A PRIMER ON POOLED EMPLOYER PLANS

DELIVERING MULTI-FACETED BENEFITS

PEPs can effectively address several challenges that employers are facing as they aim to strengthen their DC plans.

The defined contribution plan has gained prominence as a key benefit for attracting and retaining employees, which has led plan sponsors to reassess how they can optimize efficiently to provide strong retirement benefits for their workforce. Powered by the SECURE Act of 2019 that sought to boost retirement security for working Americans, the pooled employer plan — or PEP, a new type of multiple employer plan that has several unrelated employers and is managed by one pooled plan provider — has emerged to meet that objective.

"PEPs represent an extension of the existing DC outsourcing spectrum, enabling employers to outsource the plan sponsor role. This allows companies to focus on their core business while ensuring their employees receive high-quality retirement benefits managed by experts," said Chris West, managing director, DC strategy leader and head of the U.S. LifeSight® PEP Pooled Employer Plan at WTW. "With DC plans on the rise globally and $3 trillion in pooled DC plans worldwide,[1] the availability of PEPs is a significant step forward in the retirement landscape," she added.

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- David Eisenreich
WTW

"The benefits of pooled retirement plan models appeal to many employers. However, access to these models has historically been limited," said Deborah Rubin, vice president and managing director for pooled plan sales at Transamerica. "As Congress explored solutions to the growing retirement savings gap, broadening access to pooled models became an attractive way to expand coverage for participants while providing employers with many benefits that they seek."

Valued benefit

In the 2024 WTW Global Benefits Attitudes Survey, two-thirds of employees said their employer's retirement plan is more important to them now than ever before. In fact, 55% said it is an important reason for choosing to remain with their employer.[2] Even as DC plan sponsors recognize this heightened need for retirement security, they continue to face numerous challenges in delivering a robust retirement plan, said David Eisenreich, managing director and head of retirement, North America, at WTW. The good news is that they can consider an expanding range of DC solutions that now includes PEPs to solve many of these challenges.

Plans also face regulatory uncertainty and complexity, all of which create added burdens. "Employers struggle to provide customized and comprehensive benefits because it takes a lot of work and comes with legal and compliance risks. This makes it harder for them to ensure better retirement outcomes for their employees," Eisenreich said. He also noted that there are various cost management challenges, including plan administration, record keeping, compliance, fiduciary oversight, and fees for plan investments.

Engaging participants with plan communication and education is critical to retirement preparedness, but this too can be expensive, Eisenreich said. "Participants often don't have time and feel ill-equipped to make informed decisions around retirement savings. Providing the required educational support to help and engage them can be costly and resource intensive for employers."

Comparative advantages

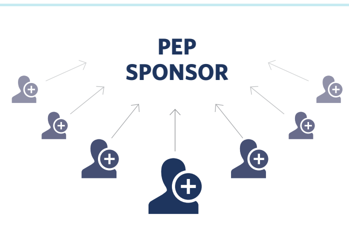
"Employers are looking for a retirement solution that is simple, reduces their day-to-day fiduciary and administrative burden, and is cost effective," said Stanley Kim, director and pooled plan practice leader at Transamerica, which is a record keeper for single employer DC plans as well as multiple employer plans like PEPs, including the PEP offered by WTW. For many plans, both small and large, that solution is to join a PEP as a participating employer, he said.

In addition to its collective buying power, which typically reduces overall plan costs for each participating employer, the PEP model provides several advantages over stand-alone plans. "A PEP allows DC plans to reduce their liability by outsourcing much of the fiduciary responsibility as well as audit responsibility, with a PEP itself subject to a single audit, which often saves the participating employers money," Kim said.

The PEP model eases plans' administrative burdens, said Rubin. "The PEP is structured specifically to do that. The service providers do a lot of the heavy lifting for the plan sponsor."

Employee communications is another specialized area that is managed by the pooled plan provider, or PPP, along with the record keeper. "As it pertains to employee engagement, participation and data, each participating employer in the PEP gets the data and services they need, as they would in a single employer plan. Plans don't lose anything," Rubin said. In fact, the PEP could provide enhanced communications, education and engagement tools that plan sponsors may not have the resources to provide in a single plan.

A more robust investment menu is another key reason that employers are turning to PEPs, said West. "They may not have access to a sophisticated fund lineup with the lowest fees. In a PEP, participating employers are able to take advantage of scale and can provide better risk-adjusted return potential to their employees, while also transferring their fiduciary risk and lowering fees."



