
Next-Generation 401k Retirement Plans:

Pooled Employer Plans

September 2021

Nothing in this document should be construed as legal or investment advice. Please consult with your independent professional for any such advice. To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the approval of Aon.

Proprietary & Confidential



AON
Empower Results®

Evolution of Employer-Sponsored DC Plans

1970s

Birth of the 401(k)

1990s

Investment responsibility shifts to employees

2010s

Sponsors outsource responsibility for investments (TDFs, managed accounts)

1970s

1980s

1990s

2000s

2010s

2020s

1980s

Add employer match; outsource recordkeeping

2000s

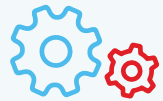
DC becomes more common than DB

2020s

Employers join PEPs to outsource DC plan management

Pooled Employer Plans Change America's Retirement System

Today, US employers sponsor over 500,000 individual 401k plans that can be complicated, risky, and costly to manage. The SECURE Act encourages employers from all industries and sizes to band together to create a new type of 401k plan, the Pooled Employer Plan (PEP) that offers:



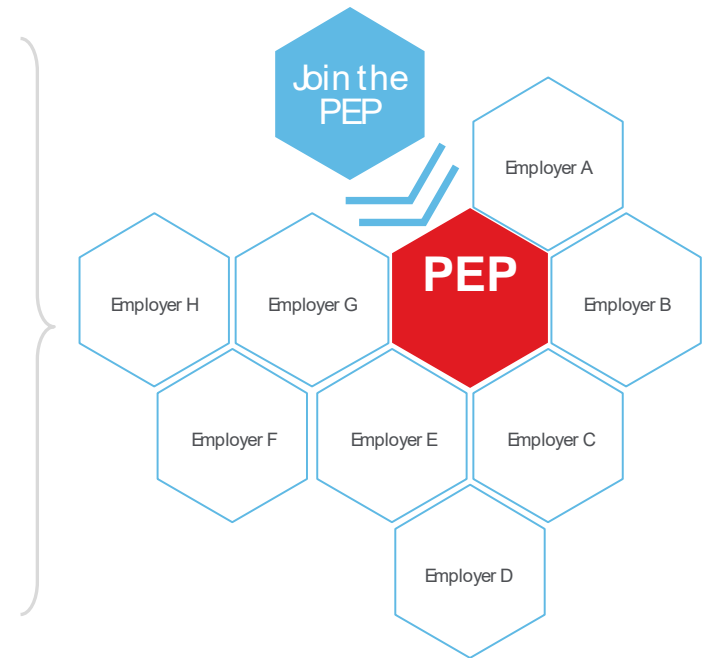
Less work
for HR teams



Less risk
for fiduciaries



Lower costs
and improved outcomes for employees



Employers may now participate in a PEP 401k instead of sponsoring a traditional 401k plan

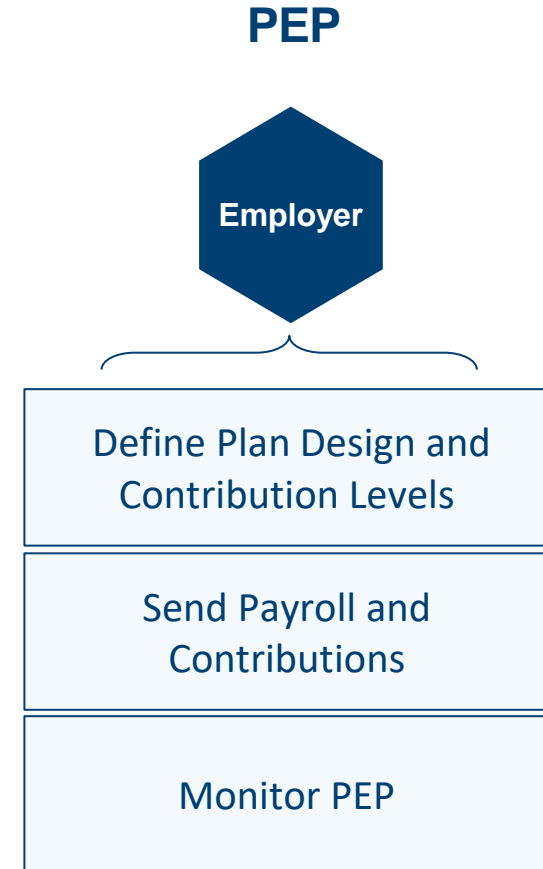
PEPs Bring Together Partners in a More Efficient Ecosystem



