

PEP Talk: Helping Businesses Save on Retirement Offerings



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Announcer:

Welcome to Thrive, a Paychex business podcast where you'll hear timely insights to help you navigate marketplace dynamics and propel your business forward. Here's your host, Gene Marks.

Gene Marks:

Hey, everybody and welcome to another episode of Thrive. I am your host, Gene Marks. Today, we are talking to Kelly Michel. Kelly is a consultant around retirement plans and she really specializes in PEPs, or Pooled Employer Plans — it's a new thing. Back in 2019, right before COVID, the ... passed into law, Congress passed something called the SECURE Act, which expanded the use of Pooled Employer Plans, which are a retirement plan, very much like a 401(k) that have huge benefits for particularly small businesses. They not only lessen our fiduciary liability, but they actually potentially can lower our costs of our 401(k) plans as well.

Gene Marks:

And I'm predicting when Kelly and I were talking about this, that in the next five, seven years or so, we're not going to be talking so much about 401(k) plans as we're going to be talking about these PEP plans, these Pooled Employer Plans, because they just make sense for small businesses. And if you've already got a 401(k) plan right now, you really might want to consider changing to a Pooled Employer Plan, and if you don't have a 401(k) plan, you should, and when it comes time to set one up, you probably want to set up a Pooled Employer Plan. So what are they? What's involved? What do they cost? What are the pros? What are the cons? Kelly's going to sort all that out for us when we talk to her in just a few minutes.

Gene Marks:

Now before we get there, if you have any topics or questions, suggestions, guests that you would like to propose for us to talk to on the show, people and topics that will impact your business, you can run your business better, suggest them to us, come to payx.me/thrivetopics, that's P-A-Y-X.me/thrivetopics. Give us a shout out and let us know who you'd like me to talk to, or some advice that you would need, things that will impact your business, I'll talk about it and do my best to help. All right enough said, let's talk to Kelly about Pooled Employer Plans, here we go.

Gene Marks:

So Kelly, thank you very much for joining me today.

Kelly Michel:

Thanks for having me.

Gene Marks:

Yeah, we could take up the next 30 minutes discussing why you're in France right now, but just for anybody watching, Kelly is in France right now. It's a long story, but we're going to focus today on Pooled Employer Plans in this conversation. But before we jump into that topic, Kelly, tell us a little bit about you, so what do you do? What is your title? What is your involvement with Pooled Employer Plans? Then we're going to get into what these plans are.

Kelly Michel:

Okay. Well, so again, thanks for having me. I've spent the last 30 years working in the retirement services marketplace and 20 years ago, embarked on what we called then, Multiple Employer Plans. And so I've spent the better part of my career working on crafting and making Multiple Employer Plans, now in today's market we call them Pooled Employer Plans, successful for small companies in particular, because it's a great way to have a small company be able to participate and offer their employees a great benefit without having to have all of the administrative requirements of a traditional plan. So it's really been my career's focus for the last 20 years.

Gene Marks:

So you're a consultant? I mean, our audience are, like myself, small business owners, so do you work directly with businesses to help them create these plans or do you work with others? I know you've done work with Paychex.

Kelly Michel:

Yeah, actually I'm the Principal of KME Retirement Consulting, but I really work with organizations who bring together and put products and solutions together for companies. So I'm really more of an intermediary consultant, but I have, over the course of my career, worked with thousands of small companies through these Multiple Employer Plans, trying to find successful solutions for them and for their employees.

Gene Marks:

Got it. Okay, so we have established that you are an expert in Pooled Employer Plans and retirement plans, so let's talk about Pooled Employer Plans, that is the topic for today. So we're going to start very basic, we're going to insult the intelligence of all of our audience, but certainly not mine, by just asking what are these plans? Give us a definition and what exactly they do, why would I care?

Kelly Michel:

Well, basically, they're a 401(k) plan, it's just as simple as that. However, 401(k) plans can be very complicated for small companies who don't have a lot of technical resources to help support them, so the development of a Pooled Employer Plan is a way for a small company, in particular, to be able to essentially pool with other employers and then outsource the administration of their 401(k) plan to a team of professionals, whether that's a recordkeeper or an investment advisor, it's really just a way for them to say, "Hey listen, I know my employees need this but I don't have the technical expertise to manage the administration of it, so I'm going to find somebody to do all of those services for me." It's not always like that, and it offers a way for professional providers to aggregate and pull together other companies to get better pricing, typically.

Gene Marks:

Huh, so did this exist before the SECURE Act in 2019 or is this something new?

