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## Next-Generation 401k Retirement Plans:

# Pooled Employer Plans

September 2021

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# Evolution of Employer-Sponsored DC Plans

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**1970s**

Birth of the 401(k)

**1990s**

Investment responsibility shifts to employees

**2010s**

Sponsors outsource responsibility for investments (TDFs, managed accounts)

1970s

1980s

1990s

2000s

2010s

2020s

**1980s**

Add employer match;  
outsource recordkeeping

**2000s**

DC becomes more  
common than DB

**2020s**

Employers join PEPs to  
outsource DC plan  
management

# Pooled Employer Plans Change America's Retirement System

Today, US employers sponsor over 500,000 individual 401k plans that can be complicated, risky, and costly to manage. The SECURE Act encourages employers from all industries and sizes to band together to create a new type of 401k plan, the Pooled Employer Plan (PEP) that offers:



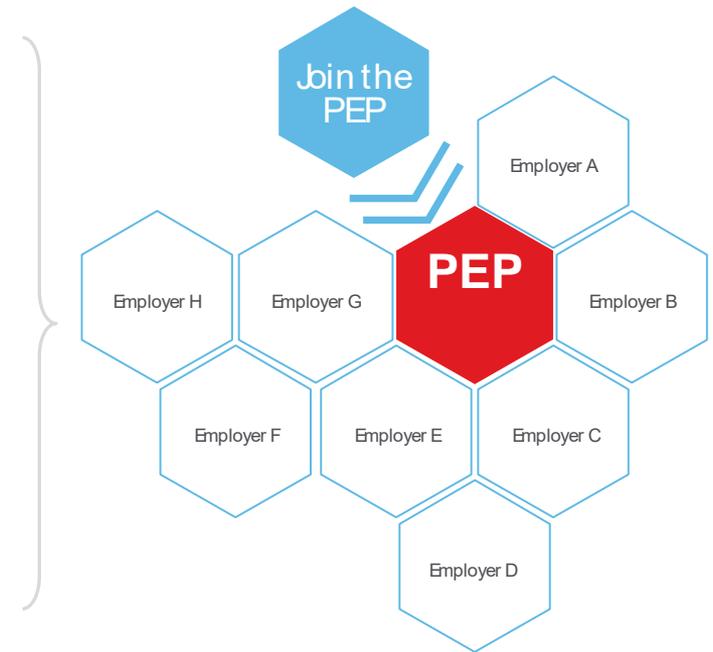
**Less work**  
for HR teams



**Less risk**  
for fiduciaries



**Lower costs**  
and improved outcomes for employees



Employers may now participate in a PEP 401k instead of sponsoring a traditional 401k plan

