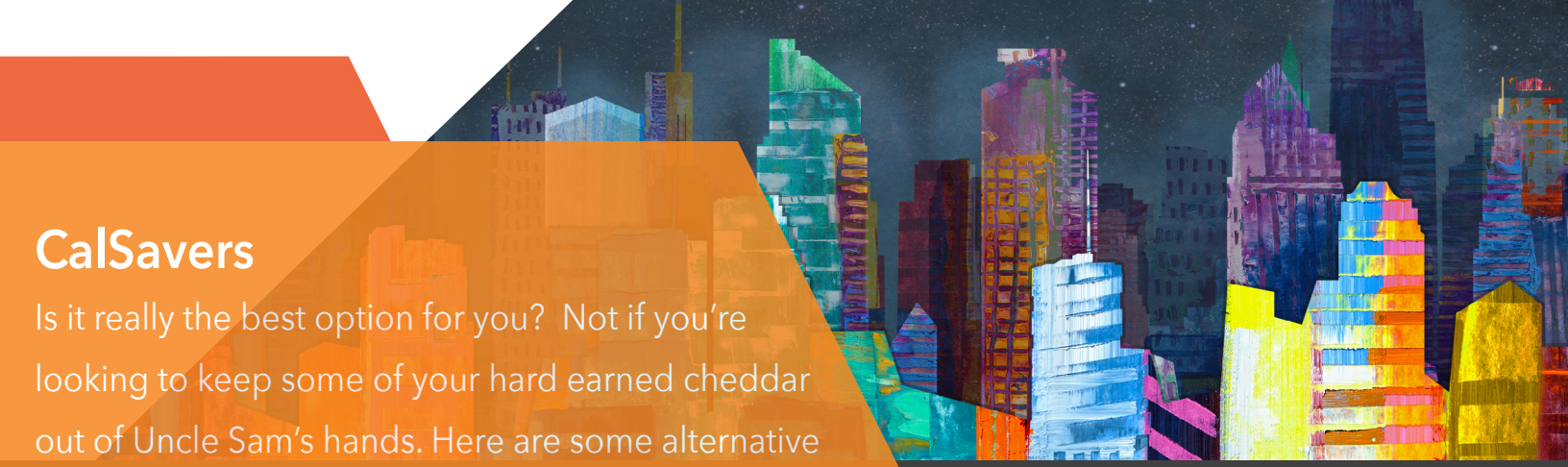

CalSavers

Is it really the best option for you? Not if you're looking to keep some of your hard earned cheddar out of Uncle Sam's hands. Here are some alternative options available that may be a better fit.

CalSavers Details

State-run retirement program that is mandatory for all private employers in California who have more than five full or part-time employees over 18 years old (with at least one employee working in the state) that don't already sponsor a retirement plan for their business:

- Similar to a ROTH IRA with auto enrollment
- Beginning default deferral amount is 5%, with annual auto-escalation of 1% to a maximum of 8%
- Employees can choose a different contribution amount or decline participation all together
- First $1,000 is invested in a Capital Preservation Fund and the rest in a Target Date Fund based on the individuals date of birth.
- ROTH IRA earnings are tax free when distributed in retirement

Implementation Deadlines

CalSavers requires that employers either offer a qualified company sponsored retiement plan to their employees (401k, SIMPLE, etc.) or enroll in the CalSavers program by the following dates based on employee count.

- Sept 30, 2020: more than 100 employees
- June 30, 2021: more than 50 employees
- June 30, 2022: more than 5 employees

If an employer fails to provide a qualified retirement benefit by their respected deadline they will be subject to a penalty of up to $750 per eligible employee, per year.

Due to Covid-19 these dates have already been revised once. Be mindful of this fact, the changing environment and stay informed as we navigate through these times.

	CalSavers	SIMPLE IRA	401(k)
Employee Maximum Deferral	$6,000	$13,500	$19,500
Catch-Up (age 50+)	$1,000	$3,000	$6,500
Employee Contribution Type	ROTH Only	Pre-Tax Only	Pre-Tax and/or ROTH
Employer Contribution	No	Required	Optional
Profit Sharing	No	No	Optional
Combined Contribution Limit	Up to $7,000	Up to $25,050	Up to $63,500
Loans	No	No	Optional
Vesting	No	No	Optional
Compliance Costs	None	None	Minimal
Investment Flexibility	None	Minimal	Very Flexible

Sample Contribution and Tax Analysis			
Owners Contributions	$14,000	$44,100	$61,800
Employee Match	N/A	$7,500	$10,000
Net Tax Savings (40% bracket)	**N/A - ROTH Only**	**$13,140**	**$18,720**

** It may be a tad confusing but cut us some slack, we're trying to fit a lot of information into a small space. We assume 2 owners, under age 50, making $285k each w/ a $250k payroll. Owners defer the maximum for all categories to receive the maximum match (3% SIMPLE or 4% Safe Harbor 401k). Remember, CalSavers doesn't allow employer contributions, silly.*

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