

The Impact of Vendor Consolidation: Wells Fargo and Principal

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After much industry speculation, Principal Financial Group is acquiring Wells Fargo's Institutional Retirement and Trust (IRT) business for \$1.2 billion. This includes the retirement plan administrative services, executive deferred compensation, institutional trust and custody, and institutional asset advisory businesses.

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The IRT business covers 3.9 million participants across 5,000 employer benefit plans as of the end of 2018, according to the Callan database, and approximately 2,700 of those are defined contribution (DC) plans. The deal is expected to close in the third quarter.

This acquisition expands Principal's retirement recordkeeping footprint—increasing its book of business to 7.5 million participants across 56,000 plans. In all, the unit will have more than \$500 billion under administration, making it the third largest by participant count.

Principal has also secured access to the Wells Fargo recordkeeping platform and experienced staff, adding to its existing services and capabilities. One of the decision points following the merger will be which system survives long-term. If Principal elects to maintain a single system, the plans on the other system will need to be converted. If both systems are retained, the resources available to maintain and update the systems would be split.

Bottom Line: Plan sponsors continue to struggle with a vendor landscape that can change abruptly, impacting their ability to select and monitor an appropriate service provider. Although plan sponsors may not be subject to this acquisition, they may be impacted by future transactions. Plan sponsors that use Wells Fargo as their service provider should evaluate the surviving provider, in this case Principal, and confirm the vendor selection is appropriate for the plan.