



Focus on
FINANCE

myRA: A New Way To Save for Retirement

Shannon R. Smithers, Analyst

The Treasury Department's myRA program ended in September 2018. See <https://myra.gov/> for more information.

GLOSSARY

Earned income: Earned income is the money you get for the work you do. There are two ways to get earned income: You work for someone who pays you or you own or run a business or farm.

Gross pay: The amount people earn per pay period before any deductions or taxes are paid.

IRA (individual retirement account): A retirement account that allows individuals to direct pretax or after-tax income, up to specific annual limits, toward investments that can grow.

Net pay: Gross pay minus deductions and taxes.

Qualified distribution: A reason you may withdraw money from a Roth IRA without the withdrawal being subject to tax.

Retirement: Permanently leaving a job, career, occupation, or active working life.

Saving: Not spending on current consumption or taxes. Saving involves giving up some current consumption for future consumption.

Social Security income: The monthly monetary amount received by retired workers who paid into the Social Security system while they worked.

"I have enough money to last me the rest of my life, unless I buy something."

—Jackie Mason

"It is never too early to start saving for your **retirement**." You've certainly heard this advice before. Is it good advice? Sure it is. Is it easy to follow? Maybe not. Many of us have more immediate expenses that get our attention and money before we think about retirement. Routine payments to buy a house, pay for college, or buy a car may make **saving** for retirement less of a priority or something you believe you can do later. Then there are those who barely make ends meet, who may also believe that saving for retirement is out of the realm of possibility.

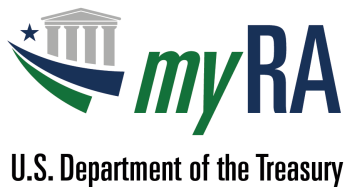
Many small companies do not offer 401(k) retirement plans to their employees. Without the ease of an employer-sponsored savings plan, many employees may not save for retirement. As we have often heard, **Social Security income** may not meet all your needs during your retirement years (Employee Benefit Research Institute, 2010). The average Social Security benefit for retirees is \$1,294 per month. That is \$15,528 per year (Social Security Administration, 2014). So, the best advice is to plan to build up a savings nest egg to help supplement your Social Security income.

Well, there's a new retirement savings option that may provide a means for you to start saving for retirement by removing the "I can't afford it right now" barrier.

Introducing myRA

The U.S. Department of the Treasury has unveiled its latest savings tool. "my Retirement Account"—myRA for short—is a retirement savings account designed for individuals who may not have access to a saving plan through their employers.

It costs nothing to open a myRA account, and there are no fees, no minimum balance, and no contribution requirements. In addition to being free of fees, a myRA account carries no risk of losing money and is backed by the U.S. Treasury (<https://myra.gov/how-it-works/>).



An additional *myRA* benefit is its flexibility. It stays with you even if you change jobs, so you don't have to worry about moving your savings from one company to another. If you have more than one job, you can contribute from multiple sources. You simply ask each employer to direct part of your paycheck to your *myRA*, keeping in mind that total contributions from multiple paychecks may not exceed the Roth IRA annual contribution limits, since *myRA* is a Roth **IRA (individual retirement account)**. See the boxed insert for the personal information needed to open a *myRA* account and the table for annual contribution limits.

How Do You Save Money with *myRA*?

There are several ways to fund your *myRA* account:

- **From your paycheck.** You can set up automatic direct deposit to your *myRA* with your employer. Complete a direct deposit authorization form and give it to your employer. A direct deposit authorization form will be provided to you in your welcome packet or you can access and print the form on [myRA.gov](https://myra.gov). Or, you can follow your company's process to set up funding from your paycheck.
- **From a checking or savings account.** You can set up recurring or one-time contributions to your *myRA* from a personal account, such as a checking or savings account. Link your personal account to your *myRA* either during the sign-up process or after you open your *myRA* account.
- **From your federal tax refund.** You can direct all or part of your federal income tax refund to your *myRA* when you file your taxes.

At any time, you can choose to transfer or roll over your *myRA* into a private-sector Roth IRA where your savings can continue to grow. You can have a maximum account balance of \$15,000, or a lower balance, for up to 30 years. When either of these limits is reached, savings will be transferred to a private-sector Roth IRA.

Ready? Set? Save!

Remember, saving for retirement with a *myRA* account is simple, safe, and affordable. Before you sign up in the "For Individuals" section at <https://myra.gov/>, here's the information you'll need:

- Social Security number*
- Driver's license, state ID, U.S. passport, or military ID
- Name and birthdate of at least one beneficiary (the person you choose to inherit your account)

After you open your account, you will receive an account number, which you should keep in a safe place. You'll also receive instructions for how to fund your *myRA* plus tips on viewing and managing your account. You are now on your way to a more secure retirement!

