

INITIAL STATEMENT OF REASONS

Specific Purpose of the Regulations and Factual Basis for Determination that Regulations are Necessary.

Problem this Rulemaking is Intended to Address:

This rulemaking will make emergency regulations amendments permanent. The amendments are primarily related to employer eligibility and their registration deadlines, with some additional amendments to improve clarity and correct a typographical error.

Specifically, these regulations amendments will:

- Improve employer access to the CalSavers Retirement Savings Program (“CalSavers” or “the Program”) by allowing employers to participate if they have only one quarter of employment data available, instead of the prior requirement for four consecutive quarters of data (Section 10001(a));
- Correct multiple typographical errors (Sections 10000(q) and 10002(a)(3));
- Improve clarity regarding the registration deadline for newly eligible employers and improve employee access to the Program (Section 10002(b)); and
- Simplify the employer registration process (Section 10002(e)).

ECONOMIC IMPACT ANALYSIS

Program staff analyzed the economic impacts caused as a result of this rulemaking package. Staff determined the regulations amendments are major regulations and completed a Standardized Regulatory Impact Analysis on September 2, 2022, which further detail these impacts, the methodology used to estimate the impacts, and quantification of any macroeconomic impacts related to the amendments.

These regulations amendments include some changes that are expected to increase saving by California employees, which are expected to create economic impacts due to some reduced consumption and new investment in California companies.

The creation or elimination of jobs within the state

The amendments will have no direct impacts on the creation or elimination of jobs within the state. However, the amendments could have indirect impacts, as they will lead to increased new savings by Californians, which will lead to reduced consumption. The reduced consumption is expected to result in reduced demand, which could lead to reduction of 303 jobs in 2023. The amendments will also lead to new investment in California companies and are expected to create 90 jobs in 2023 due to the new investment.

The creation of new businesses or the elimination of existing businesses within the state

Similar to the reasons stated in the paragraph above, these regulations amendments should have no impact on the creation of new businesses or the elimination of existing businesses within the state. These regulations amendments make no impact on whether existing businesses should be eliminated, nor do they give cause for the creation of new businesses.

The operation of the Program in general may create incentives for retirement plan providers to create or market products in the state. The operation of the Program in general may also create an incentive for payroll providers or third-party human resource vendors to create or market products within the state. However, these regulations do not include any material impacts that would bolster or lessen those incentives.

The expansion of businesses currently doing business within the state

These amendments are not expected to have any impact on the expansion of businesses currently doing business within the state. The operation of the Program in general may create benefits for smaller employers to recruit and retain employees by providing them an easy, no-fee way to help their employees save for retirement. As noted above, the Program in general may also create an incentive for payroll providers or third-party human resource vendors to create or market products within the state. However, these regulations do not include any material impacts that would cause an expansion of those businesses.

The benefits of the regulation to the health and welfare of California residents, worker safety, and the state's environment

These regulations amendments will benefit the welfare of California residents by ensuring that some portion of California employees gain earlier access to the CalSavers program and, therefore, improve their ability to accrue meaningful retirement savings over their career and improve their long-term financial security. CalSavers staff estimate nearly 150,000 California employees will gain earlier access to the Program and predict over 56,000 will begin to participate as a result of these amendments.

While any associated impacts to the health of California residents would be indirect, better financial security may result in better health outcomes for the population of California residents who participate in the Program.

These regulations amendments should have no effect on worker safety or the state's environment.

Overall Benefit of this Rulemaking:

Nearly half of California workers are on track to experience significant economic hardship in retirement age. Without the ease and simplicity of regular payroll contributions to a retirement savings account at work, many simply do not save for retirement. Research shows that people are 15 times more likely to save when they have access to a payroll deduction savings vehicle at work.

CalSavers ensures about 7 million California workers have access to a retirement savings program at their job, and self-employed individuals will also be able to save via the Program.

As more Californians join the workforce in the decades to come, the Program will ensure the next generation of working Californians has the ability to begin saving for retirement throughout their careers. The Program will be self-sustaining by participant fees, with no direct cost to employers or taxpayers, and, over time, should provide a net benefit to taxpayers as fewer elder citizens will require taxpayer-funded public assistance.

The Program provides some indirect benefits for participating employers by providing a retirement savings option that is simple and requires no direct costs or annual reporting with no fiduciary liability. By having an easy way to provide a popular employee benefit, the Program should help some smaller employers improve their value in the labor market and help to recruit and retain employees.

These regulations amendments will benefit employers by simplifying the registration process and allowing some employers to register earlier than they had previously been allowed.

These regulations amendments will benefit individuals by reducing the time by which some individuals would gain access to the CalSavers program and, therefore, improve their ability to save for retirement and improve their future financial security.

The regulations amendments will benefit California-based companies through increased investment due to the increases in savings expected to result from these amendments. Specifically, the new investments are expected to predominate in the information technology, health care, and discretionary consumer sectors. Macroeconomic impacts in each sector are detailed in the SRIA.

Evidence Supporting Finding of No Significant Statewide Adverse Economic Impact Directly Affecting Business:

Based on the Economic Impact Analysis stated above, CalSavers concludes that the proposed regulation will not have a significant statewide adverse economic impact directly affecting business, including ability to compete with businesses in other states.

Reasonable Alternatives to the Regulations and the Agency's Reasons for Rejecting those Alternatives:

Alternative 1: Maintain Registration Deadline for Newly Mandated Employers in Section 10002(b)

The Board declined this alternative because it has caused a delay in when employers would join the Program and, therefore, delay when employees could participate in the Program and begin to save for retirement.

Additionally, the Board declined this alternative because the former regulation lacked the clarity of the amended regulation. The former regulation did not specify the event that would provide an employer with certainty of when they became an Eligible Employer. Additionally, the former regulation established a deadline that was 24 months past the date when an employer would become exempt.

Alternative 2: Maintain Requirement that Employers Have Entire Calendar Year of Employee Data to Register

The Board rejected this alternative because it prolonged the wait time for an employer to register for the Program. The Program has received calls and emails from employers who wished to register but were unable due to this regulation. In many of the circumstances, the employers expressed confusion due to the fact they had currently employed five or more employees and did not sponsor a retirement plan, and therefore would otherwise be eligible for the Program.

TECHNICAL, THEORETICAL, AND EMPIRICAL STUDY, REPORT, OR SIMILAR DOCUMENT ON WHICH THE AGENCY RELIES

Some considerations for the development of these regulations were based, in part, on the market analysis, program design, and financial feasibility study commissioned by the Board and completed by Overture Financial LLC and its subcontractors in 2016. The report is available on the following webpage:

<https://www.treasurer.ca.gov/calsavers/report.pdf>

The Board considered the findings from additional studies and reports to make decisions about the content of the proposed regulations, included below:

1. Allegretto, S.A., Rhee, N., et. al., (2011), [California Workers' Retirement Prospects](#) in N. Rhee's [Meeting California's Retirement Security Challenge](#), U.C. Berkeley Center for Labor Research and Education

2. Baki, M., Rhee, N., et. al., (2016), [Final Report to the California Secure Choice Retirement Savings Investment Board](#), *Overture Financial LLC*
3. Belbase, A. and Sanzenbacher, G., (December 2015) [Report on the Design of Connecticut's Retirement Security Program](#), Center for Retirement Research at Boston College
4. Beshears, J., Choi, J., et. al., (September 2010) [Defined Contributions Savings Plans in the Public Sector: Lessons from Behavioral Economics](#), National Bureau of Economic Research
5. Beshears, J., Benartzi, S. et. al., (October 7, 2017) [How Do Consumers Respond When Default Options Push the Envelope?](#), Voya Behavioral Finance Institute for Innovation
6. Beshears, J., Choi, J., et. al., (December 7, 2017) [Borrowing to Save? The Impact of Automatic Enrollment on Debt](#), Harvard University/Yale University/United States Military Academy
7. Choi, J., Laibson, D., et. al., (December 2001) [For Better or For Worse: Default Effects and 401\(k\) Savings Behavior](#), National Bureau of Economic Research
8. Dushi, I., Iams, H.M., Lichtenstein, J., (2015), [Retirement Plan Coverage by Firm Size: An Update](#), Social Security Administration Office of Retirement and Disability Policy
9. Helman, R., Greenwald, M., et. al., (April 2007) [The Retirement System in Transition: The 2007 Retirement Confidence Survey](#), Employee Benefit Research Institute
10. John, D. and Koenig, G. (2015), [Workplace Retirement Plans Will Help Workers Build Economic Security](#), AARP Public Policy Institute
11. Madrian, B. and Shea, D., (May 2000) [The Power of Suggestion: Inertia in 401\(k\) Participation and Savings Behavior](#), National Bureau of Economic Research
12. McInerney, M., Rutledge, M. S., King, S. E., (October 2017), [How Much Does Out-of-Pocket Medical Spending Eat Away at Retirement Income?](#), Center for Retirement Research at Boston College
13. Munnell, A. H., Belbase, A., Sanzenbacher, G.T., (March 2018), [An Analysis of Retirement Models to Improve Portability and Coverage](#), Center for Retirement Research at Boston College in conjunction with Summit Consulting, LLC
14. Pew Charitable Trusts (January 2016), [Employer-based Retirement Plan Access and Participation across the 50 states \(California\)](#)
15. Pew Charitable Trusts, (June 2017), [Employer Barriers to and Motivations for Offering Retirement Benefits](#)
16. Pew Charitable Trusts, (July 2017) [Employer Reactions to Leading Retirement Policy Ideas](#)

17. Pew Charitable Trusts, (March 2018) [Auto-IRAs could help retirees boost Social Security Payments](#)
18. Scott, J., Blevins, A., et. al. (January 2016) [Who's in, who's out](#) *Pew Charitable Trusts*
19. Semega, J., and Welniak, Jr., E., (2015) [The Effects of the Changes to the Current Population Survey Annual Social and Economic Supplement on Estimates of Income](#), Proceedings of the 2015 Allied Social Science Association (ASSA) Research Conference
20. U.S. Government Accountability Office, (May 2016), [Low defined contribution savings may pose challenges](#)
21. [Investment Policy Statement adopted by the CalSavers Retirement Savings Board December 1, 2018, and Revised December 7, 2020](#)
22. Employee Benefit Research Institute and Greenwald & Associates, (2014), [2014 Retirement Confidence Survey Fact Sheet #6, PREPARING FOR RETIREMENT IN AMERICA](#)
23. Guzoto, T., Hines, M., and Shelton, A., (July 2022), [State Auto-IRAs Continue to Complement Private Market for Retirement Plans](#), *Pew Charitable Trusts*

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STATEMENT OF NECESSITY

The section of the regulations proposed for amendment is identified below including a description of the objectives and necessity for the amendment.

Section 10000. Definitions, subsection (q)

Specific Purpose:

The definition of "Exempt Employer" further defines and clarifies a term established in statute.

Factual Basis:

This regulation amendment is necessary to correct a typographical error. The change in these amendments is necessary to make the regulations consistent with statute, which defines an Eligible Employer as a business that employs five or more employees. However, due to a typographical error, the current definition in regulations included a reference to employers with "more than five" employees, which is in conflict with both statute and the definition of "Eligible Employer" established in Section 10000(m).

Section 10001. Definitions, subsection (a)

Specific Purpose:

The regulation defines the criteria by which the Program will determine employer eligibility.

Factual Basis:

This regulation amendment is necessary allow employers to participate in the Program if they have only one quarter of employment data available and otherwise meet the definition of an Eligible Employer.

Section 10002. Eligible Employers, subsection (a)

Specific Purpose:

This regulation establishes registration deadlines for Eligible Employers.