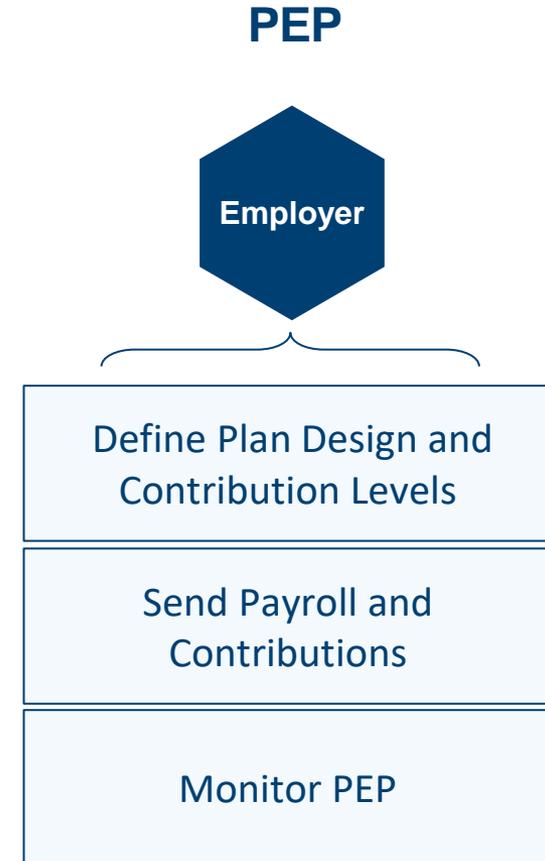
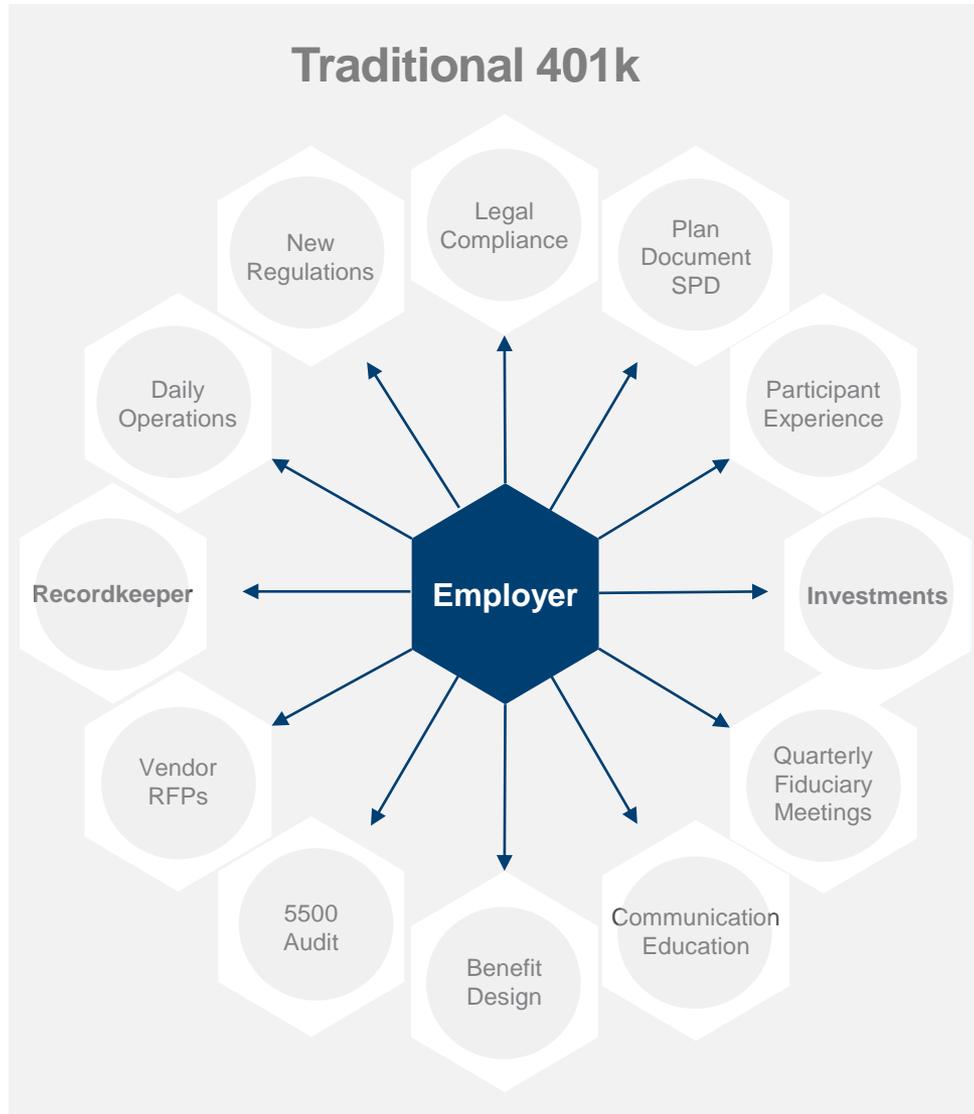
# PEPs Bring Together Partners in a More Efficient Ecosystem



Employers can focus on their core business while experts run the retirement program

