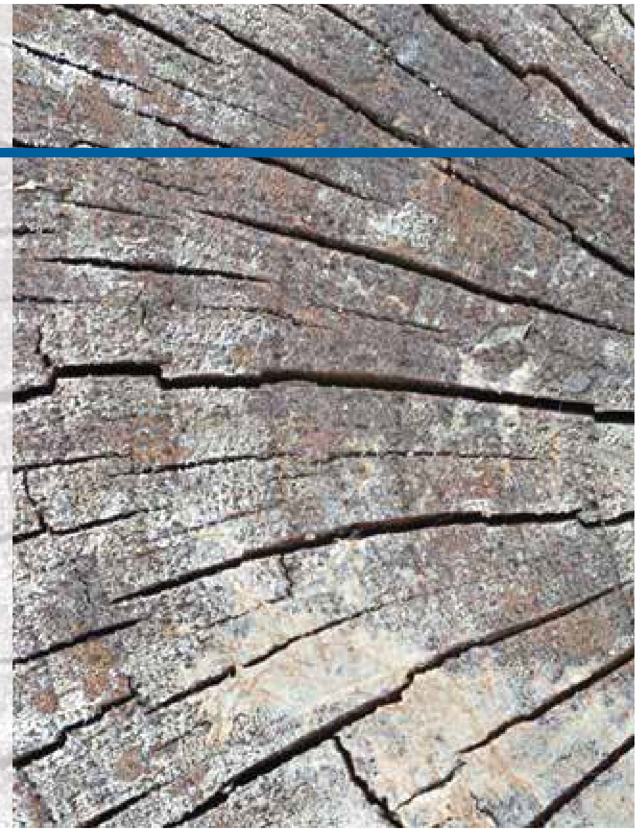


MEPs: What's Old Is New Again

By Deb Dupont
Assistant Vice President, Retirement Research, LIMRA

MEPs (Multiple Employer Plans)

Multiple employer plans (MEPs) are not a new concept in the defined contribution (DC) landscape. In theory, a MEP helps employers — especially smaller ones — band together in offering a DC plan. In doing so, these employers presumably enjoy advantages that otherwise would not be available to them.

There are many reasons that MEPs have intrigued the press and the retirement industry in general — such as lower cost, economies of scale, easier administration, and reduced fiduciary responsibility. Add to these benefits the theory that facilitating a MEP can help improve Americans' access to workplace-enabled retirement plans (since it makes it easier for smaller employers to offer them). What's more, recent regulatory legislative activity (in the form of the proposed RESA, SECURE Act, and other government actions) likely will continue to generate interest and discussion on the topic.

For most people, the first step toward saving for retirement is having access to a convenient way to save.

Conventional wisdom, supported by research, suggests that the easiest way for individuals to save is through the workplace. In fact, just one third of workers who are not offered the chance to save via a DC plan regularly save for retirement.[1]

A lack of access to retirement savings via the workplace, especially for employees of smaller companies, is commonly believed to impede employees' abilities to actively save and prepare for retirement. Most often, workplace retirement saving takes place via payroll deductions into a DC plan. However, more than half of workers in the smallest private-sector companies (1 to 49 employees) — and one third of workers overall — lack access to a DC plan (Figure 1).

Access to defined benefit (DB) plans (i.e., traditional pensions), which might alleviate some of the savings responsibility from employees themselves, is thinnest in private sectors. Only 17 percent of these workers currently have access to a DB plan (and just 13 percent participate).[2]

