CalSavers - What it means for the 40 million people in California

Some 7.5 million workers in California lack access to a workplace retirement plan. That's why the state launched CalSavers in 2019, a retirement savings program that aims to make it easier for millions of people to save for retirement. The accounts are Roth (post-tax) IRAs.

The program has been unveiled in phases, creating retirement savings accounts for employees who don't have them through their employers. By 2022, any employee of a company with five or more employees will be automatically enrolled into CalSavers if their company doesn't offer a retirement plan of their own.

On Jan. 14, financial advisory firm FinDec, based in Stockton, California, offered advice on CalSavers and what to do as a small business owner in California considering the consequences of the program. FinDec Business Development Officer Kevin E. Mahoney, QPA, QKA, QPFC, AIF®, ERPA, C(k)P®, TGPC, led the conversation. Mahoney is an expert source on retirement plans and is a small group of experts who are certified as Enrolled Retirement Plan Agents across the U.S.

FinDec's Chief Investment Officer Tolen Teigen moderated the discussion. Here were some of the highlights.

Other states have started similar state-backed programs - how they are working

California is actually the tenth state to enact a retirement savings plan. An example from neighboring Oregon shows progress in terms of enrollment — OregonSaves had more than 50,000 employee participants a little over a year after the state launched it. Assets climbed to $10.9 million by Dec. 31, 2018, up from $4.6 million as of July 1, 2018.

However, the average balance was less than $500, well below the national average 401(k) account balance of $85,000.

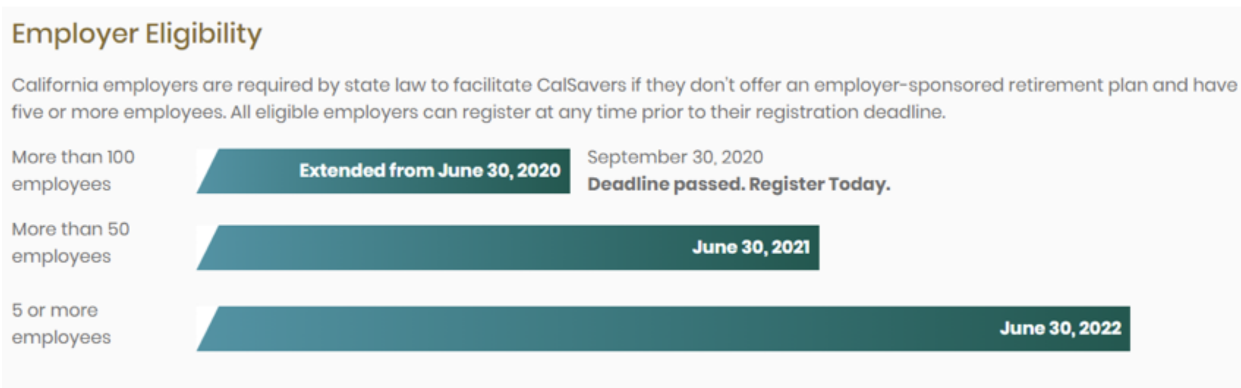
Similar to the state of California, Illinois also unveiled an automatic Roth IRA savings fund for employees whose employers don't offer savings plans. The program, called Illinois Secure Choice, had an average account balance of less than $600 as of Dec. 31, 2020.

Time will tell how California's plan fares as it is still rolling out. However, as Mahoney noted, there will likely also be a lot of smaller accounts in CalSavers too. If a part-time employee making $1000 per month puts in the default amount per paycheck — 5 percent — it's going to take well over a year for the account to eclipse $1,000 as it slowly grows.

CalSavers is law and employers are penalized if they don't act

Many employers in California should take note: they need to respond to CalSavers in some way. Businesses can either "Do Nothing", "Customize their CalSavers" or "Opt Out" — and prove they offer a plan of their own.

However, should businesses fail to act, they will face consequences. Here are some important deadlines to note for any California-based business looking for information about CalSavers.



Mahoney talked about some of the deadlines and how the state may offer some grace periods for businesses due to the pandemic.

Every employer that files taxes with the state of California should have received a letter in the mail with an access code. Those with 100 or more employees received it in 2020. Those with over 50 (but under 100) may have received or will receive soon (enrollment or opt-out for that group is June 30, 2021) and employers with 5 or more employees but less than 50 will have a deadline of June 30, 2022. However, any employer within those sizes can opt-out or enroll right now on CalSavers' website.

Employers face a penalty of $250 per eligible employee if they fail to comply with CalSavers within 90 days of notice. That increases to $500 after 180 days. This could cost a business tens of thousands in penalties, so it's crucial to take action.

Employees who work at several companies will have a single account

One question that came up on FinDec's webinar: Do employees who work multiple part-time jobs need to have multiple accounts?

Mahoney noted that they would not need to have multiple accounts but that money from each employers' respective paychecks would feed into a single account attached to the employee's social security number. So, someone working at two-different restaurants on a part-time basis could have money coming in from two different employers into one Roth IRA account.

Contrary to what some people have said, these accounts are not state-owned or state-managed accounts

Mahoney cleared up a misnomer that has spread among some in California. "I want to make something very clear about this program," Mahoney said. "This money is not going to the state of California to manage. It is actually going to a plan sponsored by the state. But it's a third-party and governed by an independent board." There had been some chatter about sending money directly to the state with this fund — which is not what's happening here.

The third-party administration fees are where a majority of the fees for CalSavers is going (although employees won't see these directly, much like other retirement funds managed by a third-party administrator). The program administration fee is 0.75 percent. Remaining fees, including underlying fund fees and fees to the state bring total fees to anywhere from 0.825 percent to 0.95 percent.

Is this program actually more affordable than an employee-backed plan?

This was another topic Mahoney addressed. He noted that there are actually workplace plans that are even more flexible, offer more services for employees that are in line with these administrative fees, or even less than them in some cases (i.e., Simpler IRA programs).

As an employer, there are also tax benefits to offering retirement plans. And — this is a big deal — with CalSavers, employers cannot contribute to an employee's retirement fund. Many companies view retirement offerings as a benefit, and they will match a percentage of what employees contribute. But you can't do that with CalSavers.

And, while small, there is still an administrative responsibility. Companies need to submit employees' contributions and add new employees or remove employees who have left the company.

Are these programs the wave of the future to help people save for retirement?

The reality is that most of the state programs so far have opened a fair number of accounts — but people are not saving very much money in the individual accounts. And the opt-out rate (even though the program promises a streamlined, automatic way to save for retirement — is still around 30 percent. That number has held consistently month-over-month.

What Mahoney noted in the webinar is that FinDec, as a third-party administrator, likes to see a 75 percent participation rate for companies offering retirement plans for employees. So, essentially, the opt-out rate for CalSavers isn't any lower than traditional third-party administered plans. In some cases, it's higher.

All of this leads to bigger questions to answer: How do we incentive people to save for retirement? Are these programs a way for the government to begin making structural changes to social security?

These are not easy questions to answer. Mahoney said he doubted that there would be any federal retirement plans in the near future and it will likely be a state-by-state issue. More states will likely follow suit and offer some sort of voluntary plan or automatic retirement plan like California's.

What is clear in all of this: State governments are realizing the significance of encouraging people to save for retirement. It's something that people can't start soon enough. Every dollar helps — making it as easy as possible for people to open accounts is a place to start. And educating small businesses about the benefits of retirement plans for their employees and their organization is just as important.

You can learn more about the retirement planning FinDec offers businesses. We can vouch for them — Bear Icebox offers our employees a Simple IRA via FinDec :)