



## Recordkeeper Consolidation: A Retirement Plan Industry Trend

Vendor consolidation has become a common theme in the defined contribution industry. Over the past decade, the universe of retirement plan recordkeepers has been reduced from 400 to approximately 150—and this trend shows no sign of slowing.

This shifting industry landscape means that many retirement plan sponsors have had to endure a transition they were not expecting. What are the considerations for plan sponsors caught in the recordkeeper consolidation shuffle?

### **The Reasons Behind Vendor Consolidation**

While all consolidations are different, the primary driver is scale. Larger scale equates to more profits to invest back into the organization. Today's recordkeeping business requires significant investment in technology. For vendors that have not achieved enough scale, partnering with another organization may make sense to ensure viability.

Many of the recordkeepers that are no longer in the market were not predominantly focused on recordkeeping services. The retirement plan space has also experienced significant fee compression over the past several years. Because of this, vendors where recordkeeping is an ancillary business may find that it is no longer profitable, and through the divestiture of recordkeeping, they can instead focus on their primary business line (e.g., banking, insurance, asset management, etc.).

It is important to note that not all vendors consolidate due to negative reasons. For those recordkeepers looking to access new markets or services, partnering with another company may help advance their cause. Regardless of the reason, vendor consolidation is a trend that is unlikely to



disappear in the near future.

## Plan Sponsor Considerations

For plan sponsors faced with a consolidation, there are some key lessons to be aware of. First, consolidation timelines can vary widely—from as little as two months to as long as 18 months. Understanding the timeline, particularly in terms of key dates for paperwork—such as opt-in and opt-out deadlines—is imperative. Additionally, realizing the participant communication cadence is also important to prepare for questions and the integration of any additional communication campaigns.

Plan sponsors should also be aware of the potential for blackout periods following a recordkeeper consolidation, which can result in transaction restrictions, like delays in loans and disbursements. These periods are typically shorter during consolidations than they are following a traditional conversion (i.e., recordkeeping change due to a request for proposal, or RFP); however, it is important to understand the length and timing of the blackout period.

For plan sponsors, there are fiduciary considerations regardless of whether the recordkeeper is the acquiree or the acquiror. For those plans where the recordkeeper is the acquiree, plan sponsors should exercise the same degree of fiduciary due diligence in determining whether to remain with the new recordkeeper as was taken to select the existing recordkeeper. For plans where the recordkeeper is the acquiror, plan sponsors should verify that the acquisition will not impact the recordkeeper's ability to provide best-in-class service. This could be a particular area of concern for larger consolidations.

Using the consolidation as a catalyst to conduct a recordkeeper RFP may be a smart consideration for plan sponsors, particularly those where several years have passed since the last search was conducted. There is no better way to ensure recordkeeping value while documenting fiduciary due diligence process than by conducting an RFP.

Ultimately, it is important for plan sponsors to fully understand the process and potential impact recordkeeper consolidations may have on the plan and its participants.

While consolidations may be challenging to navigate, they can also result in benefits such as technology improvements, additional services, or even lowered fees as the result of a RFP. Due to the continued presence of marketplace drivers, plan sponsors can expect that recordkeeper consolidation will continue.

To learn more about vendor consolidation, [click here](#) to view a recording of our recent webinar on the topic.



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