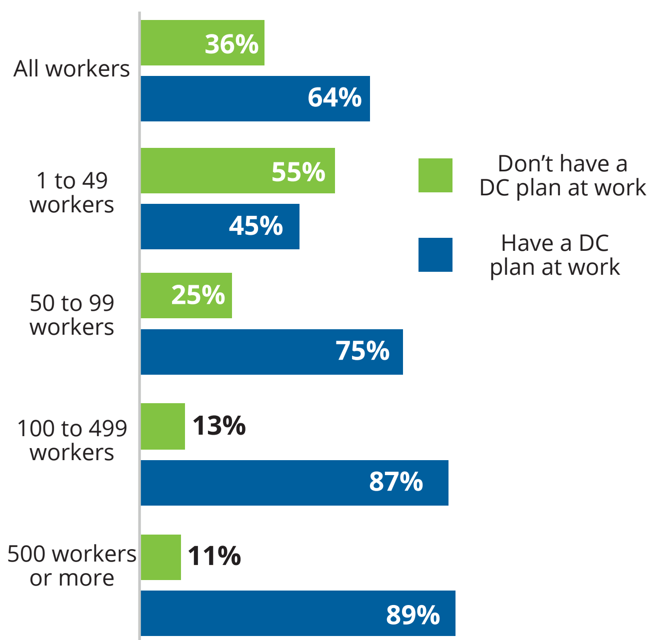
In not-for-profit sectors, DC access is less widespread. Just 37 percent of state and local government workers have access to DC savings plans, while 86 percent overall (and 91 percent of teachers) have access to DB plans.

Expanding access to workplace retirement savings options, particularly in the private sector and especially for employees of smaller companies (where access is lowest), has been the subject of much industry and regulatory attention.

While there is likely no "magic bullet" solution, individual states have entered the fray. They have issued proposals mandating that employers (usually within certain guidelines or parameters, such as number of employees or years in business) offer some sort of payroll deduction plan (Figure 2). As of early 2019, 10 states had implemented programs, and more than 30 had explored them or had a related effort underway.

Figure 1

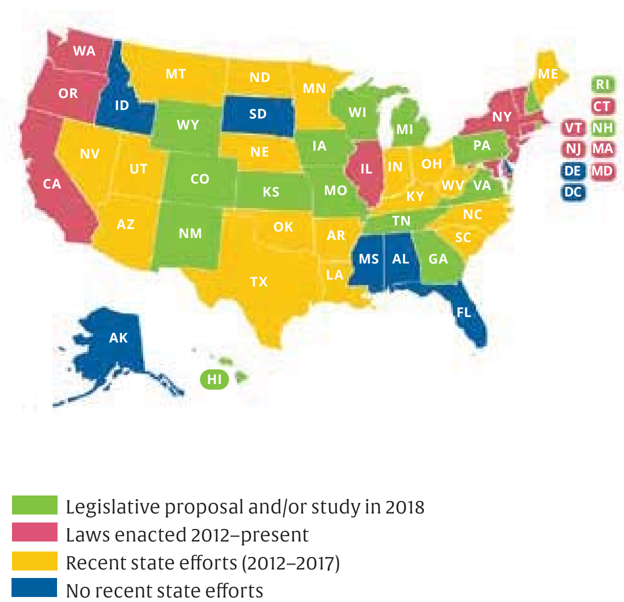
Access to Defined Contribution Retirement Savings at Work



Source: Secure Retirement Institute analysis of the U.S. Bureau of Labor Statistics National Compensation Survey: Employee Benefits in the United States Table 1: Private Industry Workers, 2018 and Institutional Retirement Reference Guide, First Edition, page 55, 2019.

Figure 2

U.S. State Retirement Initiatives



Source: Georgetown University Center for Retirement Initiatives, 2018 Legislative Map (last updated January 2019).

> A MEP helps employers — especially smaller ones — band together in offering a DC plan.

Usually, these plans take the form of payroll deduction IRAs — but another state-facilitated option on the table in Massachusetts and Vermont is a multiple employer plan (MEP). While the concept of a MEP is nothing new (and does not, in fact, require state sponsorship), it has attracted renewed interest on both state and national levels.

A Closer Look at MEPs

At its heart, a MEP is a DC program that allows multiple employers to "join forces" in offering a plan that shares a common administrator, and to enjoy economies of scale and administration — most notably by filing a single Form 5500 for the entire plan. Because of these advantages, MEPs are perceived as especially attractive to smaller employers, for whom the administrative burden, setup costs, and ongoing responsibilities might make offering their own DC plan prohibitive and onerous.

