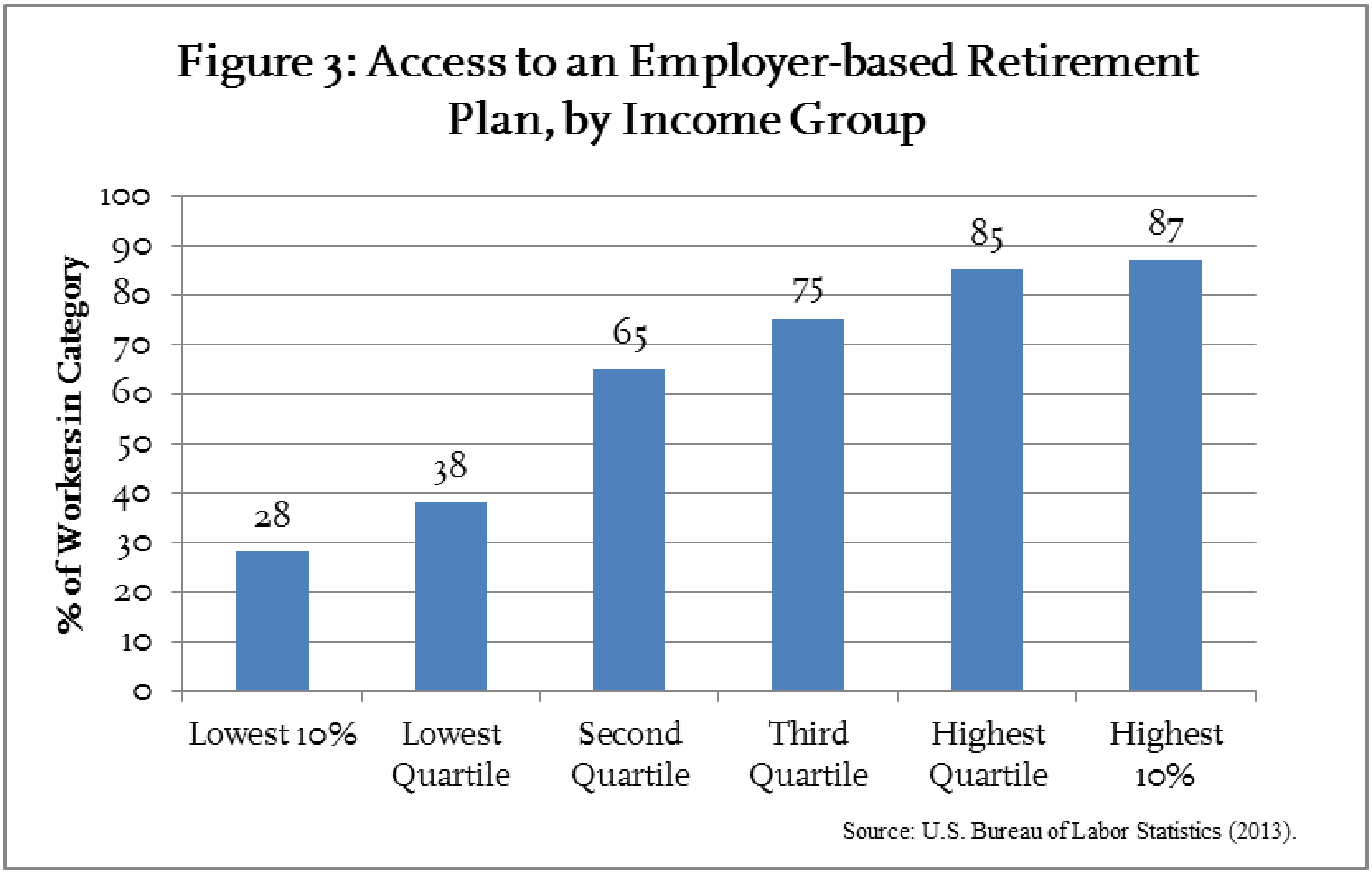
A Policy Critique

Reforms of the retirement system should address the widely acknowledged shortcomings of our current system, including the access gap, inaction on the part of individuals, and the frequent "breaches" of dedicated retirement accounts because of a general lack of short-term financial security. Effective reform of the system should therefore embrace the principles of universality, automation, and flexibility. While the myRA proposal is intended to create a new "on-ramp" to retirement savings, a further incorporating of these principles into the program's design could dramatically increase its capacity to support savings across the life course.

