Retirement Services Intermediaries 13

Summary of Key Findings for Study Participants

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October 2020

A quick note on our advisor definitions

Light

- <20% of practice revenue comes from DC plan fees
- Typically wealth focused – DC is typically a defensive/accommodation play
- Sell and service plans <$5M

Medium

- 20%-59% of practice revenue comes from DC plan fees
- Transitioning to DC focus from pure wealth OR building an employer benefits practice
- Sell and service plans <$25M

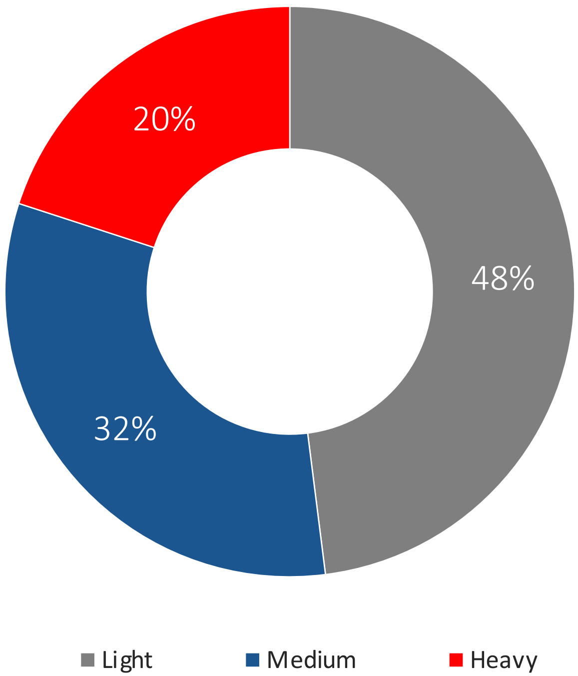
Heavy

- 60%+ of practice revenue comes from DC plan fees
- Fully committed to DC business
- Consider themselves experts and thought leaders
- Sell and service plans under <$100M

The mix of advisors shifted in 2019, with the percentage of Heavy advisors decreasing slightly. The average income derived from 401(k) plans remained stable for each segment.

Share of Income

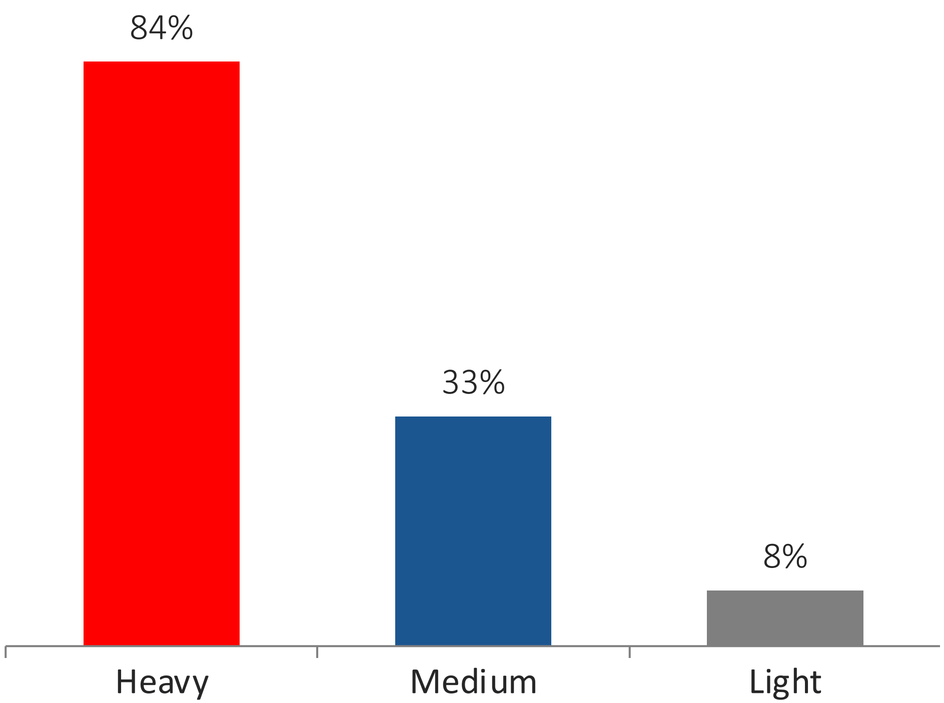
% of advisors



2019 saw a small shift in the share of income mix. The proportion of Medium advisors grew by 4 points while Light advisors increased by 2. As a result, the proportion of Heavies dropped from 26% in 2018 to 20% in 2019.

