Retirement Services Intermediaries 14

Summary of key findings for survey participants

April 2021

Methodology

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This report represents the findings from the 14th study in the Retirement Services Intermediaries series that began in 2000. The survey was conducted online and by telephone between October 2020 and January 2021. In total, 607 advisors deriving fee or commission income from 401(k) plans provided responses.

NMG Share of Income Segmentation

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

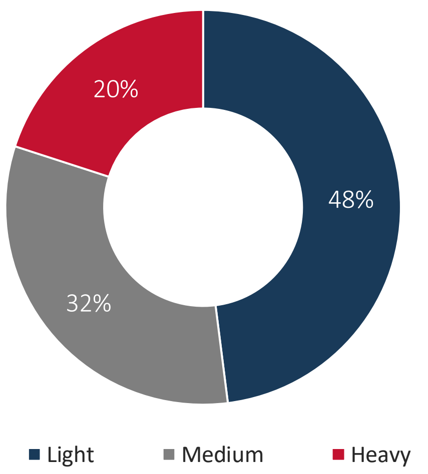
Medium

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

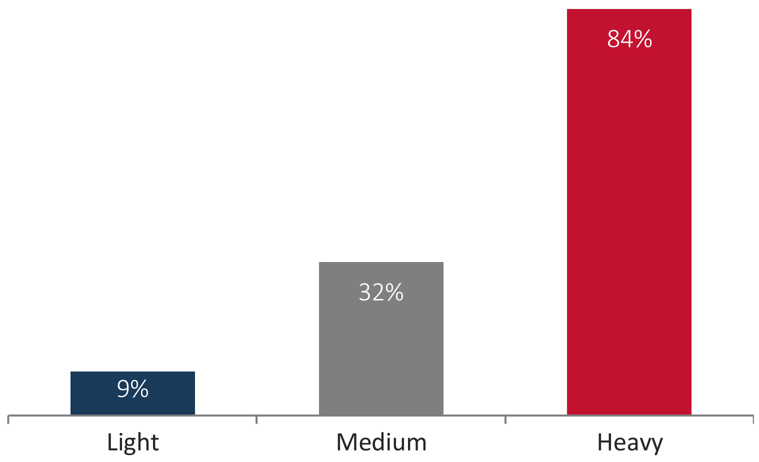
Heavy

60%+ of practice revenue comes from DC plan fees – Average income >80%
Fully committed to DC business and most attractive to recordkeepers
Consider themselves experts and thought leaders
Sell and service plans under <$100M

