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Acquisition moves Empower closer to its ultimate goal

MassMutual deal makes firm broader based like market leader Fidelity

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Photo: Stanley Rowin

Edmund F. Murphy III said the deal will make Empower No. 1 in the small- and midsize plan sponsor segment of the DC market.

It might be easy to mistake Empower Retirement's anticipated acquisition of MassMutual's retirement plan business as a straightforward play for scale, but it's more nuanced than that, industry observers say.

The record keeper is looking to grow the number of participants it serves — in industry parlance "build scale" — as much as it's trying to increase the services it offers. The endgame, experts say, is to morph into a bigger, broader-based company that looks more like its nemesis and market leader Fidelity Investments.

The deal certainly adds heft to Empower, a subsidiary of Canadian financial services holding company Great-West Lifeco Inc. The acquisition brings 2.5 million participants in 26,000 workplace retirement plans to Empower's record-keeping platform, bolstering its assets under administration to $834 billion from $632 billion it had as of Sept. 30, 2019, according to *Pensions & Investments* data. Once the deal closes as expected in the fourth quarter, Empower will have 12.2 million participants in approximately 67,000 plans.

"This transaction consolidates Empower as the second-largest provider in terms of participants and assets," Edmund F. Murphy III, Empower's president and CEO, said during a conference call with analysts. "Not only will this lead to significant scale advantages, but it will allow us to capitalize on expertise, technology excellence and deep product capabilities within the Empower platform."

With an anticipated 12.2 million participants, Empower will be well ahead of Principal Financial Group, which after its acquisition of Wells Fargo's retirement business last July, serves 8.6 million participants, according to *Pensions & Investments* data as of Sept. 30, 2019. In terms of assets under administration, Empower will widen its lead over TIAA-CREF, which as of Sept. 30, 2019 had $611.4 billion. It also tightens — however slightly — its huge gap with Fidelity, the dominant front-runner with 23.7 million participants and $2.25 trillion in assets as of Sept. 30.

The price that Empower is paying to gain scale and drive down costs is steep. In addition to paying $2.35 billion, which is structured as a reinsurance ceding commission, it is putting up $1 billion of required capital to support the combined business.

Adding tools, services

It's no secret that record keepers must consolidate and build scale to compete in a business under pressure to lower fees even as regulatory compliance and technology demands increase. Empower, however, is combining its push for greater scale with an effort to bring more services to the growing number of participants it serves on its platform. In August, for example, the company bought Personal Capital Corp., a hybrid digital wealth advisory company whose services Empower is looking to market to participants.

"Together with Personal Capital's distinctive capabilities, Empower can offer an additional 2.5 million clients of all plan sizes a full suite of financial wellness tools in conjunction with first-class digital wealth management and human advice," Mr. Murphy said on the call.

Paul Mahon, president and CEO of Great-West, also stressed the importance of the Personal Capital acquisition to Empower's growth. "It's a real opportunity to think about broadening and deepening the relationships with participants," he said on the call.

Paul Holden, an analyst with CIBC World Markets Inc. in Toronto, sees the Personal Capital acquisition as a way for Empower to capture IRA rollover business. "As people retire out of these plans and want or have to move to a different platform, Personal Capital becomes a potential solution for them."

In addition, Personal Capital provides Empower with technology capabilities that give it a "more holistic view of participants' savings," intelligence that may create "opportunities to gain additional share of wallet from customers," Mr. Holden said.

Empower is also hungry for a bigger audience for its managed accounts services. Mr. Murphy touted the growth of the business, saying managed accounts grew at a compound annual rate of 30% over the past three years, far above the market's growth rate of 19%.

Empower had a total of $45 billion in managed account assets on its record-keeping platform as of Dec. 31.

The MassMutual acquisition, in particular, will offer opportunities for Empower to market more insurance products to its participants. As part of the deal, Empower intends to enter into a strategic partnership through which digital insurance products offered by Haven Life Insurance Agency LLC, a MassMutual affiliate, and MassMutual's voluntary insurance and lifetime income products will be made available to customers of Empower and Personal Capital.

Getting a bigger boat

In essence, Empower is trying to build out its "conveyor belt" to "push out products and services to the end user," not unlike Amazon, said Philip Chao, a consultant to insurance carriers and asset managers who is also the founder and principal of Experiential Wealth Inc., a registered investment adviser firm in Vienna, Va.

Empower and other record keepers looking to survive in today's highly competitive market must build a "conveyor belt big enough, wide enough, long enough and dominant enough" that service providers are willing to put "their goodies" on it, Mr. Chao said.

"It's about scale and it's about providing more services so that they can drive more revenue beyond record-keeping fees," he said.

Dennis Gallant, a Boston-based senior analyst at Aite Group, echoed similar views, saying that firms are seeking to both achieve greater scale and expand their scope of services. In short, they're looking to become broader-based players, which is what he sees Empower seeking to achieve with its two latest transactions.

"They're assembling all the pieces to be on par with what a Fidelity or a Bank of America, Merrill Lynch provide," he said.

While the MassMutual deal is primarily about bulking up Empower's number of participants and assets, it also brings added benefits. The acquisition, for example, will give Empower more financial wellness capabilities, Mr. Gallant said.

"MassMutual has some great tools that can interact with participants and clients to help drive investing and savings," Mr. Gallant said.

The deal will also give Empower a No. 1 position in the small to medium-size plan sponsor market, a segment that Mr. Murphy described as highly attractive. Half of MassMutual's business is in "the coveted small and medium corporate segment, which aligns very closely with Empower's business," Mr. Murphy said.

While small and medium-size plans typically involve a great deal more work than larger plans due to their smaller human resources staff, experts say the firm is now in a position to add more participants onto its platform with diminishing cost per participant.

For Mr. Gallant, the infusion of small and medium-size plans is a reflection of Empower's desire to serve clients "from the small to the large" across a spectrum of services.

Overtake Fidelity?

Some in the industry even say that Empower is looking to overtake Fidelity, a challenge that might be more than what the record keeper can chew. Empower has neither Fidelity's "national distribution conveyor belt to serve individual investors or participants" nor its "robust group of proprietary products to distribute to investors and gain more fees and revenue," Experiential's Mr. Chao said.

"In order to catch up and surpass Fidelity in sales and revenue, Empower needs to find a way to shove proprietary investments onto the record-keeping and Personal Capital conveyor belt," he said.

Industry observers agree that it's unlikely that MassMutual will be Empower's last acquisition given its need to continue to build scale and the level of consolidation among record keepers. Indeed, during the conference call with analysts, Mr. Mahon said that while the company was "likely to be a little less active" as it digested its new acquisitions, it was not "going to sit on its hands."

"For the right opportunity at the right timing, we will look to sources of capital to try to get deals done," he said.

Aite's Mr. Gallant expects Empower to continue to make acquisitions but not necessarily of record keepers.

He sees Empower making more of a technology play by buying companies like Personal Capital, which have the potential of turning the record keeper into a broad-based wealth management advice provider and "not just a defined contribution player," he said.