*You can also open an account using an Individual Tax Identification Number (ITIN), but only by contacting *myRA* customer support at 855-406-6972 or TTY/TDD 855-408-6972 or International 1-414-365-9616.

Contributions to a *myRA* account earn interest at the same rate as investments in the Government Securities Fund available to federal employees, which had an average annual return of 3.19 percent over the 10-year period ending December 2014 (see <https://myra.gov/get-answers/>). And every little bit helps, right?

The *myRA* website even has a calculator to help you find the best way to reach your savings goal (<https://myra.gov/savings-calculators/>).

How Does *myRA* Work?

myRA is a Roth IRA that makes it easy to start saving. A Roth IRA allows you to deposit money into the account from **net pay**, which is **gross pay** minus deductions and taxes. Since you have already paid the taxes on the income contributed to the Roth IRA, you can withdraw the money you contribute without taxes and penalty. You will be taxed and penalized only if you withdraw interest earned.

For example, if you contribute \$400 and earn \$50 in interest, you will be taxed and/or penalized only if you withdraw the entire \$450 from your account. You can withdraw up to \$400 without taxes and penalty unless the funds are being used for **qualified distributions**. For qualified distributions, you can also withdraw the interest without taxes or penalties. Some qualified distributions are paying for your first-time home purchase or to a beneficiary after the owner's death or disability.

Quick Guide to myRA

Features	myRA
Who can contribute?	People with earned income who want to save for retirement. myRA follows Roth IRA rules, including eligibility based on annual earned income. For 2016, you are eligible to contribute to a myRA account if you have an annual earned income of less than \$132,000 a year for individuals and \$194,000 for married couples filing jointly. Annual earned income limits may change in future years.* You can fund your account from your paycheck or a checking or savings account. And at tax time, you can direct all or part of your federal income tax refund to your myRA.
How much can I contribute?	You can contribute any amount you choose (\$2, \$20, \$200—whatever fits your budget): <ul style="list-style-type: none"> • Up to \$5,500 per year or • Up to \$6,500 for individuals 50 years of age or older by the end of the year.
What is the deadline to make contributions?	Your tax return filing deadline for making prior year contributions to your myRA is typically April 15. For example, you have until April 15, 2016, to make your 2015 myRA contribution.
Can I access my money if I need it?	Yes. You can withdraw any money you have contributed to your myRA without tax and penalty, so it's there if you need it.*
Are my withdrawals taxable?	Withdraw your contributions at any time without tax or penalty. The interest earned on your money will be taxed and may be subject to penalty if you withdraw it before you are eligible to do so. You can withdraw the interest earned without tax or penalty if your account has been open for 5 years and you are 59½ years or older. Also, your withdrawal will not be taxed if you meet certain other conditions, such as using the funds to purchase your first home.*

* See Note.

And, as mentioned earlier, there are no fees and no minimum requirement.*

A Way To Test the Retirement Saving Waters

myRA is not designed to fund your entire retirement, and it certainly won't make you rich. A myRA account is meant to work in conjunction with your other retirement resources. If you are not saving for retirement, this is a tool to help jump-start your savings. If you set up automatic contributions into your myRA account, the process soon becomes something you consider a normal expense. With myRA, you are not diving right into a large financial commitment; instead, you can start the process slowly by first testing the waters. ■

Note

* Annual and lifetime contribution limits and annual earned income limits apply, as do conditions for tax-free withdrawal of earnings. Limits may be adjusted annually for cost-of-living increases. To learn about key features of a Roth IRA and for other requirements and details, go to <https://myra.gov/roth-ira>.

References

Employee Benefit Research Institute. "Social Security Averages 40% of Income of Elderly." June 3, 2010; <http://www.ebri.org/pdf/PR.877.03June.SocSec.pdf>.

Social Security Administration. "Social Security Basic Facts." April 2, 2014; <http://www.ssa.gov/news/press/basicfact.html>.

U.S. Department of the Treasury. "myRA." <https://myra.gov/>.

Page One Economics® and Page One Economics®: Focus on Finance provide informative, accessible essays on current events in economics and personal finance as well as accompanying classroom editions and lesson plans. The essays and lesson plans are published January through May and September through December.

Please visit our website and archives <http://research.stlouisfed.org/pageone-economics/> for more information and resources.

© 2016, Federal Reserve Bank of St. Louis. Views expressed do not necessarily reflect official positions of the Federal Reserve System.