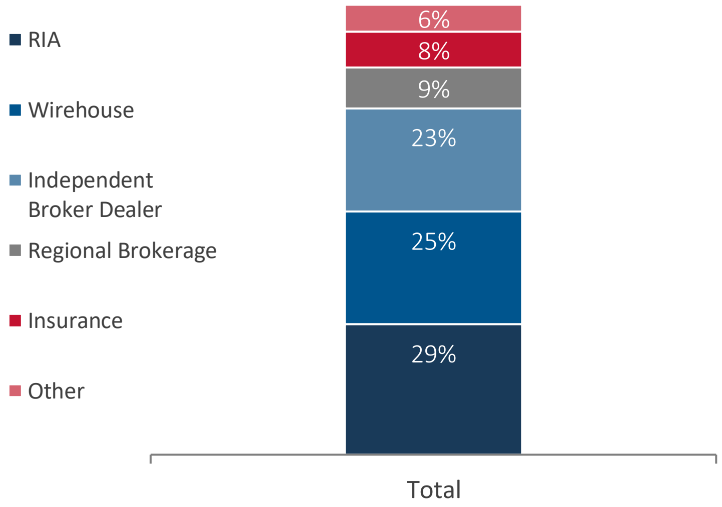
Share of 401(k) Income
% of advisors



Income Derived from 401(k)
Average % of income from DC plans



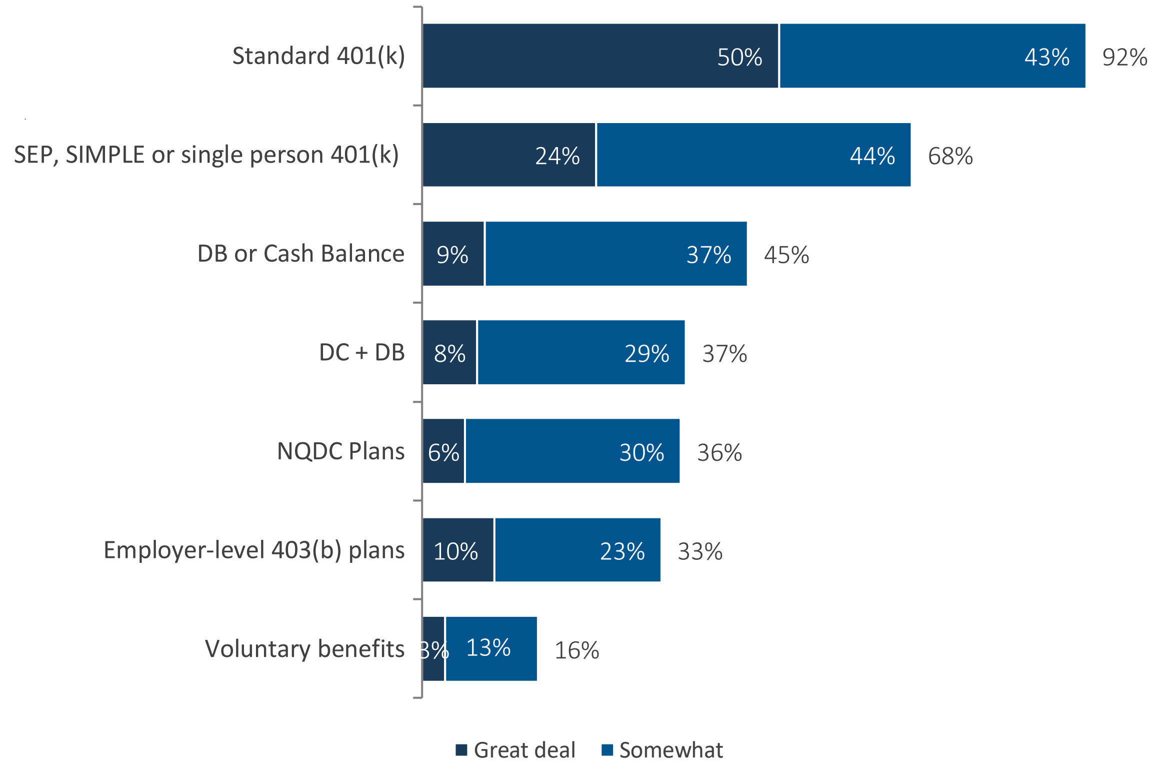
Channel Distribution
% of advisors



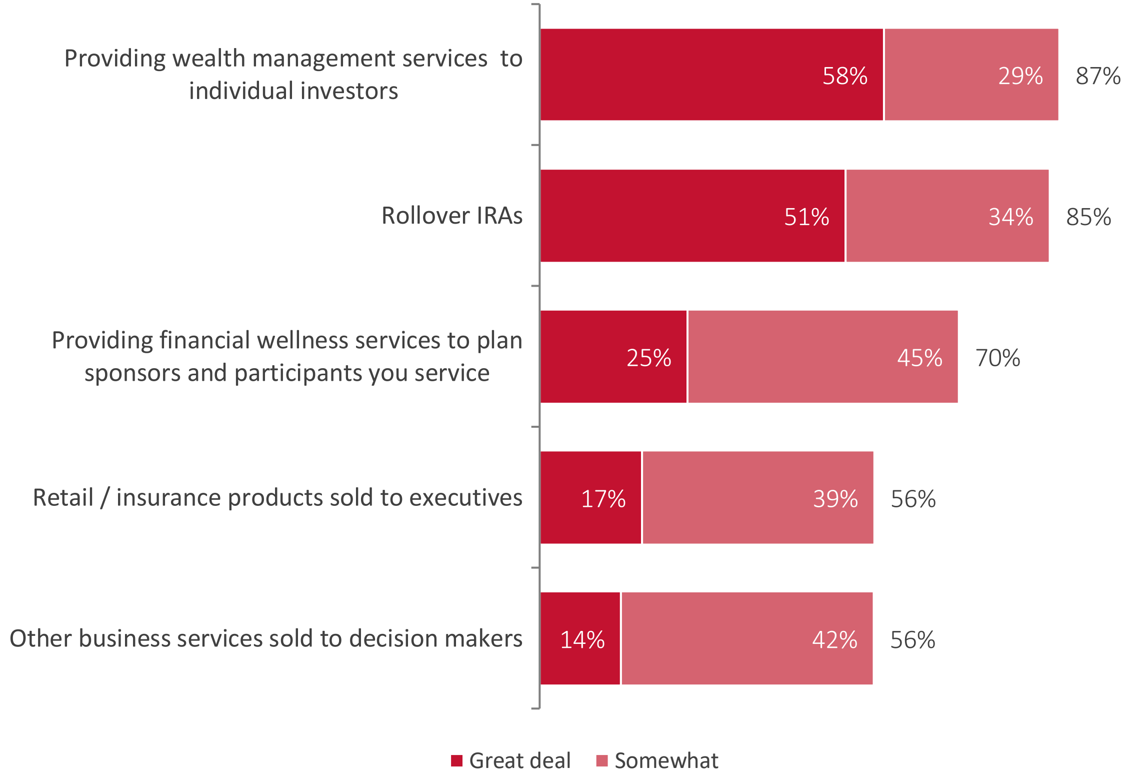
Advisor Practice Trends

Practice Focus
All Advisors

Focus on Workplace Plans
% of advisors saying *Great deal* or *Somewhat*



Focus on Wealth & Other Services
% of advisors saying *Great deal* or *Somewhat*



Most advisors (92%) 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.

401(k) advisors also focus on wealth management and other services. Rollover IRAs (85%) and wealth management (87%) top the list by a large margin, with a majority of saying these receive a *Great deal* of focus.

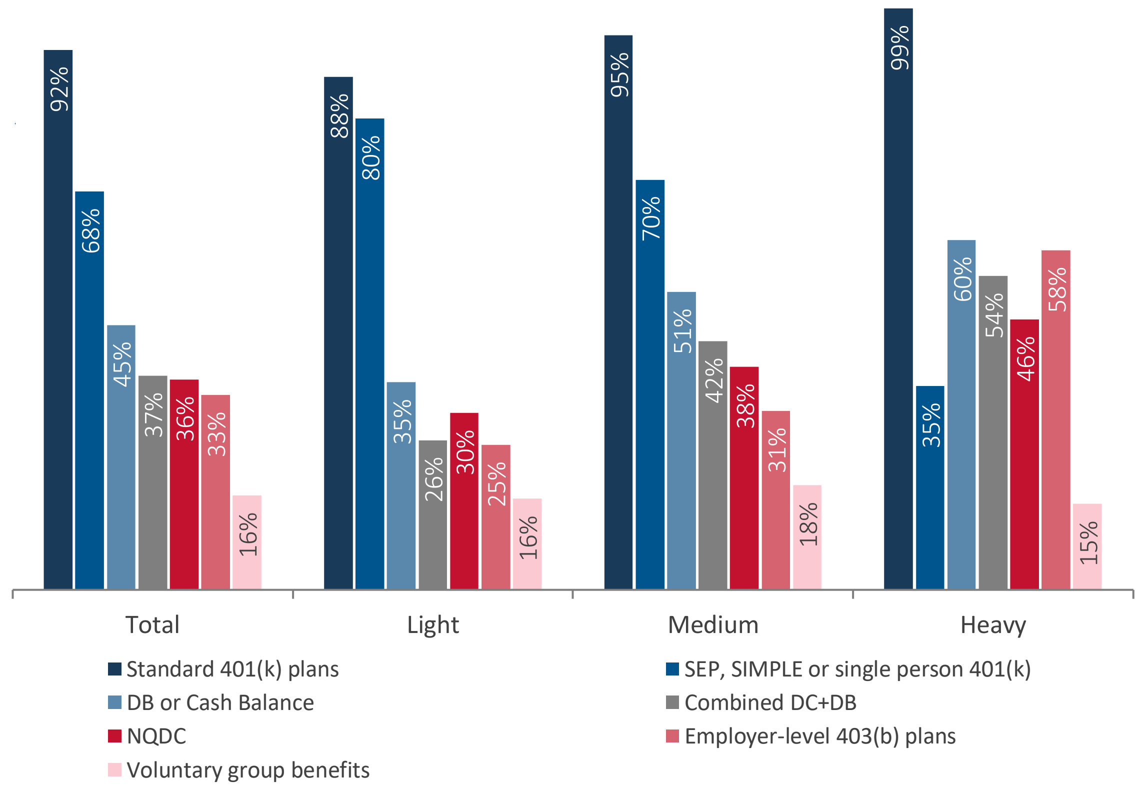
Seventy percent of advisors are at least somewhat focused on financial wellness. However, just 25% say this receives a *Great deal* of focus within their practice.

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

Practice Focus by Segment

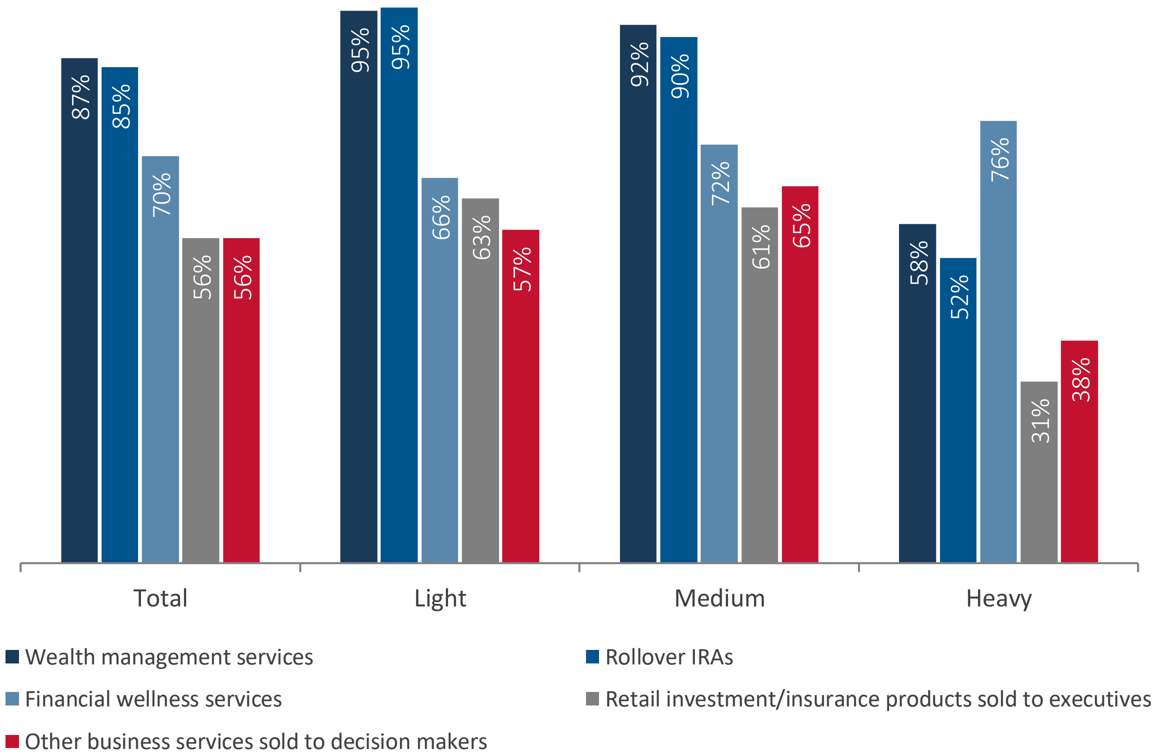
Focus on Workplace Plans – by Segment

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



Focus on Wealth & Other Services – by Segment

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



Rollover and wealth management remains a greater focus for Light advisors than 401(k) and SEP, SIMPLE, or single person 401(k), but the gap has narrowed. The percentage of Light advisors at least Somewhat focused on 401(k) increased 14 points to 88% in 2020.

