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2023 PLANADVISER Retirement Plan Adviser Survey

Reported by PLANADVISER | *Art by* James Yang

STATE OF THE INDUSTRY

Evaluate Before You Designate

Pricing and performance remain key selection criteria for plan advisers.

Many factors go into helping a plan sponsor select a recordkeeper or investment lineup. However, plan advisers say such decisions still heavily rely on an in-depth evaluation of both pricing and performance.

PLANADVISER's 2024 Plan Adviser survey found that a plan's fee structure was among the three factors most often considered by advisers when selecting a fund lineup, and pricing/fees ranked second in choosing a qualified default investment alternative. "Value for price" was the top criteria in recordkeeper selection, cited by 55.6% of advisers surveyed.

That distinction is important when evaluating recordkeepers, says Eric Dyson, executive director of 90 North Consulting LLC in Dallas, and best-in-class advisers are helping their clients analyze and compare prices based on the services provided, rather the dollar amount.

"The litigation has caused fee compression and driven down pricing," Dyson says. "A good adviser is going to help the plan sponsor and committee evaluate fee for value correctly. Then they're still going to do a fee negotiation on behalf of their client."

Plan advisers now expect more transparency from recordkeepers in listing how their fees break down, so that the plan advisers can share that information with plan sponsors to help them make more informed decisions.

"The recordkeeper may be getting revenue from managed accounts or some fees from the brokerage window or from float," says Jamie McAllister, a senior vice president and defined contribution consultant in Callan's Chicago consulting office. "We're seeing more of a focus on understanding that full-fee picture and the aggregate amount of revenue that the recordkeepers are getting and not just the standard, per-participant fee that's being charged."

Major Decisionmaking Factors

Beyond costs, PLANADVISER's survey found the quality and consistency of a recordkeeper's sponsor support and service team were major factors for plan advisers. McAllister says recordkeeper stability is coming into play during the selection process more than it had in the past, but advisers are seeing different preferences from different sponsors.

According to McAllister, some plan sponsors prefer a recordkeeper with heavy involvement in mergers and acquisitions, because they believe that can create innovation or cost savings. Other plan sponsors, however, want a provider that has had less change and more organic growth.

PLANADVISER's survey found that 30.7% of plan advisers put participant website tools in their top five criteria for recordkeeper selection, while 28.8% cited investment options available, and 25.5% included adviser support.

Doyle says plan sponsors and their advisers often have a range of questions about how their participants can use the platform, such as whether they can make withdrawals.

Different Types of Investments

On the investment side, the focus on fees may also be contributing to plan advisers focusing on different types of investments intended to meet plan objectives while lowering cost.

"We're seeing more usage of collective trusts than we are of mutual funds, whereas mutual funds had historically been the most prevalent, by far," McAllister says. "But there's been so much more emphasis on cost reduction and fees, and collective trusts generally tend to be priced lower than mutual funds."

John Doyle, a senior retirement strategist at Capital Group, has been seeing a similar trend of recordkeepers looking to partner with investment managers to build what he calls "co-manufactured" solutions in which they use white-labeled mutual funds packaged into a CIT alongside a recordkeeper's stable value fund.

"That allows them to address the fee issue and, potentially, give a discount to clients, while also potentially driving revenue," he says.

McAllister says larger plans are also shifting toward separate accounts as fund vehicles that may better fit the needs of a plan's participants than traditional mutual funds would.

In addition to the cost of investments, plan sponsors remain focused on performance and benchmarking, even with the caveat that past performance does not guarantee future results. Nearly one-third of advisers surveyed cited performance relative to peer group benchmarks as the most important criteria in fund selection, while 63.6% put it in their top five.

Digging Into QDIAs

For QDIAs, however, the focus is a bit different: Performance is less of a deciding factor, according to PLANADVISER's study, with advisers focused instead on the fund's glide path. More than half of advisers surveyed said that glide-path construction was among their top three criteria in fund selection.

"As advisers, we really want to look at how well the QDIA fits the demographics of the plan," Dyson says. "Generally speaking, if you have a plan with low average balances and low savings rates, then, typically, you want a more aggressive glide path, because, generally speaking, a higher equity allocation can hopefully get them closer to that end goal."

In recent years, many advisers have also sharpened their analysis of that glide path, looking beyond how the allocation to specific asset classes changes over time, Doyle says.

"There's an understanding now that the glide path is multi-dimensional, and the equity pool when you're 35 should be smaller than the equity pool at 65, but it should also be a different pool of stocks," he explains. "So advisers are looking at sub-asset classes and how those change from the younger participants to those approaching and moving into retirement." —*Beth Braverman*

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