# Closing the Gap

## How Pooled Employer Plans (PEPs) Are Expanding Retirement Plan Access

In 2019, the landmark Setting Every Community Up for Retirement Enhancement (SECURE) Act ushered in the most significant retirement plan legislation in more than a decade. One of its most important provisions was the creation of pooled employer plans (PEPs), a type of retirement plan that's designed specifically to eliminate some of the barriers that have traditionally kept smaller businesses from offering a retirement savings plan.

Now, three years later, the Securing a Strong Retirement Act of 2022–dubbed SECURE 2.0–has been signed into law. Among its provisions, SECURE 2.0 expands access to PEPs and other multiple employer plans (MEPs) to make it easier for more American workers to participate in and benefit from an employer-sponsored retirement savings plan.

This insight paper focuses on the key features of PEPs. First, we'll discuss the evolution of pooled employer plans. Then, we'll explore some of the ways SECURE 2.0 affected PEPs. Finally, we'll take a deeper dive into the benefits PEPs offer, including the advantages they present for employers of all sizes.

# Reshaping the Retirement Plan Landscape

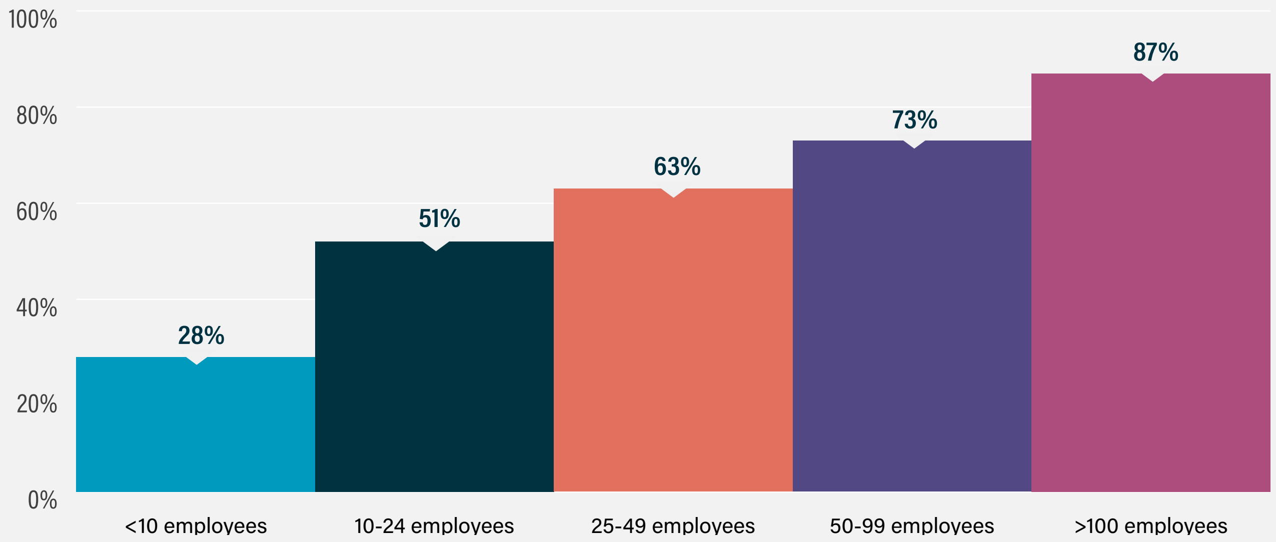
**Offering a retirement plan can play a central role in attracting and retaining employees;** it also is a critical tool for helping those employees to build financial security for their future. Yet nearly half of American employees in the private sector–roughly 57 million people–work for an employer that does not offer a retirement savings plan.[1] And the smaller the company, the less likely it is to offer one (see figure 1).

Among other goals, the SECURE Act of 2019 aimed to narrow the retirement coverage gap with the introduction of pooled employer plans. PEPs allow unrelated employers to band together to offer their employees retirement benefits by joining a plan administered by a pooled plan provider (PPP).

