State-Mandated Retirement Savings Plans

Top 6 questions employers are asking.

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Background on state-mandated retirement programs

Financial industry experts have warned for years that too few Americans are adequately preparing for retirement. Many rely too heavily on Social Security benefits, underestimating how much they will need. Others take benefits too soon, unknowingly reducing their monthly collection. Regardless of the reason, in the country's current state, there stands to be a massive group of people who will hit retirement without the proper—or any—savings to fall back on. When this happens, it's the state that's responsible for providing relief. And with nearly 10,000 people reaching full retirement age daily, that cost can add up quickly.

Numerous studies have shown that workers are more likely to save for their retirement when they have access to a retirement plan through their workplace,[1] so to help close the coverage gap, more than half of the states in the nation have discussed creating state-run retirement programs that would require all eligible employers to offer their employees a retirement plan option. California passed legislation in 2016 for a state-run retirement program, and since then, 19 other states and two cities have enacted similar programs, with 27 other states introducing legislation or convening task forces to explore program options.[2]

As a business owner, it's important that you are prepared for upcoming changes to retirement guidelines in your state.

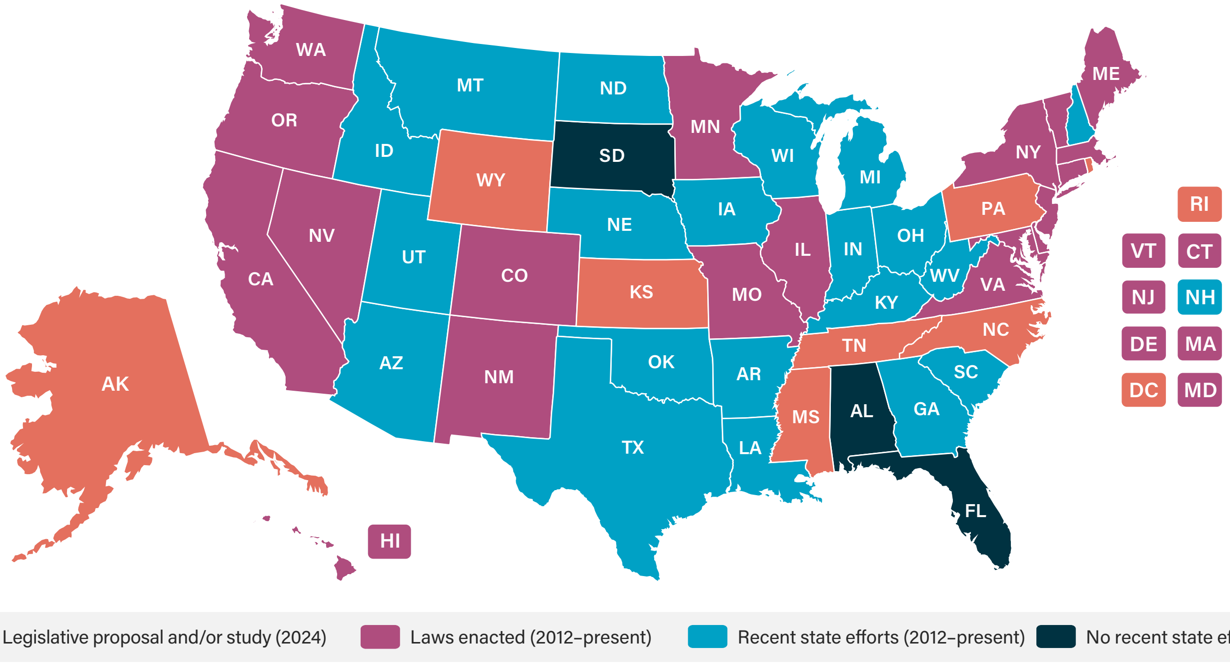
DID YOU KNOW?

80%

of workers agree that retirement benefits offered by a prospective employer are a major factor in deciding whether or not to take a job.[3]

Find out how offering a retirement benefit can help you grow your business.