# Less Work

## PEPs Provide a Simpler Way to Sponsor a Retirement Program

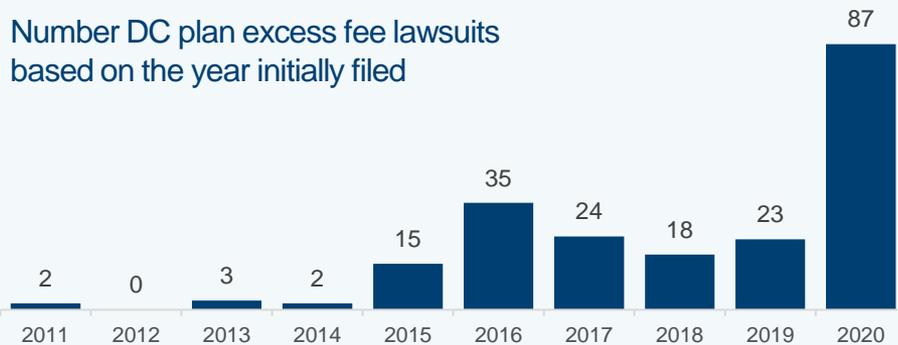


# Less Risk

## PEPs Mitigate Fiduciary Risks for Employers

### DC Plan Litigation on the Rise

Number DC plan excess fee lawsuits based on the year initially filed



**Nearly 210 excessive fee lawsuits filed since 2011**

**Over \$1B in settlements over the last decade**



**4x increase in lawsuits filed in 2020 compared to prior 3 years**



**Fiduciary liability insurance marketplace experiencing double digit increases in pricing and reduced capacity**

Source: Aon FSG tracking of DC plan excess fee lawsuits and January 2021 Client Alert