Universality

Account access is the foundational piece to solving the retirement puzzle. Expanded coverage represents progress, but systemic reform should aim for universal coverage in order to eliminate the access gaps and underrepresentation of specific demographic groups.[28]

[28] See figures 2, 3 and 4.



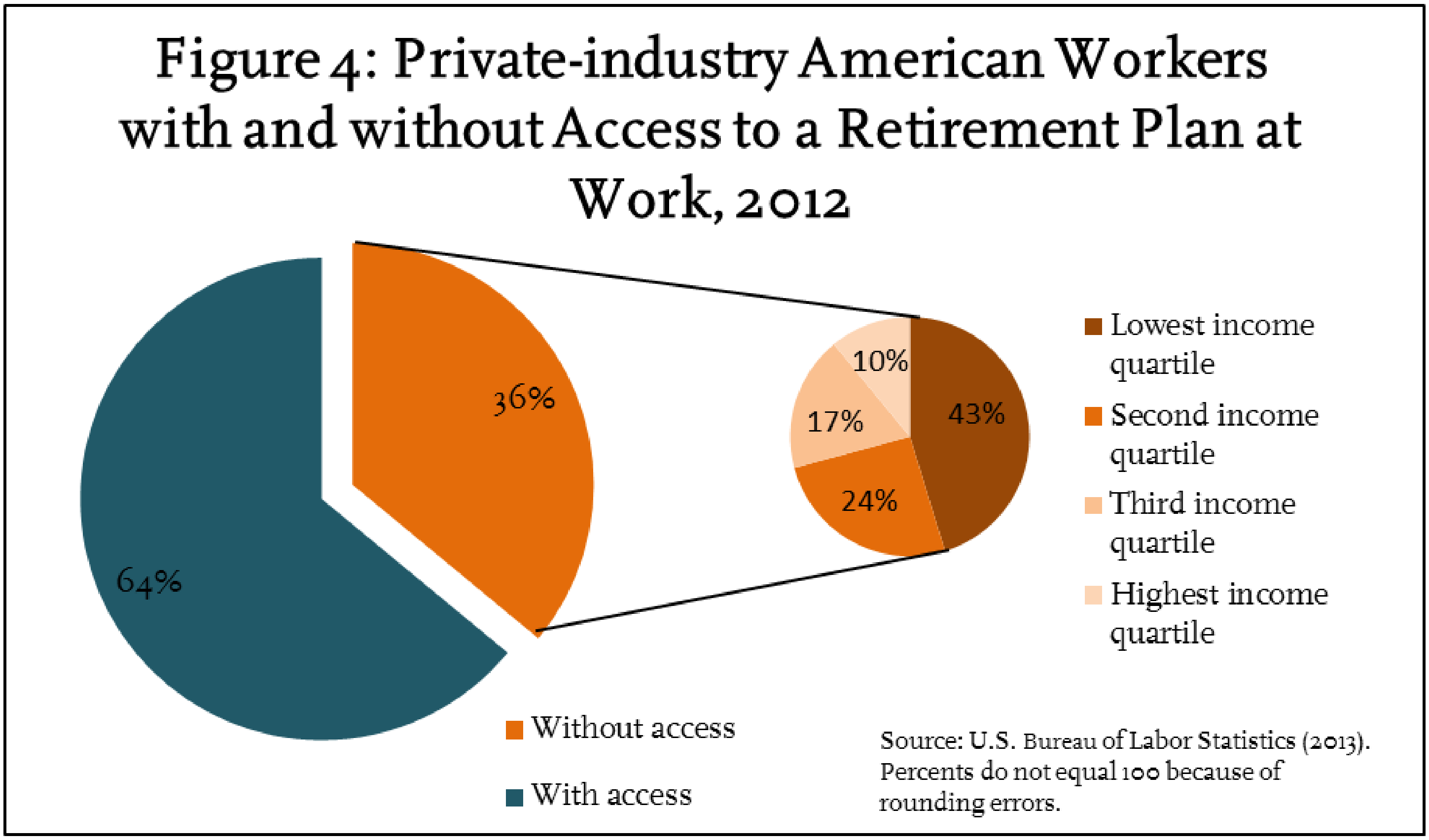
In 2013, 36 percent of private-sector workers were employed by a workplace that did not sponsor a retirement plan.[29] In addition to this group, the current employer-based retirement-savings model excludes several categories of workers at disproportionate rates. Only 37 percent of part-time workers have access to a retirement plan, compared to 74 percent of full-time workers.[30] Among workers in the lowest 10 percent of earners, the vast majority (72 percent) lack access.[31] Access to retirement plans also varies considerably along racial lines. The rates at which black and Hispanic Americans have access to a retirement plan are consistently lower than those of white Americans. The access rate of black Americans is about 10 percentage points lower than white Americans; for Hispanic Americans the rate is about 20 percentage points lower.[32]

