

MyRA: The Behavioral Breakdown

Last Tuesday, President Obama called for “a year of action” in his State of the Union, vowing to sidestep Congress as necessary to expand opportunity in America. A piece of his action plan that got little airtime – and a fumbled pronunciation during the speech – was not overlooked by us here at IPA’s US Household Finance Initiative (USHFI). MyRA, a new government-backed retirement savings account designed for those without access to other forms of Individual Retirement Accounts (IRAs), addresses a straightforward policy challenge: Americans aren’t saving enough for retirement. But how does it rank with a behavioral finance lens applied? In USHFI’s version of “hot or not,” we discuss the MyRA features we get excited about, and the ones we don’t.

Hot:

1. Automation. MyRA contributions will be voluntary post-tax contributions made through a standard paycheck deduction. Our frictionless savings pilots here at IPA are based on similar principles. People know they should save and may even be willing to commit to a savings plan, but savings are easiest when they are automatic. When faced with a conscious, voluntary monthly choice to save, present bias may lead to consistent neglect of stated savings goals.

2. Accessibility and integration. With a \$25 minimum starting balance and a \$5 minimum monthly deposit, MyRA has low barriers to entry for low-income consumers. At the same time, once \$15,000 builds up in a MyRA account, participants must transfer over into a traditional Roth IRA to continue saving– meaning that this account can act as a bridge to more traditional financial products and more options down the line. This is not a new concept: USHFI partners like Self-Help Federal Credit Union and RiteCheck have been successfully “meeting consumers where they are” and using hybrid models as an onramp to formal financial services for years.

3. Flexibility and control. MyRA promises workers the ability to withdraw their principal at any time without penalty, and guarantees deposits. For low-income workers living on the margin and prone to financial emergencies, this liquidity and stability is key.

An added bonus is the plan’s portability across jobs and time, meaning that workers can use the account to balance retirement savings across multiple part-time jobs and easily preserve their retirement savings as they move from one job to another. Even better, administration officials have said that access to the accounts may eventually be expanded to allow independent investment, eliminating the need for an employer to act as intermediary.

4. Simplicity and transparency. The lack of management fees and guaranteed (if low) returns presents a simple value proposition for those who have been burned by the formal banking system in the past. Moreover, for all that MyRA lacks as a retirement savings plan, it's an excellent savings account. Compared to standard, flexible commercial savings accounts, 1.5% is a great return rate.

Equally important, MyRA reduces decision-making on the part of the consumer by providing one plan, one choice (opt in or out), and one allocation option (government bonds). There's ample evidence that presenting a clear option through a straightforward delivery channel can improve take-up. [Beshears et al. \(2010\)](#), argue that complex financial decisions lead to procrastination; they found that an intervention which reduced retirement decisions to a choice between an employer-designated "Quick Enrollment" option and the status quo increased plan enrollment rates by 10 to 20 percentage points.

5. Experimentation. After the healthcare.gov rollout, it's nice to see the government [pilot](#) this time around. Here at USHFI, we're committed to [piloting new products](#) before full-scale evaluations where possible; we think it's a pretty good model that has led to valuable lessons learned.

Not:

1. Opt-In. Enrollment processes are not yet well-defined, and it could take some time to hammer out any kinks. While MyRA automates savings, at the end of the day both employers and employees must voluntarily select to offer and take-up the plan, respectively. Retirement experts are skeptical: Alicia Munnell, director of the Center for Retirement Research at Boston College [posits](#): "If you don't have automatic enrollment then not a lot of people are going to use it." For example, [Choi et al. \(2004\)](#) found that employees often choose the "path of least resistance" with retirement plans, even when this means the "passive decision" of not choosing any plan at all. The idea of an [auto-IRA](#) is already on Obama's radar; it's up to congress to make it a reality.

2. Framing. What's in a name? It may seem trivial, but behavioral economics and marketing literature demonstrate that [framing is important](#). Will the Myra/My-IRA/My-RA mouthful lead people to trip up on enrollment, too?

So, there are pros and cons, but what does it all mean?

To be sure, when stacked up against a traditional IRA, the MyRA looks pretty shabby - lower contributions, no employer match, and lower returns. The accounts will earn the same rate as the Thrift Savings Plan's Government Securities Investment Fund for federal workers, which gave a 1.5% return in 2012. According to Vanguard Group, [it would take someone contributing \\$50 every two weeks about 11 years to accrue \\$15,000](#). However, for the [estimated 75 million Americans without access to employer-sponsored retirement plans](#), the question is not about saving with MyRA vs. traditional IRAs - it's MyRA or bust. As randomized

controlled trial proponents, we are big fans of considering a counterfactual – and for many American workers, the current counterfactual is no retirement savings at all, and very few savings of any kind.

Based on behavioral economics research and our own pilots of similar products, we think MyRA is behaviorally hot, even if it could use a sexier name. It is piecemeal policy, and not perfect, but we're excited to see how it goes – and even more excited by the possibility of quantifying its success and its impact on worker outcomes with rigorous evaluation.

February 04, 2014