e-mail ALERT NH HICKS

February 13, 2025

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

Don't Miss the Deadline: Enroll in CalSavers by December 31, 2025

CalSavers is a state-sponsored retirement savings program designed to help California workers save for retirement. By the end of 2025, all employers who employ one or more employees are required to offer retirement plans to their employees. Employers can set up their own retirement plans or join CalSavers.

New businesses that don't offer a retirement plan must register with CalSavers within 24 months of the employer becoming an eligible employer (e.g., having California W-2 employees).

There will 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 eligible employee depending on how long they have failed to comply with the law.

**What is CalSavers?**
The CalSavers program contains Roth IRA accounts which are subject to the contribution and participant income limits applicable to all other Roth IRA accounts. Employers are prohibited from making any contributions to these accounts, which are funded solely through the employee's payroll contributions.

CalSavers allows employees under the age of 50 to contribute up to $7,000 a year if they earn $165,000 or less per year ($246,000 if married filing jointly). Those 50 and older may save up to $8,000 annually. 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 choose a plan with more flexibility and contribution options that are beneficial to the employees, the highly compensated, and the owner. Adopt a 401(k) plan.

**Advantages of a 401(k) Plan**
The 401(k) plans can be designed to help owners enhance their savings and their employees' too. While CalSavers has a fixed lineup of investments, 401(k) plans can tailor the investments hopefully to increase the return. 401(k) administrative fees and costs for are tax-deductible.

A 401(k) allows employees to put money into the plan on a pre-tax or Roth (after-tax) basis. The employer can make matching and/or profit sharing contributions as they choose. So, a 401(k) plan will be financially beneficial.

As of 2025, participants in the 401(k) under age 50 can contribute up to $23,500 per year, and those 50 and older can contribute up to $31,000 annually. Being able to put that much more into a 401(k) plan brings them closer to their retirement goals faster.

Since CalSavers limits who can contribute to the plan, this is not an issue with a 401(k) plan.

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

| | 401(k) | CalSavers |
|---|---|---|
| Contribution Limit | $23,500 | $7,000 |
| Catch-up Contribution | $7,500 | $1,000 |
| Pre-tax Contributions | Yes | No |
| Roth (After-tax) | Yes | Yes |
| Match Allowed | Yes | No |
| Employer Profit Sharing | Yes | No |
| Loans | Yes | No |
| Investment Options | Broad Selection | Limited Selection |
| New Plan Tax Credits | Yes | No |

**Conclusion**
We think employers can do better than CalSavers. We feel 401(k) plans are better and we can guide you to the correct type of plan for your company, its employees, and owners. Let us prepare a proposal illustrating the advantages of a 401(k) plan. Just complete our proposal request form and return to me at drath@nnhicks.com.

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