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CalSavers Retirement Savings Program

2022

CalSavers Retirement Savings Program
Highlights

- What is CalSavers?
- Why consider CalSavers?
- Downsides of CalSavers
- Why a 401(k) Plan makes sense
- Penalties for non-compliant Employers
- Filing for your CalSavers exemption
- Comparison Proposal

What is CalSavers?

Beginning on July 1, 2019, California private employers with 5 or more employees, who do not already sponsor a retirement plan, may voluntarily enroll in the CalSavers Retirement Savings Program (CalSavers). Employers that do not voluntarily enroll *must* enroll in CalSavers according to the following schedule:

100 or more employees	June 30, 2020
50 to 99 employees	June 30, 2021
5 to 49 employees	June 30, 2022

The key features of the CalSavers program are shown below:

	CalSavers	**401(k) Plan**
Eligibility	Age 18 with W-2 and compensation less than $144,000 single or $214,000 married	Age 21 with 12 months of employment and 1000 hours
Max EE Cont	$6,000	$20,500
Catch-up Cont	$1,000	$6,500
Annual Limit	$6,000 ($7,000 age 50)	$61,000 ($67,500 age 50)
EE Cont	Roth only	Pretax or Roth
Match	None	Yes
Profit Sharing	None	Yes
Loans	None	Yes

- This is a workplace retirement savings program for employers with at least 5 employees that do not sponsor their own retirement plans (“Eligible Employers”). This may mean a 401(k) plan, a 403(b) plan, a SEP or SIMPLE plan, or a multiple employer (union) plan.
- CalSavers applies to private for-profit and non-profit employers, but not to federal or state governmental entities.
- CalSavers requires employees at least age 18 and receiving a Form W-2 from an eligible employer, to be automatically enrolled in the CalSavers program after a 30 day period, during which they may either opt out, or customize their contribution level and investment choices.

- The default is an employee contribution of 5% of their wages subject to income tax withholding, automatically increasing each year by 1% to a maximum contribution level of 8%. Employer contributions currently are prohibited.
- Eligible Employers who enroll in CalSavers will provide some basic employee roster information to CalSavers. CalSavers will then contact employees directly to notify them of the program and to instruct them about how to enroll or opt-out online. Those who enroll will have an online account which they can access in order to change their contribution levels or investment selections
- Once an Eligible Employer has enrolled in CalSavers, their subsequent obligations are limited to deducting and remitting each enrolled employee's contributions each pay period, and to adding new eligible employees within 30 days of hire (or of attaining eligibility by turning age 18, if later).
- Eligible Employers are shielded from fiduciary liability to employees that might otherwise arise regarding investment performance or other aspects of participation in the CalSavers program.
- There are employer penalties for noncompliance. The penalty is $250 per eligible employee for failure to comply after 90 days of receiving the CalSavers notification, and $500 per eligible employee if noncompliance extends to 180 days or more after the notice.

Why consider CalSavers?

CalSavers is a simple, straightforward way to help your employees save for retirement.

CalSavers is administered by a private-sector financial services firm and overseen by a public board chaired by the State Treasurer.

As an employer, their role is limited to uploading employee information to CalSavers and submitting employee contributions via payroll deduction.

There are no fees for employers to offer CalSavers.

Employers are not fiduciaries of the program.

Downsides to CalSavers

- **CalSavers is a Roth IRA, which means it has income limits.**
  Employees whose modified adjusted gross income is above $144,000 (single) or $214,000 (married) will not be able to participate in CalSavers. If they mistakenly contribute to CalSavers, they must correct their error or potentially face taxes and penalties.

- **CalSavers is not subject to worker protections under ERISA.**
  401(k) plans are subject to ERISA, a federal law that requires fiduciary oversight of retirement plans.

- **Employees don’t receive a tax benefit for their savings in the year they make contributions.**
  Unlike a 401(k) plan which allows both pretax and Roth contributions, CalSavers only offers after-tax contributions to a Roth IRA. Investment earnings within a Roth IRA are tax-deferred until withdrawn and may eventually be tax-free.

- **Contribution limits are far lower.**
  Employees may save up to $6,000 in an IRA in 2022 ($7,000 if they’re age 50 or older), while in a 401(k) plan, employees may save up to $20,500 ($27,000 if they’re age 50 or older).

- **No employer matching and/or profit sharing contributions.**
  Employer contributions are a major incentive for employees to save for their future. 401(k) plans allow the flexibility of offering employer contributions; however, CalSavers does not.

- **Limited investment options.**
  CalSavers offers a relatively limited selection of investments, which may not be appropriate for all investors. Typical 401(k) plans offer a much broader range of investment options and often additional resources such as managed accounts and personalized advice.

- **Potentially higher fees for employees.**
  There is no cost to employers to offer CalSavers; however, employees do pay $0.83-$0.95 per year for every $100 in their account, depending upon their investments. While different 401(k) plans charge different fees, some plans have far lower employee fees. Fees are a big consideration because they can seriously erode employee savings over time.

Why a 401(k) Plan makes sense

For many employers, even very small businesses, a 401(k) plan may be a more attractive option for a variety of reasons. As an employer, they have greater flexibility and control over the plan service provider, investments, and features. The plan can be designed to best meets the company's needs and objectives. Plus, the employer will benefit from:

- **Tax credits.** Thanks to the SECURE Act, employers can now receive up to $15,000 in tax credits to help defray the start-up costs of a 401(k) plan. Plus, if the plan contains an eligible automatic enrollment feature, the employer could earn an additional $1,500 in tax credits.
- **Tax deductions**. In addition to the deduction of any employer contributions, if the employer pays for plan expenses like administrative fees, they may be able to claim them as a business tax deduction.

With a 401(k) plan, employees may also likely have greater:

- **Choice.** The plan can give employees, regardless of income, the choice of reducing their taxable income now by making pre-tax contributions or making Roth (after-tax) contributions (or both). Not only that, but employees can contribute to a 401(k) plan and an IRA if they wish, giving them even more opportunity to save for the future they envision.
- **Saving power.** Thanks to the higher contributions limits of a 401(k) plan, employees can save thousands of dollars more, potentially setting them up for a more secure future. Plus, if the 401(k) plan fees are lower than what an individual might have to pay with CalSavers, that means more employer savings are available for account growth.
- **Investment freedom.** Employees may be able to access more investment options and the guidance they need to invest with confidence.
- **Support.** 401(k) providers often provide a greater degree of support, such as educational resources on a wide range of topics. For example, Many offer personalized, "always-on" advice to help so employees reach their retirement goals and pursue overall financial wellness

Penalties for non-compliant Employers

Employers that do not offer a private retirement plan and who have 5 or more employees are urged to comply with state law and register for the CalSavers Retirement Savings Program by June 30, 2022 or penalties will be accessed.

Non-compliant employers will be penalized $250 per employee upon the first penalty notice and, if noncompliance persists another 90 days, an additional $500 per employee, for a total of $750 per employee for sustained non-compliance.

The penalties will be levied on employers by the CalSavers Retirement Savings Board in partnership with the Franchise Tax Board.

Filing for your CalSavers exemption

If the employer already offers a 401(k) or other qualified retirement plan (403(b), SEP IRA or SIMPLE IRA), the business is exempt from the CalSavers mandate. The Employer is not required to register to CalSavers, but they still must file an exemption **June 30, 2022**.

The employer will need their federal employer identification number and their CalSavers access code to file for their exemption on the CalSavers website, click here. If the employer does not have an access code, they can call 855-650-9616 or click here.