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### PEPs Provide



**Transfer of fiduciary responsibility and liability** for investments and administration



**Low fees**, reviewed and market-adjusted annually

# Improved Outcomes

## Lowering Fees Leads to More Retirement Savings for Employees

**25 year-old paying 0.25% lower fees in a 401k plan across a lifetime may lead to...**

Projected **Total Retirement Income**  
increases by **\$137,000 (11%)**

Retirement income  
lasts 2 years longer

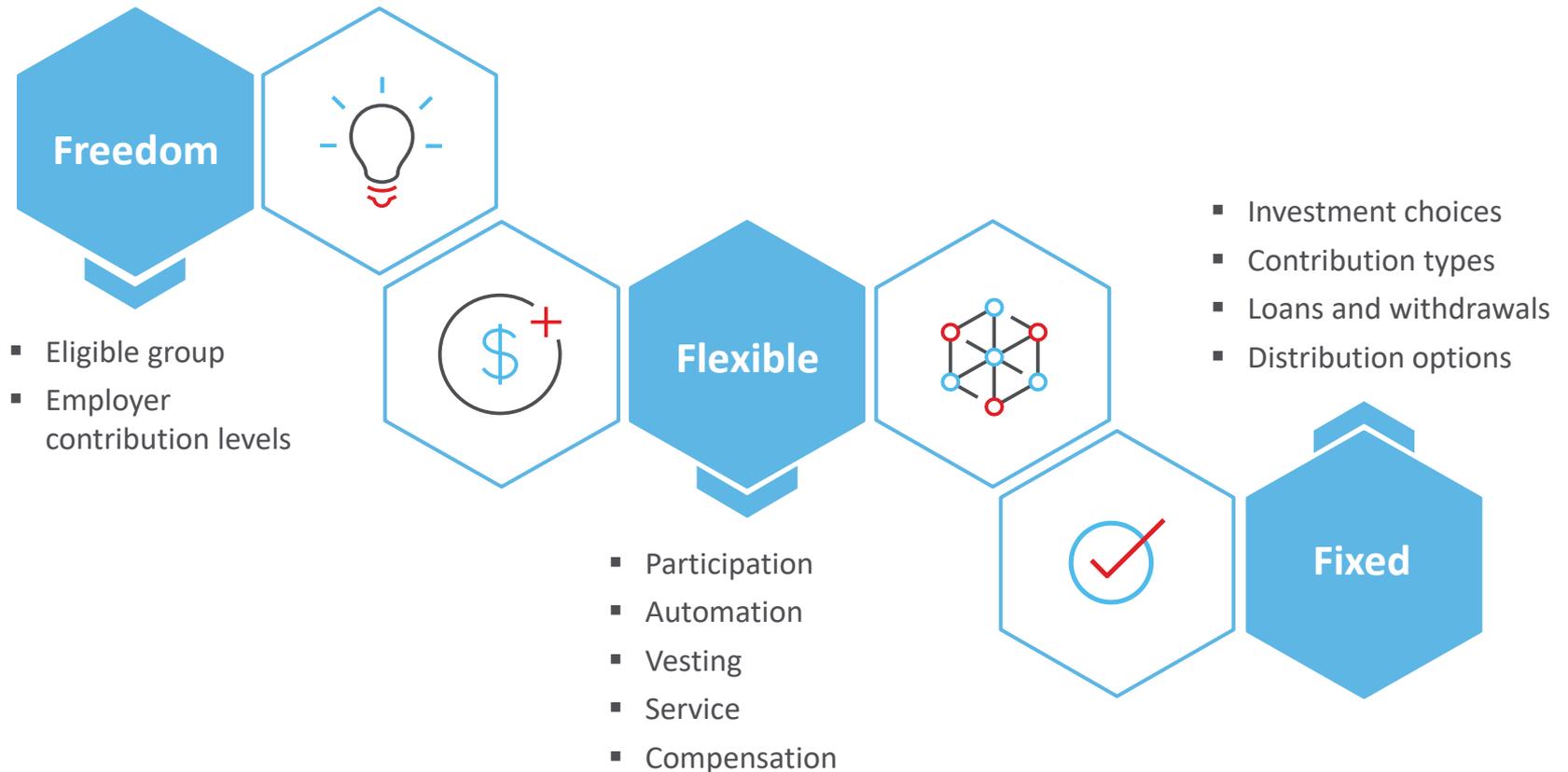


*Note: Inflation-adjusted dollars*

**Total Retirement Income** is the cumulative annual income collected starting from age 67

The performance modeling featured is for illustrative purposes and is not a guarantee of future results. Modeling assumes a 25 year old employee with \$50,000 starting salary, \$3,000 starting account balance, 4% annual pay increases, age 67 retirement, 3% initial savings rate with auto-escalation to 10%, invested in a diversified S&P through target date fund, and employer matching 100% on first 3% and 50% on next 2%. Income improvement in the Aon PEP assumes a 25 bps reduction in participant fees and the same modeling parameters. Total Retirement Income is the 50<sup>th</sup> percentile outcome using 5,000 stochastic trials based on expected returns using Aon Q2 2020 10 Year Capital Market Assumptions as of 3/31/2020 and Aon's Real Deal spending methodology. There is no guarantee that results or savings will be achieved if you should select Aon provide services to you. The experience described does not represent all recommendations made to clients nor does it represent the experience of all clients. Investment return and principal value of an investment will fluctuate; therefore, there may be gain or loss experienced by the investor.

# PEPs Offers Each Employer a Unique, Yet Streamlined Plan Design



**Note:** Still subject to qualification rules; provisions must be nondiscriminatory for by participating employer  
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# Common Questions

- Are PEPs appropriate for plans of all sizes or only smaller plans?



- PEPs provide efficiencies for plans of all sizes. We expect early adopters to be plans under \$500M in assets

- Is it easy to transition in and out of a PEP?



- Transition to a PEP is similar to a change in recordkeeper, but with a common infrastructure and assistance from PEP resources, it will take less time from HR staff

- Do plan sponsors lose control over plan design when joining a PEP?



- In the Aon PEP, plan sponsors control plan design (contribution levels and eligibility), but in order to mitigate risk, plan sponsors give up control of the recordkeeper decision and the selection of investments

- Do PEPs really share or eliminate fiduciary risk for plan sponsors?



- Because the PEP takes fiduciary liability for selection of recordkeeper, **administrative operations and investments**, plan sponsor exposure is lower

# Global Trend of Employers Moving to Pooled Retirement Savings Vehicles



## United Kingdom

- Master Trusts are fastest growing market<sup>1</sup>
- Aon launched Master Trust solution in 2016



## European Union

- \$75B in cross border plans covering DB and DC<sup>3</sup>
- 73 active plans (53% DB, 33% DC, 14% DB/DC)<sup>3</sup>



## United States

- SECURE Act allows Pooled Employer Plans starting 2021
- Aon launched the Aon PEP effective 1/1/2021



## Australia

- Multiple Employer Plans dominate the market
- Aon smartMonday solution covers 186,000 participants with over \$4B in assets<sup>2</sup>



**Aon predicts  
over half of US  
employers will utilize  
PEPs  
by 2030**

<sup>1</sup>Broadridge Navigator *UK Defined Contribution and Retirement Income 2019*

<sup>2</sup>As of June 30, 2020

<sup>3</sup>As of December 31, 2019

# PEPs Offer Advantages for Employers and Employees

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## Advantages for Employers

- ✓ **Less work** and reduced time commitment from fiduciary committees and HR staff
- ✓ **Less risk** via offloading fiduciary responsibilities and liability to experts
- ✓ **Better governance** with access to retirement plan administration experts
- ✓ **Plan design** selected by each employer\*

## Advantages for Employees

- ✓ **Lower fees** compounded across the working career for **improved retirement outcomes**
- ✓ **Quality investment funds** and access to brokerage window for even more investment options\*

### Aon 2021 Analysis

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Over  
**100** Pricing Analyses  
Completed

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**44%** Average total plan  
cost savings

\*Not all PEPs offer brokerage windows or flexibility in plan design



Questions?

# Legal Disclosures and Disclaimers

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