CalSavers: Important Deadlines & Initial Steps

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As the final deadline approaches for small businesses to register their retirement plan intentions with the state, Kevin Mahoney, FinDec's resident technical expert on retirement plans in the workplace, explained the benefits and challenges of the CalSavers program, its requirements for all businesses, and what employers with five to 50 employees need to do by June 30, 2022 to comply with the state mandates.

WHAT IS CALSAVERS?

The state now mandates that all employees have access to a retirement savings program. CalSavers is a new retirement savings program for part-time, full-time, self-employed individuals and others who do not have access to a workplace retirement plan. Businesses with at least five employees must inform the state, by June 30, 2022, if they will participate in CalSavers or if they are offering another retirement savings plan to their employees.

WHAT EMPLOYERS NEED TO KNOW

If you own a business and employ five or more people, you are required to offer a workplace retirement program. CalSavers is one option, and it is easy to implement. Employers register their employees at the CalSavers.com website and work through their payroll vendor to enable the automatic payroll deduction. Most payroll vendors have taken the lead with businesses to help them through the process.

In April the state sent a letter and registration code to employers with 5-50 employees. The state groups all employees (part-time and full-time) into that number, regardless of whether these employees qualify for health insurance.

There is no cost to the employer and no required employer match. In fact, CalSavers is not an employer-sponsored program, so if you want to make contributions on behalf of your employees, you need to set up an employer-sponsored program with another vendor. If you already offer a 401K program, you simply need to share that information with the state through CalSavers.com, and you will be exempt from the state-sponsored program. Registering is mandatory whether you are joining the CalSavers program or filing an exemption from the program.

If a business already offers a retirement option, it still must complete the process, filing an exemption from the state sponsored CalSavers program. If you don't register, your payroll vendor may automatically do it for you, as it is a state mandate to register whether you are enrolling your employees in CalSavers or you have another retirement savings program in place.

This has been a tiered rollout over the past two years, starting with larger businesses. There have been several waves of registration; June 30 is the deadline for the final wave – small businesses with 5-50 employees. The state does provide a 90-day grace period, so a business technically has until September 30 to register or file an exemption from the program.

Keep in mind that there are other options, and you have some time to figure out if you want to enroll in CalSavers or a different program that may be more appropriate for your employees.

Employers with one employee, other than the owner, can sit tight for a while. California just introduced a bill for 2023 that would address retirement savings accounts for these enterprises. It is in committee, but there is no guarantee if or when it will pass.

FOR EMPLOYEES

There are no required steps for employees. While it is now mandatory for an employer to offer a retirement savings program, it is not mandatory for an employee to participate in it. If employers choose CalSavers as their plan of choice, employees will be automatically enrolled at 5%, but they can opt out at any time.

The employer will automatically set up the account and payroll deduction. Employees must inform the payroll department if they want more than the required 5% deducted from their paycheck.

We recommend that employees be engaged in and proactive with their retirement savings accounts, rather than just setting money aside each month and forgetting about it. This is an opportunity to begin the habit of saving money for long-term benefit, to learn more about financial planning, and to initiate an individual plan so you can be set up for a successful retirement.

WHO OWNS THE SAVINGS ACCOUNT?

Employees are the owners of their CalSavers account. When money is deducted, it isn't going to the State of California; it is going into an IRA account, held by Ascensus, a large national firm, which manages the plan for the State of California. The IRA belongs to the employee forever. It is a Roth contribution, so there are not tax benefits to the employee. As is the case with all managed financial plans, there are fees that are deducted from the contributions, which Ascensus calculates annually at about .89 cents per $100. Employees can opt for an automatic plan that invests the money for them, or they can individualize the plan based on their own selections. Employees can opt out or reinstitute the plan, and they can take the account with them if they leave the employer.

IS THIS EFFECTIVE FOR EMPLOYEES?

The plan started out under a favorable pretense – to address the coverage gap in retirement. Lower-wage workers traditionally don't have access to workplace retirement plans, and therefore, most don't save for retirement. When employees receive a paycheck and must consciously decide to put money into a saving account, most won't, according to the data. When money is automatically taken out of their paychecks, they are more likely to keep that money until retirement. Out of sight, out of mind.

CalSavers was designed to fill the coverage gap. Prior to CalSavers, there were more than four million workers in the state who lacked access to retirement savings plans, and only about 50% of employers offered a retirement savings program. California, despite pockets of extreme wealth, is still a blue-collar agricultural state, with an abundance of farms, plants, and factories. A large percentage of the population doesn't have access to a workplace retirement plan. This is not unique to California; several other states have also implemented a mandatory workplace retirement program. So, the general premise of the program is good; we need people to save for retirement.

Is it effective? The data collected since its inception two years ago shows that employees who are currently participating in the CalSavers program have an average account balance of just $800. So, it appears most are only putting in the required amount. They are saving money, which is good, even if it's a small amount, but the jury is still out on the long-term benefit.

HOW CAN FINDEC HELP?

We are here to help businesses through this process. If they need assistance filing exemptions or would like to look at alternatives to CalSavers, we can provide this support.

FinDec has created an alternative retirement savings plan option that mirrors CalSavers, but it gives employers more control. In partnership with Charles Schwab, we designed a platform that has a similar look and feel to the CalSavers plan, with a list of index or low-cost funds. It is a bit more robust, with less expense to the employee. We can help set it up and provide support and consultation throughout.

FINAL THOUGHTS

State law mandates that all California employers with five or more employees facilitate employee contributions into the CalSavers program if they don't offer an employer-sponsored retirement plan.

Saving is more than putting money away; it is important to have a plan. Financial education is critical, especially for individuals who may have limited financial knowledge or have never had a savings account.

CalSavers is simple, but employers should review all options to determine the best long-term benefit for their employees. There are other plans that enable employers to be more engaged in the process of assisting employees enhance their financial literacy and become more proactive with their retirement plans. FinDec can help businesses research plans and develop a strategy that offers the best solution for their employees.