Recordkeepers Enter a New Era

Today's evolution is not only a response to the financial pressures of shrinking margins but also a tactical shift toward offering a more comprehensive suite of products. It's a shift that could make recordkeepers feel less like third-party vendors and more like strategic, mission-aligned partners.

These changes signal a new era for retirement plan sponsors and participants, one where the choice of a recordkeeper goes beyond basic recordkeeping to include a broad spectrum of financial wellness, technology, and personalized advice solutions. It also necessitates a change in the advisor's role, with advisors now acting as guides or researchers to help plan sponsors understand and make decisions about each recordkeeper's unique products, services, revenue streams, and outsourcing arrangements.

Navigating Continued Consolidation

In recent years, the retirement plan industry has witnessed a significant trend toward recordkeeper consolidation. This movement has been driven by a confluence of factors, including the pursuit of greater efficiency, the need to invest in and leverage advanced technology, and the desire to expand service offerings. As profit margins tighten and regulatory complexities increase, smaller recordkeepers find it challenging to compete, leading to mergers and acquisitions by larger entities.

It's a drastic shift, but not a new one. "The recordkeeping landscape has shrunk dramatically from about 400 providers 15 years ago to only about 50 today," says Mike Webb, CAPTRUST senior manager of plan consulting. "Consolidation is reshaping the whole industry of retirement plan services."

For retirement plan sponsors, recordkeeper consolidation could lead to a more streamlined selection process as fewer, more capable providers dominate the market. However, the trend also raises concerns about reduced competition, the potential for higher costs over time, and the need for a sponsor to conduct due diligence to ensure their chosen recordkeeper aligns with their plan's unique needs, goals, and values.

“Moreover, consolidation impacts the level of personalized service that sponsors and participants have come to expect,” says Webb. “As companies merge, there is a risk of service disruption or a decline in service quality during the transition period. Plan sponsors must be vigilant in managing these transitions to make sure their participants’ needs continue to be met without interruption.”

The average transition can take between six and 18 months, Webb says. Throughout that time, there are multiple fiduciary considerations to be aware of. “For plans where the current recordkeeper is the acquiree, sponsors should exercise the same degree of fiduciary due diligence in determining whether to remain with the new recordkeeper as they took to select the existing recordkeeper,” he says. “For plans where the current recordkeeper is the acquiror, sponsors should verify that the acquisition will not impact the recordkeeper’s ability to provide best-in-class service.”

The implications of consolidation also extend beyond the immediate operational aspects. Specifically, consolidation signals a shift in recordkeeper ethos, one where “recordkeeping itself is considered a fundamental expectation,” says Audrey Wheat, CAPTRUST manager of vendor analysis, while innovation, scale, and integration have become key competitive advantages. For plan sponsors, deciding how to move forward requires a keen understanding of their plan’s needs, their participants’ desires, and their recordkeeper’s strategic direction.

Strategic Partnerships and Outsourcing

“More than ever before, recordkeepers have to achieve economies of scale in order to sustain their margins,” says Wheat. “Downward pressure on fees has spurred a relentless pursuit of scale through consolidation and strategic partnerships. Essentially, recordkeepers are redefining their value propositions from traditional recordkeeping to a more holistic suite of services.”

For plan sponsors, this redefinition presents opportunities and challenges. The wider scope of products and services now available from recordkeepers can significantly enhance plan value and participant engagement. However, the variability in how outsourcing arrangements are implemented requires plan sponsors to thoroughly vet and understand the range of recordkeeper services available and their potential impact on service delivery and participant experience.

“On the recordkeeping side, there are typically three options: build, buy, or partner,” says Wheat. “For every new product or service, recordkeepers are asking themselves: Do we want to build this in house, acquire a company that’s already doing it well, or outsource the offering and provide it through a third-party partnership?”

While some recordkeepers now outsource nearly all their operations, others opt to outsource specific business functions, leaning into their strengths while tapping partners to help in areas where they aren’t as strong. “This varied approach to partnering or outsourcing—especially in areas like back-office processing or call center operations—allows recordkeepers to streamline their operations, focus on their core competencies, and leverage external expertise for non-core functions,” says

Wheat. Outsourcing is one way for recordkeepers to refine their offerings and create internal efficiencies.

