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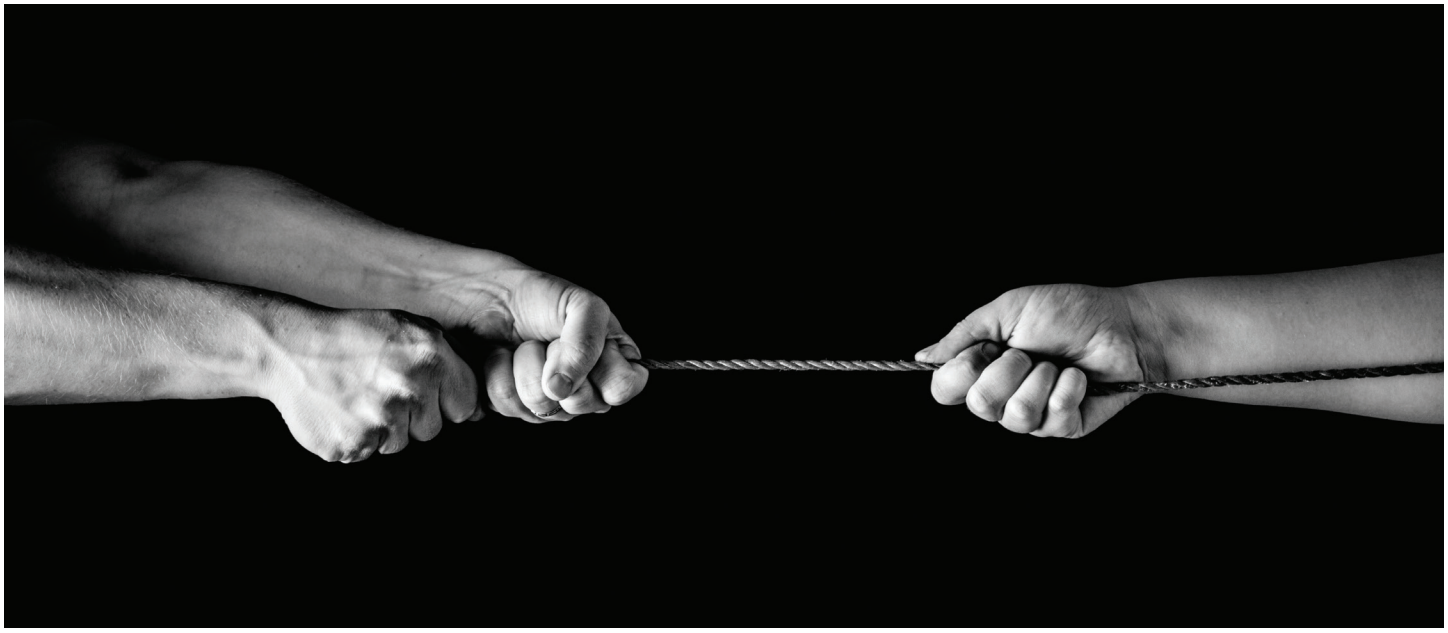

The Unbelievable Value of 401(k) Participant Data

It's incredibly powerful (and profitable), but when it comes to who "owns" participant data, there's a palpable tension between recordkeepers and advisors

By **Lynn Brackpool Giles**

Ninety percent of the world's data has been produced in just the last two years.

That's according to an IBM report and while much of this "big data" can be white noise, retirement plan participant data is sparking a whole other conversation.

At a recent industry conference, The Retirement Advisor University (TRAU) founder and CEO Fred Barstein asked the audience, "Who owns participant data?" Before the debate could begin, he answered his own question: the participant owns the data.

However, there is a churning tug-of-war as to how recordkeepers and advisors are using the data—and why it's so valuable to begin with.

"Participant data has been around for a while," notes Barstein, stating the obvious. But he says the arena is starting to heat up because both recordkeepers and advisors are looking to monetize the participant—and they need the data to do so.

Battle for the Participant

Whether intentionally or not, Scaled Retirement Advisory Firms' (SRAF)—or as they are more commonly known, aggregators—foray into the areas of financial wellness and participant advice has set off a "battle for the participant" with recordkeeping firms. So says investment services firm SEI, which recently authored a report that states as the aggregators transition into the broader financial wellness arena, offering investment advice and wealth management services, the recordkeepers have become increasingly concerned that their best distribution partners are also becoming key competitors.

