

# The Changing Retirement Landscape

How 401(k) Recordkeepers Can Thrive Under SECURE 2.0

# Introduction

**The retirement industry is in the midst of unprecedented change.**

New legislation is driving fundamental shifts in the way retirement plan administrators operate. SECURE Acts 1.0 and 2.0 aim to address the coverage gap at the heart of the retirement crisis: nearly half of all American households reported having [no retirement savings in 2022](#).

The most immediate impact of these laws on recordkeepers will be related to compliance, but the legislation's ripple effects will reach much further. SECURE 2.0 heavily incentivizes small to midsize businesses (SMBs) to offer retirement plans, meaning the industry is about to see explosive growth driven by SMB employers.

That's a good thing—more plans mean more business. But it also means recordkeepers will be forced to compete to provide the best user experience to small sponsors that don't have the robust HR teams of their enterprise counterparts. And those that win will need to make significant improvements to their workflows if they hope to keep up.

**In short, recordkeepers are under tremendous pressure to adapt—to keep compliant, to earn new business, and to operate more efficiently—fast.**

## **Retirement's Data Problem**

Most of the challenges recordkeepers are facing in this environment boil down to the same fundamental need: faster, more accurate, and more reliable access to the critical data in their sponsors' payroll systems. Eliminating slow, error-prone, and manual data processes has the potential to make it easier to maintain compliance, onboard sponsors and invest contributions faster, and dramatically increase operational efficiency.

Secure File Transfer Protocol (SFTP) has long been the industry standard for sharing data between sponsors' systems of record and their recordkeepers. It involves a lengthy and expensive setup process for each sponsor that, once completed, facilitates the secure transfer of employer data from the HRIS and payroll systems to the recordkeeper in the form of a file.

The file-based transfers SFTP enables are extremely inefficient. They're slow, often delaying the investment of employee contributions. They're riddled with inaccuracies, thanks to the human intervention that is inherently required, running the risk of noncompliance and fines. And even when all goes according to plan, they require manual work of the Operations team on a routine basis—a process that isn't capable of scaling.

Every new sponsor needs to go through a lengthy, expensive SFTP setup process, which can take up to 18 weeks. Once the connection is live, SFTP processes require manual data entry, making them slow and error-prone. What's more, the data shared in these files is immediately outdated: while HRIS and payroll systems are constantly being updated, the recordkeeper is only receiving fresh data each time payroll is processed—and then the Operations team is left to manually vet, validate, and process changes.

At best, SFTP means a long, tedious workflow. At worst, it means inaccurate data and delays.

## **The Future of Retirement is Connected**

If recordkeepers are to keep up with the changing industry, they're going to need a better data solution. Increasingly, recordkeepers are turning to an SFTP alternative—automated integrations. Powered by APIs, or application programming interfaces, these integrations allow recordkeepers direct access to their sponsors' HRIS and payroll systems. That means the data—both present and historical—is accurate and available to the recordkeepers in near-real time. It also frees recordkeepers to automate much of the daily work of administering a plan, including writing changes back to the payroll without involving the sponsor.

Throughout this guide, we'll explore the three biggest trends shaping the retirement landscape in 2024 and why integrations have emerged as the preferred choice for 401(k) recordkeepers to keep pace with ever-changing regulations.

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## Navigating this Guide

In the following pages, you'll find a summary of the biggest trends shaping the retirement industry today. Each trend will contextualize its impact on 401(k) recordkeepers and provide actionable tips you can use to adapt and thrive in the new retirement landscape. You'll then learn how Unified APIs can empower recordkeepers to take a tech-forward approach to plan management, creating more efficient workflows and a better sponsor experience.

# API 101: What to Know

Application programming interfaces, better known as APIs, are tools that allow two distinct software systems (also called applications) to communicate with each other. APIs are the technical infrastructure that allow developers to build integrations.

When two or more applications are integrated, they're able to share data. When data moves in only one direction, from Application A to Application B, it's called a 180° integration. When both applications can share data back and forth, it's a 360° integration.

It's also important to note that there are several kinds of APIs.