Kelly Michel:

Well, the SECURE Act that passed in December of 2019 introduced this new plan called a Pooled Employer Plan, which is a bit different than what used to exist, which I used to work on, what are called Multiple Employer Plans. The differences with a Multiple Employer Plan is that they're oftentimes required to have a connection or a nexus between the membership of those plans, what a Pooled Employer Plan does now is that it just basically allows any employer who's looking to find a simple, easy solution for a retirement plan to come together under the service model of one particular provider like Paychex, and join that program, and take advantage of the services and the construct that Paychex, in this example, has created for them. There's no necessary connection that needs to be amongst those employers that are participating.

Gene Marks:

Got it. So really, it could be anybody, if I joined up... I mean, I run a technology business, but there could be a retailer, or a manufacturer, or a landscaper as part of my Pooled Employer Plan now, we don't need to have a connection to each other, and that's different than what it was before 2019, is that right?

Kelly Michel:

That's right. And what's important though, even though there's this myriad of different types of companies that might be participating in the plan, you still have your own little suite for you and your employees, so you're held out separately but you're really participating in a larger technical plan that the experts like Paychex or the administrators are taking care of, keeping you separate but really taking advantage of the larger size, so really using the law of large numbers to bring in some economies of scale.

Gene Marks:

Got it. So Kelly, 401(k) plans have been around for a long time, many businesses have them, many don't that should. So first of all, why should we care? What's so great about Pooled Employer Plans versus what we're used to in a traditional 401(k)?

Kelly Michel:

Well, what I think is really important to understand, that there's 55 million Americans or more that don't have a retirement plan.

Gene Marks:

Right.

Kelly Michel:

So particularly, those employees are oftentimes employed either in a small business that doesn't believe that they can afford, or know how to sponsor, a retirement plan, or they're part-time workers, or they think that they just don't have an interest in saving. And that's not the case, and oftentimes, even if you work for a small company, you're still interested in trying to participate and save for your retirement. And there's a huge need for it, there is an enormous savings crisis in America.

Kelly Michel:

The passage of the SECURE Act in 2019 was a legislative attempt to try to remedy that problem by allowing small companies to pull together, hiring professional administrators to take over the administration of the plan for them, because they recognize that oftentimes small companies don't know how to do it, and they want something very simple, and they really feel like they don't know what they don't know. So finding

a professional organization to do it for them is a really simple solution. And we should care because the healthy retirement of everybody starts first by saving and payroll deduct saving programs, just the easiest way for most people to just start to gradually build something for their nest egg.

Gene Marks:

Okay, most of my clients, when they talk about getting a 401(k) plan, they're like, "Okay, yeah, we do want a 401(k) plan for our company, so I'll talk to my benefits person or maybe I'll Google who does for ..." And there's a lot of financial services firms that offer 401(k) plans, Paychex being one of them. So when we're talking about Pooled Employer Plans though, does that mean that I could avoid all of those people and just set something up on my own with five other businesses in my neighborhood if I wanted to, or is it recommended to go through an established company that already provides these kinds of services?

Kelly Michel:

Yeah, I mean, theoretically you could do both of those scenarios that you just painted, but let me first start by saying, in my career, I have recognized the incredible importance of having a financial advisor support you in your efforts for the establishment and the continual support that you need particularly for your employees when it comes to education and whatnot with a retirement plan. So it's highly recommended by virtually anybody who participates in the 401(k) marketplace, that it's great to have a financial advisor, even if it's just simply for emotional support when things go wrong, where the market starts to have volatility in it or whatnot, and for the support of your employees. Now saying that, it's really simple for a small company who uses an organization like Paychex as a professional payroll provider, or they may take a whole host of different services from Paychex to simply tack on a retirement plan along with it.

Kelly Michel:

It's professionally designed, professionally managed, completely outsourced, which I think is the most important thing, because most small companies, they realize they don't know what they don't know, and they don't want to get themselves in trouble by doing something wrong. When they're taking advantage of a Pooled Employer Plan, unlike doing something for themselves, they really shift all that responsibility of the fiduciary, the oversight, and the management to somebody else. And in this circumstance, shifting that to a professional organization like Paychex is a win for them, they simply turn over the keys to drive the car to Paychex. Paychex helps support the program. They've already crafted it, they do the ongoing maintenance and management of the plan, and simply, they have to just make it accessible to the employees.

Gene Marks:

So Kelly, if I have clients, which I have many, that already have existing 401(k) plans, does it make sense for them to go back to their 401(k) provider, whatever firm they're working with, and say, "We want to switch this to a Pooled Employer Plan?" Is that something that you think would be a worthwhile discussion for businesses to have?