They further cite a 2019 Retirement Leadership Forum survey of recordkeepers that found that they view expanding participant relationships as a significant revenue opportunity, most notably in the areas of IRA rollovers, financial wellness, and investment advice. Any encroachment or increased competition by aggregators "would seem to cut into this revenue expansion opportunity and the rise of the SRAFs that have similar goals

clearly brings them into conflict with the recordkeepers."

Even more succinctly, "'monetizing the participant' is important to SRAF's long-term profitability," the report notes. And while the battle lines may be drawn, there is still debate as to whether it needs to be a winner-takes-all result.

Advisors Join the Data Game

While some of the large firms have been on top of participant data for years (think Fidelity and CAPTRUST), Barstein says that it's a relatively new concept for individual advisors.

"Historically, most retirement plan advisors have not dealt with participants as much because they would see it as a conflict. They wanted a clean business model that focused on managing the plan and working with the plan sponsor—and not advising employees on their outside assets," Barstein says.

After the Department of Labor's fiduciary rule was vacated in 2017, there was a noticeable shift. Advisors started stepping out of their comfort zone and broadening their services and began eyeing participants (and by extension, their data) more eagerly.

"Almost overnight the plan advisor started going after participants," observes Barstein.

Brad Arends estimates that advisor fees are down 60-70%, a dramatic reduction that stems from fee disclosure and compression, plus service expectations going up.

"The glory days aren't coming back so advisors are asking themselves what other service of value can I provide in addition to the '3Fs' (funds, fees and fiduciary guidance)," says the Intellicents co-founder and CEO. Arends' Minnesota-based firm prides itself on finding ways to serve not only the wealthiest one percent in the nation, but also an increasing focus on the remaining 99% of the workforce.

And are most advisors focusing on rollovers or financial wellness? Nope, says Barstein. "Wealth management. That's where the money's at."

Wealthy Numbers Game

According to this month's cover subject Dick Darian, CEO of M&A advisory firm Wise Rhino Group, "Wealth management will be the biggest revenue stream by far down the road.

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Advice to the participant will be the mechanism they will use to get the wealth advisory business." *(Read more on how Darian & Co. are capitalizing on the red-hot M&A market in the cover story beginning on page 12.)*

Darian is preaching to the choir.

The global wealth management market is expected to grow from more than $1162 billion in 2020 to $1263.34 billion in 2021, with North America notching a 54% share.

Greg Ward, Director of the Financial Wellness Think Tank at Financial Finesse notes that as advisors farm out administrative services, they know that the most profitable action is wealth management but often, they have a lot of road to cover first before that opportunity arises. And that's about the time that recordkeepers try to enter the retirement planning/wealth management picture.

"Recordkeepers are going after the advisors' bread and butter," Ward says.

Controlling Access

The initial point of access is no secret: recordkeepers create a custom website or portal which participants can access directly. It also means that participants can leapfrog the advisor to gain additional financial services, and as importantly, additional data can be collected for future solicitation.

RetireReady Solutions' Edward Dressel succinctly sums up the dynamic in a recent column. He notes that the 401(k) plan advisor does a lot of work to earn the business, win and maintain the account, and grow the relationship with a plan sponsor. Further, they engage the plan participants, provide advice (which increases their risk), meet with plan trustees, and do a lot of backend work to maintain each account.

And recordkeepers? Few (if any) return the favor and promote the advisor, says Dressel. While an advisor tells the participants to visit the portal, the portal is often silent about the advisor. This gives the recordkeepers a big advantage for stepping in line at a key time. As participants approach retirement, when they have the most assets, the portal can step right in front of the advisor to seize the business of the participants.

However, the data opportunity exists for advisors but they need to understand its nuances.

"Quantitative data is important whether it's contribution amounts, balances, assets, etc.," notes Financial Finesse's Ward. "But the opportunity for advisors is with qualitative data. Specifically, what matters to an employee, quality of life metrics, financial stressors, retirement goals, are they comfortable managing their money."

Ward says advisors need to collaborate with employers to capitalize on the qualitative data points for these primary reasons: trust and access.

The most recent Edelman Trust Barometer report contains this ominous headline: *"After years of re-building, steep trust lost for financial services sector."* The same report shows a higher mark for employers so Ward theorizes that if advisors can leverage this trust, there will be increased credibility when marketing wealth management services to employees.