Recent, major legislative proposals to address retirement savings all share the common goal of improving access to retirement accounts.[33] Proposals to make it easier for small businesses to offer retirement plans would have limited impact, and offer no support for the self-employed or part-time workers. While more expansive, the Automatic IRA proposal would still miss about one out of every three private-sector workers, including those who are self-employed or working at small firms.[34] Though any of these proposals would expand coverage, all would leave our nation with gaps in our lifetime savings infrastructure.

Social Security provides a base level of retirement security for all Americans. Anyone who works and pays Social

[29] U.S. Bureau of Labor Statistics (2013).
[30] Ibid.
[31] Ibid. See figure 3.
[32] Copeland (2013). *See also* Rhee (2013a). See figure 2.

[33] See table 1. Examples of recent proposals that would offer universal coverage include the AutoIRA (most recently introduced by Rep. Neal (D-MA)); the USA Retirement Funds Act (Sen. Harkin (D-IA)); the SAFE Retirement Plan (Center for American Progress); and the California Secure Choice Retirement Savings Program.
[34] Calabrese (2012), p. 9.



Security taxes for ten years over the course of his or her life qualifies for benefits. Consequently, 90 percent of Americans aged sixty-five or older receive Social Security, and the program lifts over 15 million older Americans out of poverty each year.[35]

Some researchers and policymakers have suggested that expanding Social Security benefits is a significant part of solving the retirement puzzle.[36] While these ideas may have merit, particularly for the lowest-income workers, the universal base benefit of Social Security should be paired with universal access to individual financial growth opportunities. The current system excludes too many hard-working individuals from developing a personal safety net to supplement their Social Security allotment. Further, the current retirement savings model exacerbates wealth inequality, first by funneling investment gains to those who have employer-provided access to the financial markets and second by delivering greater tax benefits to those with higher incomes. Effective reform would combine universal access with a reformed benefit structure that does not favor the wealthy over low- and middle-income workers.

The myRA program's aim is to reduce disparities in account access. However, myRA accounts will be completely voluntary for employers to offer, and there is currently no direct incentive for employers to participate. Furthermore, the administration has stated that myRAs will be "targeted to the many Americans who currently lack access to workplace retirement savings plans," meaning myRAs are more likely to be marketed to employers who do not already offer coverage.[37] This limited offering could exclude a great number of underserved employees: those not covered by their existing employer's plan, either by choice (because the tax benefits are inaccessible to them[38]) or by default (because they work part-time, for example),

[35] Van de Water, Sherman, and Ruffing (2013).
[36] Lind, Hill, Hiltonsmith, and Freedman (2013).
[37] Office of the Press Secretary (2014).
[38] Cramer and Schreur (2013).

and those with a retirement savings account but insufficient emergency savings. The self-employed will also be ineligible to enroll in a myRA, which is significant because those most likely to be self-employed are men aged 55-64, who are rapidly approaching retirement and in need of a safe and accessible mechanism for saving.[39] MyRAs will offer an accessible, affordable, and flexible savings vehicle, but only to a small, active subset of employees of the small, active subset of employers who choose to offer the plans.