## The Retirement Coverage Gap

### FIGURE 1:

**The smaller the company, the less likely it is to offer a retirement plan.**[2]




### GOOD TO KNOW

**Over 90%** of small employers believe that a retirement plan drives recruitment and retention.[2]

1 David John, Gary Koenig, and Marissa Malta. "Payroll Deduction Retirement Programs Build Economic Security." AARP Public Policy Institute. July 11, 2022. https://doi.org/10.26419/ppi.00164.001

2 "Small Business Retirement: Investing in Your Future." SCORE. December 20, 2022. https://www.score.org/resource/infographic/infographic-small-business-retirement-investing-your-future

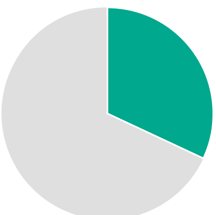
# Expanding Access to 403(b) Plans

PEPs entered the marketplace in 2021 as Congress sought to encourage more employers to offer a workplace retirement plan. Now SECURE 2.0 is advancing this crucial goal by extending the benefits of PEPs to 403(b) plan sponsors. This enables eligible employers such as public schools and 501(c)(3) organizations to offer their employees access to many of the benefits offered by private industry 401(k) PEPs.

In addition, SECURE 2.0 creates new rules under which 403(b) PEPs will mirror their 401(k) PEP "cousins," by providing relief from the "one bad apple" rule so that one employer's violations do not affect the tax treatment of compliant employers.

**GOOD TO KNOW**

A retirement plan can be a key component of a sound workforce retention strategy.



32%

**of workers** have left a nonprofit employer for a more attractive compensation and benefits package.[3]

## A Large and Important Market

**12.4 million**

nonprofit workers[4]

**1.86 million**

active nonprofit organizations in the U.S.[5]

3 "2021 Nonprofit Talent Retention Practices Survey." NonprofitHR, 2021. https://www.nonprofithr.com/wp-content/uploads/2021/09/Infographic-2021-Retention-Survey-For-Publish.pdf

4 "4 Critical Threats Nonprofits Will Face in 2023." Business Volunteers Unlimited. December 29, 2022. https://bvuvolunteers.org/4-critical-threats-nonprofits-will-face-in-2023-and-how-to-prepare-for-them/

5 "How Many Nonprofits Are in the US?" Cause IQ. 2022. https://www.causeiq.com/insights/how-many-nonprofits-in-the-us/

# Key Advantages of PEPs

**Here are five reasons why companies of all types might benefit from adding a PEP to their employee benefits package.**

1. **Streamlined plan administration.** A recent survey of small businesses found that a lack of resources is one of the top impediments to offering a retirement plan.[2] This isn't surprising—smaller businesses typically don't have the time, technology, or infrastructure needed for the day-to-day management of a plan. With a PEP, administration and reporting are handled by a registered pooled plan provider (PPP), freeing employers to focus on their core business.

2. **Lower exposure to fiduciary risk.** One of the biggest advantages of a PEP is the ability to transfer much of the fiduciary responsibility and liability to the pooled plan provider. While no plan structure can eliminate all fiduciary responsibilities, PEPs offer a way to shift many of these duties to a PPP. The ability to offload risk has become more important as litigation over excessive fees and other actions has grown in recent years.

3. **Economies of scale.** Cost is often cited as the biggest obstacle to offering an employee retirement plan.[2] By pooling the retirement assets in a single plan, employers may be able to access administrative, recordkeeping, and investment management services on a lower-cost basis than would be available to a smaller standalone employer plan. At the same time, economies of scale may enable a PEP to offer tools and features that smaller businesses may not be able to afford on their own.

4. **Tax credits to offset startup costs.** SECURE 2.0 clarified that employers joining an existing MEP or PEP can avail themselves of all three years of the small employer pension plan startup credit, if they otherwise qualify, regardless of how long the MEP or PEP has been in existence.

5. **Improved participant outcomes.** Because of scale, PEPs may be able to provide access to lower-fee investment options. Lower fees can translate into larger retirement account savings over time for participants.