Income Derived from 401(k)

Average % of income from DC plans



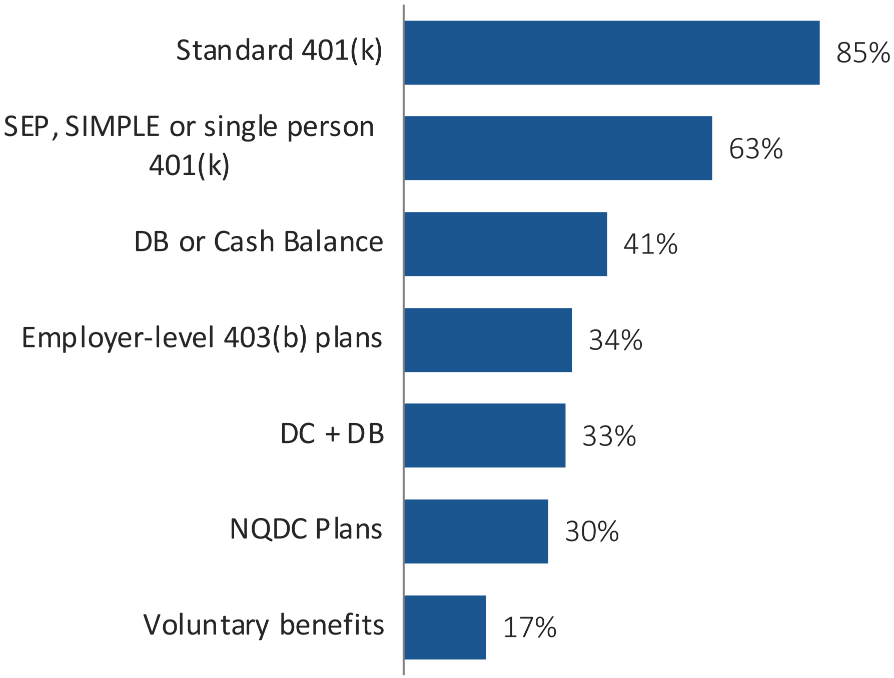
Meanwhile, the average percentage of income derived from DC plans held steady from 2018 to 2019 for all three advisor segments.

Q2 - First, I just need to understand what percentage of your total professional income, if any, you derived from fees and commissions on standard 401(k) plans over the past 12 months?

Advisors place a lot of focus on solutions for smaller plans, with nearly 2/3 saying they at least focus somewhat on SEP, SIMPLE, and/or single-person 401(k). Additionally, Rollover IRAs are important to 4 out of 5 advisors.

Workplace Areas of Focus

% of advisors saying "Great deal" or "Somewhat"

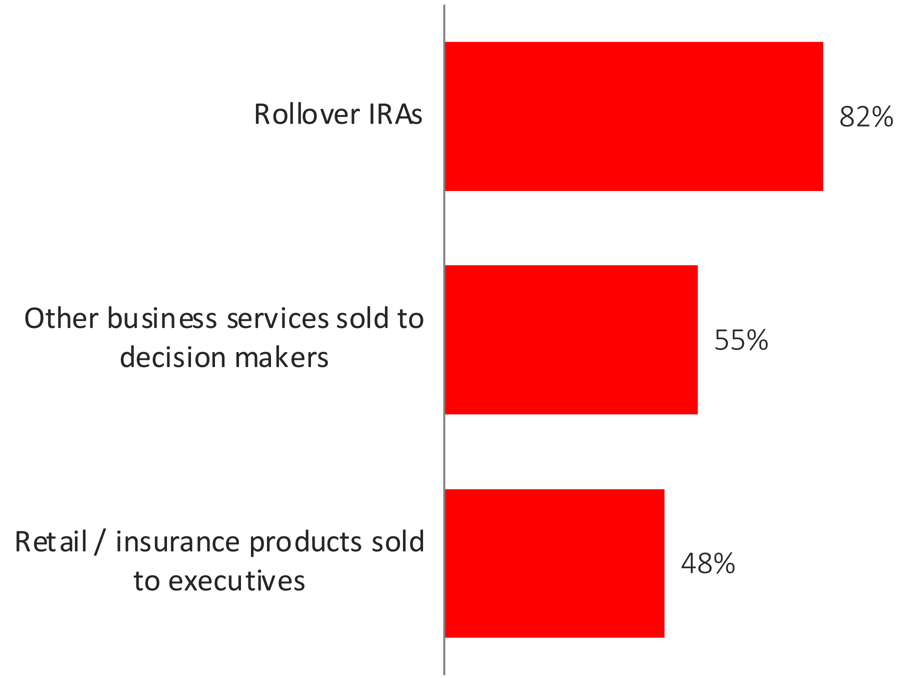


The majority of advisors (85%) said their practice is at least somewhat focused on standard 401(k) plans. The second largest area of focus for many practices are plan types designed for small employers. Two-thirds of advisors reported some level of focus on SEP, SIMPLE, and/or single person 401(k)s.

The attention paid to more complex plan types is lower. 403(b), DB, and NQDC are areas of focus for 30%-40% of advisors.

Wealth & Other Areas of Focus Areas

% of advisors saying "Great deal" or "Somewhat"



401(k) advisors also focus on wealth management and other services. Rollover IRAs top the list by a large margin. Eighty-two percent of advisors reported their practice is at least somewhat focused on capturing rollover assets. About half of advisors sell other business services or retail investment products to executives.

Q10 - To what extent does your retirement plan practice focus on …?

