Payday

Employee Benefit Programs – Current Trends & Future Outlook

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Our recent blog post, Employee Perks and Benefits, offers an expansive survey of the prevalent benefits and perks companies are providing to employees across industries, including employee-friendly innovations like unlimited paid time off (PTO), expanded wellness programming, flexible scheduling, and more.

In this guide, we will primarily explore new trends in 401(k) and retirement plans, including new state laws that mandate employer-provided retirement plans, especially intended for low- and middle-income employees. In addition to providing the state legislative updates you'll need to prepare for your own company's adaptation, we'll offer practical advice on how to choose, implement, and manage a sustainable plan that strengthens your business and ensures compliance.

401(k) and Retirement Savings Trends

In conjunction with the broadscale decline in company pensions, many companies have adopted 401(k) "matching" retirement plans as part of their benefits and perks packages.

Although not strictly required by the IRS, a large percentage of companies choose to match employee contributions within their employee-sponsored 401(k) plans. Matching is federally regulated by the Employee Retirement Income Security Act, which legislates fair and equitable implementation of company-wide retirement savings plans.

Although businesses offering 401(k) matching plans have traditionally offered a match of 3-6% of the employee's eligible earnings, employers should be aware of innovative approaches that some companies are taking to distinguish themselves within their industries and emphasize their company's investment in employee wellness.

On a purely monetary level, some businesses have begun offering monthly, firm-funded contributions to 401(k)s amounting to 6-8% of W-2 pay, *regardless of employee contribution level*. Other companies, responding to employees' desire for assistance with existing financial burdens, now assist employees with student loan repayment through direct payment to lenders, or by offering temporary raises in employer 401(k) contributions until an employee's student loan debt is eliminated. Lastly, some companies have begun offering merit- or goal-based increases to company 401(k) contributions when employees' reach particular goals or organizational targets.

Regardless of the state legislation we'll soon discuss, it's important for companies to keep in mind that 401(k) retirement savings plans are not only a compelling benefit for new and existing employees. 401(k) matching plans also significantly reduce corporate tax costs on payroll, state, and federal taxes. Additionally, a company's matched contributions, as well as administrative work associated with retirement benefits, are deductible. Lastly, within private, company-sponsored 401(k) plans, elective deferrals and investment gains are untaxed.

State-Mandated Retirement Plans

With the rise of retirement plans as a widespread employee expectation, an increasing number of states have mandated that employers with more than an established number of employees must offer qualified retirement plans. So far, 13 states require it and nearly 20 others have legislation under consideration. This legislation is generally designed to impact low- and middle-income employees of small and mid-sized businesses who currently do not have access to retirement benefits.

In most cases, businesses are required to enroll employees in their state's mandated retirement program *if they don't offer a qualifying private plan*. The majority of state-sponsored plans offer Roth IRAs (individual retirement accounts) to employees who earn less than the IRS maximum for this plan type. Employees have the option to opt out and change their contribution levels while payroll deductions contributing to the Roth IRA occur. Importantly, in state-sponsored retirement programs, employer contributions (tax deductible) are disallowed.

State-Mandated Retirement Plans

Although these are the general features of state-sponsored plans, we'll explore two specific examples (Maryland and Virginia) to provide more contextualized details.

The VirginiaSaves Program mandates that all employees aged 18 or older, and who work at least 30 hours a week, will be automatically enrolled in the state-sponsored IRA plan if a qualifying private plan is not offered by their employer. This program, which forbids tax-deductible employer contributions, is slated to begin in July 2023.

As just one example of the possible contrasts across state mandates, the MarylandSaves Program will not include automatic enrollment (a la VirginiaSaves) and as such, employers not offering qualifying private retirement plans must abide by specific enrollment deadlines or deal with penalties for noncompliance. Although the program is only in its pilot phase, a full rollout is still expected in the Fall of 2022.

Other states with active state-sponsored programs include all of the following: California, Colorado, Connecticut, Illinois, Maine, Massachusetts, New Jersey, New York, Oregon, and Washington. Bear in mind that each state presents different stipulations with regard to the following issues:

- Required registration/enrollment date
- Number of employees required for mandatory enrollment
- Duration of business operations (typically affects businesses who have operated for at least two years)
- Use or non-use of automatic payroll system
- Administrative responsibilities required by the employer

How to Approach Retirement Plan Selection and Compliance for Your Company

State-sponsored IRA plans have lower contribution limits, lower growth potential, and less flexibility than privately sponsored plans. As just one example, Virginia's state-sponsored plan limits its yearly maximum contribution to $6,000, whereas a qualified private plan through our partnership with Human Interest, permits employer-sponsored plan contributions to reach upwards of $20,500 annually per employee. Additionally, through Payday and its partners, your plan gains access to almost any investment fund on the open market, and benefits from "no-touch" payroll integration with our payroll system, as well as a major alleviation of administrative burdens, which we handle on your behalf.

Regardless of whether you'd like to register for a state-sponsored plan or consider options for private, employer-sponsored retirement options, we're here to help you navigate all state compliance issues and implement a strategy that benefits your employees and company. Our goal is to simplify and streamline what can feel like an overwhelming process, transforming it into an opportunity for you to craft a compelling benefits plan to retain and attract the top talent in your industry. Ready to choose and implement the retirement benefits plan that suits your needs? Contact us today to start our collaboration.