Multiple Employer Plans:

An Institutional-level Fiduciary and Administrative Solution for the Smaller End of the 401k Market

Multiple Employer Plans

Breakout Session Participants

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Session Overview

I. What is a Multiple Employer Plan? – Power
II. The Benefits for Employers – Pritchard
III. The Opportunity for Advisors – Montgomery
IV. Questions & Answers

Terrance P. Power,

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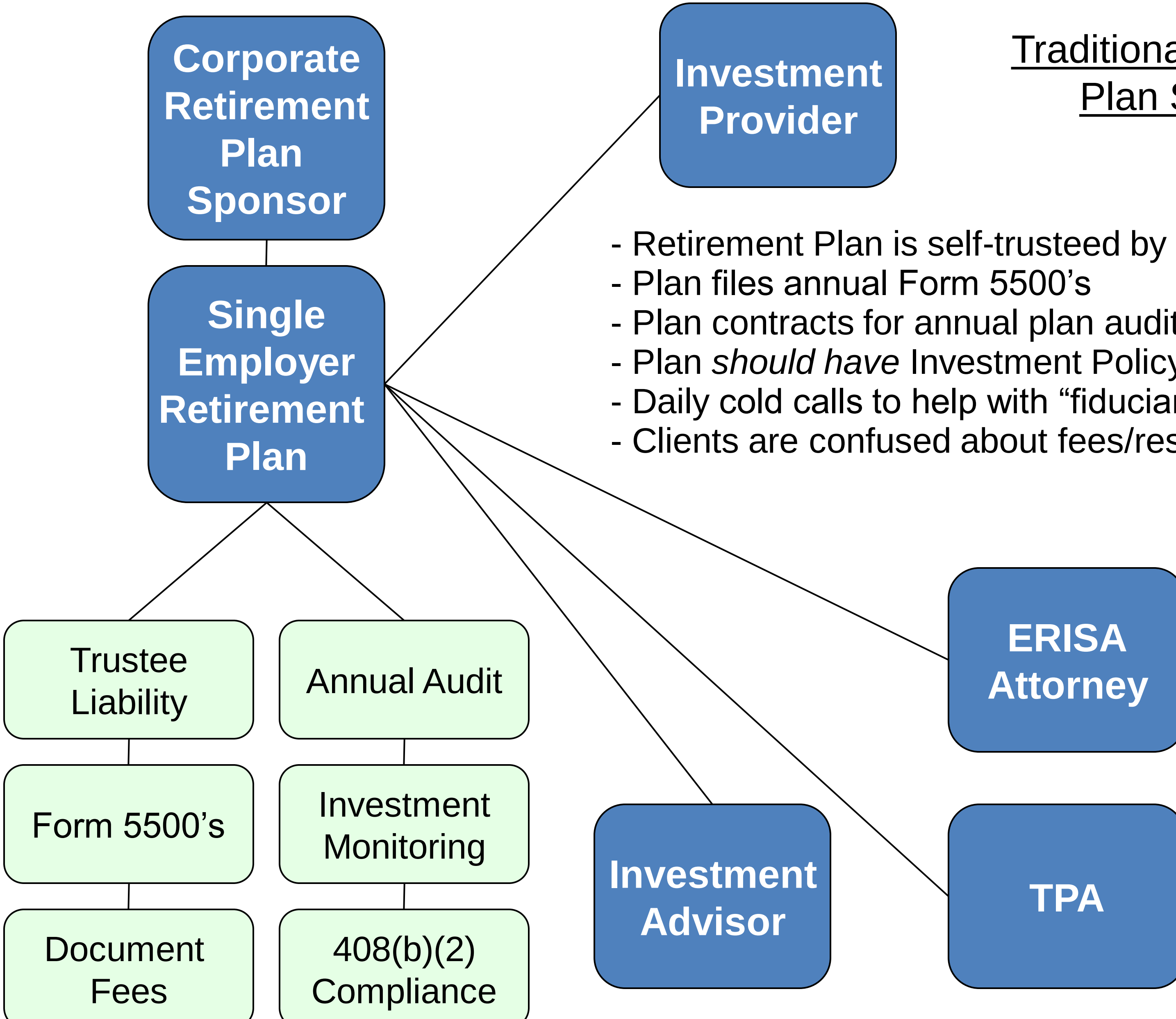
What is a Multiple Employer Plan?