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401(k) and other workplace retirement plans are the primary focus areas for Heavy advisors. Light and Medium advisors place a significant amount of emphasis on 401(k) and Rollover IRAs.

Practice focus – By Segment

% of advisors saying "Great deal" or "Somewhat"

Category	Focus Area	Total	Light	Medium	Heavy
RETIREMENT PLANS	Standard 401(k) plans	85%	74%	93%	98%
	SEP, SIMPLE or single person 401(k)	63%	76%	62%	34%
	Defined benefit or cash balance	41%	27%	52%	60%
	403(b)	34%	25%	32%	61%
	DC + DB	33%	25%	31%	55%
	Non-qualified deferred compensation	30%	23%	32%	41%
WEALTH MANAGEMENT	Rollover IRAs	82%	89%	88%	58%
	Retail investment & insurance sold to executives	48%	46%	57%	38%
OTHER SERVICES	Other business services sold plans you advise	55%	53%	63%	47%
	Employee-pay-all voluntary benefits	17%	13%	23%	15%

Rollover (89%) is a greater focus for Light advisors than 401(k) (74%) and SEP, SIMPLE, or single person 401(k) (76%). Retail investments and other business services are also a relatively high priority in their practices.

Medium advisors are more focused on 401(k) than Light advisors. Ninety-three percent said their practice is at least somewhat focused on 401(k), which is slightly higher than their level of focus on rollovers. Medium advisors are also more likely than Light advisors to service other types of retirement plans, including defined benefit or cash balance plans.

Meanwhile, nearly 100% of Heavy advisor practices are focused on 401(k). In addition, more than half said they focus on other more complex retirement plan types, including defined benefit, 403(b), and combined DC + DB plans. Some Heavy advisors focus on wealth management and other services, but in general these services are less common among this segment.

Q10 - To what extent does your retirement plan practice focus on …

Small plans with less than $10 million in assets make up the majority of an advisor's book of business. Medium and Heavy advisors service a small number of large plans.

Advisor Book of Business – By Segment

Average # of plans and *% of plans by assets*

		Total	Light	Medium	Heavy
	AVERAGE # OF 401(k) PLANS	19	8	24	45
% OF PLANS	<$1M	36%	46%	35%	32%
	$1M to <$3M	28%	28%	28%	27%
	$3M to <$10M	22%	18%	19%	25%
	$10M to <$25M	10%	6%	12%	10%
	$25M to <$75M	4%	2%	4%	4%
	$75M +	1%	1%	1%	2%

The majority of an average advisor's book of business is consists of small plans with less than $10 million in assets. Eighty-five percent of an advisor's book falls into this segment. Plans over $10 million account for 15% of an average advisor's book of business.

There is some variation across advisor segments. Light advisors have smaller books of business, averaging 8 plans, of which nearly 3/4 have less than $3M in assets.

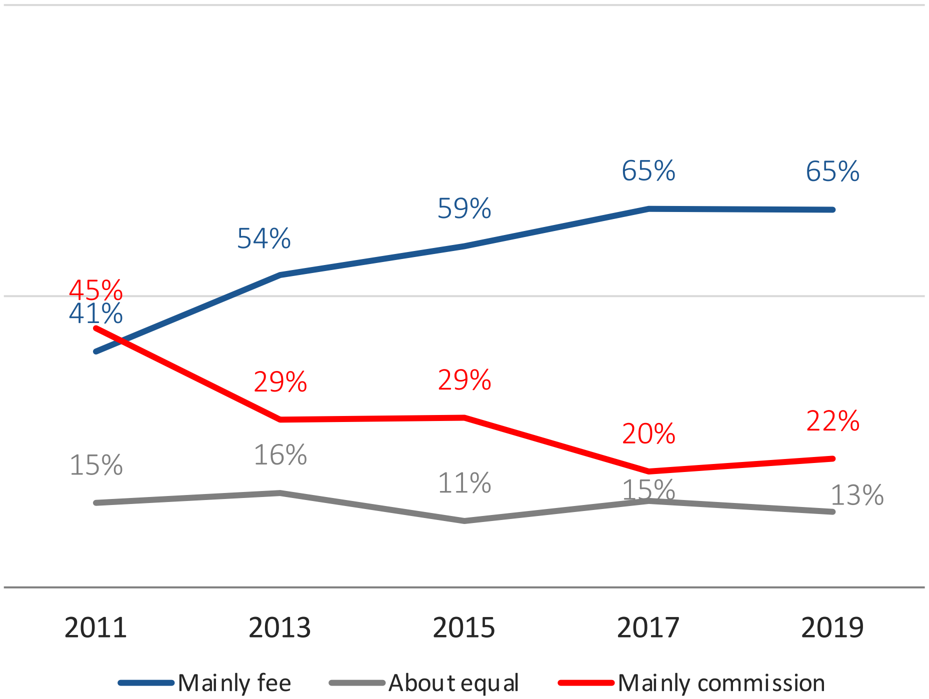
Medium and Heavy advisors have larger books of business, averaging 24 and 45 plans, respectively. A significant portion (60%) of those plans have less than $3 million in assets. Unlike the Light advisors, both Medium and Heavy advisors service a small number larger plans. About 5% of each segment's book of business consists of plans with more than $25 million in assets.