Source: Transamerica

By joining the PEP, adopting employers can focus on running their business and meeting the needs of their employees. Benefits include:

1. Administrative relief
2. Reduced liability
3. Time savings
4. Professionally managed investment selection & performance oversight
5. Potential cost savings
6. Customized plan features
7. Participant communications & plan support

[1] *From WTW's Thinking Ahead Institute based on analysis of publicly available information. As of May 2024.*
[2] *2024 WTW Global Benefits Attitude Survey:* https://www.wtwco.com/en-us/news/2024/06/majority-of-employees-worried-about-meeting-basic-costs-wtw-survey-finds

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Dispelling myths

Several myths and misunderstandings about PEPs persist among plan sponsors. Many think PEPs are too new, appropriate only for small plans, or have a one-size-fits-all approach.

Eisenreich said of LifeSight, “Because it’s a pooled employer plan, the first question that we get is, ‘Can I still design the plan features the way I want?’ The answer is, ‘Yes.’ That question jumps out due to a misconception or lack of understanding” of PEPs.

As the PEP provider industry has grown, some plan sponsors may have evaluated some options that don’t, in fact, provide any flexibility in design, Kim said. It has led to the misconception that for all pooled plans, “the employer is restricted in plan design options.” The restrictions are not inherent to the structure, but rather they stem from the constraints of service providers, he said.

Employers should evaluate the specifics of each PEP, along with the track record and capabilities of all organizations involved in managing the PEP, including the record keeper, Kim advised. Transamerica, which has 20 years of experience in the pooled plan market, has technology specifically designed to support these types of plans.

What’s flexible

Plan sponsors who consider joining a PEP need to understand which aspects of the model are pooled and the features that are not, which in turn allow for some flexibility.

Largely the administrative or back-office functions are pooled. Eisenreich said, “If you have 10 single employer plans, that means 10 audits need to be done. If you put those same 10 employers into a PEP, things are no longer replicated 10 times — they’re done once.”

But the PEP model can also provide flexibility in some of the design and investment features that are unique and important to each specific employer. At WTW, “we’re not pooling design elements and our investment lineup uses an open architecture approach,” Eisenreich noted, which allows the participating employers to customize these features.

WTW’s LifeSight PEP combines flexibility with efficiency in its approach to overall 401(k) administration, West said. “It has flexibility in areas that materially impact the employer’s value proposition, such as eligibility, types of employer contributions, allocation formulas, automated features and investing.” In addition, the transition process from a single plan to WTW’s pooled plan is relatively seamless as well, she noted. “The flexibility of the LifeSight PEP allows employers to adopt it with little or no change from their current core plan design. We’re keeping what matters most to them and to their employees.”

UNDERSTANDING THE PEP STRUCTURE

An explanation of eligibility, features and plan sponsor responsibilities.

The SECURE Act in 2019 created pooled employer plans for 401(k) plans, and SECURE 2.0 in 2022 expanded the eligibility of PEPs to 403(b) plans offered by non-profits and educational institutions. Smaller plans that are more resource constrained were the early adopters. Today, interest has widened to include DC plans of all sizes pursuing the PEP solution.

PEPs versus MEPs

For plan sponsors considering this model, it’s important to clarify how PEPs are different from traditional multiple employer plans, or MEPs, which require the participating employers to have some commonality in the same industry or business. “PEPs, unlike MEPs, don’t have a common nexus rule, making it a clear path forward for unrelated entities that can join and obtain the benefits that traditional MEPs provided,” said Rubin at Transamerica.

PEPs also avoid the burden of MEPs under the “one bad apple” rule, which penalizes all participating employers for the compliance failures of one. Instead, under a PEP, the participating employers are protected from the failures of any single employer in the plan. “Eliminating the bad apple rule opened up pooled plan options to unrelated employers without that added level of concern,” Rubin said.

PEPs are structurally distinct from MEPs too. They designate a pooled plan provider, or PPP, as the sponsor of the PEP with the individual plans referred to as participating employers. The PPP is the plan’s fiduciary and has oversight of investments, administrative duties and monitoring the other third-party providers. With MEPs, the plan sponsor is typically the industry association or professional organization of the participating employers.

“The PPP is the sponsor, the plan administrator, the named fiduciary, and it is the entity responsible for performing all the administrative duties. The PPP is also required to register with the Treasury and Department of Labor, said Transamerica’s Kim. Further, the PPP is responsible for hiring and monitoring all the PEP’s service providers.

