

Navigating New Jersey's New Retirement Plan Mandate

What You Need to Know

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AS OF JUNE 30, 2024, New Jersey introduced the RetireReady NJ program, a state-mandated retirement plan aimed at providing more than 1.7 million workers with access to a retirement savings option. This mandate affects for-profit and non-profit businesses with 25 or more employees, requiring them to offer this retirement savings program. Even smaller businesses, with fewer than 25 employees, are eligible to participate voluntarily.

But what does this mean for employers and employees in the Garden State? If you're a business owner or an employee in New Jersey, understanding the details of this program is crucial, especially as compliance deadlines approach.

THE RISE OF STATE-MANDATED RETIREMENT PLANS

State-mandated retirement plans like RetireReady NJ aren't unique to New Jersey. Nearly a dozen states have enacted similar legislation, spurred by concerns over a looming retirement savings crisis. As of the first quarter of 2024, total U.S. retirement assets reached \$39.9 trillion, representing 33 percent of all household financial assets in the country. Data from an AARP study highlighted that New Jersey could save over \$190 million in public assistance costs between 2018-2032 if lower-income workers increased their retirement income by just \$1,000 a year. This potential for savings, combined with the need to ensure more workers have access to retirement plans, has driven the implementation of programs like RetireReady NJ.

Across the United States, approximately half of private-sector employees lack access to a retirement plan through their employers. This issue is particularly pressing in New Jersey, where the statistics mirror the national average. With 46 percent of the nation's private-sector employees lacking access to a retirement plan, the introduction of

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RetireReady NJ aims to close this gap. Research has shown that Americans are about 15 times more likely to save for retirement when they have a workplace plan and 20 times more likely to do so if contributions are automatic. This increased likelihood of saving underscores the importance of programs like RetireReady NJ in helping workers build a secure financial future.

WHAT EMPLOYERS NEED TO KNOW

If your business has 25 or more employees, has been operating for at least two years, and hasn't offered a qualified retirement plan in the past two years, you are required to participate in RetireReady NJ. The deadlines for compliance are:

- 40 or more employees: Registration deadline September 15, 2024
- 25 to 39 employees: Registration deadline November 15, 2024

If you didn't register by these deadlines, it could result in penalties, starting with a written warning in the first year of non-compliance, escalating to fines of up to \$500 per employee by the fifth year.

It's important to note that while employers must facilitate the plan, they are not required to match employee contributions. The employer's responsibilities under this program include offering open enrollment periods at least once a year, enrolling new hires within three months, providing employees with information about the program, and ensuring payroll deductions are deposited into the employees' retirement accounts.

For those who want to read the full statute detailing these requirements, you can find it [here](#).

WHAT EMPLOYEES NEED TO KNOW

For employees, participation in RetireReady NJ is automatic if they are 18 years or older, employed in New Jersey, and subject to the state's Gross Income Tax. Employees will be automatically enrolled at a default contribution rate of 3 percent of their salary, which will be withheld from each paycheck and deposited into a Roth IRA. Employees have the option to opt out of the program or adjust their contribution rates. It's important to note that while the default contribution is 3 percent, there is no automatic escalation, meaning the contribution rate will remain at 3 percent unless the employee chooses to increase it.

Increasing your contribution rate beyond the default 3 percent can significantly enhance your retirement savings over time. Even small increases in your contribution rate can lead to substantial growth in your retirement account, thanks to the power of compound interest. The more you contribute early on, the more time your money has to grow. For example, if you increase your contribution to 5 percent or 6 percent, those additional contributions will not only boost your overall savings but also generate additional returns that compound year after year.



Consistently contribute to your retirement accounts – and max out those contributions – to build a more secure financial future.