Until recently, however, widespread adoption of MEPs (state-mandated initiatives aside) was hindered by two primary factors:

- A "common nexus" requirement, where participating employers had to have "something in common" (e.g., belonging to a similar business organization or trade group) in order to file a single Form 5500.
- The perceived "bad apple rule" (formally, the Unified Plan Rule), under which non-compliance by a single plan sponsor can disqualify the whole plan. (In reality, this rule has had a "minimal practical effect.")[3]

Without diving deeply into the technicalities, easing these impediments to broader MEP adoption has been a legislative and regulatory priority. In summer 2019, the IRS and U.S. Treasury Department issued a proposal to give MEPs relief from, and clear steps to mitigate the effects of, a single "bad apple." The U.S. Department of Labor also issued a Field Assistance Bulletin broadening the scope of the entities that would be eligible to sponsor and participate in a MEP (clarifying that associations and professional employer organizations [PEOs] can sponsor MEPs). Perhaps even more promising for MEPs is further broadening the definition of what entities can sponsor them, which is part of the SECURE Act, signed into law in December 2019.

Voice of the Customer: Plan Sponsor Views

While the objective of expanding MEP availability is to extend retirement savings access to more workers, their impact may not be limited to just those employers not already offering plans — or even just to smaller employers.

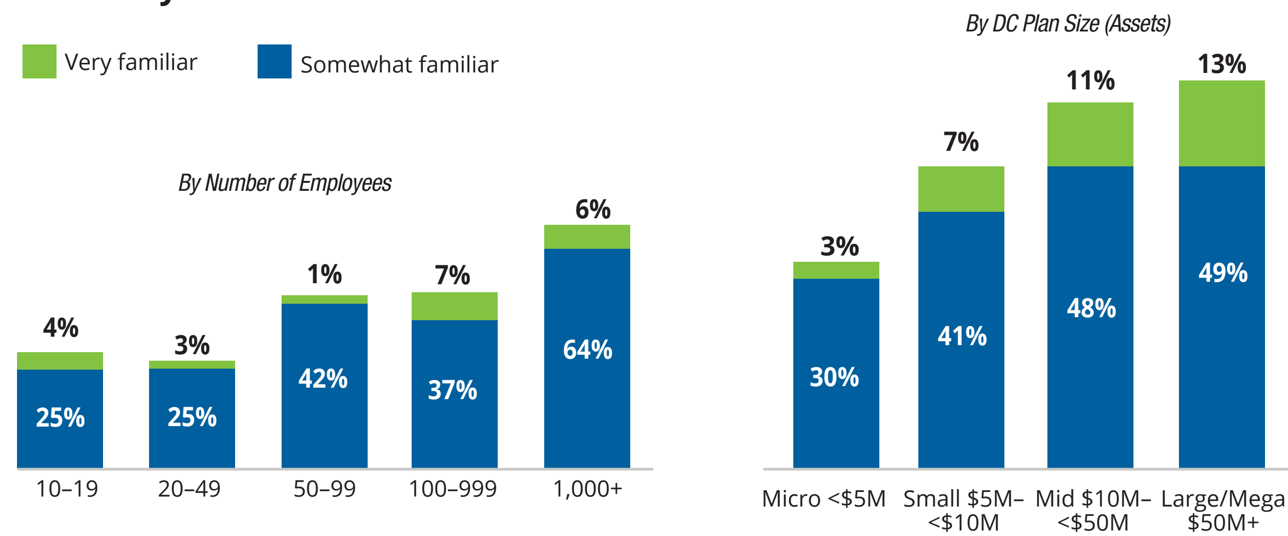
Familiarity with the concept of MEPs is actually much stronger among DC sponsors in larger companies and with larger plans. Just 3 in 10 sponsors in companies with fewer than 20 employees are familiar with MEPs, compared to 7 in 10 at companies with 1,000 or more employees (Figure 3). The "size effect" is also evident based on the size of the DC plan currently in place. Sixty-three percent of the largest plan sponsors (with $50 million or more in assets) say they are at least somewhat familiar with MEPs. This is in contrast to just 33 percent of plan sponsors more to be likely targets for MEPs, with $5 million or less in assets.