Factual Basis:

This regulation amendment is a non-substantive technical amendment necessary to clarify the regulation and has no economic or fiscal impact. The amendment is necessary to further clarify which businesses are required to register for CalSavers by the June 30, 2022, deadline. Employee counts may fluctuate between one calendar year and the next, causing an employer to move between defined employer size tranches, referred to as “waves,” from one calendar year to the next. This amendment would ensure employers that move from wave 3 (five or more employees) to either wave 1 (more than 100 employees) or wave 2 (51 to 100 employees) continue to be subject to the wave 3 deadline – rather than be subject to a retroactive registration deadline for their new wave assignment. This amendment conforms the rules for wave 3 employers that grew to employ more than 50 employees to the treatment of wave 2 employers with similar employee growth.

Section 10002. Employer Registration (b)

Specific Purpose:

Government Code Section 100032(b)-(d) provides deadlines for employer registration that vary according to an employer’s number of employees. Government Code Section 100032(e) authorizes the Board to extend those time limits. This regulation establishes the deadline for newly eligible employers.

Factual Basis:

This regulation amendment is necessary to adjust the deadline for which newly eligible businesses must register for the CalSavers program and further clarify how employer eligibility will be determined and reported to eligible employers.

Section 10002. Employer Registration, subsection (f)

Specific Purpose:

This regulation identifies the information employers need to provide the Program to maintain each employer’s account.

Factual Basis:

This amendment is necessary to remove the necessity for employers to provide their California Employer Payroll Tax Account Number if they provide their Federal Employer Identification Number. This lessens the number of data fields required for Eligible Employers to register, making it easier for employers to participate in the Program.

Section 10004. Employee Enrollment, subsection (a)

Specific Purpose:

This regulation establishes the deadline by which the Program shall deliver the Employee Information Packet to Eligible Employees.

Factual Basis:

This regulations amendment is necessary to update the number of days the Program must provide a Participating Employer with the Employee Information Packet. This change is required to account for delays in mail delivery times. It is possible this amendment will have no actual impact on participants, as most employee information packets are delivered before the prior 7-day requirement.

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APPENDIX

- Standardized Regulatory Impact Analysis (submitted September 9, 2022)
- Department of Finance Comments (provided September 30, 2022)
- Response to Department of Finance Comments (submitted October 24, 2022)

The CalSavers Retirement Savings Program

**Overseen by the
CalSavers Retirement Savings Board**

Standardized Regulatory Impact Assessment Regulations Amendments

Date of Release: September 2, 2022

CalSavers Retirement Savings Board
915 Capitol Mall, Suite 105
Sacramento, California 95814

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A. SUMMARY

1. Executive Summary

Nearly half of California workers are on track to live at or near poverty upon reaching retirement age. Without the ease and simplicity of regular payroll contributions to a retirement savings account at work, many simply do not save for retirement. While the problem of retirement insecurity may have many sources, one solution is evident: increasing access to workplace retirement plans. Research shows that people are fifteen times more likely to save when they have access to a payroll deduction savings vehicle at work¹.

The CalSavers Retirement Savings Program (“CalSavers” or “the program”) was established to ensure all working Californians have access to a workplace retirement savings vehicle. As more Californians join the workforce in the decades to come, CalSavers will ensure the next generation of working Californians can begin saving for retirement throughout their careers. The program is self-sustaining by participant fees, with no direct cost to employers or taxpayers, and, over time, will provide a net benefit to taxpayers when fewer elder citizens require taxpayer funded public assistance.

This analysis evaluates economic and fiscal impacts due to emergency regulations amendments that took effect earlier this year. This section summarizes the amendments, including a description of why each amendment was made and a general description of any economic or fiscal impacts expected due to the change.

This Standardized Regulatory Impact Assessment (SRIA) represents the best estimates of the potential impact of amendments made to CalSavers program regulations in 2022. Where possible, staff used actual program data to develop assumptions for this analysis. In addition to actual program data, CalSavers staff relied on data from similar state savings programs, national survey data, data from private sector financial firms, peer reviewed analyses, and economic data provided by the Department of Finance. Throughout the SRIA, the authors attempt to show the rationale for the assumptions and methodology used and describe the causes and scope of the impacts considered.

This analysis attempts to predict the actual economic and fiscal impacts of the regulations amendments, rather than estimate the range possible impacts of the regulations. While staff believe this analysis represents the most accurate prediction possible, we acknowledge that many factors are unpredictable and uncontrollable by program operations. Additionally, the assumptions used in the analysis represent the best understanding of program operations, employer trends, and the conditions of the employment market at a single point in time. Actual

¹ Employee Benefit Research Institute, Unpublished estimates of the 2004 Survey of Income and Program Participation Wave 7 Topical Module (2006 data)

experience of the program, pending state and federal legislation, investment market volatility, technological changes, and changes to the labor market are just a handful of factors that could substantially alter the impacts of these regulations – and the operation of the program in general. When there are a range of assumptions that are equally plausible, the authors have skewed towards using assumptions that would overestimate employer and employee participation, and therefore lean toward overestimating economic and fiscal impacts.

1.1 Regulations Amendments Evaluated in this Analysis

On March 18, 2022, the Office of Administrative Law approved emergency regulations amendments to CalSavers Retirement Savings Program regulations codified under Chapter 10, Title 15 of the California Code of Regulations. The primary purpose of most of the amendments related to adjusting and clarifying employer eligibility criteria and the dates by which they must comply with the program regulations – in addition to some amendments to improve clarity and correct a typographical error.

Aside from a few technical amendments, these amendments primarily impact employer eligibility and employer registration deadlines. For that reason, this analysis primarily considers economic and fiscal impacts caused by either employer impacts related to shortened registration deadlines or the impacts associated with expected increases in new savings by working Californians.

The amendments were made to Sections 10000, 10001, 10002, and 10004 of Chapter 15 of Title 10 of the California Code of Regulations. The amendments are described briefly, below, including a brief description of any economic and fiscal impact analysis.

- 10000(q) – Adjustment to Definition of “Exempt Employer”
This regulations amendment is necessary to fix a typographical error for the definition of “Exempt Employer.” The definition includes a description of the lowest number of employees a business must have to participate in the CalSavers program.

The change in these amendments is necessary to make the regulations consistent with statute, which defines an Eligible Employer as a business that employs five or more employees. However, due to a typographical error, the definition in regulations included a reference to employers with “more than five” employees, which is in conflict with both statute and the definition of “Eligible Employer” established in Section 10000(m).

- 10001(a) – Permission of Employer Registration Without Full Year of Employee Data
This regulations amendment is necessary to allow businesses the opportunity to register without a full calendar year of employee data if they otherwise meet the definition of an eligible employee by having five or more employees and by not sponsoring a retirement plan.

Subsection (1) of the regulation establishes employers are eligible to register for the program if they have submitted at least one Form DE 9C, “Quarterly Contribution Return

and Report of Wages (Continuation),” and otherwise meet the definition of an Eligible Employer. Subsection (2) maintains the existing basis for an Employer’s potential registration deadline, requiring Eligible Employers to have employed an average of five or more employees over the prior calendar year before they are subject to a registration deadline.

This amendment will have an indirect economic and fiscal impact due to an expected increase in new savings by working Californians. However, these impacts are expected to be de minimis, as the population of employers and employees anticipated to benefit from the amendment is small.

- 10002(a) – Technical Change to Registration Deadline

This regulations amendment is a non-substantive technical amendment necessary to clarify the regulation and has no economic or fiscal impact.

This regulations amendment is necessary to further clarify which businesses are required to register for CalSavers by the June 30, 2022, deadline. Employee counts may fluctuate between one calendar year and the next, causing an employer to move between defined employer size tranches, referred to as “waves,” from one calendar year to the next. This amendment would ensure employers that move from wave 3 (five or more employees) to either wave 1 (101+ employees) or wave 2 (51+ employees) continue to be subject to the wave 3 deadline – rather than be subject to a retroactive registration deadline for their new wave assignment. This amendment conforms the rules for wave 3 employers that grew to employ more than 50 employees to the treatment of wave 2 employers with similar employee growth.

- 10002(b) – Amending registration deadline for newly mandated employers

This regulations amendment is necessary to adjust the deadline for which newly mandated businesses must register for the CalSavers program and further clarify how employer eligibility will be determined.

The former regulation established a registration deadline for newly mandated employers of the latter of either the dates prescribed in Section 10002(a) of the regulations or within 24 months of the date upon which they became an eligible employer. Because employer eligibility is based on an employer’s average number of employees for a calendar year, the date upon which they became eligible was January 1 of each respective year – establishing a registration deadline of December 31 of the second year in which they remained an eligible employer.

This regulations amendment effectively shortens the registration deadline for newly mandated employers from two years to one year. Due to the shortening of the registration deadline, this analysis estimates the impact of imposing a more sudden registration deadline by modeling the difference between employers subject to the

former deadline versus the new deadline and calculating the opportunity cost for the time the employers spend facilitating the program.

This amendment will have an indirect economic and fiscal impact due to an expected increase in new savings by working Californians, which are detailed further in this analysis.

- 10002(e) – Removal of California Employer Payroll Tax Account Number from Required Data Field for Employer Registration

This amendment is necessary to remove the necessity for employers to provide their California Employer Payroll Tax Account Number if they provide their Federal Employer Identification Number. This lessens the number of data fields required for Eligible Employers to register, making it easier for employers to participate in the program.

If the amendment has any impact on employers, it would be to benefit employers that do not have ready access to their Employer Payroll Tax Account number. Based on the program's experience with eligible employers, the authors do not expect the change to have a measurable benefit for employers.

This amendment is not expected to have any significant fiscal or economic impact.

- 10004(a) – Extension of Timeframe by which the Program Must Deliver the Employee Information Packet

This regulations amendment is necessary to update the number of days the program must provide a Participating Employer with the Employee Information Packet. This change is required to account for delays in mail delivery times. It is possible this amendment will have no actual impact on participants, as most employee information packets are delivered before the prior 7-day requirement.

This amendment will not have any economic or fiscal impact.

1.2 Spending, Investment, and Sales & Use Tax Impacts

CalSavers' success in encouraging millions of Californians to save for retirement may result in economic impacts related to changes to consumption (i.e., spending) behavior that subsequently has fiscal impacts due to reduced sales and use tax revenue. The scale of these impacts is correlated to the amount of retirement savings accrued by participating employees.

While modest shifts from spending to saving could have a short-term macroeconomic impact, it is not certain that these impacts will materialize, and some of these potential impacts may be offset by increased investment in the state economy due to new savings by CalSavers participants.

Employee participation is primarily a function of employer participation. Therefore, any economic and fiscal impacts related to changes in consumption are dictated by employer

participation. The primary cause of the economic and fiscal impacts described in this analysis relate to regulatory changes impacting employers, and therefore impacting employee savings behavior. Those impacts include economic impacts due to reduced consumption, fiscal impacts related to the reduced consumption, and benefits due to new investment in California-based companies.

1.3 Employer Impact

While the program imposes no direct costs or fees for employers, mandated employers are required to perform tasks necessary to register for the program and facilitate payroll contributions. The time and resources necessary to complete those duties can vary based on an employer's number of employees, use of payroll software, and use of a payroll company, among other factors.

For this analysis, staff used assumptions based on actual experience data from the State of Oregon's retirement savings program, which had nearly the same design features as CalSavers at the time the Oregon survey was completed. Based on that data, we estimate that employers may experience opportunity costs of about \$179 in the first year of participation and \$150 annually thereafter for the staff time spent performing these tasks.

These regulations amendments do not include any material changes to the duties required by employers. While the removal of the requirement for employers to provide a SEIN for registration may have some marginal benefits for employers, the authors expect any benefits to be *de minimis*.