Automation

One of the most important innovations for savings plans in recent years has been the incorporation of design elements informed by behavioral economics. Increasingly popular default features like automatic enrollment and automatic escalation eliminate requirements to take assertive action and help workers harness the power of inertia to improve saving outcomes. Instead of allowing inertia to create a barrier to account ownership (as in opt-in approaches), savings plans should use inertia to maximize account ownership by automatically enrolling employees and allowing anyone to opt out.

The impacts of automation on both enrollment and savings rates are significant. Automatic enrollment has been found to significantly increase overall plan participation, while reducing disparities in participation based on both race and income.[40] A recent study found that automatic enrollment can have a particularly meaningful impact for lower-income workers, who are less likely than high earners to be "active savers," defined as those who adjust their investment decisions in response to changes in retirement policy.[41] Two recent retirement proposals provide examples of how to facilitate automatic saving. The Automatic IRA Act of 2013 would default all workers into a retirement savings plan at 3 percent of pay. All employers covered by the law would be required to facilitate payroll deduction of the designated amount, but would not have to offer matched contributions.[42] The USA Retirement Funds Act of 2014 would default all workers into a retirement savings plan at 6 percent of pay and also require annuitization of the assets at retirement. As with the Automatic IRA proposal, all employers would be required to offer this savings option.[43]

On its own, auto-enrollment has mixed effects on overall savings amounts: the default contribution rates, which are often 3 percent or below, are arbitrarily low for some workers, and generally insufficient to accumulate adequate savings balances.[44] However, combining auto-enrollment with automatic escalation, by which employees' contributions are automatically increased each year or with each pay raise, has been found to compensate for these shortcomings and enable workers to build a more robust nest egg.[45]

As currently proposed, myRAs require initial action on the part of two discrete actors: employers and employees. First, employers must choose to offer a myRA to their workforce. Although myRAs are designed to not impose any new costs on participating employers, their voluntary, opt-in structure will create a significant barrier to widespread take-up. Second, even if an employer chooses to participate, eligible workers will have to take affirmative steps to sign up, rather than being automatically enrolled.

For eligible workers who choose to enroll in a myRA, contributions will be automatically made via payroll deduction, which will support consistent accumulation. After the initial contribution amount is designated, employees will not have to choose to contribute each pay period. This is a positive feature of the myRA program, but savings activity will be markedly lower than if automatic enrollment and escalation were design features of the program.

[39] Schultz (2012).
[40] GAO (2009); Choi, Laibson, Madrian, and Metrick (2001); Ariel Education Initiative and Aon Hewitt (2012).
[41] Chetty et al. (2012).
[42] See table 1.
[43] See table 1.
[44] VanDerhei and Copeland (2008).
[45] VanDerhei and Lucas (2010).

Flexibility

Offering savings platforms to the broadest possible population and making the act of saving automatic are both important aspects of effective savings policies. But committing funds in a long-term savings vehicle for thirty or forty years may not be a feasible option for low- and moderate-income families without a pool of short-term savings that can be called upon in the case of a financial emergency or job loss. Households without sufficient emergency savings are twice as likely as those with emergency savings to "breach" their retirement account and use the funds for non-retirement needs, thereby incurring penalties and negating the benefit of maintaining funds in a dedicated, long-term savings vehicle.[46] Having the ability to withdraw funds in an emergency has been found to be one of the most significant factors in the decision of low-income households to save for retirement.[47] However, offering flexible-use accounts, as opposed to dedicated-use accounts like 529 College Savings Plans and 401(k) retirement accounts, has not been recognized as a priority by policymakers. The Fiscal Year 2015 budget proposed by President Obama projects that the US will spend $148 billion promoting retirement savings.[48] There are no resources in the federal budget specifically directed at building up flexible savings. While many employers offer a retirement savings plans, employer-based plans to support emergency savings are uncommon and not supported by tax benefits in the same manner as retirement plans.

