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Once They Catch On, PEPs Could Grow Exponentially

The current hesitancy over how they will take shape will be overcome by appreciation among advisers and sponsors alike at the prospect of expanding retirement coverage, sources say.

By Lee Barney

Much has been said so far about the importance of the nascent pooled employer plan (PEP) market. Recordkeepers, investment managers, third-party administrators (TPAs) and retirement plan advisers and consultants alike are all expected to take different roles in PEPs as sponsors, administrators, registered pooled plan providers (PPPs) and fiduciaries.

But industry experts and recordkeeping executives say they have not heard many inquiries from advisers about PEPs thus far.

Nonetheless, Micah DiSalvo, chief revenue officer at American Trust, expects PEPs will have a big impact on the retirement planning industry.

"They will drive access and efficiencies for smaller plans and give them access to some of the institutional services typically only available among larger plans," he says. "We expect advisers, recordkeepers and third-party administrators will pay increasing attention to PEPs—and that the adoption will look like a hockey stick over time. A big part of what is going to drive this adoption is the fact that 51% of workers at private companies don't have access to a retirement plan."

As a PPP and a 3(38) and 3(16) fiduciary to a PEP, American Trust hopes to be a major player in this space and has been hosting webcasts and podcasts and issuing white papers in conjunction with recordkeepers, TPAs and ERISA [Employee Retirement Income Security Act] attorneys to educate advisers about the potential of PEPs, he says. The firm has also been working with multiple employer plans (MEPs) looking to convert their plan to an open MEP, or PEP.

American Trust is also partnering with other companies looking to enter the PEP space and can adjust its services depending on what these partners want to offer themselves, DiSalvo says. "Some want to have private label investments. Others want to offer the investments themselves. We believe there will be multiple distribution channels and models that will be relevant and meaningful."

Likewise, Aon Retirement Solutions worked for a number of years with elected and regulatory officials to help shape the Setting Every Community Up for Retirement Enhancement (SECURE) Act and the introduction of PEPs, says Rick Jones, partner at Aon. Aon launched its first PEP in January.

"Beyond Aon, we see increasing interest and 'buzz' on PEPs in the retirement plan and financial services industries," he says. "We have also had a significant number of advisers and consultants in the industry reach out to us directly to learn more about the Aon PEP and

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Besides the efficiencies noted above, Nasrin Mazooji, vice president of compliance and regulatory affairs at Ubiquity Retirement + Savings, says she is very hopeful that as PEPs grow, plan compliance failures will decrease, which would be a positive for sponsors and advisers alike. “Many operational components that are monitored by plan sponsors today will be delegated to 3(16) fiduciaries and PPPs that are likely competent professionals with years of experience in identifying and preventing possible plan failures.”

As to how retirement plan advisers can educate themselves about PEPs, Ari Sonneberg, chief marketing officer and partner with Wagner Law Group, says his practice has been issuing informative newsletters, “which have garnered enormous interest, as well as webinars, which have also featured members of our firm. Certainly, PLANADVISER and PLANSPONSOR have served as excellent resources on this topic for advisers as well.”

However, echoing earlier sentiments about advisers’ reactions to PEPs, Sonnenberg says, “I think there are mixed feelings among advisers when it comes to PEPs, and many are still on the fence. On the one hand, I think many advisers are excited about the prospect of being in a position to assist clients by helping them evaluate and select a PEP to help lower the costs of sponsored a retirement plan and to offload and simplify some administrative responsibilities. At the same time, many advisers are concerned with the inherent loss of flexibility, as it applies to plan features and plan investment selection, that comes with the transition from a standalone 401(k) plan to a PEP.”

For those plan advisers who are conscientious and who are aware of their plan sponsors’ struggles with plan costs and administration, however, Sonnenberg thinks they will, in the end, recommend sponsors switch to a PEP. In fact, the expanded use of PEPs can serve as a boon for advisers’ businesses, he says, as some advisers may offer their own PEP. PEPs may also allow registered investment advisers (RIAs) to manage more plan assets.

In most cases, PEPs present an opportunity for advisers to provide added value to their plan sponsors by helping them select among a variety of emerging PEPs, he says.

Tagged: MEP, multiple employer plan, PEP, pooled employer plan

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