Group 401(k) retirement plan programs 101

The value and distinctions of Multiple Employer Plans (MEPs), Pooled Employer Plans (PEPs) and Multiple Employer Aggregation Programs (MEAPs) to your clients and practice
Table of contents

Why group 401(k)s? .......................................................... 3
Understanding group 401(k) retirement plan programs .................. 4
Identifying potential opportunities ...................................... 8
Recognizing and assessing client perspectives .......................... 10
Determining the best fit for your client ................................. 11
Realizing the value to your practice .................................... 12
Why group 401(k)s?

They give business owners a more efficient and effective way to reach their goals through their retirement plans. They give organizations a way to differentiate themselves and bring meaningful benefits to their members or clients. And they give you a way to show your value to these clients, set yourself apart, and help grow your practice.

You may not realize it, but the foundational concept of a group retirement plan—the multiple employer plan—has deep roots. Dating back to the early 20th century and formalized by the Taft-Hartley Act of 1947, multiple employer plans began as vehicles to make agreements between management and labor unions possible across numerous employers in the same industry. While the multiple employer solutions we know today may look different, their underlying benefits have endured the test of time. In fact, their structure becomes even more relevant every day as business owners adapt to the evolving world around them. They’re looking for the right ways to drive revenue, reduce costs and manage expenses and resources—all while planning ahead for themselves and their employees.

As you consult with clients and talk opportunities, it’s essential to be aware of all the group 401(k) program options that exist—and appreciate that each has a distinct place in your discussions. When you understand how different solutions address unique needs and let that knowledge drive your recommendations, you help position yourself and your clients for success.
Understanding group 401(k) retirement plan programs

The modern group retirement plan is built to create economies of scale for small businesses that band together — businesses that may otherwise view the administrative and cost aspects of running their own plan as barriers. We'll explore three main group program types, which have their places in small and large businesses alike: the traditional Multiple Employer Plan (MEP), the Pooled Employer Plan (PEP) and the Multiple Employer Aggregation Program (MEAP).

Multiple Employer Plan (MEP) or Pooled Employer Plan (PEP)

A MEP is a tax-advantaged retirement plan established under section 413c of the IRS code that unrelated employers (businesses) can adopt (join). A third party that the participating businesses have in common will take on the plan sponsor roles and responsibilities. Other terms for types of MEPs include Association Retirement Plans (ARPs) and Pooled Employer Plans (PEPs).

EXAMPLE:
A dozen small businesses across industries are members of a Chamber of Commerce. The Chamber of Commerce decides to offer a MEP, and its Board of Directors takes on the role of the MEP plan sponsor. When the individual member businesses join, they become adopting employers by moving their company’s 401(k) plan into the Chamber’s MEP. The MEP is viewed as a single retirement plan for tax reporting and audit purposes.

The new PEP structure, available in 2021, is essentially an “Open MEP,” which outsources the plan sponsor status from an organization, like the Chamber of Commerce, to a Pooled Plan Provider (PPP), and is open for any 401(k) plans to join.

Multiple Employer Aggregation Program (MEAP)

A MEAP is a group retirement program that multiple employers can join through their association with a sponsoring organization, which acts in an endorsing capacity. The program typically includes administrative and investment fiduciaries to oversee many operational and fiduciary tasks for the program and its adopting plans.

EXAMPLE:
A dozen small businesses are clients of a payroll company, which decides to offer a MEAP to its client base. The payroll company takes on an endorsing role for the MEAP (versus a plan sponsor role for a MEP). When the individual member businesses join, they become adopting employers by moving their company’s 401(k) plan into the MEAP. The MEAP is viewed as a group of individual retirement plans with an aggregated service structure.

Note: MEP, PEP and MEAP approval will vary by broker-dealer.
Similarities and differences
As we dig into the details, you’ll likely notice that these plans have many similarities. Yet, there are also important distinctions that can make a difference when it comes to deciding what option will work best for a specific client.

How they’re alike:
- MEPs, PEPs and MEAPs are designed to shift some or most of the member plans’ 401(k)-related administrative work, responsibilities and fiduciary liabilities to an outside third party based on the individual employer’s preferences.
- Each offers annual tax reporting handled by the plan sponsor of the MEP, the PPP of the PEP or the 3(16) fiduciary of the MEAP.
- Each offers group pricing discounts that could potentially lead to a discounted overall cost versus their current plan expenses.
- Each often has a process in place to simplify how contributions to the plan are submitted.
- Each typically offers branded marketing support and member recruitment materials to the organizations that sponsor these types of plans.

