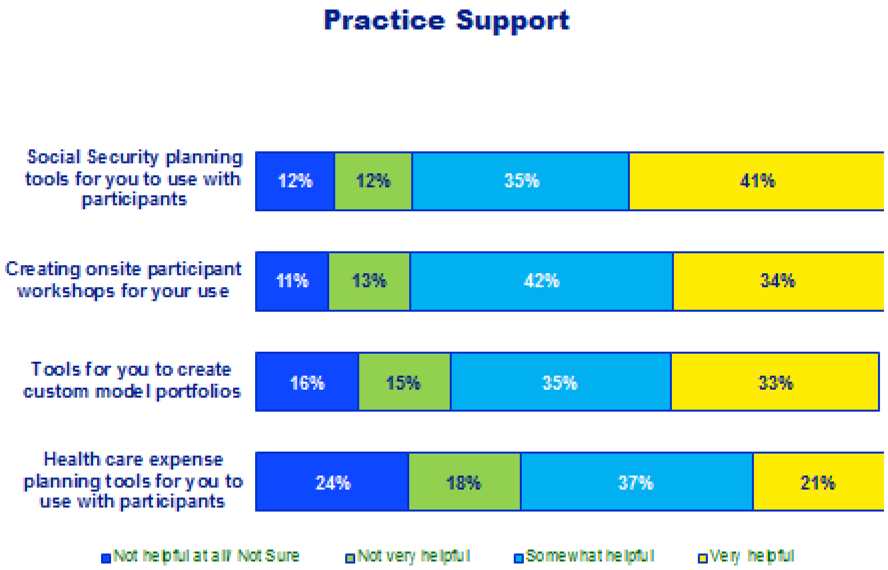
[The Elusive Value Add of Practice Support]

April 1, 2016

Topics in 401(k) Distribution: ninth in a series

Providers often focus on practice support as a strategy to attract, retain or deepen relationships with advisors. Advisors often take a jaded view of these initiatives, not least because there are so many of them out there. We use the term broadly to cover everything from practice management and normative metrics on the one hand to thought leadership on the other.

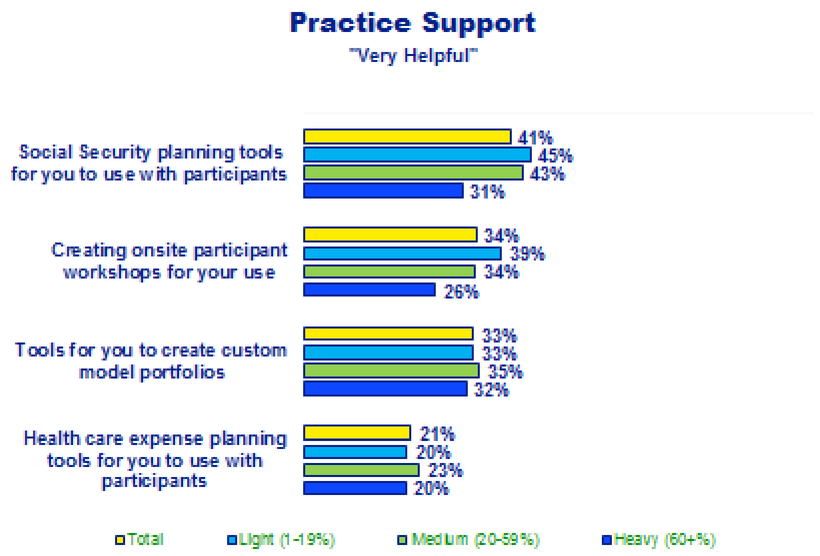
In our most recent take on this hydra-headed topic, we ask about four types of tools or packaged support programs with which providers could equip 401(k) advisors.



By a meaningful margin, participant-friendly Social Security planning tools come out on top, followed by advisor-directed online participant workshops supporting retirement income planning. Tools to help advisors create custom model portfolios trail that, followed distantly by tools to help participants plan for health care expenses.

Surely specialist advisors (Medium and Heavy advisors in our parlance, those deriving 20% or more of their practice income from 401(k)) draw a more refined bead on this opportunity?

