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Empower bulks up by adding Prudential unit

Acquisition will solidify firm's position as second-largest record keeper in U.S.

By MARGARIDA CORREIA

Photo: Antonio Esposito

Edmund F. Murphy III said the deal will let Empower continue to build scale.

The fight for dominance among record keepers intensified this month as Empower Retirement stepped forward with plans to acquire Prudential Financial Inc.'s retirement business for $3.55 billion.

The deal, announced July 21, will add more than 4,300 workplace retirement plans with about 4 million participants and $314 billion in assets to Empower's rapidly growing platform. When the deal closes as anticipated in the first quarter of 2022, Empower will have 16.6 million participants, narrowing the gap with its next nearest rival — and record-keeping industry leader — Fidelity Investments, which as of Sept. 30 had 25.7 million participants, according to *Pensions & Investments* data.

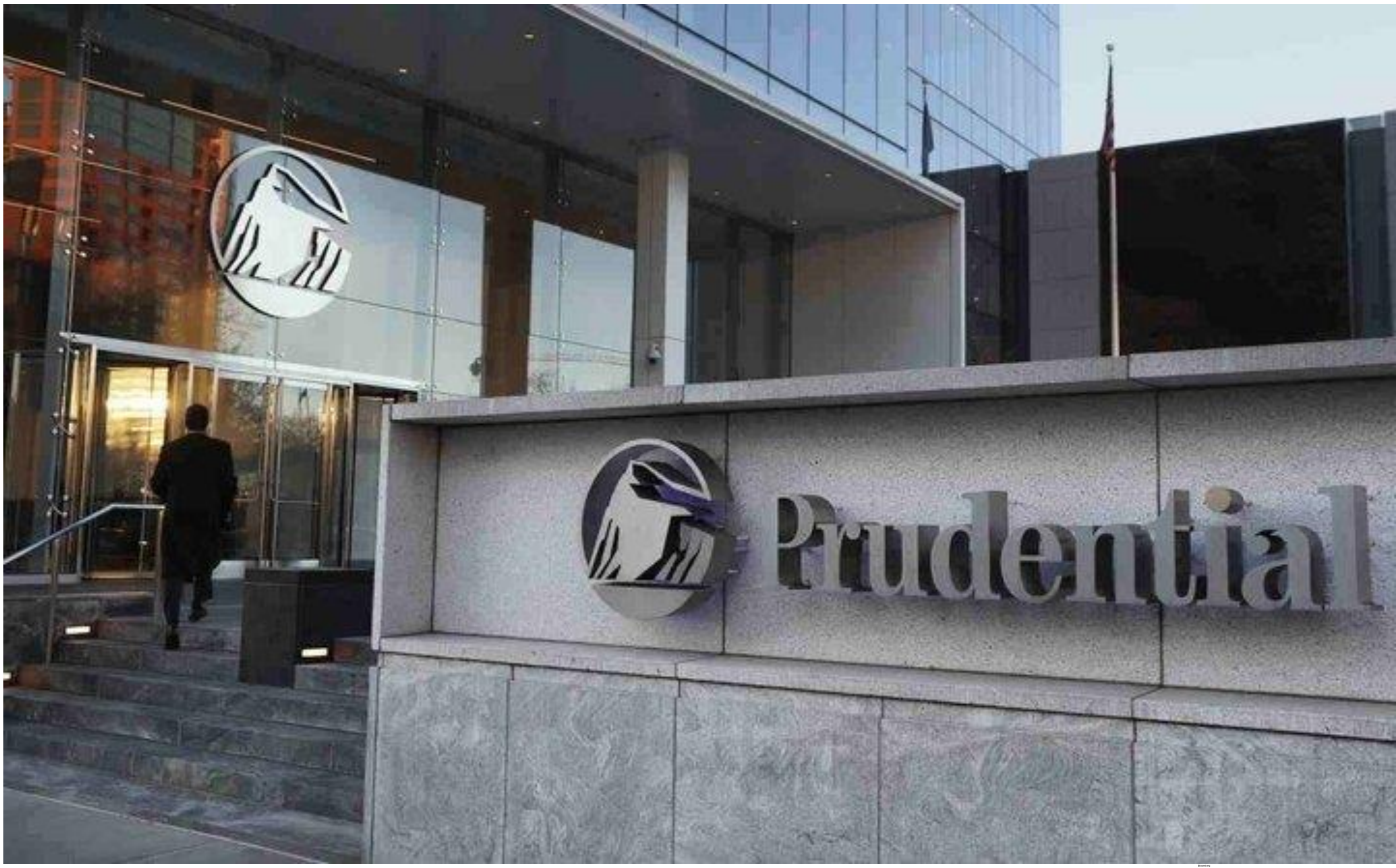
Empower's record- keeping assets will swell to approximately $1.4 trillion administered in some 71,000 workplace retirement plans. By comparison, Fidelity had $2.58 trillion in assets in almost 30,000 plans as of Sept. 30.