2. Statement of the Need for the Proposed Regulations

Government Code Section 100010(b) compels the Board to adopt regulations it deems necessary to implement its governing statute and allows the Board to delegate rulemaking authority to the executive director by resolution. The Board is authorized under Government Code Section 100048 to adopt regulations it deems necessary to implement the program consistent with the Internal Revenue Code and regulations issued pursuant to that code to ensure that the program meets all criteria for federal tax-exempt benefits. Government Code Section 100048 deems the adoption, amendment, repeal, or readoption of such regulations to address an emergency for purposes of Government Code Sections 11346.1 and 11349.6 and thereby exempts the Board from the requirements of Government Code Section 11346.1(b).

When CalSavers launched, a new state mandate for employers was created that applied to existing employers who met the definition of an eligible employer. The law established a series of deadlines that applied to different tranches of employers based on their number of employees.

Because CalSavers statute establishes a broad mandate for employers to participate in CalSavers if they do not sponsor a retirement plan, it was necessary to establish a registration

deadline for employers who either did not exist at the time the program launched or were exempt at that time and subsequently became eligible – and therefore covered under the mandate.

At the time the regulations were first established, the registration deadline was defined as:

“An Employer that becomes an Eligible Employer after July 1, 2019, shall register with the Program no later than the applicable date specified in subsection (a) or within 24 months of the date upon which the Employer became an Eligible Employer, whichever is later.”

The new regulations amendments instead establish a clear point in time by which newly mandated employers must register: December 31 of whichever year they were eligible. Also, the amendments specify the event that will identify when an employer becomes eligible: upon notification from the program. Those changes will ensure employers will both know when they become eligible and know when they must register.

While the amendments shorten the registration deadline for many newly mandated employers, many employers have expressed frustration with being made aware of a registration deadline far into the future, noting compliance is easiest closer to the date by which they must act. This amendment ensures simpler compliance by eligible employers and simplify the administration of the program.

At the December 13, 2021, meeting, the Board approved a new set of regulations amendments to allow employers to register earlier than currently allowed in regulations, to specify the date by which newly mandated employers must register for the program to maintain compliance, to correct a typographical error, to simplify the employer registration process, and to update language to account for longer delivery times by the United States Postal Service. The emergency rulemaking to make the amendments was notified on March 1, 2022. The OAL approved the emergency regulations amendments on March 18, 2022. This SRIA attempts to estimate the economic and fiscal impacts related to those amendments.

3. Major Regulation Determination

Senate Bill 617 (Stats. 2011, ch. 496) established new regulatory impact assessment standards for major regulations. A state agency must conduct a SRIA when it estimates that a proposed regulation has an economic impact exceeding \$50 million.

Because the revenue impact of adoption of these is estimated to exceed \$50 million in the first full year of implementation, the Board completed this SRIA in accordance with state law and regulations adopted by the Department of Finance on major regulations.

4. Economic Baseline

The economic baseline used in this analysis is the environment prior to the emergency regulations amendments evaluated in this analysis.

5. Public Outreach and Input

Throughout the development of the proposed regulations, staff continually solicited the input of the public, stakeholders, and external expertise. The public had numerous opportunities to provide input on the regulations through publicly noticed Board meetings, including the [December 13, 2022, Board meeting](#) in which the emergency regulations were approved and the [February 28, 2022](#), and [May 24, 2022](#), meetings in which the regulations were discussed as part of the Executive Director's Reports. The public also had the opportunity to provide input on the regulations through the public comment period associated with the emergency rulemaking completed on March 18, 2022.

Additionally, the program conducts webinars for employers (and employees as well) almost every workday, each week. The webinars are conducted in English, Spanish, Cantonese, and Mandarin. These webinars are intended to provide overviews of the program and technical education on how to facilitate the program, not necessarily overviews of regulations amendments, however the presentations cover the rules and regulations of the program and allow for live questions and answers among the audience.

6. Methodology

For this SRIA, the authors made a series of calculations using assumptions and estimates from a variety of sources including, wherever possible, actual program data. In addition, the authors used peer-reviewed academic research; research conducted by an array of organizations, think tanks, non-profit, and for-profit entities; government data; and survey data from a variety of sources.

While some assumptions used in the SRIA are built on decades of vigorous academic study, other assumptions used in the SRIA lack such a robust lineage of experience and required the authors to develop best estimates. Some calculations are made using author estimates, qualitative indicators, and survey data with relatively small sample sizes.

Throughout this analysis, the authors have included the methodology used for this SRIA, including data sources, methods for calculations, and additional notes on the context for the data.

This section details the methodology used in this analysis to determine the timeframe for evaluation, the population of employers impacted, expected employer participation, and

expected employee participation. Embedded within each of those topics are a number of other assumptions necessary to estimate the impact of these regulations amendments.

Note: although many of the internal data used are reported publicly,² some internal data cited in this analysis are not public. Their absence can be due to several factors, including the point in time at which the data were received or the data points do not necessarily lend themselves to being reported publicly. In some cases, the authors used anecdotal evidence from the program administrator and staff. In those cases, data simply were not collected due to the relatively low level of inquiries. For example, only a few employers tend to request registration before they were otherwise eligible through the amendment to Section 10001(a) of the regulations. Because so few had requested to join the program, staff and the administrator did not have data available on exactly how many employers would be represented in the population.

6.1 Timeframe

Section 2002(c) of the California Code of Regulations requires state agencies to identify and describe all costs and benefits due to a proposed regulatory change calculated on an annual basis from estimated date of filing with the Secretary of State through twelve months following full implementation of the proposed regulation.

CalSavers staff evaluated economic and fiscal impacts over the 2023 calendar year, which is the best representation of the full implementation of the regulations. Although the regulations took effect in March 2022, the employers subject to the regulations are not required to register until December 31, 2022. Most impacts to either employers or employees are not likely to occur until the December 31 deadline – and continue through the 2023 calendar year. For that reason, 2023 is determined to be the twelve-month period following full implementation of the regulations.

To depict the impact of the amendments over a longer time period, the authors calculated expected annual impacts over the 2023-2027 period.

6.2 Number of Employers Impacted

The regulations amendments evaluated in this analysis impact employers that are newly mandated for the CalSavers Retirement Savings Program. That includes employers that were recently established or employers that previously had fewer than five employees, but now have enough employees to be considered subject to the mandate.

This analysis first estimates the number of what are referred to as “newly mandated employers,” and then estimates the number of “facilitating employers.” “Newly mandated employers” in this analysis refers to the estimated number of employers who meet the definition of a newly mandated employer (defined as “Eligible Employer” in program regulations): an employer established recently who has at least five employees and does not sponsor a retirement plan.

² [CalSavers Participation Summary Reports \(2019-2022\)](#)

To estimate the population of the newly mandated employers impacted by these amendments, the authors used the actual population of employers newly mandated in 2022. To estimate the growth of newly mandated employers in 2023 and beyond, the authors calculated average annual employer growth from 2017-2021 using data from the Employment Development Department³.

During that period, the total number of businesses in California grew by an average rate of 2.40%. However, that calculation includes employers with 0-4 employees, which tend to grow at a faster rate than employers with more employees – and represent a class of employers that are exempt from the program.

To estimate the growth of businesses mandated under the state law, the authors calculated average employer growth rates by the same tranches of employer size established in statute: employers with more than 100 employees (referred to as “wave 1”), employers with 51-100 employees (referred to as “wave 2”), and employers with 5-50 employees (referred to as “wave 3”). Due to the Covid-19 pandemic, employment data in 2020 significantly skews average employer growth trends. Including the 2020 business data, the average growth of wave 1 and wave 2 employers over the five-year period is -0.92% and -0.17%, respectively, whereas wave 3 employers grew by 0.93%.

Because 2020 skewed the data so significantly, the authors believe it would be more accurate to remove it from the dataset and use the average employer growth rate from 2017-19 to estimate growth of newly mandated employers. Average employer growth rate for 2017-19 were 1.29% for wave 1, 1.64% for wave 2, and 1.36% for wave 3.

The population of impacted employers includes a variety of employer sizes, but skews predominantly toward smaller employers with fewer employees, with 96% of newly mandated employers expected to have 5-50 employees.

Table 1. – Estimates of Newly Mandated Employers in 2023-2027

Employer Size	2023	2024	2025	2026	2027
Wave 1 (101+ Employees)	508	515	522	528	535
Wave 2 (51+ Employees)	431	438	445	453	460
Wave 3 (5+ Employees)	29,894	30,301	30,713	31,130	31,554
Total	30,834	31,254	31,680	32,111	32,549

6.3 Estimated Number of Facilitating Employers

A significant portion of employers do not proceed to full facilitation of the program due to a variety of factors: business closure, unreported exemptions due to plan sponsorship, inaccurate contact information, or they simply choose to ignore the requirements. Staff used actual

³ [Firm Size Data for California \(Quarterly\) -- Number of Businesses, Number of Employees, and Payroll by Size of Business \(Table 1\)](#), Employment Development Department

program data to estimate the portion of employers who typically proceed to full implementation of the program (meaning those who register, upload their roster, and continually remit employee contributions).

Employers have roughly 90 days after registration before they are required to begin submitting contributions for participating employees. After registration, employers are required to upload their employee information within 30 days. After the roster of employees have been uploaded, the employees will have a 30-day period before they are automatically enrolled (assuming they do not opt out). Finally, employers are required to begin remitting employee contributions no later than the first pay period that falls 30 days after employees are enrolled.

While many eligible employers meet their legal requirements timely and begin to facilitate contributions for participating employees within timeframes established in regulations, many do not. For example, exactly one year following the registration deadline for wave 2 employers, about half had begun to facilitate contributions. By that same time, 78% of wave 1 employers had begun to facilitate contributions. Enforcement notifications can be a significant factor driving employer facilitation. Enforcement notifications typically do not begin until about a year after an employer's registration deadline.

For this analysis, each year represents expected employer facilitation within that year – and does not factor in those who begin to facilitate later. Due to a variety of factors, including when employer compliance enforcement begins, many employers do not progress to facilitating employer contributions for a significant portion of time after their registration deadline. For example, 69% of wave 1 employers facilitated employee contributions and 55% of wave 2 employers facilitated employee contributions by 12 months after their registration deadline.

6.4 Assumptions Used for Employer Impact

To estimate the employer impact, the authors developed assumptions using the experience of employers participating in similar programs in other states—particularly the OregonSaves program. The OregonSaves program requires essentially similar employer duties:

- registration;
- adding employee data; and
- establishing payroll contributions.

In a survey of employers participating in the OregonSaves pilot program, participating employers provided feedback for the amount of time necessary to complete their duties. Employers reported registration required about 30 minutes, establishing payroll required an average of eleven minutes, and adding employee data required an average of about 30 minutes⁴. To estimate the opportunity cost incurred by participating employers, the authors of this analysis assumed employer compliance will require the same amount of time as reported in the OregonSaves survey.

⁴ Unpublished survey data provided by the OregonSaves Retirement Savings Board in June 2018

Because the registration and payroll contributions tasks will only be necessary one time for a participating employer, the authors included the impact related to those tasks in their first year of participation. Employers will be required to add new or newly mandated employees within thirty days. While the authors expect some significant variation in practice, they assumed employers will add new employees once monthly.

Table 2. – Estimated Opportunity Costs for Staff Time Necessary to Complete Tasks

Task	Average Minutes Per Task	Average Pay Rate	Year one	New Employee Enrollment	Year one
Registration	30	\$24.95	\$12.48	Not Applicable	Not applicable
Payroll Contributions	11	\$24.95	\$4.57	\$4.57	Not applicable
Add employees	30	\$24.95	\$12.48	\$12.48	Not applicable
Total	71	\$24.95	\$29.52	\$149.70	\$191.70

To estimate the staff costs necessary for employer compliance, the authors used the average hourly wage for office and administrative support, general office clerks, and payroll and timekeeping clerks, and human resources assistants⁵.