How they’re different:

<table>
<thead>
<tr>
<th>MEP and PEP</th>
<th>MEAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single plan or group plan by IRS standards</td>
<td>Group of plans</td>
</tr>
<tr>
<td>Single plan</td>
<td>Multiple unrelated businesses join, and the IRS views the MEAP as a group of coordinated but separate plans — meaning, IRS rules apply to each individual plan</td>
</tr>
<tr>
<td>- Multiple unrelated businesses join, and the IRS views the MEP and PEP as just one plan — meaning, IRS rules apply to all member plans as a whole rather than by each employer</td>
<td></td>
</tr>
<tr>
<td>- One master plan document with individual joinder agreements</td>
<td></td>
</tr>
<tr>
<td>- Individual plans in a MEP or PEP are still subject to annual compliance testing</td>
<td></td>
</tr>
<tr>
<td>Form 5500: Single or multiple</td>
<td>Group of plans</td>
</tr>
<tr>
<td>Single form 5500, signed and filed by the MEP plan sponsor or PEP Pooled Plan Provider (PPP)</td>
<td></td>
</tr>
<tr>
<td>Multiple form 5500s, signed and filed by the MEAP’s 3(16) administrative fiduciary, defined on page 7</td>
<td></td>
</tr>
</tbody>
</table>
## How they’re different (continued):

<table>
<thead>
<tr>
<th>Restrictions on where it can be offered</th>
<th>MEP and PEP</th>
<th>MEAP</th>
</tr>
</thead>
</table>
| Can only be offered through MEP-eligible organizations that satisfy ERISA criteria.3 | - The organization can't exist only to offer a MEP — it must have at least one other substantial business purpose.  
- Each adopting employer must have at least one employee who participates in the plan.  
- The organization must have a formal structure and governance.  
- Members must have "commonality of interest," like the same trade or industry, or headquarters in the same geographic region.  
- The organization can't offer the MEP to nonmembers.  
- The organization is not a bank, trust company, insurance issuer, broker-dealer, or other similar financial services firm and is not owned or controlled by or affiliated with such an entity or any subsidiaries.  
Under the SECURE Act and the creation of the Pooled Employer Plan (PEP) structure (which is an "Open MEP"), a MEP may change to the PEP structure and remove the commonality (or nexus) requirement, making it open to any 401(k) plan to join. The plan sponsor of the MEP can then outsource their role to a Pooled Plan Provider (PPP). | Typically offered through organizations that can offer a MEP, or organizations that are in financial services, payroll or benefit businesses. There are far fewer restrictions on the types of organizations that can offer and endorse MEAPs. |

<table>
<thead>
<tr>
<th>Organization’s role</th>
<th>Plan sponsor of the MEP</th>
<th>Endorser of the MEAP</th>
</tr>
</thead>
</table>
| - Controlling member, or lead employer, that sponsors the MEP, makes decisions on plan services and appoints fiduciaries and service providers.  
- The organization may outsource the plan sponsor status to a PPP and be designated as a PEP. | Organization that works with a financial professional to vet and offer the program to individual businesses.  
Individual businesses retain their individual plan sponsor status but outsource most of the responsibilities and liabilities to the MEAP investment and administrative fiduciaries. |

| Adopting employer's role | Has a fiduciary obligation to review the MEP/PEP and its service providers to make sure it’s operating as expected. | Has a fiduciary obligation to review the MEAP and its service providers to make sure it’s operating as expected. |

| Plan audit (Annual ERISA requirement for retirement plans with ≥100 eligible employees) | MEP-/PEP-level audit that covers all adopting plans in the MEP/PEP once it grows to audit status.  
Note: There are a couple of situations where the PEP audit may not be required:  
- If there are no audit-eligible plans; and  
- If there are less than 1,000 total eligible employees of all the plans combined together. | No MEAP-level audit, plans with under 100 participants that do not require an annual audit will not need to have one. Larger plans will still need an audit, but often MEAPs have arrangements to provide plan audits at a reduced price from what they might currently be paying. |
## Fiduciary services

<table>
<thead>
<tr>
<th>Types of fiduciary services used:</th>
<th>MEP and PEP</th>
<th>MEAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>3(16) administrative fiduciary handles the administrative work</td>
<td>![ ]</td>
<td>![ ]</td>
</tr>
<tr>
<td>- Responsible for most of the plan’s day-to-day operations and administrative tasks and helps ensure ERISA compliance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Shares fiduciary responsibility with the plan sponsor.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>AND</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3(21) investment fiduciary collaborates on the investment strategy</td>
<td>![ ]</td>
<td>![ ]</td>
</tr>
<tr>
<td>- Provides guidance on the plan’s investment menu to the plan sponsor for a fee — the plan sponsor ultimately decides whether to act on the recommendations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Has a co-fiduciary role with the plan sponsor.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OR</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3(38) investment fiduciary takes on the investment risk</td>
<td>![ ]</td>
<td>![ ]</td>
</tr>
<tr>
<td>- Controls and oversees the plan’s investment menu, making fund decisions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Has full fiduciary responsibility for the investments — the plan sponsor must monitor this fiduciary.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Identifying potential opportunities