Employers can focus on their core business while experts run the retirement program

Less Work

PEPs Provide a Simpler Way to Sponsor a Retirement Program

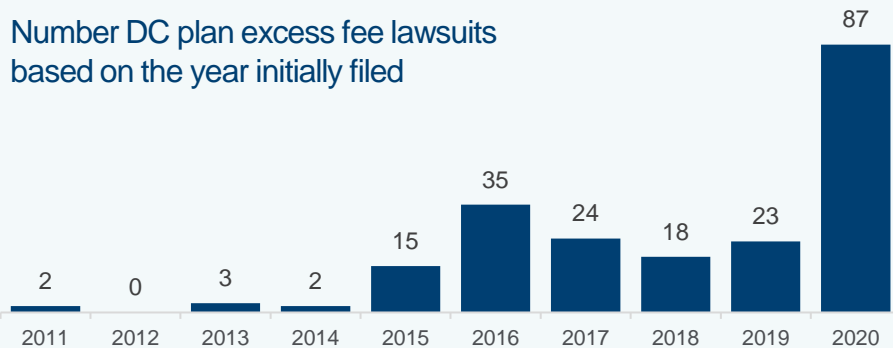


Less Risk

PEPs Mitigate Fiduciary Risks for Employers

DC Plan Litigation on the Rise

Number DC plan excess fee lawsuits based on the year initially filed

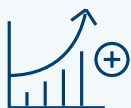


Nearly 210 excessive fee lawsuits filed since 2011

Over \$1B in settlements over the last decade



4x increase in lawsuits filed in 2020 compared to prior 3 years



Fiduciary liability insurance marketplace experiencing double digit increases in pricing and reduced capacity

Source: Aon FSG tracking of DC plan excess fee lawsuits and January 2021 Client Alert

Investment advice and consulting services provided by Aon Investments USA Inc.

PEPs Provide



Transfer of fiduciary responsibility and liability for investments and administration



Low fees, reviewed and market-adjusted annually

Improved Outcomes

Lowering Fees Leads to More Retirement Savings for Employees

25 year-old paying 0.25% lower fees in a 401k plan across a lifetime may lead to...