The effect continues, and even expands, depending on how interested a sponsor — *of an existing DC plan* — is in considering participation in a MEP. (This assumes that the "common nexus" requirement was eliminated.) More than half (56 percent) of DC plan sponsors would be willing to explore participation in a MEP.

Notably, more sponsors say they would be "very or somewhat" interested in considering participation (56 percent) than say they are actually familiar with the concept of a MEP (36 percent) (Figure 4).

Figure 3

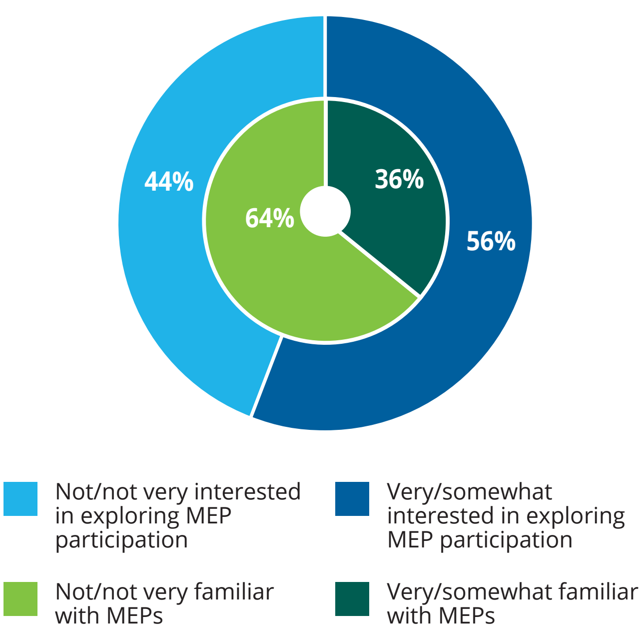
Familiarity With MEPs



Source: Better Together? Multiple Employer Plans — Understanding Plan Sponsor Perceptions and Intentions, Secure Retirement Institute, 2019.

Figure 4

Familiarity With MEPs and Interest in Exploring MEP Participation



Source: LIMRA 2018 Plan Sponsor Survey. Based on 758 defined contribution plan sponsors in companies with 10 or more employees.

The degree of interest in participation may point to plan sponsors' inherent willingness to explore alternative approaches to DC saving. It may also indicate openness to the possibility of "offloading" some of the related administration and liabilities. However, the implied benefits of *lower cost* clearly top the list of MEPs' "attractive" features.

Interest in or willingness to consider MEP participation — perhaps counterintuitively (and almost certainly at odds with the intention of appealing to smaller employers) — is higher among plan sponsors with *more* employees and larger DC plans (Figures 5 and 6).

The Appeal of MEPs

Topping the list of features sponsors find attractive is the belief that participating in a MEP would mean lower plan costs (Figure 7). Three quarters of all plan sponsors are drawn to reduced plan costs, and 8 in 10 of those respondents are "very" interested in pursuing a MEP. To leverage those cost savings to provide other benefits, however, has less appeal — attractive to only 33 percent of sponsors overall and to 55 percent of those who are "very" interested in participation.

Regardless of number of employees, or size of the existing DC plan, nearly 7 in 10 plan sponsors find the potential for lower costs to be an appealing benefit of MEP participation. Lower plan costs are more important to sponsors of smaller plans, with 73 percent of micro plans and 78 percent of small plans attracted to this factor, compared to 66 percent of sponsors in larger companies.[4] Still, cost remains top of mind for all sponsors in their willingness to consider alternate plan arrangements.

