

Mercer Wise PEP



Funds, fees, freeing HR to focus on other things:

Why HR executives are considering a pooled employer plan (PEP)

Against a backdrop of high inflation and the prospect of recession, many companies are taking a fresh look at the potential effects to their retirement plans. In addition, already-lean HR teams have had to pivot from a traditional benefits strategy to one that their workforce is demanding be more consumable, fair, inclusive and representative of their values.

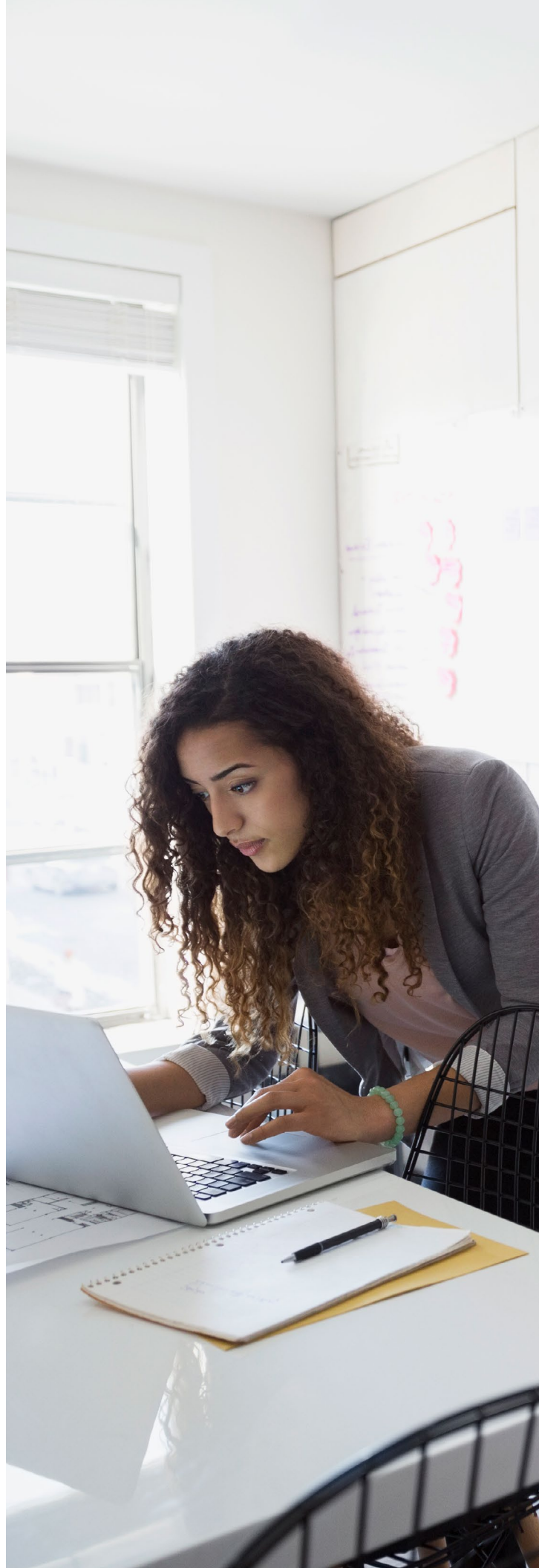
And, despite the significant gains that have been made over the years in what employees value as their most important benefit — their retirement plan — many plan sponsors have concluded that a 401(k) plan is complicated, risky and inefficient to manage.

One reason is time poverty: Fully 50% of plan sponsors indicate that they are spending less time than they would like on their retirement plans.¹ Competing in a new war for talent, HR may find it challenging to set up or manage an individual 401(k) plan. Adding to responsibilities as this sense of “one more thing to do” are administrative burdens and compliance issues, from creating plan documents to selecting and monitoring vendors to preparing and filing the annual Form 5500 — to name a few.

In a departure from plan sponsor surveys conducted before the COVID-19 pandemic, 78% of corporate executives say it made them realize their companies need to outsource investment management. In fact, 20% said they would outsource investments in the face of another market downturn.²

¹ Two Mercer surveys of approximately 200 retirement professionals, June and August 2020.

² Mercer, *Global Talent Trends* 2022.



Next, investment complexity is causing many plan sponsors to consider outsourcing their investment management decisions. For some plan sponsors, the recent market downturns, high inflation and changing interest rates are making it difficult for them to identify the most appropriate managers and investment options to include in their plan menus. Numerous studies, from DALBAR and others, also confirm that many participants encounter excessive complexity and are not always equipped to make informed investment choices about the funds they should own given their unique financial circumstances.

Finally, scrutiny over excessive fees, fund suitability and inappropriate share classes is leading to increased litigation risk and unwanted media attention — even for some mid-sized and smaller organizations that sponsor a plan.

