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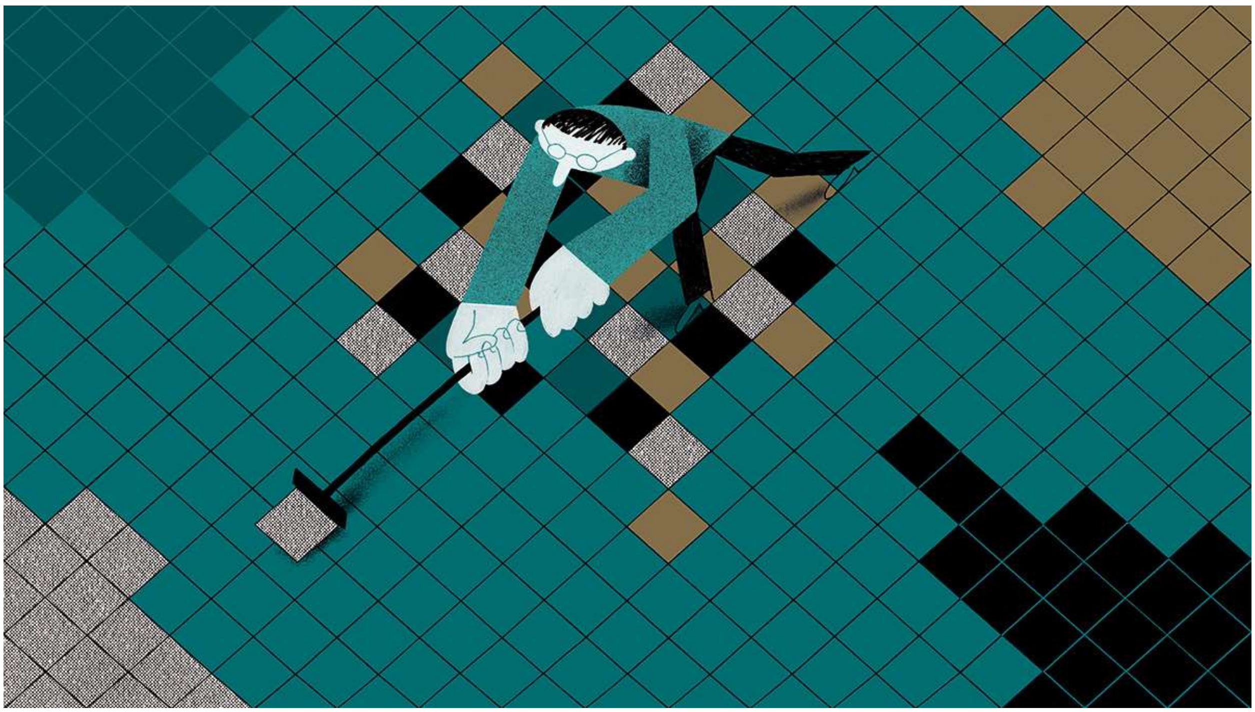
Client Considerations as PEPs Come Online

Sources say advisers should expect more questions about pooled employer plans as the year unfolds and this new marketplace develops.

By Lee Barney



Art by Klaas Verplancke

If there is one thing that retirement plan experts can agree on when it comes to the pooled employer plans (PEPs) that are starting to hit the market this year, it is that they are going to continue to grow in prominence. Thus, it will become a fiduciary duty for retirement plan sponsors to weigh the pros and cons of entering a PEP or going with a single-employer plan.

But sponsors should not be hasty when it comes to entering a PEP, says Tim Werner, president and general counsel of BlueStar Retirement. Werner says the PEPs entering the market in the next 12 to 16 months will continue to evolve, and it might be wisest for sponsors to remain on the sidelines as the winning "shapes and flavors" of PEPs emerge.

A sponsor that wants to enter the debate over whether to go with a PEP or a single-employer plan needs to start by looking at the current design of the plan they have now, says David Swallow, managing director, consulting relations at TIAA.

“Under a single-employer plan, they have more options as it relates to plan design and investments. In all likelihood, in a PEP, they need to be willing to give up some of that, such as enrollment eligibility and limits on contributions. In a single-employer plan, sponsors have a lot of flexibility with respect to investments. There are many sponsors who really enjoy handling the investment piece of the equation. Would they be comfortable handing the keys to that over to the pooled plan provider [PPP] of the PEP?”

For example, many retirement plans now offer lifetime retirement income options, but those might not be available in a PEP, Swallow says.

“Sponsors need to consider these protected benefits, such as offering an annuity in a plan,” he says. “Sponsors would need to do the due diligence to determine whether or not these protected benefits could be offered in the PEP.”

Certainly, one of the biggest attractions of a PEP is that it takes on the 3(38) fiduciary oversight of the investments, notes Daniel Milan, managing partner of Cornerstone Financial Services. “I think this is the most dramatic, game-changing benefit of PEPs, especially for small businesses,” Milan says.

However, sponsors need to realize that even with a PEP, they are never completely free of fiduciary responsibility, says Peg Knox, chief operating officer (COO) of the Defined Contribution Institutional Investment Association (DCIIA). They will still be responsible for selecting and monitoring the PEP provider and the PPP providing the PEP’s services, Knox says.

The best way to determine whether the fiduciary guidance that comes with a PEP is helpful for a sponsor is for the sponsor to be honest with themselves about their knowledge of their fiduciary responsibilities, says Matt Compton, director of retirement services at Brio Benefit Consulting.

Sponsors also need to check whether the PEP has bundled recordkeeping and third-party administrator (TPA) services within the offering, Milan says. “If they are unbundled, they need to ask whether there is an additional cost to the plan sponsor and/or the participants. If there is an additional cost, perhaps the sponsor will need to kick in more of the administrative costs to keep the fees reasonable for participants.”

Sponsors should also investigate the experience and sophistication of the providers in the PEP with respect to their experience working with the predecessor of PEPs, multiple employer plans (MEPs), says Tom Clark, partner and COO at The Wagner Law Group.

The next consideration that sponsors should weigh is the cost, Swallow says. While PEPs have been touted as being lower cost, some PEPs could actually be adding in additional services, he says.

“If [plan sponsors] learn they are paying more for a PEP, they need to determine if the services are worth it,” he says. For instance, a PEP handles all of the administrative functions of the retirement plan, such as loan and hardship withdrawal approvals and oversight, compliance testing, Form 5500 filings and the annual plan audit, Swallow says. This could be appealing to many sponsors that would prefer to focus on running their business rather than their retirement plan, he says.

Sponsors also need to realize that the cost of PEPs will vary, Swallow adds.

That said, Werner notes that in a PEP, the 3(16) plan administration is a given, whereas in a single-employer plan, this is an option for sponsors.

Werner says one positive aspect of PEPs is that by joining one, “you are essentially hiring experts to run all aspects of the plan. The expectations with that is there will be fewer mistakes.”

Sponsors should also ask the PEP providers about the tools and technological investments they are making for the platform, Clark says. “What tools is the PEP offering to manage the client base?” he asks. “Is there a log-in where the sponsor can see the progress of all of the participants in their plan on one screen? There is something of an arms race on recordkeeping platforms, as each tries to outmaneuver the other. We are going to see that kind of technological innovation in PEPs in the future."

Finally, it is important for a sponsor to select a PEP in which a TPA or retirement plan adviser specialist is running the PPP services, as they have the most experience working in this capacity, Compton says. "They will have a very strong understanding of 3(16), 3(21) and 3(38) fiduciary coverage and plan design."

Tagged: PEPs, SECURE Act