



State Mandated Retirement Plans

Many states are requiring that workers have access to a retirement savings vehicle. If you are a small business owner, this wave of legislation may affect you and your employees directly.

According to the U.S. Bureau of Labor Statistics, nearly 50% of Americans work for firms with fewer than 100 employees, but only 58% of those firms offer retirement plans to their workers, compared to 90% of firms with 500 or more employees.¹ To help address the growing concerns of the American retirement savings gap, states are taking the issue head-on by requiring companies of specific sizes, some as small as just one employee, to automatically enroll employees into an IRA or another qualifying private-sector employer plan.²

Comparing state-mandated auto-IRAs with 401(k) retirement plans

Automatic IRAs are commonly used for state-mandated retirement solutions. Auto-IRAs are a simple way for employers to help employees save for their post-career lives, but employers should consider all options to fulfill state requirements with a Financial Advisor and legal or tax professional who can help determine the best fit.

	STATE AUTO-IRA (programs vary by state)*	401(K) PLAN
INCOME LIMITS³	Yes, (Roth Only) – ≥ \$150,000 but < \$165,000 single filer; ≥ \$236,000 but < \$246,000 joint filer (2025)	No – There are no limits to open
INDIVIDUAL CONTRIBUTION LIMITS³	Limited – \$7,000/\$1,000 catch-up for age 50 or older (2025)	Much higher limits – \$23,500/\$7,500 catch-up for age 50 or older or \$11,250 for age 60-63 years old (2025)
EMPLOYER MATCH/CONTRIBUTION⁴	No	Yes – Discretionary
PROFIT SHARING OPTION⁴	No	Yes
ROTH/PRE-TAX OPTIONS⁴	Roth most currently used	Both Roth & Pre-Tax
INVESTMENT OPTIONS	Employee chooses from plan “menu,” including a state-pooled and professionally managed option and/or private sector (third-party) options Employee chooses from plan “menu,” including a state-pooled and professionally managed option and/or private sector (third-party) options.	Employee chooses from plan “menu,” including a professionally managed option and/or private sector (third-party) options.
AUTOMATIC ENROLLMENT⁴	Yes	Optional

*Each state program varies; these are common features of state auto-IRAs/general IRAs.

Providing a 401(k) plan to your employees has its benefits. Contribution limits are higher, there are no income restrictions on contributing to a Roth 401(k), if available, and you can incentivize your employees to save even more by providing a match.

As a small business owner, you can help improve the financial future of your employees by providing retirement benefits and leveraging the plan as an effective tool for attracting and retaining industry talent. In the current job market, 94% employees agree that retirement planning assistance is a priority.⁵

Morgan Stanley offers small business 401(k) services to help you and your employees reach their retirement plan goals while fulfilling your state's retirement savings plan mandate. Furthermore, working with a provider like Morgan Stanley also gives your employees access to a Financial Advisor, who can provide educational resources to help employees gain even more confidence on their retirement journey.



Talk to a Morgan Stanley Financial Advisor, and your legal and tax advisors about your options, and what makes the most sense for your business and employees.

SOURCES

¹ U.S. Bureau of Labor Statistics, "Employee Benefits in the United States, March 2024," news release, September 2024.

² ADP, "How State-mandated Retirement Plans Work," accessed January 2025.

³ IRS, "401(k) limit increases to \$23,500 for 2025, IRA limit remains \$7,000," November 2024.

⁴ IRS, "Retirement Plans," accessed January 2025.

⁵ Morgan Stanley, "2024 State of the Workplace Study," May 2024.

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