Federal Government Creates New Retirement Savings Option: MyRA

In his 2014 State of the Union message, President Obama announced a new retirement savings program for people who do not currently have an employer-sponsored plan. The new investment product, called myRA, is a starter savings account aimed at low- and middle- income workers.

Similar to a Roth IRA, the myRA accounts will allow workers to invest money after tax and withdraw the money in retirement tax-free. Unlike a Roth IRA, however, the savings will be backed up by U.S. Treasury bonds, so investors will never lose their principal investments. The accounts, which are voluntary, will be available to married couples with modified adjusted gross incomes up to $191,000 and to individuals earning up to $129,000.

Workers can open a myRA with as little as a $25 investment. The plans will be funded through paycheck deductions with contributions as small as $5 at a time. Savers will earn variable interest on the accounts, and there are no fees. Contributions can be withdrawn at any time, although there may be a penalty for withdrawing earnings before age 59 1/2. Once a worker has saved $15,000, the saver must roll the account into a Roth IRA. In addition, the accounts last only 30 years, so at the end of that time the funds will have to be rolled into a Roth IRA, even if the $15,000 maximum hasn't been reached.

Employees who switch jobs will be able to keep their myRA accounts without cashing them out. Workers would also be able to contribute to the same account from multiple part-time jobs. The new accounts will initially be offered through a pilot program with employers who choose to participate and should be available at the end of the year.

Some critics say the myRA initiative will do little to address the retirement savings gap because enrollment will not be automatic and contributions will be invested only in low-return Treasuries.

For the press release detailing the new myRA account, click here.