Distinct from group plans

Kim pointed out that the administrative approach for PEPs is different from other aggregation programs, including group plan solutions, or GPS. These are unrelated

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>
> **- Deborah Rubin**
> Transamerica

Five common PEP misconceptions

1. PEPs are new and unproven

Pooled delivery of DC plans has been around in the U.S. for decades – recent legislation simply expands access to unrelated employers.

2. PEPs are only for small plans

While small plans may benefit the most from increased scale, PEPs can provide less effort, risk mitigation, improved participant outcomes and lower costs regardless of plan size.

3. PEPs don’t benefit employees

Lower fees can directly increase retirement balances for employees. In addition, employees may gain access to design features, innovative investments, an enhanced user experience, and more.

4. PEPs are one size fits all

Flexibility varies significantly from one PEP to another. LifeSight allows each employer to set the plan design that is right for them.

5. PEPs are difficult to monitor

LifeSight offers a simple, transparent service model and fees. In addition, we provide periodic information to assist employers in their fiduciary monitoring role.

Source: WTW

CASE STUDY: THE LIFESIGHT PEP

How can a PEP deliver effective operation and administration of the pooled model while also providing employers with a solution that improves retirement outcomes for their plan population? WTW's LifeSight PEP leverages the firm's deep experience and capabilities in administering global DC pooled plan solutions totaling over $30 billion in assets and covering more than 500,000 participants and 1,000 clients.[3]

Institutional focus

As Eisenreich said, "With LifeSight, we focused on maintaining flexibility in the areas that materially impact employers, namely the cost and the alignment to their total rewards approach. Where employers want control, we're giving them control, and in others, we're relieving them of burdensome tasks." The LifeSight PEP provides plans of all sizes access to the institutional scale, features, oversight policies, and governance model used by the most sophisticated DC plans.

"The LifeSight PEP brings efficiency to 401(k) plan administration without requiring a one-size-fits-all approach," added WTW's West. Participating employers can determine their preferences for eligibility, types of employer contributions, allocation formulas, automated features and investing. But, if they so choose, they can access WTW's recommended plan design that includes suggested employee deferral rates.

Transamerica's Kim underscored the LifeSight PEPs unique approach to delivering flexibility. "This PEP is for an employer looking for all the same benefits of a single employer plan with the maximum allowance of fiduciary and administrative outsourcing. It is designed for the sophisticated plan sponsor that has complexity to their plan and doesn't want to be put into a particular box."

Governance is also critical in a pooled plan structure, given that employers are outsourcing so many fiduciary responsibilities. "A strong governance and compliance model is the foundation of the LifeSight PEP," West said. "Our in-house structure ensures coordination and accountability, which reduces the risk of oversight gaps, and ensures consistent compliance across all of the required plan activities." The LifeSight PEP has a dedicated compliance leader who closely tracks regulatory changes in coordination with WTW's Research and Innovation Center.

Ease of transition is another key aspect when selecting a pooled plan. Eisenreich said, "Guiding employers through change is in our DNA. We routinely lead clients through transitions of DC plan, pension plan and health and benefit plan strategy, delivery and employee experience with ease and confidence." West added, "Our approach makes moving to the LifeSight PEP straightforward. We coordinate directly with a plan sponsor's existing vendors and payroll to lessen the burden on the plan sponsor."

Employee experience and outcomes

The LifeSight PEP is designed to meet the needs of plan participants on several fronts, starting with WTW's proprietary employee experience platform that delivers a modern, digital user experience. It is also designed to support employees when it comes to retirement readiness. "It is important that employees are engaged in a way that inspires them to use the tools and resources offered to them to take appropriate actions," Eisenreich said.

In addition, employers can use WTW's analytics to evaluate employee behaviors and help improve participant outcomes. "The LifeSight PEP offers quarterly interactive insights to identify areas of financial vulnerability. When you identify vulnerability, you can manage it," he said. This continuous view of data and insights, likely exceeding what many sponsors get from their individual plans, is crucial. "Our ability to segment this data allows us to help plan sponsors identify areas of improvement and curate actions for the most effective use of their time and budget."

Investment structure

The LifeSight PEP's investment structure utilizes custom ("white label") core funds and custom target date funds, which allow WTW to integrate the top investment research insights where it can be most impactful to participant outcomes. The investment menu also has a range of investment options tailored to differing risk appetites and retirement goals. "Individuals should have access to funds that really meet their individual risk tolerance and preference," West said.