Innovation and policy response

The SECURE Act of 2019 made it possible for groups of unaffiliated employers of all sizes to join pooled employer plan (PEPs), thereby leveraging economies of scale while retaining the ability to define eligibility and vesting provisions in a simplified, streamlined plan. As a result, the work and risk involved in offering a leading 401(k) benefit have been reduced, while the opportunity to improve retirement outcomes for employees has been expanded.



What is the Mercer Wise Pooled Employer Plan (PEP)?

The Mercer Wise PEP is a 401(k) arrangement that allows employers of all sizes and different industries to join in one pooled employer plan instead of offering a single plan.

In Mercer Wise PEP, Mercer serves as the pooled plan provider (PPP), which serves as the designated 402(a) fiduciary, ERISA 3(16) plan administrator and ERISA 3(38) investment fiduciary.



Why should an employer consider joining Mercer Wise PEP?



Simplified administration and compliance

The top reason a plan sponsor considers when evaluating a PEP is simplifying plan administration and compliance.³ This is consistent with two key findings in Mercer's 2022 Global Talent Trends survey: One in three HR leaders think their teams are being pulled in too many directions and half anticipate talent shortages due to high performers retiring early.⁴ Delegating plan administration allows you to focus on your core business or strategic benefits priorities. Mercer Wise PEP is easy to implement and maintain, with automated services requiring minimal staff resources or disruption.



Access to highly rated, institutionally priced investment options

Just 34% of employees feel financially secure today and for the future, and an additional 45% feel secure today but worry about the future⁴. There are many levers beyond investment returns that help address this need. After contributions, the biggest keys to closing the savings gap may be providing access to plan features and a properly diversified investment lineup that works for different segments of your workforce. Mercer Wise PEP offers an embedded suite of DC plan management services with the goal of producing better financial outcomes for your employees.



Potentially lower fees and cost

Eighteen percent of sponsors say lowering investment costs is the second most important factor to consider when evaluating PEPs. The same number (18%) say administrative fees are just as important.⁵ Leveraging Mercer's size, global footprint and market position as the largest US outsourced defined contribution outsourced CIO (DC OCIO) provider, Mercer Wise PEP's lineup of highly rated asset managers is structured as collective investment trusts (CITs) for both indexed products and multimanager funds. This potentially lowers your total plan costs, putting more money to work for your participants.



Mitigation of fiduciary risk

In the fourth quarter of 2020 alone, the average premium for fiduciary liability insurance increased 40%. Cerulli recently noted that DC plans, in most cases, are choosing to move to an OCIO approach (operating much like a PEP) to avoid costly litigation from missteps in managing a DC plan for their participants.⁶ While no plan sponsor can fully protect themselves from litigation risk, outsourcing some aspects of DC plan management may help in areas such as fees and fund suitability, plan governance and cybersecurity risk.

³ Cerulli, *U.S. Retirement End Investor Report, 2022*

⁴ Mercer, *Global Talent Trends 2022*.

⁵ Cerulli, *op. cit.*

⁶ The Cerulli Report, *U.S. Outsourced Chief Investment Officer Function 2021*, p. 63



Mercer Wise PEP design highlights

- Flexibility to define eligibility and vesting provisions, as well as matching employer contributions
- Range of target date, indexed and active multimanager investment options
- Pre-tax, after-tax and Roth contributions
- Enriched participant experience that combines the elements of financial wellness, including robust retirement saving tools, communications and engagement strategies, and financial education and planning resources



A PEP is not the only DC plan option available through Mercer

With Mercer, you're not locked into one approach for your retirement plan. If you want to retain more control over the direction of your 401(k), our spectrum of customized or expanded DC OCIO options can lead to a solution that works best for you.

Full solution flexibility

Mercer Wealth spectrum of solutions

Advice

Hire on a project basis

- As needed

Consulting retainer

- Ongoing engagement
- 3(21) fiduciary role

OCIO

Delegated solutions for investments

- 3(38) investment fiduciary role

Expanded Outsourcing

Mercer Wise 401(k)SM

- Employer continues to be plan sponsor
- 3(38) and 3(16)¹ combined
- Fully delegated

Mercer Wise PEP

- Mercer is PPP
- 3(38) and 3(16)¹ combined
- Fully delegated



¹ This refers not only to a 3(16)'s specific statutory responsibilities but to the broader fiduciary administrative tasks plans typically allocate to the plan administrator

Mercer: A global, client-first organization

Your company needs a retirement solution unique to your situation and goals. Mercer's Investments & Retirement group offers a range of solutions that help you invest with confidence, navigate uncertainty and explore potential opportunities in all market conditions. You can choose the solutions you want to keep your investment objectives in focus and evolve your options as your needs change over time.

To learn more

To discover the benefits of Mercer Wise PEP or additional customized or expanded DC OCIO options available to your organization, **[please visit our website](#)** or contact your Mercer consultant.



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