2021 Challenges For 401(k) Plan Providers

By Ary Rosenbaum, Esq.

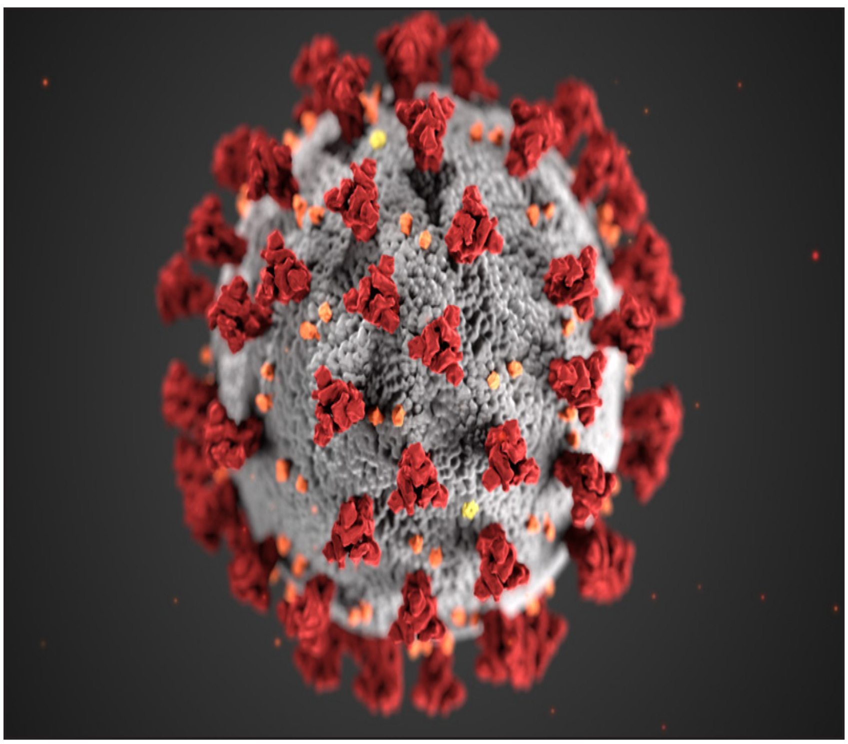
2020 is a bad disaster movie, but a bad one that doesn't seem like it will end. It will end, eventually. So with 2020 coming to a close, it's important to look at some of the 2021 challenges out there for 401(k) plan providers like you and me.

The further consolidation of this business

They always say that it's a small world after all. With consolidation in our industry, the 401(k) world is getting smaller. It always seems that there is some type of plan provider purchase or merger every week. Ever since fee disclosure regulation was implemented in 2012, there has been tremendous consolidation with many large plan providers cashing out by selling their books of business. I envision that consolidation will continue, the Empower purchase of MassMutual wasn't announced that long ago. I expect many more mergers for third party administrators (TPAs), broker-dealers, and registered investment advisors. While the idea of larger and larger plan providers out there can be scary, there is enough of a niche in this business to survive and do well with larger competition. These larger providers will likely be more upmarket with larger plans and may decide to leave certain sectors of this business because of the need to increase the higher revenue-generating parts of their business. The sad part of mergers is the fact that many good employees are let go. If you're looking for good people, there are plenty of good people that you might get to hire in this work environment because good, solid retirement plan professionals are hard to find.

COVID is still a thing

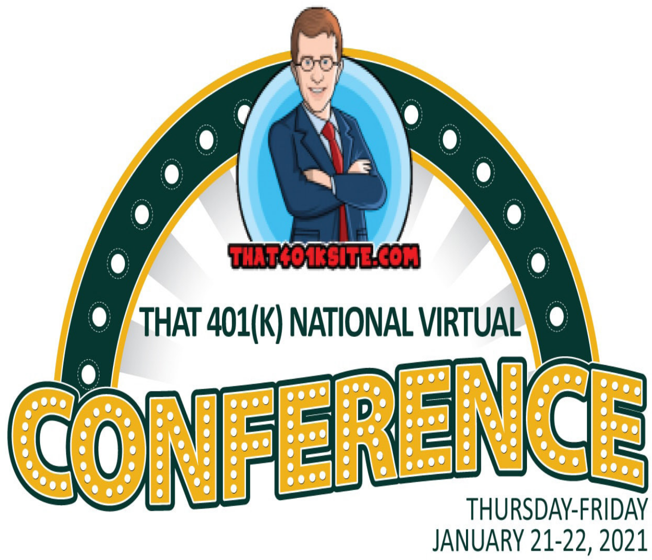
When COVID became a pandemic in the United States, I naively thought it would be over by May. Then the goalposts for the end of the crisis got pushed back further and further. COVID doesn't seem to be going away anytime soon and any vaccine will take months and months for full distribution for those that want to take it



(sign me up!). The problem with COVID is that there may be lockdowns that will negatively affect our business as well as the business of our clients. As I write this, New York has been managing the pandemic better, but there are clusters of neighborhoods where non-emergency businesses are still closed. Restaurants in New York City are still at only 25% capacity. So what it means that is COVID is still going to impact our businesses because it will impact the businesses of our clients. Plan terminations and partial terminations will still occur and that doesn't help us in terms of our revenue. Returning lockdowns may require us to go back to full-time work at home (which doesn't impact me as I have worked from home for 10 years now). With the election behind us (sort of), we may eventually get more COIVD relief, as well as possible legislation dealing with more COVID distributions. As this pandemic continues, it will still possibly negatively impact our business.

