Obama Gives ‘Auto-IRA’ a Shout Out—and a New Name

By Kerry Pechter *Thu, Jan 30, 2014*

Mr. Obama has ordered the creation (on a pilot basis) of a "myRA" program, bringing closer to fruition a multi-year effort by liberal policymakers to expand access to workplace retirement savings plans. The illustration is of myRA's cousin VERA.

Her name is *myRA*. And as soon as President Obama mentioned her—or, it—in his State of the Union on Tuesday night, members of the media and the retirement industry scrambled to learn more about this new-sounding federal initiative in the retirement income space.

Here’s what the President said:

“Tomorrow I will direct the Treasury to create a new way for working Americans to start their own retirement savings: myRA. It’s a new savings bond that encourages folks to build a nest egg. MyRA guarantees a decent return with no risk of losing what you put in… And if Congress wants to help, work with me… to offer every American access to an automatic IRA on the job, so they can save at work like everybody in this chamber can.”

Indeed, as the *New York Times* reported this morning: “In a stop in Pennsylvania on Wednesday, Mr. Obama signed a presidential memorandum and handed it to Treasury Secretary Jack Lew. It instructed him to create the new ‘starter’ retirement savings program called ‘myRA.'”

The old is new again

The proposal sounded new, but it’s been years in the making. Rep. Richard Neal (D-MA) has been re-submitting a bill to create so-called auto-IRAs since at least 2007. Mark Iwry of the Treasury Department and David John of AARP, pushed for it when they were at the Brookings Institution and the Heritage Foundation, respectively. Bill Gale of the Brookings Institution’s Retirement Security Project has written about it.

In 2011, a West Virginia policy group began promoting VERA (Voluntary Employee Retirement Account), a state-sponsored, privately-run, optional workplace savings program that also happened to be named after a woman. So far, California is the only state that has passed an auto-IRA law. The efforts have been driven by a desire to increase savings among the tens of millions of American workers whose employers don’t offer payroll-deduction savings plans.

But now the idea has a specific endorsement from the nation’s CEO, in effect. “There had been some talk about the President doing a speech on retirement in September. But that never happened—in part because of the health care ruckus. So it was held over for the State of the Union,” a person familiar with the situation told *RIJ* this week.

“We always hoped it would get into the speech at some point,” said an aide in Rep. Neal’s office. “It fit in better with the President’s theme this year.” The source of the name wasn’t immediately apparent. “The press folks at Treasury may have come up with Myra. When we start naming things in Congress, we usually use acronyms.”

Liberal policymakers see the auto-IRA and its default investment, a Treasury bond called the R-bond, as a way to extend convenient workplace retirement savings plans—and the benefits of tax deferred savings—to the tens of millions of workers whose employers don’t offer DC plans. The R-bonds are the default investment in an auto-IRA, just as target date funds are the default investment in many 401(k) plans that use auto-enrollment.

The auto-IRA would be more or less compulsory, except for the smallest, newest employers. Employers who don’t offer retirement plans would be required to “connect their employees with a payroll deduction IRA,” according to the White House fact sheet. (Under Rep. Neal’s original legislative proposal, employers with fewer than 10 employees and those in business less than two years would be exempt from the mandate.)

Employees would be passively enrolled in the program unless they actively opted out. All contributions would go into R-bonds, which would earn the same rate as the government’s Thrift Savings Plan Government Securities Investment Fund.

The program is designed *not* to take market share from the private retirement industry. In fact, it incubates infant savings account for it. When the myRA accounts reach a value of $15,000, participants would transfer the money to an account at a larger investment company. Households making over $191,000 and individuals earning over $129,000 won’t be eligible to use myRA.

The program is also designed not to scare off potential participants. A myRA is a Roth IRA, so contributions (as opposed to gains) can be withdrawn at any time. Initial contributions can be as small as $5. And while the default investment, a government bond fund, won’t offer much return, it won’t pose any risk of loss. One could argue that tiny accounts can’t benefit much from equity exposure anyway.

Mixed reaction

MyRA was greeted with a mixed reaction from the retirement industry on Wednesday morning. BlackRock, the big asset manager that recently declared its ambition to be the nation’s leading retirement company, praised it. So did Cathy Weatherford of the Insured Retirement Institute, though she added a reminder that the tax deferral for retirement savings must be preserved.

That reminder was necessitated by the fact that during the State of the Union the President—somewhat unnecessarily—chose to burnish his liberal credentials by positioning the myRA as a policy corrective to an “upside-down tax code” that gives “big tax breaks to help the wealthy save, but does little or nothing for middle-class.”

The White House fact sheet on myRa said, “Current retirement tax subsidies disproportionately benefit higher-income households, many of whom would have saved with or without incentives. An estimated two-thirds of tax benefits for retirement saving go to the top 20% of earners, with one-third going to the top 5 percent of earners. Our tax incentives for retirement can be designed more efficiently.”

That’s just waving a red flag in front of the 401(k) industry’s leaders. They don’t deny that their services fail to reach tens of millions of full-time U.S. workers. But they resent the implication that any of their participants benefit from an inequitable subsidy. “It is extremely unfortunate that while promoting the importance of retirement savings in the State of the Union address, President Obama chose to attack the 401(k) plan, the primary retirement vehicle for tens of millions of middle-income working Americans,” said Brian Graff, CEO of ASPPA and NAPA, the trade groups for plan administrators, in a press release Wednesday.

“The president said the tax incentives for 401(k) plans primarily benefit those with higher incomes. In fact, 80% of 401(k) plan participants are middle-class Americans making less than $100,000. The president said the tax incentives for retirement savings are ‘upside down’—meaning they mostly go to the wealthy. In reality, households making more than $200,000 only get 17% of the tax benefits from 401(k) plans, while middle income households enjoy the majority of such tax benefits.”

Some people are simply skeptical of new regulations. Small-government proponents have argued that Americans without workplace retirement plans don’t need a new program because they can already create traditional or Roth IRAs on their own, and contribute as much as $5,500 ($6,500 age 50 and over) a year to them. But it usually takes at least $1,000 to open an individual IRA, and there’s no simple provision for automatic contributions. History has also shown that people are much likelier to save through an automatic program at work than on their own.

The administration no doubt feels some pressure to move the auto-IRA and the R-bond ideas off the back burner. Baby Boomers aren’t getting any younger, and President Obama has only three years left to deliver on his administration’s pet initiatives. The hardest part may be to convince small employers to set up payroll deduction mechanisms for their employees. As we saw with Obamacare, mandates aren’t popular.