CPA Practice **Advisor**

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

designed to encourage retirement savings by workers who don't have access to employer plans like 401(k)s. It is hoped that the MyRA can help bridge the gap facing millions of Americans who haven't set aside enough for retirement. But will it turn into a dud?

Ken Berry, JD • Feb. 11, 2014

President Obama didn't drop any bombshells in his State of the Union address delivered on January 28. But he did unveil a new retirement-saving concept called the "MyRA" (a wordplay on IRA). As the president explained, this account will be designed to encourage retirement savings by workers who don't have access to employer plans like 401(k)s. It is hoped that the MyRA can help bridge the gap facing millions of Americans who haven't set aside enough for retirement. But will it turn into a dud?

— Check out CPA Practice Advisor's Storify version of this article. —

The president provided some additional insights when he signed an executive order authorizing the inception of MyRAs the next day. He stressed that the new account provides security to those scrimping to save for retirement. "It's a new savings bond that encourages folks to build a nest egg," said Obama. "MyRA guarantees a decent return with no risk of losing what you put in."

Starting point: The MyRA, as outlined by the president, closely resembles another popular retirement savings account, the Roth IRA. The annual contribution limit for 2014 will be \$5,500 (the same as the limit for Roth IRAs), with an extra \$1,000 contribution also allowed to taxpayers age 50 or over. Ability to contribute to the MyRA will be restricted to those with adjusted gross income (AGI) under the same levels prescribed for Roth IRAs: The phase-out in 2014 begins at \$129,000 of AGI for single filers and \$191,000 for joint filers. One big advantage of the MyRA is that you can open an account with just \$25 and

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

to the Government Securities Fund (G Fund) in the Thrift Savings Plan (TSP), a savings account used by federal government employees. The low-risk G Fund has yielded 1.47% over the last year and sported an average of 2.24% the last three years. That's higher than some other conservative savings accounts, but nowhere near the levels attained by higher-risk investments that flourished during the recent bull market.

The investment protection of the MyRA won't last forever. Once your account reaches a balance of \$15,000, you must roll over the funds into a regular IRA. At that time, you can benefit from additional investment choices, but you'll also assume more risk.

So is the MyRA concept worthwhile? It has some merit, but there are a number of downsides. Unfortunately, the main target audience – younger workers and others who haven't saved enough for retirement – aren't likely to have \$5,500 lying around to stick in an account for the distant future. And, if they do, they can probably generate more savings in a comparable account offering greater upside in return, albeit with an increased risk. Also, eventually these taxpayers will have to funnel the funds into a regular IRA, so they'll be exposed to the same risks as other investors, but only later in life.

The existing alternatives may be more appealing to anyone who is dedicated enough to save money for retirement. A Roth IRA, which provides most of the same benefits as the MyRA, offers greater flexibility. Another option is a regular IRA. Although regular IRA distributions are taxable, low-income taxpayers and those who aren't currently participating in an employer plan may deduct contributions, thereby reducing the current "pain" of saving. And self-employed individuals and small business owners can set up other plans, such as a Simplified Employee Pension (SEP) or Savings Incentive Match Plan for Employees (SIMPLE), that provide more generous savings capacity. Bottom line: Don't dismiss the MyRA entirely. It focuses on an important issue and

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

CPA Practice Advisor is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2024 Firmworks, LLC. All rights reserved