CLOSING THE RETIREMENT SAVINGS COVERAGE GAP

Multiple Employer Plans

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Employer-sponsored retirement savings plans are a critical component of the private retirement system in the U.S., and a proven tool for helping working Americans prepare for life after work. According to calculations by the nonprofit Employee Benefit Research Institute, people earning between $30,000 and $50,000 per year are 16.4 times more likely to save for retirement if they have access to a workplace plan.

Unfortunately, tens of millions of Americans don’t have access to a plan on the job, leaving many ill-prepared to meet their financial needs after they stop working. This retirement coverage gap is most acute among employees of small companies, many of whom do not sponsor plans due to concerns about costs, complexity and fiduciary liability.

The retirement coverage gap can and should be narrowed. While a variety of solutions are possible, there is a growing consensus in Washington that one of the broadest and most expedient ways would be to expand access to multiple employer plans, or MEPs, for small employers and their employees. MEPs—single plans utilized by two or more employers—have been deployed successfully for years by trade associations and professional employee organizations. Unfortunately, tax laws and regulations discourage or prevent most small employers from taking advantage of them. Removing those constraints is endorsed not only by several Washington lawmakers on both sides of the political aisle, but also by the U.S. Chamber of Commerce, AARP, many affinity groups and the financial services industry. Most notably, in August 2018 President Trump signed an executive order that, among other provisions, calls on the Department of Labor (DOL) to consider the pros and cons of MEPs.

For the small employer market, MEPs would enable small businesses to participate in a single, professionally administered plan that affords them economies of scale and minimal fiduciary responsibility. The plans would provide employees of those organizations the same opportunities to invest for retirement that employees of large companies already enjoy on a near universal basis via 401(k)s and similar defined contribution plans.

This paper outlines the legislative and regulatory actions that would be needed to broaden access to MEPs for small employers. It also describes the features that a model MEP might incorporate, including:

- Automatic enrollment of employees and automatic escalation of employee contributions.
- Automatic deferral of employee contributions into an investment option designed to preserve principal. After four years, contributions would be made to a qualified default investment alternative, such as a target-date fund.
- A lifetime income solution among the plan’s investment and/or distribution options.
- Streamlined administration through standardized plan design.
- Clear delineation of fiduciary and administrative responsibilities, ensuring that each plan is managed in the best interests of its participants and beneficiaries, with those responsibilities assumed by benefit and investment professionals rather than participating employers.

Ignoring the retirement coverage gap would do a disservice to millions of hardworking Americans who need help preparing for retirement. These workers could benefit from the access to lower-cost institutional investments, tax advantages, potential employer match and other benefits that a workplace retirement plan provides. Making it easier for small employers to participate in MEPs would go a long way toward righting that wrong.
THE IMPORTANCE OF WORKPLACE RETIREMENT PLANS

For millions of working Americans, workplace retirement plans have become the principal means of accumulating the assets they will need, beyond Social Security benefits, to sustain themselves once they exit the workforce. The good news? Those plans are working.

In 1975, just a year after the Employee Retirement Income Security Act (ERISA) was passed, retirement assets per U.S. household, excluding Social Security benefits, averaged $27,300 (in constant, or inflation-adjusted, 2012 dollars). By June 2013, that figure had ballooned to $167,800.

Since then, Americans have continued to bulk up their retirement nest eggs. By March 2018, total U.S. retirement assets stood at $28 trillion, up from $469 billion in 1975. Assets in defined contribution retirement savings plans—the type offered by most employers—totaled $7.7 trillion, up from $86 million in 1975. At the same time, assets in individual retirement accounts (IRAs) totaled $9.2 trillion, up from $1.4 billion in 1975, the first year IRAs became available.

For many Americans, an employer-sponsored plan such as a 401(k) is the easiest and most economical way to save for retirement. It offers tax benefits, professional oversight, the convenience of making contributions via payroll deduction and access to institutional pricing for investment products.

Access to a workplace plan doesn’t just offer workers an easier way to save for retirement; it is also correlated with better retirement outcomes. Calculations made a few years ago by the Employee Benefit Research Institute (EBRI) found that workers who were earning between $30,000 and $50,000 per year were 16.4 times more likely to save for retirement if they had access to a workplace plan.

More recently, EBRI has documented that among Americans who participate in a retirement plan—a defined contribution plan, a more traditional defined benefit pension plan, an IRA or some combination of the three—76% are somewhat or very confident they and their spouse will have enough money to live comfortably throughout their retirement years. By contrast, only 46% of those who do not have a plan are similarly confident of financial security in retirement.