Q37 - Including plans you newly acquired in the past three years, how many plans do you have altogether with assets of …

4 out of 5 advisors reported their practice is mainly fee-based or split between fee-based compensation and commissions. This holds true across advisor segments.

Advisor Compensation Trend

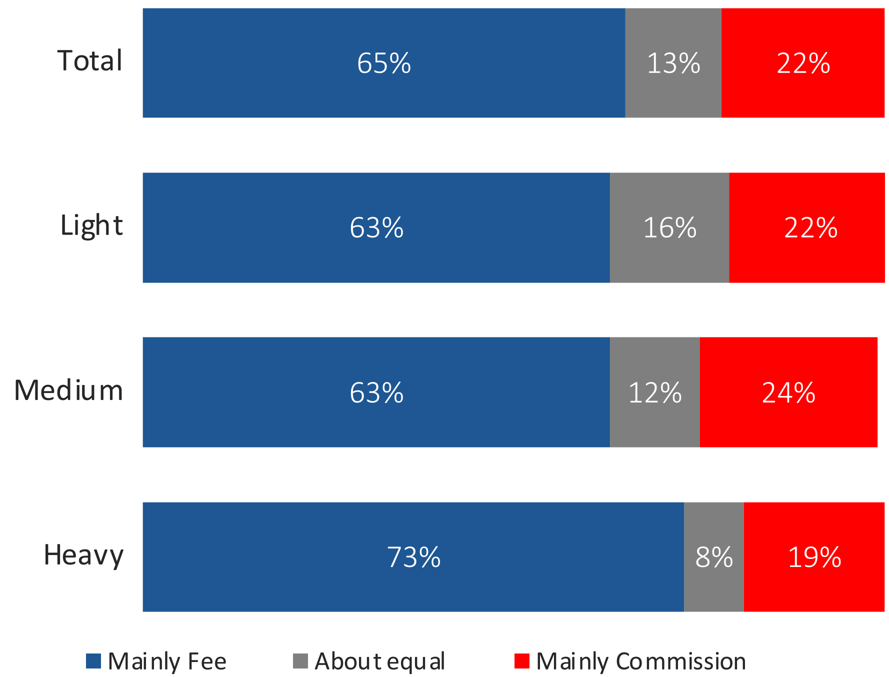
% of advisors



Since 2011, the proportion of advisors reporting their practice is mainly-fee based has increased steadily. The shift to fee-based compensation solidified in 2019, with nearly 4 out of 5 advisors reporting their practices were mainly fee-based or the percentage of fee-based and commission-based compensation were about equal.

Advisor Compensation – By Segment

% of advisors



In all three segments, the majority of advisors reported their practices were mainly fee-based or about equal. Medium and Light advisors continue to catch up. In 2019, just under 80% of each segment reported their practice is mainly fee-based or equally split between fee-based compensation and commissions. Eighty-one percent of Heavy advisors reported some amount of fee-based compensation in their practices.

Q30 - Is your practice mainly fee-based or mainly commission-based?

Very few advisors are unwilling to accept provider proprietary products. Most advisors will consider proprietary product when it is is best in class.

Acceptance of Proprietary Product

% of advisors

	Total	Light	Medium	Heavy
Investment product is best in class	65%	64%	72%	58%
Start-up plan	53%	51%	56%	52%
Included on screened fund lists that provide fiduciary protection	52%	56%	52%	41%
Small plan with low balances and/or cash flow	51%	48%	55%	50%
Significant pricing concessions are available	47%	47%	53%	35%
None, I am not willing to accept provider proprietary products	13%	9%	10%	25%

Very few advisors are unwilling to consider a recordkeeper's proprietary investment product. Only 9% of Light advisors and 10% of Medium advisors said they are not willing to accept any proprietary product. Meanwhile, a quarter of Heavies are against the use of proprietary product.

