POOLED EMPLOYER PLANS (PEPs)

Benefits of Integrating Retirement Income into PEPs

With the passage of the SECURE Act in 2019, Pooled Employer Plans (PEPs) were enacted into law allowing for a new type of retirement plan where multiple, unrelated employers can participate in a single Defined Contribution (DC) plan that offers benefits such as improved economies of scale, reduced administrative burden, and less financial risk.

This law also required the identification and registration of a pooled plan provider to function as a plan administrative fiduciary, or 3(16), over the pooled employer plan. Pooled Plan Providers include recordkeepers, consultants, and other financial services firms. Since 2020, the PEP market has grown quickly to $10.8 billion in assets across 210 PEPs encompassing 24,000 employers and 1.1 million PEP participants[1].

Potential Benefit to Employers

Employers may benefit from joining a PEP through improved cost savings by pooling resources, streamlining processes, and collectively lowering investment fees. These benefits can include greater access to a wider range of professionally managed options and the ability to offer more robust communication programs.

In addition, employers can also benefit from the fiduciary oversight in evaluating and offering lifetime income solutions. Together, all these benefits can potentially help deliver improved participant education and better retirement outcomes than smaller plans could otherwise deliver on their own.

Potential Benefit to Employees

Employees (participants) may benefit from their employer joining a PEP through potentially improved access to a broader range of lower fee investment options that can lead to better long-term outcomes.

These outcomes can be defined by the ability to generate consistent income from accumulated DC balances in a variety of ways, including systematic withdrawals, stand-alone annuities or asset allocation strategies such as target date funds or managed accounts that automatically allocate to lifetime income that can help manage expenses in retirement.

By including lifetime income options within PEPs, multiple small and mid-sized employers can collectively offer their employees access to institutional-grade retirement income solutions that might otherwise be unavailable or unaffordable on an individual plan basis. Moreover, including lifetime income options in PEPs promotes retirement readiness and supports fiduciary best practices. With the pooled structure, plan sponsors can leverage economies of scale, reduce administrative burdens, and access professional plan management and investment oversight across accumulation and decumulation strategies. This structure can make it easier to implement annuities prudently and cost-effectively, while also providing participants with education and support to understand and utilize these lifetime income solutions.

CONCLUSION

As the retirement landscape continues to evolve away from Defined Benefit plans, the inclusion of lifetime income options in PEPs enhances the overall value and sustainability of DC plans of all sizes for the benefit of millions of American workers seeking a dignified and financially secure retirement.

Source: [1] *Cerulli U.S. Defined Contribution Distribution 2024*

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DCLI0236-0625