**Open APIs** refer to interfaces that anyone can build to, or integrate with. Sometimes, the applications that own the API will charge other integrations for using it to pull data; other times, it's free to use.

When an application requires developers to get permission before building an integration, it's referred to as a **Closed API**. Businesses will close their APIs if they don't want other applications to integrate with theirs, or if they are very selective about what companies they partner with.

Lastly, there are **Unified APIs** (also referred to as Universal APIs). These are APIs that have built integrations to many different applications and offer those connections to other companies, which are then able to access data from a plethora of different systems through a single integration with the Unified API provider.

Unified APIs are an emerging market that is quickly gaining prominence as individual companies require more connectivity with other applications in their industry ecosystem.

**With Finch's unified API, Human Interest cut its average time to build an integration by 66% — a huge time savings, considering each new connection occupies 25% of the development team.**

# The Changing Retirement Landscape

The country's retirement crisis is no secret. While half of American households have no savings at all, those that do are woefully unprepared to exit the workforce: the average retirement account balance was [less than \\$90,000](#) in 2023.

## The Retirement Crisis at a Glance

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45.7%

Percentage of American households that reported holding no retirement accounts in 2022<sup>1</sup>

\$89,300

The average amount US adults had saved for retirement in 2022<sup>2</sup>

56%

Percentage of SMB employees without access to a 401(k) through their current employer<sup>3</sup>

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1 <https://www.federalreserve.gov/publications/october-2023-changes-in-us-family-finances-from-2019-to-2022.htm>

2 <https://news.northwesternmutual.com/2023-06-22-Americans-Believe-They-Will-Need-1-27-Million-to-Retire-Comfortably,-According-to-Northwestern-Mutual-Planning-Progress-Study>

3 <https://view.highspot.com/viewer/602d8789c714337efd4779de>

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 and its 2022 amendment—SECURE 2.0—represent the most sweeping legislative changes to the retirement industry since the Pension Protection Act (PPA) of 2006. SECURE 1.0 and 2.0 include significant changes to participant eligibility, compliance standards, and plan designs, all with the goal of encouraging more Americans to save for retirement.

These laws are driving three major trends that will affect all plan administrators within the next 12 months:

## 1. Maintaining compliance

Because SECURE 2.0 is heavily focused on participant eligibility, it stands to change the way recordkeepers think about meeting compliance standards. Perhaps the biggest factor here is Section 101, which mandates that all plans created after Dec. 29, 2022 automatically enroll eligible participants beginning in 2025.

## 2. Enhancing the sponsor experience

Federal incentives and state mandates are driving a tidal wave of new SMB sponsors to the retirement market. Because these employers don't have the robust HR departments of enterprise businesses, recordkeepers that hope to earn their business are focusing on the user experience more than ever, looking for ways to take more of the administrative duties off their customers' plates.

## 3. Automating routine tasks

Taking on the work involved with supporting many small business plans will put a massive strain on Operations teams. Hiring to keep up with revenue growth isn't sustainable, so recordkeepers are looking for ways to help their existing employees work more efficiently.

### SECURE 2.0's Impact: New vs. Existing Plans

Because Secure Acts 1.0 and 2.0 were created to address the coverage gap in retirement, much of the legislation is aimed at incentivizing employers to offer plans for the first time; but existing plans will also be impacted.

Plans created before December 29, 2022 are grandfathered into SECURE Act 2.0 Section 101, which requires auto-enrollment. But most other changes within the two SECURE Acts apply to individual participants, which affects all plans, regardless of when they were created.

For example, existing plans will still need to offer plan participation to long-term, part-time employees that meet certain criteria. And they'll need to revisit catch-up contributions for participants over 50 that earn more than \$145,000, as those individuals will now be required to make catch-up contributions on a Roth basis.

A full list of SECURE 2.0 regulatory changes can be found on the website of the [Senate Finance Committee](#).

# Trend 1: Maintaining Compliance

Of all the stipulations within SECURE Act 2.0, three stand to have the biggest impact on recordkeepers' efforts to maintain compliance.

