Retirement plans

CAPITAL GROUP® | AMERICAN FUNDS®

What to think about before leaping into a pooled-employer plan

Key takeaways

- **Pooled employer plans (PEPs)** have emerged as a solution **designed to make retirement plans more accessible to employers and their employees**.
- Though much has been said about the potential benefits of PEPs, **single-employer plans can address many of the same plan sponsor challenges**.
- With more retirement plan options and incentives, **there's greater opportunity to help small-business owners and their employees invest for the future**.

Are PEPs the best choice for your clients?

PEPs went into effect January 1, 2021, as a key provision of the SECURE Act. Aimed at reducing the retirement plan coverage gap for small businesses, PEPs are designed to allow unrelated businesses to pool together to benefit from potential cost savings and fewer administrative tasks associated with offering a retirement plan.

However, whether PEPs are more cost effective than single-employer plans is debatable. And PEPs aren't exactly a hands-off option, either. Employers are still responsible for selecting and monitoring a pooled plan provider and potentially conducting additional tasks to help facilitate plan administration.

Additionally, all employers in a PEP are subject to an annual audit and share the associated costs. While an audit can reveal potential plan issues and impose discipline, it's an additional cost and effort that's not typically necessary for plans with less than 100 participants.

To be competitive in the marketplace and help your clients choose the best retirement plan option, you should be aware of some of the potential benefits and drawbacks of PEPs versus single-employer plans.

70%

Of small businesses not offering a plan, **70% indicated "it costs too much to set up and administer."**

Source: Employee Benefit Research Institute, Small Business Retirement Survey: Policy Knowledge and Reasons for Offering or Not Offering a Retirement Plan, Craig Copeland, Ph.D., February 1, 2024. Based on findings from the 2023 Small Business Retirement Survey, produced in collaboration with the Center for Retirement Research at Boston College and Greenwald Research. The survey was conducted between February and April 2023 and surveyed 703 small businesses, 380 not offering a plan.

Compare PEPs and single-employer plans

	Pooled employer plan (PEP) Typically, one size fits all	**Single-employer plan** More flexibility and control	**Other considerations**
Description	• Allows unaffiliated employers to be part of the same retirement plan • Sponsored by a pooled plan provider (PPP), who is a named fiduciary • The employer retains the responsibility to select an appropriate PEP/PPP • Typically, a one-size-fits-all solution	• The employer is the plan sponsor and retains the flexibility to choose service providers and plan options to meet the company's needs • Customization can help meet the company's needs, including the investment menu, plan design and education components	• The best solution depends on your client's needs • If your client has an existing plan, it would be important to understand what changes would be required to move into the PEP • Single-employer plans are time-tested and familiar, while PEPs are still evolving
Cost	• Aims to lower costs through economies of scale • Though fees are negotiated by the provider, embedded 3(16) and 3(38) services automatically add built-in fees by default • Share associated annual audit costs	• Plan sponsor has the flexibility to decide what services to pay for and how those costs are paid • Optional 3(16) and 3(38) fiduciary services mean your clients only pay for what they need	• Cost is a common reason small-business owners don't offer a retirement plan • Per Department of Labor guidelines, plan sponsors should periodically compare or benchmark plans to determine that plan costs are reasonable
Investments	• Investments are determined by the provider and typically managed by a 3(38) investment manager • May provide access to institutionally priced investments that may be unavailable to smaller, individual plans	• Employer has the flexibility and responsibility to create and monitor the plan's investment lineup and select share classes • May choose to work with a 3(21) investment adviser or 3(38) investment manager	• Investment-related fiduciary responsibilities can be outsourced for both solutions • Single-employer plans generally offer greater investment flexibility
Administrative responsibilities	• 3(16) services ease administrative burdens and help reduce the employer's fiduciary responsibilities • Regardless of company size, all participating employers are included in an annual audit and a single Form 5500 is filed on their behalf • Comes with added administrative requirements to track eligibility and vesting across employers within the PEP	• Plan sponsor is responsible for plan administration (with support from the recordkeeper and TPA) • Administrative duties may be delegated to a 3(16) fiduciary • Plan sponsor files Form 5500 • A plan audit will be necessary if the plan has 100 or more participants	• Administrative responsibilities can be outsourced for both solutions • In either case, it's important to understand what responsibilities are retained or delegated • Plan changes may be more difficult with a bundled product like a PEP
Plan design	• Generally, limited flexibility and control due to a one-size-fits-all approach • A pooled plan provider typically limits plan design options and chooses the plan's recordkeeper and other service providers	• Highly flexible • Plan sponsor makes plan design decisions, allowing the plan to be tailored based on the employer's needs, including contributions, eligibility and vesting	• How much flexibility the plan sponsor would like – initially and ongoing – can help determine whether a PEP or separate employer plan will be a good fit • Consider plan features like eligibility, vesting, contribution formulas, loans and more

Good to know

3(16) fiduciaries assume responsibility for day-to-day plan administration, including mandatory plan disclosures and communications.

3(21) fiduciaries offer investment recommendations but don't have decision-making authority.

3(38) fiduciaries can select, monitor and replace plan investments; they have full control of a plan's assets.

Perceived barriers to joining a PEP

for 401(k) plan sponsors

#1 Prefer to maintain involvement in **selecting and/or designing plan investments**

#2 Believe their **plan is already competitively priced** and PEPs are unlikely to provide cost savings

#3 Prefer having a **custom plan design** and don't want to be constrained by a PEP

Source: Cerulli Associates, U.S. Retirement Markets 2023: Analyzing the Impact of Retirement Legislation. The report includes results from two proprietary surveys: Cerulli's 2023 401(k) Plan Sponsor Survey (more than 750 401(k) plan sponsors) and the 2023 DC Recordkeeper Survey (20 firms), which Cerulli conducts in partnership with The Society of Professional Asset Managers and Recordkeepers (SPARK).

Ask your clients

- Do you have less than 100 employees?
- Do you want to have input in your plan's design?
- Do you want greater control over your plan's investment options?
- Do you want to choose the features and services you pay for and how those costs are paid?

If your client answers yes to any of these questions, **a single-employer plan may be a good option to consider.**

There's big opportunity in small-business retirement plans

A number of tax credits for small businesses have been created or expanded by the SECURE and SECURE 2.0 Acts. These incentives could make starting a retirement plan more attractive than ever for employers.

More states are also requiring private-sector employers to offer a retirement plan or join a state-run program. Employers that haven't previously considered a retirement plan could benefit from knowing all of their available options. And if you don't help them, someone else likely will.

Understanding the changing retirement plan landscape and helping your clients cut through the noise will be critical to your success in the small-plan market. The good news is there's immense opportunity to help more people invest for retirement – and grow your practice.

16.3 million

small businesses operate in the U.S.*

89%

of companies in America are small businesses*

41%

of companies with less than 100 employees don't offer retirement benefits†

*Number of U.S. businesses with less than 100 employees. North American Industry Classification System, March 2023, https://www.naics.com/business-lists/counts-by-company-size/

†U.S. Bureau of Labor Statistics, Retirement benefits: Access, participation, and take-up rates, March 2023

Take the next step

We can help you evaluate and benchmark retirement plan solution options for your clients.

Call us at **(800) 421–9900** to get started.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

Capital Client Group, Inc.

Lit. No. RPGEBR-209-0724O CGD/10264-S103785