MV Financial Thought Leadership

Who is 'MyRA'?

In the State of the Union address given on January 28th President Obama introduced the world to 'MyRA', a new retirement savings vehicle intended to help the middle class save for their future. This is commendable: a retirement gap of six trillion dollars exists between what Americans should be saving and what they are saving, and this gap must be addressed. How effectively does MyRA get to the heart of this very complex and multi-layered issue? In our opinion, not very effectively.

In his speech Obama stated, "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." The White House's factsheet specifies that this vehicle would be available to joint households earning up to $191,000 with initial investments allowed to be as little as $25, annual contributions may be up to $5,500 a year (same as for an IRA), and the account may reach a maximum of $15,000 before being rolled into a commercial account. As he stated in his speech, contributors will be ensured principal safety by a safety bond backed by the US government.

What makes MyRA likely to be the savings vehicle that will close that large retirement savings gap? How will this plan change the saving habits of millions of Americans and offer them a better retirement in a way that other savings plans like IRAs and 401(k)s have not been able to do? President Obama emphasized the risk-free nature of the surety bond. But is the fear of losing principal the central reason for the lack of retirement savings? In our opinion, the answer is no: there are other, bigger fundamental issues at play.

At the heart of the issue are two factors: a lack of adequate education regarding good financial habits; and the simple behavioral economics of human beings. The majority of the audience that the MyRA is targeting doesn't save because they don't know how to make an effective financial plan towards a long term goal like retirement. Our experience from working with employer-sponsored retirement plans is that most people lack even the most basic knowledge about investing and because they don't know where to begin, they don't take action.

Many of these people are working long hours just to keep their heads above water and they view learning how to make effective investment decisions as a commitment for which they simply don't have the time. The investment choices available today can also be overwhelming, from growth funds to fixed income assets, a great number plan employees with whom we work tell us that they see these investing choices as both intimidating and confusing, leading them to simply turn their backs to the task of doing so. They don't need a surety bond; they need education and good information.

In many cases, we have also seen that employees don't invest their money towards retirement because they only vaguely understand what benefit it will bring them. Human nature dictates that people live in the 'here and now.' The idea that they will need to save X amount of dollars to sustain their lifestyle for the many years they will live in retirement is a less immediate concern.

This is what we mean by behavioral economics, and it plays a big role in the retirement savings crisis. When it comes to financial decisions, people don't make rational choices. We are wired to compartmentalize our financial decisions – we don't think about how spending $4 on a cup of coffee will impact all the other financial decisions we could have made with that $4. In this equation, it is generally the immediate needs that take precedence, and the more distant ones that ultimately suffer.

The Obama administration is correct: there is a vast savings problem in our country. Calling out this problem in a high-profile event like the State of the Union is a step in the right direction. However, the right questions aren't being asked and the roots of the problem are being misdiagnosed. This misdiagnosis was evident in this part of the President's remarks: "…offer[ing] every American access to an automatic IRA on the job, so they can save at work just like everyone in this chamber can." It is unlikely that a new savings vehicle will by itself be the solution to the problems faced by millions of Americans confronting this substantial retirement gap. Most Americans aren't in a position to save in the way that the President hopes for and there are several more steps that must be taken to address and remedy these fundamental issues before many people can even be shown the doors to said chamber.

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