Medium advisors are more focused on 401(k) than Light advisors. Ninety-five percent said their practice is at least Somewhat focused on 401(k). Medium advisors are also more likely than Light advisors to service other types of retirement plans. Both segments focus on rollover and other wealth related services.

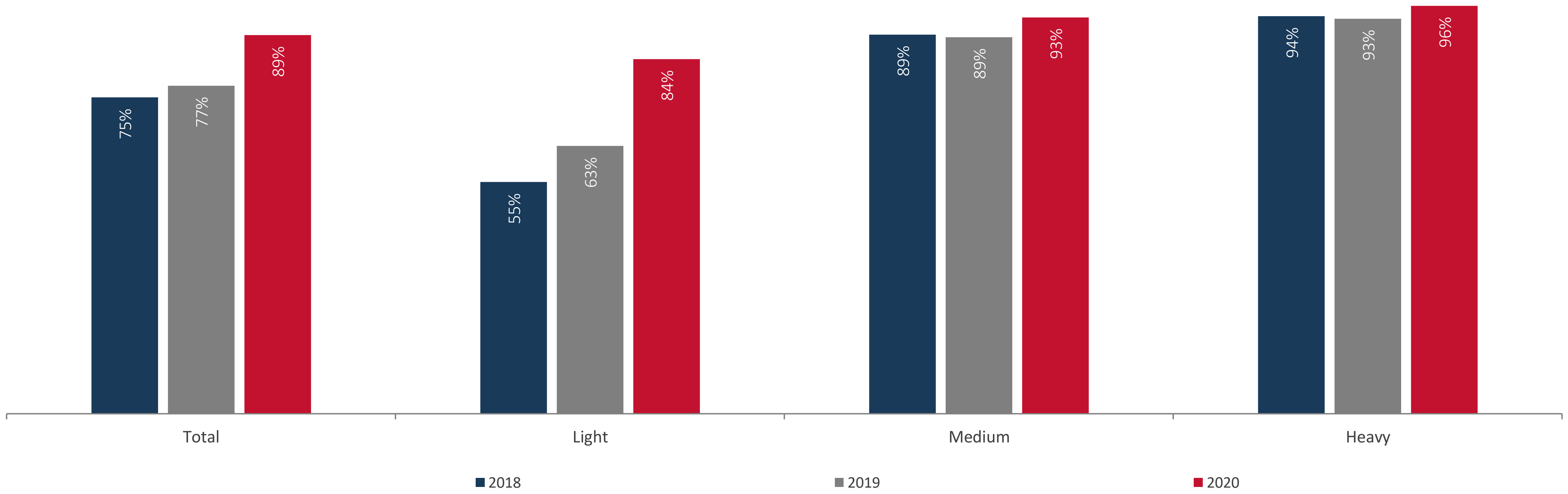
Meanwhile, Heavy advisors are retirement plan specialists with nearly 100% focused on 401(k) and more than half focused on other more complex retirement plan types, including defined benefit, 403(b), and combined DC + DB plans.

Financial wellness is a priority for advisors, regardless of segment. Seventy percent of all advisors report some level of focus on financial wellness.

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

Emphasis on Growth by Segment

Emphasis on Growing 401(k) Business Trend – By Segment
% of advisors expect to place *a Great deal* or *Some* emphasis



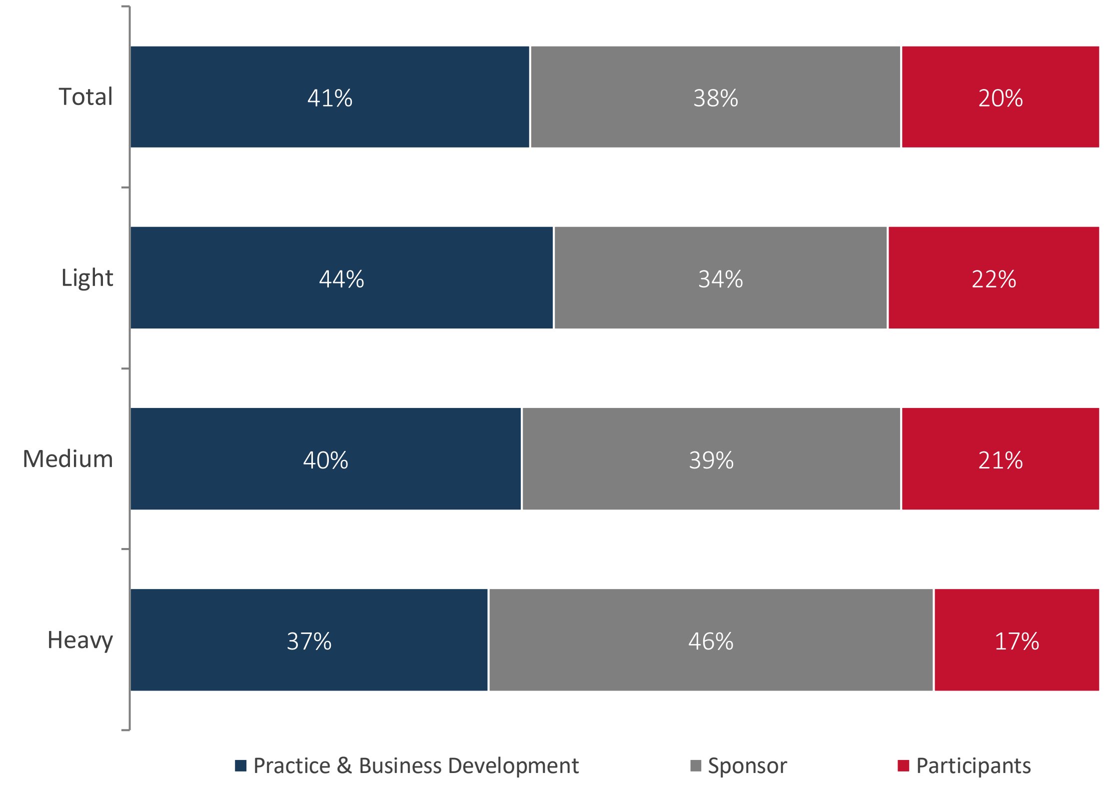
Consistent with previous years, nearly all Medium and Heavy advisors expect to focus on growing their defined contribution practices in the year ahead.

Light advisors appear to be shifting their focus to 401(k). Eighty-four percent of this segment plans to place at least some focus on growing their 401(k) practice – a 30 point increase from 2018. There has been a slow and steady increase in their tenure and share of income from 401(k), which indicates their practices are maturing.

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

Time Spent on 401(k) Practice by Segment

Allocation of Time – by Segment
% of time spent



Allocation of Time – by Segment
% of time spent

	Activity	Total	Light	Medium	Heavy
Practice	Managing practice	23%	27%	21%	14%
Practice	Prospecting for new 401(k) clients	11%	9%	11%	14%
Practice	Building knowledge and staying current with 401(k) topics	7%	6%	8%	9%
Sponsor	Conducting plan investments and performance reviews	13%	12%	12%	15%
Sponsor	Communicating with plan sponsors	12%	11%	13%	13%
Sponsor	Resolving issues and questions for plan sponsors	8%	7%	8%	10%
Sponsor	Participating in the RFP, search, and review process	6%	5%	6%	8%
Participants	Working directly with 401(k) plan participants either 1:1 or in a group	13%	13%	13%	11%
Participants	Resolving issues and questions for plan participants	8%	9%	8%	6%

Advisors spend 40%+ of their time on practice management and business development. A large portion of that time is allocated to running their day-to-day activities required to manage their practices.

Sponsors consume the second largest amount of an advisor's time (38%). Regular reviews of plan metrics and investments, as well as communication with plan sponsors, consume the most time in this category.