Explanations for why people with access to workplace plans enjoy better outcomes are relatively easy to infer. Workplace plans promote saving and investment by virtue of:

- The employer’s endorsement, which may heighten the value of the plan in the eyes of employees.
- The employer’s promotion of the plan’s benefits, including matching contributions, which can boost plan participation.
- Automatic enrollment and automatic escalation of contributions in the plan, where employers have embraced those design features.
- The ease of making contributions via payroll deduction.

Employees recognize the value these plans offer. In a recent survey of 1,000 401(k) plan participants, nearly 90% said a 401(k) is a “must have” benefit.

1 “The Success of the U.S. Retirement System,” by Peter Brady, Kimberly Burham and Sarah Holden, the Investment Company Institute, December 2012, Figure 4, pg. 11.
2 “Our Strong Retirement System: An American Success Story,” the American Council of Life Insurers, the American Benefits Council and the Investment Company Institute, December 2013, pg. 5; updating the calculations in “The Success of the U.S. Retirement System,” by Peter Brady, Kimberly Burham and Sarah Holden, the Investment Company Institute, December 2012, Figure 4, pg. 11.
3 Investment Company Institute, “Retirement Assets Total $28.0 Trillion in First Quarter 2018,” Table 1.
7 Online survey of 1,000 401(k) plan participants by Koski Research for Schwab Retirement Plan Services between June 2 and June 8, 2016.
THE RETIREMENT COVERAGE GAP

The bad news is that while workplace retirement plans are helping tens of millions of working Americans save and invest for retirement, tens of millions more do not have access to a plan at work. This is particularly problematic for workers who are employed by one of the country’s many small employers that do not sponsor a plan due to concerns about costs, administrative complexities and fiduciary liability. The resulting retirement coverage gap is reflected in data compiled by the Bureau of Labor Statistics:

- 91% of workers employed by firms with more than 500 employees, and 80% at firms with 100 to 499 employees, have access to retirement plans on the job.8
- Only 55% of those employed by firms with fewer than 100 workers have access to a workplace retirement plan.9

The coverage gap’s concentration among small employers is critical because small employers provide jobs for a vast swath of the American populace, particularly among women and multi-ethnic groups. In 2011, private sector organizations with no more than 500 workers employed a total of 65.4 million people, while larger organizations employed 51.5 million. The smaller employers also provided more jobs for women—30.3 million versus 25 million—and for Asian American, American Indian and Hispanic workers.10

The retirement coverage gap has persisted despite a variety of legislative and administrative initiatives that have sought to close it via simplified retirement savings vehicles such as Simplified Employee Pension plans (SEPs), Savings Incentive Match Plans for Employees (SIMPLEs) and voluntary payroll-deduction IRAs.

SOCIAL SECURITY: A PARTIAL BACKSTOP

Social Security is a critical retirement income backstop for those without a workplace retirement plan. It replaces nearly all of the pre-retirement income for the lowest quintile of earners after they stop working—87% on average—based on inflation-indexed earnings. But for many Americans, Social Security will provide a much smaller fraction of what they need to maintain their standard of living in retirement. Based on an average of their highest 35 years of earnings, earners in the top quintile receiving their first Social Security benefit at age 65 in 2014 could expect it to replace, on average, just 31% of their preretirement income. Even for medium earners, it would replace only 47%.11

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MULTIPLE EMPLOYER PLANS: A POTENTIAL SOLUTION TO THE COVERAGE GAP

Multiple employer plans, or MEPs, offer a promising means of narrowing the retirement coverage gap. A MEP is a type of employee benefit plan that can be maintained as a single plan in which two or more unrelated employers participate. For purposes of this paper, it is a tax-qualified retirement plan.

The MEP concept is not new. MEPs have been allowable under federal tax law and ERISA for decades. However, changes are necessary to address impediments limiting the use of MEPs. Current tax law and ERISA rules limit MEP sponsorship primarily to trade associations whose members share a commonality of interest, professional employee organizations (PEOs) that share a co-employer relationship with their clients, and certain large employers who wind up sponsoring MEPs as the result of a corporate restructuring or similar transaction.

