ascensus®

PEP Talk

PERSPECTIVES ON POOLED EMPLOYER PLANS

As an independent recordkeeping services provider, we aim to furnish you with perspectives and guidance to help you select appropriate retirement plan programs for your clients. What follows includes: our assessment of employer needs; observations and viewpoints about PEPs; and ideas to better serve small and mid-sized businesses within the single employer plan model.

Only half of Americans employed by small businesses have access to defined contribution (DC) retirement plans—compared to 70% of those who work for larger companies.[1] The Setting Every Community Up for Retirement Enhancement (SECURE) Act brought renewed interest in this coverage gap throughout 2020 and paved the way for pooled employer plans (PEPs) starting in 2021. As you evaluate PEPs, let us help by sharing our perspectives.

We believe any measure proposed to help close the coverage gap is worth exploring. Indeed, for some advisors, PEPs may be compelling because they have the potential to help solve certain challenges facing retirement plan sponsors. Yet, with many facts about PEPs still unknown, it's important to remember that solutions to these challenges already exist within the single employer plan model. If you feel undecided as to which option may be right for your client, consider what makes each model unique—and what they have in common.

A PEP is a form of multiple employer plan (MEP) with notable characteristics: First, it does not require a "nexus" or commonality among adopting employers. Second, it has provided procedures to address the "one bad apple" rule (in which all participating employers may be hurt by the fiduciary mistakes of a single employer). Third and finally, it relies on a pooled plan provider (PPP) to oversee the operation and underlying services. The PPP is a named fiduciary that performs or outsources services on behalf of the PEP.

PEPs are positioned as a new way to help overcome the challenges of offering a retirement plan. But will they?

Like the MEPs that preceded them, PEPs—backed by new legislation and regulatory guidance—are positioned as a new way to help overcome the challenges of offering a retirement plan. To understand the potential value of PEPs, we start by reviewing the biggest challenges related to retirement plans from the employer's perspective: perceived cost, fiduciary responsibilities, and administrative burden. Let's take a closer look at these obstacles.

WHO DOES NOT HAVE ACCESS TO DC RETIREMENT PLANS?[1]

50%

Small business employees

30%

Larger business employees

Will PEPs help fill the coverage gap?

[1] US Bureau of Labor Statistics. National Compensation Survey. 2020. In this context "small business" is defined as 1 to 99 workers.

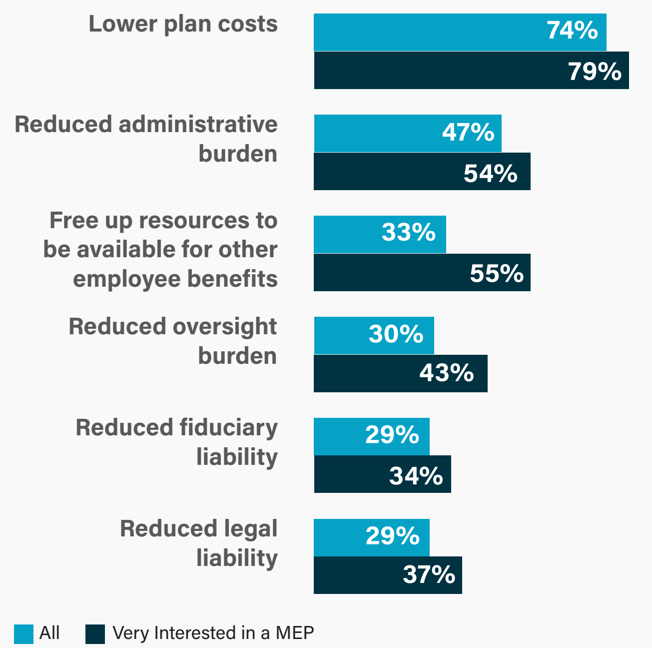
The cost imperative

Over years of assessing and supporting regulatory solutions aimed at solving the coverage gap, we've identified one consistent theme among employers who have yet to sponsor a retirement plan. Research continues to show the most significant obstacle to offering a retirement plan is cost. Nearly six out of 10 business owners (59%) cite cost concerns—feeling either they can't afford to sponsor retirement plans (37%) or don't have adequate resources to support the ongoing administration required (22%).[1]

