Retirement Insights, LLC

Seeking lower fees and administrative efficiencies, state colleges look to Multiple Employer Retirement Plans (MEPs)

State associations of independent private colleges in both Virginia and Wisconsin recently established MEPs using 403(b) plans. MEPs are popular in the corporate world but are not commonplace in higher education. By adopting this innovative model, these school systems are paving the way for many other colleges and universities nationally to follow their lead.

Forming a MEP is like organizing an old-fashioned farming co-op. By combining retirement plans, costs go down and the quality of services goes up. MEPs offer a turnkey process for establishing a plan document, reporting to the IRS, obtaining an independent audit and managing other administrative and compliance duties.

The combined resources of a MEP can give the schools collective access to a broader range of potentially higher-quality service providers and the ability to negotiate lower costs and better terms. It can also open the door to value-added services, such as more robust employee education, innovative tools and techniques to increase plan participation and access to personalized advice. And yet each school retains a degree of flexibility to tailor the plan to its circumstances and needs.

In addition to lowering costs, reducing each college's administrative burden and accessing value added services there's the very important consideration of fiduciary liability. Taking note of the litigation landscape and the focus on big schools, small schools see MEPs as an attractive way to pool resources to put stronger fiduciary protections in place. Some 17 nationally known universities and colleges, including prominent institutions such as Yale, Princeton, Duke and the University of Chicago, are fighting class actions in which plaintiffs allege, among other things, that plans imposed excessive fees and had too many record keepers and investment options. As these cases work their way through the courts, only one has been dismissed.

While 403(b) plans for public-sector non-profits are not subject to ERISA, private-sector plans are. The fiduciary frontier can be particularly unnerving for small private schools as they read the headlines about their larger brethren being hauled into court for alleged breaches of ERISA requirements.

Federal policymakers are also paying more attention to MEPs. The Small Business Add Value for Employees (SAVE) Act introduced last year encourages small businesses to sponsor retirement plans by easing requirements and includes changes to broaden the appeal of MEPs. The Department of Labor is also reported to be interested in regulatory reform measures for MEPs.

For pioneering small private colleges, at least, MEPs are attracting attention and gaining momentum. It may be time for providers and enterprising retirement advisers to explore this territory as well.

Best,

Aleida Herzog

Aleida Herzog
Vice President, Retirement Insights, LLC
Phone: (203) 237-7696
Email: aherzog@rricentral.com