Table 3. – Estimated Average Wages for Positions for Program Compliance

Average Wage by Position	Mean Hourly Wage
Office and Administrative Support	\$ 24.75
Office Clerks General	\$ 21.90
Payroll and Timekeeping Clerks	\$ 28.12
HR Assistants	\$25.03
Average	\$ 24.95

The authors multiplied the average hourly wage by the amount of time expected for the first year of program compliance and each year thereafter for a five-year period. A table detailing these estimates of employer impact is included as Appendix G.1.

6.5 Estimated Number of Eligible Employees Among Newly Mandated Employers

To estimate the number of employees impacted, staff used actual data from registered employers to estimate the number of employees typically employed by an employer in each respective wave.

For wave 1 employers, the average number of eligible employees was 412. Wave 2 employers employ an average of 74 employees and wave 3 employ 15 employees, as of June 30, 2022, internal program data.

⁵ [OES Employment and Wages Data Tables - State of California](#), (1st Quarter 2022), Employment Development Department

6.6 Estimated Number of Participating Employees

The CalSavers program utilizes what is commonly referred to as “automatic enrollment,” where individuals are enrolled into the program if they do not affirmatively choose to opt out. Eligible employee participation is dictated by several factors, primarily employee opt-out rates and ability to pass an identity verification check.

For this analysis, the authors used actual program data as of June 30, 2022, to develop the assumptions used in the calculations⁶. As of June 30, 2022, 40% of employees did not pass the identity verification check and 37% opted out of program participation. Both figures are applied to the number of eligible employees to estimate actual employee participation.

6.7 Estimates of Annual Contributions

To estimate saver contributions, and related economic and fiscal impacts, the authors used actual program data to estimate saver wages and contribution rates.

Because staff are evaluating the impact of the regulations over a 12-month period following full implementation of the regulations, and because most employees do not begin contributing to their account until three months after employer registration, this analysis assumes an employee will contribute only during nine out of the twelve months of the 2023 calendar year analyzed in this analysis.

This analysis evaluates the impacts specific to a set of regulations amendments that effectively shorten the registration deadline for newly mandated employers. Because the population of impacted employers would be required to register just one year later under the prior regulations, this analysis considers only the first year of contributions by participating employees. For that reason, each year demonstrated in this analysis represents the contributions from employees who work for each year’s cohort of newly mandated employees. In other words, this analysis does not factor in the contributions made by an employee in 2024 if they began participating in 2023.

To estimate annual contributions per employee, the authors developed assumptions for the average annual income of participants. From July 2021 to June 2022, the average monthly contribution was \$152⁷. During that timeframe, the average contribution rate was 5.08%. Dividing the average monthly contribution by the average contribution rate results in expected monthly income of \$2,992 and annual income of \$35,906. The Department of Finance projects average income in the low-wage sector to grow by 9.3% in 2023. Based on those assumptions, the authors assume that average employee income among CalSavers participants to be \$39,252 in 2023.

To estimate annual contributions, the authors multiplied the assumptions employee income by the default contribution rate of 5%.

⁶ [CalSavers Participation & Funding Snapshot as of June 30, 2022](#)

⁷ [CalSavers Participation & Funding Snapshots \(July 2021-June 2023\)](#)

As shown in Appendix G.2., annual contributions are expected to be about \$83 million from the population of employees working for the newly mandated employers. Note: the number of expected contributions does not factor in expected withdrawals. Those are included in the calculations of consumption impacts.

6.8 Assumptions for Consumption Impact

These regulations amendments are expected to result in an increase in saving by employees statewide, which will impact consumption in both the short and long term. In the short term, the new savings will cause some reductions in consumption.

For most who save for retirement, particularly those who skew younger, investment earnings are likely to account for a significant portion of an individual's retirement savings—accounting for as much as two-thirds of total savings for individuals that begin participating at age 25. Due to the impacts of investment earnings and compound interest on individuals' savings, the California economy should benefit from long-term consumption increases. However, those long-term benefits are not evaluated in this analysis, as they are expected to be created in the term well beyond the period evaluated in this analysis.

The income and financial resources of individuals influences their consumption through spending on goods and services. Diminished consumption impacts the state by reducing economic activity and sales and use tax revenue—impacts that reverberate through the state by impacting employment, state and local spending on public benefits, and impacting sources of tax revenue.

While some participating individuals may already be saving a portion of their income in savings accounts, other retirement accounts, or through other means, the authors expect most of the contributions will constitute new savings. A majority of eligible employees are lower-income and such individuals are less likely to already be saving through existing savings accounts, retirement accounts, or through other means. The authors expect roughly 90% of savings under the program will represent new savings, as lower-income individuals do not typically direct a significant portion of their income toward other savings.

The authors expect some consumption loss will be mitigated by individual consumption through new debt, such as credit card expenditures. Research on participant behavior related to new retirement savings and its correlation to debt is limited. One study published in 2017 studied how newly hired civilian U.S. Army employees' behavior changed following implementation of automatic enrollment into the federal Thrift Savings Plan. The study found consumer debt increased by 2.1% for individuals with a high school education only, decreased by 1.5% for individuals below age 30, and did not change for individuals making less than \$34,000 annually⁸, although the findings were not statistically significant. While the authors expect some increase in additional consumer debt associated with participation in the program, there

⁸ Beshears, J., Choi, J., et. al., (December 7, 2017), "[Borrowing to Save? The Impact of Automatic Enrollment on Debt](#)", *Harvard University/Yale University/United States Military Academy*

do not appear to be assumptions that can be relied upon to make any accurate predictions. For this analysis, the authors used the same assumption that 2.5% of the expected consumption will be offset by new credit or debt as was used in the first SRIA.

Because program accounts are Roth IRAs by default, and because Roth IRA contributions are subject to payroll tax for the year in which they are made, individuals may withdraw their contributions at any time without taxes or penalties. Typically, about 16% of contributions made to CalSavers accounts are withdrawn. For the most part, the withdrawals are made soon after an employee makes their first contribution, as they may not have taken action to opt out despite a desire to not participate. For others, the withdrawals could be made due to a financial necessity.

The authors multiplied expected contributions by a factor of 0.90 and 0.975 to account for the influence of new savings and new debt on consumption impacts.

Appendices G.3-G.6 detail the economic impacts expected to result from the consumption changes caused by these regulations amendments.

6.9 Assumptions for Sales and Use Tax Impact

Implementation of these regulations will likely result in a short-term loss of consumption for participating individuals, as they will contribute some portion of their income to their CalSavers individual retirement account, resulting in losses in sales and use tax (SUT) revenue. However, the implementation of these regulations should result in a long-term increase in SUT revenue due to the effect of investment return earnings and compound interest earned on an individual's account.

Typically, most of the individual consumption is not subject to the sales and use tax. Most individuals spend a majority of their consumption on housing and utilities, healthcare, groceries, insurance, and education—expenditures largely not subject to the SUT⁹. Based on an analysis conducted by the Legislative Analyst's Office, the authors assumed about one-third of consumption in California is on goods subject to the SUT¹⁰.

Sales tax rates vary among California cities and counties—reaching as low as 7.25% and as high as 10.75%¹¹. On average, the sales tax rate in California is about 8.2%¹².

6.10 Assumptions for Investment Impact

Implementation of the proposed regulations will result in significant new investments due to the retirement savings of CalSavers participants. Participants have the option to choose from a simple investment menu with five categories of investment options: a core bond fund, a global

⁹ Kerstein, S., (May 2015), [Understanding California's Sales Tax](#), Legislative Analyst's Office

¹⁰ *Ibid.*

¹¹ [California City & County Sales & Use Tax Rates \(effective April 1, 2022\)](#), California Department of Tax and Fee Administration

¹² Author's calculation of data from [California City & County Sales & Use Tax Rates \(effective April 1, 2022\)](#), California Department of Tax and Fee Administration

equity fund, a money market fund, a suite of target retirement funds, and a sustainable balanced fund (often referred to as an environmental, social, governance, or, ESG, fund).

Under the program’s default investment option, a saver’s contributions are invested in the money market fund for 30 days. After the 30-day period, any existing savings and future contributions are invested in a target retirement fund selected automatically based on the participating employee’s age.

To estimate these impacts, the authors used the same assumptions outlined in this section for individual participation and annual savings. To estimate the investment impact on the California economy, the authors used assumptions for the portion of overall investment portfolio with exposure to California companies. While individuals have the option to select their own investment options out of the menu provided by the program, experience with similar other retirement plans shows most individuals will invest in the default investment option recommended to them.

The authors estimate about 12.5% of investment funds would have exposure to California companies, based on an earlier analysis of similar investment funds provided by the Board’s investment consultant. The top three most active sectors in California are information technology, health care, and consumer discretionary goods and services. The authors calculated expected impacts due to new investment for each sector, detailed further in Appendices G.3.-G.6.

B. BENEFITS

To live comfortably in retirement and maintain standards of living, individuals typically require retirement income at about 75-90% of their pre-retirement income¹³. However, millions of California workers – and millions more nationwide – have little to nothing saved for retirement.

Studies have shown over half (52%) of Californians aged 18-64 lack access to a workplace retirement plan¹⁴ and, among workers in the middle 50% of the earnings distribution—a measure sometimes used to define the “middle class”¹⁵¹⁶—about half will face significant economic hardship in retirement¹⁷. Employers, particularly small businesses, cite cost, administrative burden, and liability concerns as the top three reasons for not currently offering employees access to a retirement savings plan.

¹³ Munnell, A. H., Belbase, A., Sanzenbacher, G.T., (March 2018), [An Analysis of Retirement Models to Improve Portability and Coverage](#), Center for Retirement Research at Boston College in conjunction with Summit Consulting, LLC

¹⁴ John, D., Koenig, G., and Malta M., (2022), [Payroll Deduction Retirement Programs Build Economic Security](#), AARP Public Policy Institute

¹⁵ Rose, S.J., (June 2016), [The Growing Size and Incomes of the Upper Middle Class](#), The Urban Institute

¹⁶ Pew Research Center, (May 2016), [America’s Shrinking Middle Class: a Close Look at Changes Within Metropolitan Areas](#), Pew Charitable Trusts

¹⁷ Allegretto, S.A., Rhee, N., et. al., (2011), [California Workers’ Retirement Prospects](#) in N. Rhee’s [Meeting California’s Retirement Security Challenge](#), U.C. Berkeley Center for Labor Research and Education

CalSavers was created to ensure nearly all adult California workers will have access to a workplace retirement savings arrangement by establishing a mandate for employers to participate in CalSavers if they do not sponsor a retirement plan.

State laws and regulations regarding Standardized Regulatory Impact Assessments require state agencies to evaluate the impact of major regulations “...without regard to any offsetting benefits...that might result directly or indirectly from that adoption, amendment, or repeal.”

The benefits of these regulations, for the most part, will not be realized for decades. Long term, the program should result in significant benefits for individuals due to the accrual of retirement savings and the compounded investment interest. Similarly, the program should result in long-term fiscal benefits due to that accrual of savings through increased consumption, increased sales and use tax revenue, and a decrease in demand for some government services such as Medi-Cal at or around retirement age. These benefits have been estimated by a few independent organizations¹⁸¹⁹, however the authors provide no commentary on those analyses and do not attempt to estimate those benefits in this SRIA.

There may be some marginal benefit for individuals and fiscal benefits in the period of time evaluated in the SRIA. Those short-term benefits could include early withdrawals of contributions that could help an individual avoid financial hardship or qualified withdrawals of savings and investment interest. The SRIA does not factor in those short-term benefits, as they are difficult to estimate and are expected to be represent a small fraction of saver behavior over the period evaluated in this SRIA.

1. Individuals

Over half of California workers are estimated to lack access to a workplace retirement savings vehicle²⁰. Access to a workplace savings vehicle can be attributed to several factors, but one consistent factor is the size of the business. For example, about 80% of workers employed by a business with fewer than ten employees lack access to a workplace retirement plan²¹.

