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Multiple Employer Plan (MEP)

Is a MEP the Right Choice for Your Retirement Plan?

By Neal Smith

- Employers should consider the benefits and drawbacks prior to joining an MEP.
- Pending legislation is designed to provide tax incentives and increase access to retirement plans.
- Fiduciary risk cannot be 100% delegated to third parties, so employers must have a sound process for selecting and monitoring an MEP.

When clients and prospective clients ask our opinion on pooled retirement plans—commonly known as multiple employer plans (MEPs)—we counsel them by helping them first understand what a MEP is and second, what makes a good candidate. So, what exactly is an MEP? An MEP is a single retirement savings plan for two or more employers that are not related for income tax purposes. The plan is administered and operated by a third-party sponsor that takes on the responsibility and liability of running the plan.

With the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act in 2019, MEPs soared in popularity. The SECURE Act eliminated the rule that said the compliance failures of one entity in a pooled retirement plan disqualified the entire plan, reducing participants potential legal exposure and costs. The act also stipulated that businesses no longer needed to be related or in similar industries to take advantage of a pooled plan offering, making them more accessible to greater numbers of employers. MEPs afford business owners the opportunity to transfer some control of their retirement plans to reduce their administrative and fiduciary burdens. While this may sound appealing, keep in mind that not all retirement plans are good fits for a MEP.

Consider the Benefits

There are several benefits to joining a MEP. For retirement plan sponsors, a MEP allows them to decrease their fiduciary responsibilities, reduce administrative expenses, and seek economies of scale. MEPs also offer an opportunity for business owners to simplify their retirement plan administration. An existing MEP offered by a single recordkeeper means a fiduciary now only has responsibility to select and monitor the MEP provider instead of the recordkeeper, investments and investment advisor, etc.

Employers can reduce their fiduciary responsibilities by allowing the MEP to select and monitor investments on their behalf. MEPs also offer businesses the opportunity to reduce administrative time and expense. For instance, a MEP both files IRS Form 5500 and handles the audit on behalf of the business. Retirement plan providers have typically charged smaller retirement plans higher fees due to the cost and ongoing maintenance of the plans, and it isn't until they are much larger before administrative fees can be reduced. This means MEPs provide an opportunity for smaller plans to reduce their expenses by capturing economies of scale typically available only to larger plans.

Pending Legislation Boosts Interest in MEPs

MEPs could further benefit from proposed retirement reform legislation currently pending in both branches of Congress. Proposed legislation includes the RISE & SHINE Act and Securing a Strong Retirement Act (aka SECURE 2.0), which include provisions that would affect employer-provided retirement plans. Both acts are designed to provide tax incentives for business owners and expand access to workplace retirement plans specifically through MEPs by offering automatic enrollment into plans and allowing part-time workers, usually excluded from participation, to contribute.

MEPs Offer Limited Flexibility

While MEPs may offer appealing benefits, not all individual retirement plans may be suitable candidates for a pooled plan. MEPs are typically rigid in structure, meaning employers have limited choices when it comes to selecting providers and designing plan options. In exchange for a reduction in fiduciary liability and administrative commitments, MEPs will often have a single recordkeeper, a limited set of investment options, and an established plan document that limits plan design flexibility.

Many larger plans may find these limitations incompatible with their growing and diverse participant populations. For example, many professional services firms that require flexibility in plan design, such as implementing new comparability testing, or companies that offer multiple plans covering different sets of employees (e.g., bargaining units, associates, etc.), may not be good candidates. While many small businesses may be suitable candidates for a MEP, mid- to large-retirement plans that require more sophisticated plan design and investment capabilities may prefer to operate their plan independently.

Fiduciary Risk Cannot Be 100% Delegated to Third Parties

It is also important to note that when deciding to join an MEP, participating employers are still a fiduciary, as they must exhibit a certain standard and prudence when selecting a pooled plan. There are strict governance requirements that employers are responsible for under the Employee Retirement Income Security Act's (ERISA's) fiduciary rules. While the MEP is responsible for most fiduciary and administrative duties, the employer must prudently monitor the MEP's activities, continually evaluating the qualifications and track record, as well as fees related to other pooled providers.

Next Steps

MEPs offer several benefits to an employer and there is growing legislative support for these types of plans. However, pooled plan sponsors face operational limitations in addition to strict fiduciary and governance responsibilities. A consulting firm with deep retirement plan advisory services like Cerity Partners can help employers address these concerns by conducting an independent assessment of their plan needs to determine if an MEP or standalone plan structure is more suitable for their organization.

Please contact us if you're curious about whether considering a MEP is the right choice for your organization.

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