As envisioned by a number of members of Congress on both sides of the political aisle, access to MEPs could be broadened, and the plans themselves enhanced, to provide small employers with the economies of scale, administrative simplicity and limited fiduciary liability they need to be comfortable offering a retirement savings plan to their employees. This idea has been endorsed by the Chamber of Commerce, AARP, numerous affinity organizations and a number of financial services industry groups, including, among others, the SPARK Institute. Most recently, in August 2018 President Trump signed an executive order calling on the DOL to consider the pros and cons of MEPs. When the executive order was announced, the Secretary of Labor affirmed that the DOL is working diligently to solve the issue of small business employer access to retirement plans.

This paper describes how federal legislators and regulators can help narrow the retirement coverage gap by expanding opportunities for MEP sponsorship and creating a model plan designed specifically for the small business community. In brief, this new breed of MEPs would be open to a diverse universe of smaller employers, managed by identifiable and accountable plan fiduciaries and professionals. The plans would be designed to broaden retirement plan coverage and increase worker savings through the use of automatic enrollment of employees and automatic escalation of their contributions to their plans. Small employers would enjoy the same economies of scale currently enjoyed by larger employers, as well as limited fiduciary liability like those participating in collectively bargained multi-employer plans and association-sponsored MEPs.

WHY MEPs, AND WHY NOW?

Over the past few years, employers have increasingly recognized the importance of a holistic approach to financial wellness, as well as the negative effects of financial stress on their workforce. At the same time, there is growing recognition at federal and state levels that far too many Americans may not be prepared financially for retirement, that workplace-based retirement savings programs can play a significant role in addressing this problem and that the need for greater access to workplace retirement programs is greatest among those working for small employers.

Legislators have introduced a variety of bills, at both the state and federal levels, that would encourage and/or mandate the offering of a retirement savings program by employers who don’t currently sponsor one.

State initiatives have primarily focused on the possibility of offering state-sponsored retirement plans for employees of private-sector employers. Typically these plans would require employers who do not otherwise offer a plan to automatically enroll their workers in the state-sponsored plan, under which employee contributions would be invested through an IRA. Such efforts on the part of states have served to reinforce the importance of a federal solution to the retirement coverage gap.

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13 In “The Policy Book: AARP Public Policies 2013-2014,” revised 2014, AARP states in Chapter 4, pg. 18, “AARP supports the development of model plans that would enable groups of unrelated small employers to pool resources in plans administered and marketed by financial institutions.”  
14 John Manganaro, President Trump Orders Review of Open MEP, RMD Rules, PLANSPONSOR, 8/31/18.
The growing enthusiasm for expanding the role of MEPs reflects a recognition that multiple employer plans would offer small-business employees meaningful opportunities to save and invest for retirement, while minimizing administrative burdens and fiduciary liability for their employers.

**CHALLENGES TO EXPANDING MEP SPONSORSHIP AND PARTICIPATION**

Expanding access to MEPs for small businesses and their employees will require legislative and regulatory action in Washington. The challenges are concentrated in three areas:

**Tax law.** Section 413(c) of the Internal Revenue Code already recognizes plans maintained by more than one unrelated employer. However, it imposes a number of requirements on these plans as a condition of maintaining their tax-qualified status. As currently interpreted, some of these requirements, such as nondiscrimination rules, are applied on an employer-by-employer basis rather than a plan basis. This means that just one noncompliant employer can jeopardize the tax status of the entire plan, putting all other employers at risk.

**ERISA.** For purposes of ERISA, the DOL treats as a single retirement plan only those MEPs that are sponsored by a “cognizable, bona fide group or association of employers” acting in the interest of its members. It also requires that this group of employers have a “commonality of interest,” such as operating in the same industry, and exercise either direct or indirect control over the plan. Taken together, these conditions significantly limit the ability of other organizations, such as a local Chamber of Commerce, to sponsor a MEP for a diverse population of smaller employers.

**Fiduciary liability.** Some employers—particularly small employers—shy away from offering a retirement savings plan because they are concerned about the responsibilities and liabilities they might assume, under ERISA, as plan fiduciaries. The recent uptick in retirement-plan litigation relating to plan fees and other factors has only exacerbated their concerns.