The regulations amendments will benefit individuals by ensuring they will have access to the program more quickly than they would have under the former regulations, increasing the likelihood they will accrue meaningful retirement savings and improve their financial security. The impact will depend on a number of factors, including whether or not an individual works for a newly mandated employer, whether that employer facilitates the program, whether or not their employer responds to the deadline by choosing to sponsor a retirement plan from the private market, whether and when an individual decides to participate in the program, their

¹⁸ Eitelberg, C., Carter, W., and Joyner, R., (2017), State Retirement Savings Initiatives Do More than Enhance Retirement Security for Private Sector Workers, *Segal Consulting*

¹⁹ Shiflett, W. and Harvey, C., (May 2017), [California Could Save \\$1.4 Billion by Helping People Save for Their Own Retirement](#), *AARP Public Policy Institute*

²⁰ *Supra* note 14

²¹ *Ibid.*

decisions regarding how much they contribute, how they choose to invest their contributions, and investment performance.

Because the benefits are related to retirement savings, and because any benefits from retirement savings are by nature long term, any benefits to individuals in 2023-27 are expected to be minimal. The population of employees to benefit from the amendment will almost certainly include some who will be eligible to retire during the timeframe evaluated. And, while any retirement savings is beneficial for an individual, the relatively short timeframe evaluated in this analysis would not allow for an individual to accrue significant retirement savings due to the short amount of time to make contributions, the federal limits on annual IRA contributions (\$7,000 for individuals aged 50 and older), and the limited amount of time for investment interest to accrue.

Long term, however, benefits from these amendments – and from the existence of the program in general – could be substantial.

2. Employers

By most estimates, roughly half of employers throughout the country do not maintain a retirement plan for their employees.

Smaller employers in particular are unlikely to maintain a retirement plan due in part to the costs and administrative complexity required to evaluate options in the private marketplace, maintain a plan, conduct reporting required of certain employer-sponsored retirement plans, and, potentially, incur the risk of liability for breaches of fiduciary duty, discrimination, or other legal risks.

The likelihood that an employer sponsors a retirement savings plan varies widely depending on an employer's size. The U.S. Bureau of Labor Statistics estimates 85% of private employers with 100 or more employees provide retirement benefits, whereas 52% of private employers with 1-49 employees are estimated to provide retirement benefits²².

2.1 Employee Recruitment and Retention

For employers, offering a retirement plan can be a way to help recruit and retain employees. One survey found 89% of employers that offer a retirement plan cited employee recruitment and retention as a reason why they offer a plan²³. An even greater number of employers report retirement plans have a positive impact on employee performance. Despite these benefits, however, many employers do not maintain retirement plans due to cost, complexity, and concerns about liability. The same survey found over half of respondents cited either expenses or limited resources as the main reason for not offering a retirement plan.

²² U.S. Department of Labor Bureau of Labor Statistics, (September 2021), [Employee Benefits in the United States - March 2021](#)

²³ *Pew Charitable Trusts*, (June 2017), [Employer Barriers to and Motivations for Offering Retirement Benefits](#)

The CalSavers program provides employers with a retirement savings program that is simple and imposes no direct costs or annual reporting, with no fiduciary liability. By having an easy way to provide a popular employee benefit, the program may help some smaller employers improve their value in the labor market. In fact, the authors frequently see employer job postings that reference the employer's participation in the CalSavers Retirement Savings Program.

These benefits, however, are difficult to estimate. Also, for most employers, these amendments do not make any changes to eligibility, but rather shorten the timeframe by which they must register with the program. For those reasons, these amendments are not expected to have any benefits related to employee recruitment and retention.

2.2 Employer Benefits from the Amendments

These amendments do not provide any direct benefits for employers, as they do not include any material changes that would lessen any indirect costs an employer may incur to participate in the program and abide by the state mandate associated with the program. The amendments do include on change to Section 10002(f) that provides some benefit for employers in simplifying the registration process, however the benefits due to that change are expected to be *de minimis*.

The amendments also include changes that allow an employer to register sooner than they would otherwise be able to register under the prior regulations. While this change could benefit some employers by helping them compete in the labor market and better recruit and retain employees, the authors expect the actual benefits to be relatively small, as few employers are expected to take advantage of the change based on internal data.

3. Jobs or Industries

The implementation of these regulations should not result in any direct impact on the creation or elimination of jobs or occupations. As shown in Appendices G.3. – G.6., however, changes in consumption and investment related to operation of the CalSavers program could have an indirect impact on jobs and industries.

C. IMPACT

1. Individuals

Participation in the program is completely voluntary for eligible individuals. Individuals that choose to participate in the program will contribute a certain amount of their wages into a personal CalSavers account and invest it among a menu of investment options offered by the program.

Participants that do not make an affirmative decision on their contribution amount or investments will be treated under the program’s default account settings. Accounts are Roth IRAs by default, but savers can choose to recharacterize to Traditional IRAs.

The impact on individuals could vary widely depending on a series of factors including, but not limited to:

- personal decisions (i.e., contributions, investment options, early withdrawals of savings, etc.);
- investment performance; and
- administrative fees²⁴.

1.1 Roth IRA

Program accounts are Roth IRAs by default, but savers can choose to recharacterize to Traditional IRA. With a Roth IRA, savers pay taxes on the contributions in the year they are made but can withdraw contributions and investment interest tax- and penalty-free upon reaching retirement age – or for a variety of reasons including disability, use for a first-time home purchase, and qualified higher educational expenses.

Because individuals can withdraw their contributions without penalty, this analysis does not include any impacts that could be caused due to lack of available income due to participation in the program.

1.2 Investment Performance

There is inherent and unavoidable risk in any investment. Participants choose to invest their contributions from a few professionally managed investment options appropriately suited for participants based on varying levels of risk. Participants have the option to change their investments at any time. For those that do not make an affirmative election otherwise, their contributions will be invested in the default investment.

The Board’s Investment Policy Statement (IPS)²⁵, approved on May 21, 2018, and amended May 24, 2022, establishes a default investment option for those who do not choose their own investment option. Under the default investment option, an individual’s savings are invested in the program’s money market fund, which is selected with the primary objectives of seeking investment safety and liquidity, for the first thirty days of participation. After the thirty days have elapsed, a saver’s existing savings and future contributions will be invested in a target retirement fund selected automatically based on the saver’s age.

Experience has demonstrated diversified investments in the global stock market will earn interest long-term, even if the term includes recessions, sustained market losses, and volatility. However, past performance provides no guarantee of future performance. Depending on

²⁴ For the purposes of this assessment, “administrative fees” refers to all fees necessary to operate the Program, including investment fees, third-party administrator fees, and state administrative fee. Total fees vary depending on the investment option selected by a participating and range between 0.825 and 0.95 basis points.

²⁵ <https://www.treasurer.ca.gov/calsavers/regulations/investment-policy-statement.pdf>

investment performance, timing, and participant behavior, participants could lose the value of their contributions and investment interest.

Individual benefits resulting from earning investment interest through the program should be significant. However, because any benefits related to investment interest are by nature long-term, and because this analysis evaluates only the first full year the regulations take effect and the four years afterward, they are not included in this analysis.

2. Employers

Although the program requires no direct costs from employers to participate and is designed to place minimal administrative burden on participating employers, there may be some marginal opportunity costs incurred by employers associated with the duties necessary to participate in the program. Specifically, eligible employers are required to:

- register with the program;
- provide information for eligible employees within 30 days of their registration;
- ensure employee contributions are remitted to the third-party administrator;
- provide information for newly mandated employees within 30 days of their eligibility (either their hire date or the date they turned age eighteen); and
- adjust employee contributions when directed by the third-party administrator (employees make account changes directly with the third-party administrator).

Employers are not be subject to any direct costs or fees and do not have a reporting requirement imposed through these regulations. Any impacts on employers are indirect impacts that may include opportunity costs due to the time spent registering with the program and performing administrative duties necessary to facilitate the program.

The extent to which an employer would be impacted depends on a variety of factors, including their number of employees, number of locations, and type of system an employer uses for payroll. Employers that do not use a third-party payroll service or payroll software may require minor additional internal staff time to perform any duties required for facilitating CalSavers.

While smaller employers may be less likely to use a payroll service, such employers would also require less administrative time for compliance, as they would have fewer employees to handle. Smaller employers would also be expected to benefit more from the program than larger employers, as smaller employers would be expected to have fewer resources than larger employers to provide a retirement plan. Smaller employers may also be more likely to receive less-favorable terms than a larger employer would from the private retirement plan administrators.

These regulations amendments make no material changes to the duties required by employers. However, because the amendments shorten the timeframe by which newly mandated employers are required to register, some employers will be required to perform those duties

sooner than they would have under the prior regulations. Because of that change, there will be employer impacts resulting from these amendments.

Using the assumptions outlined in Section A.6.4, the authors estimate employer impacts of about \$179 in opportunity costs per employer due to the staff time necessary to facilitate the program, resulting in a total employer impact of \$1,112,709 in 2023. For more detail on the employer impact, please see Appendix G.1.

D. ECONOMIC IMPACTS

1.1 Economic Impact Methodology

To evaluate the economic impact, the SRIA considers economic impacts related to expected changes to consumption and investment due to adoption of the proposed regulations. The authors used the Regional Input-Output Modeling System (RIMS II) developed by the Bureau of Economic Analysis to assess the economic impacts of the proposed regulations. The authors used Type I multipliers for the California region to estimate the impacts of consumption and investment changes on final demand for output, earnings, employment, and value added, as well as the direct effect on earnings and the number of jobs, on the economic sectors subject to the greatest impact.

1.2 Consumption

To evaluate expected impacts due to consumption, the authors used RIMS II multipliers for the economic sectors associated with the major categories of household expenses—with the average portion of household expenditures noted in parenthesis²⁶:

- Housing and Utilities (40.66%)*
- Transportation (15.26%)
- Food (15.30%)
- Health (8.67%)*
- Entertainment (4.71%)
- Apparel and Services (4.07%)
- Miscellaneous (9.77%)

Because 80% of the eligible population is estimated to have income below \$50,000, the authors used the average annual household expenditures for individuals with income below \$50,000.

In 2023, consumption could be reduced by about \$61 million, with increasingly greater consumption reductions in the following years. The authors used an average of the relevant RIMS II multipliers for each expenditure category and multiplied it by the expected consumption loss for the corresponding category.

²⁶ U.S. Department of Labor Bureau of Labor Statistics, (2019-20), [Consumer Expenditure Surveys](#), Table for Western region by income before taxes: average annual expenditures and characteristics, Consumer Expenditure Surveys

*The authors do not expect any significant impact on housing and utilities or health consumption due to adoption of these regulations and did not include calculations on the impact in the SRIA.

For more detail on the consumption impacts, please see Appendices G.2.-G.6.

1.3 Investment Impacts

As covered in Section A6.10, the authors assume 12.5% of investments will be invested in California-headquartered public companies. The authors evaluated potential impact using RIMS II multipliers for the top-three industry categories in California according to their share of the California economy. The authors used the same assumptions detailed in Section A.6. to model expected annual savings and the portion of savings that constitutes new savings (and therefore new investment).

For more detail on these industry-specific investment impacts, please see Appendices G.3-G.6.

1.4 Competitive Advantage or Disadvantage

The authors do not expect adoption of these regulations to create any significant competitive advantage or disadvantage for California businesses. As noted in the Employer Impact and Employer Benefit sections, there may be some benefit to covered employers in the labor market and some impact for covered employers due to compliance, but both impacts should be marginal.

1.5 Employment

The authors used the RIMS II multipliers and other assumptions detailed in Section A.6. to estimate impacts on jobs in California. The implementation of the proposed regulations will have positive impacts associated with new investment and negative impacts associated with reduced consumption. Over time, the positive impacts related to investment are expected to remain steady and the negative impacts related to consumption are expected to reverse at some point, as those who are currently just begging to save reach retirement age and begin to spend their savings.