- **Section 101** requires that all 401(k) and 403(b) plans adopted after Dec. 29, 2022 automatically enroll eligible participants at 3-10% of their pay, then automatically increase these contributions by 1% annually until they reach a minimum of 10%, but not more than 15%.
- **Section 125** changes the 401(k) eligibility criteria for long-term, part-time workers. The original SECURE Act stipulated that these employees were eligible if they worked 1,000 hours in their first year of employment, or a combined 500 hours over three consecutive years. Its successor reduced the three-year rule to two, and mandates that these employees are also eligible to participate in 403(b) plans.
- **Section 603** requires all catch-up contributions from employees earning more than \$145,000 be made on a Roth basis—in other words, as post-tax deductions.

## What it means for recordkeepers and sponsors

SECURE 2.0 will require sponsors whose recordkeepers rely on SFTP to be much more vigilant of eligibility changes. They'll need to check not just when the employee joined the company and their age, but also how many hours part-timers have logged and how much employees over 50 earn—not to mention that they'll have to enroll far more employees thanks to Section 101 changing participation from opt-in to opt-out. This not only puts strain on sponsors, but also increases their risk of falling out of compliance by accidentally excluding newly eligible employees.

These rule changes also mean that sponsors will be sending a much higher volume of data to recordkeepers, compounding the effort required of the recordkeepers' Operations teams to verify, standardize, and use sponsors' information.

## How recordkeepers can adapt

The crux of the challenge with keeping sponsors compliant is that sponsors are ultimately responsible for identifying eligible employees and sending that data to their recordkeepers. Without direct access to the sponsors' systems of record, there's nothing recordkeepers can do but hope the information is complete and accurate. When the data includes errors, the recordkeeper has to go back and forth with the sponsor in order to make the necessary corrections, resulting in lost time and additional overhead costs.

Here's where API integrations offer a better alternative: they empower the recordkeeper to pull all relevant data—both demographic and payroll—in real time, without the sponsor acting as a middleman. Better yet, the data can be standardized between systems, meaning the recordkeeper can receive all the data they need in a single uniform format, regardless of the systems the sponsors are using.

That means the recordkeeper is able to verify eligibility on their own, ensuring no eligible employee is overlooked. And when using a 360° integration, the recordkeeper can even write deduction and contribution changes back to the payroll, mitigating the risk of those changes not being made inside the compliance window. This empowers the recordkeeper to offer significantly better service to its clients, promoting both new customer acquisition and increased customer loyalty.

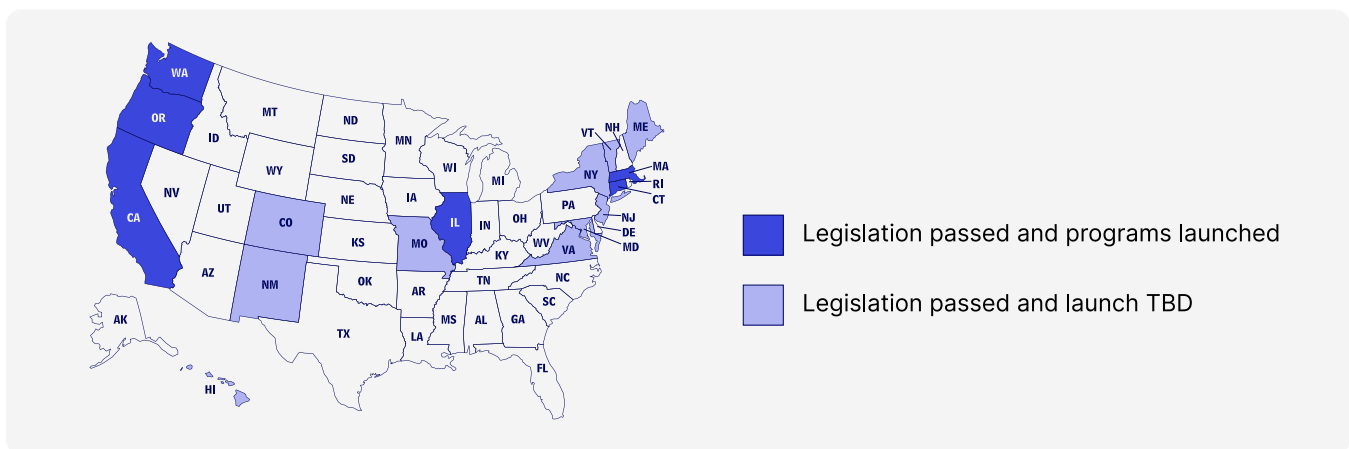
And that leads us to the next major shift in the retirement industry: a renewed focus on the sponsor experience.