Cost is also a factor for employers who already offer retirement plans. According to the LIMRA Secure Retirement Institute, the majority of current plan sponsors (74%) find lower plan costs to be an attractive feature of MEPs.[2]

The premise behind MEPs and PEPs is that when employers pool their resources (and their plans), they can get more for less: More quality. More service. Less cost. Less risk. The concept resonates because it sounds like the common benefits gleaned from basic economies of scale. It just makes sense. But will employers be drawn to PEPs for a cost benefit—and is there one?

MEP FEATURES ATTRACTIVE TO ALL SPONSORS AND THOSE "VERY INTERESTED" IN A MEP[2]



Will employers be drawn to PEPs for a cost benefit—and is there one?

The first part of the question is whether the small business owner's perception that they can't afford a retirement plan will change as a result of how PEPs are positioned. It's logical to assume that if cost is the primary barrier, positioning the new option as a lower-cost alternative will help. Although MEPs have been positioned this way for years, they have generally not been able to overcome the barrier—and it's too soon to tell if PEPs will be more effective.

Perception aside, whether there is a cost benefit is another matter and will depend on how the PEP is structured. As PEPs are still so new, there is no definitive data to prove the assumption that they'll be consistently less expensive due to economies of scale. New research based on existing MEPs (of which PEPs are a variation), however, offers evidence there may be little, if any, cost advantage:

> "While investment management costs should decrease with larger pools of assets, the involvement of non-employer sponsors and administrators may introduce additional agency costs that offset the benefits of aggregation."[3]

Expanding this concept to PEPs: The PEP model may create operational complexity and introduce parties and services that drive added expenses, which may mute the expected cost savings.

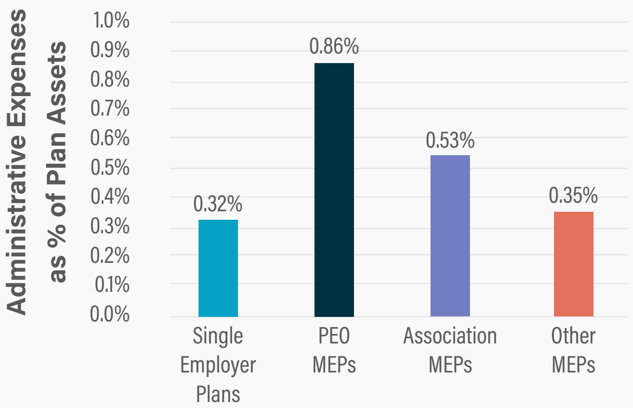
[1] "Employer Barriers to and Motivations for Offering Retirement Benefits." Pew Charitable Trusts. June 21, 2017.
[2] "Better Together? Multiple Employer Plans—Understanding Plan Sponsor Perceptions and Intentions." LIMRA Secure Retirement Institute. 2019.
[3] Shnitser, N. "Are Two Employers Better than One? An Empirical Assessment of Multiple-Employer Retirement Plans." Boston College Law School. May 1, 2020.

In fact, overall costs may increase under this model due to any new fees that may be introduced to cover services provided by the PPP and/or services that may not otherwise be selected. For example, participating employers in a PEP offering 3(16) and 3(38) fiduciary services will have to absorb this cost, although some employers may feel comfortable without requiring these services with a single employer platform—or may wish to pursue their own low-cost provider(s) for specific services. As a result, employers may end up increasing, rather than decreasing or deferring, costs.

If the PEP does appear to reduce expenses, employers should be aware of potential "cost-shifting." Costs may appear lower in certain areas, but is it because they were shifted elsewhere? For example, the PPP may offset recordkeeping costs by requiring proprietary investments in the fund lineup to collect asset-based fees—giving rise to fiduciary concerns, which we'll explore in the following section. Regardless of structure, there are fixed costs associated with providing more services and fiduciary protection.