For more detail on projected jobs impacts, please see Appendix G.5.

1.6 Incentives for Innovation

The enabling statute for the program includes a requirement that any employer of at least five employees provide a retirement plan to their employees. While many of those employers have registered with CalSavers, many more have been served by other retirement plans provided in the private sector marketplace. The program and its associated mandate have already provided some competitive pressure among retirement plan sponsors to reduce fees and bolster administrative efficiency and ease of use for plan sponsors and participants.

These amendments, however, should have little to no impact on those incentives. The primary impact of the amendments relates to shortening the registration deadline for newly mandated employers. While that may serve to add some pressure to innovate for firms in the private market, those pressures were strongest around the launch of the Program through the June 30, 2022, registration deadline. Additionally, the population of employers impacted by these

amendments are relatively small compared to the employers subject to previous registration deadlines.

E. ALTERNATIVES

Before adopting the proposed regulations, the Board considered some alternatives to certain aspects of the regulations. CalSavers staff estimated the economic and fiscal impacts of the proposed and alternative regulations. The table below summarizes the significant alternatives to the proposed regulations covered in this analysis:

Proposed Regulations	Alternative
Establish December 31 registration deadline for newly mandated employers	Maintain requirement that newly mandated employers register no later than 24 months from their date of eligibility or by the specific dates established in Section 10002(a)
Allow employers to register if they have at least one quarter of employment data – and otherwise meet criteria for eligibility	Maintain requirement that employers have at least one full calendar year of data to be eligible for the program

Alternative 1: Maintain requirement that newly mandated employers register no later than 24 months from their date of eligibility or by the specific dates established in Section 10002(a)

This regulation is necessary to establish a registration deadline for employers that became eligible for the program after it had begun operations. This regulations amendment is necessary to adjust the deadline for which newly mandated businesses must register for the CalSavers program and further clarify how employer eligibility will be determined. This amendment modified the rules for when newly mandated Employers must register with the program.

With these amendments, employers are required to participate by the end of the calendar year in which they have been notified of their eligibility. The amendments ensure employers receive notification at least six months before their registration deadline. Staff typically receive the final quarter of employment data from the Employment Development Department (“EDD”) in April of each year and require a few weeks to analyze the data and deploy email and letter notifications to employers.

At the most, the amendment would shorten an employer’s registration deadline by one year. Staff have considered a variety of alternatives to this amendment, including ones that provide employers a longer period before their registration deadline. Data and anecdotal evidence have shown employers prefer to act closer to their registration deadlines. This amendment would ensure the deadline is a) easy to understand by the regulated community, b) provide sufficient time for employers to plan for the deadline, and c) improve likelihood of employer compliance. For those reasons, the Board chose to make this amendment.

i. Cost and Benefits

For employers, this amendment will require more immediate compliance activities, which could result in some opportunity costs to employers related to their facilitation of the program. The amendment benefits individuals by ensuring they will have more immediate access to the program, and therefore better ability to save for retirement. The amendment will also have some benefits for employers by improving clarity of the regulations through simplifying the rules used to determine when a newly mandated employer must register for the program.

Alternative 1 would result in delayed participation by employees, and therefore less time for them to participate in the program and save for retirement. It would also be a source of confusion for the regulated community and could result in complicated compliance by employers and CalSavers staff in determining employer eligibility.

Prior regulations referred to the registration deadline for newly mandated employers as based in part on the date they became eligible. The regulated community could interpret that date to be either the end of a calendar year or the date the program calculates their average number of employees from the prior calendar year, a process typically completed in the spring of each year. This regulation would improve clarity for the regulated community by defining a clear action used to inform employers of their eligibility and establishing a clear date for their registration deadline.

The amendment is also necessary because the prior language referred to deadlines related to a specific date by requiring newly mandated Employer to register no later than "...the applicable date specified in subsection (a) or within 24 months of the date upon which the Employer became an Eligible Employer, whichever is later." Due to the passage of earlier registration deadlines, this language was obsolete.

ii. Reason for Rejection

The Board rejected this alternative because it would continue to be a source of confusion for the regulated community, it will simplify employer compliance, simplify program administration, and aid eligible employees in saving for retirement by ensuring more immediate access to the program.

Alternative 2: Maintain requirement that employers have at least one full calendar year of data to be eligible for the program

This regulation is necessary to establish how the program determines employer size. The regulation establishes employer size, and therefore eligibility, is determined based on a calculation of an employer's average number of employees from the prior calendar year.

This regulations amendment is necessary to allow businesses the opportunity to register without a full calendar year of employee data. Subsection (1) establishes employers are eligible to register for the program if they have submitted at least one Form DE 9C, “Quarterly Contribution Return and Report of Wages (Continuation),” and otherwise meet the definition of an Eligible Employer. Subsection (2) maintains the existing basis for an Employer’s potential registration deadline, requiring Eligible Employers to have employed an average of five or more employees over the prior calendar year before they are subject to a registration deadline.

i. Cost and Benefits

This alternative would negatively impact employers by delaying the time by which they could participate in the program and negatively impact eligible employees by prolonging the time by which they could gain access to the program through their employer.

ii. Reason for Rejection

The Board rejected this alternative because it prolonged the wait time for an employer to register for the program. The program has received calls and emails from employers who wished to register but were unable due to this regulation. In many of the circumstances, the employers expressed confusion due to the fact they had currently employed five or more employees and did not sponsor a retirement plan, and therefore would otherwise be eligible for the program.

F. FISCAL IMPACTS

Adoption of these regulations would result in no direct costs of compliance or enforcement for state government, local agencies, or any other local government entity. Adoption of these regulations would result in no impact on federal funding to the state. Statute requires the program to be self-sufficient, with all necessary funding to be provided by fees applied to the program assets²⁷.

Adoption of these regulations may have indirect impacts on sales and use tax revenue for the state and local government due to expected losses in consumption, detailed below. Long term, the authors expect adoption of these regulations will result in a net increase in sales and use tax revenue due to compound interest earned on investment returns earned throughout a participating individual’s working life. However, since the authors are only evaluating impacts in 2023-27, those long-term benefits are not calculated in this analysis.

Any fiscal impact resulting from the adoption of these regulations would be indirect and depend on the behavior of the eligible population, among a myriad of other factors that are not possible to predict.

²⁷Title 15, Section 100004, California Government Code

1.1 Income Tax

The extent to which operation of the program impacts tax revenue will depend on the behavior of participants. Specifically, the impact shall depend on the frequency of the IRA type selected by participants.

Selection of the Roth IRA type should result in no significant impact on personal income tax revenue, as contributions to a Roth IRA are taxed as normal income. Conversely, in a Traditional IRA, a participant can receive a tax deduction for the contributions they make in a year but pay taxes when they withdraw their savings in retirement age.

Participants can choose to recharacterize their contributions to a Traditional IRA, however few make the change. As of June 14, 2022, only 33 out of nearly 269,000 funded accounts established at that time had recharacterized contributions to Traditional²⁸. Because only a small fraction of savers does not use the Roth IRA type, this analysis assumes that all participants use Roth IRAs. Because contributions to a Roth IRA are subject to taxes, any fiscal impacts related to personal income tax revenue are expected to be *de minimis*.

1.2 Sales and Use Tax

Using the assumptions outlined in Section A.6.9, and assuming participating individuals spend 33% on taxable goods at the average state sales tax rate of 8.2%, the authors estimate the adoption of these regulations could result in a \$1,654,043 reduction in SUT collection in 2023 and greater reductions each year thereafter. For projections of Sales and Use Tax impact for calendar years 2023-27, please see Appendix G.2.

This SUT revenue loss, however, is likely not permanent. Individuals who save through the program will, at some point, withdraw their retirement savings and spend those savings in the economy. Because those savings will accrue investment interest compounded over time, most individuals should have a significant portion of total retirement savings made up of investment interest. Interest earned by participants represents new contributions to consumption and SUT revenue, as it represents assets that would not have been earned by individuals in the baseline scenario.

Individuals that withdraw their retirement funds before reaching retirement age (or age 59 1/2, the age after which savings can be withdrawn free of taxes and penalties), would result in little to no long-term impacts to SUT, as the individuals would have access to the same dollars that negatively impacted consumption and SUT revenue. Early withdrawals may even add to total SUT revenue depending on investment return, as some investment return may be sufficient to compensate for the dollars lost through taxes or penalties. For this analysis, the authors did not assume there to be any investment interest gained for early withdrawals, as most withdrawals are made within the first few weeks or months after an individual enrolls in the program.

²⁸ Internal, unpublished data managed by the CalSavers Retirement Savings Program

1.3 CalEITC

In the first SRIA conducted by the Board, the authors described potential fiscal impacts related to increases in CalEITC claims. Staff expected an increase in tax filing statewide at the time the first SRIA was written because participants using the Traditional IRA option could be eligible for tax benefits due to saving in the program. Any increase in tax filings would be expected to lead to increase in the number of Californians who claim the California Earned Income Tax Credit (CalEITC) as well as the federal Earned Income Tax Credit.

Because so few participating individuals have chosen to recharacterize to a Traditional IRA, as described above, the authors expect essentially no increase in EITC claims resulting from these amendments or the operation of the program in general.

1.4 Franchise Tax Board

Under state law, the Franchise Tax Board (FTB) is designated as the entity responsible for issuing final notices of penalty application to noncompliant employers – and for conducting appeals of employer penalties. Any costs incurred by FTB due to fulfilling either role would be reimbursed by the program, as required by the statute under Government Code Section 100033(d)(2).

The CalSavers Retirement Savings Board and the Franchise Tax Board executed an interagency agreement totaling \$4,058,810 over a five-year period covering 2020-2025. The authors do not anticipate any significant cost impacts due to the amendments.

While the regulations amendments shorten the timeframe by which some newly mandated employers must register with the program, they do not change the conditions for eligibility. Many of the employers who will be subject to the December 31, 2023, registration deadline likely would have been subject to a deadline of December 31, 2024, under the prior regulations. So, while there may be additional volume of employers in 2023 for FTB, that new volume should be offset by a roughly proportional reduction in volume in 2024.

Also, the amendments should simplify the rules of compliance for employers and therefore reduce the number and duration of any employer appeals of penalties imposed by FTB.

1.5 Medi-Cal Savings

Medi-Cal accounts for a significant portion of the state's annual expenditures, accounting for about 26% of the state's 2022-23 General Fund budget²⁹.

Participation in the program is expected to result in a significant increase in retirement savings among Californians. Because individuals must have incomes below a certain threshold to participate in Medi-Cal, there will likely be a net reduction in Medi-Cal participation than would otherwise occur without the program.

²⁹ Petek, G., (February 2022), [The 2022-23 Budget: Analysis of the Medi-Cal Budget](#), *Legislative Analyst's Office*

As noted earlier in this analysis, these benefits have been estimated by a few independent organizations. One analysis found California would save an estimated \$604.7 million in reduced Medi-Cal expenditures over a ten-year period due to implementation of the CalSavers program³⁰. Another analysis projected California would save over \$1.3 billion in foregone social spending over a fifteen-year period due to implementation of the program. This analysis provides no commentary on those analyses and does not consider any such fiscal benefits, as they would not be realized until well after the period evaluated in this analysis.

1.6 Saver's Credit

These regulations could result in some increase in claims for the federal [Retirement Savings Contributions Credit](#) (aka, the "Saver's Credit"). However, the program does not expect any significant fiscal impact resulting from such an increase, as the number of individuals who would benefit from claiming the credit is limited by its design³¹. Those limitations were exacerbated by the passage of the Tax Cuts and Jobs Act signed into law in 2017, which raised the standard deduction and lessened the importance of nonrefundable tax credits for many Americans.