Not really. Heavy advisors, arguably the most jaded group in the channel, are generally less interested than Mediums or Lights in any of these initiatives. Social Security planning tools and packaged online participant workshops pop with Light advisors, but that's about it. Measurable participant anxiety surrounding health care expenses in retirement notwithstanding, neither specialist nor generalist advisors pick up on health expense planning tools with enthusiasm.



Whether advisors are voicing skepticism about the credibility of providers to equip them with meaningful tools or the utility of these tools themselves is hard to conclude from these findings. What we can say with confidence is that these initiatives don't seem to provide anything especially exciting to 401(k) advisors.

About the Research

Our first *Retirement Services Intermediaries* study launched in 2000; these findings are based on selected waves carried out between 2005 and 2015. *RSI* studies are conducted by telephone, typically among a representative cross-section of 600 or more advisors deriving income from 401(k) plans. *RSI 10* is scheduled for delivery in the spring of 2016.

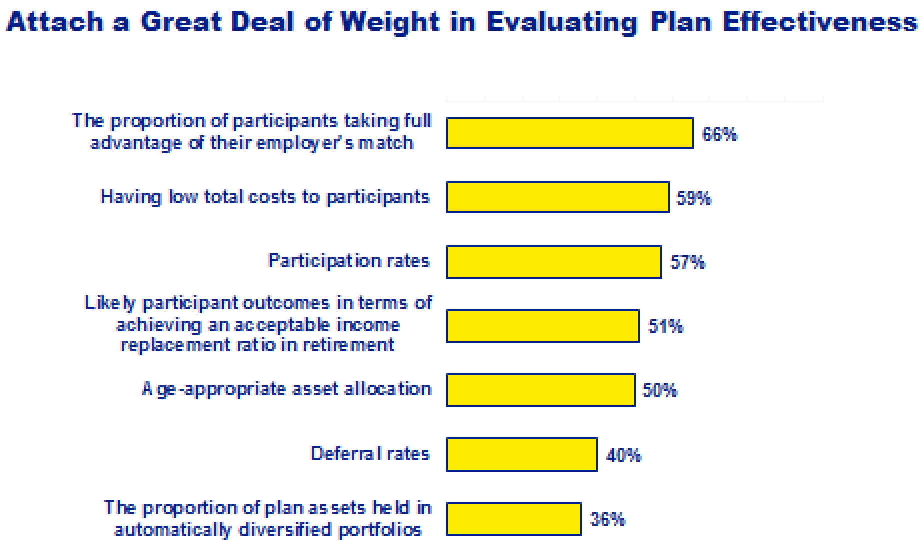
Measuring Plan Effectiveness

April 1, 2016

Topics in 401(k) Distribution: eighth in a series

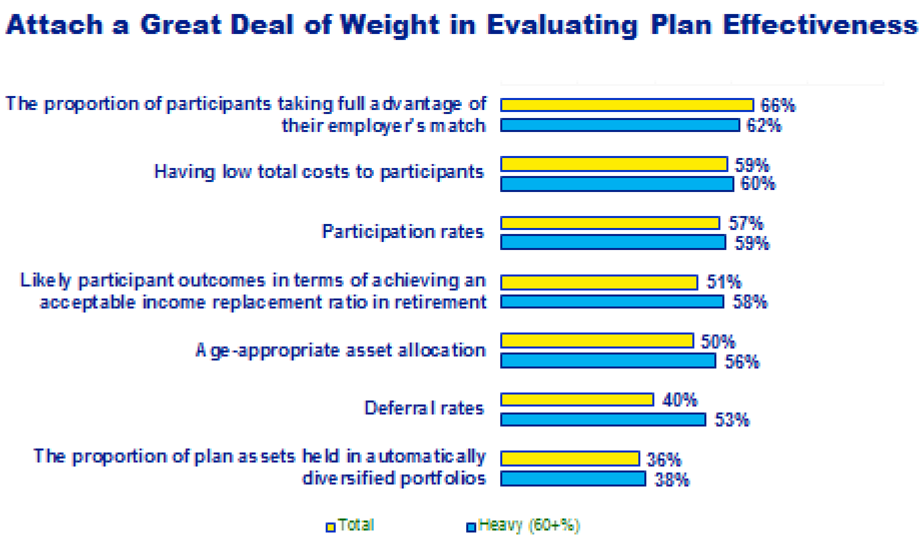
When plan sponsors, providers and advisors talk about plan health or plan effectiveness, what's driving their view?   Is it familiar, conventional plan metrics, participant outcomes or some blend of the two?

