



Building the Perfect PEP

The SECURE (Setting Every Community Up for Retirement Enhancement) Act of 2019 did more than incentivize Americans to save and invest for retirement; it ushered in a new type of plan that not only expanded the ability for employers to offer a retirement benefit, but it also set the stage for the possibility to build the perfect plan.

Enter the Pooled Employer Plan (PEP), a way for unrelated organizations to offer a defined contribution plan. Since its 2021 inception, PEPs have accumulated more than \$10 billion in assets. As someone who has helped design nearly 80 PEPs in recent years, I know we've only hit the tip of the iceberg.

Retirement plans have always been a way for advisors to grow their business organically. But before advisors begin building the "perfect" PEP, they should consider the following.

ASK THE RIGHT QUESTIONS

To paraphrase the famous line of "Field of Dreams," the theory is that if you build the perfect PEP, plan sponsors will come. The challenge then becomes building the perfect

PEP. After years of helping service providers design their ideal PEP, I found it is imperative to consider the following:

Plan design restrictions. Determine if there are restrictions on PEP plan design. This is a crucial first step because it sets the foundation and direction for all other decisions. Some Pooled Plan Providers (PPP), the fiduciaries and administrators of PEPs, only allow for safe harbor plans. Others may prohibit the use of cross-tested, profit-sharing allocation formulas. Learning these restrictions at the start of the process can avoid design challenges later.

Investment choice restrictions. Make sure limited investment choices do not handcuff the plan. Some plans do this to help control costs. Others may want to streamline the selection process among plan participants. Understandably, PPPs set limits on investment choices to create efficiency and reduce costs, but I have seen plan sponsors willingly pay for features they deem important to their plan participants.

DEFINING ROLES

Various firms offer PPP services, firms specializing in 402a fiduciary governance, TPAs, bundled recordkeepers and investment advisor firms. The PEP creator will need to determine which PPP model provides the best governance for the PEP being designed.

Having a PPP as both the TPA and recordkeeper creates administrative and management efficiency. The downside is potential increased responsibility and liability for adopting employers in the PEP when an affiliated entity providing a service fails to perform. The Pooled Plan Provider may be forced to replace that affiliated entity.

Another factor to consider is whether the PPP requires adopting employers joining the PEP to sign a separate service agreement. This arrangement could shift fiduciary responsibility from the PPP to the adopting employer. Also, it is important to understand if the PPP allows for multiple 3(38) investment fiduciaries.

FLEXIBILITY

Advisors seeking to create the “perfect” PEP should find a partner who can work with any TPA or recordkeeper. This can help create a retirement plan that plan sponsors and plan participants can feel confident about.

It seems intuitive, but not every PPP has the flexibility to work with many TPAs or recordkeepers. Incorporating this feature can allow retirement plans to meet the adopting employer’s goals and objectives uniquely.

There’s no denying that PEPs will continue to rise in popularity over the next decade. Not only are more plan sponsors selecting this retirement solution, but the three primary service providers in the qualified plan space – advisors, recordkeepers and TPAs – are buying into the PEP concept. Some mega recordkeepers have established departments to design, implement and service PEPs.

While that may lead to saturation in the marketplace, the key to remember is working with a PPP that provides the flexibility desired to design a “perfect” PEP. PEPs are here to stay, so make sure you’re creating one that meets each adopting employer’s financial goals while providing maximum fiduciary protection.

“The key to remember is working with a PPP that provides the flexibility desired to design a “perfect” PEP.”



Jeff Atwell is Senior Vice President of Fiduciary Services at AmericanTCS. He brings a tremendous wealth of knowledge in the areas of third-party administration, plan design and fiduciary compliance and has built a successful career sharing his accumulated knowledge with broker/dealers, financial advisors and plan sponsors around the country. Jeff has the Registered Fiduciary (RF) certification which identifies him as having achieved pertinent educational qualifications, licenses and acquired skills required of a competent fiduciary. Additionally, he serves on the NAPA Government Affairs Committee and supports the industry PAC and is an active member of the American Retirement Association (ARA) and The Center for Fiduciary Studies (f360).

Let's talk.

For more information, contact
fdxchangesupport@americantcs.com

ABOUT AMERICANTCS

For almost 50 years, the businesses that comprise AmericanTCS— American Trust Custody, American Trust Retirement, American Trust Wealth, American Technology Automation and AmericanTCS Fiduciary Services – have been collaborating with financial intermediaries to provide successful financial outcomes for them and their clients. AmericanTCS is dedicated to delivering exceptional customer service and innovative technology to create operational efficiencies and competitive advantages. By prioritizing strong relationships and continuous collaboration, AmericanTCS aims to establish itself as the go-to services partner in today's ever evolving marketplace, fulfilling its mission of creating financial security for all Americans.

Products and services offered by FiduciaryxChange are not insured by the FDIC, are not a deposit or other obligation of, or guaranteed by, AmericanTCS Fiduciary Services, and are subject to investment risks, including possible loss of the principal amount invested.

FiduciaryxChange is a registered service mark of AmericanTCS. FiduciaryxChange is a set of services offered by AmericanTCS Fiduciary Services, LLC.

Not FDIC Insured | No Bank Guarantee | May Lose Value

25-092 (9/25)