- A Multiple Employer Plan, also known as a "MEP", is a qualified retirement plan that covers employers that are not commonly owned.
- These employers each become "adopting employers" when they elect to join the MEP.
- These plans can be Defined Contribution (DC) or Defined Benefit (DB) plans. We'll be discussing Section 413(c) Defined Contribution plans in this session.

MEP’s as a Fiduciary Solution Tool

- Client is no longer the plan sponsor or a plan trustee.
- Use of an ERISA 3(38) outsources investment selection and monitoring to a third party.
- No “residual oversight” of 3(38) by client as in traditional 3(38) structure.
- Decision to adopt or de-adopt widely held to be a settlor function, not a fiduciary decision.
- 408(b)(2) documentation paper chase is eliminated for adopters as they do not “contract” with a service provider.

Traditional Retirement Plan Structure

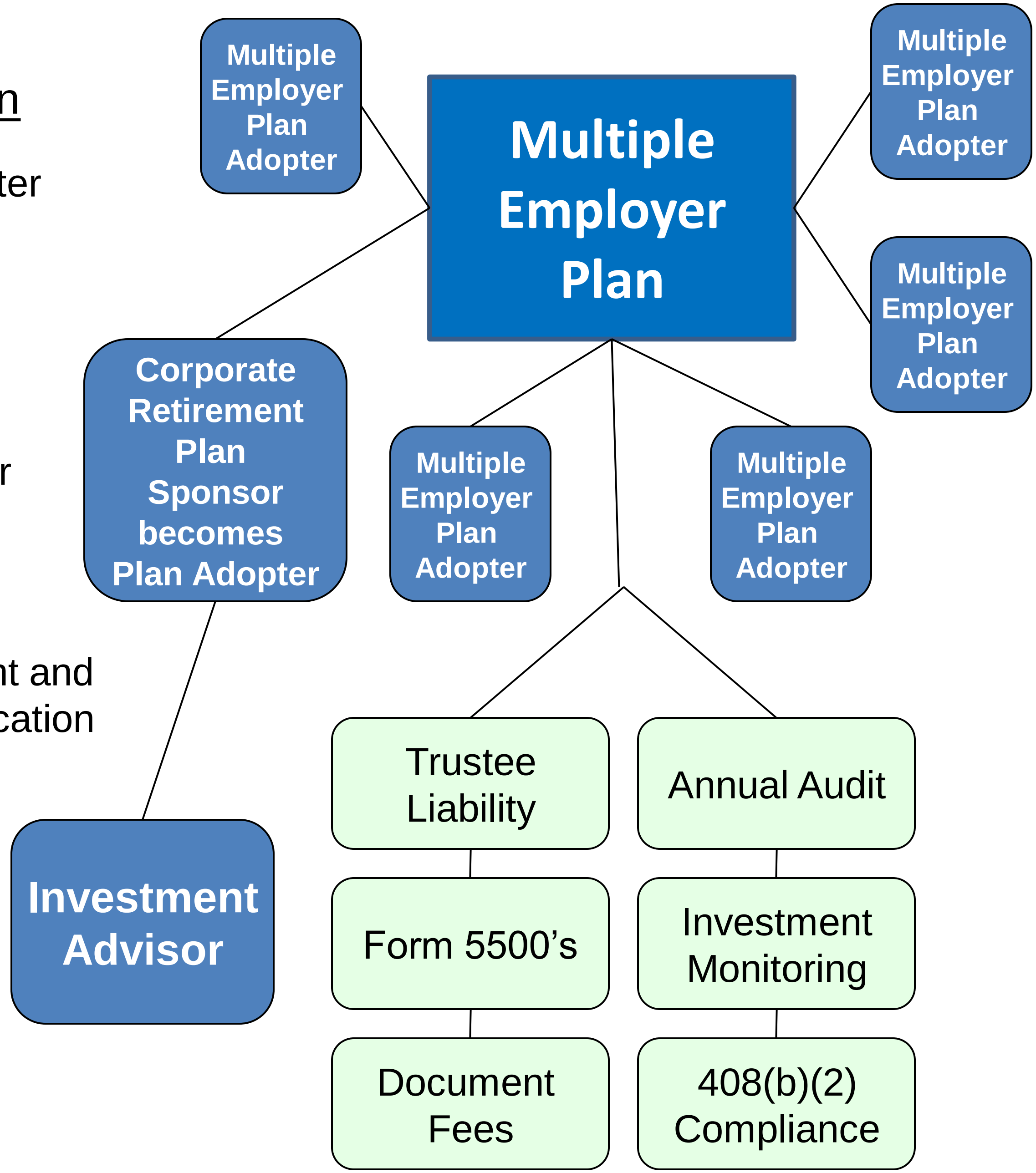


- Retirement Plan is self-trusteed by employer
- Plan files annual Form 5500's
- Plan contracts for annual plan audits
- Plan *should have* Investment Policy Statement
- Daily cold calls to help with "fiduciary risk"
- Clients are confused about fees/responsibilities

Multiple Employer Plan Solution

- Plan Sponsor becomes new Adopter
- No employer trustee-level liability
- No more 5500 filings for employer
- No more plan audits for employer
- ERISA 3(38) Investment Manager
- No more cold calls to the employer

Advisor concentrates on investment and program monitoring and asset allocation Issues.



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The Benefits for Employers

- Outsourcing the plan sponsor function.
  - The employer no longer runs their plan, but hires an outside expert to handle everything.
- Cost savings.
  - Purchasing power.
  - One 5500. One plan audit.
  - Reduced staff time.
- Reduced fiduciary liability.
  - The Plan Sponsor and 3(38) investment manager take on the fiduciary burden.

Where MEP's Fit (and don't)