AVERAGE COST OF A 401(K) BY PLAN TYPE

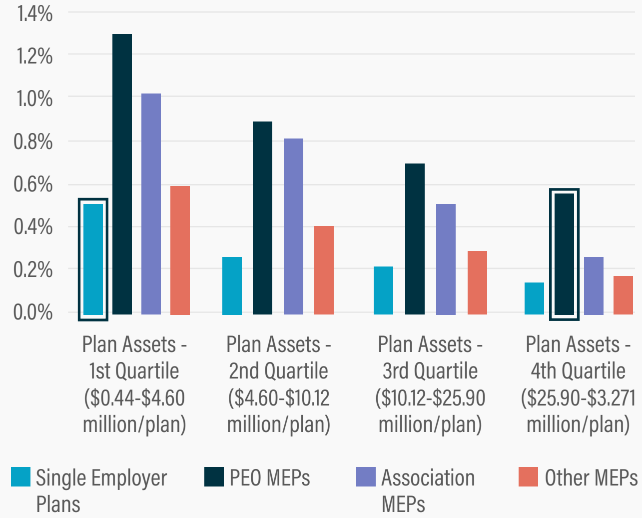
Historically, single employer plans have lower expenses (as a percentage of plan assets) compared to MEPs. In fact, their administrative expenses are less than half those of MEPs run by professional employer organizations (PEOs)—0.32% vs. 0.86%. Will single employer plans be less costly than PEPs run by PPPs, too?[1]



To fulfill their fiduciary responsibilities in the selection of a PPP—and to better understand whether there will be savings—employers must have a transparent line of sight into cost structure, including what all costs are and how they're being covered.

COST COMPARISON BY PLAN SIZE

As this graph shows, the cost for even the smallest single employer plan is lower than the cost for the largest PEO MEP.[1]



Only with transparency can employers understand whether there will be savings, and only then can they fulfill their fiduciary responsibilities in the selection of a PPP. As with single employer plans, unreasonable fees in a PEP could expose a business to fiduciary risk. Recent excessive fee lawsuits brought against large MEPs illustrate this risk.

In short: There's no strong proof to suggest cost claims will motivate employers to select PEPs—or that single employer plans can't be just as cost-effective, if not more so.

What about audit costs?

A single employer plan with fewer than 100 participants won't trigger an audit requirement. However, in a pooled model, smaller plans may be asked to cover some portion of PEP audit costs, whereas they'd have no expense in a single employer plan.

[1] Shnitser, N. "Are Two Employers Better than One? An Empirical Assessment of Multiple-Employer Retirement Plans." Boston College Law School. May 1, 2020.

Administrative and fiduciary decisions

While cost is always a consideration, some employers seek services that save time and minimize risk—and they're willing to pay for administrative and fiduciary support when they need it. Employers who are focused on running their businesses, without support staff dedicated to the retirement plan benefit, may be concerned about the time and effort required to administer the plan. This is true of both startup and existing plans.

The LIMRA Secure Retirement Institute finds that when presented with the benefits of a pooled model, 47% of plan sponsors find reduced administrative burden attractive and 29% are drawn to the promise of reduced fiduciary liability.[1] These benefits are already available in a single employer plan. The only difference is the decision-making process.

Some PPPs will use the PEP as a mechanism to offer investment product placement in order to offset administrative expenses.

From the employer's perspective, administrative and fiduciary concerns boil down to two areas: running the plan and selecting investments. In a PEP, the PPP will act on behalf of the employer to oversee or outsource these functional areas. While the underlying services are identical to those available for a single employer plan, they are packaged together and can't be selected à la carte or deselected. The decisions surrounding all the underlying services are dependent upon, and implicit in, the selection of the PPP. Rather than one at a time, all decisions are made in one fell swoop, regardless of each plan's objectives, dynamics, or nuances.

Provider selection (i.e., finding the right PPP) is the most important fiduciary decision your client will have to make. Once made, it's fairly inflexible—the only decision left for the employer from that point on will be: "Should I stay or should I go?"