Kelly Michel:

Well, see, what I would suggest is that if they feel that the burden of administration and the fiduciary responsibility that they take on by managing that plan is something that they'd like to shift to somebody else, then they should think about exploring the benefits of a pooled employer plan. Oftentimes it also comes with some cost benefits to them as well. So if there's a company who has a plan already in assistance, maybe they have to have an audit, an audit for a 401(k) plan can cost upwards of \$10, \$20,000 a year. That's a great opportunity to reconsider whether that's something that they feel that they have to control, or if they want to try to take advantage of a professional fiduciary and professional outsource plan by somebody else, where they then shift those responsibilities across to those professional providers.

Gene Marks:

Okay. Yeah, I want to drill down on that a little bit more just because it's really important, at least to me. Most of my clients — I'm thinking of my audience, my readers, and my clients, and my firm — their 401(k) plan, it's not a big administrative burden to them, they've got it with some financial service provider. Again, Paychex does this, but this is not necessarily a commercial for Paychex. There's a lot of providers that do this, and you pay an extra fee and the provider handles the administration, they provide the fiduciary paperwork, they provide, they do the tax ... I don't really hear from a lot of clients like, "This is a big administrative burden for us." These are small businesses, so it's not a big deal.

Gene Marks:

But costs? You mentioned costs, right? So if I've got a 401(k) plan already, and you ... are you saying to me that I could go back and say, "If we convert this to a Pooled Employer Plan — which is really the same as a 401(k) plan, so my employees would not really know the difference — [crosstalk], we would be able to save money by doing that? And if so, can you again, explain why it would be less cost for an employer to have a Pooled Employer Plan than just a traditional 401(k)?"

Kelly Michel:

Yeah, so if there's an organization, already has a 401(k) plan in place, and even if they think that the administration is pretty much dialed down and they know what they're doing, it's not a big thing that they have to worry about on a regular basis, it's not really just the day-to-day functions of the plan. It's the potential for errors, it's the fiduciary exposure and financial risk that a company takes on by taking on those responsibilities themselves. And when you take on fiduciary responsibility, you may not find those kinds of issues until much later on, which then have this compounding impact around the financial, potential exposure that you have is related to making an error. And also, the notion of having a professional fiduciary selecting your investment options and kind of setting it and forgetting it with an outsourced provider oftentimes ...

Kelly Michel:

And because these plans can grow quite large, Pooled Employer Plans, you have this efficiency and economies of scale that you don't have on your own. Particularly as rules change and investment markets change, you want to have a professional fiduciary that's overseeing that, and the Pooled Employer Plan particularly provides that just on its face. So that's a really important thing. And because you're doing it in streamlined fashion with somebody else, oftentimes the fees are associated with the plans ... are less, and that's going to change from one company to another. But one other thing that I might add is if you're an employer who doesn't currently have a plan, there was an enormous amount of tax credits that have been made available through the SECURE Act that you can realize over the course of the first three years of your plan setup. So upwards of up to \$16,500 in tax credits for a company to take advantage of, just for the purpose of putting together a plan to offset the cost, that may have been what's been prohibiting them from participating or taking one out in the beginning.

Gene Marks:

Right. To me, it's like a no brainer. I'm getting back to people that have 401(k) plans already. If they go back to their 401(k) plan provider and say, "Hey, we want to switch this to a Pooled Employer Plan," like you just said, it seems like the administration, the fiduciary oversight would be better, and there's potentially less costs as well. Do most? So I realize you can't speak for all of them, but is that a weird question to ask your 401(k) provider? To say, "Hey, I know you've been providing this 401(k) plan for us for the past 10 years. We'd now like to switch this to a Pooled Employer Plan," are they going to look at you cross-eyed, or is this something that is fairly common now in the industry?

Kelly Michel:

Well, the Pooled Employer Plans became effective January of 2021, and so there has been a lot of evolution in product creation over the course of the last 12 months or so, getting ready and launching new product, new Pooled Employer Plans. So a company can certainly go and ask their existing service provider whether or not they have a Pooled Employer Plan that's maybe accessible to them or it's available to them. They also could ask their 401(k) financial advisor if they are familiar with any Pooled Employer Plans that they would like to recommend. But you know, leveraging Paychex and using Paychex as a payroll service provider, they should certainly take a look at it because the simplicity of it being already connected to your payroll, having the turnkey approach toward integrating that, makes it very simple for a company to be able to move the plan and then to have it continue to administer through the same parallel function that they're doing right now.