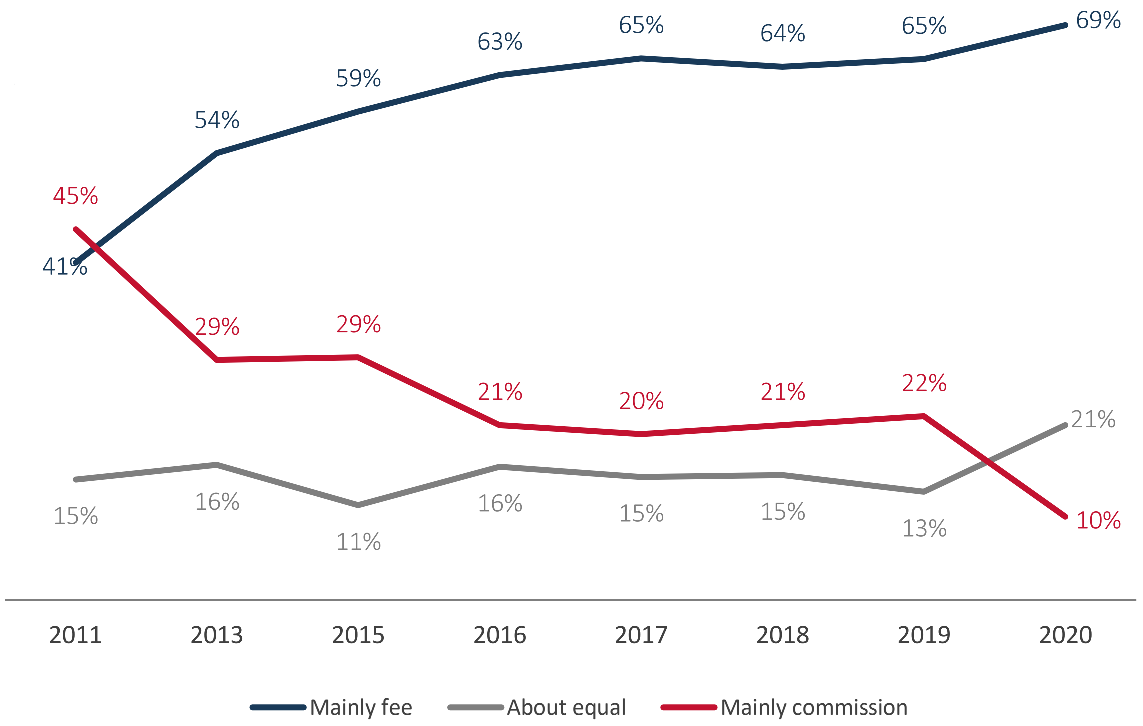
Participant interactions place a smaller demand on an advisor's time. Twenty-percent of an advisor's time is spent here, mostly in 1:1 or group meetings.

With larger, more established practices, Heavy advisors allocate their time a bit differently. Most of their time (46%) is spent working with plan sponsors, with slightly more time spent on each activity than the other segments. This increase is offset by a reduction in time spent managing their practices and spending less time with participants.

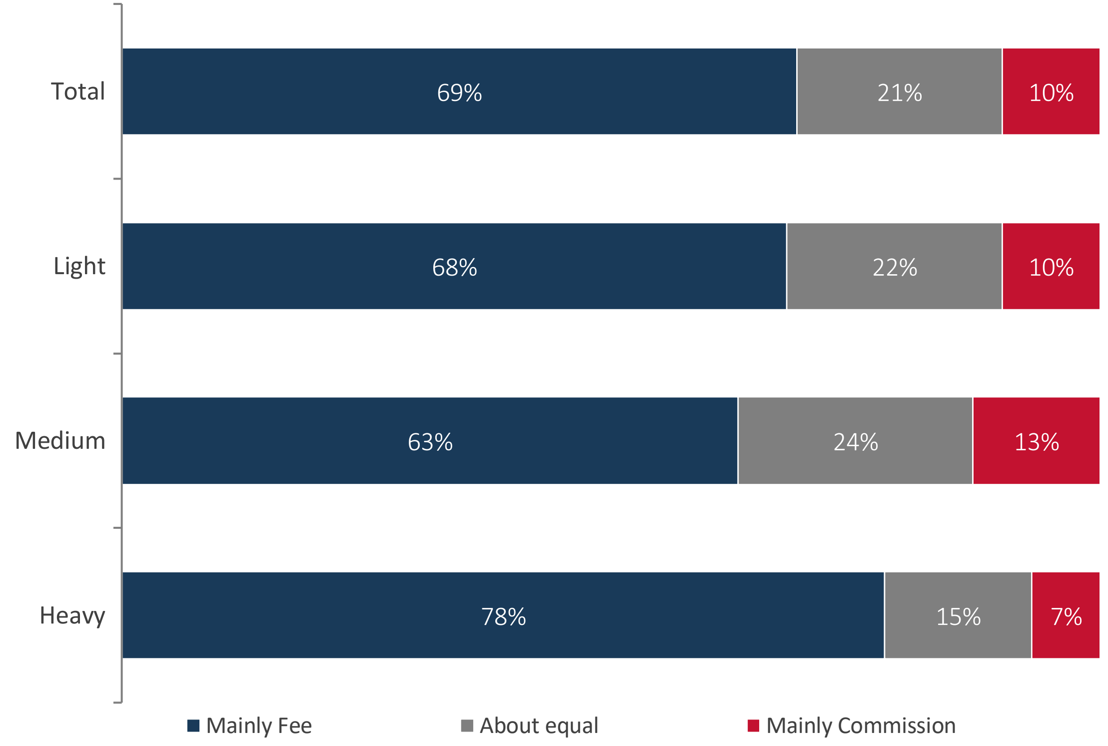
Q9a: Now we would like you to think about how your time is spent supporting your 401(k) practice during a typical year. Please indicate how your time is allocated to the following activities.

Compensation Trend
All Advisors and by Segment

Compensation Trend
% of Advisors



Advisor Compensation – by Segment
% of Advisors



The shift to fee-based compensation is nearly complete. Ninety percent of advisors reported their practices were mainly fee-based or the percentage of fee-based and commission-based compensation were about equal. Meanwhile, advisors who are mainly commission based dropped 10 points. This drop was most notable in the insurance and regional broker-dealer channels.

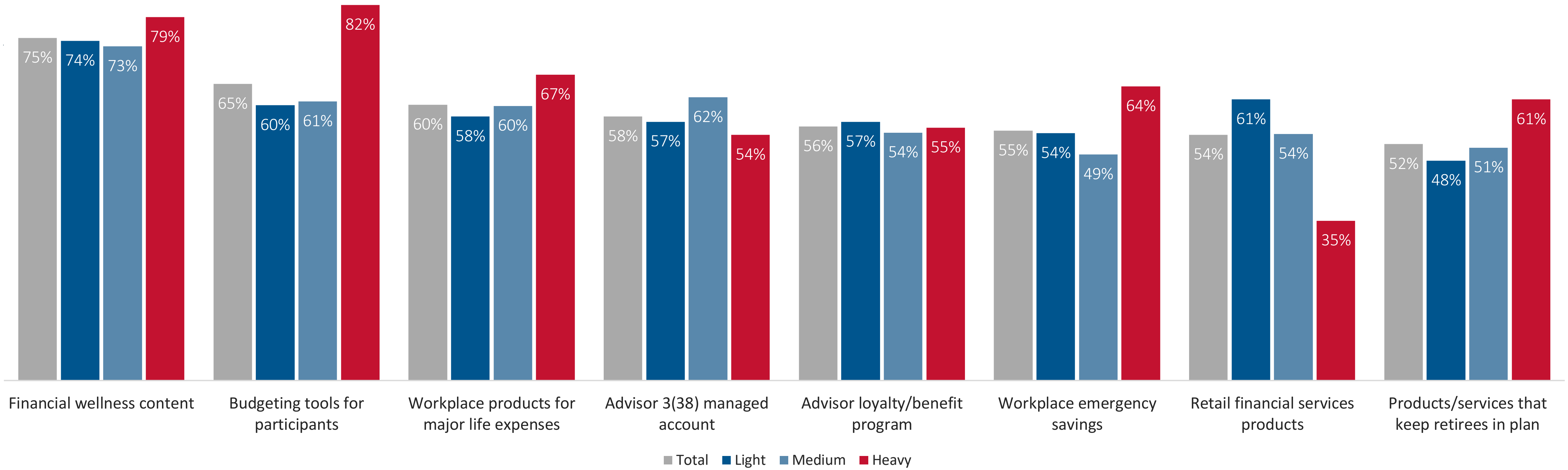
Nearly 90% of Light and Medium advisors reported their practice is mainly fee-based or equally split between fee-based compensation and commissions.