2024 Legislative Map



Top 6 questions employers are asking

Do the state mandates require all businesses to offer a retirement savings plan?

The mandates vary from state to state. For example, Oregon's retirement mandate requires business owners with one or more employees to offer a retirement plan, while Illinois mandates require only business owners with five or more employees to offer a retirement plan. However, all state programs are designed to help as many workers as possible to prepare for their financial future, while keeping costs and financial risk low for the employer.

Although a state may have a mandated retirement program in place, it's important to remember that business owners have additional options to satisfy the requirements as well. Any employer that chooses to offer another type of private sector retirement plan, like a 401(k), pension, Simplified Employee Pension (SEP) or Savings Incentive Match Plan for Employees (SIMPLE) Individual Retirement Account (IRA), 457(b), or 403(b) may not be required to offer their state's mandated program.

DID YOU KNOW?

Less than

25%

of employees are "very" confident they will be able to fully retire with a comfortable lifestyle, and fewer than one in three "strongly" believe they are building a large enough retirement nest egg.[3]

See how Ascensus plans are helping savers reach retirement confidence.

How does a state-mandated retirement plan work?

In order to compensate for the mandate, the states have developed programs that are as hands-off as possible for the employer, with minimal maintenance, administrative tasks, cost, and financial risk. Thus, it is the state that is responsible for administering its retirement plan and appointing an investment committee to choose what investment opportunities will be available for account holders.

State-mandated retirement programs are also designed to be simple for employees. Through the program, employees can save part of their paychecks into an IRA account that they personally own. These accounts are also portable, moving with the employees if they change jobs. Employees may choose their own investment options from a small subset of available options and can roll their savings into other retirement plans in the same way they would for other IRAs. The specifics of each state-mandated retirement plan—including employees' automatic enrollment contribution percentage employees and automatic increase limits—vary from state-to-state.

Many of the state-mandated plans are Roth IRAs. Roth IRAs allow workers to save tax-free dollars, but may make highly compensated employees (HCEs) or business owners ineligible due to income restrictions. If this is true for your business, you may still satisfy the state mandate with another option, such as a 401(k). 401(k) plans have contribution limits that are more than three times higher than that of an IRA, allowing workers to close their retirement savings gap more quickly, and include employees of all income levels.

2025 Contribution Comparisons

	Roth IRA	401(k)
Participant contributions	Can contribute up to **$7,000** with an additional catch-up contribution of up to **$1,000** if age 50 and over.	Can contribute up to **$23,500** with an additional catch-up contribution of up to **$7,500** if age 50+ OR anyone aged 60-63 can contribute up to $11,250.
Tax treatment	Earnings grow tax deferred. Contributions to Roth IRAs are not deductible, but qualified distributions are not taxed.	Contributions can be made pre-tax or Roth. Pre-tax contributions reduce participant taxable income, but are taxed when distributed. Roth contributions are taxed up front, but when the contribution is a qualified distribution it is tax free.
Income caps	Follow federal guidelines: To be eligible, employees must make less than **$165,000** (single household) or **$246,000** (married).*	Contributions may be limited if HCE. However, there are no 401(k) income limits.
Employer contributions	Employers **may not** contribute to the participant's Roth IRA.	Employers **may** match a portion of participant contributions. Employers **may** offer profit sharing. Employer contributions **are tax deductible**.

* Based on modified adjusted gross income (MAGI). Roth IRAs have a contribution phase-out amount based on MAGI. To see the amounts visit the IRS Roth IRA page.

As an employer, what will I be responsible for?

As an employer offering a state-mandated retirement plan, you will be responsible for:

- Registering for your state's mandated program before the deadline, or risk fines and/or penalties
- Facilitating your employees' participation in the program, which may include some administrative tasks
- Ensuring payroll information is correct and up to date

Or, you can choose to implement a non-state-mandated private sector retirement plan instead. This will require a certification process with the state.

Business owners will be notified by their state government with details on how and when to inform whether or not they currently offer a private sector retirement savings plan.

