



October 22, 2015

Department of the Treasury
Bureau of the Fiscal Service
Attn: Kimberly S. Reese
200 Third Street Room 402
Parkersburg, WV 26106

Docket number: FISCAL-2015-0001

Process for Transferring MyRA Account Balances to Private Sector Roth IRAs

[31 CFR part 347](#)

Dear Sir and Madam:

AARP appreciates the opportunity to comment on the Process for Transferring MyRA Account Balances to Private Sector Roth IRAs.

As the largest nonprofit, nonpartisan organization representing the interests of Americans age 50 and older and their families, a major priority for AARP is to assist Americans in accumulating and effectively managing adequate retirement assets to supplement Social Security. Millions of our members are employed, full or part-time, with many participating in employer-provided retirement plans. However, we estimate that 55 million Americans lack the ability to save for retirement through a payroll deduction retirement savings plan. We appreciate the Treasury Department's efforts to reduce this number through establishing MyRA accounts. At the same time, MyRA accounts need to meet the needs of its savers, including options to transfer their balances to different investments to build greater levels of savings that can assist in providing additional retirement income.

AARP Encourages Treasury to Consider Allowing Savers to Remain in MyRA Accounts

Although Treasury has stated its intention to transfer all or most accounts to other financial institutions once an account reaches \$15,000 or has existed for 30 years, AARP urges the Administration to keep open the option of allowing savers to remain in MyRA accounts for longer periods. Since the MyRA program was created by the Administration, it has broad flexibility to structure the rules of the program. And since the program is in its infancy, Treasury is still determining how the program will work best for the agency, account holders and the financial markets. Treasury should take into account that private providers may not be able to provide similar accounts with low administration fees that provide equal or greater net returns to account holders who have reached the amount or time thresholds. Also, financial markets could

face turbulent or low return periods in the future that could put in jeopardy these hard earned savings. Or, consumers – particularly older savers at or near retirement -- may simply desire the safety and security of the MyRA account, and forced transfers could undermine their support or encourage them to cash out these important retirement savings.

For these reasons, AARP strongly urges the Department to permit savers to maintain their MyRA accounts after achieving \$15,000 or 30 years of savings. We recognize that the MyRA is currently structured as a starter retirement account and that such a change could alter the nature of the program. Thus alternatively, Treasury should consider offering or transferring accounts to a similar Government program, such as its inflation protected TIPS or I-Bonds. We strongly support the right of individuals to transfer their accounts at their request, and do not oppose efforts by Treasury to encourage such transfers. But, forcing low balance savers to transfer their funds at a time not of their choosing -- without the option to move their money into something with equivalent safety and return -- could undermine the program and discourage initial savings. The Department should allow consumers to maintain options, including the choice to remain in a MyRA account as the best option for some consumers.

At a minimum, AARP recommends that Treasury not force older account holders to transfer their assets from secure low-cost MyRA. Older account holders will be close to retirement and would benefit least – and be exposed to more risk -- from a move to an account with a somewhat higher average rate of return. Instead, we suggest that the Department permit accountholders at age 59 ½ and older to keep their MyRA accounts with the Department. This is the age at which all taxpayers are permitted to start drawing their retirement assets without tax penalty and seems a logical age at which not to force changes on individuals close to or at retirement age.

Allow Rollovers of Small Balance Private Sector Retirement Accounts into a MyRA

Another program addition we recommend would be to permit and encourage employer plan cash-outs of small accounts (under \$5000) into a MyRA. As you know, the GAO recently examined what happens to these small accounts and found many are rolled over into low or no return savings vehicles, often with very high fees. Some accounts did not even keep pace with inflation and, after fees were taken out, account holders lost money. Indeed, many financial institutions do not want these accounts, as they are small and not expected to grow. MyRA accounts are an excellent option for these cashed-out small accounts. Treasury should accept roll-overs – whether before tax or after tax money -- and work with employers and financial institutions to encourage better retirement savings options for low-income savers in addition to MyRA. We recognize that MyRA would need to be modified to accept pre-tax money, but Treasury should be able to segregate such funds from after-tax MyRA funds. Such a move by Treasury to accept these balances into a MyRA could reduce some of the leakage out of the private retirement savings system and help workers maintain their funds in a secure low cost account that, at a later date, account holders could move back into the private system.

Treasury must ensure strong spousal, beneficiary and other protections

As Treasury further develops and finalizes the details of the MyRA program, we urge Treasury to ensure that spouses are the automatic beneficiaries of MyRA accounts, and fully subject to

spousal protections under divorce, bankruptcy and all other relevant laws. We suggest, generally, that Treasury should make clear that MyRA accounts follow the same spousal and beneficiary rules that apply for IRAs.

In addition, in our new age of advanced technology and security breaches, we urge Treasury to ensure state of the art privacy and security protections for MyRA accounts.