To make an informed selection, your client will need to understand the key business interests of the PPP. Regulatory guidance accounts for conflicts of interest that may occur in the PEP model:

> "The point of RESA and SECURE, therefore, is to establish a statute with accompanying DOL guidance that allows financial institutions and other service providers to be sponsors, and to get paid for the services they provide despite the conflicts of interest."[2]

Some PPPs will use the PEP as a mechanism to offer proprietary investment product placement in order to offset administrative expenses. This is not dissimilar to the common practice of offering proprietary investment products in a single employer construct. The nuance here is that the perception of the PEP may be different to the plan sponsor in terms of their fiduciary liability. It will be important for them to understand who is acting in a fiduciary capacity for these decisions.

[1] "Better Together? Multiple Employer Plans—Understanding Plan Sponsor Perceptions and Intentions." LIMRA Secure Retirement Institute. 2019.
[2] "What You Need to Know About Association Retirement Plans (Now): Final Regulations from the DOL Open the Door to New MEPs." 401(k) Specialist. July 31, 2019.

How Ascensus meets plan sponsor needs

Many of the aspects that excite people about the pooled model—cost savings, purchasing power on investments, administrative efficiency, and fiduciary support—already exist on our recordkeeping platform for single employer plans. In recent months, we've expanded our system of flexible 3(38) arrangements, strengthened our network of existing 3(16) partners, and continued to invest in technology that streamlines the administrative tasks related to contribution processing and plan compliance. These ongoing enhancements to the plan sponsor experience provide many of the benefits that are expected from a PEP—while still offering the flexibility of a single employer plan.

Our independent approach provides employers greater freedom and flexibility in deciding which services to select. They can make decisions according to your advice and their needs, without strict requirements or limitations from us.

Contain recordkeeping costs, minimize investment fees

Advisors rely on Ascensus and our partners to deliver solutions typically only available to large employers, making high-quality retirement plan services affordable even for small businesses. To address cost concerns, we offer a transparent, predictable, fee-based pricing model that translates into a lower recordkeeping fee as a percentage of assets as the plan grows (see illustration).

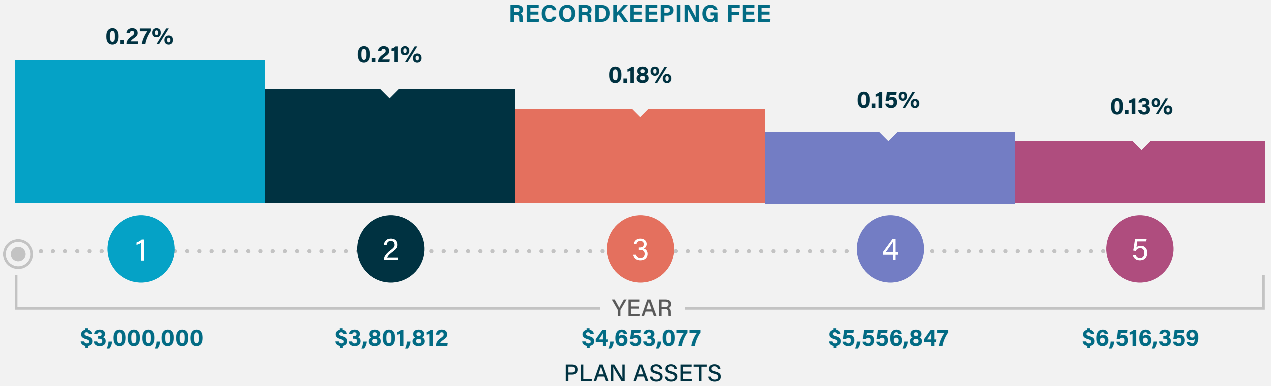
Our open-architecture investment platform supports a host of options, including institutionally priced investments for even the smallest of programs. As an independent recordkeeping services provider, we don't offset or shift recordkeeping costs by generating revenue from proprietary or outside investments—because we don't have any.

HERE'S HOW IT WORKS

As plan assets grow, our recordkeeping fee remains the same. In fact, the fee actually decreases as an overall percentage of plan assets over time. Every plan—whether new or existing and regardless of size—receives the benefit of this fee structure.