What if my employees don't want to participate in the state-mandated retirement program?

Employers must enroll their employees in the state-mandated program through the payroll process, but employees may opt out of the program at any time. Employees may also opt out and back in as many times as they wish, and they can change their contribution levels at any time.

While state-mandated plans are convenient and satisfy retirements, you do have the option to provide other plan options that may be a better fit for you and your employees' needs.

DID YOU KNOW?

Almost

90%

of employees who are offered a 401(k) or similar retirement plan by their employer are likely to save and invest for retirement, compared to just 50% of those who are not offered a plan.[3]

Learn what to look for when evaluating a retirement provider.

What are the benefits of a Roth IRA?

Contributions made to a Roth IRA are taxed, meaning any earnings—and later, distributions—are withdrawn tax-free. This may be an ideal solution for savers who expect their tax rates to be higher in retirement than they are currently, such as younger, unmarried employees. Additional, when viewed in aggregate, current tax rates are low in comparison to historical tax rates, so a Roth IRA may give employees a way to get the most out of their retirement dollars.

Roth IRAs are also free from required minimum distributions and feature some unique benefits when passing on wealth to future generations.

What are the benefits of using an alternative private sector retirement plan?

Private sector retirement plans may offer more flexibility in plan design and contribution limits, more potential tax benefits, and may better suit your overall business needs—while still satisfying any state retirement program mandate. Most private sector retirement plans also allow you to offer matching employer contributions, which may help attract and retain talented employees. The trade-off is that as the employer, you may have a larger administrative role when offering a private sector plan than you would have in when offering a state-mandated IRA.

DID YOU KNOW?

When setting up a new retirement savings plan, a business may be able to take advantage of tax credits and employer contribution deductions.

Learn about the employer tax credits available to you.

Alternative private sector retirement plans

- 401(k) and 403(b) retirement plans are both employer plans that offer higher contributions limits than other types of employer plans. In general, 401(k) retirement plans are available to any type of business, but 403(b) retirement plans are generally only available to public schools, churches, and certain charitable organizations. Some of the key similarities and differences are:

	401(k) plan	403(b) plan
ERISA	Subject to ERISA	ERISA and non-ERISA plans
Employee contribution limits	A maximum of $23,500 in 2025 with an additional catch-up contribution of $7,500 for those aged 50+ OR an increased catch-up of $11,250 for those aged 60-63. Both plans allow for pre-tax or Roth contributions.	
15-year service catch-up contributions	Not applicable.	Employees with 15 or more years of service at the same organization may be able to contribute an additional $3,000, up to a lifetime limit of $15,000.
Tax advantages	Pre-tax employee contributions grow tax-deferred until the employee takes a distribution which will qualify as taxable income.	
Employer contributions	Employer contributions can be made and may be deductible on the employer's federal income tax return.	Employer contributions can be made.
Vesting schedules	The employer can create a schedule for when their employer contribution is fully vested as a retention tactic. All employee contributions are fully vested immediately.	
Automatic enrollment and automatic increase	Automatically enrolls employees at a fixed percentage and then automatically increases their election deferral by a fixed amount annually until a maximum percentage is reached. The employee can opt out of automatic enrollment or increase at any time.	
Safe harbor plan	A safe harbor plan enables business owners and HCE to max out their contributions and forgo some of the required compliance testing. In exchange, the employer must provide an employer contribution that is immediately fully vested when made.	If an employer match is offered, a safe harbor plan can be used to avoid actual contribution percentage (ACP) testing.
Investment options	Most investment options are available, including mutual funds, annuity contracts, and individually managed portfolios.	Limited investment options available, including annuity contracts or custodial accounts invested in mutual funds. Churches may have additional options.
Pooled Employer Plan (PEP) and Multiple Employer Plan (MEP)	Employers can join together in a PEP or MEP to combine management services that leverage cost and operational efficiencies.	

