



# CALSAVERS RETIREMENT SAVINGS PROGRAM

*Know the key facts: what, who, how, and when*

Many states are launching “state-run” retirement programs and California is no exception. The California program is called “CalSavers.” This is a state mandated program with penalties for non-compliance. All employers with employees in California must eventually participate if they do not offer a retirement plan that will exempt their business. This does not apply for employers who have five or fewer employees who are residents of California.

## What is CalSavers?

CalSavers is a state mandated Roth Individual Retirement Arrangement (IRA) automatic contribution program.

- Roth contribution rate of five percent (5%) of pay for those age eighteen (18) and employed at least 30 days
- Automatically escalates by one percent (1%) per year to a maximum of eight percent (8%)
- Each individual employee may elect a different amount, elect out of auto-escalation, or completely opt-out of the program



## What if an employer has a retirement plan?

If the employer maintains a retirement program already, the employer is exempt from this program. For a complete list of plans that exempt employers visit [www.calsavers.com](http://www.calsavers.com).

Your business is exempt if you maintain a SEP or SIMPLE IRA plan; a payroll deduction IRA program with automatic enrollment; a 403(a), 403(b); or a 401(a) plan such as 401(k), profit sharing plan, pension plan, or participate in a multiple employer plan (MEP). See the CalSavers website for more details.

## When must employees register?

- Starting on January 1, 2023, employers with 1-4 employees can register with Calsavers. This segment of mandated employers has until **December 31, 2025**, to register. Businesses that do not employ anyone outside of the owners are exempt from this expansion.
- Employers who reported an average of 5 or more employees for the prior year are mandated and have a deadline of **December 31, 2022 (passed)**.
- If an employer’s mandated deadline was September 30, 2020, June 30, 2021, or June 30, 2022, and has not registered with CalSavers, they are out of compliance and must register immediately or face penalties.



## All employers:

- Must register their business
- Must register for an exemption if they already have a listed retirement program
- Must create payroll list and add employees
- Must enroll any W-2 paid employee after 30 days and at least age 18 regardless of part-time or full-time status
- Must submit contributions or delegate an approved payroll provider to submit contributions
- Must add and remove employees once eligible or terminated

## All employees:

- Will automatically be enrolled by the employer
- Are responsible for opting out, changing investment options and contribution rates, and re-enrolling (all done through CalSavers)
- Are responsible for monitoring the Roth IRA annual limits (\$6,500 plus catch-up of \$1,000 for 2023)
- Must apply their respective AGI Roth compensation limit
- Will select investments from listed funds (i.e., State Street Target Date, Money Market, Bond, Global, Sustainable Balanced)

Offered investments have fees ranging from 82.5 - 95 basis points (per the website this includes fund and administration fees).

## Here's how it works for the employee:

The employer automatically enrolls an eligible employee in a Roth IRA unless the employee opts out. The 2023 maximum contribution limit is \$6,500 for those employees less than 50 years of age and \$7,500 for those over age 50. Enrolled employees are free to change their contributions or opt out. The employee will select from an array of investments or by default use a target fund based on their estimated retirement date. All contributions are 100 percent vested.

## What happens if the employer doesn't take timely action?

Employers need to be aware that there is no option to not act. Lack of action whether registering for an exemption or failing to enroll employees may result in penalties. Employers may face financial penalties for non-compliance. Fines range from \$250 per eligible employee after 90 days for a notification failure to an additional \$500 per eligible employee after 180 days for a notification failure from California.

## What's the alternative?

Employers should consult with their tax CPAs, financial advisors, and business consultants to determine if they have a plan that exempts them, and if not, review what retirement plan options are available to them and best suit their needs. There are many alternatives to the CalSavers program that are beneficial for both employees and employers. If you are considering terminating your retirement plan and your business will remain active, you may be required to comply with the CalSavers program.

## Comparison

See how CalSavers compares to other private retirement plans like a 401(k):

	CALSAVERS	WORKPLACE 401(k)
Employee contribution limit	\$6,500	\$22,500
Pre-tax contribution available	No	Yes
Matching contribution option	No	Yes
Vesting requirements	No	Yes
Financial advisor support	No	Yes
Employer administrative tasks	Yes	Yes/No
Addresses employee retention	?	Yes
Can allow for creative plan design	No	Yes

EGPS is here to help you and your clients understand the options and the obligations. This outline is for informational purposes only and should not be construed as tax or legal advice. For more detailed information on CalSavers, visit [www.calsavers.com](http://www.calsavers.com).