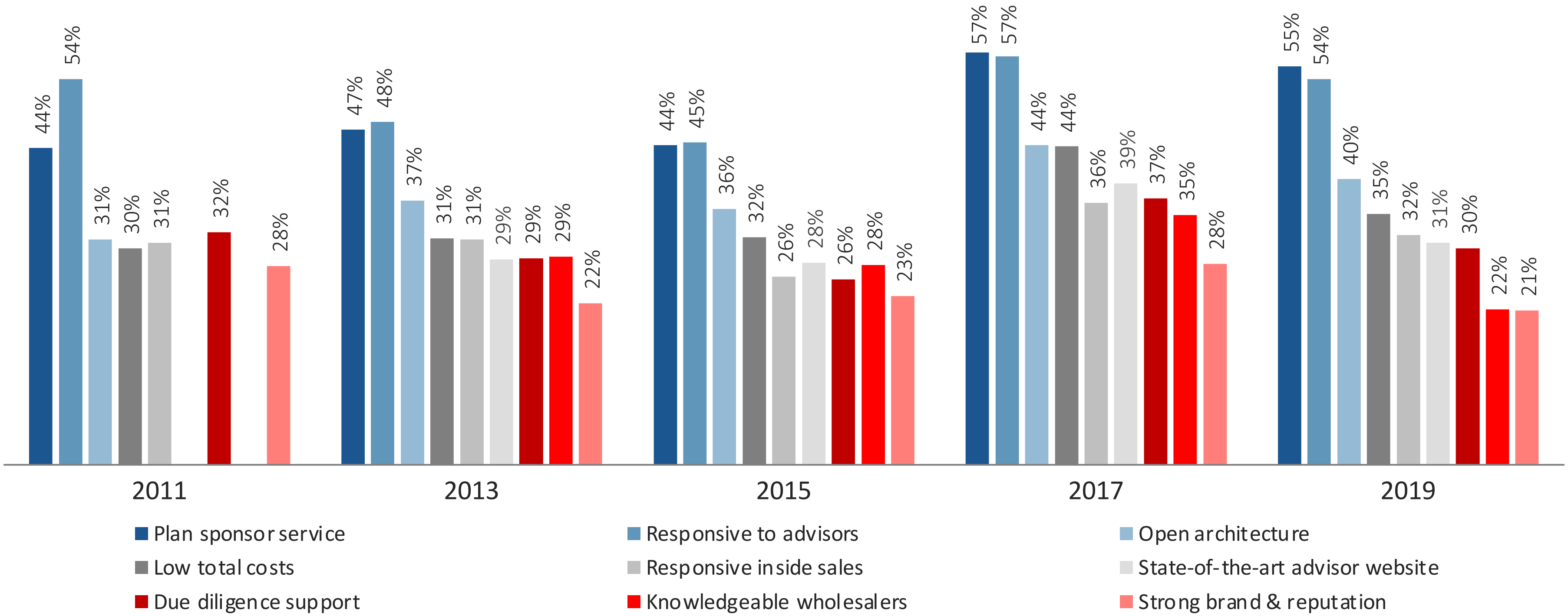
It almost goes without saying that an advisor will consider a provider's proprietary product if it is best-in-class. Depending on the segment, 2/3 to 3/4 of advisors said this is a reason they would consider using proprietary product. About half of advisors are willing to accept proprietary product in situations where the economics of the plan are not great, such as start-up plans or plans with low balances and/or cash flow.

Q.28 - In which situations are you more willing to accept a provider's proprietary investment product in a plan's fund lineup?

Sponsor and advisor service have been, and continue to be, advisors' most important criteria for recommending or including a recordkeeper in a search.

Recordkeeper Selection Criteria Trend

% of advisors saying criteria is "Absolutely essential"



Year after year, advisors say *Responsiveness to advisors* and *Plan sponsor service* are the two most important criteria for recommending or including a recordkeeper in a search. None of the other trended criteria come close to matching the level of importance placed on these two service criteria.

In recent years, *Open architecture* and *Low total costs* have become more important. In 2011, 31% of advisors said *Open architecture* was "Absolutely essential." This has risen by 9 points to 40% in 2019. The importance of *Low total costs* has also increased 5 points during the same period.

The importance of recordkeepers' *Strong brand & reputation* and *Knowledgeable wholesalers* may be waning. The importance of both criteria have experienced declines of several points in recent years.

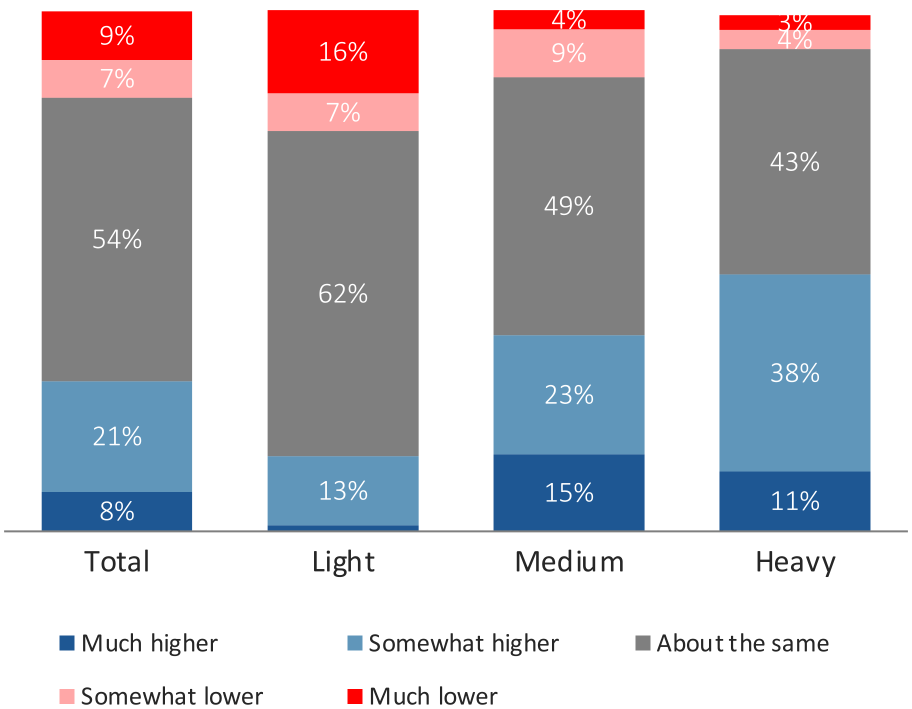
Q21 - In selecting 401(k) providers to recommend or include in a search, how important is …

Advisor Sales & Search Activity

Most advisors reported business development activity during 2019 was similar to 2018. Medium and Heavy advisors were more likely to report activity increased.