In the next section of this paper, we’ll explore the legislative and regulatory changes needed to make MEPs workable for the small business community, and for the tens of millions of American workers who could benefit from access to them.
THE PATH TO FACILITATING SPONSORSHIP AND USE OF MEPs

To make MEPs accessible to small businesses, lawmakers and regulators will need to take action on several fronts:

**Tax law.** The Internal Revenue Service (IRS) or Congress needs to clarify tax law so that any adverse consequences of not complying with the applicable tax-qualification requirements of MEPs will be limited to the noncompliant employer, rather than the entire plan and the rest of its participating employers.\(^{15}\)

**ERISA.** Congress and the DOL need to modify ERISA requirements to allow a broader array of entities, organizations and associations to sponsor MEPs, subject to conditions that will ensure the plans comply with ERISA’s fiduciary requirements and minimize risk to plan sponsors and their employees. These conditions might include the following:

- The sponsor must exist for bona fide purposes, unrelated to the sponsoring of a retirement plan.
- The documents of the plan must identify the person, or persons, who will serve as the named fiduciary of the plan. That person, or those persons, must acknowledge in writing joint and several liability for controlling and managing the operation and administration of the plan.
- The documents of the plan must identify the trustee(s) of the plan responsible for the management and control of the plan’s assets, and for the prudent collection of contributions to the plan.
- The documents of the plan must identify the person or persons who will serve as the administrator of the plan, responsible for satisfying reporting, disclosure and other statutory obligations.
- The plan and plan officials must maintain a fidelity bond, in accordance with ERISA section 412, as well as fiduciary insurance, to safeguard the plan and its participants.

- The documents of the plan must ensure that participating employers will not be subject to unreasonable restrictions, penalties or fees upon ceasing participation in the plan.
- Inasmuch as the retirement coverage gap is most acute among smaller employers, participation in these new MEPs should be limited to those employers with no more than 500 employees. While it is likely that MEPs will appeal principally to employers with 100 or fewer employees, establishing the ceiling at 500 will give small employers ample time to grow without having to worry about identifying a new retirement savings vehicle.

**Fiduciary responsibility.** Congress and regulators should consider limiting the fiduciary responsibility of employers participating in a MEP to the prudent selection of the MEP sponsor. Similar to the selection of an investment manager under ERISA, such a limitation is not intended to eliminate or reduce fiduciary responsibility with respect to the management and operation of the plan, but rather appropriately allocate those responsibilities to professionals best positioned to protect the interests of plan participants and beneficiaries.

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\(^{15}\) On 11/17/14, Sens. Wyden, Nelson, Brown, Stabenow and Cardin wrote Secretary of the Treasury Jacob Lew urging the Treasury to revisit their regulatory position, which discourages multiple employer plans.
Enforcement. Lawmakers and regulators can help ensure the integrity of MEPs in the marketplace by strengthening the protections afforded plan sponsors and their employees. They can do this by establishing accountability for, and meaningful oversight of, MEPs. Appropriate measures could include:

- A requirement that MEP sponsors file a registration statement with the DOL in advance of offering a retirement plan to employers. The statement could include, among other things, the name of the sponsor; the scope of its intended offering in terms of its geographic area; representations that all applicable conditions, such as those enumerated above, have been satisfied; and copies of the plan documents.

- A requirement that the MEP file an annual report including, in addition to any other information required in its Form 5500 annual report, an audit and a listing of participating employers.  

- An amendment to ERISA giving the DOL authority to issue ex parte cease and desist orders, as well as summary seizure orders, similar to the authority it already enjoys in overseeing multiple employer welfare arrangements.

A safe-harbor model. To facilitate participation in MEPs and reduce compliance risks for small employers, the Department of the Treasury and the IRS should develop a safe-harbor model plan that minimizes the administrative complexities and costs of MEPs, is not subject to complex tax-qualification testing requirements, and enhances the ability of MEPs to generate positive retirement outcomes for plan participants.

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16 Congress and the DOL have taken steps to require, for plan years beginning after 12/31/2013, that most MEPs include, as part of the Form 5500 Annual Return/Report, a list of participating employers and a good faith estimate of the percentage of total contributions made by such employers during the plan year. See section 104(c) of the Cooperative and Small Employer Charity Pension Flexibility Act (Public Law 113-97, 4/7/14) adding a new section 103(g) to ERISA. Also see interim final rule amending instructions to the Form 5500 Annual Return/Report at 79 FR 66617 (11/10/14).
A MODEL MEP

A model multiple employer plan developed by the Department of the Treasury would provide small businesses with a roadmap for plan design and implementation. It would likely incorporate the following features and restrictions:

