



The Pooled  
Employer Plan (PEP):  
The Future of Small  
Business Retirement

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## Now, Retirement Plans Are in Reach for Any Size Business

Many retirement experts are calling the Pooled Employer Plan (PEP) the most revolutionary change to the retirement market since the 401(k) plan was launched in the 1970s. The PEP has the potential to be a game-changer for millions of Americans who don't currently have a way to save for retirement.

Part of the 2019 SECURE<sup>1</sup> Act, the plan allows businesses without common interests to pool assets into a single, large 401(k) plan. The PEP significantly decreases the burden of administration, reduces financial liability, and provides for economies of scale that can lead to potential savings. It removes some of the roadblocks that have made it difficult for smaller businesses to offer high-quality 401(k) plans in the past.

To put the significance of the PEP in context, let's take a quick look back.

## Retirement Plans, Then and Now

In 1875, a freight transportation company called American Express started the first private pension plan<sup>2</sup> in the United States. For nearly a century, pensions, or defined benefit plans, were the predominant retirement vehicles in the United States.

Fast forward to the 1970s. In 1974, the first Individual Retirement Account (IRA) was put into law. Four years later, a plan named after the 401(k) section number in The Revenue Act of 1978 took the market by storm. The 401(k) plan allowed for pretax employee contributions and the option for employers to match funds. Employees could now make larger contributions, choose their own investments, and take their "portable" savings with them if they switched jobs or the company failed.

Less than three years after the 401(k) plan was signed into law, nearly [50%](#) of large employers were offering it. Today, according to a Federal Reserve [report](#), defined contribution plans such as the 401(k) and 403(b) are more than twice as common as traditional pensions. IRAs are also popular, though they have lower contribution limits.



## The Situation Today

Despite the many types of plans, there are still roughly 38 million Americans without workplace retirement benefits, according to the [Department of Labor](#). Because of administrative complexity, offering an employer-sponsored retirement plan is not an option for many smaller companies. Gone are the days when you could simply set aside money in your local pension fund and award it to retiring employees with a gold watch. Even relatively simple plans are too complex to manage for today's average small business.

In fact, the smaller the business, the less likely it is to offer a retirement plan. According to data gathered by [SCORE](#), **28%** of businesses with **less than 10 employees** offer retirement plans.

In contrast, **87%** of businesses with **over 100 employees** offer them as part of their benefits mix.

A Pew Charitable Trusts [survey](#) found that employers without retirement plans say they are too expensive to set up (37%). Another 22% cited a lack of administrative resources as an obstacle.

The reluctance of small businesses to start a plan is understandable. If you're a business owner with five employees and you don't outsource your payroll or HR functions, you're not going to have the time or resources to perform the many duties involved with a plan. While many retirement plans over the years have tried to tailor to small businesses, there is still a big market gap, with larger companies enjoying the lion's share of advantages. Because they have economies of scale, they are charged substantially lower fees than their smaller counterparts. One goal of the PEP is to level the playing field.

# Eliminating the Barriers of Complexity, Administration, and Risk

The PEP is a multiple-employer plan designed to take the burden of administration off employers' hands. Traditionally, businesses in a multiple-employer plan had to be related by industry or association (such as a trade group). This made it easier for them to share a single plan and not have to file separate Forms 5500 or do individual audits.

Now, under the SECURE Act, a PEP doesn't require employers to be related. A professional Pooled Plan Provider (P3) is the named plan administrator for the plan and takes on most administrative responsibilities. This alleviates the burden of plan management and decreases fiduciary liability, making it more attractive to smaller businesses.

Here are the main benefits of a PEP for small to medium-sized businesses:

## 1. Potential savings and tax credits

By pooling assets into a single, large plan, a PEP's adopting employers can save on administrative costs and achieve economies of scale. They can also potentially increase their purchasing power and get access to better, lower-cost investments. Savings can then be passed on to plan participants.

In order to offset startup costs, the SECURE Act provides that eligible employers may be able to receive up to \$5,000 in tax credits, with an additional \$500 tax credit available for using automatic enrollment in the plan, for the first three years that the plan is effective. While this can apply to any new 401(k), it is particularly powerful when applied to the already economical PEP.

