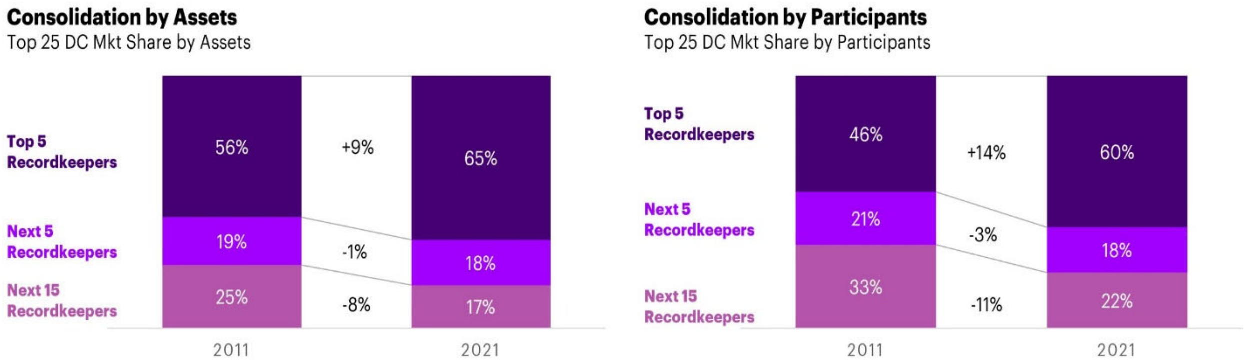
Top 3 DC Trends

Trend #1: Recordkeeper Consolidation

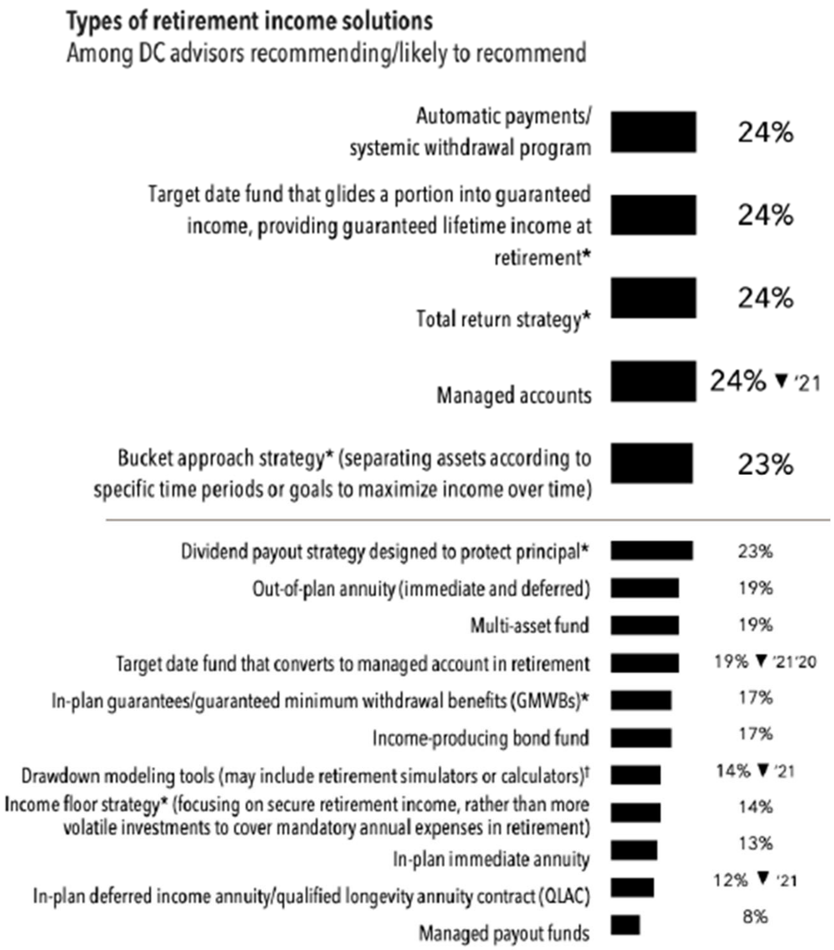


Source: Accenture Analysis

Over the past decade, the 401(k) recordkeeper market has witnessed significant consolidation due to several key factors. First, as the retirement industry continues to evolve and regulations become more rigorous, recordkeepers face increasing costs associated with compliance, technology, and customer service. Larger recordkeepers are better positioned to absorb these costs due to economies of scale, making consolidation an attractive strategy to remain competitive. Second, the regulatory environment surrounding retirement plans has become increasingly complex. Recordkeepers must stay on top of changing regulations, which requires substantial investments in legal and compliance teams. By consolidating, firms can pool resources to ensure ever increasing compliance standards are met. Third, the demand for innovative investment solutions have grown significantly. From user-friendly platforms to robust security features, recordkeepers must continuously invest in technology to meet the evolving needs of plan sponsors and participants. Consolidation allows firms to leverage competitors' technological expertise and infrastructure, leading to more innovative and efficient solutions. Finally, the market has become highly competitive, with numerous players vying for market share. Consolidation allows firms to increase market presence by offering clients lower fees. Overall, consolidation in the 401(k) recordkeeper market is driven by the need for firms to achieve economies of scale, navigate complex regulatory requirements and invest in technology. While consolidation may result in fewer players in the market, it can lead to improved efficiencies, better services, and enhanced innovation for plan sponsors and participants.

