



VirginiaSaves

How HB 2174 Impacts Small-Business Retirement Plan Requirements

HB 2174, signed into law by Virginia Governor Ralph Northam in April 2021, includes provisions aimed at improving retirement plan coverage for employees in the state. Many workers do not have access to employer-sponsored retirement plans, which can make it difficult to save for retirement and can lead to increased financial insecurity in retirement. Similar to state-run programs in California, Illinois, and Oregon, the bill creates a mandate and penalties for qualifying employers.

Employers who meet the following criteria must have retirement plan enrollments beginning no later than July 1, 2023:

- Employer has at least twenty-five employees; and
- The business has been in operation for at least two years.

The bill requires eligible employers to offer a retirement savings plan, either through the VirginiaSaves program or through an alternative qualified retirement plan. Under the VirginiaSaves program:

- Employees who are at least age 18, and who work at least 30 hours per week, must be covered.
- Employees are automatically enrolled in a payroll deduction IRA with contributions starting at 5% of an employee's salary.
- Unless the employee requests otherwise, their contribution levels must be increased by 1% annually up to a maximum of 10%.
- Employees can opt out of the program or adjust their contribution levels at any time.
- Employers are prohibited from making contributions, such as matching contributions, under this program.

Employers who choose to offer an alternative plan, such as a 401(k) plan, will have significantly more options regarding what employees to cover, the investments made available, and the types of employer contributions to provide. A 401(k) plan also allows for larger contributions from employees than the VirginiaSaves program. VirginiaSaves is limited to the IRA contribution limit for the year which is \$6,500 for those under age 50 and \$7,500 for those 50 and over in 2023. The 2023 contribution limits in a 401(k) plan are \$22,500 for those under age 50 and \$30,000 for those 50 and over.

Every employer must weigh the pros and cons for their specific situation but failure to comply with HB 2174, and not offering a retirement plan for employees, may result in a stiff penalty of \$200 per eligible employee per year.

There are many tax deductions and tax credits available for implementing and operating a 401(k) plan. Many employers who adopt a 401(k) plan realize an overall savings when these deductions and credits are considered. The team at Benchmark Retirement Plan Services, Inc. has the expertise to find the most cost-effective solution for your retirement plan needs.