Gene Marks:

Yeah, that makes sense. And again, we're talking about small businesses here, so I guess it's really no limitation to the size of the business, right? You can be as little as three or five employees or hundreds of employees, I'm assuming, correct?

Kelly Michel:

Absolutely, you could be one or two-man group, you could be a single-man company putting together a 401(k) plan for yourself, and being able to take advantage of substantially higher savings rates than you would be able to do in these new state-run plans. So just as an example, and we haven't talked about this, but there's many states, I think nine states today who have state-required auto-IRA mandates, so if you're an employer with, let's say five or more employees, you are required to put some sort of a plan together for those employees, and at the very least, use the state-mandated, the state-developed auto-IRA program.

Gene Marks:

Right.

Kelly Michel:

A single-man 401(k) plan, you can put exponentially larger amounts of money for yourself away inside a 401(k) plan just because the rules around 401(k) are so much more advantageous for somebody who's interested to save ... particularly, the individual business owners.

Gene Marks:

Yeah, that's great. All right, so we have a minute or so left, and this has been great information. So Kelly, where do you think this is heading? I mean, will 401(k)s be just a thing in the past? Are we not going to be talking about 401(k)s five or 10 years from now? Everything will be Pooled Employer Plans, and that's what you think most small and mid-sized businesses are going to be using?

Kelly Michel:

There's a couple things like, first of all, the 401(k)s aren't going to go away. Right now across the country, there's about 650,000 401(k) plans and there's about 5 million employers, so we have a long way to go to cover all of our employees with a plan. But saying that, what I anticipate is going to happen is that we'll see lots and lots more advisors actually interested in supporting small companies with their 401(k) plan, because now there's many more accessible tools, oftentimes an advisor wears a lot of different hats, does a lot of different types of planning. 401(k) may have been something that seems a little too technical for them. These plans really give them the opportunity to work with a professional team that's already been created to manage that program so they don't have to rely so much on their, let's say a colleague who might be an expert or whatnot, but can really help support their small clients with a Pooled Employer Plan that wouldn't require the same technical expertise.

Kelly Michel:

But I would argue that most small companies will find that the leveraging of a Pooled Employer Plan is so much simpler than trying to keep up on their own, working independently, trying to manage the administration, and take on that fiduciary responsibility. And then lastly, I might say that a larger employer who has had a plan for quite some time, who carries the fiduciary and the financial burden of managing that plan on their own will look at it from just a pure perspective and say, "Listen, why would I carry the fiduciary risk all myself if I could shift that risk to somebody else?" Most financial advisors, excuse me, most CFOs don't take on the risk that they don't get paid for, so why would you keep risk on your ... when you can outsource that to somebody who's a professional at doing so?

Kelly Michel:

So in those ways, I think that's the trend that we'll see. And then of course, lastly, I really believe that financial advisors, I can't stress enough, the importance for them to see this as a tool that they would have in their toolbox to try to expand their practice, add additional value to their clients beyond simple wealth management — not that wealth management is ever simple — but just to really try to find a way to meet people where they are, and oftentimes, that best place is through the workplace. And it's harder and harder to hire people, and you want to try to give them the best benefits as you can possibly give them to attract them and retain them.

Gene Marks:

Kelly Michel is an expert with Pooled Employer — well, you've convinced me, I mean, I'm not only going to write about this, but I need to talk to my clients, and I do a lot of speaking as well and try to give advice to business owners around the country on different moves they can make to provide great benefits for their employees, but also to do it in a cost-efficient way, and reducing your risk and liability, and it seems like Pooled Employer Plans ... I didn't even realize that they went into effect just as recently as January, 2021, so it's new news, and is, I think is an important thing that employers learn. So Kelly, thank you so much for joining us. How could people get ahold of you if they're interested in learning more about you?

Kelly Michel:

Yeah, they can reach out to me at KME Retirement Consulting and I'll leave my contact information in the podcast.

Gene Marks:

Yeah, that sounds fine. We'll put that into the show notes as well. Kelly, thank you so much. Great information, appreciate it, and maybe we'll have you back some time. I have some other retirement plan questions and issues that I would love to run by you as well, but that'll be for another episode in the future, okay? Thanks.

Kelly Michel:

Anytime. Thanks for having me.

Gene Marks:

Take care.

Gene Marks:

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you want your business to thrive. I'm your host, Gene Marks, and thanks for joining us. 'Til next time, take care.

Announcer:

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