## 2. The Pooled Plan Provider administers the plan for you

The PEP more fully approaches a "do it for you" plan where the P3 manages administration, monitoring, and reporting. Employers don't have to worry about plan set-up, coordinating with vendors, filing tax forms, employee enrollment, or several other complexities involved with 401(k) plan management.

Although the plan is administered by the P3, employers still have control over things like defining matching levels and contribution limits and ensuring the plan is performing to employees' needs. Some employers may prefer more hands-on involvement, but for those who want a plan that comes with its own administrator, a PEP is ideal.

Continued benefits of a PEP for small to medium-sized businesses:

### **3. Less fiduciary risk**

Because the P3 assumes most administrative responsibilities, employers are not subject to the same level of fiduciary liability. However, to be sure the plan runs smoothly, it's important to choose a P3 that will maintain professional standards, such as acting in the best interests of the participants, meeting plan deadlines, and carrying out general duties.

### **4. Attracting and retaining employees**

Retirement benefits are a huge influencer in employees' decision to join a new company, or stay with their current one. Forty-eight percent of small business owners say that departing employees cited a lack of retirement benefits as a reason for leaving.<sup>3</sup> And 94% of small business owners who offer a 401(k) plan say it drives recruitment and retention.<sup>4</sup>

But just as important, many businesses are concerned about the future financial wellness of their employees, especially in the age of COVID-19 when times are uncertain. Offering a high-quality retirement plan like the 401(k) can help give them peace of mind and increase their loyalty to the company.

## **What Does a P3 Do?**

The Pooled Plan Provider undertakes the major administrative and fiduciary duties involved in maintaining the plan. A Pooled Plan Provider:

- Acts as a named fiduciary and plan administrator
- Is responsible for all administrative duties for the plan to be ERISA compliant 3(16) provider
- Registers with the Department of Labor (DOL) prior to starting operations
- Reduces administrative tasks by removing the need to partner with other third-party fiduciary services providers
- Ensures trustee services for the plan
- Completes the plan audit, which relieves large employers of a complicated and time-consuming task and can save \$10,000–\$20,000 on average
- Files Form 5500
- Delivers participant notices
- Manages enrollment and participant education

# What to look for in a Pooled Plan Provider

When choosing a P3, it's important to find one that has deep experience in recordkeeping and who can offer the full spectrum of administrative and fiduciary services. Here are some considerations:

- Is the P3 integrated with your payroll company to simplify administration?
- Is it easy for employees to enroll in and manage their plan?
- Is the P3 set up to do ongoing participant communication and retirement readiness education?
- Is their service prompt and knowledgeable?
- Do they support your employees with self-service tools, auto-enrollment, portals, and online individual account management?
- Will they work with your financial advisor or CPA?

## Traditional 401(k) or PEP – Which Fits Your Business Better?

You may be wondering how a PEP is different from a traditional 401(k). Both are excellent options for you and your employees to save for retirement and save on taxes. A traditional 401(k) gives you more control, but it can be more complex to administer and entails more work on your part. In a PEP, the Pooled Plan Provider (P3) administers the plan, so you have less control but also reduced cost and liability.



<sup>1</sup>Setting Every Community Up for Retirement Enhancement Act

<sup>2</sup>Pension Benefit Guaranty Corporation, "History of PBGC," August 17, 2020

<sup>3</sup>Spark 401(k) Small Business Retirement Planning Index, July 2017

# ABOUT PAYCHEX

Paychex, Inc. (NASDAQ:PAYX) is a leading provider of integrated human capital management solutions for human resources, payroll, benefits, and insurance services. By combining its innovative software-as-a-service technology and mobility platform with dedicated, personal service, Paychex empowers small- and medium-sized business owners to focus on the growth and management of their business. Backed by more than 45 years of industry expertise, Paychex serves more than 680,000 payroll clients as of May 31, 2020, across more than 100 locations in the U.S. and Europe, and pays one out of every 12 American private sector employees.

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