SECURE ACT HIGHLIGHTS OPPORTUNITIES FOR FURTHER DELEGATION

The SECURE Act contains new provisions that, over time, could greatly improve financial security for American workers.

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A few months into 2020, I think the most popular word in the retirement industry has become "SECURE" (Setting Every Community Up for Retirement Enhancement Act). It was great to see SECURE pass late last year, and I think the amount of activity, webinars, and press articles generated by the legislation has highlighted how people were really not expecting it to make it through Congress.

Thankfully, it did.

A provision of SECURE that has the industry buzzing is the potential impact that Pooled Employer Plans (PEPs) may have on covering more American workers. (For readers who may not be up to speed on the latest bureaucratese, PEPs were formerly known as open multiple employer plans, or open MEPs. I will be sticking to PEPs going forward.) Under SECURE, unrelated employers can now join forces to create a PEP, allowing smaller businesses to offer better retirement benefit options to employees without the overhead and responsibilities associated with managing the plans themselves.

PEPs will be available for adoption beginning in 2021—hopefully allowing enough time for the DOL to issue guidelines that define who can be a PEP provider and who is authorized to offer a PEP under SECURE.

But, when attempting to gauge the impact of PEPs on the US retirement market, I'm reminded by the words of Shakespeare, "Time will unfold." We already can point to examples in which plan providers have taken on the key fiduciary roles. I recently had a discussion with **Preston Traverse**, a partner in Mercer's business segment that acts as the appointed delegated fiduciary to a retirement plan and takes responsibility for its investments and operations. Here's his feedback on his experiences with these arrangements and what that may mean for PEPs in the future:

Neil Lloyd: Preston, what feedback have you had from employers? Is a fully delegated solution for everyone?

Preston Traverse: Employers tell us that having a strong retirement offering is an important benefit for their employees, and they want an expert to deliver best-in-class experience. They've given us very positive feedback since we introduced our bundled solution to the 401(k) marketplace in 2016. As the fully delegated fiduciary responsible for both a plan's investments and operations, Mercer essentially becomes an extension of our clients' HR departments and oversees the plans for employees. In effect, Mercer becomes the plan's named fiduciary, 3(16) administrator and the 3(38) investment manager.

This offering, called **Mercer Wise 401(k)**, has especially resonated with many mid-sized employers who want to focus on their core business and not on the complexities of running a retirement plan.

That being said, a fully delegated solution is not for everyone. In particular, it is far less likely to resonate with employers who want to control and customize many aspects of their plan.

Neil Lloyd: What have you found to be the critical considerations for employers evaluating such outsourced solutions?

Preston Traverse: We find when we approach an employer about delegating the oversight of their plan to us, they typically raise three main issues: projected fee savings, investment lineups, and the complexities of the conversion itself.

With respect to fee savings, plans that have adopted our outsourced 401(k) solution have seen cost reductions approaching 20%, on average. A large part of this has been leveraging our scale, both on the investment and operations sides, to bring the cost of running a plan materially below what it would cost the employer sponsoring a plan on their own.

With respect to investments, our bundled solution offers both passive and active-hybrid target date funds as QDIAs (qualified default investment alternatives). Participants are mapped based on age to the appropriate fund. In addition, our multimanager funds help deliver institutional investment management options to participants who cannot usually access these managers on their own. Employers recognize that the simplicity of the investment lineup makes it easier for participants to understand their options and avoid the "misery of choice."

Finally, when it comes to onboarding, employers think that converting to a delegated solution will require a large effort by their HR department. Hence, it's critical that the process is made as easy as possible by our managing the entire conversion for the employer. Employers also find that going through our conversion process is an opportune time to review plan design and make sure all components of the plan are appropriate to their company culture and demographic.

Neil Lloyd: Are there any items related to implementing a delegated solution that have caught you by surprise?

Preston Traverse: Not much in the delegated space has come as a total surprise, but it has been interesting to see the lack of standardization across payroll providers. We try to automate the process between the payroll vendor and the recordkeeper to ensure data integrity, accuracy and completeness, and to shorten processing time. But, some payroll providers in the mid-market do not offer automated processing.

This is definitely something employers should know because it can put a manual burden on their HR departments that sometimes can lead to funding errors. We have heard similar comments from the people who manage some of the State IRA plans.

Neil Lloyd: Any final thoughts?

Preston Traverse: I think the new legislation will make plan sponsors more comfortable with the idea of further delegation and could help move more employers to this sort of arrangement for their 401(k) plans. It will hopefully open up more access to employees by making it easier for their company to offer a plan. It's really an exciting time for the retirement marketplace, and I look forward to seeing how these outsourced solutions can help more workers save more efficiently for their retirement.

From a business development perspective, we're also excited, because the idea of a fully delegated, bundled 401(k) solution, or an outsourced Chief Investment Officer (OCIO) approach, is not new to us. In fact, we're already doing it today.

Neil Lloyd: Thanks, Preston.

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