Projected **Total Retirement Income**
increases by **\$137,000 (11%)**

Retirement income
lasts 2 years longer

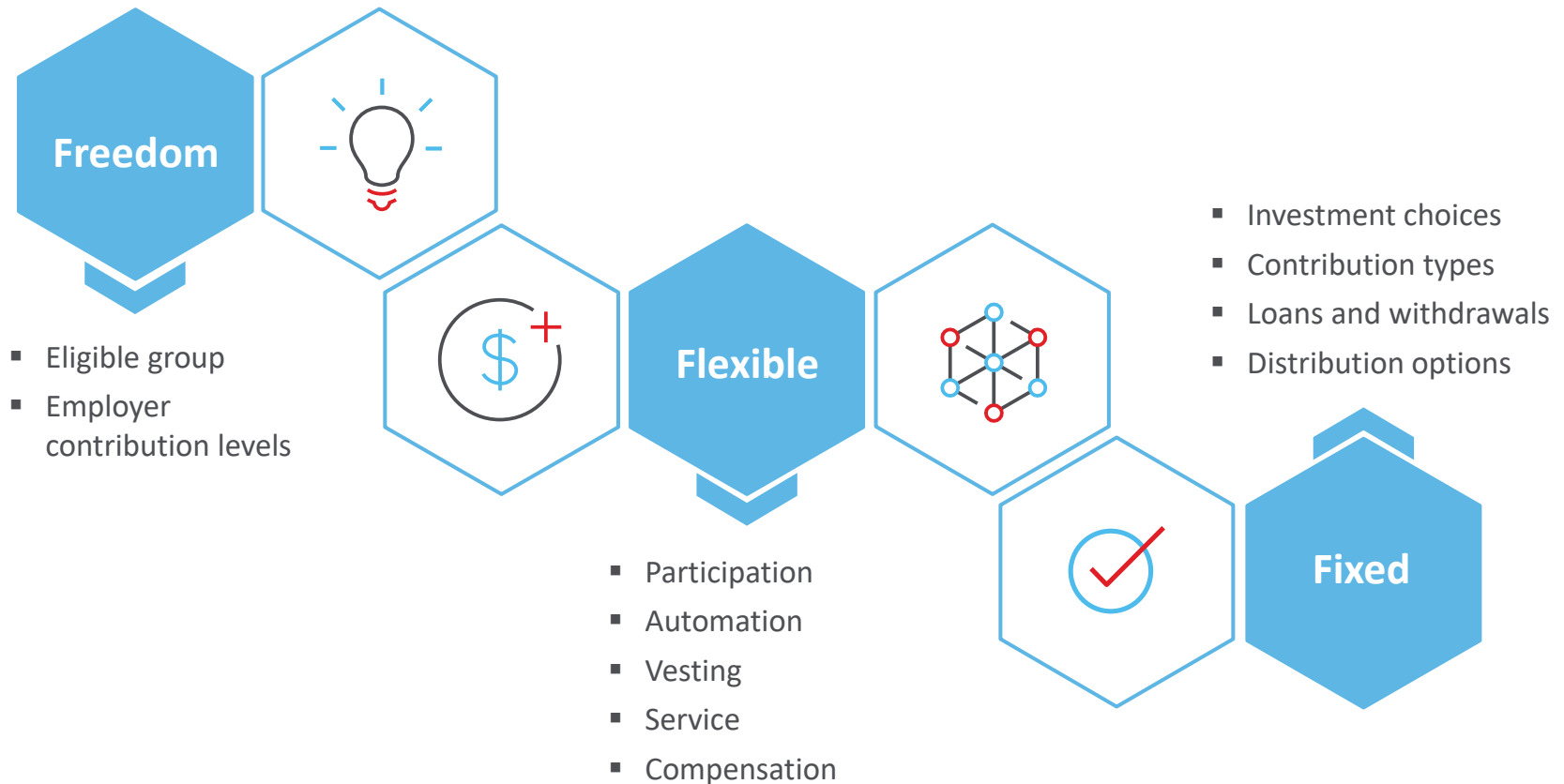


Note: Inflation-adjusted dollars

Total Retirement Income is the cumulative annual income collected starting from age 67

The performance modeling featured is for illustrative purposes and is not a guarantee of future results. Modeling assumes a 25 year old employee with \$50,000 starting salary, \$3,000 starting account balance, 4% annual pay increases, age 67 retirement, 3% initial savings rate with auto-escalation to 10%, invested in a diversified S&P through target date fund, and employer matching 100% on first 3% and 50% on next 2%. Income improvement in the Aon PEP assumes a 25 bps reduction in participant fees and the same modeling parameters. Total Retirement Income is the 50th percentile outcome using 5,000 stochastic trials based on expected returns using Aon Q2 2020 10 Year Capital Market Assumptions as of 3/31/2020 and Aon's Real Deal spending methodology. There is no guarantee that results or savings will be achieved if you should select Aon provide services to you. The experience described does not represent all recommendations made to clients nor does it represent the experience of all clients. Investment return and principal value of an investment will fluctuate; therefore, there may be gain or loss experienced by the investor.

