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Why Plan Sponsors Should Take a Fresh Look at Managed Accounts

Managed account solutions are generating renewed interest among retirement plan sponsors—and for good reason.

As plan participants look to their employers for greater support in meeting their retirement savings goals, managed account programs can provide a more personalized solution to help improve retirement readiness.

This insights paper explores the key aspects of managed accounts and how they can help drive retirement outcomes. It also offers some important considerations to help plan sponsors determine whether a managed account program might be right for their business and plan participant needs, and if so, in what ways.

The skinny on managed accounts

Managed accounts are professionally managed, personalized investment portfolios that can be included in the investment lineup of a tax-advantaged retirement plan such as a 401(k). They use factors such as an individual's financial goals, age and timeline to retirement, any current savings and investments, tolerance for risk, and more to create a custom strategy for each participant.

It's this deep level of personalization—combined with active management by a professional investment manager—that makes managed accounts attractive to increasing numbers of retirement savers. And growing numbers of plan sponsors are responding accordingly.

Personalization as a driver for better outcomes

Personalization can be a powerful lever for retirement plan sponsors, especially in helping plan participants balance short-term needs and long-term financial goals. And, as many plan sponsors are discovering, personalization can also be a competitive advantage that has a significant impact in helping to drive plan participant behaviors that may improve their retirement readiness.

In fact, nearly 8 in 10 American workers (77%) said that they'd be more likely to participate in their employer's retirement plan or contribute more to their retirement savings if they had access to more personalized 401(k) investment options tailored to their unique situation.[1]

And while managed accounts can help meet employees' increasing demand for personalized investment solutions, there are ancillary benefits for employers, too. Not surprisingly, 56% of employees rank having access to retirement planning assistance as a high priority when choosing where to work. At the same time, an overwhelming majority (99%) of HR leaders say providing retirement planning assistance is a priority in retaining current employees.[2] So including managed accounts in the company retirement plan can be another arrow in an employer's quiver when it comes to finding and keeping good talent.

Nearly every employer is focused on optimizing workplace productivity—yet it can be undermined by employees' financial stress. More than half (56%)[3] of employees who feel stressed spend 3 hours or more per week thinking about or dealing with their personal finances, while employees who are not stressed about their finances report favorable impressions of their company, including a sense of belonging, pride, and feelings of energization. The individualized strategy of a managed account may help alleviate employees' financial stress—while boosting their productivity.

BY THE NUMBERS

Top 2 priorities for plan sponsors today[4]

36%

Improving retirement readiness

25%

Improving quality of their plan's investment lineup

[1] Voice of the American Worker, 2023. Franklin Templeton. https://www.franklintempleton.com/insights/research-findings/voice-of-the-american-worker-survey

[2] State of the Workplace III, Morgan Stanley at Work. 2023. https://www.morganstanley.com

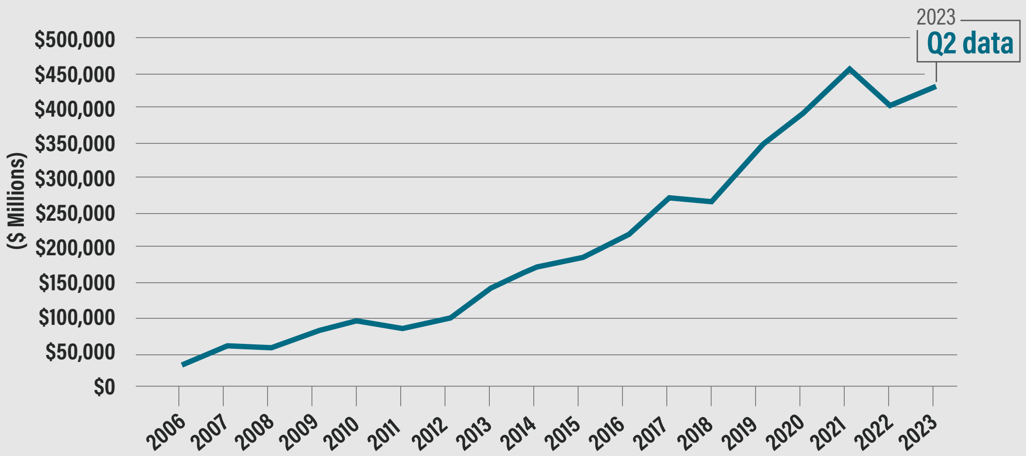
[3] 2023 Employee Financial Wellness Survey: PwC. https://www.pwc.com/us/en/services/consulting/business-transformation//library/employee-financial-wellness-survey.html

[4] *The Benefits of Personalization in Defined Contribution Plans*, Cerulli Associates. October 2023. https://www.cerulli.com/resource/the-benefits-of-personalization-in-defined-contribution-plans?_ga=2.192210858.1802572909.1708960856-124894768.1708960856

Gaining traction

Managed account usage continues to rise, growing to $434.57 billion by June 30, 2023, up from $316.66 billion at the end of 2019.[5]

DC Managed Account Industry Asset Growth
Source: Cerulli Associates[6]



Moving the needle on retirement readiness

The struggle to save enough for retirement is real. A confluence of competing financial priorities and growing expenses—such as health care, rent and mortgage expenses, college costs, and student loans, for example—means that workers today are having to choose between saving for retirement and meeting other financial obligations.

