Considerations Before Joining a Pooled Employer Plan (PEP)

Crystal Coleman, CPA®, CEBS® Principal, Employee Benefit Plans
Rachel Mahmood, CPA® Manager, Employee Benefit Plans
Chip Logan, AIF®, CRPS®, CFP® Senior Wealth Advisor

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Learning Objectives

- Identify the benefits and limitations of the new arrangement
- Outline considerations for evaluating whether a PEP arrangement is right for your company
- Identify questions to ask pooled plan providers
- Describe available plan options for employers
- Explain why PEPs were created by SECURE Act

How Did We Get Here?

Types of Plans Available to Employers

- Single Employer Plans
  - Payroll Deduction IRAs
  - SEP Plans
  - SIMPLE Plans
  - 401(k) Plans
- State-Sponsored Plans (38 states active or pending)
- Multiple Employer Plans (MEPs)
- NEW Pooled Employer Plans (PEPs)
- Stay Tuned…..Group of Plans (GoPs) in 2022

Challenges of 401(k)s for Smaller Companies

- 89% of U.S. companies have less than 100 employees
  - Of these companies, 58% don't offer a retirement plan
- Complexity of 401(k) and 403(b) plans for smaller companies
  - Largely the same requirements for small companies as large
  - Personnel operating plan frequently wear many hats
  - Smaller companies may experience more operational issues

SECURE Act (Genesis of PEPs)

- Permits establishment of PEPs effective January 1, 2021
- No commonality or geographic proximity required
- 1 Form 5500 for PEP
- 1 annual independent audit for PEP
- Repeals "one bad apple" rule
- PPP will need to monitor and expel "bad" employers

Initial Market Demand for PEPs

- Study performed in Q4 2020:
  - 25% of employers who already have a plan are interested or somewhat interested in PEP arrangement
  - 2/3 say reason is simplification of administration and compliance
  - Plans under $5 million have no opinion

Looking Under the Hood of a PEP

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Initial Euphoria…Followed by Reality

"Pooled employer plans will give employers, especially small unrelated employers, a way of offering their employees a workplace retirement savings option with reduced burdens and costs"

Acting Assistant Secretary of Labor for the Employee Benefit Security Administration Jeanne Klinefelter Wilson

New Requirements and Reduced "Burdens"

New Requirements:

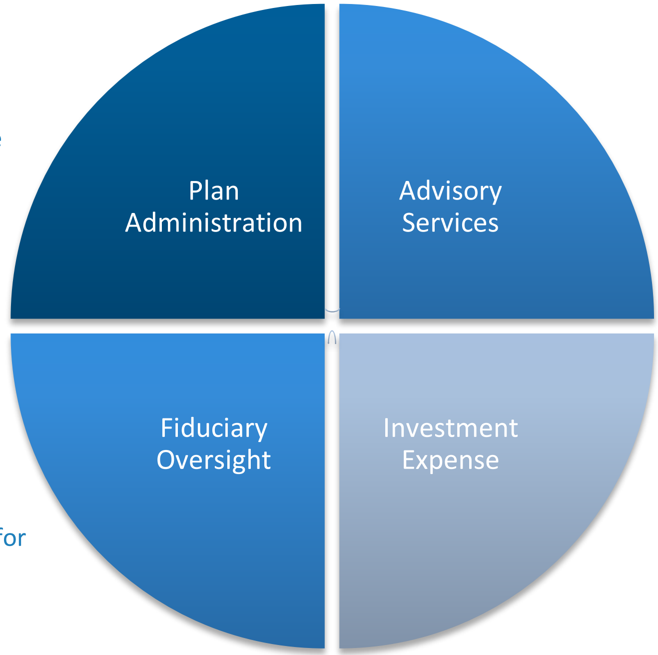
- Pooled Plan Provider, "P3"
  - Named Fiduciary
  - Must register with DOL
- Additional trustee responsibilities
- Required 3(16) fiduciary
- Required audit
- PPP required to remove "bad" employers

Reduced Burdens:

- Can be unrelated and geographically diverse participating employers
- Removal of "bad apple" rule
- Outsourced direct investment management
- One 5500 filed

PEP Pricing: A little like a "Happy Meal"

- Third party administration savings could be negligible
- Recordkeeping work may not scale



- Employer plan consulting work increases
- 3(21) support can scale across employers but should be considered by employer
- 3(38) work has already been commoditized at Recordkeeper or advisor level
- Participant education

- Additional cost to hire PPP
- 3(16) required
- Additional tracking responsibilities for trustee
- Audit is likely required

- "Cheapest" institutional share classes and collective investment trusts are already available for small plans
- No new investment options are available simply because of the SECURE Act

PEP Audience May Not Be as Originally Planned

- Plans Over 100 Participants
  - Larger plans likely have less operational issues, but issues are more costly to correct
  - Larger plans are subject to annual audit requirement
  - Plans may already be paying for 3(16) fiduciary services
  - Participant investment advice largely automated
  - Plan sponsors may therefore see costs similar to their current plan, but value outsourcing of the work

Considering PEPs in 2 Easy Steps

Employer Responsibilities in a PEP

- Make an initial determination of the right PEP for the needs of your employees
  - ◊ Design might be limited
  - ◊ Fund choices will be made by the 3(38)
  - ◊ Underlying service provider choices will be made by the PPP
- Carefully choose and monitor the PPP and underlying service providers

Employer Responsibilities in a PEP

- Correctly calculate employee and employer contributions
- Remit employee contributions in timely manner
- Work with Pooled Plan Provider to set up payroll integration

Two Step Approach in Evaluating PEP Option

- **Step 1 – Is a PEP Arrangement Right for My Company?**
  - Feature and price differences between a single employer plan and a PEP
  - Are there arrangements that keep it simple?
  - How much oversight can I reasonably take on?
  - Do I have an advisor already helping me with this oversight?
- **Step 2 – How to Interview PEP Providers (Should You Decide a PEP is the Right Plan)**
  - Pooled Plan Providers may have different roles and varied levels of experience
  - Hiring a Pooled Plan Provider is a fiduciary act with many implications

Questions to Ask a Potential Pooled Provider

- How much PEP or MEP experience does the PPP have?
- How many PEPs does the PPP anticipate operating?
- Experience of the PPP team members?
- What other employers are in my PEP?
- What happens if scale doesn't materialize?
- Frequency/nature of reporting to adopting employers?

Final Reflections

- Small plans benefit if looking for help with responsibility/compliance and willing to pay for it
- Large plans benefit and may see cost savings if PEP provides package of support with desired plan design
- There are additional roles and service providers which need to be analyzed to determine appropriateness for participants

Questions

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Thank you!

Crystal Coleman, Principal
Crystal.Coleman@claconnect.com
Sacramento, CA

Rachel Mahmood, Manager
Rachel.Mahmood@claconnect.com
Baltimore, MD

Chip Logan, Senior Wealth Advisor
Chip.Logan@claconnect.com
Greenwood Village, CO

CLAconnect.com

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