But these new services also introduce new risks for the plan sponsor, including fiduciary and cybersecurity concerns, which necessitate an additional layer of scrutiny and due diligence. How is the recordkeeper using plan data? Are they sharing personally identifiable information (PII) with their technology partners? And do those partners have the same level of data security as the recordkeeper? Plan sponsors are increasingly relying on advisors to help understand the answers to these questions.

Service Diversification

In the race for a competitive edge, recordkeepers are also diversifying their revenue streams by offering a suite of products and services that go beyond traditional recordkeeping. "Every recordkeeper has a side job," says Wheat. "Differentiation increasingly hinges on supplementary offerings related to financial wellness, technology, or communication tools. Managed accounts, participant advice, health savings accounts (HSAs), and student debt management solutions are other common offerings." These elements now serve as pivotal decision-making factors for plan sponsors.

Financial wellness programs have become a cornerstone of this differentiation strategy. By integrating financial wellness programs, recordkeepers not only provide a valuable service that extends beyond the basics of retirement planning but also offer a suite of solutions addressing the broader financial challenges that participants face. According to PwC's 2023 "Employee Financial Wellness Survey," when included as part of an employee's benefit package, financial wellness programs may increase employee satisfaction, productivity, engagement, and retention.

"Financial wellness programs encompass a range of services, from personalized advice provided by financial advisors to account aggregation technology to manage net worth to educational content on budgeting, retirement readiness, and managing student loan debt," says Chris Whitlow, CAPTRUST senior director of advice and wellness. "These tools can be critical to employees to help build their financial confidence and well-being."

Technology and communication tools are also important. The deployment of user-friendly platforms that facilitate easy access to account information, educational resources, and personalized advice directly influences participant engagement and satisfaction. Recordkeepers that lead in technology innovation are offering participants features they value, such as mobile apps, artificial intelligence (AI)-driven financial planning tools, and interactive educational content.

"These advancements don't just democratize access to financial information," says Whitlow. "They also empower participants of all ages and incomes with the knowledge and tools they need to make informed financial decisions."

The rise of these value-added services underscores a change in the recordkeeping business model.

With recordkeeping fees compressed to near break-even points due to competitive pressures, recordkeepers are increasingly relying on their side jobs—that is, additional products and services—to sustain profitability.

"Plan sponsors know that recordkeeping fees have been compressed, and they see that the recordkeepers are offering a wider range of services," says Wheat. "Naturally, they also want to understand how their vendor partners are making money." That's where an advisor can be especially helpful.

Advisors as Guides

As recordkeeper services have expanded, so too has the role of the financial advisor. "Advisors are rarely ever just managing investments now," says Jennifer Doss, CAPTRUST senior director and defined contribution practice leader. Instead, they're often helping plan sponsors understand how recordkeepers generate revenue and the implications for their retirement plans. "They navigate the nuances of each provider's strengths, aligning them with the plan sponsor's mission and the specific needs and desires of their participants."

"The advisor's job is to know the client," says Doss. "Then they can use their expertise and client-specific knowledge to recommend the best solutions for that particular sponsor and their participants while also ensuring the recordkeeper's fees are reasonable for the services offered."

When navigating the choice between multiple recordkeepers, the best place to start is by naming what the plan sponsor values most, whether that means cutting-edge technology, extensive financial wellness programs, or a focus on participant education and advice. In making these decisions, the plan sponsor's mission becomes a guiding light. It encapsulates the employer's vision for employee welfare and drives the selection of benefits packages that align with both organizational goals and participant aspirations.

As recordkeepers evolve—embracing new roles and offering innovative solutions—the role of plan sponsor becomes ever more complex, yet ripe with opportunities. Navigating its nuances requires a discerning eye, one that can identify the true value behind enhanced technology platforms, comprehensive service offerings, and the promise of a better retirement planning experience for participants. With the guidance of a financial advisor and a clear understanding of their organizational goals and participant needs, plan sponsors are well positioned to make informed choices that align with their missions and values.

In the future, it seems the ecosystem of relationships between plan sponsors, recordkeepers, and advisors will continue to play a pivotal role in shaping a retirement planning environment that is both robust and responsive to the changing needs of the modern workforce.

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