Because myRAs are structured using rules that apply to Roth IRAs, they permit pre-retirement withdrawals of contributions. While this rule technically permits flexible usage of the accounts, using them as flexible-spending accounts requires some additional accounting. Roth IRA accountholders can withdraw funds, but they must distinguish their previous after-tax contributions from their earnings and limit short-term withdrawals to the former.

The exclusively retirement-focused messaging surrounding myRAs may undermine the potential advantages of the accounts to support short-term financial security and motivate employees to participate.

Even in the existing savings landscape, lower-income earners could conceivably advance along the savings continuum by using Roth IRAs as flexible savings accounts. But this is uncommon. Only 17 percent of all U.S. households own a Roth IRA, and only about 8 percent of households earning below the national median income do so.[49] This low take-up rate among lower-income earners is disappointing considering that the acknowledged purpose of Roth IRAs was to be "more targeted toward lower- and middle-income families" than previous retirement-savings vehicles, according to then-President Bill Clinton.[50]

The low take-up rate of Roth IRAs can be at least partially explained by the barriers to entry for low-wealth households seeking to save in investment products offered by private financial providers. Many investment firms require minimum initial investments of $1,000 or more, require recurring minimum monthly deposits, or charge fees for each transaction, all of which could prevent low- and middle-income families from saving in a Roth IRA. The myRA approach would overcome some of these barriers through its elimination of fees and low initial investment requirements.

Another significant reason that low-income households are reluctant to contribute money to investment accounts is

[46] Fellowes and Willemin (2013), 6.
[47] Spader, Holt, Fiore, and Blaine (2011). In a survey of low-income taxpayers at VITA sites, 34% or respondents identified "the ability to withdraw funds in an emergency" as the most important factor in retirement savings decisions. 36% identified a matching incentive, which is a significant finding, but is irrelevant for the purposes of studying myRAs, which offer no matching incentive.
[48] Black (2014).

[49] Holden and Schrass (2012).
[50] *Quoted in* McKinney (1999).

that many are designated specifically for retirement, even when this savings need is often secondary to the more immediate need of building up short-term financial security. Focusing the product name on long-term savings ("my *Retirement* Account") obscures the fact that money saved in these accounts is available for emergencies at any time. The exclusively retirement-focused messaging surrounding myRAs may undermine the potential advantages of the accounts to support short-term financial security and motivate employees to participate.

Proposals for Improvements to myRAs

The myRA has the potential to facilitate the beginning of a long-term saving process for participants. With low transaction fees, low minimum balance requirements, and a guarantee of modest growth, myRAs can offer an attractive opportunity to the small saver. However, in its current form, the myRA proposal will be of limited reach and may lack salience for potential participants not currently focused on long-term retirement savings.

Strategic adjustments by Treasury, coupled with Congressional action and shifting employer marketing to emphasize myRA's inherent flexibility, could transform the policy from a retirement-savings program of minimal impact to a lifetime-savings program of great significance. We offer recommendations in three key areas to achieve this transformation: 1) encourage universal participation, 2) promote automation, and 3) emphasize flexibility.

Encourage Universal Participation

As currently proposed, myRAs will reach only a small portion of the working population. The accounts are targeted to employees that do not participate in a retirement plan and to employers that do not currently provide a retirement plan. The self-employed will not be able to access myRAs. As long as myRAs are restricted in their availability to this limited subset of employees, their impact will be modest.

All workers would benefit from having access to a flexible savings vehicle, including those who work for an employer that currently offers a retirement plan. The low take-up rate of retirement plans among low- and middle-income Americans suggests that these workers perceive there to be little benefit – and much risk – in contributing valuable resources to a restricted account like a 401(k). Unfortunately, many workers also lack access to the basic savings mechanisms they need to start saving for the short term. Consequently, even workers who have an employer-sponsored retirement account run a high risk of "breaching" those accounts and damaging their retirement security for want of emergency savings.[51]

The myRA has the potential to facilitate the beginning of a long-term saving process for participants.

MyRAs could serve a wider variety of needs than initially conceived. Those Americans without any savings mechanisms could utilize a myRA as a first step onto the savings continuum. For those who already have a retirement account, a myRA could provide an accessible, flexible supplement to help forestall damaging "breaches." Rather than competing with and undermining 401(k)s, myRAs can supplement and support the retirement savings system.