Treasury and its financial agent must continue to closely monitor the design and oversight of the MyRA program

It is imperative that Treasury and its financial agent closely monitor the use and capabilities of the MyRA program and to adjust its design and oversight as more information is received. While we commend the Administration for undertaking this bold initiative, there are many questions as to what approach will work best. The field of behavioral economics is still developing and there are many aspects of what makes people save or not save that we do not know. Thus, even the private market continues to learn new lessons in the 401(k) market each day. The SAVER credit is a useful example. While the SAVER credit enjoyed strong policy support, its success has been limited, in part due to the structure of the credit. For example, there have been issues with taxpayer awareness and understanding of the program, as well as problems with access to the credit for taxpayers with limited or no tax liability. Treasury should build on these programs and continue to exercise a strong level of periodic oversight over program design and effectiveness.

A strong education and outreach effort is needed to make MyRA Successful

Among the key aspects of any national program are: broad education, simple messages and structure, strong oversight, and ability to deliver promised benefits. Treasury and its financial agent need to play an active role in each of these areas. It is imperative that Treasury continues its efforts to work with outside experts on best practices to foster strong consumer knowledge about the MyRA program. All relevant government agencies should promote the program, including the Department of Labor, Department of Commerce, Securities Exchange Commission, Small Business Administration, and Consumer Financial Protection Bureau. Treasury and its financial agent also should continue to work with leading consumer and industry groups to spread awareness. For example, Treasury could add a prominent sentence to the W4 and 1040 forms about MyRA and how to open an account, and take even more aggressive steps to work with employer groups to encourage employers who do not sponsor pension plans to notify employees about how to open a MyRA account.

Treasury and its financial agent should also reach out to leading policy groups and academia on successful education models. For example, for most 401(k) participants, the most likely document they see and read is their quarterly benefit statement. Treasury should consider and test using a quarterly benefit statement, one that is short and to the point. Treasury should develop a model that uses colors and charts and test it with focus groups. Reportedly, a recent military retirement education effort found success with repeated email messages about savings, and a similar effort for the MyRA could be examined.

Treasury Needs to Educate Account Holders Considering a Rollover and to Monitor and Prevent Unscrupulous Interference with MyRA Accountholders

In addition, Treasury also needs to closely monitor efforts by unscrupulous individuals and entities to entice MyRA account holders to transfer their accounts to sub-par investments or cash out funds for current purchases. Treasury and others need to provide clear guidance and educational material to account holders considering a rollover to another type of account or to a different provider.

Treasury should make it clear to account holders in educational materials that the MyRA is intended to provide savings during retirement. The MyRA should not be a vehicle for current consumption, and should be prudently managed to help families who may have little or no retirement savings to supplement Social Security when they retire. The education program also should alert account holders to the pros and cons of different investment vehicles so that they understand what is and is not a sound long-term investment.

Further, Treasury and its agent should monitor the market-place to prevent fraudsters from preying on vulnerable savers. In recent years, there have been many examples of dubious schemes, such as pension advances, that are designed to entice investors to sacrifice their retirement security for a one time limited benefit.

Key Consumer Protections That Should Be Provided to All MyRA Account Holders

As part of the final MyRA program structure, the Department should ensure adequate consumer protections. We strongly recommend the following key protections:

Timely disclosure – any MyRA agent or roll-over account provider must agree to timely, understandable disclosures of all key terms and conditions and account holder rights and responsibilities. Disclosure must be made in the format -- paper or electronic -- that the customer requests in advance. Treasury should provide model disclosure documents.

All monies held in trust – all entities holding MyRA or roll-over funds must commit to holding and investing all monies in trust and subject to a fiduciary standard of care. This is the typical banking and related entity standard.

Federally licensed or registered institutions – any entity with access to or advising on MyRA or roll-over funds must be federally licensed or registered and annually certify retention of such status.

Adequate liability insurance – Treasury may require certain types of liability insurance to protect against fund insolvency and fraud and abuse and entities should annually certify compliance with any other federal or state liability insurance requirements.

Fiduciary duty – all individuals and entities with discretionary authority or control over MyRA funds or roll-over accounts must agree to adhere to a fiduciary standard of acting solely in the best interests of the account holder and without conflicts of interest.

Grievance, appeal and judicial rights – all account holders must have the right to file grievances with and obtain meaningful redress from the MyRA entity, Department of Treasury and the courts.

Treasury’s Proposed Roth IRA Carousel Option for MyRA Account Holders

General Points: We recognize that the MyRA program is intended to be a starter retirement savings tool rather than a complete retirement savings program. Further, it is more likely that a saver will build sufficient balances to supplement their Social Security benefits if both their existing MyRA balances and future contributions are invested and held long-term in a more diversified portfolio that may achieve higher returns than the federal bonds in the MyRA accounts. For that reason, for accounts that will be transferred, we support Treasury’s proposed rollover structure. However, we also strongly believe that transfers must be appropriately structured to assist MyRA account holders, and Treasury must avoid exposing account holders to undue levels of investment risk, high fees, or pressure to make inappropriate investment or withdrawal choices.

