DC Advisor Practices Rebound in the Wake of COVID-19

November 19, 2020

Defined contribution (DC) advisors appear to be in a better spot than when we first spoke to them in late March. During the closing weeks of first quarter 2020, 38 percent said COVID-19 was having a worse impact on their practice than expected, and another 51 percent said the impact was about what they expected. There was a tremendous amount of uncertainty. The CARES Act was still pending, the economy was shutting down to varying extents, and it was unclear where the markets might go. Fast forward to the end of August, and advisor sentiment has flipped. Forty-three percent of advisors reported they were faring better than expected and just 9 percent said the situation was worse than they expected.

We attribute much of this improvement to advisors having a better perspective on the health of their practices. In March, more than half were moderately to extremely concerned about the impact COVID-19 would have on revenue, and nearly 40 percent expressed concern about sales opportunities disappearing. As of late August, just 13 percent were concerned about revenue being down in 2020. It should not come as a big surprise that as concerns about revenue and sales decreased, so did concerns about laying off staff and being able to cover payroll.

Unfortunately, business development activities still are not picking up for many advisors — 46 percent reported reduced proposal activity and another 39 percent said their prospecting had decreased (Figure 1). In addition, advisors are concerned about their health of their clients' businesses. Nearly 1 in 5 expect to lose clients due to bankruptcy or plan terminations. Given the level of market volatility seen this year, about one third of advisors are concerned plan sponsors will hold them accountable for the performance of fund line-ups (Figure 2).

Figure 1: Impact of Market Volatility and COVID-19 on DC Advisor Practice

Figure 2: Top Areas of Concern for DC Advisors

Activity within advisor practices slowly started returning to more manageable levels in August. Back in March and into May, the great majority of advisors were tending to the needs of clients. Many reported increased levels of outgoing and inbound client interactions, general conversations about plan design, investments, business with their clients, and more employee education. While things have not returned to normal, the percentage of advisors reporting increased activity in those areas due to COVID-19 dropped an average of 22 points (Figure 3).

Figure 3: Increase in Frequency/Volume of DC Practice Activities as a Result of COVID-19

Advisors are adapting, however. Seven out of 10 in August said COVID-19 had forced their practices to reconsider how they engage with plan sponsors and participants. A similar percentage say the changes they have made will largely remain in place once COVID-19 passes. Video conferencing appears to be one of these adaptations. In March, just under 50 percent of advisors had video conferencing capabilities in place. By August, this had grown about 20 points to 70 percent with another 25 percent considering adding it (Figure 4). Other digital methods of engagement, like webinars and marketing campaigns, have not gained traction despite relatively strong interest.

Figure 4: DC Advisor Methods of Client Communication

According to advisors, recordkeepers have done a good job of helping advisors and plan sponsors during the crisis. Recordkeepers have been responsive to advisors and plan sponsors, quick to implement the CARES Act provisions, and communicating proactively. While advisors appreciate the solid level of service, they still want additional help from recordkeepers. Help with lead generation and assistance with setting up video conferencing capabilities are near the top of the list.

The area where advisors would like the most help, however, is with participant education. It is not a big surprise, given advisors said social distancing impacting their ability to help participants is their number one concern. Half are looking for participant-focused content that they can present in a webinar. Of those seeking content, general investing and retirement savings top the list (Table 1). Meanwhile, 43 percent are looking to recordkeepers to facilitate digital education meetings.

Table 1 — Advisors Looking to Recordkeepers for Participant Education Content

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Despite the slowed business development, most DC advisors are now in a better spot now than they were back in March. While engaging with clients, especially participants, in a socially distanced environment is challenging for some, many are taking steps to embrace new approaches to engaging sponsors and participants, but could use some content and support from recordkeepers.

By Chris Bailey