The Obama Administration should expand availability of myRAs so that all employers are eligible to offer the accounts. MyRAs fill a savings need that is not being met by the private market and offer value above and beyond an existing retirement savings plan, functioning as either a first step onto the savings continuum or as a supplement to existing retirement savings vehicles.

[51] Fellowes and Willemin (2013).

Insights from the AutoSave Proposal

The process of refining the myRA proposal should be informed by other savings initiatives intended to reach a similar population. One such effort was the AutoSave proposal. AutoSave offers an aspirational vision of what the myRA program could achieve if certain improvements are made concerning universality, automation, and flexibility.

First formulated in 2006 by the New America Foundation and subsequently piloted in the field, AutoSave was designed as a workplace-based savings program that would use payroll deductions to make deposits into flexible savings accounts.[i] Recognizing the challenges many people have in building up the initial assets that can enhance economic security, AutoSave aimed to make the process of saving "easy, accessible, and productive."[ii] AutoSave promised to achieve these goals by leveraging existing infrastructure – such as payroll mechanisms that automatically divert earnings to pay for fringe benefits like health insurance or retirement savings – to create a large-scale savings platform. In its initial conception, workers would be automatically enrolled at their workplace, and their employer would facilitate their after-tax contributions to a savings plan. Participants could access their money at their own discretion without restrictions or tax complications. The concept included an established default contribution rate and allowed participants to re-designate it at any time or elect to opt out of the program entirely. While the program was intended to be offered through employers, it would not have created any additional financial or administrative burden beyond what is already required in terms of government withholding from paychecks for income and FICA taxes.

MDRC, a non-profit corporation with significant experience in social policy research, piloted AutoSave at five sites in the field between 2010 and 2012 with guidance from the New America Foundation's Asset Building Program.[iii] Each site required a willing employer that collaborated with a bank or credit union to oversee the accounts.[iv] The pilot project was unable to replicate the full vision of the concept at scale, due to significant regulatory barriers, including a prohibition on automatic enrollment of participants in a non-retirement savings vehicle. However, the pilot was able to incorporate key design features, such as facilitation of automatic transfers to a savings account through an existing system (payroll deduction), and the use of strategies to make it easier to put money into a savings account. The pilot demonstrated that instituting an emergency savings program in the workplace could be feasible, and inexpensive to administer.

Though the initial findings from the evaluation revealed promising results in terms of take-up and savings behavior, the pilot's lasting legacy is to highlight the hostility of existing rules to innovative efforts to build emergency savings. Current banking regulations prohibit employers from opening a bank account on behalf of employees and cause banks to establish procedures that make account opening cumbersome. In addition to dissuading action, these rules effectively prohibit some people from opening bank accounts. By contrast, Congress created incentives for employers to implement automatic enrollment and automatic payroll deduction for employer sponsored 401(k)-type accounts in the Pension Protection Act of 2006. The AutoSave experience highlights the government's preferential treatment of retirement savings and its neglect of emergency savings.

i Cramer (2006).
ii Ibid., 9.
iii See Lopez-Fernandini and Schultz (2010).
iv The five initial pilot employers included: a Southern California distribution warehouse for a national drugstore chain; a small nonprofit provider of vocational training and computer refurbishing; a for-profit school meal catering enterprise, recently expanded to four cities nationwide; and two large municipal employers, located on the East and West Coasts.

Table 1. Summary of Recent Retirement Savings Policy Proposals and Achievement of Savings-Policy Principles