Change in Prospecting Activity – By Segment

% of advisors

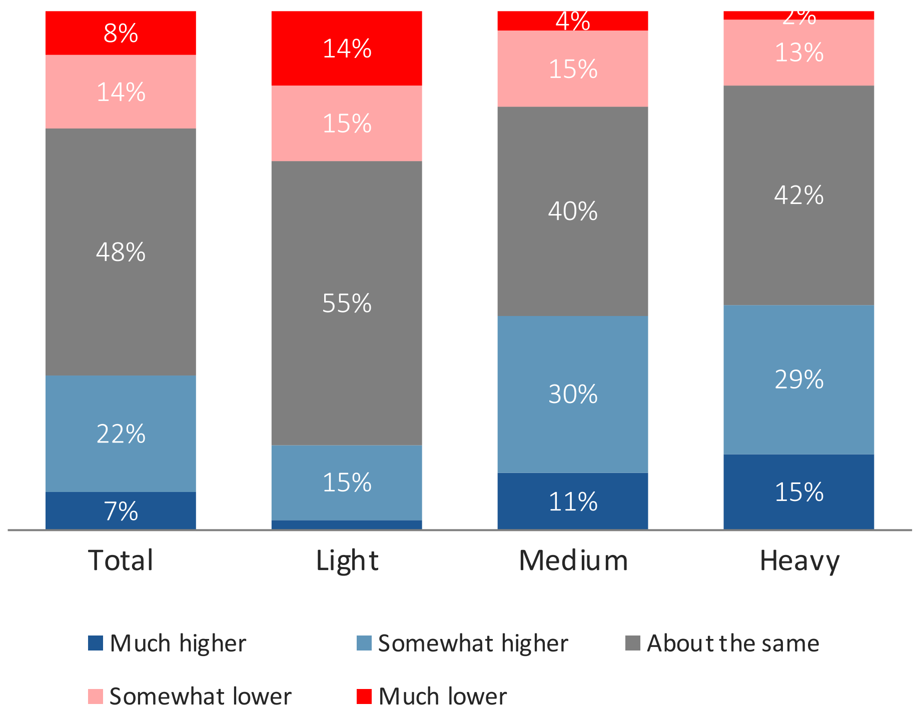


Prospecting activity did not change very much for most advisors. Fifty-four percent of all advisors reported prospecting activity was about the same as last year. Just under one-third indicated prospecting activity increased.

Medium and Heavy advisors were more likely to report an increase in prospecting. Thirty-eight percent of Medium and 49% of Heavy advisors said their prospecting activity was higher compared to the previous year.

Change in Proposal Activity – By Segment

% of advisors



Nearly 50% of all advisors said proposal activity was about the same as the previous year. Twenty-nine percent reported higher levels of activity while 22% reported a decrease in proposals.