Ninety-three 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?

Interest in Products and Services by Segment

Advisor Interest in Products & Services – by Segment
% of advisors *Very Interested* or *Somewhat Interested*



Advisors broadly, and especially the Heavy segment, express a strong interest in financial wellness content and supporting tools to assist participants.

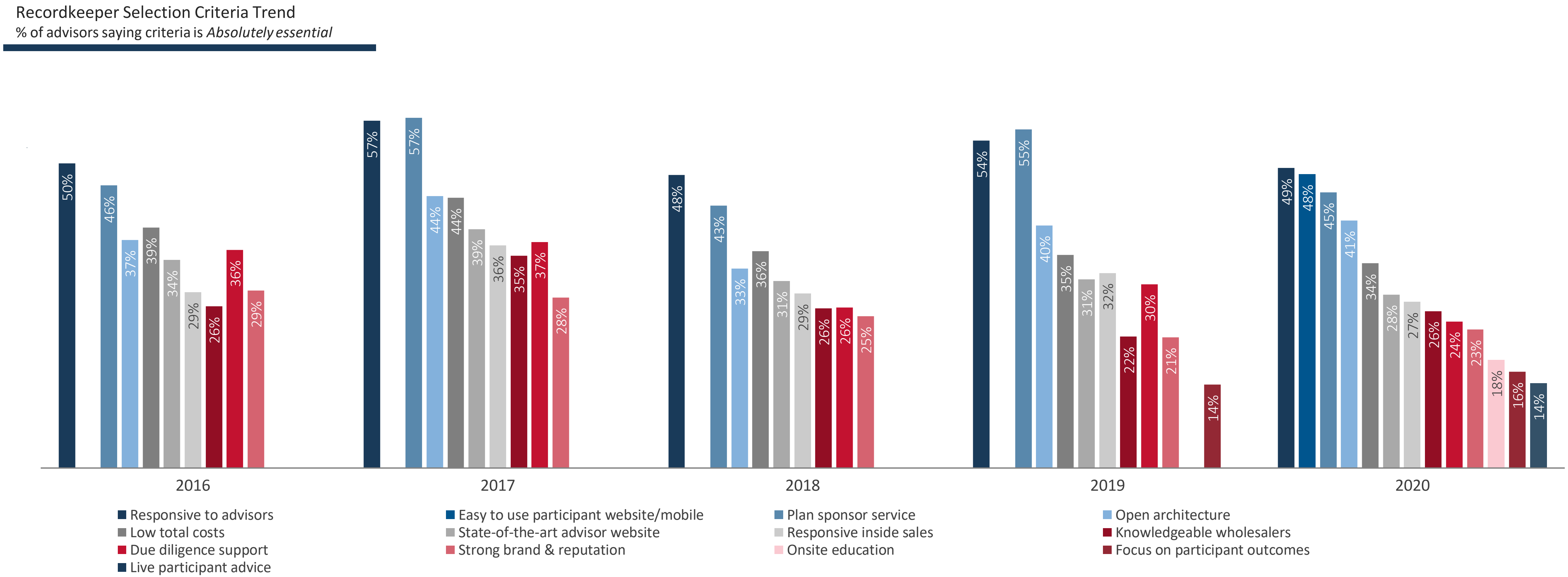
There is less interest in financial products (i.e., HSAs, student loan programs, emergency savings) offered through the workplace. Heavy advisors appear to be the most open to these products as this is a natural extension of the financial wellness conversations they are having with participants.

Interest in recordkeepers offering retail financial products is relatively strong among Light and Medium advisors. Heavy advisors are not.

A little more than half of advisors expressed interest in a compliance friendly advisor loyalty/benefit program. This response is consistent across Light, Medium, and Heavy Advisors.

q17a: What is your level of interest in using the following products and services if offered by recordkeepers?

Recordkeeper Selection Criteria Trend
All Advisors



Year after year, advisors say Responsiveness to advisors and Plan sponsor service are two of the most important criteria for recommending or including a recordkeeper in a search. This trend continues in 2020.

Easy to use participant website/mobile experience was added in 2020 and 48% of advisors responded to say this feature is *Absolutely essential*. This puts the criteria among the top-3 and on the same level as Responsiveness to advisors and Plan sponsor service.

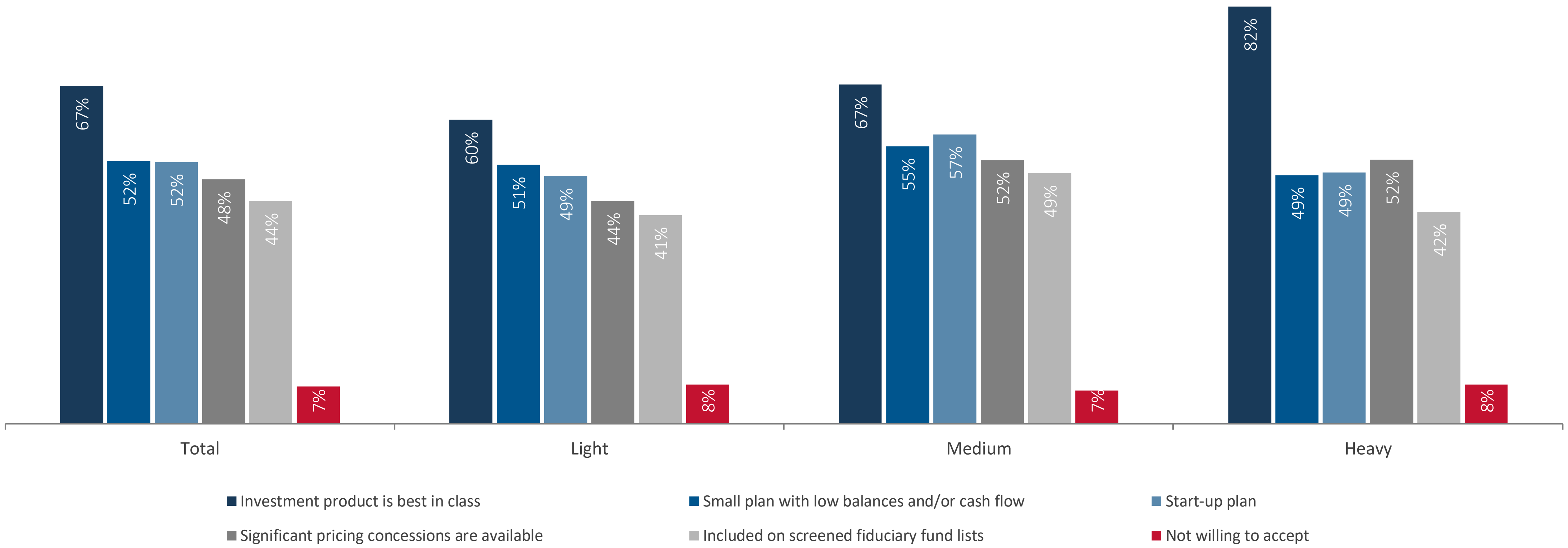
The importance of Due diligence support continues to decline. In 2016, 36% of advisors considered this form of support *Absolutely essential*. This has dropped 12 points to 24% in 2020.

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

Investments

Acceptance of Recordkeeper's Proprietary Product by Segment

Acceptance of Proprietary Product
% of Advisors



Very few advisors are unwilling to consider a recordkeeper's proprietary investment product. On average, 7% of advisors said they are not willing to accept a recordkeeper's proprietary product. There is little variation across the segments.

It almost goes without saying that an advisor will consider a provider's proprietary product if it is best-in-class. Heavy advisors expressed the strongest sentiment on this criteria, with 82% citing it.