Taking "interest" out of the mix, the second most powerful feature is the potential to reduce administrative burdens, an attractive concept to 47 percent of sponsors. The corollary to administrative "burden," however, is "control," and a nearly equal proportion of sponsors (42 percent) cite *losing* control of plan administration as a powerful *disincentive* from MEP participation.

There is also a strong connection between feeling the "pain" of key plan administration functions, such as payroll and data feeds among vendors and record keepers, and willingness to consider a MEP. More than 8 in 10 sponsors who feel that these tasks make it difficult to offer a plan are interested in exploring a MEP. This compares to just half who do not feel the burden of these administrative tasks (Figure 8).

Less than one fifth of plan sponsors indicate that the threat of employee lawsuits is a disincentive to offering a plan in the first place. It seems reasonable, then, that limiting or reducing fiduciary and/or legal liabilities associated with plan sponsorship is among the less attractive features of offering a MEP. Slightly less than one third of sponsors overall, and about one third of sponsors "very" interested in a MEP, say reducing liability is an appealing reason to join a MEP. Sponsors who agree that the threat of a lawsuit is a disincentive to offering a plan are more interested in exploring MEP participation (Figure 9).

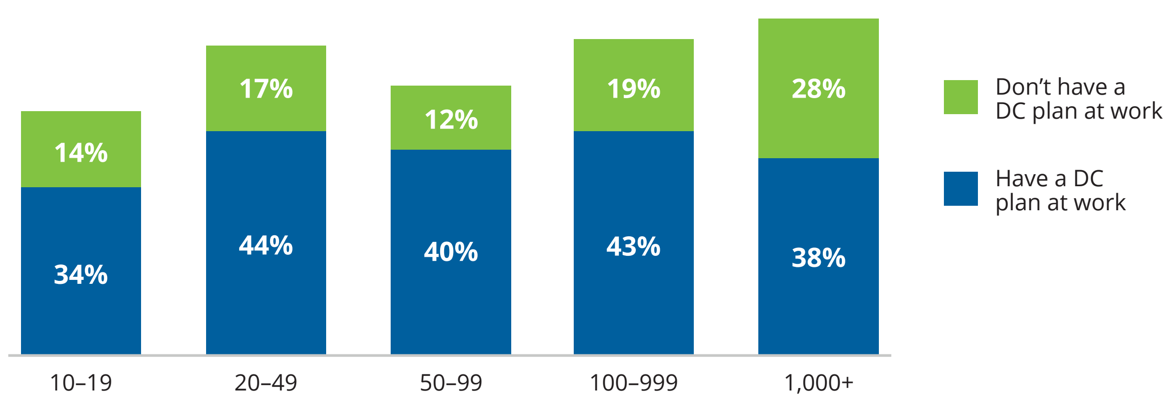
Diverging — and Not Entirely Clear — Path(s) Ahead

Time, and possibly the next legislative session, will shed more light on the future of MEPs and the practical applications of adoption by a wider range of employers. Recent SRI research reveals that the interest in joining forces with other employers to offer a retirement solution may not be limited to employers that currently do *not* have a DC plan already in place. Existing DC plan sponsors indicate significant interest in MEPs. What's more, that interest is not limited to sponsors of smaller plans and at smaller companies. Expanded access to MEP participation (and sponsorship) may open the doors to a shift in DC coverage and access more far-reaching than simply enabling more plans to form. Existing plans may also shift. Both scenarios represent the potential for opportunities and challenges