Over three research waves since 2012 we've seen a fairly stable blend of both perspectives with the share of participants taking full advantage of a match at the top. Low total costs and participation rates come next. We don't find an explicit outcomes focus (admittedly an inexact science) until halfway down the list, with 51% of advisors attaching a great deal of weight to participant outcomes in evaluating plan effectiveness.



The weight advisors attach to participation rates and age-appropriate asset allocation has drifted up slightly over time; other trended measures have stayed about the same.

Without reordering these priorities, Heavy advisors (those deriving 60% or more of their practice income from 401(k)) nonetheless bring an edgier view to the evaluation. They are much likelier than all advisors to focus on deferral rates (53% versus 40%) and somewhat likelier to attach more weight to outcomes (58% versus 51%) and age-appropriate asset allocation (56% versus 50%).



“Pure” RIAs (not dually registered) also weight outcomes more heavily (58% versus 51%) and, characteristically, upgrade the importance of low total costs as well (64% versus 59%). Once again we think the pros are leading the channel when it comes to evaluating success.

About the Research

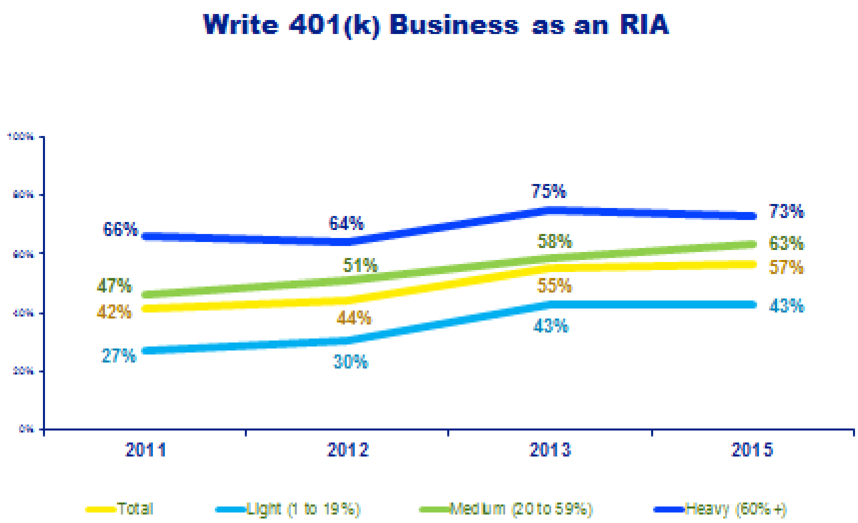
Our first *Retirement Services Intermediaries* study launched in 2000; these findings are based on selected waves carried out between 2005 and 2015. *RSI* studies are conducted by telephone, typically among a representative cross-section of 600 or more advisors deriving income from 401(k) plans. *RSI 10* is scheduled for delivery in the spring of 2016.

The Agile RIA

April 1, 2016

401(k) Distribution: The Decade Just Ended – seventh in a series

Although more than one in five 401(k) advisors (22%) describe their primary affiliation as a registered investment advisor, a total of 57% write at least some business as an RIA (or as investment advisor representative (IAR) under a corporate RIA). This ranges from 73% of Heavy advisors (deriving 60% or more of their practice income from 401(k)) to 43% of Lights. These proportions have increased steadily for advisors of all stripes since we introduced the question in 2011.



Importantly, "pure" RIAs as a share of total RIAs have grown steadily, from 31% in 2011 to 36% in 2013 to 39% today. So while a majority of 401(k) RIAs are in fact hybrids, or dually-registered advisors, the number of "pure" RIAs is growing more rapidly.

The distinction between "pure" and hybrid RIAs in the 401(k) space is striking. Although the two have about the same tenure in the business, hybrid RIAs' 401(k) books of business are about half again larger than "pure" RIAs. Nearly nine in ten "pure" RIAs describe themselves as mainly fee-based while close to four in ten hybrids are either mainly commission-based or about evenly divided between fees and commissions. Hybrid RIAs are likelier than all 401(k) advisors to reside in wirehouses, independent and regional broker/dealers, producing TPA firms and fee-based benefit consulting firms.

