Five Reasons to Consider a PEP as Part of Your Benefits Strategy

Pooled employer plans, created by the SECURE Act of 2019, will be available to companies starting Jan. 1, 2021. A PEP brings different employers together to create a scalable retirement plan instead of plan sponsors operating and maintaining their separate 401(k)s.

PEPs will transform retirement benefits. However, many companies are understandably cautious, given their newness. So what are the main advantages of the PEP to business as usual?

A PEP is one of the few innovations where stakeholders may achieve better outcomes. Here are the top five reasons why your company should consider a PEP as part of your benefits strategy.

1 Improve retirement outcomes for employees

Roughly two-thirds of American private-sector workers already contributing to their retirement income plans are below target to meet retirement income needs at age 67[1]. Part of this lack of retirement readiness is caused, in part, by poor plan design and investment options.

By its scale and design, a PEP is built to enhance the financial wellbeing of participants. The plan's scale provides access to lower fees on investment options, which translates to larger projected retirement account balances for participants.

Pooled plan providers, which administer PEPs, are incentivized to create purposeful investment menus with automatic features that can improve overall retirement outcomes. Why? The better a PEP performs for participants, the more likely other employers will join it.

In the past, retirement plan sponsors were hesitant to offer annuities in a defined contribution plan because of how illiquid these investments were compared to other options. New rules in the SECURE Act make these investments more portable, allowing employees to transfer their lifetime income option into another qualified retirement plan or an IRA. PEPs are designed to take these new rules into account and reduce the risk of bad outcomes, such as not saving enough or running out of money in retirement, by giving employees access to lifetime income options.

1 The Real Deal - 2018 Retirement Income Adequacy Study, 2018

We're here to empower results

aon.com

This publication contains general information only and is intended to provide an overview of coverages. The information is not intended to constitute legal or other professional advice. Please refer to insurer's policy wordings for actual terms, conditions, exclusions and limitations on coverage that may apply. For more specific information on how we can assist, please contact Aon.

AON
Empower Results®

2 Less risk for employers and fiduciaries

Retirement plan sponsors have faced increased risks over litigation involving excessive fees. Employers can shift the fiduciary responsibility of the retirement plan to the pooled plan provider, which runs the PEP. A Pooled Plan Provider monitors operational compliance across all functions and parties.

This level of risk mitigation is not available for employers who have a single account plan structure. With a PEP, employers only have to monitor the pooled plan providers.

Better governance with a PEP means more than reducing fiduciary liability. Efficient processes and decision-making developed by the pooled plan provider can help minimize risk and lower administrative costs for employers.

3 Lower fees, more innovation, and more tools

Pooled employer plans can provide lower recordkeeping and investment fees through scale than smaller, stand-alone 401(k) plans. In fact, PEPs produced savings relative to current 401(k) costs in 93% of cases analyzed, with an average cost savings of 44%[2].

It is not just a matter of lower fees. PEPs can offer modern tools and features that smaller sponsors may not be able to afford on their own, such as services to help participants manage their student loans or coordinate their retirement plans with a health savings account.

Given their scale and specialization, PEPs are compelled to design better experiences for participants to attract more employers to join. Pooled plan providers want to allocate resources to offer a top-notch experience for employers and employees alike. Organizations running their own retirement plans may struggle to maintain an appealing experience for plan participants.

4 Streamline plan administration for HR

Employers want to focus on their core businesses. With a PEP, they can redirect the numerous resources that have been dedicated to providing competitive retirement benefits.

PEPs allow HR departments to rethink their structure and focus within the organizations. With a simplified plan administration through a PEP, HR departments can dedicate more time to strategic initiatives while reducing the risks of providing retirement benefits.

While some HR departments may fear that the PEP's effect of streamlining retirement plan administration could mean they will have to eliminate positions, it will free up existing employees to focus more on the organization's mission-critical activities. Enhanced with a PEP, HR leaders can demonstrate the value their teams provide to the business.

5 Future-proof your retirement benefits strategy

It's early days for pooled employer plans, but organizations that wait will miss out on all the PEP's advantages. In some markets, a company's rivals could join a PEP and offer retirement benefits that better attract and retain employees, giving it a competitive edge.

We expect PEPs will reshape the retirement benefits landscape in much the same way 401(k)s changed it in the 1980s. Maintaining and operating a separate retirement plan will continue to pose more fiduciary risk, and smaller plans may have difficulties keeping up with best practices in retirement benefits compared to employers with PEPs.

Few innovations in the retirement industry offer advantages to all stakeholders. With PEPs, companies can focus on their core businesses while giving their workforce the latest tools to improve their retirement security. As PEPs grow in popularity, so do all their advantages.

---

2 Aon analysis of PEP costs as of December 31, 2020. Savings based on 57 cases of employer requested Aon PEP base fees compared to current 401(k) plan costs. Base fee may not reflect all ancillary services selected by the employer.

AON

Empower Results®