MEPs, PEPs and MEAPs can be a natural fit for a variety of groups and organizations. When you think about your book of business and your prospects, keep in mind that ideal targets cater to business-owner clients or members. Some examples include:

- Industry- or professional-based associations (like the American Accounting Association (AAA) or the National Association of Home Builders (NAHB))
- Common ownerships (like a parent company with multiple subsidiaries)
- Locality-based associations (like Chambers of Commerce)
- Franchises
- Accounting/CPA firms
- Payroll companies
- Benefit and Property & Casualty (P&C) firms
- Professional Employer Organizations (PEO) (like a recruitment and hiring firm or a benefits administration organization)
- Banks or credit unions
- Larger advisory practices
- Group 401(k) retirement plan programs

Notice that each of these targets shares a common theme: They have professional relationships with plan sponsors and business owners that view them as a source of influence. In turn, these organizations need to deliver benefits and services that add value to give businesses a reason to join their organizations — and reasons for them to stay onboard.

• = MEAPs and PEPs only
■ = MEPs, PEPs and MEAPs
Benefits to the organization

- Ability to deliver branded and differentiated retirement benefits to its members
- Powerful benefit to attract and retain new members/clients
- Scalable program that can reduce cost for their members
- Additional revenue by way of a program service fee (MEAP only)

Benefits to the organization’s members and clients (the business owners who join):

- Reduction of much of the plan sponsor’s work, responsibilities, and fiduciary liabilities, typically at a similar or lower cost than they may already be paying
- Time and resource savings from handing off many essential administrative tasks, giving owners more flexibility to focus on aspects of the business that drive profitability
- An added layer of protection from outsourcing many potential risks and liabilities that come with running a retirement plan
  - Investment 3(21) or 3(38) fiduciary to select, monitor, and replace investments, providing expertise and guidance to ensure the plan has a well-diversified lineup to meet distinct participant needs
  - Administrative 3(16) fiduciary to handle all aspects of administering the plan and ensure compliance with regulations
- A valued benefit to help attract and retain top talent—as core benefits like retirement plans matter most to job seekers
- Educational program to help employees make informed financial decisions
Recognizing and assessing client perspectives

As you consider how group 401(k) retirement plan programs can fit within your business and add value for current and prospective clients, it’s crucial to understand that choosing to offer a retirement plan or change an existing plan are major decisions. Clients need compelling reasons to take action, on top of understanding the benefits. And there are forces at work that influence organizations’ and business owners’ decision-making processes when it comes to thinking about retirement plan opportunities.

Here’s what’s on their minds

Organizations continually look for ways to stay relevant among their business-owner members — and group 401(k) benefits can help them do it.

Here are the benefits

By offering businesses a private-labeled retirement benefit, they can:

- Help showcase the continued value of membership.
- Deliver a convenient solution that enhances a business’s total benefits package while aligning with that business’s core goals — particularly around costs and resources.

At the same time...

When an organization offers this type of plan, business owners have their own perspectives on joining, which are helpful to keep in mind:

- Those business owners and employers who feel responsible for their employees’ retirement readiness are most willing to consider joining a group 401(k) plan.9
- For employers who have retirement plans, the likelihood of considering a group 401(k) plan increases among those who are dissatisfied with the effectiveness of their current offering.10
- Employers are somewhat split on their feelings about administrative responsibilities; for all those who think hands-off administration is an appealing prospect, there are nearly as many who view the transition of administrative tasks to the group 401(k) as a loss of control.11
- The businesses that often benefit the most from group 401(k) structures — small employers — have the lowest awareness of the concept, which can play a role in their likelihood of joining.12

All of these distinct goals and perspectives mean it’s vital for sponsoring organizations to share and reinforce the value group 401(k) benefits can bring to businesses — and equally essential that the right kind of plan is in place for these businesses to buy into.
Determining the best fit for your client: MEP, PEP or MEAP

It's every bit as important to have a best-fit group plan design as it is with an individual plan — and that means no one solution is right for every organization and their member businesses. There are some significant nuances to consider that can make the difference in your recommendations and in your clients' actions.

