**“10 THINGS YOU’RE (PROBABLY) DOING WRONG OR NOT DOING AS A PLAN FIDUCIARY.**

**WHY SMALL – MID SIZED BUSINESSES SHOULD BE IN A MULTIPLE EMPLOYER 401(k) PLAN**

## INTRODUCTION

A large majority of small to middle market businesses provide and sponsor 401(k) Plans for their employees. The benefits to this are quite obvious as employees expect to have access to a Qualified Retirement Plan upon acceptance of employment, regardless of whether or not the Employer offers to match a portion of employee deferrals or make other contributions to the Plan. The challenge that a vast majority of these employers face is that they are unaware of the responsibilities and liabilities they take on as the Plan Trustee and Fiduciary party. In fact, industry statistics serve to point out that most employers know far less about the things they are doing right when sponsoring a plan than they know about what they are doing right. As detailed in the preceding article **“10 THINGS YOU’RE (PROBABLY) DOING WRONG OR NOT DOING AS A PLAN FIDUCIARY**, (please read prior to reading this if you have not already done so), this paper will serve to describe a dynamic 401(k) Plan alternative that most Employers are not aware of.

## SINGLE EMPLOYER PLAN

Employers in this category adopt and sponsor a Single Employer 401(k) Plan through either an independent name brand provider (Fidelity, Principal, UBS, John Hancock, Merrill Lynch, and others), or perhaps through their payroll provider (ADP, Paychex). In doing so, Plan Documents must be written and followed and ERISA requires that there be a named Fiduciary and Plan Trustee(s), which are typically thrust upon the Business Ownership or Executive Management members. In addition to taking on the Fiduciary responsibilities as described, a Trustee typically acts as the Plan Administrator allowing them to execute deferral transfers, process loans and repayment schedules, make hardship distributions, and process rollovers. The majority of plans Single Employer Plans have limited Qualified Investment Options (usually less than 10) and in most cases do not include the services of a Registered Investment Advisory team. Year end testing and administrative services must be performed by a Third Party Administrator and require documentation of payroll information and numerous other reporting requirements.

## MULTIPLE EMPLOYER PLAN

A seldom used alternative for Employers is to adopt and sponsor a Multiple Employer 401(k) Plan. These are available through many of the same providers, however this concept requires an outside party to act as the Plan Co-Sponsor, Fiduciary, and Trustee for multiple companies that become adopting employers of the Plan. These have historically been limited to Professional Employer Organizations (PEO’s) or in some cases Industry Associations. Today however there are service providers such as Administrative Services Outsourcing (ASO) companies that have the ability to make this type of Plan available to their clients while also managing their payroll and benefits administration.

Using this strategy, the Employer now enters into an agreement with the ASO provider who is acting as a Plan Co-Sponsor, Trustee, and Fiduciary. The Employer becomes an Adopting Employer of the Multiple Employer Plan and design their own Plan selecting from Plan Documents that have already been established and reviewed by an ERISA Attorney. The assets of the Employer’s participants are maintained under their own account and the Annual Testing Requirements remain specific to the population of the Employer's participants. One of the primary benefits of this concept however is that under a Multiple Employer Plan, the assets of multiple companies are combined and managed under a single common contract. This means that instead of having the investment options and plan features that are very limited in a Single Employer Plan that usually has between 500,000 and 5,000,000 dollars of total assets, the Employer and participants now have access to a large scale Plan that has a substantially larger asset base and has the features of plans that are typically only available to much larger Employers.

**WHY IS A MULIPLE EMPLOYER PLAN GOOD FOR ME AND MY COMPANY?**

As you review the **"10 THINGS YOU'RE (PROBABLY) DOING WRONG OR NOT DOING AS A PLAN FIDUCIARY** article, it is very likely that you, like most employers, are not maintaining the required levels of compliance and plan management that fall under the fiduciary role. Furthermore, **why would you or anyone in your company want to take on the role of Trustee and Plan Fiduciary if you don't have to?** This is a responsibility that is full of risks as described and offers little if anything in return for the Employer or Management Executive as noted in the article. Your company and HR or Finance personnel are also now relieved of the responsibility of processing loans, tracking repayment schedules through payroll, rollovers, distributions, communications, and a myriad of other administrative responsibilities.

**WHY IS A MULTIPLE EMPLOYER PLAN BETTER FOR MY EMPLOYEES?**

It's actually difficult to find anything about this concept that is not better for your employees, or at the very least just as good. As referenced earlier most Single Employer Plans have limited Qualified Investment Options (less than 10) and do not include access to Registered Investment Advisors (or if they do, additional costs are incurred). Some plans also lack common loan provisions and offer less than adequate communications that employees need to understand.

A Multiple Employer Plan on the other hand will typically have 70 or more Qualified Investment Options with a very broad platform of choices from the industry's leading funds and providers. Participants can also elect Lifestyle of Lifecycle Funds that are actively managed by financial advisors and can also elect a Guaranteed Income For Life option. Ongoing access to Registered Investment Advisors is included at no additional cost and participants will get industry leading communications and resources from leading providers such as John Hancock.

Finally, the plan costs and expense ratios which are described below are almost always more beneficial to the employees leading to greater returns on their portfolios over the long term.

**HOW DO THE COSTS COMPARE?**

The costs associated with 401(k) Plans are **lower** under the Multiple Employer Plan arrangement for both the Employer and the participants. Employers typically incur total plan costs of between 5-10,000 per year (which includes all testing and TPA expenses) and additional fees are based on plan asset value and the flow of new contributions into the plan. These are usually in the range of .50 to .100 Basis Points however these costs are not always visible within the plan. In addition, the investment loads on the available plan choices are typically .75 to 1.5%. Additional fees also apply to loans, early distributions, and general plan administrative requirements. In the event that a change of providers is warranted, most of the initial costs are also duplicated.

**ANNUAL AUDIT**

If you have over 100 eligible participants, you are required to have an Annual Audit performed for your plan by a qualified CPA or Audit Firm. This is a very time consuming process that requires the extraction of numerous reports and supporting documents and typically costs an Employer between 8,500 and 12,000 per year depending on the complexity. **Under a Multiple Employer Plan, the Plan Sponsor (ASO) performs one large audit of the entire plan that you are included in. This eliminates the need for your own audit and creates an immediate cost savings of 8,500-12,000 per year not including administrative time spent preparing for the audit!**

**NEW REGULATIONS AND DISCLOSURE REQUIREMENTS**

This past October, the Department of Labor (DOL) introduced new regulations under section 404a-5 of ERISA. These include new participant-level disclosure requirements for plan sponsors and are part of the DOL's ongoing push for fee transparency.

The new regulations, which apply for plan years beginning on or after November 1, 2011, mean plan administrators will be required to:

- Provide employees with plan-related and investment-related information on or before they direct their investments (and each subsequent year),
- Provide employees with core information about investments available under their plan (including the cost of those investments),
- Use standardized methodologies when calculating and disclosing expense and return information,
- Present the information in a format that makes it easier for workers to make comparisons, and
- Provide employees with access to additional investment information beyond the basic information required under the final rule.

The DOL says its goal is to give participants user-friendly information to help them manage and invest the money they contributed to their retirement plan.

**CONCLUSION**

As an Employer and current Plan Sponsor, you may now be asking yourself "Why am I doing this and what's in this for me?" **The answer is nothing. This is an all risk no reward proposition.**

**THE SOLUTION**

**Contact Precision HR + today at 630-785-2200 or [www.precisionhrplus.com](http://www.precisionhrplus.com) and see why transitioning into a Multiple Employer 401(k) Plan makes sense for you and your company.**