Furthermore, research indicates that individuals who consistently contribute to their retirement accounts, particularly those who maximize their contributions, tend to have much larger retirement balances. For instance, those who contributed to both an IRA and a 401(k) in the first quarter of 2024 were able to take advantage of higher contribution limits and potentially greater returns on investment, leading to more robust retirement savings. In 2023, the average retirement account balance increased by 19 percent from the previous year, largely driven by those who contributed more consistently and took full advantage of their plan's benefits.

By increasing your contribution rate, you not only build a more secure financial future but also maximize the tax benefits associated with retirement savings. Higher contributions reduce your taxable income, allowing you to save more effectively for retirement while potentially lowering your tax burden today.

COMPARING RetireReady NJ TO OTHER RETIREMENT OPTIONS

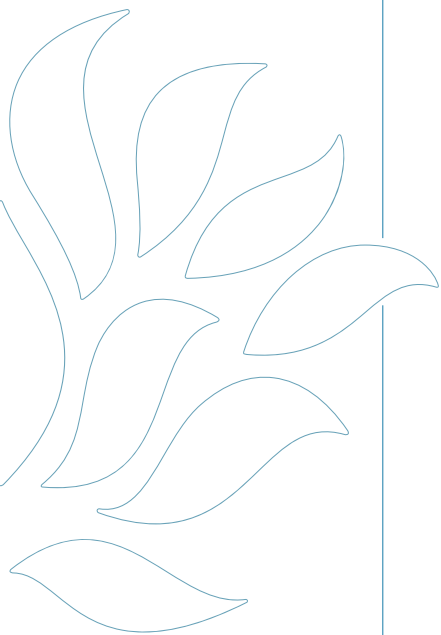
While RetireReady NJ offers a basic retirement savings solution, it's important to consider how it compares to other retirement options like 401(k) plans. One of the key differences lies in the contribution limits. For 2024, the maximum contribution to a Roth IRA is \$7,000 (with an additional \$1,000 catch-up contribution allowed for those over 50, making it \$8,000). In contrast, 401(k) plans allow for much higher contribution limits, with employees able to contribute up to \$23,000, or \$30,500 if they are over 50. These higher limits provide a significant advantage for those who can afford to contribute more, as they allow for greater tax-deferred savings and the potential for more substantial growth in retirement funds over time.

Another significant difference is the lack of employer matching in RetireReady NJ. While employers aren't required to match contributions in this program, 401(k) plans often include employer matching, providing an additional incentive for employees to save.

Moreover, RetireReady NJ has relatively high costs for employees, with administration fees and fund expenses potentially adding up to 258 basis points (or 2.58%) of an employee's contributions. In comparison, 401(k) plans can often be more cost-effective, depending on the plan and provider. By Q1 2024, average 401(k) account balances hit their highest levels since late 2021, with long-term savers experiencing the most significant growth.

IS RetireReady NJ RIGHT FOR YOUR BUSINESS?

The decision to participate in RetireReady NJ or to opt for an alternative retirement plan depends on your business's specific needs and goals. RetireReady NJ is a low-cost, low-maintenance option, ideal for businesses with high turnover or those that do not wish to manage the complexities of a traditional retirement plan. The program is fully administered by the state, meaning employers have no fiduciary responsibility and minimal administrative burden.



However, for businesses looking to attract and retain long-term employees, especially in industries where a strong benefits package is crucial, a 401(k) plan might be a better option. These plans offer higher contribution limits, the potential for employer matching, and greater flexibility in terms of investment options and plan design.

As the landscape of retirement savings continues to evolve, state-mandated programs like RetireReady NJ are becoming more common. While these programs provide a valuable safety net for employees who might otherwise lack access to retirement savings, they also present new challenges and considerations for employers.

Whether you're a business owner trying to navigate the new requirements or an employee looking to maximize your retirement savings, understanding the ins and outs of RetireReady NJ is essential. By staying informed and exploring all available options, you can make the best decisions for your financial future.

If you have any questions or need further guidance on how to comply with the RetireReady NJ requirements or explore alternative retirement options, don't hesitate to reach out to an HBKS advisor.

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