And while both "pure" and hybrid RIAs are likelier than all 401(k) advisors to be Heavies, hybrids are much likelier to write larger plans than "pure" RIAs; 47% of hybrids wrote at least one plan of $10M or more in the past three years while only 34% of “pure” RIAs did so. Conversely, “pure” RIAs are likelier than hybrids to sell plans under $3M.

Finally, hybrids are most comfortable with a fully bundled service model while “pure” RIAs have a disproportionate fondness for a fully unbundled product (funds they recommend on a trading platform plus an independent recordkeeper). Wave of the future they may be, but “pure” RIAs probably need to revisit their cultish service model outlook to crack larger plans.

About the Research

Our first Retirement Services Intermediaries study launched in 2000; these findings are based on selected waves carried out between 2005 and 2015. RSI studies are conducted by telephone, typically among a representative cross-section of 600 or more advisors deriving income from 401(k) plans. RSI 10 is currently available.

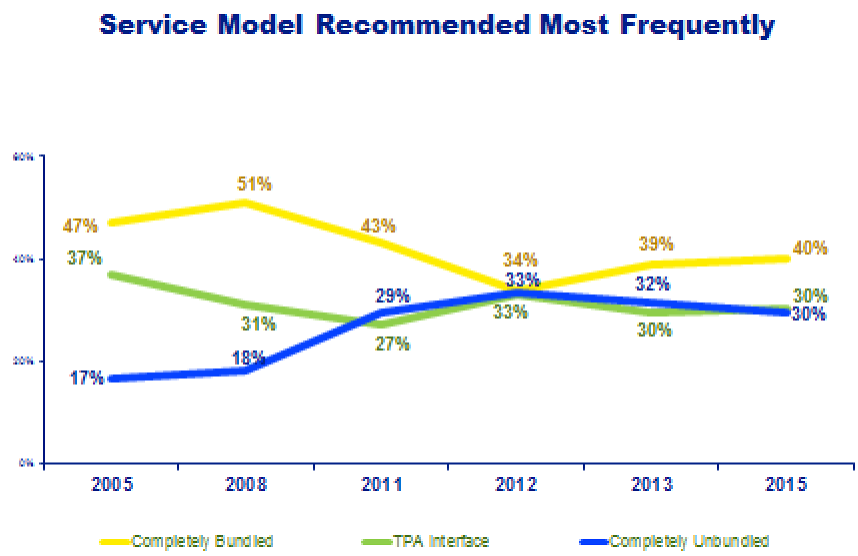
Back to Fully Bundled?

April 1, 2016

401(k) Distribution: The Decade Just Ended – sixth in a series

Until 2011 it was an easy call.

The once unstoppable TPA interface service model (think John Hancock or Nationwide) was imploding in the face of a new, completely unbundled service model—which we defined as advisor-selected funds on a trading platform paired with an independent TPA providing daily record keeping, compliance and administration. In this new world, local and regional players were teaming up to displace traditional national providers. It was all about cutting costs and having access to pure open architecture; this new service model offered both. Of course it cut out a lot of service, support and customization as well.



Then in 2012 the lines converged as advisors trifurcated their service model preferences. One-third stuck with the TPA interface approach; one-third opted for the completely unbundled model and one third went with the traditional, fully bundled program.

In the years since, advisors have pumped air into the fully bundled model even as the two unbundled approaches have been running about flat, a startling reversal of trends that made sense and seemed to be a secular shift in the way the 401(k) product was delivered.

Did advisors pick bad funds? Did local TPAs drop the ball on recordkeeping? Did trading platforms fail to deliver? Did plan sponsors pull the plug on this ersatz bundled program delivered without a national provider in sight?

None of the above, as far as we can tell. For in the background cost was receding (however glacially and imperceptibly) as the animating driver of provider selection even as service and customization were staging a comeback. How better to package robust investment choices, world class participant education and communication and flawless service to plan sponsors than through a fully bundled service model (even if at somewhat higher cost)? Amplifying the trend was the emerging focus on retirement readiness, about which most TPAs and independent recordkeepers had little to say.

Does this work in reverse? With storm clouds on the horizon from threats in the real economy and pressure from relentlessly rising health benefit expenses, we may soon find out.