To be sure, the transaction will solidify Empower's position as the No. 2 record keeper in the U.S. The company will widen its lead over TIAA-CREF, which as of Sept. 30 had 6.4 million participants and $656.5 billion in assets. It will also leave fourth-ranked Vanguard Group Inc., with 5.5 million participants and $592.7 billion in assets, further in the dust.

"We will continue to leverage our scale and resources to challenge the status quo and be uniquely positioned to serve the retirement and wealth management needs of millions of retirement savers in every phase of their retirement journey," Empower President and CEO Edmund F. Murphy III said in the news release announcing the transaction.

The acquisition comes as record keepers continue to consolidate amid growing pressure to lower fees. Empower's purchase of Prudential's record-keeping and administration business will give the firm "more negotiating power with asset managers," said Philip Chao, a consultant to insurance carriers and asset managers who is also founder and principal of Experiential Wealth Inc., a registered investment adviser firm in Vienna, Va.

"They need as many people on their platform as possible," Mr. Chao said, referring to Empower.



Gaining scale

Shawn O'Brien, a Boston-based senior analyst with Cerulli Associates who leads its U.S. retirement business, agreed, saying that gaining scale — as Empower is doing by buying Prudential's retirement business — is critical because record keeping is a low-margin business.

"We think that the economics of record keeping favor an oligopoly of large-scale providers and Empower is looking more and more like one of those large-scale providers that will prevail over the long run," Mr. O'Brien said.

Investment bank CIBC World Markets Inc. gave the deal a thumbs up, citing the benefits of greater scale.

"Strategically, it enhances Empower's competitive position," CIBC analysts wrote in a note to investors. "We see scale as an important driver of efficiencies, which in turn leads to a pricing advantage over smaller competitors," the note said.

The transaction follows Empower's acquisition of the retirement plan record-keeping business of Massachusetts Mutual Life insurance Co., which closed on Jan. 4. It also bought Fifth Third Bank's record-keeping business in November, and in February scooped up part of Truist Bank's record-keeping business.

The three acquisitions added roughly $178 billion to Empower's platform, with the MassMutual deal accounting for $167 billion, according to news releases announcing the transactions.

As part of its latest deal, Empower will acquire Prudential's defined contribution, defined benefit, non-qualified and rollover IRA business. It will also acquire Prudential's stable value and separate account investment products and platforms, each with about $50 billion in assets under management. Empower also touted the pending acquisition as a way to broaden the base of corporate, government and non-profit defined contribution plans it serves.

Experiential's Mr. Chao noted that the deal with Prudential will add large plan sponsors to Empower's platform, unlike the MassMutual acquisition, which had a heavier concentration on smaller plans.

"They have more big-plan business than MassMutual," he said.

The deal may prompt other record keepers to consider buying other firms or exiting the business, said Dennis Gallant, a Boston-based senior analyst at financial services advisory firm Aite-Novarica Group.

Record keepers not seeing "enough ROI to keep investing in the business" are likely to call it quits, while those with greater scale are likely to bulk up even more, he said.

Mr. Gallant declined to name firms that would be good candidates for possible buying and selling activity but sees Principal Financial Group as likely to seek an acquisition following its purchase of Wells Fargo's retirement business in 2019.

"We know they have bought in the past and are investing in their platform so it only makes sense that they would be looking for other acquisition opportunities," he said.

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