In general, we prefer the carousel rollover option with a number of participating firms to an option with only one provider. With proper regulatory oversight, such a structure is more likely to provide savers with better levels of service than if one firm has a monopoly on MyRA rollovers.

An opportunity to influence the retirement savings market: In structuring the rollover carousel, Treasury can send a strong signal to the market about the best practices retirement savings fund managers should follow. Treasury should specify that rollover firms will be expected to meet explicit standards for investment choices, fee levels, fiduciary standards, disclosure, governance, as well as regular statements and other communications with account holders. Participating firms should be required to meet these explicit standards with regular oversight to ensure compliance. In addition, these standards should be publicized to encourage other funds managers to follow them, with complying firms able to advertise their status. In this manner, competitive pressures will hopefully improve the overall marketplace for these products.

Firms in the carousel should be selected by competitive bidding for no more than a set time period, after which there will be a rebidding. This is the current practice of the Thrift Savings Plan (TSP) available to federal employees. In addition to traditional financial institutions and other fund managers, firms using advanced technology should also be encouraged to bid for membership in the carousel to enable MyRA savers to have access to the latest advances in the industry. However, all firms should be required to meet the same minimum performance levels.

Appropriate investments and fees: Participants in the carousel should be required to invest MyRA rollovers in a type of fund specifically identified as eligible to be a Qualified Default Investment Alternative (QDIA) as defined by federal regulations. These would currently include target-date fund, balanced funds, and similar investments. Rollover accounts should provide higher investment returns based on a more diversified portfolio than government bonds, but they should not expose savers to undue risk. Investment offerings should be simple and low cost, and

passive index funds should be used to the greatest extent possible to enable lower fees and higher returns.

The investment world is constantly changing, and when better, lower cost investment options that are appropriate for MyRA rollovers become available, Treasury should be able to review alternatives for existing rollover accounts through a transparent regulatory process. MyRA rollover account holders should have access to the most appropriate investment choices.

Fee levels and total costs for rollover funds should be clearly disclosed in all communications. In addition, carousel participants should disclose how their fee levels and other costs compare to those of other providers that offer comparable products. While we recognize that the costs for rollover accounts will of necessity be higher than the no fee MyRA, serious efforts should be taken to ensure costs are reasonable and rollovers benefit from group pricing. Treasury should ensure that only necessary fees are charged and all fees are accurately disclosed well in advance of any roll-over.

Carousel providers should be held to a fiduciary standard: In their interactions with MyRA savers, carousel providers should be required to adhere to a fiduciary standard. The standard should protect against the cross-selling of higher fee or inappropriate investment alternatives to MyRA rollover account holders. In addition, retirement savers should have the option to rollover their former MyRA accounts into an employer-provided retirement savings fund (with appropriate tax treatment) to the extent allowed by current federal regulations.

Regular statements: Savers with MyRA rollover accounts should receive regular statements showing their savings balances, including projections of the level of retirement income they would receive if they continue to contribute at their current level. As with the selection of carousel providers, Treasury has an opportunity to highlight best industry practices for informative retirement plan statements. We urge the Department to seriously consider efforts to move away from statements emphasizing short-term investment returns and lump sums to a structure focusing on long-term growth and potential retirement income.

Withdrawal options: Upon reaching age 59 ½ or their actual retirement date, savers with MyRA or MyRA rollover accounts should be able to choose to withdraw their money through a phased withdrawal plan, to purchase an immediate or deferred annuity, or to use a combination of these strategies. As with other transactions, carousel providers should be held to a fiduciary standard in advising customers on all transactions.

The rollover process for MyRA account owners: We recognize that for most MyRA savers, rolling their account into a more diversified investment vehicle that can provide higher investment returns will be an important step to building retirement security. At the same time, structuring this process will be key to the long-term ability of the MyRA to encourage new savers to open an account. If account holders are encouraged or forced to move to an inappropriate or much more costly investment, MyRA will be compromised.

Well in advance of any rollover, savers should receive a series of clear communications informing them of the process and giving them the option to either maintain their MyRA (as

suggested above) or alternatively keep a comparable investment with Treasury, such as an I-Bond, TIPs or a newly created bond fund. Account holders should also be informed that they could move their money to a different provider other than the carousel. If the saver chooses to maintain a Treasury investment, they should receive timely disclosures about the implications of such a move, including that while a Treasury account is very safe and low cost, it is unlikely to grow into the amount necessary for a secure retirement. Savers who maintain a Treasury investment should also receive periodic reminders that they can roll money into the carousel or another investment at any time.

Conclusion

Again, AARP appreciates the opportunity to comment on the Process for Transferring MyRA Account Balances to Private Sector Roth IRAs.

Sincerely,

A handwritten signature in black ink, appearing to read "David Certner", with a long horizontal flourish extending to the right.

David Certner
Legislative Counsel and
Legislative Policy Director
Government Affairs