

SEPs, MEPs & PEPs: What is the Difference?



Uncle Sam and the retirement savings industry love acronyms. First, there were SEPs ... then came MEPs, and as of 2020, there is a new kid on the block ... PEPs. Each of these 401(k) plan types share many fundamental similarities, but there are differences in the administrative models of each.

If you don't speak fluent tax code and legal/wealth management jargon, don't worry, we've got you covered. Below is a breakdown of each plan and how they differ.

Single Employer Plans

A standalone **Single Employer Plan** (SEP) is a traditional 401(k) plan that is sponsored by a single employer. It is what most people think of when referencing a 401(k) plan. It is often the plan of choice for large corporations as well as some small and medium-sized businesses due to its flexibility. With a SEP, the employer has total control over all plan decisions and fiduciary responsibilities.

Pros: Customization, flexibility and ability to choose your own service providers if outsourcing some of the administrative duties.

Cons: Have the highest level of responsibility for employers, but because of this, can also be the most costly and time consuming in many cases.

Multiple Employer Plans

A **Multiple Employer Plan** (MEP) is a retirement savings plan where multiple employers participate in a single plan. It is sponsored by one entity (typically a professional employer organization (PEO) or association). PEOs and associations are typically the sponsors because all employers participating in the plan must share a common thread. That thread is typically a membership to the association or working with a PEO. Member companies of a MEP are not required to file an individual 5500 report, undergo an annual plan audit and acquire ERISA bond protection.

Pros: Low costs due to shared resources and most administrative duties are outsourced.

Cons: Less customization than an SEP and because participating businesses must have a common bond, you must work through a PEO or association membership to participate in a MEP.

Pooled Employer Plans

A **Pooled Employer Plan (PEP)** is the new kid on the block. Created by the SECURE Act of 2020 and effective January 1, 2021, PEPs are a form of Multiple Employer Plan. In a PEP, a group of participating employers outsources all administration to a Pooled Plan Provider. The Pooled Plan Provider is a 3(16) fiduciary who establishes and administers the PEP. Each of the participating employers do not need to have a common thread between them, like in a traditional MEP.

Pros: Like a MEP, costs are lower due to shared resources and administrative duties are outsourced. Also, there is no need to have a common bond with other participating employers.

Cons: Less customization and flexibility than a SEP. While PEPs are a very exciting product for business owners, they are new to the market which means awareness and adoption is low.

How do they compare?

	Multiple Employer Plan (MEP)	Pooled Employer Plan (PEP)	Single Employer Plan (SEP)
Investment Lineup Flexibility	Limited	Limited	Yes
Plan Design Flexibility	Limited (Controlled by the PEO/ Association)	Limited (Controlled by the PEP Sponsor)	Yes
Form 5500	Separate 5500 for each plan	One of the entire PEP (all participating employers share cost)	Employer incurs entire cost
Audit	No audit if there are less than 1,000 participants in the entire MEP and no employer has more than 100 participants. Otherwise, there is a separate audit for each plan.	No audit if there are less than 1,000 participants in the entire PEP and no employer has more than 100 participants. Otherwise, there is a separate audit for each plan.	Yes, if there are more than 100 participants.
Plan Compliance	Separate for each company	Separate for each company	Yes
Administration	Defined by the plan - employer has limited responsibility	Defined by the plan - employer has limited responsibility	More responsibilities fall on employer to execute or outsource at their discretion
Fiduciary Responsibility	PEO/Association and plan administrator assume most responsibility	Pooled Plan Provider assumes most responsibility	Responsibility lies on employer
Cost	Affordable	Affordable	Can be costly
Audience	PSmall/medium - sized business who use a PEO for payroll/benefits administration or belong to an association offering benefits	Small/medium - sized businesses who are not affiliated with a PEO or association	Any size business who needs complete control over the plan or requires unique customizations

Plan Administration

One of the biggest ways MEPs, PEPs and SEPs can differ from each other is who takes on the time and resources commitments of administering the plan and ensuring compliance. Below are three charts that outline who is responsible for each administrative duty in each plan type when working with Slavic401k.

Multiple Employer Plan Administrative Duties

	Slavic401k	PEO/Association	Single Employer Plan (SEP)
Select and monitor service providers			✓
Select and monitor plan investment options	✓		
Select MEP plan provisions applicable to all adopting employers		✓	
Select individual plan provisions applicable to adopting employer			✓
Review and approve plan provisions selected by adopting employer	✓		
Prepare, review and approve plan amendments	✓		
Sign plan adoption agreements		✓	✓
Provide complete employee census data		✓	
Submit accurate and timely plan contributions		✓	
Provide all data to plan administrator in case of ownership change or company restructuring			✓
Monitor participant eligibility, entry dates and vesting	✓		
Monitor plan IRS contribution limits	✓		
Monitor timely submission of contributions	✓		
Prepare and deliver participant regulatory disclosures	✓		
Approve and process participant loans and distributions	✓		
Prepare, sign and submit IRS/DOL Form 5500		✓	
Perform, review and approve plan testing	✓		
Make necessary plan corrections to keep plan compliant	✓		
Acquire fiduciary liability insurance		✓	
Independent annual plan audit		✓	

Pooled Employer Plan

Administrative Duties

	3(38) Investment Manager	Slavic401k	Adopting Employer
Select and monitor service providers: PPP, 3(38), trustee, other service providers as designated by the PPP			✓
Select and monitor plan investment options	✓		
Select PEP plan provisions applicable to all adopting employers		✓	
Select plan provisions applicable to adopting employer			✓
Review and approve plan provisions selected by adopting employer		✓	
Prepare, review and approve plan amendments		✓	
Sign plan adoption agreements		✓	
Provide complete employee census data			✓
Submit accurate and timely plan contributions			✓
Provide all data to plan administrator in case of ownership change or company restructuring			✓
Monitor participant eligibility, entry dates and vesting			✓
Monitor plan IRS contribution limits		✓	
Monitor timely submission of contributions		✓	
Prepare and deliver participant regulatory disclosures		✓	
Approve and process participant loans and distributions		✓	
Prepare, sign and submit IRS/DOL Form 5500		✓	
Perform, review and approve plan testing		✓	
Make necessary plan corrections to keep plan compliant		✓	

Single Employer Plan

Administrative Duties

	Slavic401k	Adopting Employer
Select and monitor service providers		✓
Select and monitor plan investment options	✓	
Select PEP plan provisions applicable to all adopting employers		✓
Select individual plan provisions applicable to adopting employer		✓
Review and approve plan provisions selected by adopting employer		✓
Prepare, review and approve plan amendments	✓	
Sign plan adoption agreements	✓	✓
Provide complete employee census data		✓
Submit accurate and timely plan contributions		✓
Provide all data to plan administrator in case of ownership change or company restructuring		✓
Monitor participant eligibility, entry dates and vesting	✓	
Monitor plan IRS contribution limits	✓	
Monitor timely submission of contributions	✓	
Prepare and deliver participant regulatory disclosures	✓	
Approve and process participant loans and distributions	✓	
Prepare, sign and submit IRS/DOL Form 5500	✓	✓
Perform, review and approve plan testing	✓	
Make necessary plan corrections to keep plan compliant	✓	
Acquire fiduciary liability insurance		✓
Independent annual plan audit		✓

Picking the Right Retirement Plan

Choosing the right retirement savings plan for your business, PEO or advisory firm is a highly personal decision based on your individual needs, resources and budget. We have experienced plan consultants that can answer your questions and help you determine the best solution for you. Contact us to speak with a team member today or visit us at www.slavic401k.com.

Find Out More >