## Who Can Benefit From a PEP?

While small businesses and their employees stand to benefit significantly from a PEP, there is no question that PEPs can provide an excellent solution for employers of all sizes, including:

| Employers without a plan that want to: | Employers with a plan that want to: |
|---|---|
| Limit the expense, fiduciary liability, and/or the time it takes to start and run a 401(k) or 403(b) plan | Offload fiduciary and administrative obligations and liability to a service provider |
| Access the tools, service, and lower-cost investment options normally reserved for larger plans | Convert from a MEP to a less restrictive, lower cost PEP |
| Outsource the heavy lifting of running a retirement plan so they can focus on running their business | Offload the need to coordinate plan audits at the individual employer level |

2 "Small Business Retirement: Investing in Your Future." SCORE. December 20, 2022. https://www.score.org/resource/infographic/infographic-small-business-retirement-investing-your-future

# Incentives to Join a PEP

SECURE and SECURE 2.0 offer tax credits that can provide a critical boost for smaller companies that, historically, have been unable to afford a workplace retirement plan.

1. **Easing the cost of offering a plan.** SECURE 2.0 increases the tax credit to the lesser of 100% of the qualified start-up costs or $250 per non-highly compensated employee, up to a $5,000 maximum, for employers with 50 or fewer employees. The tax credit remains at 50% for employers with 51-100 employees.
2. **Fostering automatic enrollment.** Employers can also receive an additional tax credit of up to $500 per year, for three years, for using automatic enrollment in their plan.
3. **Encouraging employer contributions.** Employers with 50 or fewer employees can receive a tax credit equal to the amount contributed by the employer on behalf of non-highly compensated employees up to $1,000 per employee per year for five years. The full tax credit phases out for plans with 51-100 employees. The credit applies ratably over a five-year period, at 100% for years one and two, 75% for year three, 50% in year four, and 25% in year five.

## Comparing Options

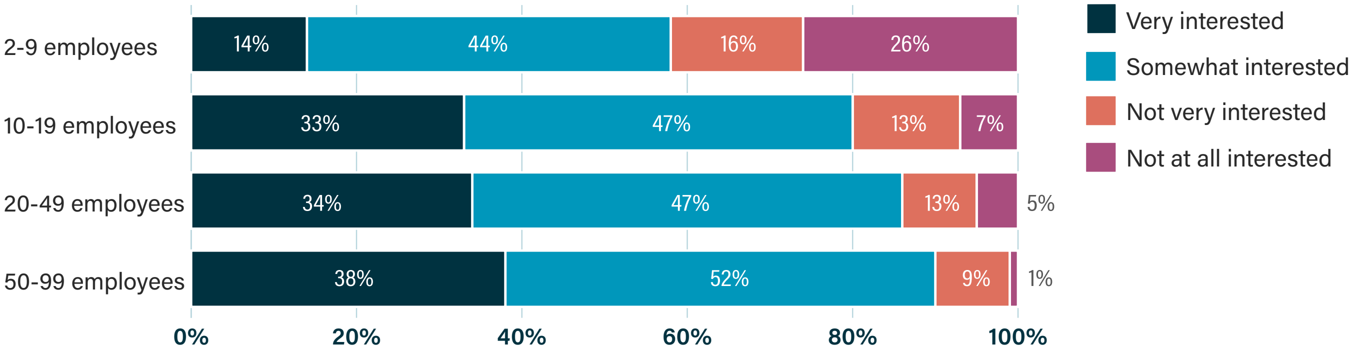
| | Single Employer Plan | Closed MEP (Multiple Employer Plan) | PEP (Pooled Employer Plan) |
|---|---|---|---|
| **Eligibility** | Single employers or groups of related employers | Unrelated employers with sufficient commonality | Unrelated employers |
| **Named Plan Fiduciary** | Plan sponsor | MEP sponsor | Pooled Plan Provider (PPP) |
| **Designated Plan Administrator** | Plan sponsor (can hire a third party to help) | MEP sponsor/lead employer | Pooled Plan Provider (PPP) |
| **Plan Design Customization** | Can be customized to meet plan sponsor needs | Can be customized to meet adopting employer needs | Some customization available depending on PPP and plan size |
| **Required Form 5500** | Filed by employer | Filed by lead employer | Filed by PPP |