About the Research

Our first Retirement Services Intermediaries study launched in 2000; these findings are based on selected waves carried out between 2005 and 2015. RSI studies are conducted by telephone, typically among a representative cross-section of 600 or more advisors deriving income from 401(k) plans. RSI 10 is scheduled for delivery in the spring of 2016.

Where do 401(k) Advisors Live?

April 1, 2016

401(k) Distribution: The Decade Just Ended – fifth in a series

Remember insurance-based 401(k) advisors? Paragons of proprietary funds and group annuity contracts they may have been, but they ruled the roost only a decade ago, often with large and stable books of business.

In 2005, fully 37% of 401(k) advisors identified themselves as affiliated with a life agency, an insurance brokerage or an (old school) commission-based benefits consultant. Only wirehouse-based advisors came close in terms of channel penetration and then only at 25%.

Channel

	2015	2011	2005
	%	%	%
Primary Affiliation:			
Insurance (net)	12	25	37
Wirehouse	20	22	25
IBD/FP Co (net)	25	14	13
RIA	22	13	8
Regional BD	11	11	8
TPA/ Fee-based Benefits Consultant	6	7	8
Specialty Retirement BD	2	5	5
Bank	2	3	1

Now 12%, insurance penetration today is barely a third of what it was a decade ago and wirehouses have drifted down to 20%. The new kids on the block, of course, are "pure" RIAs (almost entirely fee-based) and independent broker/dealers and advisors affiliated with financial planning companies.

In fairness, attrition from the insurance channel resulted from rebranding and reimaging of some practices and the actual disappearance of others. The result is a vestigial insurance channel characterized by nothing so much as commission income and an enduring preference for due diligence investment platforms over open architecture.

Wirehouses have weathered the storm with more success in spite of their traditional reticence to embrace a fiduciary role. Our most recent measurement shows a slight uptick in channel share from a low of 18% in 2013.

That fee-based compensation and open architecture drive the composition of the channel today is nowhere more evident than in the growth of the "pure" RIA, which has nearly tripled as a percentage of all 401(k) advisors over the decade. Regional BDs, producing TPAs, fee-based benefits consultants and banks are more or less holding their own.

It's not difficult to see the traditional insurance footprint all but disappearing from the 401(k) landscape in the years ahead. It's more difficult to see what comes next. Yes, there's plenty of room for the “pure” RIA to grow. The big question is what becomes of the hybrid RIA or dually registered representative, who plays in many traditional channels.

About the Research

Our first Retirement Services Intermediaries study launched in 2000; these findings are based on selected waves carried out between 2005 and 2015. RSI studies are conducted by telephone, typically among a representative cross-section of 600 or more advisors deriving income from 401(k) plans. RSI 10 is scheduled for delivery in the spring of 2016.

Triumph of the Heavies?

April 1, 2016

401(k) Distribution: The Decade Just Ended – Fourth in a Series

A decade ago, Heavy advisors (those deriving 60% or more of their income from 401(k)) constituted 18% of the channel and accounted for 55% of asset sales. Last year they constituted 26% of the channel and commanded 63% of the asset sales. They are by far the most sought-after and well-tended advisors in the business, even more so at the end of the decade than at the beginning. Case closed?

Share of Key Variables by 401(k) Share of Income

	Light (1-19%)			Medium (20- 59%)			Heavy (60%+)		
	2015	2011	2005	2015	2011	2005	2015	2011	2005
	%	%	%	%	%	%	%	%	%
Share of All Advisors	45	50	50	29	26	32	26	24	18
Share of AUM	17	16	18	31	26	36	52	62	45
Share of case sales	18	19	28	32	27	37	50	54	37
Share of asset sales	8	13	16	29	22	29	63	65	55

Maybe not so fast.

Heavy advisors actually topped out on most metrics in 2011 when their share of AUM, case sales and asset sales set all-time records (in most dimensions dramatically higher than in 2005). But they’ve been easing back ever since. Today, Heavies’ share of asset sales is two points lower than it was in 2011; their share of case sales and AUM has also eroded.

Picking up the slack are ascendant Medium advisors (20% to < 60% of income). This group (now 29% of all 401(k) advisors) rang up handsome increases in shares of AUM, case sales and asset sales between 2011 and 2015. Our hypothesis is that more and more wealth management RIAs are finding 401(k) a comfortable extension of their fee-based, open architecture investment culture. They are contributing to the changing face of the channel.