G. APPENDICES

1. Employer Impact (2023-2027)
2. Employee Participation, Contributions, and Sales & Use Tax Impact (2023-2027)
3. Macroeconomic Impact: Final-Demand Output (2023-2027)
4. Macroeconomic Impact: Final-Demand Earnings (2023-2027)
5. Macroeconomic Impact: Final-Demand Employment (2023-2027)
6. Macroeconomic Impact: Final-Demand Value-Added (2023-2027)
7. Data Assumptions

³⁰ Eitelberg, C., Carter, W., and Joyner, R., (2017), State Retirement Savings Initiatives Do More than Enhance Retirement Security for Private Sector Workers, *Segal Consulting*

³¹ Alicia H. Munnell and Anqi Chen, [Could the Saver's Credit Enhance State Coverage Initiatives?](#) Center for Retirement Research at Boston College (April 2016)

G.1 Employer Impact – Total Number of Facilitating Employers Resulting from Amendments by Year (2023-2027)

Wave (# of Employees)	2022	2023	2024	2025	2026	2027
Wave 1 (101+)	122	124	125	127	128	130
Wave 2 (51+)	112	114	116	118	119	121
Wave 3 (5+)	5,899	5,979	6,060	6,143	6,226	6,311
Total # of Facilitating Employers	6,133	6,216	6,301	6,387	6,474	6,562
Employer Impact	\$1,097,739	\$1,112,709	\$1,127,884	\$1,143,265	\$1,158,857	\$1,174,661

G.2 Employee Participation, Contributions, and Sales & Use Tax Impact (2023-2027)

Newly Eligible Employee Volume Resulting from Amendments

Employer Wave (# of Employees)	2022	2023	2024	2025	2026	2027
Wave 1 (101+)	50,290	50,938	51,596	52,261	52,935	53,618
Wave 2 (51+)	8,285	8,421	8,559	8,699	8,842	8,987
Wave 3 (5+)	88,479	89,682	90,902	92,138	93,391	94,661
Total Eligible Employees	147,054	149,042	151,057	153,099	155,169	157,267

Employee Participation Volume, Net Contributions, and Sales & Use Tax Impacts

CID Fails	58,822	59,617	60,423	61,240	62,067	62,907
New Participating EEs	55,586	56,338	57,099	57,871	58,654	59,447
Contributions	\$81,820,293	\$82,926,369	\$84,047,447	\$85,183,731	\$86,335,428	\$87,502,748
Withdrawals	\$13,091,247	\$13,268,219	\$13,447,592	\$13,629,397	\$13,813,669	\$14,000,440
Net Contributions	\$68,729,046	\$69,658,150	\$70,599,856	\$71,554,334	\$72,521,760	\$73,502,309
Consumption Impact	\$60,309,738	\$61,125,027	\$61,951,373	\$62,788,928	\$63,637,844	\$64,498,276
SUT Impact	\$1,631,982	\$1,654,043	\$1,676,404	\$1,699,068	\$1,722,040	\$1,745,323

G.3 Macroeconomic Impact: Final-Demand Output (2023-2027)

	CONSUMPTION IMPACTS				INVESTMENT IMPACTS		
YEAR	Food	Entertainment	Apparel and Services	Miscellaneous	Information Technology	Health	Miscellaneous
2023	\$ (19,304,296)	\$ (5,753,982)	\$ (4,940,661)	\$ (12,189,776)	\$ 10,479,641	\$ 1,729,332	\$ 3,494,774
2024	\$ (19,565,270)	\$ (5,831,770)	\$ (5,007,454)	\$ (12,354,569)	\$ 10,621,315	\$ 1,752,711	\$ 3,542,019
2025	\$ (19,829,784)	\$ (5,910,613)	\$ (5,075,152)	\$ (12,521,597)	\$ 10,764,911	\$ 1,776,407	\$ 3,589,906
2026	\$ (20,097,886)	\$ (5,990,525)	\$ (5,143,769)	\$ (12,690,891)	\$ 10,910,454	\$ 1,800,424	\$ 3,638,442
2027	\$ (20,369,624)	\$ (6,071,522)	\$ (5,213,317)	\$ (12,862,482)	\$ 11,057,971	\$ 1,824,767	\$ 3,687,637

G.4 Macroeconomic Impact: Final-Demand Earnings (2023-2027)

CONSUMPTION IMPACTS					INVESTMENT IMPACTS		
YEAR	Food	Entertainment	Apparel and Services	Miscellaneous	Information Technology	Health	Miscellaneous
2023	\$ (5,617,941)	\$ (1,700,903)	\$ (1,565,508)	\$ (4,082,218)	\$ 3,712,979	\$ 654,793	\$ 954,721
2024	\$ (5,693,890)	\$ (1,723,898)	\$ (1,586,672)	\$ (4,137,405)	\$ 3,763,174	\$ 663,646	\$ 967,628
2025	\$ (5,770,869)	\$ (1,747,204)	\$ (1,608,123)	\$ (4,193,341)	\$ 3,814,051	\$ 672,618	\$ 980,710
2026	\$ (5,848,892)	\$ (1,770,826)	\$ (1,629,865)	\$ (4,250,036)	\$ 3,865,617	\$ 681,712	\$ 993,969
2027	\$ (5,927,973)	\$ (1,794,769)	\$ (1,651,902)	\$ (4,307,499)	\$ 3,917,883	\$ 690,929	\$ 1,007,408

G.5 Macroeconomic Impact: Final-Demand Employment (2023-2027)

CONSUMPTION IMPACTS					INVESTMENT IMPACTS		
YEAR	Food	Entertainment	Apparel and Services	Miscellaneous	Information Technology	Health	Miscellaneous
2023	-143	-34	-38	-89	62	11	16
2024	-145	-34	-38	-90	63	11	16
2025	-147	-34	-39	-91	64	12	16
2026	-149	-35	-39	-93	65	12	17
2027	-151	-35	-40	-94	66	12	17

G.6 Macroeconomic Impact: Final-Demand Value-Added (2023-2027)

CONSUMPTION IMPACTS					INVESTMENT IMPACTS		
YEAR	Food	Entertainment	Apparel and Services	Miscellaneous	Information Technology	Health	Miscellaneous
2023	\$(10,029,510)	\$(3,409,860)	\$(2,612,412)	\$(7,122,869)	\$6,251,256	\$1,054,306	\$1,855,789
2024	\$(10,165,098)	\$(3,455,957)	\$(2,647,729)	\$(7,219,163)	\$6,335,767	\$1,068,559	\$1,880,877
2025	\$(10,302,526)	\$(3,502,680)	\$(2,683,525)	\$(7,316,763)	\$6,421,424	\$1,083,005	\$1,906,306
2026	\$(10,441,818)	\$(3,550,037)	\$(2,719,807)	\$(7,415,687)	\$6,508,242	\$1,097,648	\$1,932,079
2027	\$(10,582,999)	\$(3,598,036)	\$(2,756,581)	\$(7,515,953)	\$6,596,239	\$1,112,489	\$1,958,202

G.7 Data Assumptions

W1 Employer Growth Rate	1.29%
W2 Employer Growth Rate	1.64%
W3 Employer Growth Rate	1.36%
Employee Participation	63%
Contribution rate	5%
Annual Employer Cost	\$179
Annual Employee Income	\$39,252
% of consumer spending on SUT-subject goods	33.00%
Early Withdrawal Rate	16.00%
% of New Savings	90.00%
% of New Borrowing	97.50%
CA Investment	12.50%
SUT Rate	8.20%
CID Fails	40.00%
Employee Contributions in a Year	75.00%
% of Inv. In CA Companies	12.50%
% in IT	64.00%
% in Healthcare	10.50%
% invested in Misc.	25.50%
RIMS Employment Factor	0.000001
Avg # Employees/Wave	Year 1Faciliation Rate
W1: 412	24.32%
W2: 74	26.41%
W3: 15	20.00%



Eric Lawyer
CalSavers Retirement Savings Board
915 Capitol Mall, Suite 105
Sacramento, CA 95814

September 30, 2022

Dear Mr. Lawyer:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary for the Amendments to the CalSavers Retirement Savings Program proposed regulations, as required in the California Code of Regulations, title 1, section (a)(1). Proposed text of the regulations were not submitted, therefore comments are based solely upon the SRIA and other publicly available information.

The proposed regulations amend current program criteria by adjusting and clarifying the definition of an eligible employer to include businesses that employ five employees, rather than more than five employees, allow businesses to register without a full calendar year of employee data if they meet the definition of an eligible employer, accelerate the deadline for newly eligible employers to December 31 of the employers' first year, as opposed to December 31 of the second year, and removal of the required data field and extension to the timeframe of the employee receiving the program information packet. The SRIA assumes these amendments will primarily impact the 30,800 newly mandated employers in 2023, of which only around 6,200 are expected to facilitate the CalSavers program for a total of 149,000 newly eligible employees. Each facilitating employer is expected to incur a compliance cost of \$179 in the first year for a total cost of \$1.1 million in 2023 from staff time necessary to administer the program. Ongoing costs to each employer are expected to be around \$150 annually. The SRIA assumes that in the first twelve months following employer registration, newly eligible employees will make contributions only in the last nine months of the that year. At the assumed default rate of 5 percent of the average employee income (\$39,252), total contributions or new savings are assumed to total nearly \$83 million in 2023. As a result of the increased savings, the regulation assumes a short-term loss of consumption for participating employees, as they will contribute some portion of their income to their CalSavers account, resulting in over a \$1.6 million reduction in sales and use tax revenue in California in 2023 (assuming a sales tax rate of 8.2 percent).

Finance generally concurs with the methodology, with the following exceptions. First, the SRIA currently states that the economic baseline is the environment prior to the emergency regulations amendments evaluated in this analysis. The SRIA should include a baseline description of the number and types of businesses and individuals impacted, which would also support the CalSavers Retirement Savings Board's assessment that the regulations will benefit small businesses and lower-income individuals. The proposed regulatory alternatives should

then be compared to the defined baseline and include quantified cost impacts. The SRIA currently only discusses the qualitative impacts of the alternatives; however, it must also disclose the quantitative impacts of each proposed alternative.

Second, the SRIA must include comprehensive estimates of expected fiscal impacts. Although the SRIA broadly and qualitatively discusses potential impacts to other state programs that will be impacted by the proposed regulation, the SRIA states that the impacts are estimated to be "*de minimis*." However all fiscal impacts must be quantified regardless of their magnitude. Finally, the SRIA assumes that future program participation will be in line with the actual program data through the first half of 2022, and does not discuss the potential for a higher number of eligible employers to decide to facilitate the program or that a smaller number of eligible employees might choose to not opt-out of the program. Since increased participation in the program would lead to higher total contributions and a larger reduction of total sales tax revenue, the SRIA should explain why the current assumptions are the most representative or, alternatively, include a sensitivity analysis to show how impacts may vary under different rates of program participation.

These comments are intended to provide sufficient guidance outlining revisions to the impact assessment if a SRIA is required. The SRIA, a summary of Finance comments, and any responses must be included in the rulemaking file that is available for public comment. If any significant changes to the proposed regulations during the rulemaking process result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,


Somjita Mitra
Chief Economist

cc: Ms. Dee Dee Myers, Director, Governor's Office of Business and Economic Development
Mr. Kenneth Pogue, Director, Office of Administrative Law
Ms. Kathleen Selenski, Executive Director, CalSavers Retirement Savings Board

The CalSavers Retirement Savings Program

**Overseen by the
CalSavers Retirement Savings Board**

**Response to Department of Finance Comments on Standardized Regulatory
Impact Assessment (SRIA)**

Date of Release: October 24, 2022

CalSavers Retirement Savings Board
915 Capitol Mall, Suite 105
Sacramento, California 95814

SUMMARY

The CalSavers Retirement Savings Board (Board) proposed to complete the regular rulemaking process to make permanent emergency regulations amendments that took effect in March 2022. In accordance with California Code of Regulations, title 1, section 2002(a)(1), the Board submitted a Standardized Regulatory Impact Assessment (SRIA) to the Department of Finance September 2, 2022. The Department of Finance (DOF) provided comments on the SRIA September 30, 2022. This document includes DOF's comments and the Board's responses to the comments.

