



BIG PICTURE RESULTS

Employee Retirement Accounts - Employee Perk, Employer Caution & CalSavers

Many small business owners see employee IRAs as a valuable employee perk. Our position paper will discuss the business landscape in California and the state sponsored CalSavers plan.

Executive Summary

- California was the first state in the US to mandate that employers with 5 or more employees provide a retirement plan. The CalSavers plan is the state sponsored solution for small businesses that do not offer their own retirement plan. By the end of 2025, all employers with at least one eligible employee will be required to participate.
- While offering a retirement account is a great benefit for employees, there are administrative tasks required of employers that carry many compliance duties. Even employers that have a payroll provider assisting with plan facilitation are advised by CalSavers to verify the files that have been uploaded, contribution amounts, pay dates, and transaction details on the employer portal.
- Big Picture Results advises that employers develop procedures to ensure compliance with the law, including procedures to review the work of payroll providers. Smaller employers with limited administrative staff may not have an Office Manager, or HR Manager, or Payroll Specialist to assist. In these instances, your bookkeeper can be added to the Employer Portal to assist you with managing CalSavers

California Law

As of June 30, 2022, California law requires all businesses with 5 employees or more to offer a retirement plan. State law allows for the use of the state sponsored plan (CalSavers) or a privately managed plan, which exempts the employer from utilizing CalSavers. Eligibility is based on your average number of employees throughout the year. This number is calculated by averaging the number of employees you report to the Employment Development Department (“EDD”) on your filings from the previous calendar year.

All employees of a participating employer are eligible to participate in CalSavers if they are at least age eighteen and have the status of an employee under California law. There are no minimum requirements based on hours worked or tenure with their employer.

Starting on January 1, 2023, employers with an average of 1-4 employees (as reported to the EDD in the preceding calendar year), can register with CalSavers. By December 31, 2025, participation will be mandatory, and all employers with 1-4 employees will be required to join CalSavers if they do not sponsor a retirement plan.

A deficiency notice is sent if you do not register and after 90 days (from the deficiency notice) the penalty for non-compliance is \$250 per employee, with additional penalties of \$500 per employee being levied after 180 days. Employers that already offer a qualified retirement plan and have received a notice to register, must inform CalSavers of their exemption on the employer portal.

Employers may also be subject to penalties for failure to complete other actions necessary to allow eligible employees to participate, including failure to upload new employee information and failure to submit employee contributions under timeframes established in state regulations.

CalSavers

CalSavers does have some employer-friendly features

- No fees are charged to employers.
- Employers are not required to contribute to employee accounts.
- Employers do not manage investment options or provide advice; thus employers are not fiduciaries of the program.

There are, however, administrative responsibilities to consider

- Initially, employers must register and enter information for all employees into the CalSavers employer portal, even if an employee does not want to participate.
- Employers are responsible for keeping their account up to date.

- Updating employee contribution rates with your payroll software/provider.
- Adding all new employees within 30 days of hire or when they become eligible.
- Marking employees as inactive when they leave or are terminated.
- Processing payroll contributions for participating employees. Contributions must be sent within 7 days of taking the money out of your employees' paychecks.

Notifications of employee changes to their contribution amounts (including opting out of the program) are sent to the employer by e-mail and posted in the Employer Portal a few days prior to each pay period. It is up to the employer to then update their payroll system on a timely basis.

There are CONS to the CalSavers program

- Employers cannot offer a match or profit sharing with this plan
- The plan is established as a ROTH IRA, with lower contribution limits than Simple IRAs or 401(k)s
- Administrative fees to employees are 0.83% - 0.95%, depending on the investments chosen by the employee.
- Investment options are primarily target retirement funds (date specific), with limited offerings in: Bond, Global Equity, Money Market and Environmentally and Socially Conscious Funds.

Employees have administrative responsibilities

- Employees are automatically enrolled with a contribution rate of 5%, automatically increasing 1% annually to a maximum of 8%.
- Employees need to log into the portal to opt-out of the program before withholding begins or, if participating, to stop automatic increases.
- Employees can select a contribution rate from 1 - 100% and contribute up to ROTH IRA maximums.
- Employees must be aware of IRA contribution limits, especially if they join this program during a year when they participated in another retirement plan. It is the employee's responsibility to make sure their combined contributions do not exceed the annual statutory maximums.

CalSavers advises that Employers must remain neutral about their employees' participation in CalSavers. Once the Employer enrolls an employee, CalSavers will reach out to them directly with all necessary information. If employees have any questions, or wish to make any changes to their account, they should contact the Program directly (Client Services) at www.calsavers.com, at 855-650-6918 or clientservices@calsavers.com. The Employer cannot provide advice or assistance with their plan.

QUESTIONS?

Ask Us - ops@bigpicresults.com