Unsurprisingly, Light advisors (under 20% of their income from 401(k)) look to be on the dinosaur track as their channel metrics shrivel. At eight percent, their share of asset sales is half of what is was in 2005 and their share of case sales has dropped ten points. Their share of AUM is holding up, but for how much longer?

What will the next decade bring? Advisors who hit the 20% threshold in terms of 401(k) share of income (Mediums in our parlance) almost always express a commitment to growing their 401(k) business. If we're right that ascendant Mediums represent relative newcomers to the business, it can only mean renewed growth and momentum for the specialist advisor in the years ahead.

About the Research

Our first Retirement Services Intermediaries study launched in 2000; these findings are based on selected waves carried out between 2005 and 2015. RSI studies are conducted by telephone, typically among a representative cross-section of 600 or more advisors deriving income from 401(k) plans. RSI 10 is scheduled for delivery in the spring of 2016.

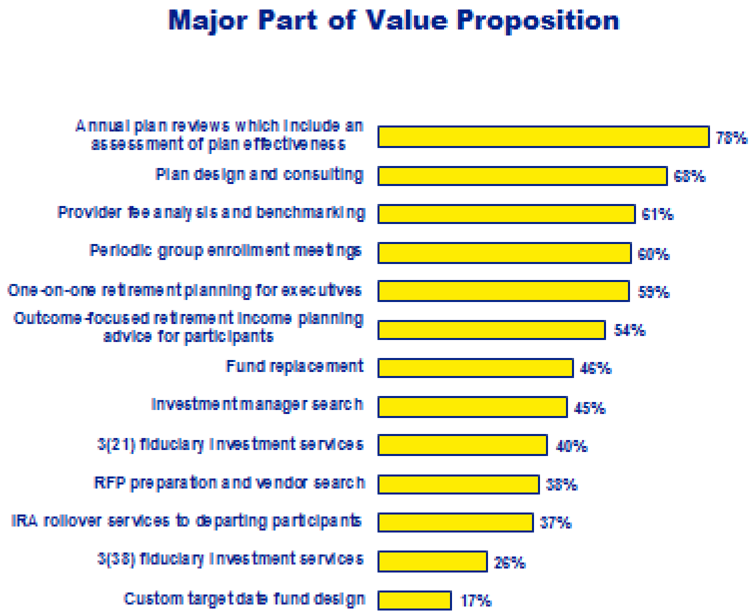
It's About the Investments, Right?

April 1, 2016

Topics in 401(k) Distribution – Third in a Series

Not necessarily.

Advisors are investment pros so it follows that 401(k) fund advisors see their value proposition mainly in terms of supporting investment and investment manager decisions, right? True, for some advisors, some of the time. But for two-thirds or more of all 401(k) advisors, annual plan reviews and plan design and consulting are the most important elements of their value proposition. Designing custom target date funds, in contrast, is at the very bottom of the list, cited as a major part of their value proposition by only 17% of advisors.



To be sure, provider fee analysis and benchmarking get a high score, but only marginally higher than conducting group enrollment meetings. And retirement income planning for participants and executives beats out fund replacement and investment manager search. Only four advisors in ten designate 3(21) fiduciary services as key and even fewer (26%) consider 3(38) fiduciary services to be a major part of their value proposition.

Different advisors, of course, weight these functions differently. For Light advisors (less than 20% of their practice income from 401(k)), it's mainly about one-on-one retirement planning for executives and IRA rollovers from departing or retiring participants (at least until the DOL fiduciary regulations are finalized). This validates yet again our view that Lights are retail advisors dabbling opportunistically in 401(k).

Medium advisors (20% to less than 60%) share with Heavy advisors (60%+) an outsized focus on fund replacement and investment manager search. Unlike Heavies however, Mediums define more of their value proposition around designing custom target date funds.

Heavy advisors don't have much use for retirement planning for executives or participant rollovers, but they are disproportionately focused on plan design and consulting, provider fee analysis and benchmarking, 3(21) (but *not* 3(38)) fiduciary services and RFP preparation and vendor search. Small wonder that providers looking for larger takeover plans court Heavy advisors!