ABC Company

$3 million plan
60 participants
6% annual investment rate of return



Note: Illustration assumes an annual recordkeeping fee of $4,250 plus $75 for each participant over 20 (and up to 100), an ongoing monthly contribution of $50,000 with no distributions, and annual 6% rate of return. Plan participants are defined as those with an account balance. The example assumes no change in the participant count. This fee illustration is provided solely as an example based on the assumptions shown above. This is an estimate only and is not a guarantee of any particular results. Actual results for your plan may differ. Ascensus, LLC, is not a registered investment advisor or a broker-dealer and this illustration is not intended to be investment advice or a recommendation to purchase, sell, or hold any investment. Ascensus assumes no liability for use of this illustration by any third party.

Plan sponsors realize cost savings through operational efficiencies made possible by our technology and pricing philosophy (They can pay for what they need, not what they don't.) To demonstrate value, we provide complimentary access to the FBi Benchmarking Report, an independent third-party fee benchmarking service.

Save time, mitigate risk

We also address employer concerns about running the plan and selecting investments. We do this through expertise and partnership. Ascensus and our partners can offer relief with various administrative services to support employers and meet their objectives, at a price point that fits their budget.

Plan sponsors can handle administrative tasks on their own or seek help running the plan. Rather than a one-size-fits-all approach to plan administration, we partner with more than 1,000 third-party administrators (TPAs) on our recordkeeping platform, many of whom provide administrative fiduciary services, often referred to as 3(16) services, at various levels of cost and support.

The role of the 3(16)

ERISA Section 3(16) defines the role of the plan administrator, who is generally responsible for the day-to-day operational tasks of a qualified plan. A 3(16) administrative fiduciary is a service provider hired to assume specified administrative tasks for a 401(k) plan, such as approving transactions, documenting and delivering required notices, filing Form 5500, providing audit support if necessary, and more.

Depending upon the level of administrative services that are assumed by the 3(16) administrative fiduciary, this service provider can help to reduce (but will never eliminate) an employer's fiduciary liability. As a result, TPAs can play an essential role by providing 3(16) services as an option to deliver an enhanced level of operational protection.

In addition to 3(16) services, you also have access to other risk-management options and fiduciary services integrated on the recordkeeping platform. You can help your clients better manage fiduciary risk through our partnerships with other technology-enabled service providers, made possible by our ongoing investment in purpose-driven technology.

When it comes to investment selection, you choose the approach you feel is best—and our neutrality will support it. You can use any 3(38) investment fiduciary that assumes fiduciary liability for the selection of plan investment options, or you may act in a 3(38) capacity yourself, if permitted by your advisory firm. You can also avail yourself of partners who offer services at the participant level, including managed accounts from several providers on our open-architecture platform.

