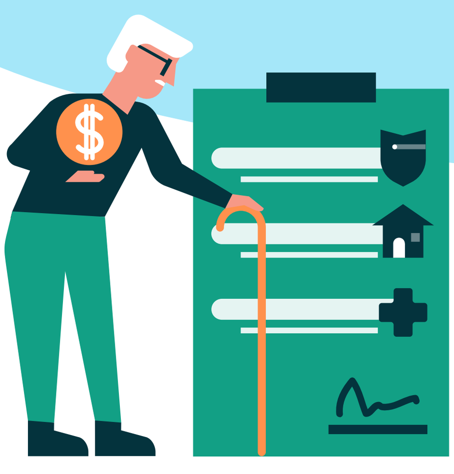
STATE-MANDATED VS EMPLOYER-SPONSORED RETIREMENT PLANS

Employer & Employee Pros & Cons



STATE-MANDATED PLANS

EMPLOYER

PROS

- Low administrative costs.
- Less administrative work than other plans such as 401(k)s.
- No requirement to match employee contributions.

CONS

- Penalties for non compliance.
- Does add administrative work like tracking and reporting contributions, eligibility, etc.
- No flexibility to choose plan options.

EMPLOYEE

PROS

- Access to a retirement plan.
- No taxes withheld once withdrawals are made.

CONS

- Automatically enrolled in plan unless they choose to opt out.
- Taxes taken on income prior to contributions being withheld.
- Often times, employers do not provide a match on employer contribution.
- Lower contribution limits ($6,500 or $7,500(over 50) in 2023).

EMPLOYER-SPONSORED PLANS

EMPLOYER

PROS

- A great benefit to help attract and retain top talent.
- Can choose the plan that works best for their employees and business situation.
- Potentially $16,500 in tax credits in the first 3 years of a new plan.
- Secure Act 2.0 allows employers a credit for employer contributions up to $1,000 per employee.
- Comply with state requirements.

CONS

- Some plans come with high administrative costs.
- Some plans come with high administrative tracking and reporting.
- Potential annual compliance testing.
- Usually employers contribute/match some portion of employee contributions.

EMPLOYEE

PROS

- Access to a retirement plan but do not have to participate.
- Have more flexibility on how much to contribute.
- Much higher contribution amounts.
- Depending on plan, contributions can be made on a pre-tax basis.
- Employers generally match a portion of contributions.
- May be able to take a loan on their account.

CONS

- Generally taxes are taken when withdrawals are made in retirement.

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