Figure 5

Interest in Exploring MEP Participation

By Number of Employees

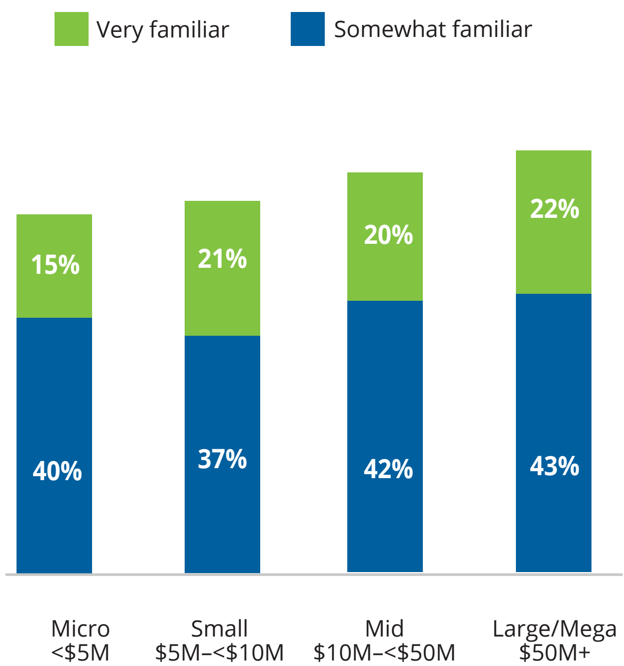


Source: Better Together? Multiple Employer Plans — Understanding Plan Sponsor Perceptions and Intentions, Secure Retirement Institute, 2019.

Figure 6

Interest in Pursuing MEP Participation

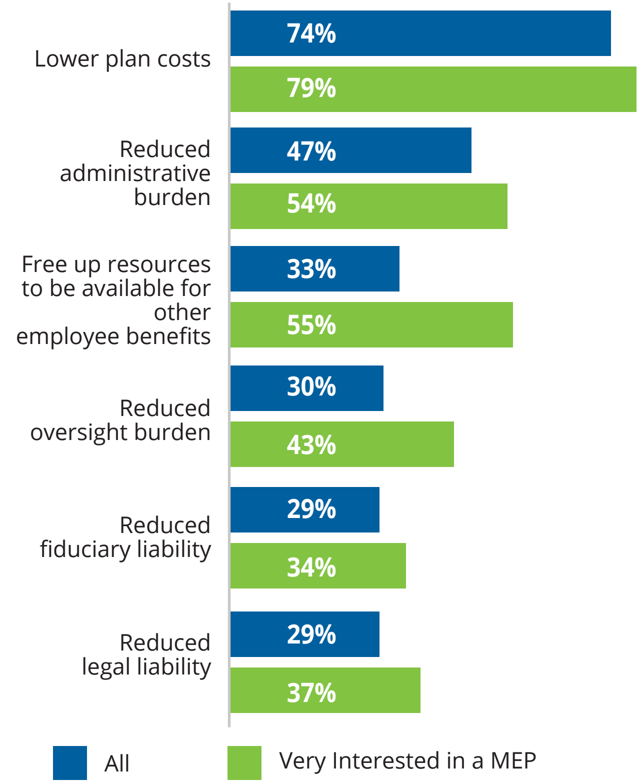
By DC Plan Size



Source: LIMRA 2018 Plan Sponsor Survey. Based on 758 defined contribution plan sponsors in companies with 10 or more employees.

Figure 7

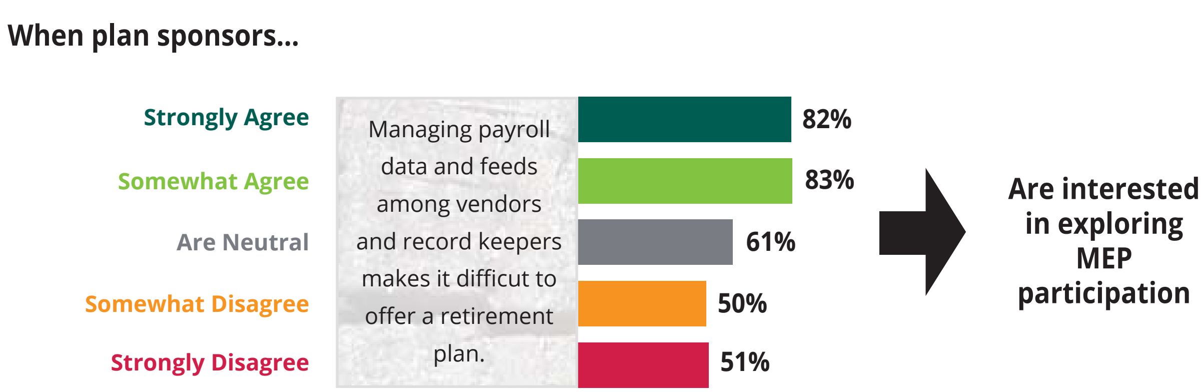
MEP Features Attractive to All Sponsors and Those "Very" Interested in a MEP