- Smaller plans (100-1,500 participants) that are currently subject to an annual audit.
- Plans seeking to outsource investment selection and monitoring.
- Smaller plans where advisors/3(38)'s are needing a cost-effective professional solution to the needs of their clients.

Where MEP's Don't Fit

- Plans that wish to self-direct through a brokerage account.
- Plans with specific investment selection requirements.
- Plans that have existing operational challenges or ERISA issues that would make them a problem for the MEP on an ongoing basis.

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RETIREMENT PLAN ADVISORS

The Opportunity for Advisors

- Fiduciary Advisor to an MEP
- Non-Fiduciary Advisor Outsourcing to a MEP
- Impact on Participant Rollover Advice
- Selection and Monitoring of an MEP

Fiduciary Advisor to an MEP

- Fund monitoring role as 3(21)(a) or 3(38) fiduciary.
- 3(38) Investment Manager for investment models.
- The MEP hires you, <u>not</u> the adopting employer.

Selecting an MEP Fund Menu

- Fund monitoring done at the multiple employer plan level on behalf of all adopters.
- Fund menu generally will be identical for all adopting companies.
- Must be broad enough to satisfy the investment needs of potential adopters.
- Must be simple enough to be user-friendly to employee groups of widely varying investment sophistication.

Non-Fiduciary Advisor

- Advisor eliminates fiduciary role.
- Outsource low-profit, high liability duties.
- Focus on higher level advisory services to clients.
- Pursue participant rollover opportunities without conflicts.

Selection and Monitoring

- MEP structure is critical: Look for prohibited transactions & conflicts of interest.
- Few providers & TPAs are skilled at MEP Administration. Re-think your provider list.
- Review MEP pros & cons with your clients.
- Review investment reports of the MEP.
- Insist on in-depth fiduciary reports/disclosure.

Questions for the panel

Terry Power

Scott Pritchard

Mike Montgomery

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