Policy Proposal		Foundational Savings-Policy Principle		
Title	Sponsor	*Universality*	*Automation*	*Flexibility*
The Secure Annuities for Employee (SAFE) Retirement Act of 2013	Sen. Orrin Hatch (R-UT)	No	Yes	No: Same rules as 401(k)
Retirement Security Act of 2014	Sen. Susan Collins (R-ME), Sen. Bill Nelson (D-FL), Rep. Bruce Braley (D-IA)	No	N/A	N/A
Automatic IRA Act of 2013	Rep. Richard E. Neal (D-MA)	No: Only employers with over 10 employees and that do not offer a retirement plan must participate	Yes: 3% default	No: Same rules as IRA
USA Retirement Funds Act of 2014	Sen. Tom Harkin (D-IA)	Yes: All employers without a retirement plan must participate	Yes: 6% default	No: Required annuitization; early withdrawals subject to penalties
MyRA as proposed by Administration	Obama Administration	No: Voluntary for employers; not intended for employers with a retirement plan, or the self-employed	No	Yes: Roth IRA rules
MyRA with proposed changes	New America	Yes: Available to all employers and the self-employed	Yes: Employees automatically enrolled at a default contribution rate of 3% with automatic escalation	Yes: Roth IRA rules, facilitation of accounting, broader outreach

The Administration should leverage the myRA system to provide a savings vehicle for self-employed workers and others with irregular contact to a single employer. These workers are among those least likely to have access to a retirement account and among those with the greatest unmet savings need. The Administration has indicated that account holders will be able to check their balance and perform other necessary functions via a website maintained by a private provider with experience in managing Roth-type accounts. The website should provide the capacity for account holders to make non-payroll contributions to their myRA, and this capacity should be leveraged to provide access to the self-employed, contract workers, and others uncovered by our current system.

The Administration should allow account opening and contributions to myRAs through the tax form. In the past decade, Treasury and the Internal Revenue Service (IRS) have designed and implemented a variety of channels to promote expanded access to financial services through the tax-filing process. The IRS now allows tax filers to split their refund and receive a portion in as many as three different accounts (through Form 8888). The same form allows tax filers to save a portion of their refund by purchasing U.S. Savings Bonds with their tax refund. Thanks to the Earned Income Tax Credit (EITC), the tax refund may be the largest lump sum payment that many Americans receive each year. The Americans who receive the highest credits are likely to be working, have children, and make less than the national

Table 2: Making myRAs Work: Proposed policy changes, by governmental actor		
	Responsible Entity	
Foundational Principle	Treasury	Congress
Universality	Offer to all employers	—
	Allow self-employed to access	—
	Provide access at tax time	—
	Clearly communicate impact on eligibility for assistance	Eliminate asset limits
Automation	Set a default	Extend 401(k)-type authority and protections to employers
Flexibility	Promote flexibility to employers	—
	Work with employers to promote flexibility to employees	—

median income.[52] Furthermore, because those Americans who make less than the national median income are those most likely to lack access to an employer-sponsored retirement plan, families that claim the EITC are also disproportionately likely to lack access to a retirement plan.

The tax refund represents a unique opportunity for these striving families to make savings contributions. A recent survey of low-income tax filers using the free version of Intuit's Turbo Tax software found that at least 39 percent of respondents wanted to receive their refunds in an alternate fashion, including those who wished to open a general savings, retirement savings, or education savings vehicle with their refund.[53] Demand for new savings accounts was almost twice as strong (23 percent versus 12 percent) among those considered to be "unbanked."[54] Allowing myRA account opening and contributions via the tax form would increase access and promote savings for a variety of underserved Americans and be a natural extension of the IRS's existing bond-purchase program.

This expanded access would likely increase the cost of the program, though the economies of scale generated by large-scale availability should keep the marginal cost of an account small. If cost does become an issue, Treasury should consider minor changes to the interest rate to cover the increased costs. All workers, even those unable to benefit from the current tax-based retirement plans at their workplace, should have the opportunity to take advantage of a payroll deduction arrangement to generate savings.

Congress should eliminate asset limits that prevent low-income workers from saving. Many of the low-wage workers who have the most to gain from the savings opportunities provided by myRAs could be deterred from doing so by administrative rules in social safety net programs that explicitly restrict their ability to save. Asset limits in public assistance programs impose a cap on the level of savings and other resources that applicants can have and still remain eligible for support. These policies require families to make a trade-off between their short-term needs and long-term opportunity, and to remain in a state of economic vulnerability in exchange for temporary assistance. While retirement savings are excluded from consideration in some programs, maintaining asset limits in public assistance programs undermines myRAs' potential to generate savings by creating explicit barriers to saving in some cases as well as generalized misgivings about savings among workers where no explicit conflict exists. Congress should eliminate asset limits to promote savings, simple program administration and self-sufficiency. Treasury should clearly and prominently inform employers and employees about the impact of myRA savings on eligibility for public assistance.

