Size matters, Cerulli tells plan providers

By Editorial Staff *Thu, Dec 19, 2019*

With estimates that the 10-largest recordkeepers will represent more than 75% of recordkept 401(k) assets by year-end 2019, current market dynamics point to an 'oligarchy' of retirement plan providers, a Cerulli analyst said.

To stay profitable and satisfy the demands of plan sponsors and participants for cheaper, faster and more comprehensive services, retirement plan providers must achieve new economies of scale and upgrade their technology, according to The Cerulli Report – U.S. Retirement Markets 2019.

Growth—organic or via mergers/acquisitions—and technology that protects against cyber attacks, makes operations more efficient, and streamlines client engagement "will be "essential to maintain a competitive edge," said Anastasia Krymkowski, associate director of retirement at Cerulli Associates, in a release.

'Oligarchy' ahead

With estimates that the 10-largest recordkeepers will represent more than 75% of recordkept 401(k) assets by year-end 2019, current market dynamics point to an "oligarchy" of retirement plan providers, the release said. Consolidation may include strategic partnerships as well as acquisitions.

M&A activity has continued in the recordkeeping space, with asset managers, consultant intermediaries, and third-party administrators all looking to widen profit margins by spreading costs across a larger book of business.

"Whether through acquisitions or strategic partnerships, retirement-focused firms that are lacking the capabilities to provide comprehensive financial guidance should consider their role in supporting plan sponsors and participants. They should also evaluate the potential to expand their purview into more holistic and higher-margin lines of business such as fiduciary services and managed accounts," said Krymkowski in the release.

Spend to save

Innovation—in cybersecurity, payroll and recordkeeping infrastructure, customer-facing platforms, or data-driven portfolio management and financial advice—can also create efficiencies, reduce long-term costs, and give plan providers a competitive edge despite its expense, Cerulli believes.

Digital solutions, like robo-advice platforms, can standardize recommendations, combat human biases, and alleviate some of the more time-intensive, computational aspects of portfolio management and financial planning—even if humans still interpret, communicate, and implement the resulting advice.

“Ultimately, firms that can deliver personalized and user-friendly solutions are well positioned for long-term success” in both the institutional and individual wealth management spaces,” Krymkowski added.

“Providers should partner with plan sponsors to understand employees’ financial circumstances and identify the most appropriate products and strategies—keeping in mind that defined contribution investments represent just one piece of the puzzle.”