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PEP lookalikes launched to reduce costs, headaches

Offerings look and feel like pooled employer plans, but they're not

By MARGARIDA CORREIA

Retirement plan service providers are rolling out package deals that give sponsors of small and mid-sized 401(k) plans an opportunity to reduce costs.

Franklin Templeton and FuturePlan by Ascensus, for instance, have each launched bundled products since November. Under a relatively new structure that employs group negotiated contracts available through record keepers, the new offerings allow plan sponsors to collectively negotiate better pricing for record-keeping, plan administration, investment management and other services while keeping their plans separate as stand-alone plans.

The organizers of the bundled deals — in this case Franklin Templeton and FuturePlan — typically negotiate the contracts with other plan service providers on behalf of the plan sponsors.

Franklin Templeton's Group Plan Solution, announced Dec. 1, provides plan sponsors with all the services needed to run their plans at what company officials said is a more favorable price than they would otherwise get if they were negotiating on their own.

The new program is designed to help small businesses without workplace retirement plans or companies that have not gained the critical mass needed to access more sophisticated fiduciary and administrative support, said Yaqub Ahmed, the San Mateo, Calif.-based head of Franklin Templeton's U.S. retirement, insurance and 529 businesses.

In essence, the new bundled offerings provide the equivalent of discounts to plan sponsors that choose to be part of a so-called group of plans. Much like pooled employer plans, the offerings allow plan sponsors to outsource their administrative duties and offload much of their fiduciary responsibility.

Franklin Templeton's recent offering, for example, includes record-keeping services through Transamerica Corp., 3(16) plan administration services through DWC — The 401(k) Experts, and 3(38) investment management services through LeafHouse Financial Advisors LLC.

The offering from FuturePlan by Ascensus — called FuturePlan GPS (Group Plan Solution) — provides virtually the same services through Transamerica as record keeper, FuturePlan as the third-party administrator and 3(16) plan administrator, and Fiduciary-Plus as the 3(38) invest-



Preston Traverse said the package deals are attracting sponsors that want to retain plan control and flexibility.

ment manager. The program was introduced in November.

With their focus on group purchasing power and outsourcing, the new offerings sound a lot like pooled employer plans, but they're not. Unlike PEPs, where assets of participating plans are commingled, the new offerings allow individual plans to stand on their own. Plan sponsors opting for the new package deals continue to hold sponsorship of their plans in contrast to pooled employer plans where sponsorship essentially moves to a pooled plan provider.

Employers looking to retain a greater level of control of their retirement plans are particularly attracted to the new bundled offerings, said Preston Traverse, Mercer's Boston-based defined contribution midmarket solutions leader, whose firm has a bundled

group offering known as Mercer Wise 401(k) and is planning to launch a PEP on Jan. 1.

"People prefer the group of plans more than the PEP, especially if they're larger," he said of Mercer's options.

Mr. Traverse explained that many plan sponsors "do not want to be commingled with other plans" and like the concept that "it's still their plan."

It's also easier to exit a group of plans than it is to exit a pooled employer plan, according to industry experts.

"At this point in time, it offers an easier exit strategy," said Joan Neri, an attorney with Faegre Drinker Biddle & Reath LLP in Florham Park, N.J.

Greater flexibility

The bundled offerings also give plan sponsors more flexibility in their investment lineups than do pooled employer plans, according to Mercer's Mr. Traverse. He explained that Mercer Wise provides plan sponsors with a couple of choices of target-date funds and if they're large enough, the option of a brokerage window. Mercer's pooled employer plan, in contrast, will offer one lineup and "that's the lineup that you're going to get," Mr. Traverse said.

The new bundled offerings, however, do have one drawback. Plan sponsors in a group of plans must file separate Form 5500s and if they have more than 100 participants, they must con-

duct their own formal audits, which experts say cost anywhere from \$8,000 to \$20,000 a year. In a pooled employer plan, there's only one Form 5500 and only one audit, eliminating a huge administrative headache for participating sponsors.

Providers of bundled services might soon overcome even this drawback, though, with a provision in the SECURE Act of 2019 that allows certain groups of plans to file a single, consolidated Form 5500 starting in 2022, according to Ms. Neri. The provision applies only to defined contribution plans that have the same trustee, named fiduciaries, administrator, plan year and investment option offerings, she said.

There's a chance, too, that the audit requirement could potentially be applied to the group and not to each plan separately. Ms. Neri noted that while the audit requirement is not specifically addressed in the SECURE Act, "it would appear that given the intent of the rule," it would be applied that way.

"I am expecting that the Department of Labor will issue guidance about this," Ms. Neri said.

Indeed, the new law is one of the driving forces behind the emergence of the new bundled offerings popping up in the marketplace, she said.

The newcomers follow earlier pioneers. Mercer Wise 401(k), for example, launched in 2017, making Mercer

"one of the first to offer a fully delegated bundled solution with an institutional approach," Mr. Traverse said.

Mercer Wise 401(k) provides plan sponsors with 3(16) administration and 3(38) investment management services through Mercer Investments LLC and record-keeping services through Empower Retirement. As of Oct. 31, Mercer Wise had 40 sponsors with \$1.6 billion in assets and has another 13 plans with \$450 million being brought on through April, Mr. Traverse said.

The recent new offerings are mainly geared to the needs of smaller plans. Franklin Templeton's group plan solution, for instance, is designed for the micro to small plan market from startup plans to those with less than \$3 million in assets, the firm's Mr. Ahmed said.

FuturePlan GPS, meanwhile, is "designed to fit many types of plans from employers looking for a startup solution to those with seasoned retirement plans," said Teresa Hassara, president of FuturePlan in Carlisle, Mass.

The newcomers declined to disclose how many plan sponsors have expressed interest in the programs, saying only that the programs have been well-received.

"The proposal volume far outpaced our expectations," Franklin Templeton's Mr. Ahmed said.

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