

MEP or Not To MEP



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So, what is a MEP? A Multiple Employer Plan (MEP) is a 401k that allows employers who are not affiliated with each other to set up a retirement plan that is sponsored by a third party. The third party bears the responsibility for administering the plan. A MEP is particularly advantageous to small and medium size companies because they are less expensive with regard to administrative costs and offer some relief on fiduciary responsibilities. When multiple employers unite, the MEP becomes attractive as it allows for economies of scale.

It is often common to see associations sponsor a MEP in an attempt to attract and retain members. The association gets things kick started with a master plan. Afterwards, each member then can join as an adopter of the plan. Although the plan has features that apply to everyone, they can be flexible in design as well. Matching schedules can vary between the individual adopters as well as the types of contributions offered. Perhaps another employer would like their employees to wait longer to participate due to a high turnover rate.

With a MEP, an employer can also combine profit sharing into the plan. The plan will likely offer some different alternatives to give employers flexibility with their company contribution.

One of the disadvantages with the MEP is the so-called "one bad apple rule." This could cause a disqualification to the plan if one of the employers fail to meet the administrative requirements.



Recently, President Trump signed an executive order instructing the Department of Labor to provide guidance that would relax existing restrictions on Open Multiple Employer Plans. This action will open the door further for small and midsize employers to offer retirement plans that are cost effective and more flexible than if they were to adopt a plan on their own. This not only help business owners across the country, it will benefit more working Americans who need to plan for retirement. Roughly 90 percent of large employers provide 401k plans versus half of small employers sponsor a plan.

To discuss if a MEP is for you, please visit www.dpellegrini.com.

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