Sixty-four percent of American workers in a recent survey said they feel confident in their ability to have enough money to live comfortably throughout their retirement, with only 18% feeling very confident. This represents a significant erosion of retirement confidence since 2022, when 73% of workers said they felt somewhat or very confident, and is the lowest level reported since 2018.[7]

As many Americans face a shortfall in retirement savings, a managed account service can be an attractive solution. Based on each participant's unique circumstances, it provides a personalized path to retirement that may increase their likelihood of achieving their savings goals.

[5] PLANSPONSOR, *Managed Account By the Numbers*, October 7, 2023. https://www.planadviser.com/exclusives/managed-accounts-numbers/

[6] PLANSPONSOR, February 12, 2024. https://www.plansponsor.com/20-years-in-efe-has-grown-to-210b-in-managed-account-assets/

[7] *2023 RCS Fact Sheet #1: Retirement Confidence*, 2023 EBRI/Greenwald Research Retirement Confidence Surveys. https://www.ebri.org/docs/default-source/rcs/2023-rcs/rcs_23-fs-1_confid.pdf?sfvrsn=738d392f_4

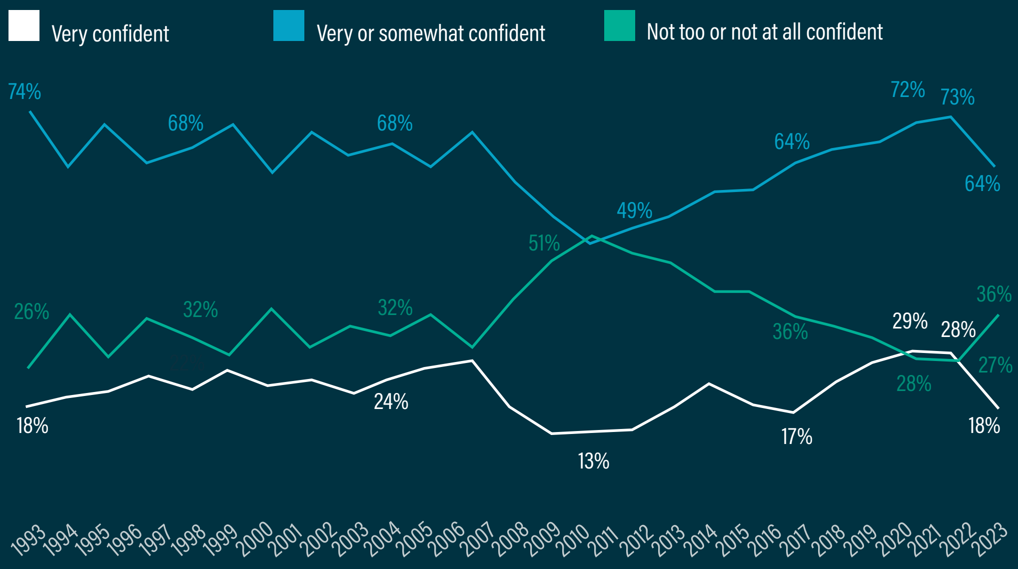
How confident are your employees?

In fact, a Morningstar study[8], which looked at 60,825 retirement plan participants over an 11-year period, found that participants of all ages save more when they use a managed account. Specifically, the study reported that of the participants who were categorized as "off track," 72% increased their savings rates, and they did so by nearly 33% (or 2% of salary). Additionally, the percentage of participants maximizing their employer match increased by 12% and the average savings at retirement increased 47%.

The study also found that for the average 30-year-old participant using a managed account, annual retirement income would increase by $5,548, on average, assuming a 40-basis point managed accounts fee.

Worker Confidence in Financial Security Through Retirement

Overall, how confident are you that you (and your spouse) will have enough money to live comfortably throughout your retirement years? (2023 Workers n=1,320)



Source: Employee Benefit Research Institute and Greenwald Research, 1993-2023 Retirement Confidence Surveys.

[8] *The Impact of Managed Accounts on Participant Savings and Investment Decisions*. January 12, 2022. Morningstar®. https://www.morningstar.com/lp/impact-of-managed-accounts

Which is better: target date funds, managed accounts, or something in between?

The growing interest in managed account services does not suggest that interest is shifting away from target date funds (TDFs). Quite the contrary.

Target date funds (TDFs) continue to offer plan participants a simple but effective way to save for retirement using a professionally managed portfolio that is based on one input: a participant's age or the year they expect to retire. As technology continues to evolve and data collection improves, TDFs now can take into account certain differences in plan participants' financial situations—such as contribution rates, employer match information, and participant balances. As a result, a single vintage of an "enhanced" TDF can offer several variations to meet the needs of participants, who would ordinarily be in the same TDF based on age.