The investment menu is designed to meet the needs of the three main types of participant profiles: "do it for me," "help me do it" and "do it myself." The investment choices correspond to the different profiles: a target-date fund, which is the default option; a core lineup, including a managed account option (WTW's solution is LifeSight Advice); and a brokerage window. The menu can also accommodate a company stock fund, if offered by the employer.

Fees are kept low, in part because WTW is able to leverage its outsourced chief investment officer, or OCIO, platform with $162 billion in global AUM.[4] In fact, as West noted, WTW played a significant role in originating the DC industry's first target-date fund.

With LifeSight, Eisenreich said WTW has continued its tradition of DC plan innovation, building on its own expertise and that of its partners. "Our solution includes investment advisory, fiduciary expertise, employee communications and engagement, defined contribution plan design, strategy and compliance. We're operating the plan efficiently, effectively and accurately."

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- Chris West
WTW

entities that, for pricing reasons, share common service providers, including an administrator, record keeper or investment manager. However, each large plan filer in a GPS is required to have an audit performed, and each employer is responsible for filling out the DOL's annual Form 5500. In a PEP, the PPP files a single Form 5500 and coordinates the PEP's audit.

DC plan sponsors should evaluate all the different types of aggregation programs to understand their subtle differences and comparative advantages — a service that Transamerica provides, he added. The PEP provides the highest level of fiduciary outsourcing among these programs.[5]

How to evaluate a PPP

When selecting a PEP, sponsors need to assess the PPP and the service providers involved, including their track records, reputations and capabilities.

WTW's deep expertise across the DC landscape has drawn sponsors to its LifeSight PEP, West said. "We've provided retirement consulting services for more than 140 years. The U.S. LifeSight PEP expands on our capabilities, supporting clients through administration, co-fiduciary services, plan design, data and analytics, investment advisory and delegated solution and vendor management." WTW manages over $30 billion in assets of pooled DC plans globally, which includes pooled plans in the U.K. and Europe.[6]

For the LifeSight PEP, WTW turned to partners who had similar expertise in DC group plan solutions. It is "important to hold our providers and partners to high standards of quality. This is a major reason why we selected Transamerica" as record keeper, she said. In addition, Deloitte is the PEP's auditor, State Street Bank and Trust serves as the trustee, and the investment menu leverages high-conviction third-party managers including BlackRock, PGIM and State Street Global Advisors, among others.

Plan sponsor duties

Though PEPs may be the most comprehensive DC outsourcing solution available today, the participating plan sponsors still maintain some responsibilities after joining a PEP, Kim said. This includes monitoring the PPP and assessing the appropriateness of fees. Each participating employer "has to monitor the 3(38) investment manager but not necessarily the individual investment lineup. Each plan also has a fiduciary responsibility to make sure the submission of payroll is timely and accurate."

Nonetheless, compared with single employer plans, PEPs may offer a meaningful reduction in costs and managing fiduciary and administrative responsibilities, with

[3] *Assets as of July 2024, counts as of September 2023.*
[4] *As of December 31, 2023.*
[5] *Transamerica white paper: https://cdn.bfldr.com/86JM1UOD/as/qfaf0z-3xs588-82ew5p/Whitepaper_Ferenczy_Law_Difference_Between_SEP_MEP_PEP*
[6] *As of July 2024.*

the potential for improved participant engagement and decision making. "For employers interested in offering a retirement program that hands off responsibilities to professionals, that is where PEPs are incredibly attractive," Kim said.

DELVING INTO THE SERVICE MODEL

Record keepers are key to meeting the needs of participating employers via a robust technology platform.

How are record keepers for a pooled employer plan able to replicate what a DC plan sponsor — and its plan participants — experience under a single employer plan? And further, how are record keepers pushing the needle to help drive positive retirement outcomes for participants?

These are key questions for plan sponsors when assessing the suitability of the PEP service model. "Record keepers provide similar functions in the PEP to what a participating employer would expect from them in a single employer plan," said Transamerica's Kim. But there can be significant differences among record keepers on what they can deliver to participating employers in a PEP when it comes to the planning, design and flexibility. These are largely the result of differences in technology.

"Our systems were developed and designed for pooled plan structures. It allows each participating employer to have the individual experience they would have expected in a single employer plan" when joining a pool, Transamerica's Rubin said. For example, an individual plan participant sees only their own employer information when logging in to their account. Transamerica can also provide automatic rolled up reporting on all plan participants for each participating employer. Some record keeping platforms that were built for single employer plans would not necessarily have these requisite capabilities when it comes to pooled plans, she said.

