Thinking About Leaving a PEP?

It may not be as easy as it sounds.

Pooled employer plans (PEPs) were introduced under the SECURE Act to make it easier for employers—particularly smaller organizations—to offer workplace retirement plans. By allowing unrelated businesses to participate in a single plan administered by a pooled plan provider (PPP), PEPs expanded access to retirement plans for a broader range of employers and their employees.

As PEP adoption grows, many employers have found these arrangements deliver meaningful benefits—but they aren't always a permanent fit.

Companies grow, service expectations shift, and organizations may be acquired, restructured, or, in some cases, wind down operations altogether. When that happens, employers often need to take a closer look at whether their current retirement plan arrangement still aligns with their goals and the needs of their workforce.

At that point, the question becomes what to do next—whether to remain in the PEP or move to a different retirement plan arrangement.

For those considering a move away from the PEP, the process is not always straightforward. While employers can leave a PEP for various reasons, the path out often depends on the circumstances surrounding the decision. In some cases, the transition may resemble a typical retirement plan conversion. In others, additional steps may be required before the employer's retirement arrangement is fully separated from the pooled plan.

Understanding how these transitions work—and what factors may influence the process—can help employers make more informed decisions when business or service needs change, necessitating withdrawal from a PEP.

Why Employers Leave a PEP

In many cases, an employer's decision to leave a PEP may reflect changes within the business.

Corporate transactions are a common trigger. When a company participating in a PEP is acquired, the acquiring organization may want to consolidate the acquired employees' retirement plans or align them with its existing plan structure.

Employers may consider making a change because they've simply outgrown their current plan arrangement, particularly if the organization has grown and the employer wants greater flexibility in plan design, investment options, or service relationships.

Service delivery is another factor. While pooled plan providers handle many administrative and compliance responsibilities, employers may periodically reassess whether those services are being delivered in a way that supports their needs and expectations.

In some cases, the retirement plan is tied to other business services—such as payroll platforms or HR systems. If an employer decides to change those providers, it may also need to reconsider the retirement plan arrangement connected to those services.

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Business closures or wind-downs represent another scenario in which participation in the PEP must be addressed as part of a broader transition. Succession and ownership transition planning can also come into play. Business owners who anticipate selling the company, retiring, or transitioning ownership in the coming years may want to evaluate how participation in a PEP aligns with those longer-term objectives before joining the arrangement.

These examples represent some of the more common situations that lead employers to consider leaving a PEP, though they are not exhaustive. The reason for leaving often plays a significant role in determining how the exit process unfolds.

What Leaving a PEP Actually Means

One of the first things employers learn when exploring an exit is that leaving a PEP does not mean terminating the plan itself.

A pooled employer plan is a single retirement plan covering multiple participating employers. When one employer withdraws, the PEP continues for the remaining employers.

Instead, the exiting employer is withdrawing from the PEP and determining what will happen to its specific plan.

In many cases, that next step involves establishing a new standalone retirement plan. The accounts associated with that employer's participants are then separated from the PEP and aligned with the new plan structure.

How the Exit Process Typically Works

While the exact process can vary, many PEP exits follow a similar general path.

An employer that leaves a PEP typically begins by establishing a new retirement plan. That process may involve adopting a new plan document, setting up the plan's trust, and coordinating with service providers—such as a recordkeeper and third-party administrator—that will support the plan going forward.

From there, a portion of the pooled plan is separated through what is commonly referred to as a spin-off.[1] Unlike a plan termination, a spin-off allows the exiting employer's portion of the plan to be separated while the broader PEP continues for the remaining participating employers. In a spin-off, the accounts associated with the exiting employer are separated from the PEP and aligned with the newly established plan.

Importantly, this is not typically a distributable event. Participants generally cannot access or withdraw their assets solely because the employer is leaving the PEP unless they are otherwise eligible under the terms of the plan.[1]

Once the separation is complete, the new plan sponsor assumes responsibility for those accounts and the associated administration.

Across these scenarios, the common thread is that leaving a PEP is rarely a single-step process.

What the Exit Process May Require

That complexity becomes more apparent as employers begin working through the details.

If a standalone plan is established, the employer must first create the framework to support it. That includes adopting the plan, setting up administrative processes, and coordinating with the providers who will take over plan operations.

The spin-off itself may require formal documentation to define how participant accounts will be handled, what liabilities the new plan will assume, and how protected benefits will be preserved.[1]

Participant-level details also require attention. Because elections—such as deferral rates, investment selections, and beneficiary designations—are tied to a specific plan, they may need to be re-established under the new arrangement.[1,2]

In addition, separating participant accounts from the pooled arrangement often requires significant coordination among recordkeepers, administrators, and other service providers, particularly because those accounts have been maintained as part of a larger plan structure.

[1] Joni L. Jennings, *"Breaking Up is Hard to Do: Exiting a Retirement Plan MEP or PEP,"* 401(k)ology, June 18, 2024.

[2] Leisha Gosling, *"Getting Out of a MEP/PEO/PEP Is Not as Easy as You Think,"* July 23, 2024.

Clear communication is especially important. Participants may assume their accounts will remain unchanged or that they can access funds immediately, which is not always the case.

Plan design can introduce additional considerations. Safe harbor provisions, for example, can create complications if an employer withdraws mid-year. Available guidance in this area is still developing, which means employers and their advisors often need to carefully structure the transition.[1,2]

Timing can also affect the process. A mid-year exit may create short plan year scenarios, requiring separate compliance testing periods and prorated limits.

Costs are another factor. Depending on the provider arrangement, employers may incur deconversion fees or additional administrative costs to unwind the plan and establish a new one.[2]

When Leaving a PEP Becomes More Complex

Most employers who leave a PEP do so intentionally and with support from advisors and service providers. Even when the process involves multiple steps, those situations are generally manageable with proper planning.

In some cases, however, unwinding participation can become more complicated.

Business closures are one example. When an organization shuts down, its participation in the PEP may need to be addressed quickly, particularly if employees are no longer actively working.

Another scenario involves what practitioners sometimes refer to as an "unresponsive participating employer." In these situations, a business stops engaging with the plan, but participant accounts remain in place, and providers must continue administering those assets without the employer's direction.

Situations like these can raise practical and regulatory questions about how and when those accounts can be separated from the pooled structure. While safeguards exist, some aspects of these scenarios are still evolving.

The Bottom Line

PEPs have made it easier for many employers to offer retirement plans—but they are not always the right fit in the long term.

When business needs change, it's possible to leave a PEP. But the process often requires more planning, coordination, and documentation than employers initially expect.

Understanding how these transitions work can help employers set expectations and make more informed decisions as their needs evolve.

In some cases, the decision to leave a PEP begins long before an actual transition occurs. Employers who anticipate a sale, ownership transition, retirement, or other significant business event within the next several years may benefit from evaluating those plans upfront when deciding whether a PEP is the right fit.

Working with experienced service providers can also help ensure the process is handled in a way that protects both the organization and its employees, who rely on the plan for their retirement savings.

If your organization is evaluating whether a pooled employer plan continues to meet your needs—or considering what it might take to withdraw from your current pooled arrangement—your Cerrado Group TPA can help you assess your options. Understanding the implications before making a change can help avoid unnecessary complexity and ensure a thoughtful transition for both the business and its employees.

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