By Anthony P. Curatola, Editor

myRA: The Starter Retirement Plan

The newly created myRA is touted as a simple, no-cost retirement plan for low-wage employees. Backed by the U.S. Department of the Treasury, the myRA investments are government securities with an average rate of return of around 2%.

The Bureau of Labor Statistics (BLS) periodically reports on employee participation in benefit plans in the United States. According to a BLS news release on July 17, 2013, approximately 49% of workers in small establishments (those with fewer than 100 employees) had retirement benefits provided through employer-sponsored plans. Those without employer-sponsored plans have the opportunity to fund retirement themselves through Individual Retirement Accounts (IRAs) and Roth IRAs. Although IRAs have been around for 40 years, participation has been quite low for households with adjusted gross income (AGI) less than $100,000. While there are many reasons offered for why this population doesn't participate in IRAs, one roadblock is certainly the minimum opening deposit amount. For example, a simple Internet search shows some financial institutions require a minimum deposit of $500 to open an IRA, and others require a minimum of $1,000 to $5,000.

To provide easier access to retirement savings, President Obama signed a presidential memo on January 29, 2014, that directed the U.S. Department of the Treasury to create a new government-backed retirement account plan for low- and middle-income wage earners. This new plan is called myRA (an abbreviation of "my retirement account"). Though the myRA is still in the beginning stage of its development, there are some attractive as well as hidden qualities that employees and employers should be aware of.

myRA Basics

The myRA will have many of the same properties as a Roth IRA. That is, the contributions would come from earnings that have been taxed already. In addition, earnings from the myRA aren't taxable when earned and, more importantly, are exempt from federal income tax when withdrawn. Because the myRA has the same properties as a Roth IRA, it might be a fair assumption that, until more information becomes available, the rules for making a myRA withdrawal without incurring a penalty or tax consequence also are the same as for a Roth IRA: That is, the account holder must have participated in the myRA for five years or more and attained age 59-and-a-half, or he or she is disabled or has died. The good news is that the ordering rules for distributions from Roth IRAs are attractive: The amounts withdrawn are first taken from the already taxed contributions, so an individual wouldn't incur taxes or penalties until he or she has withdrawn all the contributions and begins withdrawing interest.

The opportunity to participate in a myRA begins with an employer making the savings plan available to the employees. Currently, employers aren't required to make these plans available; they are only being encouraged to do so. According to Treasury, an employer may distribute myRA information to its employees, but it may not administer the employees' accounts, contribute to them, or do any form of matching to the employees' contribution. The employer may incur some administrative costs because it's required to provide payroll deduction for employees' contributions and to make a direct deposit to each participating employee's myRA on payday.

Participation

An individual can open a myRA with a minimum deposit of $25. In addition, the employee can elect to have $5 or more deducted from each paycheck and deposited into his or her myRA. In doing so, an employee who is paid weekly would contribute as little as $260 ($5 × 52 weeks) per year, while an employee paid every two weeks would contribute as little as $130 per year ($5 × 26 weeks).

Since this retirement plan is tagged onto the Roth IRA, it's assumed that the maximum contributions limits of $5,500 ($6,500 for those age 50 and older) apply. But an employee who is contributing that amount to a retirement plan would be well advised to invest in the private sector to get a significantly better return on investment (ROI). The myRA will earn interest at the same variable rate as the Government Securities Investment Fund (G Fund) that's a part of the Thrift Savings Plan (TSP) for federal employees. The past interest rate in this fund over the past few years has been about 2%. The attraction to the myRA is that the account balance can't decrease. It will be backed by the U.S. Treasury just like U.S. savings bonds and other Treasury securities.

An employee who changes jobs will be able to continue investing in his or her myRA as long as the new employer also is a sponsor of the program. If an employee switches jobs to a company that isn't a sponsor, that individual may not be able to make additional contributions until the employer elects to sponsor the plan or until the person switches jobs to an employer that is a sponsor of the myRA. Individuals with multiple jobs can participate in the myRA with each employer that sponsors the plan. But again, the minimum deduction is $5 per paycheck. That could be a financial burden for employees who need to work multiple jobs to make ends meet.

The myRA isn't available to all employees in a company. Employees who are low- or middle-income wage earners are eligible. This rule is enforced by means of the Roth IRA annual income limits. For 2014, the modified adjusted gross income (MAGI) amount has a phase-out range of $114,000 to $129,000 for an employee with a filing status of single or head of household, a range of $181,000 to $191,000 for an employee with a filing status of married filing jointly, and a range of $0 to $10,000 for an employee with a filing status of married filing seperately. The potential problem here is for employees who make contributions to multiple employers. That increases the chances that an employee may inadvertently make an excess contribution.

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A person participating in the myRA program is required to transfer the myRA funds into the private sector (e.g., into a private-sector financial institution IRA account) when the account balance reaches $15,000 or after 30 years, whichever comes first. In addition, individuals can roll over their myRA into a private-sector financial institution at any time. Of course, the first restriction is that the myRA must have accrued an investment amount that satisfies the institution's minimum opening deposit requirement.

Planning Issue

The myRA is a step in the right direction in providing low-income wage earners with an opportunity to set aside some money in a tax-favored retirement fund. But there are some concerns about the investment. On the one hand, it is touted as a safe and simple investment. On the other hand, the take-home pay of a wage earner with an annual salary of $25,000 may be in the neighborhood of $400 per week—and that's before paying for insurance, rent, and basic family needs. If this person can contribute $10 per week to the myRA, the total amount in the account at the end of two years (assuming an average rate of return of 2%) will be approximately $1,060—from an investment of $1,040. If this same person continues investing in this plan for an additional eight years, he or she will have a retirement fund of approximately $5,750.

Alternatively, if the individual rolled over the $1,060 myRA amount after two years into a private-sector Roth IRA for eight years at a modest rate of 8%, the retirement fund would be worth approximately $7,930 at the end of those eight years. If the rate of return were 10%, then it would be $8,880.

That raises a crucial question: Who will be advising this group of wage earners to make the transfer?

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The President's conversion hurdle from a myRA into a private-sector financial institution is set at 30 years or $15,000. The wage earner contributing $10 per week won't reach $15,000 until more than 22 years have passed. But think of what that person has lost. If he or she had converted the myRA of $1,060 into a Roth IRA at the end of year two, the investment would be worth approximately $31,000 after 22 years (or $41,300 with a 10% rate of return).

The important issue here is to give those without any employer-sponsored retirement plans a chance to participate in a tax-favored retirement investment. The myRA opens the door, but once a participant has accrued enough savings in the account to then participate in a tax-favorable investment with better returns, such as a Roth IRA, there needs to be something or someone to advise the person to make the rollover. Either the President (since it is his memo) must set the conversion hurdle lower, or someone else needs to step up and actively advise low- and middle-income members to move their investments out of the myRA and into investments with more favorable returns. **SF**

Anthony P. Curatola is the Joseph F. Ford Professor of Accounting at Drexel University in Philadelphia, Pa., and a member of IMA's Greater Philadelphia Chapter. You can reach Tony at (215) 895-1453 or curatola@drexel.edu.