HOW THE TREND OF OFFERING MANAGED ACCOUNTS IS TAKING OFF

As plan sponsors help participants become more retirement ready, managed accounts have risen to the forefront as a tool for offering more personalized investment advice.

Offering managed accounts can give plan sponsors a way to distinguish themselves from low-cost "robo advice" or digital solutions popular in the retail sector. According to Cerulli Associates, a market research firm, managed accounts seek to blend the efficiencies of a digital experience with the advice and experience of a financial advisor.

Adoption of Managed Accounts

Cerulli also noted that, as of fourth quarter 2020, the majority of defined contribution recordkeepers now partner with at least one managed account provider. In addition, 28% of 401(k) plan sponsors offer a managed account. Adoption is stronger among larger plans with at least $250 million in plan assets (44%). However, 17% of plan sponsors plan to offer a managed account in the next 12 months.

Cost Factors Into Plan Default Account

One consideration of offering a managed account is cost. Many fund managers and providers note that the simplicity of a target date fund is a cost-effective solution for most participants. A product with a mix of investments like a target date fund (TDF) is commonly used as the qualified default investment alternative (QDIA) for plan participants who have not made an active investment election. While some providers view managed accounts as more costly than off-the-shelf target date funds, they provide each participant with a personalized portfolio from personal and financial data points.

Participants OK With Sharing Data for Targeted Advice

Another consideration is that, with personalized advice comes the need for managed account providers to gather participants' data to better understand their financial picture. It's important to note that age shouldn't be the only factor in determining your employee's retirement investments. Given the number of data points that can be added with managed accounts, that more comprehensive data can increase the ability to offer a more personalized investment approach.

Rather than manually gathering data from participants, some providers are automatically extracting participant-level data from the recordkeeper, which streamlines the data aggregation process. According to a Cerulli study, plan participants tend to accept the use of their personal data if they're getting value out of it, such as customized wealth advice.

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Plan Sponsors Should Prioritize Promotion of Managed Accounts

There might be a solution for plan sponsors who are interested in offering managed accounts while maintaining target date funds as their plan's QDIA, a hybrid QDIA. Under this model, younger investors who have not made an investment election on their own would be defaulted into a TDF. Individuals older than 50 are put into a managed account.

Plan participants nearing retirement tend to have higher account balances and more complex financial solutions than younger employees who are mainly focused on accumulation. Older participants are mostly looking for advice as they transition from wealth accumulation to wealth distribution to meet expenses during retirement. Other candidates who may benefit from this type of advice are participants who aren't saving enough or who lack diversified asset allocation.

Meet With Your Retirement Team

With personalization and the evolution of managed accounts gaining momentum, the Mariner Wealth Advisors Retirement Plan Solutions team is available to offer support and advice on the options you have available. We will work with your service providers to make sure participants are properly educated on their options so they can make more informed investment decisions to help them reach their retirement goals.

Source

"Cerulli: How Managed Accounts Are Evolving," napa-net.org.