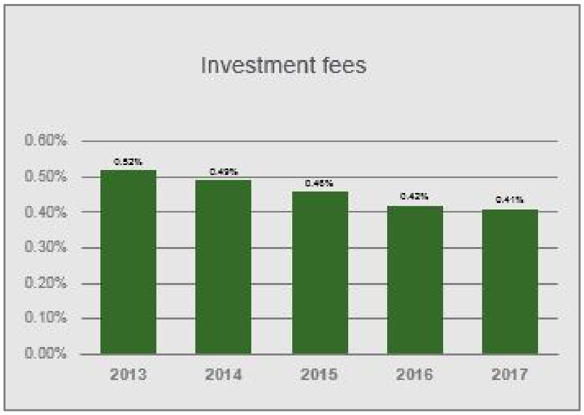
401(k) Recordkeeper or Employee Benefit and Financial Wellbeing Provider?

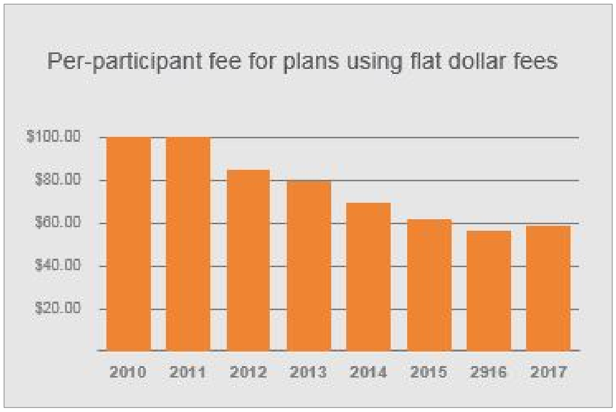
What employers should know when their 401(k) or 403(b) provider broadens their services and revenue streams.

For the past decade, the retirement plan industry has felt the pressure to reduce fees. This has spawned from increased scrutiny from plan sponsors, consultants, and ERISA attorneys as a result of litigation and greater transparency. Recordkeeping and administrative fees have continued to decrease as they are often viewed as a commodity, and for many of the top providers, simply table stakes to earning an employer's business. Additionally, plan sponsors and their consultants continue to push for open architecture investment platforms that have removed the recordkeeper's proprietary investment products, an additional revenue stream in the past. These forces have led to pressure on revenue, increased caseloads for service teams, and provider consolidation. Recently, we have seen some of the largest providers respond by initiating new fees to recordkeep certain non-proprietary investments that don't share in certain costs of operation. While less common, we are starting to see some instances where providers are increasing their fees during repricing exercises.

INVESTMENT COSTS



ADMINISTRATIVE COSTS



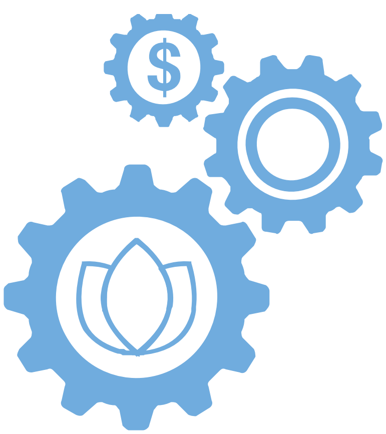
Source: NEPC and Bloomberg, 2017

Meanwhile, employers continue to seek greater support in helping their employees prepare for retirement and improve their financial wellbeing — another area where providers see opportunity and plan sponsors should be aware of risk. A fresh reminder is the recent Vanderbilt University lawsuit settlement which received preliminary approval after the recordkeeper's sales tactics and use of participant data to provide additional services and generate new revenue streams were scrutinized.

