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Department of Treasury
Bureau of the Fiscal Service
Attn: Kimberly S. Reese
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RE: Response to Request for Public Comment on the Process for Transferring myRA® Account Balances to Private Sector Roth IRAs (Docket No. FISCAL-2015-0001)

I. Background

The Aspen Institute’s Financial Security Program (FSP) appreciates this opportunity to provide comments on the process for transferring myRA account balances to private sector Roth Individual Retirement Accounts (IRA).

Aspen FSP, formerly the Initiative on Financial Security (IFS), is dedicated to solving the most critical financial challenges facing America’s households, and to shaping policies and financial products that enable all Americans to save, invest, and own. As such, we are supportive of the Treasury Department’s efforts to make a low-cost, no-fee retirement account available to all Americans. Far too many Americans lack access to a tax-preferred retirement account through
work, but myRA promises to begin remedying this problem by allowing employers to easily make payroll-deduction savings a reality for their workforces.

II. Importance of Allowing for Higher Returns

Aspen FSP also believes that all workers should have access to high-quality investment products that will help them maximize their retirement income. While the myRA savings bond is a safe and simple investment – making it ideal as a starter account – it is critical that myRA savers ultimately graduate to a retirement account that allows for the higher returns typically associated with a balanced portfolio of assets that include equities. As such, we strongly support the Treasury Department’s effort to encourage savers to shift into private sector Roth IRAs at any time, in order to be able to take advantage of the compounding effects of higher returns for as long a period as possible.

III. Pre-Threshold Strategy

a. Communications

It is important that savers understand from the beginning that their myRA account will turn into a private sector account upon reaching the “Transfer Threshold” of $15,000 or 30 years of participation. As such, we encourage the Treasury Department to instruct the financial agent it chooses to administer the program (“Administrator”) to use clear and concise language (in English and in other languages), as well as visual aids, in communicating with myRA enrollees about how the threshold works, the details of the default transfer if the account holder does not make a choice, the tax consequences of withdrawal, and the unique characteristics of private sector Roth IRAs.

We would recommend that communications be done on an annual basis, in the form of a simple, brief report, similar to an annual statement received from the Social Security Administration or a private retirement plan provider. The statement would provide the amount of savings accrued, an estimate of the projected time remaining before an individual hits the transfer threshold, a clear notification that savings can be transferred at any time to a Roth IRA, and a link to a website and phone number for making such transfers (more on the website below).

These communications will also provide the Treasury Department with a “teachable moment,” in which the saver can learn about her projected retirement situation (ideally a holistic view that combines the myRA balance with expected Social Security benefits). As such, the Treasury Department may want to include additional resources (e.g., a brief pamphlet) that would provide
basic information on the importance of savings as well as recommendations for accessing additional financial education.

As noted, the annual communication should highlight the process for transferring funds from the myRA account into a private sector Roth IRA. In addition to an annual statement, we recommend that further reminders be provided as the saver nears the threshold, and that the Administrator use both traditional and non-traditional means of communication – including phone calls, text messages, and emails – to remind account holders of the threshold as it approaches. For example, a saver would get a reminder six months before hitting the threshold, and then again at closer intervals as the threshold approaches.

i. Comparison Shopping Tool

As a critical complement to the annual statement, the Treasury Department should also create a simple tool that allows account holders to easily identify private IRA offerings from which to choose. The tool, which should be made available online, would be the place to which account holders would be directed in their annual statement and other myRA communications. It should provide an “apple-to-apple” comparison of available IRA options so that potential customers understand the fees, and other features associated with each. The website should also include simple savings estimation tools to clearly indicate how different options will likely impact future retirement income. Account holders would be directed to the website as part of their initial enrollment package.

A key element of the design of this website will be the inclusion of clear instructions on how to transfer funds to a private account. The Treasury Department may want to consider providing a list of “approved” providers recommended by the program. While that approach would need to be carefully considered, a select group could be established based on the interest of firms in offering services to this market.

b. Encourage Active Choice

Moreover, the Administrator should make it as easy as possible for the saver to choose a Roth IRA product that is best for them. The way this choice is framed for the saver will be critical. Research shows that requiring workers to make an “active choice” about 401(k) enrollment, while not as effective as a simple default, does substantially increase participation rates when compared to a system that rests entirely on the individual taking the initiative.1 This is true even if the deadline to choose is not strictly enforced, which would necessarily be true of the myRA

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account. Indeed, in the myRA context there will ultimately be default enrollment in some private plan (see next section), but given the likely heterogeneous nature of the myRA population, savers should be able to choose a plan that is right for them. This could be encouraged by simplifying the choice to its most basic elements and thus minimizing the cognitive effort required to make a selection.