# Trend 2: Enhancing the Sponsor Experience

The sponsor experience has always been important—recordkeeping is a business, after all. But rising customer expectations, new types of plans, and the proliferation of SMB sponsors are driving increased competition among recordkeepers and a greater focus on customer-facing services and technology.

First, we'll state the obvious: employers in general have become much more aware of the benefits integrations afford, which means they're demanding greater connectivity between the tools in their tech stacks than ever before. Our [recent survey](#) of more than 1,000 HR professionals found that 97% expect their systems to integrate with other tools, and 51% admitted that regularly switching between employment systems throughout the day leaves them feeling overwhelmed, frustrated, or stressed.

The downstream implications are less obvious. SECURE 2.0 is heavily incentivizing small businesses to offer retirement plans in an effort to close the coverage gap. The incentives include tax breaks and new plan types like Pooled Employer Plans (PEPs) that are an offshoot of Multiple Employer Plans (MEPs). What's more, individual states are beginning to implement mandates that require employers to offer some kind of retirement plan—at the start of this year, 16 states had already enacted some sort of mandate and another [31 were exploring similar legislation](#).



As we mentioned earlier, this means that the retirement industry is poised to see a massive influx of SMB sponsors over the next few years.

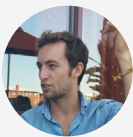
## What it means for recordkeepers

Small businesses are just that—small. Unlike large companies, they typically don't have robust HR teams, and some don't have a dedicated HR rep at all. For these sponsors, the prospect of starting a retirement plan can be daunting. They simply don't have the bandwidth to administer the plan, especially when it requires either setting up an SFTP or manually uploading payroll files every few weeks.

Instead, these sponsors will look for recordkeepers that will allow them to outsource as much of the work as possible. While that likely includes bundled services, it also means recordkeepers that offer direct integrations and support plans like PEPs that can provide cost savings to the business.



**"Integrations are often the number one thing when differentiating yourself."**



**Drew Obston**  
Manager of Product Operations  
Human Interest

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## What to Know About PEPs, the Newest Plan Type

Pooled Employer Plans, or PEPs for short, were created under SECURE 1.0. These are an offshoot of Multiple Employer Plans, or MEPs.

Under a PEP, multiple small to midsize employers—regardless of whether or not they have other business relationships or commonalities—can pool their resources to offer a single retirement plan for their employees. This allows the employers to benefit from administrative cost savings, lessened fiduciary risk, and outsourcing the plan administration to a Pooled Plan Provider (P3).

Previously, employers could only participate in an MEP if they were related by industry or association, such as a trade group or a shared Professional Employer Organization (PEO).

Many recordkeepers are still unsure of the long-term repercussions PEPs will have on their business as a relatively new type of retirement plan; but as SMBs look for the best ways to comply with new state and federal mandates, recordkeepers would be smart to investigate whether it's a plan type they should support.

## How recordkeepers can adapt

Small business sponsors and the recordkeepers that serve them stand to gain the most from integrations with HRIS and payroll systems. It's more than just the elimination of manual data entry; it's also about onboarding time and future plan changes.

When a sponsor grants their recordkeeper access to their HRIS and payroll data through a direct integration, the recordkeeper has full access to the standardized, relevant data they need to execute the plan, eliminating the typical onboarding pains. There's no weeks-long process of identifying necessary data fields, creating standard PDI files, or quality control testing required, so sponsors can onboard in a matter of hours or days—not weeks or months.

And because the recordkeeper maintains that data access from Day 1 until the sponsor removes it, the involved parties don't need to revisit the setup process every time the sponsor wants to make a change to their plan. The recordkeeper can simply make changes in their own system—whether it's to the plan structure, employer match, or employee contribution—and push those changes back to the sponsor's payroll system.