Key Takeaway: Plan Sponsors should consider conducting an RFI/Benchmarking study at a minimum of every 3-5 years. Given the consolidation in the recordkeeping landscape recently, fees have become very competitive across the industry leaders and will likely continue to come under pressure in the near term.

Trend #2: Retirement Income Solutions

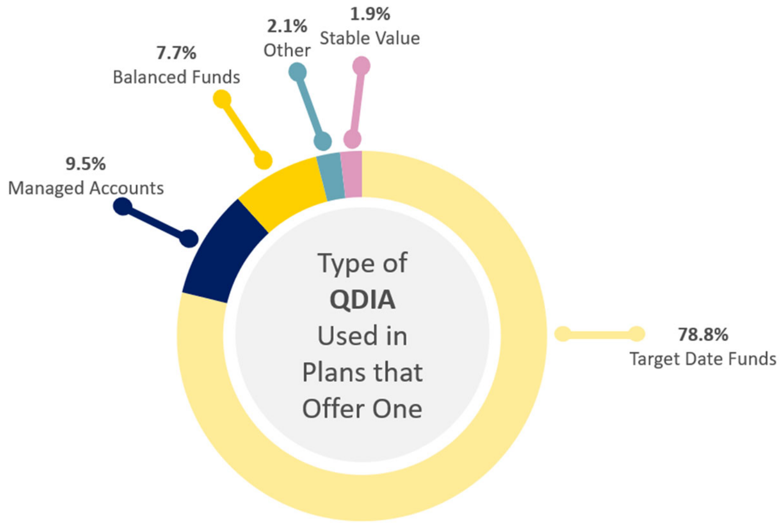


Sources: Escalent, Cogent Syndicated, Retirement Plan Advisor Trends 2022
*Added in 2022; ▲/▼= Significant change from stated year

As Defined Benefit plans have continued to be shuttered, Defined Contribution plans have become the primary source for retirement income for most Americans, putting the burden on individuals to manage assets through retirement appropriately while also managing market risk. Further, with life spans increasing, there is a roughly 50% chance that one spouse may live to 90 years old, thus requiring nest egg assets to potentially last for decades past the retirement age. As it stands today, there is no overwhelming consensus on the best way to do this (as outlined above). While in many cases, it may be appropriate to work with an outside advisor to come up with a strategy (Bucket strategy or Total Return Strategy) there may be options already within a Plan that allow for more cost-effective approaches including: Glidepath oriented approaches, In-Plan annuities and other guaranteed strategies, and/or use of multi-asset funds. From a big picture perspective, recordkeepers have been promoting income solutions to adequately prepare participants to manage assets into their retirement phase.

Key Takeaway: Plan Sponsors may want to explore all the options available to them, via their recordkeeper platform and/or other third-party solutions. There is no "silver-bullet" approach that will meet the needs of all employees, and this should be considered in conjunction with your overall Financial Wellness offerings.

Trend #3: Managed Accounts – A Fiduciary Decision



A Managed Account is a product and service offered in which participants delegate the responsibility of selecting and managing their investments. Managed Accounts typically tailor the participant's investment strategy based on individual goals, risk tolerance, and financial circumstances outside of the plan. Most Managed Account products utilize the existing investment line-up within the retirement plan. Given the personalized nature of Managed Accounts, participants often pay additional fees compared to the standard investment options offered in most Plans. The Plan Sponsor Council of America reported that 48.8% of plans offered managed accounts in 2022, compared with 36.3% in 2019, indicating that uptake of this investment service is becoming more popular. Additionally (*as shown in the chart above)*, Managed Accounts can be designated as the Qualified Investment Alternative (QDIA), although the overwhelming majority of Plans utilize TDF's as the safe harbor.

The decision to employ a Managed Account provider remains a fiduciary decision for Plan Sponsors to ensure that the plan is managed in the best interests of their participants. Some key items to consider are as follows:

1. **Selection and Monitoring of Service Providers:** Plan Sponsors have a duty to prudently select and regularly monitor the Managed Account service provider including thorough due diligence on the provider's qualifications, experience, investment philosophy, and any potential conflicts of interest that could impact objectivity.
2. **Fee Reasonableness:** Plan sponsors should ensure that the fees associated with the Managed Account service are reasonable, competitive within the marketplace, and in-line with the services provided.
3. **Participant Education and Clear Communication:** Plan sponsors have a duty to ensure that participants understand the features, risks, benefits, and fees associated with the Managed Account service.

Key Takeaway: By carefully considering these responsibilities, plan sponsors can ensure that the Managed Account service offered within their Plan is aligned with best interests of participants while meeting regulatory standards as defined per Employee Retirement Income Security Act (ERISA).

Sources: Plansponsor.com, Escalent, Cogent Syndicated, Retirement Plan Advisor Trends 2022, PSCA's 2020 63rd Annual Survey of Profit Sharing and 401(k) Plans

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