MarketWatch
THE WALL STREET JOURNAL.

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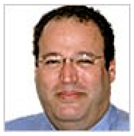

Feb. 1, 2014, 8:11 a.m. EST

The trouble with Obama's myRA plan

Retirement plan helps those with no 401(k), but not much

By Chuck Jaffe, MarketWatch

Real life isn't always a "Field of Dreams," where "if you build it, they will come."

Instead, there are times when you build it, and they go "Ho-hum," and mostly ignore you.

So while any effort to encourage increased retirement savings among workers deserves to be applauded — arguing against increased savings is like disputing the value of parenthood and apple pie — it's hard to see President Obama's myRA program achieving most of its goals, because once you get past what he described during the State of the Union address, it appears to be a lot of wishful thinking.

Let's do the digging and see why that is.

Obama's MyRA proposal: Mind the 'buts'

Charles Jaffe look at the details behind President Obama's "MyRA" savings program and advises investors to read the fine print .

The awkwardly named myRA (rhymes with IRA, as in the individual retirement account it is designed to supplement) was unveiled by President Obama this week as a savings vehicle designed to serve people whose employers don't provide access to a retirement plan. That's about half of all workers, mostly the ones who work for small employers that can't afford to offer a plan.

The basic details released to this point make it clear that myRAs will be backed by a security that looks and feels like a savings bond, backed by the government and with the same variable-interest-rate return offered by the G Fund, the Government Securities Investment Fund in the federal employees' Thrift Savings Plan. (It's similar to another idea the Treasury has been working on for at least four years now: the R-bond, a retirement product that would let employees direct part of their paycheck toward an investment.)

Savers would be guaranteed that the value of their account would never go down; they would pay no fees on the accounts.

Savers can open the accounts for as little as $25 and can make additional contributions in amounts as small as $5. In this regard, it's like savings bonds in their prime, from the 1940s through the 1980s, when savers regularly set aside small dollar amounts through payroll plans. The result of all of those small bond purchases was a lot of "shoebox millionaires," folks who had boxes and boxes of savings bonds stuck in an attic, representing riches amassed by years of small, government-protected savings.

The myRA will use after-tax dollars, like a Roth IRA (meaning withdrawals under most circumstances will not be taxed). And while it is funded by paycheck deductions, savers will be able to keep their accounts when they change jobs. Employers aren't required to take part in myRA. Obama can start his program without legislative approval, but a proposal forcing employers who have no retirement plans to participate would require a vote from Congress.

All of that sounds pretty good. Here come the "buts":

1. The G Fund in 2012 — the latest year for which numbers are available — returned 1.47%, and has an annualized average return from 2003 to 2012 of 3.6%. The problem is that inflation in 2012, as measured by the Consumer Price Index, was 2.08%, which means that in real-return terms, G Fund savers lost ground. The value of their account was up, but their purchasing power was diminished.

Obama is introducing his program just as interest rates appear to be coming off the bottom, and at a point where many observers expect an increase in inflation going forward. If the myRA can't generate more in returns than inflation, even if it succeeds in getting people to save, they won't be saving well.

2. The myRA program has a $15,000 limit — after amassing that much, savers will have to move their dollars to a Roth IRA — which isn't exactly allowing anyone to become a modern-day shoebox millionaire through a lifetime of savings. That limit curtails some effectiveness: Reach the $15,000 limit and you must transfer the funds, so your government guarantee of a protected investment is gone. That's a flaw if the idea is to help people develop protected lifetime savings.

3. The structure encourages savers to use the myRA for their immediate investment benefit rather than for their long-term savings.

The G-Fund payout of 1.47% in 2012 is a far sight better than most savers could have gotten from a bank account at that time. Let's assume that trend continues; with the myRA having no penalties for withdrawal, it can be used as a better alternative to a savings account for people trying to keep an emergency fund in an account that is government-insured against loss.

That's not the intention of the program, but Americans have shown a knack for taking advantage of programs for personal benefits, and not necessarily as the framers of those programs intended.

4. You can lead a horse to water, but you can't make it drink.

We'd all like to believe that if you make retirement-savings plans available, people who have never had access before will sign up and get involved. Ask small entrepreneurs who have established plans, however, and they will tell you that most of their workers didn't much care.

My sister Carole, for example, established a 401(k) for employees at her small business in New Jersey, and despite matching funds and other efforts to encourage good long-term habits, a majority of employees had personal reasons — from simply living paycheck to paycheck to perhaps feeling like they won't be on the job long enough to amass a nest egg and more — to ignore the plan.

In short, you can build it, and they will look at it, but there's no guarantee they will play ball.

"The litany of retirement-savings options already out there are plentiful," Lance Roberts, chief executive at STA Wealth Management in Houston, said on my radio show this week. "What is not plentiful is the money to put into them. People don't have money to save. If they had money to save, they would be — and they are — taking advantage of the options that exist. … What people are lacking is the money to save.

"You have roughly 80% of America that is living paycheck to paycheck for the most part. There's not a lot of savings there."

Tackle that problem and more people will save. Until those economic issues are resolved, it will take something more attractive than the myRA to get more low- to middle-income Americans to use a retirement plan.

Obama launches MyRA to boost retirement saving

President Obama, during the State of the Union, announced the launch of MyRA, a savings bond to help Americans save for retirement.

More about the "myRA" retirement plan:

Meet myRA: Obama offers IRA plan details

Shift retirement plans away from employers

Will the 'myRA' retirement plan take off?

Obama's State of the Union address: full text