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MEPs Cheaper Than Small 401(k)s, Costlier Than Big Ones

By Emile Hallez September 20, 2018

Participants in multiple-employer plans pay total fees that are about 10% higher, on average, than those in comparably sized single-employer 401(k)s, according to data from BrightScope.

The plan type, once relatively obscure to many Americans, has received much attention in recent weeks: House Republicans have included "open" MEPs as a component of their new tax-reform package of bills, and President Donald Trump issued an executive order for the Department of Labor to consider a similar proposal. Open MEPs would dramatically expand the availability of the plan type by eliminating the requirement that participating employers share commonalities, such as being franchises in a chain or being linked through partial ownership by a common larger entity.

MEPs v. Single-Employer Plans

Average total fees of multiple-employer plans with at least $100 million in assets are slightly higher than those of comparably sized single-employer defined contribution plans.

Year	MEP Average Cost (bps)	Single-Employer Plan Average Cost (bps)	Difference (bps)	Difference (%)
2014	46.5	44.5	2	4.5%
2015	47.3	44.2	3.1	7.0%
2016	46.2	42.1	4.1	9.7%

Source: BrightScope

Participants in open MEPs might not see the same amplitude of savings as those currently in MEPs, as most of the plans today operate more like single-employer 401(k)s than as trade-association plans for small businesses, one executive notes.

While MEPs appear to be more expensive than other 401(k) plans, they can provide considerable savings in fees for small employers that would otherwise have to sponsor retirement plans on their own.

The differences in fees between the two types have remained in the single digits over the past several years and are likely attributable in part to the greater complexity of recordkeeping for multiple-employer plans, says Brooks Herman, VP of data and research at BrightScope parent firm Strategic Insight.

According to figures run by BrightScope for *Ignites*, MEPs had total average fees of 46.5 basis points in 2014, compared with 44.5 bps for single-employer plans. For 2016, those figures were 46.2 bps and 42.1 bps, respectively, making MEPs roughly 10% more expensive for participants, according to BrightScope's data. The figures include averages for 178 MEPs with at least $100 million in BrightScope's database, as well as 3,249 single-employer defined contribution plans with the same asset threshold.

"You're paying 4 bps more for that administrative cost. My gut tells me that is reasonable," Herman says.

By comparison, the average total fees for 401(k) plans with $10 million to $50 million in assets were 88 bps in 2015, according to a report from BrightScope and the Investment Company Institute.

"If you're a small plan, open MEPs will provide you with a low-cost option," Herman notes. "But there are already low-cost options out there," he says, pointing to recordkeepers such as Ascensus that have focused their business on the small-401(k) market. Some plan providers include menus of ETFs to keep costs low.

And although they may be a cost-effective means for smaller employers to give their workers access to a retirement plan, MEPs cannot be compared perfectly with single-employer 401(k)s, says Pete Swisher, senior VP and national sales director at Pentegra Retirement Services.

"There's a huge difference between those two constructs," Swisher says, noting the amount of administrative work involved in coordinating different payroll systems, companies and participant lists that MEPs can include.

Each company participating in an MEP represents a point of contact for the recordkeeper, and each company also may need to have its own testing performed, such as non-discrimination testing, he notes. Not all employers set the same deferral levels and matches for their participants, adding to complexity, he notes.

Open MEPs are likely to be somewhat costlier than the MEPs currently available, in part because many MEPs today run like single-employer plans, with a large corporate entity establishing a plan for smaller firms in which they own a stake but do not fully control, Swisher says.

For example, one of the largest DC plans in the country — the General Electric Savings Plan — is an MEP that covers many GE affiliates. That plan represented about $29.6 billion among about 230,000 participants as of the end of 2016, according to data from BrightScope.

Over half of Pentegra's business is in MEPs, and the company has worked with similarly structured plans since 1943. Over the past five years, the company has added numerous smaller MEP clients, and now works with about 40 such plans, Swisher says.

Pentegra strongly advocates for open MEP legislation and sees substantial opportunity in the area, he notes.

The MEP "is a very useful structure. It simplifies the life of the client," he says. "It gets them out of the middle of chores that employers would not like to be in in the middle of."

As of 2009, there were fewer than 4,600 defined contribution MEPs in the country, representing fewer than 1% of all DC plans, the Government Accountability Office wrote in a 2012 report.

However, those DC MEPs represented about 6% of DC assets nationwide in 2009, holding an estimated $175 billion, the GAO wrote.

If an open MEP law or regulation goes on the books, there will be opportunities for recordkeepers that know the market well, BrightScope's Herman says.

"The recordkeepers, advisors and consultants who are well positioned for that transition are probably going to do very well," he says.

But it will likely take time before numerous small businesses flock to them, he adds.

"There's a level of sophistication [necessary] to start getting involved in an open MEP, especially when it is freshly signed into law," he says. "People will be cautious moving into this."

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