PEPs Offers Each Employer a Unique, Yet Streamlined Plan Design



Note: Still subject to qualification rules; provisions must be nondiscriminatory for by participating employer
Investment advice and consulting services provided by Aon Investments USA Inc.

Common Questions

- Are PEPs appropriate for plans of all sizes or only smaller plans?



- PEPs provide efficiencies for plans of all sizes. We expect early adopters to be plans under \$500M in assets

- Is it easy to transition in and out of a PEP?



- Transition to a PEP is similar to a change in recordkeeper, but with a common infrastructure and assistance from PEP resources, it will take less time from HR staff

- Do plan sponsors lose control over plan design when joining a PEP?



- In the Aon PEP, plan sponsors control plan design (contribution levels and eligibility), but in order to mitigate risk, plan sponsors give up control of the recordkeeper decision and the selection of investments

- Do PEPs really share or eliminate fiduciary risk for plan sponsors?



- Because the PEP takes fiduciary liability for selection of recordkeeper, **administrative operations and investments**, plan sponsor exposure is lower

Global Trend of Employers Moving to Pooled Retirement Savings Vehicles



United Kingdom

- Master Trusts are fastest growing market¹
- Aon launched Master Trust solution in 2016



European Union

- \$75B in cross border plans covering DB and DC³
- 73 active plans (53% DB, 33% DC, 14% DB/DC)³



United States

- SECURE Act allows Pooled Employer Plans starting 2021
- Aon launched the Aon PEP effective 1/1/2021



Australia

- Multiple Employer Plans dominate the market
- Aon smartMonday solution covers 186,000 participants with over \$4B in assets²



**Aon predicts
over half of US
employers will utilize
PEPs
by 2030**

¹Broadridge Navigator *UK Defined Contribution and Retirement Income 2019*

²As of June 30, 2020

³As of December 31, 2019

PEPs Offer Advantages for Employers and Employees

Advantages for Employers

- ✓ **Less work** and reduced time commitment from fiduciary committees and HR staff
- ✓ **Less risk** via offloading fiduciary responsibilities and liability to experts
- ✓ **Better governance** with access to retirement plan administration experts
- ✓ **Plan design** selected by each employer*

Advantages for Employees

- ✓ **Lower fees** compounded across the working career for **improved retirement outcomes**
- ✓ **Quality investment funds** and access to brokerage window for even more investment options*

Aon 2021 Analysis

Over
100 Pricing Analyses
Completed

44% Average total plan
cost savings

*Not all PEPs offer brokerage windows or flexibility in plan design



Questions?

Legal Disclosures and Disclaimers

Investment advice and consulting services provided by Aon Investments USA Inc. (Aon Investments). The information contained herein is given as of the date hereof and does not purport to give information as of any other date. The delivery at any time shall not, under any circumstances, create any implication that there has been a change in the information set forth herein since the date hereof or any obligation to update or provide amendments hereto.

This document is not intended to provide, and shall not be relied upon for, accounting, legal or tax advice. Any accounting, legal, or taxation position described in this presentation is a general statement and shall only be used as a guide. It does not constitute accounting, legal, and tax advice and is based on Aon Investments' understanding of current laws and interpretation.

Aon Investments disclaims any legal liability to any person or organization for loss or damage caused by or resulting from any reliance placed on that content. Aon Investments reserves all rights to the content of this document. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Aon Investments.

Aon Investments USA Inc. is a federally registered investment advisor with the U.S. Securities and Exchange Commission. Aon Investments is also registered with the Commodity Futures Trading Commission as a commodity pool operator and a commodity trading advisor, and is a member of the National Futures Association. The Aon Investments ADV Form Part 2A disclosure statement is available upon written request to:

Aon Investments USA Inc.
200 E. Randolph Street
Suite 700
Chicago, IL 60601
ATTN: Aon Investments Compliance Officer

© Aon plc 2021. All rights reserved.