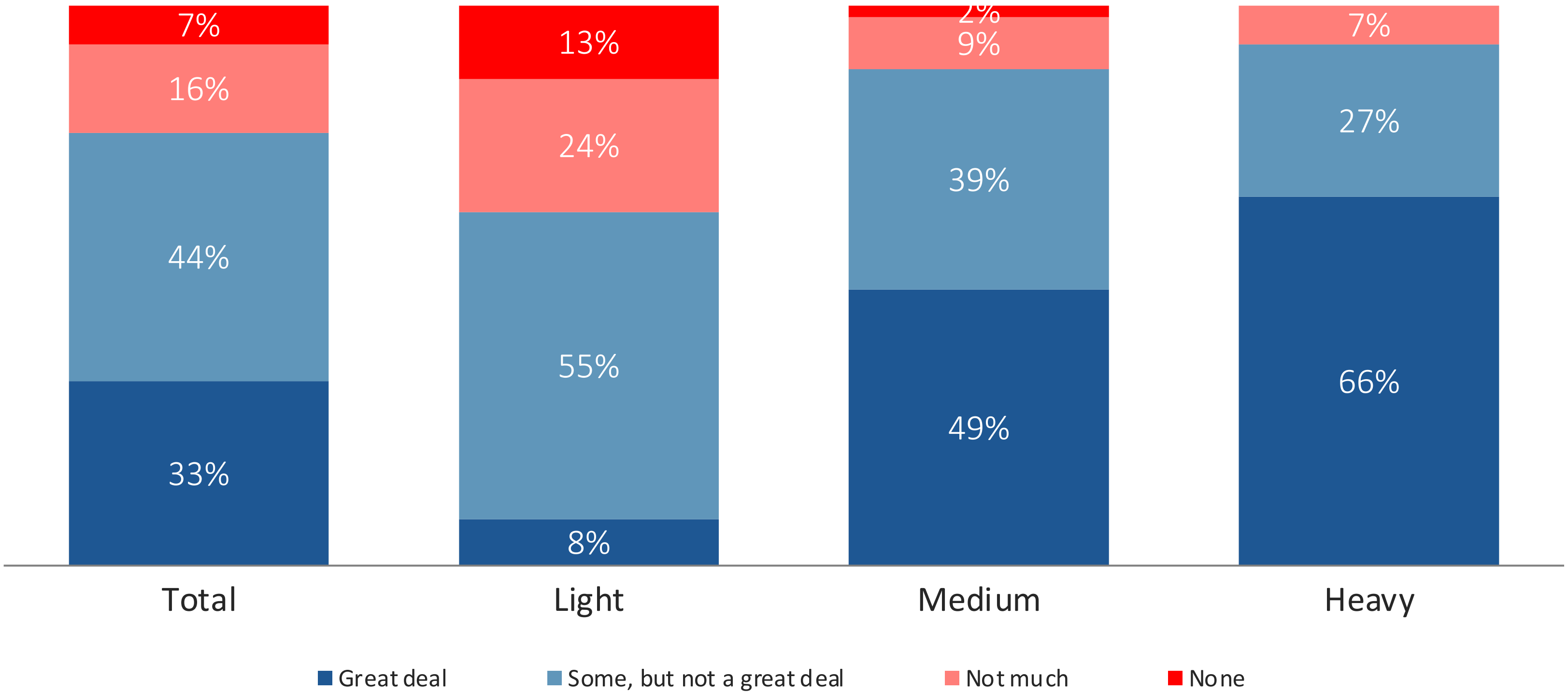
Medium and Heavy advisors were more likely to report an increase in proposal activity. Forty-one percent of Medium advisors reported an increase in proposals, 12 points higher than the total. A similar percentage of Heavy advisors, 44%, also reported an increase.

Q5 - Compared to a year ago, is your 401(k) (insert each item) today much higher, somewhat higher, about the same, somewhat lower or much lower than it was?

Approximately 90% of Medium and Heavy advisors plan to place at least some emphasis, if not a great deal, on growing their DC practice in the coming year.

Emphasis on Growing 401(k) Business – By Segment

% of advisors



The majority of advisors expect to place at least some emphasis on growing their defined contribution practices in the next 12 months. This is especially true for Medium and Heavy advisors. Eighty-eight percent of Medium and 93% of Heavy advisors plan to place at least some emphasis on growing their defined contribution practices. Two-thirds of Heavy advisors will place a "great deal".

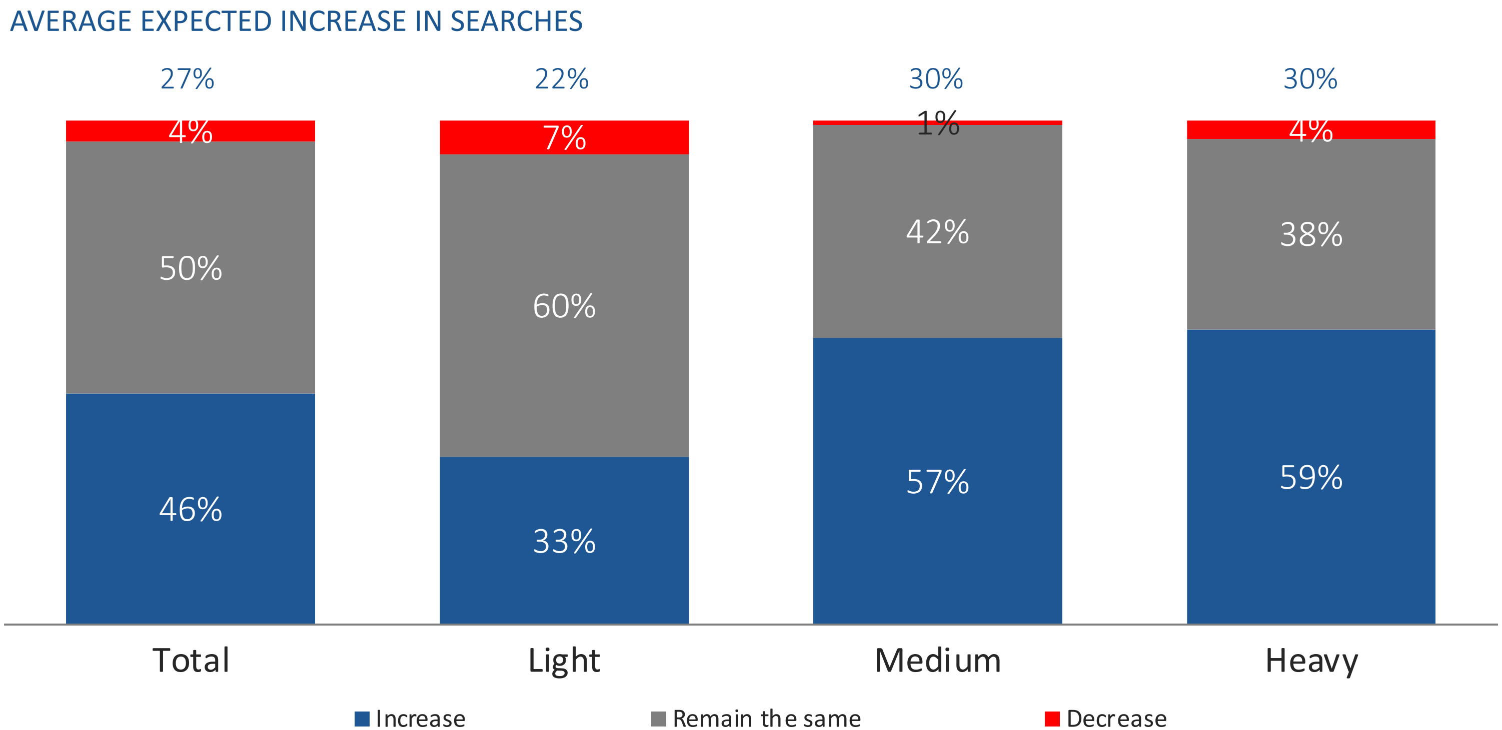
Year-over year, the emphasis on growing their DC practice did not change much for Medium and Heavy advisors. The percentage of Light advisors placing emphasis on growing their DC practice did increase 8 points, from 55% in 2018 to 63% in 2019.

