Cherry Creek
Wealth Management

Guide to Understanding a Multiple Employer 401(k) Plan (MEP)

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This guide was developed to help both small and large businesses understand what a multiple employer plan (MEP) is, the benefits of adopting a MEP and the potential cost savings that can be realized by your business when compared to operating a single employer plan on your own.

What Is a Multiple Employer Plan (MEP)?

A multiple employer plan, also referred to as a MEP, is a retirement plan for businesses that are not commonly owned or affiliated and would like to enjoy cost savings and benefits of operating a single plan. A "closed" MEP refers to a plan whose members typically have some relationship to each other but are not commonly owned or operated. Typically they would be members of a trade association, a professional organization or participants in a Professional Employer Organization (PEO). An "open" MEP consists of members who have no common theme or relationship between themselves and merely have joined together to enjoy the benefits of a MEP. There are some reporting differences between an "open" and "closed" MEP but the advantages remain the same in both.

A MEP has a plan sponsor such as a PEO that maintains the MEP and master contract under which the adopting employer may adopt the retirement plan. The adopting employer may accept the plan as written or may make changes to suit their own preferences such as changes to matching employer contributions, eligibility or vesting periods.

What Are the Benefits of Adopting a MEP?

There are many benefits for your business to adopt a retirement plan through a MEP including:

- Potential cost savings compared to operating a single employer plan on your own
- Fiduciary support
- Plan design flexibility
- Access to more investment choices

Audit Costs

Large employers that sponsor their own plans may benefit from this cost savings. The law requires that 401(k) retirement plans with 100 or more participants complete an annual audit. An independent, qualified public accountant must conduct an audit of the plan's financial statements, including review of the plan's Form 5500, schedules, internal control practices and other information. This audit alone can potentially cost more than $5,000 each and every year.

Document Preparation Costs

When a business provides a retirement plan, such as cross-tested or new comparability plan, plan documents must be professionally drafted, typically by an attorney. The business not only pays to have the plan documents initially drafted but also to maintain and update them on an annual basis. This can be very expensive over time.

Compliance Testing Costs

Most non-safe harbor 401(k) retirement plans must pass rigorous nondiscrimination test annually to ensure that the plans do not discriminate in favor of highly compensated employees in order to qualify for tax advantaged status. These costs can potentially be several thousand dollars per year.

Under a MEP, testing is included for each adopting employer and economics of scale are realized during the testing processing. Nondiscrimination testing is streamlined and may be billed as an administrative fee instead of being charge to each individual plan. Additionally, the work and time associated with compliance testing, including preparing census data and providing documentation to the recordkeeper, is handled by the MEP sponsor.

Form 5500 Filing costs

Each year, qualified retirement plans are required to file an annual report regarding their financial condition, investments and operations. This annual reporting requirement is generally satisfied by filing IRS form 5500. For a single employer plan outside of a MEP, your business will need to pay to handle this filing. These costs can potentially be several hundreds or thousands of dollars per year for a plan sponsor. By becoming an adopting employer of a “closed” MEP, you will no longer need to complete form 5500. Your MEP sponsor files one Form 5500. In an “open” MEP, each adopting employer is still required to file a separate Form 5500.

Investment Underwriting

The pricing by investment fund managers reflects the combined assets of all of the adopting employers and, using that buying power can generally increase the access to more investment choices, obtain lower fees, more services and a more diverse investment offering than a small single employer plan.

Fiduciary Responsibilities

Perhaps the most important benefit provide by a MEP is the reduction or at least assistance to the plan sponsor with fiduciary responsibilities. The fiduciary is usually the plan sponsor and has a **legal** obligation to carry out its plan responsibilities with the highest degree of prudence, good faith, honesty integrity, service and undivided loyalty to the plan beneficiaries. In today’s current litigious environment, this is a major responsibility. By adopting a MEP you will receive substantial fiduciary support. For example, the fiduciary responsibility to select and monitor your plan’s investments is managed by your MEP sponsor.

A well designed and maintained 401(k) MEP retirement plan provides a variety of advantages, cost savings and reductions to administrative duties and fiduciary responsibilities. The strategy should be considered by all small to medium size businesses wishing to transfer these considerable duties and costs to a separate third party.