- **SIMPLE and SEP IRA** are both employer plans where contributions are made to a traditional IRA. Some of the similarities and differences are:

	SIMPLE IRA	SEP IRA
Availability	Small businesses with no more than 100 employees that doesn't offer another type of retirement plan.	Businesses of all sizes.*
Employee contribution limits	A maximum of $16,500 in 2025 with an additional catch-up contribution of $3,500** for those aged 50+ OR $5,250 for those aged 60-63. Employee contributions are made pre-tax.	Not applicable.
Employer contributions	Employer contributions are mandatory either matching up to 3% of compensation or 2% nonelective for each eligible employee.	Employer contributions for each eligible employees are limited annually to the smaller of $69,000 for 2024 or 25% of compensation. The employer doesn't have to contribute every year, but when they do, they must contribute to all participants who performed services during the year for which the contributions are made—even employees who die or terminate employment before the contribution is made.
Tax advantages	Pre-tax employee contributions grow tax-deferred until the employee takes a distribution, which will qualify as taxable income. Employer contributions may be deductible on the employer's federal income tax return.	Employer contributions may be deductible on the employer's federal income tax return.
Vesting schedules	All employee and employer contributions are fully vested immediately.	All employer contributions are fully vested immediately.
Automatic enrollment	Automatically enrolls employees at a fixed percentage. The employee can opt out of automatic enrollment at any time.	Not applicable.

*If employer uses the IRS Form 5305-SEP they cannot have any other type of retirement plan.

**Potential higher catch-up limits for participants in plans maintained by specified small employers.

- **457(b) Governmental** retirement plans are an employer plan where the organization must be a state or local government or a tax-exempt organization under IRC 501(c). However, it would satisfy the state mandate if government agencies were not already exempt from the mandate.

	457(b) plan
Employee contribution limits	A maximum of $23,500 in 2025 with an additional catch-up contribution of $7,500 for those aged 50+ OR anyone aged 60-63 can contribute up to $11,250. Plan may also allow for a Special catch-up contribution.* Plan allows for pre-tax or Roth contributions.
Employer contributions	Employer contributions can be made and may be deductible on the employer's federal income tax return.
Tax advantages	Pre-tax employee contributions grow tax-deferred until the employee takes a distribution, which will qualify as taxable income.
Vesting schedules	The employer can create a schedule for when their employer contribution is fully vested, as a retention tactic. All employee contributions are fully vested and theirs immediately.

* Learn more on the Special 457(b) catch-up contribution.

Conclusion

Business owners have a variety of options that will satisfy retirement state mandates in their state, giving them flexibility to choose the plan that best fits their unique needs.

Whether employers choose the state-option or decide to offer a different private sector plan instead, Ascensus can help retirement savers get there—however they decide to save.

Ascensus' award-winning service, technology, expertise, and multiple plan types available can help you meet your state's retirement mandate with a plan that fits your business goals.

800-345-6363 ascensus.com

[1] Catherine Collinson and Heidi Cho. "Post-Pandemic Realities: The Retirement Outlook of the Multigenerational Workforce." 23rd Annual Transamerica Retirement Survey of Workers. TransAmerica Center for Retirement Studies. July 2023. Accessed July 26, 2023. https://transamericainstitute.org/docs/default-source/research/post-pandemic-retirement-realities-multigenerational-workforce-report-july-2023.pdf.

[2] "State Programs 2023: More Programs Are Open and Enrolling Workers, States Actively Explore Partnerships, and Four States (MN, MO, NV and VT) Have Enacted New Programs." Georgetown University Center for Retirement Initiatives. Accessed July 26, 2023. https://cri.georgetown.edu/states.

[3] Catherine Collinson, Patti Rowey and Heidi Cho. "Emerging from the COVID-19 Pandemic: Four Generations Prepare for Retirement. 22nd Annual Transamerica Retirement Survey of Workers. TransAmerica Center for Retirement Studies. October 2022. Accessed July 26, 2023. https://transamericainstitute.org/docs/default-source/research/emerging-from-the-covid-19-pandemic---four-generations-prepare-for-retirement-report.pdf.

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