Q6 - In the year ahead, how much emphasis do you expect to place on growing your 401(k) business?

Advisors are split – half expect sales activity in the next year to remain stable while the other half expects a modest increase in activity.

Expected Change in Searches & Review Activity – By Segment

% of advisors



Just under half of all advisors, and closer to 60% of Medium and Heavy advisors, expect search activity to increase in 2020. Advisors expecting an increase reported search and review activity will go up 27%, on average. The remaining advisors expect search activity will remain the same. This is especially true of Light advisors, of which 60% expect search activity will not increase or decrease.

Q7a - Do you expect due diligence and new recordkeeping provider searches to increase, decrease or remain the same in the coming year?
Q7b - By what percentage do you expect due diligence and new recordkeeping provider searches to increase for your practice in the coming year?

Medium and Heavy advisors say plan processes, led by fee benchmarking, will have the greatest impact on recordkeeper reviews and selection.

Drivers of Reviews and Recordkeeper Selection – By Segment

% saying "Major impact"

Category	Driver	Total	Light	Medium	Heavy
PLAN PROCESS	Fee benchmarking	39%	29%	45%	51%
	Regular plan due diligence	28%	25%	30%	33%
	Changes in plan design	15%	12%	17%	21%
INDUSTRY	Anticipated regulatory change	33%	36%	35%	23%
	Provider consolidation	15%	10%	18%	20%
	Promotional initiatives by providers	7%	6%	8%	7%
INVESTMENTS	Investment offering	27%	28%	29%	23%
	Market performance	20%	19%	23%	20%

According to advisors, fee benchmarking and regular plan due diligence will have the largest impact on the volume of plan reviews and provider selections. According to 45% of Medium and 51% of Heavy advisors, fee benchmarking is the biggest driver of search and selection activity. About 1/3 of Light and Medium advisors, respectively, cited anticipated regulatory change as a potential driver. The SECURE Act was pending while the survey was in field, so this percentage may have changed now that the legislation has passed.

Q9 - Please indicate whether you expect each to have a major impact, a minor impact or no impact at all on the rate of plan due diligence reviews and the selection of new recordkeeping providers in your practice

Medium and Heavy advisors have large proposal pipelines that dwarf Light advisors. Nearly ¼ of Light advisors reported no sales pipeline and 1/3 have less than $5 million.

Market Value of Sales Pipeline – By Segment

% of advisors

	Total	Light	Medium	Heavy
AVERAGE PIPELINE ($M)	$43.9	$12.4	$62.8	$93.7
None	16%	26%	5%	9%
<$1M	6%	8%	7%	2%
$1M to <$5M	16%	23%	12%	5%
$5M to <$10M	8%	9%	10%	3%
$10M to <$25M	16%	15%	16%	16%
$25M to <$50M	9%	5%	14%	14%
$50M to <$100M	5%	3%	5%	11%
$100M+	11%	2%	13%	28%

The market value of the proposal activity in an average advisor's pipeline is approximately $44 million. This varies significantly across advisor segments.

Light advisors have, on average, $12.4 million of proposal activity in their pipeline. One-third have less than $5 million in their pipeline and another 26% reported no proposal activity.

The average Medium advisor has $62.8 million, which is nearly 5x the pipeline of an average Light advisor. Just over 30% of Medium advisors have more than $25 million of proposal activity.

Meanwhile, Heavy advisors have the largest sales pipelines and by a large margin. On average, a Heavy advisor's proposal pipeline is just under $94 million. The norm is at least $10 million or more, and 28% report pipelines in excess of $100 million.

Q8 - What is the market value of 401(k) proposal activity in your pipeline?

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