

The Reality of ‘Frenemies’ in Provider Relationships

How recordkeepers may encroach on plan advisers’ client lists—and how both sides can best navigate that tension.

Reported by MALLIKA MITRA

Recordkeepers are in a tight spot in the retirement industry. As fee compression continues to make business tougher, they are forced to look for new ways to generate revenue—and one of the main opportunities can put them at odds with the very advisers with whom they already have important relationships.

Many recordkeepers and large providers are expanding into wealth management, offering participants education and advice on what to do with their money that goes far beyond administrative tasks. But that means advisers are increasingly competing with their own partners for rollovers and participant assets. It is creating tension in the industry, according to Mike Contorno, principal in and head of defined contribution vendor management at NEPC, an investment consulting firm which does not operate under this business model.

“These issues have become much more prominent in discussions around provider selection and long-term strategy,” Contorno says.

How Tension Reshapes Relationships

This trend’s impact on day-to-day provider selection remains to be seen, but as consolidation continues and as firms seek greater scale, Contorno says revenue opportunities tied to participant assets and wealth management are becoming increasingly important factors in long-term partnership strategies.

He adds that the most tangible impact is in request-for-proposal pricing: Firms that generate significant revenue from participant assets, rollovers or wealth management services may have greater flexibility to reduce or even waive consulting fees. That is why full disclosure of all related revenue streams would allow plan sponsors a more transparent comparison of potential partners.

“Greater transparency around these revenue streams would help plan sponsors better understand the economic incentives involved and evaluate potential misalignment of interests when selecting a provider,” Contorno says.

Conflict-of-Interest Concerns

Recordkeepers’ increasing involvement with wealth management organizations and affiliated financial advisers has given rise to a series of issues under the Employee Retirement Income Security Act, says Marcia Wagner, founder of and managing partner in the Wagner Law Group.

“Financial advisers are seeking personally identifiable information from recordkeepers. Leaving aside the question of whether participant data is a plan asset under ERISA, any transfer of participant data presents a risk of a cybersecurity breach at a time that cybersecurity issues are the leading enforcement priority for the Department of Labor,” Wagner says. “For this reason, some plan sponsors who desire to preclude cross-selling in general may seek to have an administrative services agreement prohibit data-sharing with third parties, including fiduciary advisers.”

A plan sponsor can write into the contract that the recordkeeper is not allowed to contact the employees for wealth management or rollovers—but the plan sponsor has to make that election, not the adviser, explains Jania Stout, president of retirement and wellness at Prime Capital Financial.

“That’s part of onboarding—when we bring in a new client and we go through how the setup is,” Stout says. “If the client wants the recordkeeper to have access to that, we will, of course, support that. But a lot of times, the plan sponsor hired us because we are the financial adviser that’s independent and is a fiduciary, so they would prefer anything of that nature to go through us.”

Wagner also says that there is a risk that an affiliated financial adviser will recommend the recordkeeper’s proprietary investment program, even though, without the relationship with the recordkeeper, the financial adviser would not have seen that investment recommendation as being in participants’ best interest.

Another concern is whether recordkeepers offering marketing subsidies, revenue sharing and technology discounts to advisers—to secure the inclusion of the recordkeeper’s funds on the plan’s investment platform—has an adverse effect on the adviser’s independence, Stout says. Plan sponsors that are concerned about these issues may be looking for unbundled service providers in connection with plan administration, Stout adds.

Why Strong Partnerships Are Key

Jessica Henricksen, OneDigital’s director of strategic partnerships, says her firm sees the continued evolution as a reflection of the growing participant demand for education, advice and financial guidance.

“We don’t see it as a source of conflict,” Henricksen says. “We believe that access to education and advice should be a core part of the retirement plan experience. We’re for anything that enables and enhances that.”

The best participant outcomes come when employers, advisers and recordkeepers are working together, each bringing their unique strengths to the participant experience, she adds, and those strong partnerships require clarity of roles, responsibility and participant experience.

Having clear roles outlined is key, since employees can get confused about who provides which services, Stout says. A strong communication strategy should have clear instructions for a new employee on who they contact for what, Stout continues—whether it is changing a deferral amount, requesting a loan, or determining where to invest.

Stout says recordkeepers increasingly offering wealth management is “in some ways ... a threat,” but she also sees it as “an opportunity for us to do more to help more individuals.”

She adds that when advisers and recordkeepers build good partnerships—in which the recordkeeper genuinely values the adviser—and communicate, there is less room for advisers to get upset that a recordkeeper is going after the same individuals.

“That happens more often when you don’t have a strong partnership, where you’ve got a clear line of, ‘Hey, this is what we do, this is what you do; let’s make sure we make the client happy,’” she says.

Differentiation for Advisers

Adviser firms can differentiate themselves by offering personalized advice beyond what recordkeepers would, says Mike Goss, chief revenue officer and head of institutional at Wealthspire. His firm, for instance, has tax attorneys and dozens of certified financial planners on staff.

“We have great relationships with recordkeepers, but for the individual that needs more customized tax planning, estate planning, wealth management and sophisticated retirement planning, I think that’s where we differentiate,” Goss says.

For advisers without diversified practices, Goss says it becomes harder to differentiate their offering from the recordkeepers' capabilities.

"The independent advisers that have scale, size and deep wealth capabilities are better positioned to collaborate with the recordkeepers because we are differentiated, versus advisers who maybe don't have the depth, scale and resources," he says.

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