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Sour Grapes From Some Conservatives On The MyRA

It's been a week since President Obama's "State of the Union" speech where he detailed a new savings plan for lower-income families called the "myRA."

Since then, it's come under fire from some conservative quarters: the *Wall Street Journal* editorial page, the Cato Institute's Dan Mitchell, and pundit Star Parker to name a few. Each of these middling-to-negative reviews of the myRA come down to two things: the myRA is a not a carve-out Social Security personal account; the myRA is created by government and therefore is suspect.

First, to acknowledge the obvious: the myRA is really thin gruel for the working poor compared to, say, large Social Security personal accounts. MyRA dollars have to come from workers' own after-tax earnings, whereas Social Security personal accounts could be funded using payroll tax dollars these workers are already losing. And it's fair to be skeptical (even highly skeptical) of government-originated solutions to public policy problems.

First, Social Security personal accounts a'int happening. It not only takes a Republican House to pass the idea and a Republican president to sign it into law, it also takes a Republican Senate with at least 60 pro-account votes (unless Harry Reid makes this easier by triggering the nuclear option on legislative filibusters, too). Even if you're bullish on GOP White House prospects in 2016, no one but no one thinks the GOP will sniff 60 votes in the Senate for at least a decade, if ever. Back in 2005, President Bush couldn't even get a GOP House to vote on personal accounts, much less pass them.

Second, the myRA doesn't have the same mandate/paternalism problems that most of these think tank-bred schemes tend toward.

- Nothing new is really being created: these are basically Roth IRAs with a new name. That means after-tax money goes in, and the money grows tax-free for retirement. Contributions could be withdrawn under the usual Roth IRA rules
- It’s only available in workplaces that don’t have a 401(k) or other retirement plan
- Employers only participate if they want to
- Employees of these willing employers only participate if they want to
- Financial institutions only participate if they want to
- The bulk of the cost will be picked up by the willingly-participating financial institutions
- Once a participant’s myRA reaches $15,000, they are required to transfer it over to a big boy Roth IRA in the real world

The only role for government (besides being the host of the myRA party) is to provide the financial instruments–Treasury debt, something the government makes available in all sorts of innovative ways from time to time (think war bonds and what your grandma put in your sock drawer). The bonds in question will be like the “G Fund” option available today in the federal employee Thrift Savings Program. Nothing particularly statist there.

From a bigger picture perspective, this myRA effort represents the best shot we have of not only getting the working poor into the retirement savings game, but also getting at least a few of them to join what President George W. Bush called the “investor class.”

According to the Employee Benefits Research Institute, fully one-third of workers at large and medium-sized firms don’t participate in workplace retirement plans. It’s even worse at very small firms, where two-thirds of employees don’t save anything at work for retirement. Social Security personal accounts are not on the way for these people, and there’s a very good chance they will spend much or all of their working careers saving nothing for retirement.

The myRA is a start, a baby step in the direction of responsible financial planning. Workers can start an account for as little as $25, and can contribute as little as $5 per pay period. There would be no fees, as the firms administering these accounts would use them as a loss leader to attract potentially profitable customers of tomorrow. Once an account hits $15,000 and the owner has to leave the myRA nest, the odds are very good that this policy will have created another mutual fund or ETF owner.

Conservatives would do well to acknowledge that even a broken clock tells the right time twice a day.