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WEALTH ADVISORS

Pooled Employer Plan (PEP) Introduction

Is the new Pooled Employer Plan ("PEP") offering right for your company's 401(k) plan?

After many years of industry waiting, the Pooled Employer Plan ("PEP"), a significant offering, entered the employer-sponsored retirement plan (401(k) plan) arena as of January 2021.

Prior to this year, there have been individual employer-sponsored retirement plans and closed Multiple Employer Plans ("MEP"). Closed MEPs have generally only been available to employers with some commonality, typically through association groups or Professional Employer Organizations ("PEO"). Employer-sponsored retirement plans are very complex and can be confusing to oversee correctly.

A PEP includes the same set of service providers– 3(38) investment advisor, third-party administrator ("TPA"), recordkeeper and custodian – as an individual retirement plan or closed MEP. Like a closed MEP, a PEP is structured in a way that allows for economies of scale and added oversight.

What is a PEP?

A PEP enables unaffiliated plan sponsors (employers) to put their retirement plans of any asset size into a pooled or umbrella structure as "adopting employers." A PEP has a Pooled Plan Provider ("PPP") managing it.

Benefits to a Plan Sponsor

1. Lower cost
2. Reduced fiduciary liability
3. Reduced plan sponsor (employer) workload
4. Reduced audit expense on a plan with more than 100 participants

Cost

The usual expenses associated with a 401(k) plan include the services of its service providers, an investment advisor/consultant, third-party plan administrator, recordkeeper, custodian and, for larger plans, an annual audit. An employer can benefit from economies of scale by being part of a PEP. This potentially can allow for more of the participant (employee) contributions to stay in their retirement accounts and lower the expense to the plan sponsor.

Reduced Fiduciary Liability

Plan Sponsors (employers) have the following fiduciary requirements:

- Manage the 401(k) plan with only the interests of participants and their beneficiaries in mind
- Keeping plan expenses to a reasonable level
- Following the terms of the plan's governing documents
- Ensuring the plan's investments are diversified

- Doing all this with "care, skill, prudence and diligence"

The more an employer enables their retirement plan service providers to share in this fiduciary obligation, the less an employer is putting itself at risk by not having a solid fiduciary process in place. One of the greatest risks of a retirement plan with inadequate fiduciary oversight is participant lawsuits.

Reduced Workload

The administrative burden for a plan sponsor (employer) is lowered by being part of a PEP instead of doing the work independently. This frees up more time for an employer to focus on running their business instead of overseeing the 401(k) benefit as a standalone retirement plan.

Reduced Audit Expense

Employers with more than 100 participants can be subject to an annual Department of Labor ("DOL") plan audit, which adds expense. The time and cost to an employer that is part of a PEP can be greatly reduced in this structure.

Overall Advantages of PEPs

PEPs do offer many important advantages compared to standalone employer-sponsored retirement plans. The plan features can often be streamlined compared to custom designed plans, so employers need to weigh any trade-offs. Weighing everything, the rollout of PEPs is a significant win for 401(k) participants and employers to improve retirement savings rates in the U.S. and deserves an evaluation.

Other Considerations

While there are many benefits to a PEP, you may want to consider that you may have limited or no ability to choose recordkeepers within the plan, and there may be limitations on investment choices. Additionally, PEPs may not be suitable for all situations and organizations.

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