"When employers are sponsoring a benefit, employees assume a level of due diligence has occurred," the report notes and as a result, "it gives integrity to the approach in terms of interaction with an advisor."

Technology Troubles

What's at the core of managing data? The "no kidding?" answer is technology. And both recordkeepers and advisors have hurdles to overcome.

Barstein says the antiquated nature of recordkeepers' data systems is its biggest headache. "The data is not clean because it's still 1990s technology spread across multi-

ple systems." Or, offering a more colorful analogy: "Recordkeepers are shoving a Tesla engine of technology into a Pinto without pulling over. Bottom line, they need to update desperately."

On the advisor side, you need both "people smarts" plus great technology to effectively and profitably do that. Arends says that advisors need to find a partner that can provide an application (app) that can collect relevant participant data. And the more data it can collect, the smarter the app will be and it can produce a foundational financial plan and strengthen the relationship with the participant.

"You want to control the participant data and relationship? You need an app," he sums up.

Data Sharing: New Frontier of Litigation

It wouldn't be a financial services quandary without some sort of legal tussle. Though the court skirmishes aren't necessarily sorting out data sharing between recordkeepers and advisors, the cases trudging through the court systems are leaving a lurking shadow in the background.

The cases probe (among other grievances) whether participant data is considered a plan asset. Though the Department of Labor has regulations that define what a plan asset is, it does not address participant data and instead focuses on tangible assets. As part of overall excessive fee lawsuits, tort king Jerome Schlichter of Schlichter, Bogard & Denton is one of the loudest voices to argue that participant data is a plan asset and if it is used for non-retirement plan purposes, it can be considered a fiduciary breach.

One legal expert called the sharing of workers 401(k) data the "New Frontier of Litigation."

In *Harmon et al. v. Shell Oil Co. et al.,* Schlichter argued that the oil behemoth allowed Fidelity Investments Institutional Operations Co., to access participant information in order to market financial products and services that were unrelated to the plan; Fidelity denied the allegation and was ultimately dismissed from the suit.

"Under the common law meaning at the time of ERISA's enactment, a data set of intimate knowledge of financial and personal information combined with insider knowledge of exploitable triggering events, such as years to retirement, marital status and beneficiary status, was clearly an 'asset.'" He added that the "information is collected by the Plan for the exclusive purpose of administering the Plan and providing benefits to participants, it is a Plan asset, not property of the Plan's recordkeeper or custodian of that information…"

While the Shell case continues down an appeal path, Schlichter also has a case against Northwestern University with similar allegations that will be heading to the U.S. Supreme Court later this year.

Where Do We Go from Here?

So where is it all headed? Barstein concedes that recordkeepers have the data advantage. "They have the participant data now, they have the branded portals and applications, and recognition. If you ask participants I would guess 50% could name their recordkeeper because of the portal. But probably only 1% could name their plan advisor."

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He observes recordkeepers are "slow rolling" the sharing of participant data, citing regulations and privacy laws. But he says as the aggregators consolidate and converge, they have more leverage than recordkeepers.

There is a bright light of opportunity for advisors. Plan sponsors have power and that is a relationship that advisors can leverage. Collectively they offer a strong trust and fiduciary advantage over recordkeepers.

"Plan sponsors are just now understanding the differences between recordkeeper and advisor responsibilities," says Barstein.

Ward adds that most plan sponsors are wanting to work in the best interest of the advisor, but there may be a lack of understanding of the advisor's capabilities when it comes to utilizing participant data for the greater good.

"Advisors need to make the case to seize the qualitative data and use it to make employees feel valued," says Ward, noting that data around diversity and inclusion is "up for grabs" and that advisors could build a platform to help identify the most vulnerable employees in the workforce.

His comments touch on a real employer concern which is finding ways to keep an individual at a company and keep them satisfied. If participant data can be used by an advisor to create positive retirement scenarios for employees, the feel-good will likely extend to the employer.

Though Ward still says there is a possible "win-win" scenario between advisors and recordkeepers when it comes to who ultimately stewards participant data.

"This is coming to a head," Ward says, "but I want to see where there are opportunities to work with all parties, and everyone needs to be able to ask the right questions to get there."