Ten Years, 300 New Clients: A MEP Strategy

A WHITE PAPER BY

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Executive Summary

Multiple Employer Plans (MEPs) are both brand new and very old. The most venerable MEPs are nearly a century old and still going strong, with billions of dollars in assets. The newest MEPs are nimble, custom, community-based programs founded by like-minded employers with the help of far-sighted advisors.

Embracing fiduciary outsourcing and MEPs as part of a focused ten year business strategy has rewarded a few early adopting advisors dramatically. It will reward a limited number of other early adopters in the years to come. This approach is not for everyone—in fact it can only work well for a few hundred advisors by its very nature. But for those few it can produce powerful results.

Three Predictions

- Most employers will outsource some or all of the fiduciary administrator role in the next ten years. In other words, 3(16) will prove to be the real thing—something clients need, want, and will pay extra for.[1]
- Because MEPs make life simpler for employers and are the cheapest way to outsource, they will grow dramatically in popularity.
- Advisors who are early adopters of a ten year business strategy designed to capitalize on these two trends will prosper—as will their clients.

Questions an Advisor Must Answer in order to Embrace the Strategy

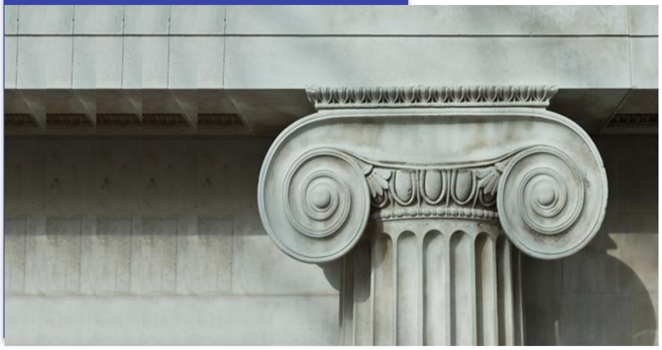
What is the True Value of 3(16) Outsourcing?

The basis for Prediction No. 1 above is a belief that most employers do not want the legal responsibilities attached to being named in a 100 page legal document with 200 "to do" items (i.e., a typical plan document), and anyone who can relieve them of this burden—credibly—for a reasonable price will gain traction. The offering of 3(16) services is still new to the industry so we are still feeling our way, and some offerings have little substance, but that will change and as the value of the offerings grows so will the acceptance.

Or…perhaps it's all just smoke and mirrors. Perhaps 3(16) is a hoax and any competent TPA already does this stuff. If this is your view, the strategy proposed in this article is not for you.

Are Open MEPs Allowed?

When the DOL published Advisory Opinion 2012-04A the gold rush to start new MEPs came to an abrupt halt as everyone sought to understand the implications. Those implications are, by now, well understood. As with any type of retirement plan, there is a technical learning curve and the DOL's "bona fide" requirement is just one item in the MEP curriculum.



[1] If you want to learn more about named fiduciaries, including 3(16) administrators and discretionary trustees, browse the content at Pentegra.com.

Some firms continue to shy away from open MEPs (or all MEPs) because the firm's compliance teams do not have their arms comfortably around the learning curve. If you agree with those firms, the strategy in this article is not for you.

For some background on this question and the overall sentiment around MEPs see Pentegra's Stance on Open MEPs and Congress' Love Affair with MEPs at Pentegra.com.

Am I Willing to Do the Work?

If you embrace the value of genuine 3(16) and investment fiduciary outsourcing, and if you are comfortable with the notion of creating new, properly structured MEPs, you still have a business decision to make: are you willing to commit the time and energy to ascend the learning curve, tweak your value proposition, and overcome some inertia to get your first MEP program launched?

If not, you can still benefit from the advantages of MEPs by referring your clients to one of various national MEP programs. A number of high quality programs exist and more will follow.

If you are willing to do the work, it helps to have a guide who has walked the path before you. The workload is not outlandish so long as you know where to go for answers and, more importantly, the right questions.