Promote Automation

An opt-out structure is a foundational component of designing a successful savings program. A key insight of

[52] Internal Revenue Service (2013).
[53] Grinstein-Weiss et al. (2013).
[54] Ibid.

behavioral economics is that auto-enrollment works.[55] Participation in retirement plans among the lowest-income workers has been shown to increase from about 13 percent without auto-enrollment to as high as 80 percent with it.[56]

> The flexibility inherent in myRAs' design will make them more relevant and valuable for addressing shortcomings of the contemporary retirement savings system.

Existing regulations prohibit the myRA program from offering either auto-enrollment or automatic escalation. Participating in the plan entails a multi-step process that requires both employers and employees to overcome the inertia of non-action. First, an employer must opt in to the program, making the transition from not offering a retirement plan at all, to signing up for a new and unfamiliar program. Then, each employee must make two discrete decisions: first, they must choose to participate in the plan and forego current consumption in favor of building savings; and second, they must decide what percentage of their income they would like to deduct from each paycheck. Research confirms that these are imposing barriers, which will inevitably result in a lower take-up rate than myRA could achieve using automation.[57]

The Obama Administration should present Congress with a plan that extends to employers that offer myRAs the same protections and authority that allow for auto-enrollment and auto-escalation in employer-sponsored 401(k) plans. Without these features, participation in the myRA program and account accumulation are likely to be extremely low and will raise hard questions about the value of the plan. Treasury has emphasized the low barriers to participation in myRAs, including a $25 minimum to open an account and automatic payroll deductions of as little as $5 per paycheck. These low barriers are crucial for attracting low-income workers, but given the flexibility of the funds and the importance of building up savings contributions, Treasury should establish a 3 percent default contribution that will automatically escalate each year up to a predetermined maximum contribution percentage.

Emphasize flexible and short-term savings

Although myRAs were described by President Obama as a means to advance retirement savings and are often described as being a type of Roth IRA, their structure creates opportunities to save for a range of purposes. The flexibility inherent in the accounts' design will make them more relevant and valuable for addressing shortcomings of the contemporary retirement savings system by supporting the shorter-term financial needs that are a prerequisite for long-term financial security.

For many potential participants, saving for retirement is not their highest priority. But the ability to withdraw contributions at any time without a penalty is an advantage of the myRA program that could help families build up a stock of valuable emergency savings. Many of these workers are interested in saving, but wary of investing and suffering losses in the stock market. For those interested primarily in building retirement security, myRAs' rate of return is problematic. But for workers unnerved by market losses myRAs' safe, steady, small returns are a prime attraction.

Treasury should market myRAs to employers as the kind of flexible, accessible savings account that many American families most desperately need. Treasury should emphasize to employers that a myRA isn't just a retirement "starter" account, but that it fills an unmet need for a wide array of employees. Treasury needs to work with employers to ensure that information about myRA informs workers – especially those currently postponing saving for retirement because of concerns about their current financial security – that a myRA is a viable option for saving for short-term needs.

[55] Cramer (2006), 7.
[56] Madrian and Shea (2001).
[57] Schoar and Tantia (2014).

Conclusion

The nation's retirement puzzle requires a more advanced solution than just boosting the number of Americans holding retirement accounts. One piece of the puzzle is that many lower-income workers do not participate in any savings plan. Another is that Americans have complex financial lives that require flexible solutions to meet their savings needs. While the nation would doubtlessly benefit from greater retirement savings, focusing on retirement security to the detriment of immediate financial security is self-defeating. Without the ability to access savings and assets to respond to emergencies, unexpected events, and other needs, families will consistently choose to prioritize their immediate needs over their long-term goals. Policies that help people meet the full range of their savings needs will not only promote Americans' short-term financial resilience, but also strengthen retirement security. The myRA has the potential to fill this role, but requires improvements before it can be an effective contributor to solving the retirement puzzle.

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