

2020

# TAX & FINANCIAL PLANNING GUIDE

November 15-21, 2019 - Vol. 20, No. 36

## *State-run retirement plan CalSavers may not be the best piggy bank for your employees*



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By June 30, 2022, every employer in California with at least five employees will be required to offer a retirement plan at their workplace. For employers who don't create their own company plan, the state will require they implement CalSavers, a state-run retirement plan launched this year by the California State Treasurer.

The need for this legislation makes sense, given that 40 million American workers do not have access to an employer-sponsored retirement plan, according to the U.S. Department of Labor. That's more than a quarter of the 157 million people in the U.S. workforce. Among workers with access to a workplace retirement account, 89 percent contribute; among those without access to a workplace plan, just 49 percent contribute.

The premise of CalSavers is good. The state saw a problem with employees not

saving for retirement, and they're trying to fix it with this legislation.

The problem is that CalSavers is a one-size-fits-all plan that does not take into account the particular needs of each person's financial situation. CalSavers might not be the best option for all employees or business owners.

The state plan provides basic benefits that may work for some employers, but most business owners would no doubt prefer to have multiple choices when deciding their employees' retirement plans. There could be more appropriate options out there for them than CalSavers.

At Acosta Wealth Management, we're advising all business owners to seek a professional opinion before simply allowing CalSavers to take effect.

It's basic logic. Why would business owners who've built their companies from scratch want politicians dictating how they administer a retirement plan for their employees?

### **SOME OF THE ISSUES**

CalSavers requires employers to auto-enroll all employees age 18 and older who've been employed with them for at least 30 days. In high-turnover industries like food service and transportation, this may be far less desirable than an alternate plan that would allow an employer to wait up to a full year before offering a retirement plan to a new employee.

Also, CalSavers currently requires employers to send employees' money into a Roth IRA, even though a Roth IRA might not be the ideal preference or employees might be ineligible, based on income or contribution limits set by the IRS. Employees will be expected to know whether or not they are eligible to contribute to a Roth IRA.

These are some of the reasons a business owner might want to seek help in exploring other options. CalSavers might not be the best option for everyone at every company.

With CalSavers' first deadline looming, if business owners are looking at other options, they should act soon. Companies with more than 100 employees must comply by June 30, 2020. Companies with 51 to 100 employees have till June 30, 2021, and small-business owners, with five to 50 employees, have till June 30, 2022, to comply.

Researching, selecting and implementing the right retirement plan for employees can easily take several months, even in a rush. We strongly advise business owners to get started now, to avoid making any rash decisions.

### **SPREADING THE WORD**

One of the greatest surprises we've encountered in trying to get the word out is the general lack of knowledge about CalSavers, particularly among business



owners. Even a lot of the larger employers don't know about this, in our experience. It has not been widely marketed or advertised by the state.

Meanwhile, the clock is ticking. The situation grows more urgent by the day.

If you're a business owner who's not yet in compliance with the CalSavers mandate, we'd certainly advise you to contact an adviser as soon as possible, to help you evaluate what options are out there and to come up with a plan that will best benefit your employees and you.

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