STATE-SPONSORED PLANS

What you need to know about these retirement programs

WHY IS THIS HAPPENING?

A majority of Americans are not saving nearly enough for retirement, if they're saving at all. However, studies show that employees are much more likely to contribute to a 401(k) if it's provided as a benefit from their employer. While this seems to give hope to the retirement savings gap, many employers do not offer a plan. In fact, according to the US Bureau of Labor Statistics, only 4 in 10 employers with 100 or fewer employees provide this benefit.

ENTER SCENE: STATE-SPONSORED PLANS

Due to this "retirement crisis," states are stepping in and sponsoring retirement plans. In seven states, these plans are mandatory, meaning they ***must*** be adopted by employers with a certain number of employees ***if*** the employer doesn't offer a plan already. A few other states have implemented voluntary state-sponsored plans, and many are currently considering adding this legislation.

While each state has different plan details, these programs have a few similarities:

- Employee contributes to a Roth IRA
- Employee contributions are automatic (employee can opt out)
- Investment options are chosen by the state

States with mandatory programs (as of 12/20):
California, Colorado, Connecticut, Illinois, Maryland, New Jersey, Oregon

States with voluntary programs (as of 12/20):
Massachusetts, New Mexico, New York, Vermont, Washington

CALSAVERS: A CLOSER LOOK AT A STATE-MANDATED PLAN

California's state-mandated retirement program, CalSavers, requires that employers with at least 5 employees offer a retirement savings plan. If they don't offer their own plan, they must join the state's plan, where employees contribute to a Roth IRA.

Employers must set up their own plan or register for CalSavers by the following deadlines:

Size of Business	Deadline
Over 100 employees	September 30, 2020
Over 50 employees	June 30, 2021
5 or more employees	June 30, 2022

CALSAVERS

CalSavers sets the default savings rate for employees at 5 percent, with an auto-escalation of 1 percent each year, up to 8 percent. However, employees can opt-out of the program or change their savings rate at any time. Employer contributions are not allowed. When participating in CalSavers, all employees who have reached age 18 and have been on W-2 payroll for 30 days ***must*** be automatically enrolled.

Employers are expected to receive annual penalties of up to $750 per eligible employee for not timely complying with CalSavers.

MORE OPTIONS

Due to the strict regulations associated with state plans, employers may be interested in seeking other options. Now is a great time for employers to look at setting up their own retirement plans. These options can provide more flexibility and be designed to help meet their specific goals. At EGPS, we specialize in helping find the perfect retirement plan solution to fit our clients' needs. We're available and ready to help talk employers through their various options.