About half of advisors are willing to accept proprietary product in situations where the economics of the plan are sub-optimal, such as start-up plans or plans with low balances and/or cash flow.

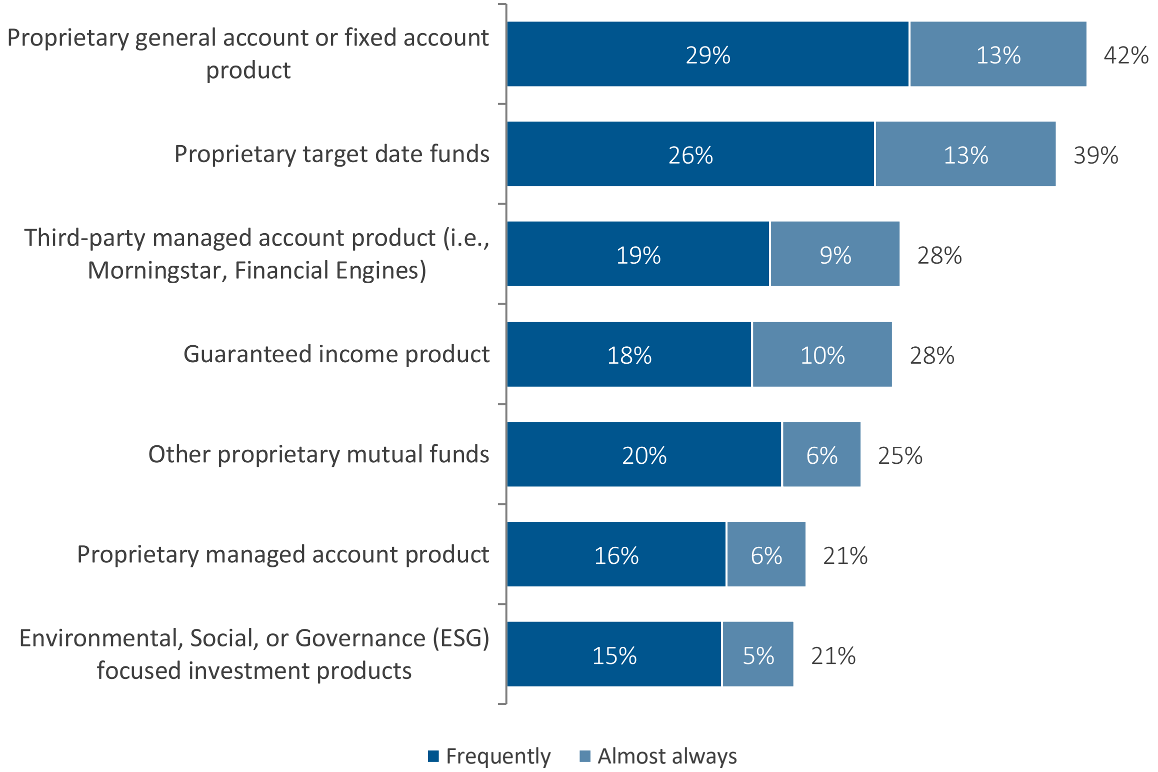
Medium and Heavy advisors are also open to considering proprietary product if there is some form of pricing concession made by the recordkeeper.

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

Investment Product Utilization
All Advisors and by Segment

Utilization of Investment Product

% of Advisors



Utilization of Investment Product – by Segment

% of Advisors using investment option *Almost always or frequently*

	Total	Light	Medium	Heavy
Proprietary general account or fixed account product	42%	41%	38%	48%
Proprietary target date funds	39%	47%	37%	24%
Third-party managed account product (i.e., Morningstar, Financial Engines)	28%	33%	26%	20%
Guaranteed income product	28%	28%	27%	28%
Other proprietary mutual funds	25%	26%	26%	21%
Proprietary managed account product	21%	24%	20%	18%
Environmental, Social, or Governance (ESG) focused investment products	21%	22%	21%	15%

Proprietary general accounts and target-date funds are used often by advisors. About 40% of advisors reported they use these products *Frequently or Almost always*.

Other proprietary products have less traction. One-quarter of advisors reported using a recordkeeper's other funds at least *Frequently*. A slightly lower percentage reported using a recordkeeper's proprietary managed account.

Use of a recordkeeper's general account is strong among Heavy advisors. Forty-eight percent reported using the product at least *Frequently*. Utilization of proprietary target date funds is much lower at 24%.

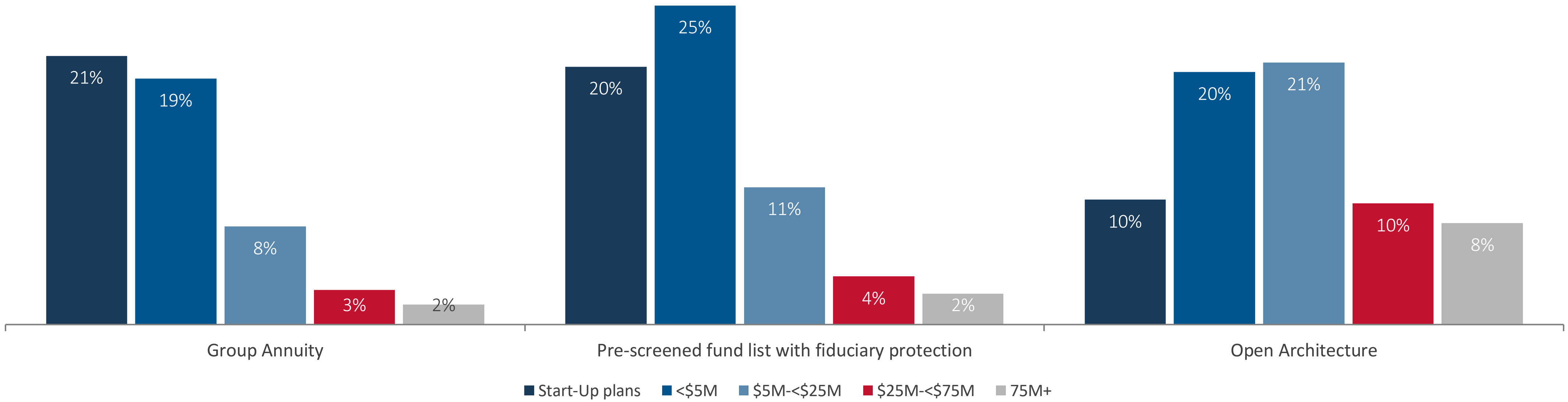
Managed account use, both third-party and proprietary, is higher among Light and Medium advisors.

 Q43c: How often do you use the following investment options in plan investment lineups:

Investment Product Fit
All Advisors

Investment Product Fit
% of advisors

	Group Annuity	Fund List w/ Fiduciary Protection	Open Architecture
Any size plan	12%	38%	55%
None	50%	21%	5%



Over half of advisors typically recommend open architecture for any plan size and only 5% said they never recommend the platform. The advisors that indicated a specific plan size are more inclined to recommend open architecture to plans with more than $5M in assets.