While enhanced TDFs improve on the traditional age-based portfolio, their level of personalization falls short of managed account solutions. The latter offer a more precise asset allocation based upon multiple participant inputs, including short- and long-term financial goals, needs, salary, outside savings rates, and additional assets.

This is significant because plan participants tend to hold assets in accounts outside their workplace retirement plan. Cerulli data shows that 45% of participants have a brokerage account, approximately one-third have an individual retirement account (IRA), and 1 in 10 accrue benefits from a defined benefit (DB) plan.[9] This underscores the need for solutions that can be customized to an individual's personal financial situation, outlook, and goals.

Not surprisingly, many retirement plans today offer both TDFs and managed account solutions to meet participants' varied and evolving needs as they move through various stages of life. One product advancement garnering growing interest is hybrid default qualified investment alternatives (QDIAs), or dynamic QDIAs. These combine a target date fund QDIA and managed accounts. Typically, younger plan participants default into TDFs, with the ability to transition at some point into a managed account service as they near retirement; older participants and those who may have more complex financial needs default into the managed account solution.

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The appetite for personalized help is strong.

52%

of plan participants say they'd like to speak with a financial professional to help them talk through financial changes.[10]

[9] The Impact of Managed Accounts on Participant Savings and Investment Decisions. January 12, 2019. Morningstar®. https://www.morningstar.com/lp/impact-of-managed-accounts

[10] The Benefits of Personalization in Defined Contribution Plans, Cerulli Associates. October 2023.

The benefit of keeping assets in-plan

Managed account services are also evolving to provide retired plan participants guidance in drawing down their accumulated savings—often at a cost that is typically lower than out-of-plan advice solutions.

Offering a "stay-in-plan" benefit may also be a boon to plan sponsors. By allowing retirees to remain in their plan, plan sponsors may be able to leverage the cost savings available to plans with higher levels of assets.

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75% of plan participants said that if their employer offered a customized managed account solution as an option in their 401(k) plan, they'd be more likely to stay in that plan once they retire or change jobs.[11]

Are managed accounts right for your plan? Key considerations

Managed accounts are gaining momentum among plan sponsors looking to add more personalization to their plan's investment lineup.

If you're not actively considering a managed account solution, now may be a good time to give these investments a look: 48.8% of retirement plans offered managed accounts in 2022, compared with 36.3% in 2019.[12] Many expect this growth to continue, especially as workers increasingly demand the same level of customization from their retirement plan providers as they do in other aspects of their lives.

That said, adding a managed account solution to your plan is a worthwhile consideration that will depend on your plan and participant goals and the needs of your employees, among other things.

Here are key factors to consider when evaluating your managed account options. Check the ones that apply.

- ❐ **Managed accounts align with your plan goals.** Perhaps your employees have expressed a desire for a more personalized retirement plan solution; or maybe your employee demographics support a more sophisticated plan QDIA. Whatever your goal(s), it's important to clearly articulate what you're trying to achieve—and how your managed account provider's solution can help.

[11] Voice of the American Worker, 2023. Franklin Templeton. https://www.franklintempleton.com/insights/research-findings/voice-of-the-american-worker-survey
[12] Plan Sponsors Should Be Intentional When Adding Managed Accounts, PLANSPONSOR, January 2, 2024. https://www.plansponsor.com/plan-sponsors-should-be-intentional-when-adding-managed-accounts

❒ **Managed accounts will benefit your plan participants.** Generally, workers who are further along in their career and have more accumulated assets may benefit more from a managed account solution than younger participants with less savings and a longer timeline to retirement.

❒ **Your participants will use managed accounts.** It's important to understand whether your specific employees are interested in a personalized investment option and are likely to use it.

❒ **Your provider is committed to managed accounts.** Your managed account provider's service model and technology should be able to deliver the level of personalization your participants want.

❒ **The managed account's structure is transparent.** You'll want a clear understanding of the managed account provider's asset allocation process and the method used to determine the mix of asset classes in portfolios. Also consider whether the portfolios will use funds from your existing plan menu or the provider's proprietary funds.

❒ **The level of fiduciary oversight is clear.** It's important to understand who is the 3(38) fiduciary for the program and whether they are equipped to provide the level of advice your participants want.

❒ **The value is clear.** Cost is a key consideration in evaluating whether to add a managed account service to your plan options. However, it is crucial to consider that cost in light of value/benefits received—such as the roles of personalization and advice in helping to generate better participant outcomes.

At Ascensus, our purpose-built technology enables us to partner with leading managed account providers and investment firms to offer top quality solutions. Schedule a call with your plan consultant or advisor to learn how personalized managed account solutions can meet the needs of your business and your plan participants.

Wherever you and your employees want to be, let's get there together.

Learn more.

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