### FEATURES AND CHARACTERISTICS

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<th>SEGMENT SERVED</th>
<th>• Small employers. Limited to employers with no more than 500 employees.</th>
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| PLAN STRUCTURE | • A single plan, with a centrally administered trust, serving all participating employers.  
• Specifically identified persons who will serve as the named fiduciary, trustee(s) and administrator. |
| FEATURES       | • Funded by employee contributions.  
• Employer contributions permitted but not mandated.  
• Subject to contribution limits applicable to 401(k) plans.  
• Automatic enrollment of employees at a contribution rate equal to 6% of pay, with employees eligible to opt out or select an alternate contribution rate.  
• Automatic escalation of employee contributions to 10% of pay, in annual 1% increments, with the opportunity for employees to opt out.  
• Participant loans not permitted.  
• Hardship withdrawals permitted only under IRS safe-harbor conditions. |
| INVESTMENT AND DISTRIBUTION OPTIONS | • Participants will be offered a broad range of diversified investment options.  
• In the absence of investment direction, participants initially will be defaulted into an investment option designed to preserve principal, and after four years into a qualified default investment alternative such as a target-date fund or balanced fund.  
• Investment and/or distribution options will include at least one lifetime income product.  
• Participant accounts may be rolled into an IRA or other qualified retirement plan upon the participant’s separation from his or her employer. |
| FIDUCIARY AND ADMINISTRATIVE RESPONSIBILITIES | • Administrative responsibilities centralized to reduce costs.  
• Participating employers have limited fiduciary responsibility.  
• Participants benefit from the applicability of ERISA’s fiduciary standards and duties to those responsible for the management of the plan.  
• Nondiscrimination testing not required. |
MULTIPLE EMPLOYER PLANS WILL MEET SMALL BUSINESS OBJECTIVES

Multiple employer plans designed for the small business community will meet the objectives of small employers who want to help their employees prepare for retirement. As re-envisioned for the small business community, MEPs will:

**Reduce costs and administrative burdens.** Centralized plan administration and management, along with economies of scale, reduce both administrative burdens and costs—costs that often are borne by the plan’s participants and beneficiaries and serve to reduce retirement savings. Exhibit 1 shows how dramatically retirement plan fees fall, as a percentage of plan assets, as the number of participants in a plan increases.

**Reduce fiduciary responsibilities for small employers sponsoring retirement plans.** Fiduciary and administrative responsibilities will be discharged by plan and investment professionals, thereby enhancing the fiduciary and other protections afforded to employees.

**Provide better retirement outcomes for employees.** A properly designed MEP will promote saving by employees through the use of automatic enrollment and automatic escalation of their contributions. MEPs may further encourage appropriate investment behavior by providing a choice of investment options selected by investment professionals, better ensuring that plan participants will be able to tailor their portfolios to their investment goals and tolerance for risk. They also will provide enhanced opportunities for cost-effective participant education programs through pooling of resources with other employers. Finally, they will drive positive outcomes by providing participants with access to lifetime income solutions within their plans. Because the ultimate goal of a retirement plan is to allow participants to generate the income they need once they have retired, lifetime income solutions are a critical component of plan design.

**Help small businesses compete with larger companies for talent.** By giving small businesses a way to help their employees save and invest for retirement in a tax-advantaged plan, small employers will be better equipped to compete with larger employers for talent. Surveys consistently show that workers consider retirement savings plans a valued employee benefit.

Exhibit 1: Predicted Fees as a Percentage of Assets by Account Size and Number of Plan Participants

CONCLUSION

Access to a cost-effective, easy-to-use workplace retirement savings program is an important tool for building retirement security and putting more people on the path to financial wellness. Yet, tens of millions of Americans lack access to such a tool. Most in that group are employed by enterprises with 100 or fewer people on their payroll.

Revamping the rules and regulations around multiple employer plans to allow for MEPs that meet the needs and concerns of small employers would help to close the retirement coverage gap and improve the retirement outlook for millions of working Americans. It would give those workers access to professionally managed, institutionally priced retirement programs funded via convenient payroll deduction. And it would help make small employers more competitive with larger employers who can more easily assume the costs and responsibilities associated with sponsoring a retirement plan.

Importantly, incorporating retirement income solutions into MEPs will be crucial to delivering maximum benefits to working Americans. As has become increasingly clear over the past decade as the first wave of Baby Boomers has begun to exit the workforce, retirement savings plans must function not merely as vehicles for accumulating assets, but also as vehicles for converting those assets to income once plan participants have stopped working.

The climate is right for expanding the use of multiple employer plans. An executive order has spurred the DOL to closely examine MEP solutions, and the idea is supported by members of Congress in both parties and has won the endorsement of significant interest groups such as the U.S. Chamber of Commerce and AARP.

If you’d like to be part of the effort to expand the role of MEPs for small businesses, or simply learn more about how MEPs can be adapted for the small business marketplace, please contact:

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