# Taking the Temperature on PEPs

A recent study polled smaller employers to assess their interest in learning more about PEPs. As illustrated in figure 2, a majority of small employers want to hear more about PEPs and how they might benefit their business.[6]

### FIGURE 2:

**Small employers are interested in PEPs.**



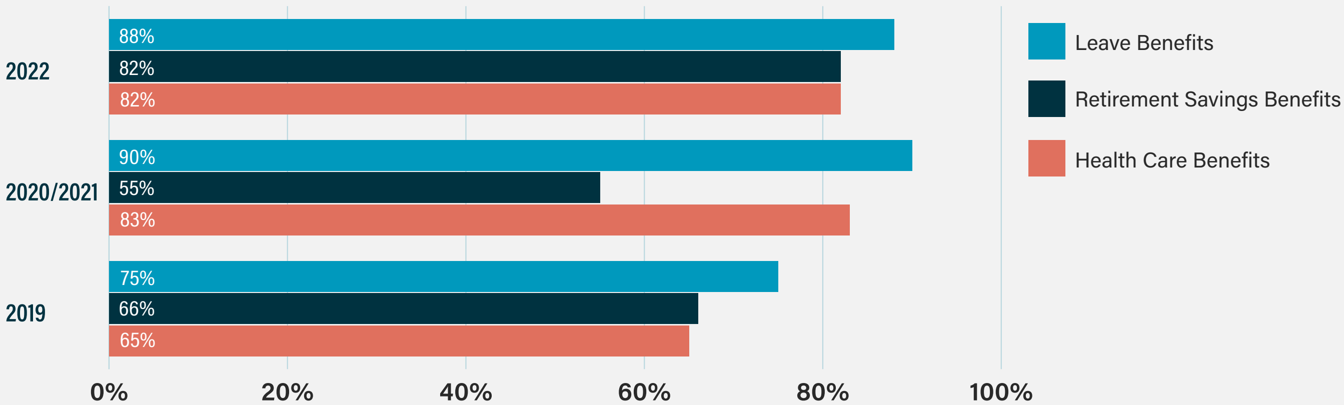

### GOOD TO KNOW

**Retirement Benefits Matter—A Lot**

When COVID struck, employees shifted their priorities regarding the importance of their workplace benefit plans. As figure 3 demonstrates, the focus on retirement benefits has bounced back and surpassed prior levels, suggesting the growing importance retirement benefits play in attracting and keeping talent in a competitive hiring market.[7] PEPs offer smaller employers a way to leverage their combined scale to provide a cost-effective, full-featured retirement plan

### FIGURE 3:

**Employees are prioritizing workplace benefits.**
Percentages represent those who selected Very or Extremely Important.




6 "Small Employers Interested in Learning More About Pooled Employer Plans." Secure Retirement Institute (SRI). May 4, 2022. https://www.limra.com/en/newsroom/industry-trends/2022/small-employers-interested-in-learning-more-about-pooled-employer-plans-not-yet-ready-to-implement/

7 Stephen Miller. "Priorities Shift as Pandemic Recedes, SHRM 2022 Employee Benefits Survey Shows." Society for Human Resource Management. June 12, 2022. https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/benefits-priorities-shift-as-the-pandemic-recedes-shrm-2022-employee-benefits-survey-shows.aspx

# Selecting the Right PEP Matters

**As employers begin to assess which PEP may work for their organization, they should keep in mind that not all pooled employer plans are the same.**

At Ascensus, we believe that every worker deserves to feel financially secure. That's why our companies offer a range of well-designed retirement solutions, including MEPs and PEPs, backed by specialized knowledge, leading-edge technology, and a client-first attitude.

So whatever your goals for the future, Ascensus can help you get there.

**Learn more.**

800-345-6363 retirementsolutions@ascensus.com ascensus.com

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