About the Research

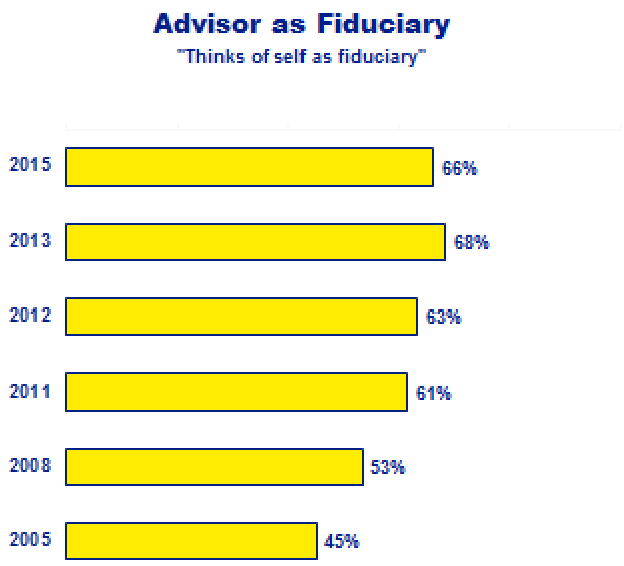
Our first *Retirement Services Intermediaries* study launched in 2000; these findings are based on selected waves carried out between 2005 and 2015. *RSI* studies are conducted by telephone, typically among a representative cross-section of 600 or more advisors deriving income from 401(k) plans. *RSI 10* is scheduled for delivery in the spring of 2016.

Fiduciaries Topping Out?

April 1, 2016

401(k) Distribution: The Decade Just Ended – Second in a Series

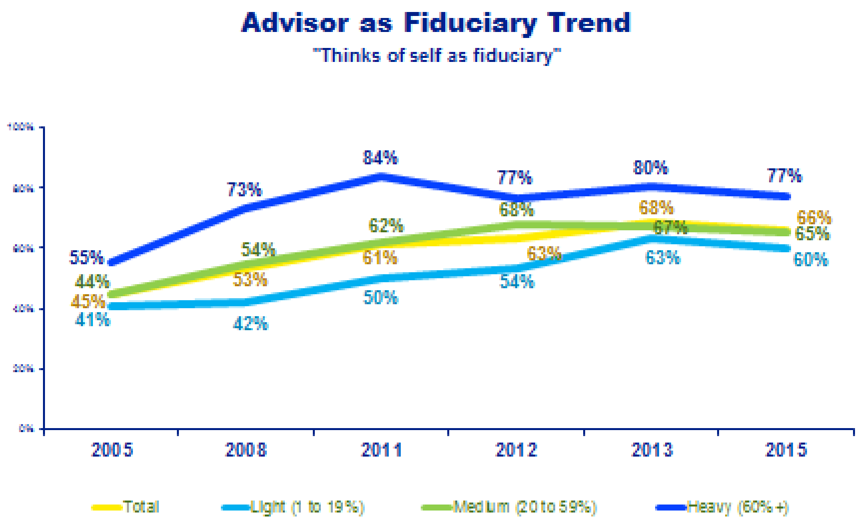
With the Department of Labor's proposed fiduciary rule still under consideration, it's informative to step back to see how 401(k) advisors themselves describe their responsibilities. Last year, two-thirds said they think of themselves as a fiduciary on the plans they sell.



Conveniently, if perhaps coincidentally, that's almost exactly the proportion of their plans they told us were covered by a 3(21) fiduciary agreement in 2013 (68%). As a sidebar, 63% of those agreements were held with the advisor directly, 37% were provided through a third party. Sidebar 2: only about a quarter of advisors' plans not covered by a 3(21) agreement were covered by a 3(38) agreement in 2013.

The trend through the decade shows steady if decelerating growth in the proportion of advisors considering themselves a fiduciary, from 45% in 2005 to 68% in 2013. Then, last year, the figure dipped slightly.

Looking back, Heavy advisors (those deriving 60% of more of their income from 401(k)), were first to the table; in the six years to 2011the share of Heavies describing themselves as a fiduciary exploded by nearly 30 points to 84%.



But then, oddly enough, it began drifting down, settling at 77% last year. Meanwhile, the proportion of Light and Medium advisors who think of themselves as fiduciaries continued to advance until 2013, whereupon they too headed slightly south in our most recent measurement.