Common Questions and Concerns

Not Wanting to be Seen as Peddling Proprietary Product

Advisors value their independence and do not want to be viewed as having their own product. They rightly fear that starting a MEP turns them into a product manufacturer. This is true under some MEP structures, but not all. The safest MEP governance structure puts control of the arrangement firmly in the hands of adopting employers, who band together to hire the advisor. Just as the advisor can be fired from any client at any time, the MEP can fire the advisor at any time. An employer can hire the advisor directly or it can do so via the MEP, but in both arrangements the advisor remains an independent service provider.

It's Too Expensive to Get Started

Starting a MEP can cost a fortune in legal fees and time if you and your lawyers are trying to learn MEPs from a cold start. But the startup cost can be nominal if you can take advantage of prepackaged expertise. Nonetheless this is a key consideration: what are the startup costs and who will pay them, and when?

It Won't Work and I Will Have Invested all that Time and Money for Nothing

This is true. It might not work for you.

Common Mistakes

Wanting to be in Control

You can't be in control. It's an ERISA plan and the client is in control, and in the case of a MEP the "client" is all of the adopting employers, represented (ideally) by a board of directors. Trying to structure the MEP so the service provider retains ultimate control is a potentially significant legal error.

Goofy Governance Structures

Who is the sponsor? The trustee? The administrator? The investment manager and/or advisor? Who chooses whom and how? This is an area of much confusion and some strange governance structures have been tried.

Failing to Price for Savings

The fundamental advantage of a MEP is economy of scale. But if you don't pass on the savings you defeat the purpose. One of the ways that MEPs can wind up overpriced is when various service providers or business partners all want to get paid, adding additional fee layers to the plan. Beware plans in which everyone seems to want a cut (and be aware that this specific concern is one voiced informally by officials at the Department of Labor). Follow the spirit of the 408b-2 regulation and all will be well (i.e., necessary services for reasonable fees).

Pricing it Too Cheap

MEP rookies may think MEPs should be 50% cheaper than single employer plans, but this is flawed thinking. MEPs are more efficient than single employer plans in scores of minor ways, and together those minor advantages add up. But the overall efficiency gains are not going to cut the cost in half. Yet vendors who are new to MEPs might, under pressure to get a deal, price so low that good work becomes impossible.

Time will cure this problem as vendors learn how to operate MEPs and how much to charge for the work.

Not Knowing How to Talk to the Lawyers

There comes a phase in the startup of every new MEP in which the attorneys are brought in. Be prepared to answer their questions with legal precision and common sense and leave them satisfied, or be prepared to see your new MEP opportunity falter and die.

Failing to Alter Your Value Proposition

An advisor's value proposition is subtly different in a MEP, as is advisor pricing. Fail to think it through carefully and you will create future work for yourself as well as miss out on opportunities.

The Strategy in Action

If you conquer the learning curve, develop the right value proposition, and embrace a ten year MEPcentric strategy, you will end up opening not one but several MEPs. You will focus on communities—whether geographic, organizational, or trade group—and each community will represent a separate MEP opportunity and referral source.

The founding employers of each MEP will feel a sense of responsibility to grow the program, as will the associations who start association plans, and you will be fed a stream of warm leads—some of the best referrals you will have seen in your career. Your practice will grow, and the growth will be faster than your firm could possibly have achieved without the MEP strategy. Adding thirty or more new clients per year will be feasible; not just a dream.

Like all strategies, this one likely has a shelf life. Ten years from now the early adopters will have hundreds of clients in various MEPs, and the non-early-adopters will be strategizing ways to displace the early adopters—trying to catch up. The marketplace will be more mature and therefore different. MEPs will be more common and employers will have heard about them: some will disdain them, others embrace them, but regardless of how the statistics shake out the ability for advisors to grow exponentially will be reduced. This is a good thing: evidence of a successful strategy approaching a new phase in its life cycle.

MEPs and fiduciary outsourcing are not a panacea, and even MEP enthusiasts will find them a good fit for only about two thirds of their clients. They are not a magic wand and growing an advisory practice using this strategy will still be hard, not easy. But in ten years the successful adopters will be just that—successful.