401GO

SECURE CHOICE OR 401(K)

A guide to understanding the differences between two common retirement benefits.

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INTRODUCTION

How to Navigate State Retirement Benefit Mandates

With secure choice plans being offered in more and more state, it's important for business to understand enough details to make an informed decision. Retirement plan decisions can have far-reaching consequences for both employer and employee.

State mandated plans are Roth IRAs, which have different rules and regulations than 401(k) plans. Plan designs and mandates vary from state to state, but most have some basic similarities that will help you to make a smart choice.

PLAN BASICS

1 Plan type

State secure choice programs are typically Roth IRAs. These are not intended to replace a 401(k). Business that have another retirement plan in place are generally exempt from adopting the plan.

2 Enrollment

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3 Contribution Limits

State IRA plans are subject to the same contribution limits as all IRA plans. The most a participant can contribute to an IRA is $7000/yr. (in 2023). 401(k) plans come with much higher limits. Participant and employer combined can contribute $66,000/yr. (in 2023)

4 Employer Contributions

When designing a 401(k) plan, employers can choose to provide matching funds or other type of contributions, or none at all. State secure choice plans do not allow any of employer contributions.

	State	401GO
01	Roth IRA	401k
02	Mandatory	Optional
03	$7000/yr	$66,000/yr
04	Not Allowed	Allowed

PLAN DETAILS

5 Communication with employees

Most state plans do not require employers to answer program questions or provide customer support. They do, however, expect employers to notify employees about the plan, and collect and upload employee information to the state portal.

401GO is an automated platform, so notification happens digitally and automatically. We provide all customer support for employees and employers.

6 Payroll integration

Many state plans will offer integration with a few major payroll providers. If you use a smaller provider or do payroll manually, you'll be required to manually upload contribution payroll and contribution information manually to the state portal.

40160 is able to integrate with all payroll providers.

7 Investment options

Most state plans have created a board to select investment options, although a few are using 3rd party investment managers They typically provide a few conservative options.

401GO offers a large fund lineup, with a guided portfolio builder available for those that would like some help selecting their investments.

	State	401GO
05	Employer	Automated
06	No	Yes
07	State board	Self-directed, with guidance

TAX BENEFITS

8 Payroll tax deduction

Qualified employer contributions are exempt from federal, state and payroll taxes, and workers compensation insurance carriers don't require it in wage calculations. At the same time, businesses can claim these contributions as an expense on the business tax return

9 Benefits to employee

Roth contributions are always made after-tax, which gives participants long-term benefits, but doesn't allow them the option to take advantage of a reduction of their taxable income now. State secure choice plans are Roth IRAs, giving employees only one option.

401(k) plans usually allow employees to choose either Roth or traditional, or sometimes both, and to switch between them as needed.

10 Tax credits

There are no tax credits available for using state secure choice plans. However, businesses can take advantage of a few by using a 401(k).

	State	401GO
08	No	Yes
09	Post-tax	Pre-or post-tax
10	None	Many

Administrative tax credits:

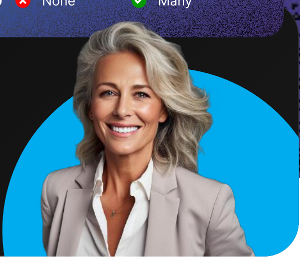
- 100% of costs, up to $5000 per year for 3 years

Contribution tax credits:

- Up to $1000/employee for 5 years (with restrictions)

Auto-enrollment tax credits:

- $500 per year for 3 years



PRICING & FEES

11 Cost to employee

Costs vary widely from state to state, with some charging less than 0.3% AUM, and other charging closer to 1%. Some charge monthly or annual fees, others do not. Some are taxpayer funded, others are not.

401GO has very affordable pricing, with some plans that charge no AUM fee, and some priced at 0.3% AUM.

9 Cost to employer

State plans are generally free to employers. 401GO offers very competitive pricing, at just $9/participant/month. Some plans include a $29 base fee and a 0.3% AUM fee.

	State	401GO
11	Varies	0% - 0.3% AUM
12	Taxpayer	$9/user
13	Possible	None

11 Penalties for noncompliance

A few states charge penalties for noncompliance with state mandates, and these can costs thousands per year.

Employers can avoid mandates as well as penalties by choose another type of retirement benefit for their teams.

CONSIDERATIONS

Before you decide whether to use a 401(k) or a state mandated Roth IRA plan, ask these questions.

1 Do you have high turnover?

Secure choice plans typically require W2 employees to be added to the employer's roster within 30-60 days of hire. This can be quite an administrative burden for some companies.

With a 401(k) plan, an employer can limit eligibility to employees who work a certain number of hours, or stay with the company for a certain number of months. This gives dedicated employees the chance to participate without overwhelming the employer with paperwork.

2 Do employees already have personal IRAs?

IRA contribution limits fall on the individual employee to monitor. This can be challenging for employees who are automatically enrolled in the state IRA who may not be paying attention. IRAs are also subject to annual income limits (currently $153,000 for singles, and $228,000 for married filers (2023)) so workers making more than this will not be able to use the state retirement plan.

This causes two problems. First, highly compensated employees, if they can contribute at all, will not be able to save a very high percentage of their income, making them ill-prepared to retire.
Second, employees who aren't disciplined or savvy may find themselves in a sticky situation if they accidentally over-contribute to the secure choice plan.

CONSIDERATIONS

3 Do you have employees in multiple states?

Businesses that have employees in multiple states especially where some, but not all, are in a secure choice state-can create an unfair balance of benefits, not to mention administrative headaches. it is typically much easier to use a 401(k) plan for ease of administration and consistency with employee benefits.

4 Can you afford a retirement benefit?

Many small employers assume they cannot afford a 401(k), but most find 401GO to be more affordable than they anticipated. Even if you can afford a little bit, there are many low-cost 401 (k) options available.

When you factor in federal startup 401(k) plan tax credits and other tax advantages, you may actually find yourself saving money.

5 Are you comfortable being a fiduciary?

Secure choice plans place no liability on private employers, while the sponsor of a 401 (k) plan always has some fiduciary responsibility.

However, a plan sponsor can enlist co-fiduciary professionals such as a 3(16) administrator or an investment advisor to act as a 3(21) or 3(38) fiduciary-to minimize their fiduciary obligations substantially.

WATCH FOR PROBLEMS

When secure choice is the right fit.

While state mandated plans are often a mediocre choice, a few employers will find them to be a good fit. Especially well suited are:

- Those who have previously mishandled an ERISA plan
- Those who want no fiduciary liability whatsoever
- Those who have a high number of non-English speaking employees (Secure choice plans often provide support in multiple languages)

Besides time and money, additional problems should be taken into account.

- Risk of penalties for noncompliance, or for failing to remit contributions
- Problems with employee relationships and communication
- Lost opportunity costs: an employer-sponsored plan can provide better terms. Remember that Roth IRAs cannot rollover into 401(k)s.

CIRCUMSTANCES AFFECT OPTIONS.

With so many considerations associated with retirement planning, one cut-and-dried answer for everyone does not exist. It's important to think through these details carefully to ensure the best outcomes.

Consider 401GO a uniquely beneficial alternative to secure choice plans. Our automated 401(k) platform was built for small businesses, to help them avoid the headaches and costs that are historically associated with retirement plans, while still reaping the benefits for employees. We offer attractive partnerships with financial advisors, accountants, payroll providers and other business consultants who want to offer their clients real solutions for their business.

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