The permanency of COVID

While COVID will eventually phase out through a vaccine and/or virus mutation, there will still be an effect on our business that will be permanent. I believe that attendance at in-person national conferences will suffer for a very long time. I believe that many financial advisors and TPAs will decide that Zoom enrollment and investment education meetings are a far more effective use of time in terms of time and cost, that traveling for in-person meetings will be fewer and far between. I believe that many plan providers will decide that work from home is a better option for work efficiency and cost, that expensive rental in mid-town or wherever else, maybe too costly of a space to maintain. Certainly, time will tell what the permanent effect that COVID will have on how we conduct business, but it will happen. I'm not saying that the September 11th attacks were the same as COVID, but I just want to point out the permanent effects on travel and security since that day. Expect some permanent changes to this business because of COVID.



That PEP Thing

With Pooled Employer Plans (PEPs) coming online on January 1, they have been on the minds of my plan providers. As I've stated so many times, we have seen this PEP thing before, it was called Open Multiple Employer Plans (MEPs). There are just way too many similarities between PEPs and MEPs and that's not just the fact that there doesn't have to be a commonality among adopting employers. The problem with PEPs is growing enough assets in one PEP to have any cost savings over single-employer plans. PEPs do have a fiduciary structure with pooled plan providers that offer more liability protection for adopting employers than Open MEPs, which was kind of murky in terms of what kind of liability protection they could offer for those adopting employers. Also, PEPs have a bigger plan audit exception than MEPs (no audit needed if there aren't 1000 participants and participating employer with 100 or more participants vs. 100 participants in a MEP). As a plan provider, you need to figure out if PEPs can be a good thing for your business. There are many plan providers especially TPAs that aren't interested in PEPs because they fear that assets in these PEPs won't achieve the critical mass they need to be sustainable. Also, many plan providers may pay through the nose by pricing PEPs on a wing and a prayer with those prayers being unanswered with a lack of assets. That is why there are so many larger bundled providers that won't be offering PEPs because they believe that underpricing PEPs on hopes rather than reality will cannibalize their business. It's also important to remember that there are many plan providers out there that already dominate the MEP marketplace, so they should have no issue dominating the PEP marketplace. This isn't to suggest that you should abandon the PEP marketplace, but understand that distribution is going to be the key to whether a PEP succeeds or fails. If you're a registered investment advisor or broker, keep in mind that it would be easier to join an existing PEP than starting one on your own. I believe the best PEPs are the ones that will be offered through multiple advisors because like I stated, distribution is key. My two cents is that PEPs are a niche business, the most successful PEPs will be MEPs that converted over. Also, stressing fiduciary protection is a more accurate selling point of PEPs than cost (as long as a PEP's asset size isn't voluminous). PEPs could also be an attractive selling point for the employers that have Solo 401(k) plans and small business plans like SIMPLE-IRAs. You need to determine whether pursuing PEPs is the right option for you.

Attend and/or Sponsor That 401(k) National Virtual Conference

With COVID still a global pandemic, in-person conferences are still going to be put on hold. My That 401(k) National Conference in Disney World in March was probably the last 401(k) conference before the pandemic broke. I left Disney World on Wednesday and it closed Sunday (along with my kids' schools). Understanding that an in-person 2021 National Conference for March wasn't going to be a great idea (especially with Disneyland still closed), I moved up the national event to January and made it fully virtual on Zoom. Since I don't have to deal with the headaches of room reservations and catering, I also substantially decreased the cost of attending and sponsoring. If you want to attend, you can get the early bird rate of $20.21 (there are other tiered packages) before Thanksgiving. If you want to sponsor the event, you can present for as low as $1,500. Check out that401ksite.com for information. This virtual conference will be like an in-person event, just no food. Our special guest for day one is Hall of Famer and Knick legend Walt Frazier and the second-day guest is New York Mets great Dwight Gooden. Autographs are available on the higher tier attendee packages. We will have two days of presentations from folks like Pension Assurance, Matrix/fi360, 401(k) Jake, PCS, Granite Group, MillenniuM Retirement, Sheri Fitts, Nationwide, FPS Trust, Mass Mutual, Value Point, Females & Finance, and many others to be announced. It is January 21-22, 2021 and unlike a live event, you can get a video recording of any sessions you miss. Go to that401ksite.com to sign up today or get more information.

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