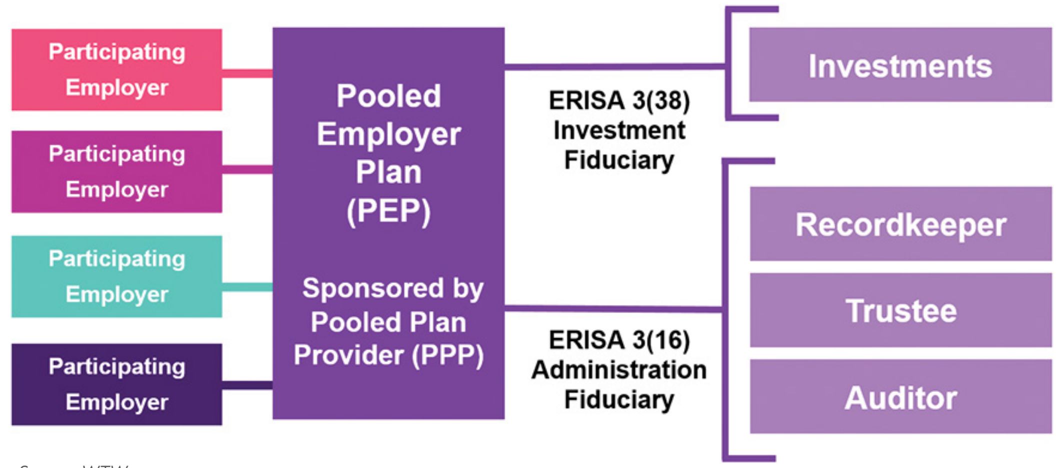
At Transamerica, "our record keeping system provides expansive reporting and tracking of participant behavior on both an individual participating employer level, but also from an entire PEP level. That enables us to deploy targeted and customized communications to employees to encourage them to save and invest," Kim said.

Employee education and communication are also a key consideration for participating sponsors. "How to engage with employees is top of mind for every record keeper and plan sponsor," Rubin noted. "As it pertains to employee engagement, participation and data, employers in a PEP get access to their analytics and annual reviews at the specific participating employer level."

Rubin emphasized that record keepers need to have distinct expertise and capabilities to support pooled plans. "You need individuals who have an understanding of the unique nature of pooled plans and the clients joining them. At Transamerica, we have specific communications managers that are assigned to pooled structures in order to engage with those clients and understand their specific needs." The record keeper also leverages several technologies and tools to engage plan participants in the PEP via a range of channels and even custom targeted campaigns.

One focus of Transamerica's engagement programs is to create "journeys" for employees to identify the next financial step or goal on their path to retirement. "We engage with people in ways that matter the most to them," Rubin said.

Understanding the PEP structure



Source: WTW
https://www.wtwco.com/en-us/solutions/services/pooled-employer-plan

WHAT'S NEXT?

PEPs could continue to evolve and grow, but employers need to learn more about them.

With under five years in existence, PEPs have already established themselves as a robust retirement plan solution. Although their original appeal was believed to be limited to small employers, both mid-sized and large plans are evaluating and adopting them as well. What does the future hold for this structure?

The DC industry is at the front end of an evolution toward even greater adoption of PEPs. "We are going to see technological advancements, smart use of data and insights, and economies of scale that will continue to expand the comparative advantage of PEPs over most single-employer plans," WTW's Eisenreich said.

Another area providers are currently evaluating is the introduction of retirement income solutions within PEPs, including annuities, managed payout funds or other options.

Despite the growth in PEPs, Eisenreich argued that support and advocacy for the merits of pooled platforms from industry and other professional associations is warranted. Several misconceptions around PEPs concerning complexity, loss of control and ability to customize are still widespread. "There is an information gap and lack of understanding. Better knowledge among employers about PEPs' benefits and features is needed," he said.

Lack of knowledge about PEPs is also first on her list of barriers yet to be tackled, said Rubin at Transamerica. "Sponsors don't know how they work, nor their benefits." This holds true of some consultants and advisers as well. Another barrier is the fear of loss of control in a PEP, which is a mistaken perception. "It comes back to learning and education."

Also, many plan sponsors assume that all PEPs are the same. They are not, Rubin said. "Like any retirement program, there are nuances, and sponsors need to find the right pooled plan for them." It involves conducting thorough due diligence on the available PEPs, the PPP and the partnering service providers.

"There is momentum in this space, with a tremendous number of drivers" behind it, Rubin said. "When PEPs are positioned correctly, and when employers understand the value and benefits of these programs for their company and their employees, they will often choose these plans." ■