Providers Pivot

Facing fierce competition and pressure on fees for both current and new clients, providers have largely focused on plan sponsors' interest in financial wellbeing. What began as broader education to help employees with their bigger financial picture beyond retirement has expanded to offering the solutions or products to meet those demands. The flavor of what the provider is offering often depends on the type of organization they are in general: insurance company, mutual fund, or bank. The approaches vary from proprietary to partnerships with third parties. The solutions or products included, but not limited to, are student loan benefits, HSA platforms, voluntary benefits, and

According to employers in Gallagher's *2018 Retirement Pulse Survey*:



28%

have a financial wellbeing program

26%

have future plans for financial wellbeing program

The **top 3** financial wellbeing areas employers think their employees need the most help with are:

1. **Saving & investing for retirement** (88%)
2. **Budgeting & debt management** (59%)
3. **Social security & Medicare** (40%)

third-party financial wellness programs. Many, but not all, of these programs create additional revenue for providers either directly or indirectly. It is not uncommon for providers to include information on their offerings in their annual 401(k) or 403(b) review materials, but is it appropriate? Clearly, there is a demand for these types of solutions as the industry tries to help employers improve the financial wellbeing of their employees.

Navigating the New Landscape and Remembering Process

There are a lot of great solutions and products being offered by providers who are well-intended to meet the growing demand of employers and employees. This article is not intended to make broad generalizations or offer a purely cynical point of view of this provider evolution. However, it is an appropriate time to recall the case of Tussey vs. ABB and one of the lessons learned from the outcome. ABB ultimately paid dearly for subsidizing the cost of corporate services through the fees charged by the same provider that recordkept their retirement plan. This coupled with the recent landmark settlement in the Vanderbilt University case pertaining to participant data and additional services should only raise plan sponsors' awareness. A documented evaluation process is what protects fiduciaries. Exploring their current provider's solutions is a reasonable starting point. However, plan sponsors should also engage in a prudent process that is documented to understand the fee structure, participant approach and determine if their provider's solution is in the best of interest of their workforce. Further, offering additional services or benefits at the expense of 401(k) or 403(b) administrative fees must be avoided.

It is also important to understand how turning on a new solution from your current retirement plan provider may or may not overlap with other current benefit providers. It can be easy for a retirement provider to roll out a new solution that may be an opt-in or out for the employer and not understand how it fits with the employer's other current offerings. For example, most organizations are currently not positioning health savings accounts (HSAs) to employees as a retirement benefit, and according to Gallagher's 2018 *Retirement Pulse Survey*, only 28% of employers identified health savings account education as important. However, if communicated effectively, Gallagher does believe there can be tremendous value in integrated offerings that impact employees' financial wellbeing.

The idea of an integrated 401(k) and HSA solution has appealing qualities as does helping employees refinance high interest student loans so they can save for retirement. Likewise, voluntary benefits can play an important role in protecting the savings employees have accumulated now and in the future. Creating an integrated communication strategy around an employer's overall financial wellbeing approach is critical. For some, that will be multiple offerings with a single provider like their 401(k) recordkeeper. For others, that will mean understanding how their different providers fit together and tying them together with a holistic communication strategy.

Final Thoughts

A compression of fees has brought innovation to the 401(k) and 403(b) recordkeeper industry as providers look to support greater financial wellbeing for employees while generating additional revenue. Gallagher believes this can create a winning scenario for all parties involved: employees, employers and providers. Navigating this broader approach from traditional retirement plan recordkeepers requires that employers work closely with their trusted advisors to evaluate and coordinate across benefit providers while also avoiding any fiduciary pitfalls. Ultimately, if these offerings are evaluated appropriately through a document process and communicated effectively, we believe there are opportunities for employers to enhance their financial wellbeing offering to employees and create greater organizational wellbeing.

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Checklist to enhance your organization's financial wellbeing offering:

1. **Inventory**
   - The financial wellbeing needs and preferences of your workforce
   - How and who in your organization evaluates and makes decisions on different providers
   - Understand all of the financial wellbeing offerings and capabilities of current providers

2. **Evaluate**
   - Document a thorough evaluation process and consider including incumbent and external providers based upon capabilities and products
   - Consider the pros and cons of bundling solutions and offerings among providers

3. **Deploy**
   - Create a holistic financial wellbeing communication plan that is integrated with the broader organizational wellbeing strategy and communication

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About the Author

John Jurik is an Area Executive Vice President for Gallagher's Retirement Plan Consulting team. His experience encompasses working with a wide range of clients in a variety of industries. John's primary focus is helping organizations optimize their employees' retirement plan experience and improve their overall financial wellbeing. Through his innovative thinking, John consults with committees to understand the connections between risks associated with an aging, unprepared workforce, and the bottom line for organizations.