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By Tom Hicks, Attorney At Law

## DON'T SETTLE FOR CALSAVERS ADOPT A 401(K)

By January 1, 2023, California employers with 5 or more employees, who did not offer a retirement plan, were required by the State to register for the CalSavers Retirement Savings Program (CalSavers) and facilitate employee contributions to Individual Retirement Accounts.

Since then the State expanded CalSavers to include employers who employ 1 to 4 employees. Although enrollment for this group is not required until December 31, 2025, employers can choose to adopt CalSavers or a retirement plan now. This update only expands the program to the smallest employers; it does not make any other changes.

There can be fines if the employer chooses not to adopt a plan. Employers who have failed to comply with the CalSavers requirements will face penalties ranging from \$250 to \$750 per employee depending on how long they have failed to comply with the law.

CalSavers allows employees under the age of 50 to contribute on a Roth basis up to \$7,000 a year, and for those 50 and older may save up to \$8,000 annually. There are no employer contributions. See our article [here](#) for more details on the CalSavers program.

CalSavers is definitely a helpful step toward retirement savings for those who have not had a plan before, but why not make it more flexible and beneficial to the employees and the employer? Adopt a 401(k) plan.

### Advantages of a 401(k) Plan

A 401(k) allows employees to put money into the plan every year on a pre-tax or Roth (after-tax) basis, and the employer can make matching and/or non-elective contributions as they choose. So, a 401(k) plan has the potential to be more financially beneficial than the CalSavers plan.

As of 2024, participants in the 401(k) under age 50 can contribute up to \$23,000 per year, and those 50 and older can put in up to \$30,500 annually. Being able to put that much more into retirement savings brings them closer to their retirement goals faster.

CalSavers also limits who can contribute to the plan. Employees who make more than \$146,000 (filing as a single taxpayer) or \$230,000 (married filing jointly) are ineligible to participate in CalSavers. This is not an issue with a 401(k) plan.

Below is a helpful chart to illustrate some of the differences.

	401(k)	CalSavers
<b>Contribution Limit</b>	\$23,000	\$7,000
<b>Catch-up Contribution</b>	\$7,500	\$1,000
<b>Pre-tax Contributions</b>	Yes	No
<b>Roth (After-tax)</b>	Yes	Yes
<b>Match Allowed</b>	Yes	No

<b>Employer Non-Elective</b>	Yes	No
<b>Loans</b>	Yes	No
<b>Investment Options</b>	Broad Selection	Limited Selection
<b>New Plan Tax Credits</b>	Yes	No

In Conclusion: Before making a decision, let us prepare a proposal illustrating the advantages of a 401(k) plan. Just complete our [proposal request form](#) and return to Debbie Rath at [drath@nnhicks.com](mailto:drath@nnhicks.com).

If you have questions or want more information, please contact us.