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Consequences of Unrestricted MEPs

With the lifting of restrictions on Multiple Employer Plans "MEP" two major shifts are likely to occur in the retirement plan market. First is that all small plans will gravitate to local MEPs that do not include their direct competitors. The second is a massive increase in demand for local MEPs.

The MEP requirement that participating employers must be in the same industry has stunted any chance of growth. Small businesses for whom MEPs would offer great benefits would have to join forces with the very companies they face every day on the competitive battlefield. This problem is made even more acute by the fact that most small businesses serve a local area so the baker would have to join forces with the baker in the same town. To provide economies of scale, the small businesses must be geographically close together.

The unrestricted MEP would permit multiple MEPs in one locality, each serving a diverse set of non-competing businesses. With the removal of the requirement to collaborate with competitors, it is reasonable to assume that small businesses would find the better, cheaper and less risky plan to be irresistible.

The second shift is anticipated to be for new MEPs. This market would be unattractive for large service providers with centralized operations. Locally situated advisors could fill the need but often lack the technical expertise to administer an MEP. The most likely sector are third party administrators (TPAs) who possess the knowledge and skill and already serve these local customers.

The TPA need only become familiar with how to mitigate the fiduciary risk and could almost immediately establish an MEP.

The MEP also opens a new market that consists of small businesses that do not currently offer plans to employees. There is the potential to double the size of the small plan market within two years.

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