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Small businesses have better options to consider as alternatives to CalSavers

Employers have the opportunity to make a deliberate decision for a retirement savings plan that best meets their needs.

By **Kevin Watt** | October 13, 2020



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CalSavers is a government-mandated Roth IRA program that is designed to give employees an easy retirement savings option. On the face of it, it seems pretty straightforward, but what is the real advantage of a retirement plan that only allows the same contribution as an IRA, with no company match? In addition, the DOL is continuing its argument that the program is “preempted by ERISA” which would invalidate it.

Other limitations to the CalSavers program are that it does not provide employers any discretion to determine the terms of the IRAs, the investments offered in the plan, or how the program operates.

Employers will have to invest their own time to register for the program, set up and manage their account with the state, manage the submission of employee contributions, and more. This also represents an imposed cost to employers as they will have to maintain this payroll process to regularly remit contributions.

All this adds additional pressure on small businesses that may already have stretched resources due to COVID-19.

The state of California is mandating that all businesses with five or more employees offer a retirement savings vehicle or CalSavers, or face fines. The government requires that these businesses set up their retirement vehicle between September 30, 2020 and June 30, 2022, depending on their size.

However, businesses do have options and should compare alternatives. Employers generally know their employees better than the state, and now have the opportunity to make a deliberate decision for a retirement savings plan that best meets their needs.

There are many alternative retirement programs available, so employers should consider programs that allow them to take better control of the relationship.

Some also provide flexibility for more customized program design and may be easier to maintain. This will lead to a better experience for business owners.

Among the options to consider, employers may want to look for:

- Easy-to-deploy programs for small business 401(k) plans with flexible plan designs that accommodate small to medium employee bases. These can provide options for employer matching, loan provisions and the ability to select investment options.
- SEP / SIMPLE IRA programs, as they are easy to set up, offer employee matching, and could be a great fit for companies with fewer employees (100 or less) and want fewer administrative responsibilities than a 401(k). SIMPLE IRAs also do not require IRS 5500 reporting.
- Solo 401(k)s have options for self-employed, freelance or gig workers and are also easy to set up and administer. They offer high contribution limits, broad investment options, loan options and can be used to consolidate other retirement accounts if needed.

All of these options would provide participants and employers much more than just a payroll deduction IRA. They deliver the ability to contribute and save more for retirement, while allowing the employer to meet state requirements to offer a retirement program for its employees.

While qualified plans do cost more, they give small businesses the ability to take deductions for making retirement contributions for employees, and employees get to offset their personal taxable income—and many of these same benefits are available to those who are self-employed.

The reality is that employee retirement plans are now more accessible to, and affordable for, small employers than ever before. Turnkey features, streamlined administration, and the additional benefits offered to employees helps build not only individual savings, but also company loyalty.

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Kevin Watt is Vice President, Security Financial Resources, an affiliate of Security Benefit Life Insurance Company. Connect with him via email at kevin.watt@securitybenefit.com. Visit www.securitybenefit.com (<https://www.securitybenefit.com>) or <https://www.linkedin.com/company/security-benefit> (<https://www.linkedin.com/company/security-benefit>) for more information.

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