Of course, these benefits can be easily applied to larger sponsors, too, but it's streamlining the work for a multitude of small sponsors that can have the biggest impact on increasing operational efficiency.

# Trend 3: Automating routine tasks

New retirement sponsors mean new business for recordkeepers—an exciting prospect. Once the agreement has been signed, it's time to figure out how the Operations team will keep up with all the new plans.

Industry status quo involves lots of manual work, from validating sponsor data to investing funds. It's why the biggest teams at 401(k) recordkeeping companies are the Operations team. But with more SMBs sponsoring plans, the daily workload for these teams is going to multiply—fast.

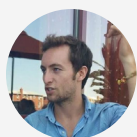
Any burden to the existing system stands to become a much bigger problem as new customers are onboarded, leaving recordkeepers to decide whether they'll substantially grow their Operations headcount or find a way to be more efficient.

## What it means for recordkeepers

Scaling teams to keep up with manual work is rarely the most cost-effective solution, and it incurs hidden costs like time to onboard, employee attrition, and so on. Recordkeepers would be much better off automating otherwise manual tasks so they can reallocate Operations headcount to other departments and invest more heavily in strategic initiatives like customer acquisition and product improvements.



**"If we were 100% relying on manual work by our Operations team to process payroll data, we would not have a sustainable business. We're at nearly 100% of our SLA to invest participants' contributions within five business days. Without automation, we'd be at about 30% because the Operations team would just be underwater."**



**Drew Obston**  
Manager of Product Operations  
Human Interest

[Read case study →](#)

Automation is a term that gets thrown around a lot without much meaning behind it, so let's explore what automation really means for 401(k) recordkeepers:

### **Example #1**

#### **Onboarding employees based on eligibility**

With access to sponsors' census and demographic data, recordkeepers can train their systems to automatically recognize when an employee has become eligible to participate in their employer's plan. This enables auto-enrollment, and the recordkeeper can trigger notifications to be sent to the participant and the sponsor.

### **Example #2**

#### **Quickly determine what dollar amount to invest**

Based on information gleaned from the sponsor's payroll and HRIS systems, recordkeepers can automatically determine what dollar amount to invest for each participant based on their deferral percentage, employer match, and gross compensation each pay period without having to perform manual calculations.

### **Example #3**

#### **Push changes directly back to the payroll system**

When the recordkeeper is able to write changes back to the sponsor's payroll, they can automate the process of updating deferrals on the sponsor's behalf, so the changes don't need to be sent back to the sponsor for manual updates.

These are just a few examples of how automation can streamline workflows. Recordkeepers can find dozens of other use cases once they have real-time access to sponsor data. When the technology is running much of the day-to-day, Operations headcount can be kept level at the least, and potentially even reallocated to other teams.

## How recordkeepers can adapt

Recordkeepers can only realize the true power of automations like these when sponsor data is easily accessible and available in a standardized format. The data in CSVs or flat files can still be run through an automated process, but users are more likely to encounter Not in Good Order (NIGO) errors related to the data's formatting and accuracy. Plus, any file-based process will still require a user to manually start the automation workflow, adding needless friction to the process.

Once again, integrations solve these challenges by allowing recordkeepers to pull sponsor data on their own, at any time, in a standardized format. The benefits go beyond the Operations team, since sponsor data trickles down to other departments:

Department	Benefit
Sales	Boast quick onboarding times to close more deals with new sponsors
Operations	See reduced friction in their workflows, and spend less time going back and forth with sponsors or Client Success to address NIGO findings and inaccuracies
Technical and Developer	Spend less time validating SFTP files and can instead focus on improving automation processes
Client Success or Account Managers	Share faster processing times with sponsors to improve customer satisfaction, and are able to reduce much of the administrative burden on sponsors
Billing	Begin collecting payments faster because sponsors are able to onboard and implement their plans more quickly

Bottom line, integrations with sponsors' HRIS and payroll systems empower the recordkeepers to work faster and more efficiently; and those benefits are paid forward to the sponsors themselves.

