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Calabria: MyRA will leave America poorer

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President Barack Obama recently unveiled MyRA, a savings plan to allow Americans without employer-provided retirement accounts to invest in U.S. government bonds. His desire to improve the public's meager personal savings rate of around 4 percent is laudable, but MyRA misses the mark. In fact, it pushes investors toward what is basically a government-run Ponzi scheme.

Here's how MyRA would function: Workers living in households earning up to $191,000 and without access to employer-provided retirement would give some portion of their after-tax paycheck to the federal government. The federal government would then spend that money, giving the saver a "promise" of repayment in the future. In other words: MyRA investors would be giving the federal government a loan.

Some might argue that government will invest that money and grow the economy, thereby yielding a real return on that savings. That argument is wrong. Currently, approximately two-thirds of federal spending is pure transfers — that is, taking money from A and giving it to B. There is no reason to believe the federal government will simply start "investing" the funds provided by MyRA.

MyRA won't even provide investors a good return. The intent of any retirement savings plan is to build a nest egg for old age. But the returns MyRA plan holders would get from investing in government bonds would be meager.

Let's take the fiscal period immediately following World War II, which is the one that most closely matches our own. Between 1945 and 1980, real (inflation adjusted) interest rates on U.S. treasury debt were negative a fourth of the time, and less than 1 percent two-thirds of the time.

For more evidence, look at the federal government's own bond-based retirement plan, the Thrift Savings Plan. The plan yielded an annualized nominal return of 1.47 percent last year, and the 10-year compounded nominal return was only 3.6 percent. In contrast, TSP's small/medium-size equity fund returned 10.8 percent over the last 10 years. Any way you slice it, U.S. government bonds offer fairly meager, and often negative, returns.

There's no doubt many Americans are ill-prepared for retirement. Increasing savings is a worthy goal. But the right approach is to first stop taxing interest income, which punishes those who save.

The Federal Reserve should then work on returning interest rates to more normal and rational levels, allowing the market to offer a greater incentive for saving.

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