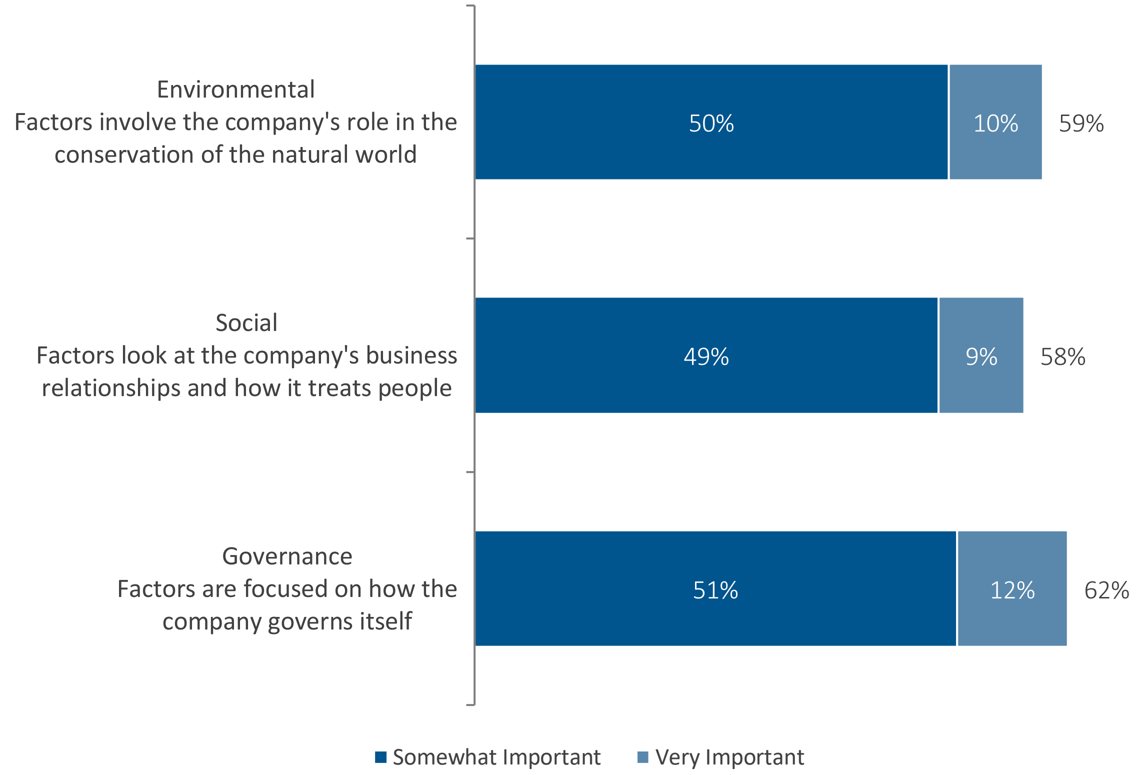
According to advisors, group annuity products and pre-screened fund lists are most appropriate for small plans with <$5M in assets. Nearly half reported group annuities are not recommended for any of the plans they advise.

Fiduciary fund lists are also recommended for smaller plans with <$5M in assets. A little more than one-third have recommended this product to any plan size.

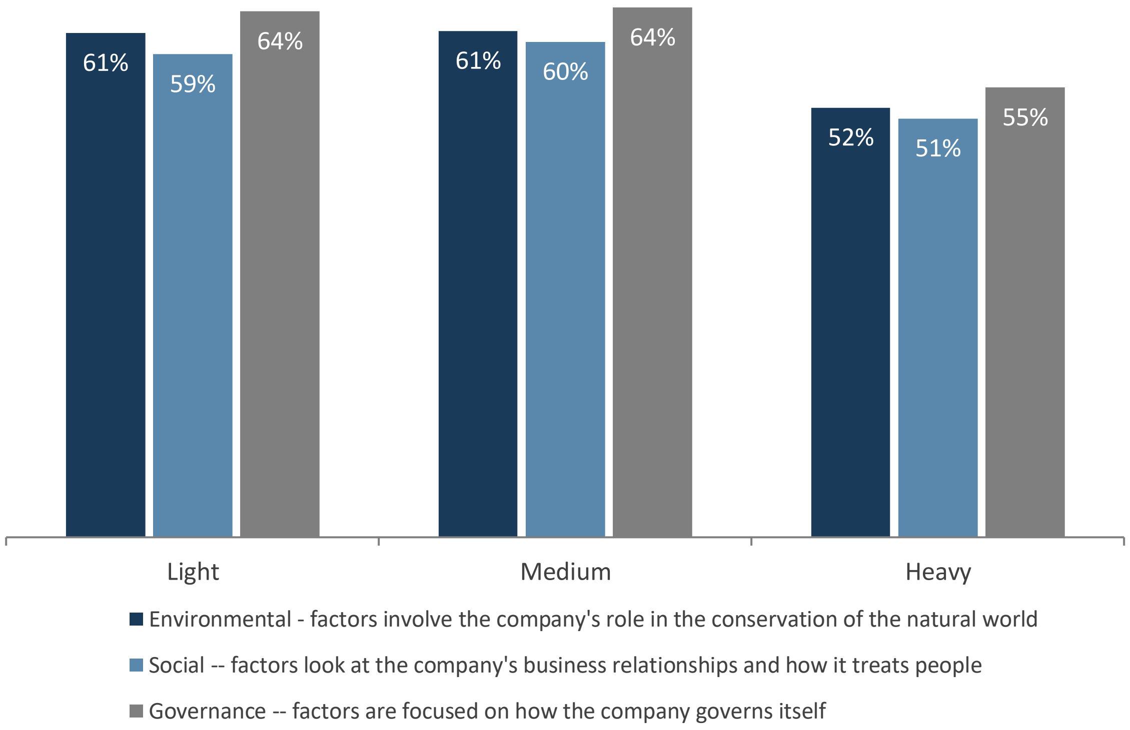
 Q43b: For which plan sizes do you typically recommend the following investment options?

Importance of ESG Investment Factors
All Advisors and by Segment

Importance of ESG Criteria
% of Advisors



Importance of ESG Criteria – by Segment
% of advisors rating *Somewhat important* or *Very important*



When discussing investments with plan sponsors, most advisors reported ESG factors are *Somewhat important*. All three factors rated similarly, with governance having a slight edge in the percentage of advisors saying it is *Very important*.

Light and Medium advisors are more likely to place emphasis on ESG. Approximately 60% these two segments said each ESG factor is at least *Somewhat important*.

Meanwhile, Heavy advisors place less importance on ESG factors when discussing investments with plan sponsors. Some noted concerns with clear definitions, poor performance relative to peers, fiduciary exposure, along with low demand from plan sponsors and participants as reasons they do not utilize ESG.

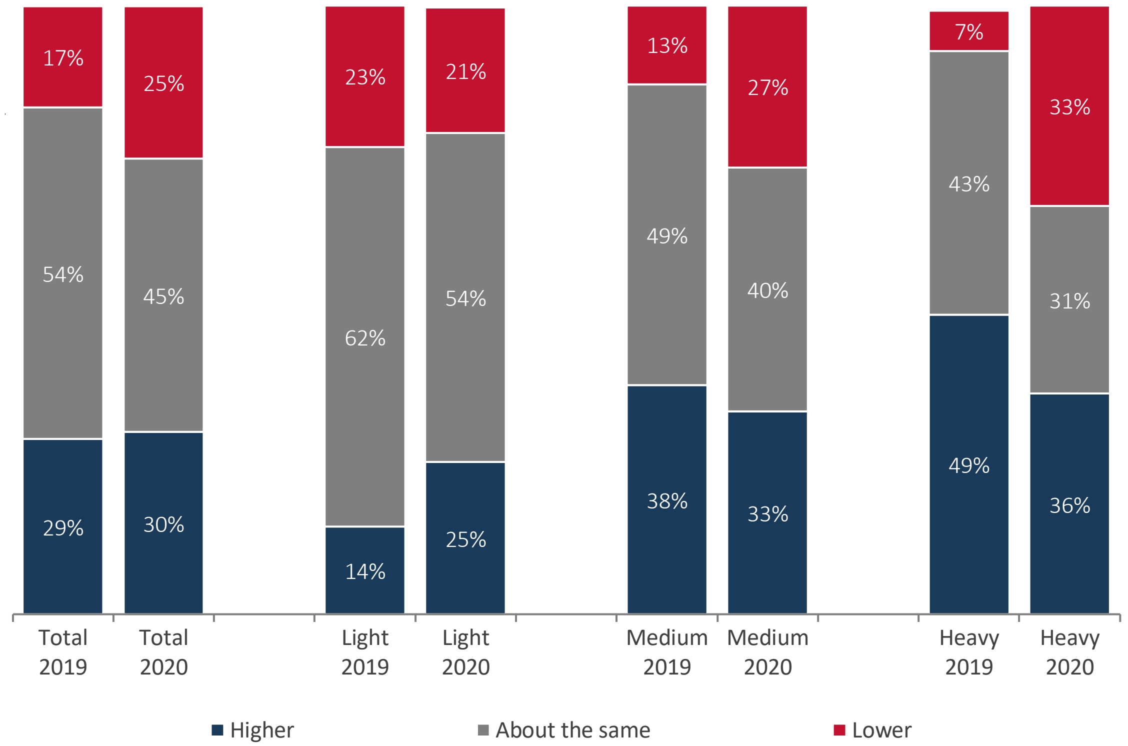
 Q43d: Please rate the importance of the following ESG factors when discussing investments with plan sponsors?

