Pensions&Investments

SECURE Act could prompt firms to cut existing plans

BY MARGARIDA CORREIA · JANUARY 27, 2020

Clint Cary believes 'early adopters' will pave the way for more acceptance of MEPs by smaller employers. | Michael A. Marcotte

The SECURE Act may well usher in an era of consolidation among defined contribution retirement plans, experts say.

The legislation, which was signed into law on Dec. 20 amid thunderous industry applause, made it easier for employers to join a multiple employer plan by allowing unrelated employers to band together to create a single retirement plan for their workforces. The provision for so-called "open MEPs" was largely directed at small employers unable to offer their own retirement plans but it will likely also attract employers looking to scrap their existing plans in favor of a MEP, according to industry observers.

"I think you'll see some early adopters over the next two to four years," said Clint Cary, head of U.S. delegated solutions at Willis Towers Watson PLC in Chicago, referring to employers that opt to drop their own retirement plans to join a MEP.

After the initial MEPs are up and running, there will be "a much more significant transition to those platforms," Mr. Cary predicted.

The reasons why employers already offering retirement plans would join a MEP are straightforward. By joining a larger plan, they would gain greater economies of scale, which would lower plan costs, industry experts contend. They would also be able to reduce — if not entirely offload — their fiduciary liability depending on how the MEP is set up.

Industry pundits point to the experience of Australia and the U.K., which underwent somewhat analogous changes to their retirement systems in a bid to broaden retirement coverage. Australia's superannuation system, which moved to a pooled defined contribution system in 1986, today has very few employers that offer their own plans. "Almost all of them are in superannuation plans," Mr. Cary said.

Popular in U.K.

In the U.K., multiple employer defined contribution plans, known as master trusts, such as the £10 billion ($13.1 billion) National Employment Savings Trust, which launched in 2010, continue to attract employers.

"It seems to us that the least likely outcome is that we would look entirely different from Australia or the U.K.," said Drew Carrington, senior vice president and head of institutional defined contribution at Franklin

Templeton Investments in San Mateo, Calif. "We will probably have some aspects of our system that will be similar to what we've seen in those other markets."

Preliminary evidence supports the prediction. In a survey conducted in February 2019, Cerulli Associates found 76% of small businesses with fewer than 99 employees were either very or somewhat likely to switch to an open MEP to reduce administrative and compliance costs. Almost as many — 75% — said they would do so to mitigate their fiduciary responsibility.

Industry experts anticipate that plan consolidation is more likely to occur in the small plan market. The fixed costs associated with running a small plan, with less than $10 million in assets, are not insignificant, making them prime candidates to switch to a MEP, Mr. Carrington said. "We believe that there may be plans in that small plan universe that elect to move on from being a sole plan sponsor and on the hook for all of the individual decisions associated with running a plan and join a MEP," he said.

Anastasia Krymkowski, Boston-based associate director in Cerulli's retirement practice, agreed. "I think it's reasonable to expect there would be more interest from the smaller side of the market and those plan sponsors that don't want to be as involved," she said.

While consolidation is more likely to occur among small plans, observers sees it happening even among larger plans. "Plans of all sizes would be interested in doing this," Mr. Cary said.

Sponsor question

Who will sponsor the new MEPs is an open question. Record keepers and other service providers are weighing the business potential of sponsoring the plans but much will hinge on final regulations expected to come from the Department of Labor, according to industry experts.

"There are certain regulations that the Department of Labor has to release addressing issues such as conflicts of interest," said Neil Lloyd, head of U.S. defined contribution and financial wellness research at Mercer in Vancouver, British Columbia. He did not know when the regulations are expected to be released.

Plan sponsors, however, don't seem to be in a hurry as they have not shown much immediate interest in open MEPs.

John Steiger, president and founder of Wealth Planning Resources LLC in Waltham, Mass., hasn't gotten any questions from his plan sponsor clients but he plans to talk to them about the new MEPs during their annual reviews. Though he's not generally a fan of MEPs, saying that they typically don't provide a pricing advantage, he's holding his final judgment until the new rules governing open MEPs are released.

Other industry experts reported similar silence among plan sponsors as the legislation is still new. However, they suspect that once sponsors digest the legislation, open MEPs will catch their interest.

Sponsors that have already outsourced functions of their plans, such as the 3(38) fiduciary role, are especially likely to consider a MEP, said Franklin Templeton's Mr. Carrington. "If a company has delegated some aspects of the management of the plan to a third party, it's not a stretch for them to consider delegating additional elements of a plan oversight and administration to a MEP," he said.

Still, some are skeptical, questioning whether open MEPs will deliver on their supposed benefits.

Michael Francis, president and chief investment officer of registered investment adviser Francis Investment Counsel LLC in Brookfield, Wis., counts himself among the skeptics. "We do not anticipate much demand, if any, from organizations with more than 100 participants for a MEP," he said. "The reality of these MEPs is their cost to administer will likely be no lower than a 100-member plan."

Competitive advantage

Another potential impediment to joining a MEP is that many sponsors view their retirement plans as a source of competitive advantage when it comes to hiring talent and might be reluctant to hand them over to an aggregating entity, industry experts said. "Some people like to have control themselves," Mercer's Mr. Lloyd said.

Nevertheless, open MEPs are likely to gain ground, according to Mr. Lloyd and other experts. The reality is that "people are going to want to try and create scale" and the way to "create scale is by bringing in plans that have assets in place," he said.

Open MEPs will also likely spur long overdue innovation in the industry, Mr. Lloyd added. The new MEPs will be innovative, employing retiree-friendly and other cutting-edge features because "they're going to want to attract people," he said. "They don't want to be attracting people based on price alone."

Mr. Carrington concurred. If a financial institution sponsors a MEP, it's going to come to market with a state-of-the-art plan much like car manufacturers are sure to include rearview backup cameras — a feature consumers now expect — in their cars today, he said.

This, in turn, will entice sponsors to either join open MEPs or improve their own plans. As sponsors watch others move to MEPs with innovative features, they will be prompted to adopt those very features themselves, Mr. Lloyd said.

"Open MEPs will ultimately result in transformational change in this industry," he said. "Maybe not overnight, but it will change."

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