DEPARTMENT OF FINANCE COMMENTS

On September 30, 2022, DOF provided the following comments in response to the SRIA:

"Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary for the Amendments to the CalSavers Retirement Savings Program proposed regulations, as required in the California Code of Regulations, title 1, section (a)(1). Proposed text of the regulations were not submitted, therefore comments are based solely upon the SRIA and other publicly available information.

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fiscal impacts must be quantified regardless of their magnitude. Finally, the SRIA assumes that future program participation will be in line with the actual program data through the first half of 2022, and does not discuss the potential for a higher number of eligible employers to decide to facilitate the program or that a smaller number of eligible employees might choose to not opt-out of the program. Since increased participation in the program would lead to higher total contributions and a larger reduction of total sales tax revenue, the SRIA should explain why the current assumptions are the most representative or, alternatively, include a sensitivity analysis to show how impacts may vary under different rates of program participation.

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CALSAVERS RETIREMENT SAVINGS BOARD COMMENTS

The CalSavers Retirement Savings Board appreciates the careful review of the Department of Finance. This section includes a response to each of the comments submitted by DOF, including qualitative and quantitative analyses and a description of the methodology used. Additional detail on the range of macroeconomic impact resulting from the proposed amendments are included in the appendices.

Economic Baseline

In the SRIA, the authors stated the economic baseline as being the environment prior to the emergency regulations that were analyzed in the SRIA. In the SRIA, the authors calculated the estimated number of businesses, individuals, and industries impacted by the regulations. The SRIA reports on the expected economic impacts due to reduced consumption resulting from the amendments and details the macroeconomic impacts on those industries. The SRIA also includes estimates of expected economic benefits to California companies due to increased investments and details the macroeconomic impacts.

DOF noted the authors must include a baseline description of the number and types of businesses and individuals impacted by the amendments. While the authors specified in the SRIA that the economic baseline was “the environment prior to the emergency regulations,” the SRIA established an economic baseline that describes the number and types of businesses impacted by the regulations.

The regulations will impact a few different categories of businesses in different ways. The regulations will impact some employers directly by imposing a more sudden registration deadline than prescribed in the previous regulations. Those employers include any employer with five or more employees that does not sponsor a retirement plan that has become subject to the mandate within the past couple of years, either due to the establishment of a new business, the termination of a qualified retirement plan, or growth in their number of employees to more than five.

Those impacts will be spread relatively evenly across industries and employer sizes, predominating in industries that are typically less likely to sponsor a retirement plan:

- Accommodation and Food Services (17%)
- Health Care and Social Assistance (12%)

- Construction (10%)
- Retail (10%)
- Manufacturing (7%)
- Agriculture (3%)
- Recreation (2%)
- Other (39%)

The authors estimated those impacts to total \$1,112,709 in 2023 through indirect impacts caused by the opportunity costs incurred due to the administrative steps necessary for employers to facilitate the program.

Because the amendments will lead to more savings, some businesses will be impacted due to reduced consumption. Those impacts are expected to concentrate in the food sector (48% of expected impacts), entertainment (14% of expected impacts), apparel (12% of expected impacts), and miscellaneous sectors impacted by consumer discretionary spending (26% of expected impacts). In total, the authors estimate \$61,951,373 in economic impacts related to reduced consumption from the amendments in 2023.

Finally, the amendments are expected to bring economic benefits due to increased investment in California companies.

Quantification of Alternatives

The authors evaluated the following alternatives in the SRIA:

Proposed Regulations	Alternative
Establish December 31 registration deadline for newly mandated employers	Maintain requirement that newly mandated employers register no later than 24 months from their date of eligibility or by the specific dates established in Section 10002(a)
Allow employers to register if they have at least one quarter of employment data – and otherwise meet criteria for eligibility	Maintain requirement that employers have at least one full calendar year of data to be eligible for the program

DOF requested the authors to quantify cost impacts of each alternative. While the authors had implicitly quantified impacts of the alternatives through the quantification of the employer, economic, and fiscal impacts, as they represented variance from the baseline, those quantifications were not explicitly reported in the alternatives section of the SRIA.

The following table quantifies the differences between the baseline and each alternative considered:

Regulation	Benefit	Cost
Baseline	\$15,703,748	\$46,639,553
Alternative 1	\$46,639,553	\$15,703,748
Alternative 2	\$0	\$0

The benefits reported for the baseline include benefits related to increased investment in the state, due to expected increases in new savings that are partially invested in California-based companies. The costs

reported for the baseline are both economic and fiscal impacts due to reductions in consumption caused by new savings by Californians.

Alternative 1 would maintain the requirement that newly mandated employers register no later than 24 months after their date of eligibility, rather than the 12-month deadline established through the regulations amendments. Because alternative 1 would result in less new savings than the baseline, the benefits of the alternative would be due to reduced consumption loss compared to the baseline. Costs for alternative 1 include reduced investment in California-based companies, as the alternative would be expected to result in less new savings by Californians compared to the baseline.

While the baseline has greater economic and fiscal cost than benefits in the near term, the authors expect there to be greater economic and fiscal benefits in the long term, as participating employees will mostly not realize the financial benefits of the program until several years and, for the youngest participants, decades, in the future.

The macroeconomic impacts related to the increased investment and decreased consumption are reported in Appendices 3-6 in the SRIA.

Alternative 2 is not expected to have any costs or benefits, as it places no restrictions or requirements on the regulated community, but rather allows some employers to join the program earlier than they had previously been allowed.

Quantification of Fiscal Impacts Determined to be “de minimis”

DOF requested the authors to quantify all fiscal impacts resulting from these regulations amendments, including those determined to be “*de minimis*.” In the SRIA, the authors described how the amendments would result in fiscal impacts, quantifying the impacts related to reduced sales and use tax and describing how, if at all, the amendments would impact income tax, claims of the California Earned Income Tax Credit (CalEITC), the Franchise Tax Board, Medi-Cal, and the Federal Saver’s Credit. To be more precise, the authors should have instead stated there will be no fiscal impacts aside from the impacts to sales and use tax revenue. Below, the authors have described why the amendments will not have fiscal impacts.

Income Tax

CalSavers accounts are Roth Individual Retirement Accounts (Roth IRAs). Any contributions to a Roth IRA are subject to normal income tax in the year in which the contributions are made. When a saver reaches retirement age, their contributions and any investment interest earned on those contributions, can be withdrawn tax-free¹.

Contributions to a Traditional IRA may be tax deductible in the year in which they are made. Unlike a Roth IRA, withdrawals from a Traditional IRA, which may include the amount of the contributions and any investment earnings, are subject to income tax.

¹ Specifically, individuals can withdraw funds from an IRA without taxes or penalties if they are age 59 ½ or older, or if they use it for a qualified expense, qualified educational expenses, first time home purchase, or other reasons allowed under federal law.

In general, Roth IRAs tend to be favorable to individuals who are younger and who have relatively less income, as the tax advantage can be more favorable for those who build long term savings and any tax deduction may be negligible for those with less income – and, therefore, less of a tax liability.

CalSavers allows savers to recharacterize contributions from a Roth IRA to a Traditional IRA. To date, only 0.01% of savers have recharacterized their contributions to Traditional. Based on that rate of recharacterization, the authors estimate between six to seventeen employees will recharacterize to a Traditional IRA out of the population of employees who will be impacted by the amendments.

Savers may have a variety of reasons to recharacterize, but the most likely reasons are that either the saver is near retirement age and would most benefit from an immediate tax deduction, or the individual is simply ineligible to save in a Roth IRA, as individuals are phased out of eligibility to save in a Roth IRA if their modified adjusted gross income exceeds \$144,000 annually for single filers or \$204,000 for married joint filers².

Assuming the maximum expected recharacterizations of seventeen employees receive the maximum possible tax deduction due to saving the maximum allowable annual contributions (\$7,000 for those age 50 and above), the amendments would only have an impact of \$119,000 in 2023.

CalEITC

The SRIA describes potential fiscal impacts resulting from an increase in CalEITC claims that could be caused by the amendments. Any increase in CalEITC claims would be due to a corresponding increase in tax filings, as some individuals may be more motivated to file their taxes, and therefore claim the CalEITC, due to seeking a tax deduction for contributions to a Traditional IRA. As described above, few savers recharacterize to Traditional IRAs. Additionally, the CalEITC is limited to individuals with income below \$30,000 annually³. Because lower income individuals have little to no incentive to recharacterize to a Traditional IRA, the authors do not expect there to be any fiscal impacts due to increased CalEITC claims.

Franchise Tax Board

As noted in the SRIA, the Franchise Tax Board (FTB) is designated as the entity responsible for issuing final notices of penalty application to noncompliant employers – and for conducting appeals of employer penalties. Any costs incurred by FTB due to fulfilling either role would be reimbursed by the program, as required by the statute under Government Code Section 100033(d)(2).

The authors expect no fiscal impact to FTB resulting from these regulations. While the amendments subject some employers to a more sudden registration deadline, the amendments do not substantially change the number of employers subject to a deadline. FTB would be required to aid CalSavers in enforcing employer compliance from this same population of employers under either the former or current regulations.

Furthermore, the vast majority of FTB's costs for enforcement activities are related to the development of a database to manage enforcement activities. This activity will occur regardless of the deadlines established for newly mandated employers.

² <https://www.irs.gov/retirement-plans/plan-participant-employee/amount-of-roth-ira-contributions-that-you-can-make-for-2022>

³ <https://www.ftb.ca.gov/file/personal/credits/california-earned-income-tax-credit.html>

Medi-Cal Savings

The SRIA describes potential long-term fiscal benefits due to state savings on Medi-Cal expenses. Those savings would be realized due to more Californians having retirement savings that will allow them to avoid relying on Medi-Cal for health care services. Any fiscal impacts would be by nature long term and not included in 2023, the year in which impacts from these amendments were analyzed for the SRIA.

Sensitivity Analysis

Economic and fiscal impacts are highly sensitive to a range of factors that are difficult to predict, specifically employer participation rates and employee participation rates, which are impacted by both opt-out rates and identity verification failures. To provide a range of potential impact, staff conducted a sensitivity analysis to evaluate economic and fiscal impacts under the following assumptions:

Table 1. – Assumptions Used for Scenario Analysis

Scenario	Wave 1 Facilitation	Wave 2 Facilitation	Wave 3 Facilitation	CID Fails	Employee Participation Rate
1. SRIA Assumptions	24.32%	26.41%	20.00%	40%	63%
2. Moderately High Employer Facilitation	50.00%	41.00%	30.00%	40%	63%
3. High Employer Facilitation	75.00%	56.00%	40.00%	40%	63%
4. High Employee Participation	24.32%	26.41%	20.00%	30%	70%
5. High Employer and Employee Participation	75.00%	56.00%	40.00%	30%	70%

The differences in economic and fiscal impacts under each scenario are reported in the table below:

Table 2. – Economic and Fiscal Impacts in Scenario Analyses

Scenario	Employer Impact	Saver Contributions	Consumption Impact	Sales and Use Tax Impact
1. SRIA Assumptions	\$1,112,709	\$69,658,150	\$61,125,027	\$1,654,043
2. Moderately High Employer Facilitation	\$1,682,450	\$117,939,204	\$103,491,651	\$2,800,484
3. High Employer Facilitation	\$2,251,880	\$165,610,255	\$145,322,999	\$3,932,440
4. High Employee Participation	\$1,112,709	\$90,297,602	\$79,236,146	\$2,144,130
5. High Employer and Employee Participation	\$2,251,880	\$214,679,961	\$188,381,666	\$5,097,608