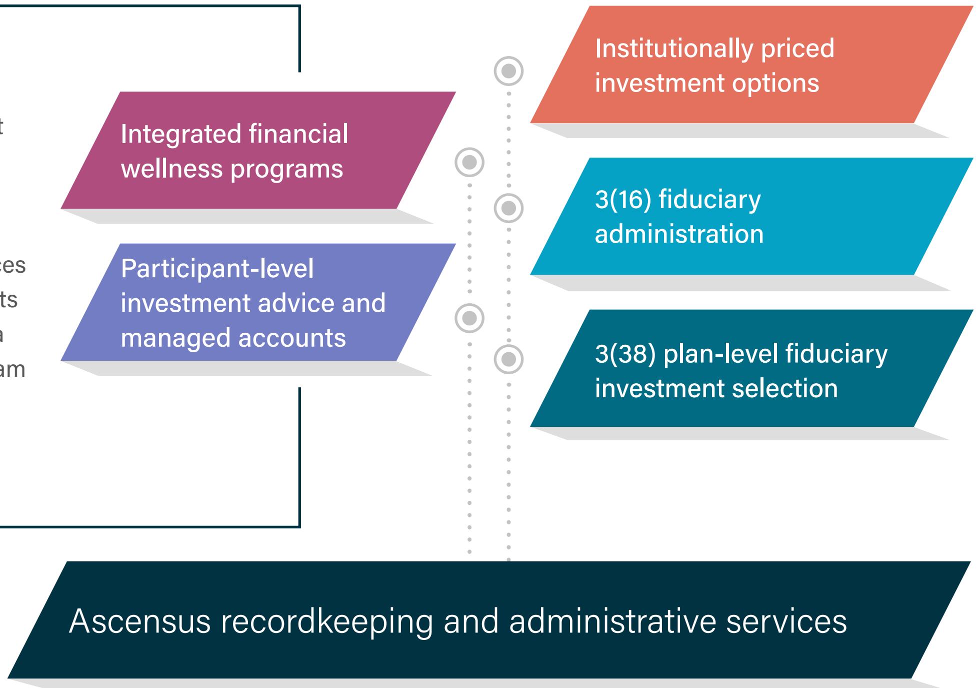
Advise your clients, your way

Our independence means you're not limited in the services available to help run the plan, and you don't have to worry about investment requirements when customizing a lineup to meet each client's needs. You're free to use our nationwide network of providers or your own preferred providers—or furnish services yourself.

Start with our recordkeeping and administrative services as the foundation and build on any additional services your client needs.

Participant experience

Regardless of the size of their business, every Ascensus client has access to employee-level services typically only available to larger companies. Plans can offer personalized advice services in the form of managed accounts from reputable providers, plus a robust financial wellness program with the option to engage financial coaches live by phone through Financial Finesse.



The path forward

Today's evolving workplace savings environment is complex. Meeting employers' needs will require multiple solutions, including public policy, industry best practices, technology, and communications. As an advisor, you play an essential role. And you're not alone. We're committed to delivering solutions that can help you support businesses of all sizes. For us, this means thinking differently about how we innovate while maintaining the benefits of the traditional, single employer plan model.

As an independent recordkeeper, our approach to innovation is simple: We follow the data. This means your interests—and those of your clients—help inform our decisions about the services our platform will support. With respect to PEPs, the dataset is too new to know who will be most attracted to the service model or best served by it. While PEPs may be right for certain employers and advisors, small to mid-sized businesses have tried and true options that provide flexibility and value.

We remain focused on our purpose of bringing millions of new employees into workplace retirement plans, improving their retirement readiness and, in turn, positively influencing business outcomes for their employers.

Supporting you is an important part of the equation. We will continue to help you understand and navigate the plan landscape, so you can deliver the greatest value to your clients.

Let's take the next step, together.

Call 800-345-6363, Option 2
Go to AlwaysHaveAPlan.com

About Ascensus

We believe financial independence provides freedom and choices that enable people to pursue their full potential and live their best lives. That's why we're helping more than 12 million people save for what matters—retirement, education, and healthcare.

Ascensus record-keeps an array of plan types, including traditional 401(k)s, State Facilitated Retirement Programs (SFRPs), Simplified Employee Pensions (SEPs), Savings Incentive Match Plans for Employees (SIMPLEs), and Solo/ Individual 401(k)s.

Retirement expertise and industry leadership

$373.6+ billion
assets under administration[1]

12.7+ million
savers served[1]

Nation's largest
independent recordkeeper[2]

2019 Retirement Leader
of the Year[3]

Winner
of Adviser Choice Award for Recordkeeping[4]

The most "Best in Class" awards
for plan segments up to $50 million, medaling in every possible category[5]

[1] As of 12/31/2020.

[2] Cerulli Associates. *The Cerulli Report: U.S. Retirement Markets 2019.* March 2020.

[3] Fund Intelligence. *Fund Intelligence Mutual Fund Industry and ETF Awards.* April 2019.

[4] PLANADVISER. *2019 Retirement Plan Adviser Survey.* October 2019.

[5] PLANSPONSOR. *2020 Defined Contribution Survey.* January 2021.

Fiduciary Benchmarks Insights is the industry leader for independent, comprehensive, informative and cost-effective benchmarking services for the defined contribution space. Founded in 2007, the company leverages a patented method and technology to work with many of the industry's largest and most respected Recordkeepers, Broker/ Dealers, Advisor/ Consultants and Plan Sponsors. Learn more at www.fiduciarybenchmarks.com.