# Building Integrations: The Unified API Solution

Investing in new technology is the number one way recordkeepers—and really, any business offering retirement services—can adapt to the changing landscape. [Vestwell's 2021 Industry Trends Report](#) found that 93% of advisors agree working with a tech-forward recordkeeper will make it easier to manage their plans.

**"Every aspect of the industry is changing and technology is at the core of it all. Advisors rely on social media to connect with prospects, employers depend on payroll integrations to keep their plans running smoothly, and participants expect the same experience with their 401(k) plan as they do with their online banking."**



**Vestwell**  
2021 Industry Trends Report

It's clear that payroll integrations powered by APIs are the future of the 401(k) recordkeeping industry. Advisory firm Escalent found that payroll integrations are the [primary motivator for one-third of plan sponsors](#) seeking to work with a digital recordkeeper.

Here's the catch: integrations are time-intensive and costly to build. Our research found that a single payroll integration can cost upwards of \$187,500, and that doesn't even include the ongoing maintenance costs or required partnership resources. When you consider how fragmented the SMB payroll market is (the top 10 providers only account for 55% of market share), the challenge facing recordkeepers is obvious: building all of the integrations these businesses need is both cost- and time-prohibitive for most.

Fortunately, there's another way. In the last few years, Unified APIs have emerged as the favored solution for businesses looking to scale their integrations.

## What is a Unified API?

Unified APIs are a layer of technical connectivity that enable businesses to access a multitude of data sources through a single integration. Rather than spending years and millions of dollars building direct integrations in house, businesses can work with a Unified API that has already built those connections, gaining instant access to dozens or hundreds of systems.

For 401(k) recordkeepers, this means building a single integration to the Unified API partner to unlock access to all of the payroll and HRIS systems their sponsors use. You can think of it like using a power strip: by plugging the strip into a power source, electricity is immediately routed to all of the appliances plugged into the strip. Unified APIs have already connected the appliances—all the 401(k) recordkeeper has to do is plug it into the wall.

What's more, Unified APIs are adding new integrations all the time, and they remove the burden of maintenance from their customers' plates. The connections powered by the Unified API are supported by a dedicated team of engineers, offering greater stability, longevity, and data standardization.

## Unified Employment APIs

In general, there are two categories of Unified APIs: generalized and specialized.

**Generalized Unified APIs** offer integrations to a wide range of databases across multiple industries. They cater to a wider audience, but they often lack depth in any one industry.

**Specialized Unified APIs**, on the other hand, are focused on a single industry—like employment tech, for example. These have a smaller subset of use cases, but the integrations are far deeper and typically offer much greater coverage within their chosen industry.

**Unified employment APIs** are hyper-focused on the systems that make up the employment ecosystem: HRIS, payroll, and the like. Because these providers are dialed in to a single industry, they boast more universal coverage and more data granularity to power retirement-specific use cases. For example, these Unified APIs can access data as deep as the individual pay statement level across a system's historical record—information that is crucial for 401(k) recordkeepers.

By leveraging a unified employment API, recordkeepers can pull all the data they would typically need the sponsor to send manually over an SFTP server in real time and write changes back to the payroll system. This makes it simpler to maintain compliance with ever-evolving legislation, drastically improves the sponsor experience, and provides enormous strides in operational efficiency—setting 401(k) recordkeepers up for success under SECURE 2.0 and beyond.

## Unlock 360° Payroll Integrations with Finch

Finch's Unified Employment API provides instant compatibility with the largest network of payroll providers in the industry, so you can spend less time handling manual data collection or building in-house integrations and focus on providing the best possible experience to your customers.

With Finch, you can:

- Enjoy 360° API-based payroll integrations and write changes back to your sponsors' payroll systems—a feature that's not available anywhere else.
- Make integrations your competitive advantage—never again worry about integrations blocking a deal or asking sponsors to manually upload payroll files.
- Increase data quality and timeliness through secure, automated data sharing.
- Realize operational efficiency gains to stay ahead of the curve.

To learn more about what Finch can do for your company, [reach out to our team](#) or [sign up for free](#) to try it yourself.