<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
<th>Why?</th>
</tr>
</thead>
<tbody>
<tr>
<td>The majority of the potential adopters have more than 100 employees</td>
<td>MEP or PEP</td>
<td>Larger companies where an annual audit is required are often happy for the opportunity to band together in a MEP/PEP to split the costs and work associated with the process. The MEP/PEP structure is at its most valuable when the common audit makes sense.</td>
</tr>
<tr>
<td>The majority of the potential adopters have fewer than 100 employees</td>
<td>MEAP</td>
<td>The vast majority of 401(k) plans that join MEPs are small plans (&lt;100 employees), which are independently not required to undergo an annual plan audit. Putting them together in a MEP/PEP, which is viewed as a single plan, can bring their total number of eligible employees up over that 100-employee threshold, creating the need for an audit that arguably is of no benefit to these plans. The costs and work of the process could be burdensome for the MEP and its sponsor and unnecessary for the small businesses that would not have needed an annual audit if it weren't for joining a MEP/PEP. There is no MEP-level audit, making a MEAP a better fit for smaller employers. Additionally, many MEAPs can offer audits at a reduced price for the larger, audit-eligible plans.</td>
</tr>
<tr>
<td>The organization is looking for new potential revenue opportunities</td>
<td>MEAP</td>
<td>Because a MEAP endorser is not technically a plan sponsor, and they instead are working with their financial professional to provide program oversight, they can collect a minimal servicing fee for offering the MEAP benefit to their members and clients. Of course, they cannot collect a fee on their own plan where they do have a plan sponsor role.</td>
</tr>
<tr>
<td>Some plan design flexibility is desired</td>
<td>MEP, PEP or MEAP</td>
<td>MEPs, PEPs and MEAPs allow different plan designs for each employer who joins. However, MEPs and PEPs can be more restrictive with respect to the types of plans allowed. For instance, a 401(k) and a Cash Balance plan can't be in the same MEP or PEP, but both can be in a MEAP.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
<th>Why?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete plan design flexibility is top priority</td>
<td>MEAP</td>
<td>A MEAP allows more flexibility in that plans do not need to conform to the strict parameters of a master document; each plan can have a customized plan document if they choose to do so.</td>
</tr>
<tr>
<td>The organization is comfortable with being the named plan sponsor and added fiduciary responsibility</td>
<td>MEP</td>
<td>Fiduciary responsibilities come with offering a retirement plan—they don't disappear upon joining a group plan. Instead, they can shift, and it's important to know how much a client or business is comfortable with. In a MEP structure, the sponsoring organization becomes the MEP's named plan sponsor and takes on responsibility for things like overseeing the MEP's operations, being the lead decision maker and appointing fiduciaries, and shares fiduciary responsibility with adopting employers.</td>
</tr>
<tr>
<td>The organization is not as comfortable with fiduciary responsibility</td>
<td>MEAP or PEP</td>
<td>A MEAP can be more attractive for companies that may have been hesitant about the plan sponsor fiduciary relationship in a MEP arrangement—the idea of taking on responsibility for member organizations while not specializing in retirement plan administration can be a real concern for some. In a MEAP, while the endorser and adopting employers remain responsible for some oversight and due diligence that the plans are operating in employees' best interests, much of the responsibility and decisions can shift to the program's appointed fiduciaries. It's important to note that the appeal of handing over fiduciary liability and oversight is stronger for smaller employers than larger, and more compelling for businesses without a retirement plan than those that already have one. Presumably, this is because in both instances, smaller employers likely have less experience and fewer resources to tackle these responsibilities. In a PEP, the organization can outsource the plan sponsor role to a Pooled Plan Provider (PPP) so they can offer the same benefits of a MEP without being the plan sponsor.</td>
</tr>
</tbody>
</table>
Given these details, there are some questions to ask yourself to decide what type of plan makes the most sense:

1. Is the organization allowed to sponsor a MEP?
2. Does the common audit make sense — meaning, does a good percentage of the plans have more than 100 eligible participants?
3. Is the organization willing to assume plan sponsor responsibilities, or would they prefer the endorser role?
4. Is some revenue for the organization important?

Realizing the value of adding group 401(k) solutions to your practice

When you bring the right retirement solutions to the table, you help drive business and better serve your clients. In the right group scenarios, MEPs, PEPs and MEAPs have real potential to deliver benefits, efficiencies, savings and more advantages that your clients, prospects and business owners may not know exist — and you have an opportunity to guide them toward the solution that works best for them.

From your perspective, these solutions can help:

- Grow and differentiate your business through unique retirement solutions built to meet distinct needs
- Improve your capacity to grow and manage 401(k) clients by increasing efficiencies within your practice
- Boost 401(k) and individual client leads, with more access to businesses and business owners
- Show your clients that you understand what matters to them and will guide them toward the best possible solutions, demonstrating your long-term value

Leaning on Lincoln

Whichever options fit best, we can help. Lincoln is an industry leader in providing group solutions that include Multiple Employer Plans, Pooled Employer Plans and Multiple Employer Aggregation Programs for all types of organizations. Check with your broker-dealer to explore what’s approved and learn how we can work together.

We’re here to answer your questions, help you drive more business and deliver the right solutions for your clients and prospects. If you have any interest, or if you have a current opportunity or want to know how to find one, please contact your Lincoln representative.