The Administrator would also be well-advised to emphasize the potential for increased returns by shifting to an IRA at an earlier date as another way to encourage account holders to shift their investments into the private market. A simple comparison could illustrate the opportunity costs associated with remaining in a lower-return investment over the long term. As Keller, Harlam, Loewenstein, and Volpp have shown, this type of “enhanced active choice” approach takes advantage of well-known psychological phenomena like loss and regret aversion.2

IV. Post-Threshold Strategy

a. Communication

Of course, even the most savvy communications and active choice strategy will not reach all savers, and some myRA account holders will reach the transfer threshold without having selected a private IRA. Before transferring assets without explicit authorization from the account holder, the Administrator should take pains to locate the individual to garner that authorization. A process similar to the search for missing participants mandated by the Department of Labor in the context of terminated ERISA plans – which includes the use of certified mail, the Social Security Administration’s letter-forwarding service, and a check-in with the designated plan beneficiary – would be appropriate.3

Once the automatic transfer has taken place, it is critical that the Administrator notify the account holder of his new account details. Moreover, the Administrator should maintain records so that savers who inquire with the Treasury Department to locate their account can be easily directed to the proper place.

b. Benefits of a Single Provider Approach

As for selecting the private IRA to which the myRA should be transferred, Aspen FSP believes that the Treasury Department should use its strong bargaining position to contract with just one Roth IRA provider (the approach described in Section III.B.). This approach has much to

recommend it. Firstly, it is simple to explain to savers and reduces the administrative burden on the Administrator, especially when it comes to former myRA account holders frantically contacting the Administrator for information on where their money has disappeared to. We believe that the alternative approach of rotating providers has the potential to create confusion among account holders and will increase the administrative burden of the program.

Secondly, by negotiating with just one provider, the Treasury Department can ensure that roll-over customers do not face undue fees, commissions, limits on liquidity, and account and trade minimums. Indeed, it is possible that private IRA providers would be willing to lower their normal fees in order to win this business. Many firms already offer Roth IRAs with low fees and commissions⁴ and there is even a robust market for low-dollar roll-overs,⁵ which indicates that finding a willing vendor should not be difficult.

Lastly, when the default transfer occurs, as part of the notification process, we recommend that account holders be directed to the myRA website, where they will have the option of shifting their savings to other private providers in the same way that those who make an earlier choice are allowed to do.

c. Default Investment

We also believe that the default investment product should include at least some equity exposure. A Lifecyle Fund that balances between bonds and stocks, preferably based on low-cost, passively managed index funds, would appear to be the best option for most savers. Historically, Lifecycle funds like those offered by the Thrift Savings Plan manage risk, especially as one gets close to retirement age, while providing higher returns than “stable value” or other more conservative investments. myRA account holders who fail to select a private IRA should not be punished by being automatically enrolled in an overly conservative fund.

A less interventionist approach would not be appropriate for this population. For example, the safe harbor rules used in the context of low-dollar, inactive accounts regulated by the Employee Retirement Income Security Act (ERISA) require that the new IRA be invested in a principal preservation product and that fees be comparable to those charged by the same provider in their other IRA products.⁶ Following this model would be a recipe for high fees, low returns, and, ultimately, less retirement security.⁷ That said, Aspen FSP would support a requirement on the

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⁵ See, for example, Inspira at http://inspirafs.com/. And note that the amount of money usually in question for roll-overs of inactive 401(k)s – no more than $5,000 – is much less than what would be rolled over from myRA.

⁶ 29 C.F.R. § 2550.404a-2(c)(4).

IRA provider that some kind of principal preservation/stable fund product be available to those who want to actively select it. Aspen FSP would also be supportive of special rules for myRA savers with very low balances (< $1,000) who may have unique needs for liquidity and a low appetite for risk (though by definition these savers will not be transferred to private accounts for another 30 years).

V. Conclusion

Aspen FSP applauds the Treasury Department’s efforts in establishing the myRA product, a milestone in the quest for universal retirement security, and appreciates this opportunity to provide feedback. As myRA account balances grow, the question of how assets will be transferred to private sector accounts will take on greater urgency. Ideally, savers will be proactive about selecting their private provider, but we know that many savers are “passive” and susceptible to status quo bias, which means automatic enrollment will be a reality for some. Evidence indicates that these savers would best served by a single, low-fee private Roth IRA with default Lifecycle Fund investment.

We hope these comments are useful. Please contact David Mitchell at David.Mitchell@aspeninstitute.org or 202-736-3561 with any questions.

Sincerely,

Ida Rademacher
Executive Director
Aspen FSP