Source: Better Together? Multiple Employer Plans — Understanding Plan Sponsor Perceptions and Intentions, Secure Retirement Institute, 2019.

Figure 8

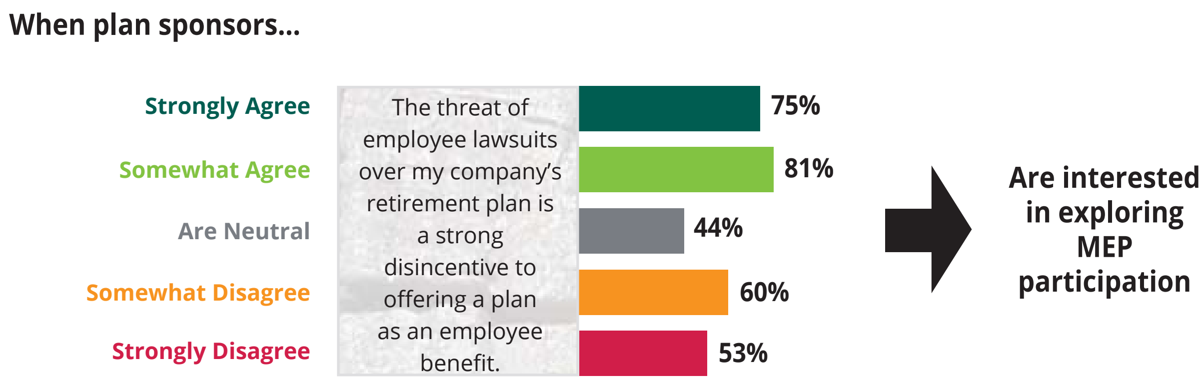
Administrative Burden and Willingness to Consider a MEP



Source: Better Together? Multiple Employer Plans — Understanding Plan Sponsor Perceptions and Intentions, Secure Retirement Institute, 2019.

Figure 9

Fear of Lawsuits and Willingness to Consider a MEP



Source: Better Together? Multiple Employer Plans — Understanding Plan Sponsor Perceptions and Intentions, Secure Retirement Institute, 2019.

for those already supporting DC clients. New markets may open for recordkeepers and advisors who want to leverage the "access gap" and help more employers offer DC plans using a MEP arrangement — and even those who wish to convert from a traditional single-employer DC to a MEP. Recordkeepers and advisors should also be aware that existing clients may be attracted to MEPs and take steps to protect their current books of business.

1 *The Retirement Savings Decision in Context*, Secure Retirement Institute, 2014.

2 U.S. Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States*, Table 2: Private Industry Workers, U.S. Bureau of Labor Statistics 2018 and *Institutional Retirement Reference Guide*, First Edition, page 58, Secure Retirement Institute, 2019.

3 Toth, Robert, "Why MEP 'One Bad Apple' Correction Is an Illusion," *401(k) Specialist,* July 15, 2019.

4 LIMRA 2018 Plan Sponsor Survey. Based on 758 defined contribution plan sponsors in companies with 10 or more employees.

Deb Dupont is responsible for the Secure Retirement Institute's institutional retirement research program. She conducts and supervises research, benchmark reporting, and study groups focused on the issues and trends faced by constituents of the defined contribution industry. She also provides guidance and thought leadership in helping LIMRA's member firms better understand the opportunities available for improving delivery of institutional retirement solutions. She is a graduate of the University of Connecticut. She can be reached at ddupont@limra.com.