Whether advisors are being more cautious about how they define a fiduciary role or whether fewer actually see themselves in this capacity with fiduciary responsibility under a microscope is hard to say. All we know from this casual, self-reported metric is that fiduciaries may have topped out, at least for now.

About the Research

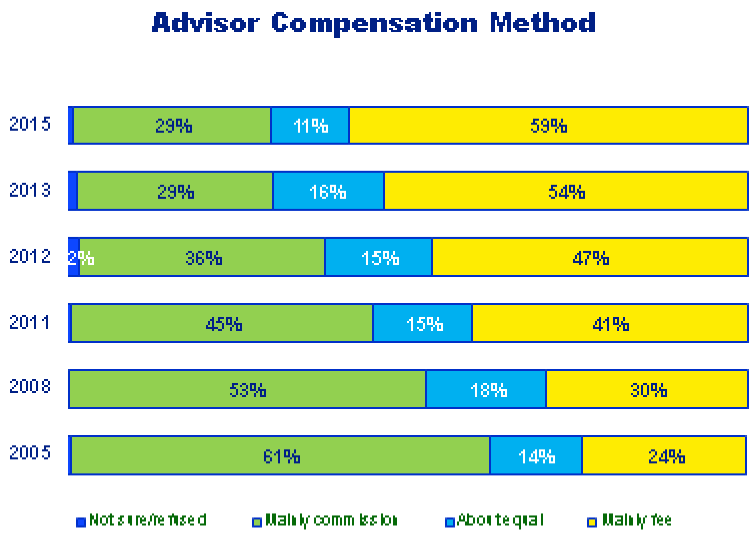
Our first *Retirement Services Intermediaries* study launched in 2000; these findings are based on selected waves carried out between 2005 and 2015. *RSI* studies are conducted by telephone, typically among a representative cross-section of 600 or more advisors deriving income from 401(k) plans. *RSI 10* is scheduled for delivery in the spring of 2016.

Forever Fee?

April 1, 2016

401(k) Distribution: The Decade Just Ended – First in a Series

In 2005 more than six 401(k) advisors in ten (61%) described their practice as mainly commission-based; only 24% described their practice as mainly fee-based. Today the figures are almost exactly inverted with 59% of advisors calling themselves mainly fee-based and only 29% describing themselves as mainly commission-based. Have we hit the wall?



Probably not, and the looming DOL fiduciary regulations may well move the wall.

Unsurprisingly, the shift to fee-based compensation had its impetus among Heavy advisors (those deriving 60% or more of their income from 401(k), 26% of all 401(k) advisors). In 2005, 25% of Heavies were mainly fee-based, virtually the same as all advisors. By 2008, however, Heavies were 40% fee-based even as 30% of all advisors described themselves that way. Heavies continued to lead the pack through the decade; today they are fee-based versus commission-based by 68%-22% (all advisors are 59%-29%).

Commission-based compensation may already have hit an irreducible minimum among Light advisors (those deriving less than 20% of their income from 401(k), 45% of advisors). Although the proportion of Lights describing themselves as mainly fee-based edged up two points between 2013 and 2015, so too did the share describing themselves as mainly commission-based ("about equal" went down). The new regulations may make the 401(k) business less attractive to these advisors.

That leaves Medium advisors (20% to less than 60% of their income from 401(k), 29% of advisors) as the remaining driver of fee-based growth. They indeed have some room to expand into the fee-based space inasmuch as only 52% of Mediums are mainly fee-based today; 35% are mainly-commission-based and 13% are about equal. It's not a leap of faith to see 15 points or so of that combined 48% morphing into fee-based reasonably soon, even without encouragement from the feds.

That, of course, is predicated on our expectation that Medium advisors remain committed to growing their 401(k) practices and that the pool of specialist advisors will in fact grow over time. On present trend and under current policy, it's easy to imagine the share of 401(k) advisors who are mainly fee-based hitting the two-thirds mark. Under the proposed fiduciary regulations, of course, it's possible to see it going much higher, partially because those advisors who remain committed to the business will get with the program and others may exit the business altogether.

About the Research

Our first *Retirement Services Intermediaries* study launched in 2000; these findings are based on selected waves carried out between 2005 and 2015. *RSI* studies are conducted by telephone, typically among a representative cross-section of 600 or more advisors deriving income from 401(k) plans. *RSI 10* is scheduled for delivery in April, 2016.