Advisor Business Development

Business Development Activities – 2019 vs. 2020 by Segment

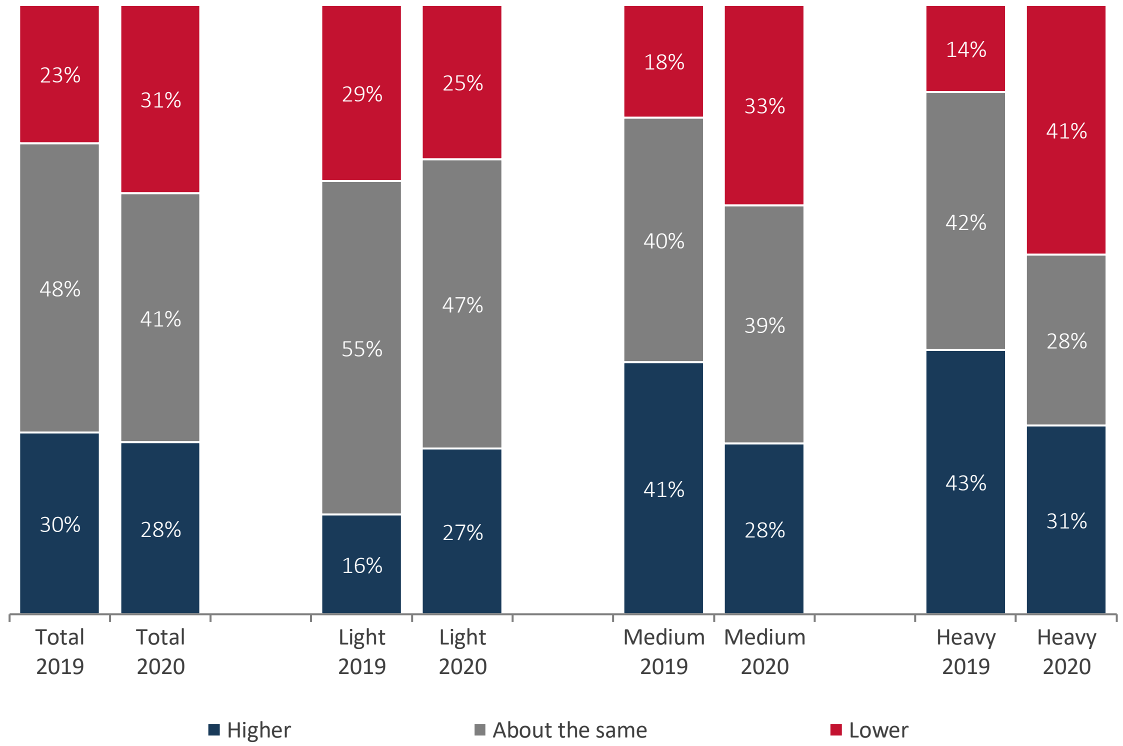
Change in Prospecting Activity – by Segment

% of advisors



Change in Proposal Activity – by Segment

% of advisors



Due to the pandemic, prospecting in 2020 was down for Medium and Heavy advisors. Both segments reported decreases in activity as plan sponsors turned their attention to pandemic response.

Proposal activity also dropped for Medium and Heavy advisors. Again, the pandemic weighed heavily on plan sponsors, resulting in advisors adopting a more consultative posture. Advisors also concentrated on proactive and responsive communication with both plan sponsors as well as participants.

Meanwhile, Light advisors reported prospecting and proposal activity during 2020 was higher than 2019. This may have been driven by:

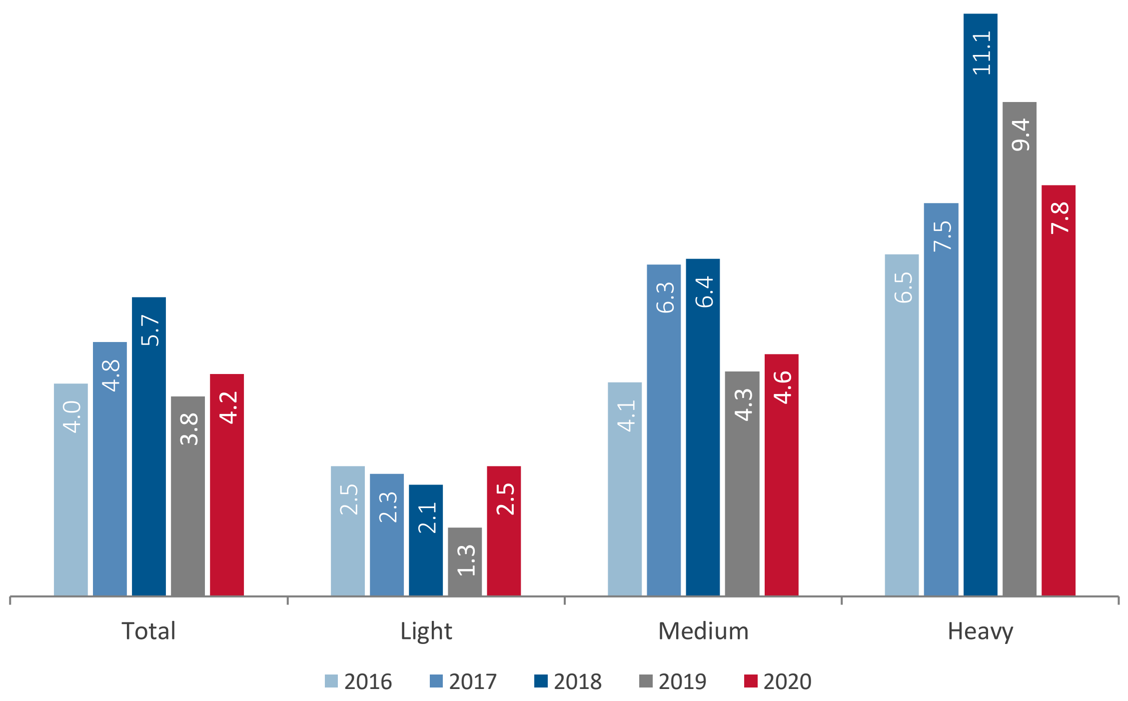
1) Existing wealth clients seeking help with their 401(k) plans and/or

2) Having fewer plans that required education on the CARES Act and consultation on managing their plan through the pandemic allowed Light advisors more time to prospect and submit proposals

Q5 - Compared to a year ago, is your 401(k) prospecting/ proposal activity today much higher, somewhat higher, about the same, somewhat lower or much lower than it was?

Plan Sold Trend
All Advisors and by Segment

Plans Sold Trend – by Segment
of plans sold per year



2020 Plans Sold – by Segment
Average annual # of plans sold and % of plans sold by assets

		Total	Light	Medium	Heavy
	AVERAGE # OF 401(k) PLANS	4.2	2.5	4.6	7.8
% OF PLANS	<$1M	35%	40%	36%	29%
	$1M to <$3M	29%	35%	27%	26%
	$3M to <$10M	21%	20%	21%	22%
	$10M to <$25M	9%	4%	9%	13%
	$25M to <$75M	4%	1%	4%	6%
	$75M +	2%	0%	3%	4%

The average number of plans sold has trended down over the past several years, especially for Medium and Heavy advisors. The pandemic did slow business development for advisors, reducing the number of opportunities and/or pausing the sales process during 2020. Meanwhile, Light advisors saw a small uptick in sales during 2020.

Seventy-five percent of plan sales for Light advisors and 63% of sales by Medium advisors occurred in the under $3 million segment. The $3 million to $10 million range makes up another 20% of their sales.

Heavy advisors continue to acquire larger plans. Thirteen percent of their plan sales came from plans with at least $10 to $25 million in assets. And 10% are plans with over $25 million in assets.

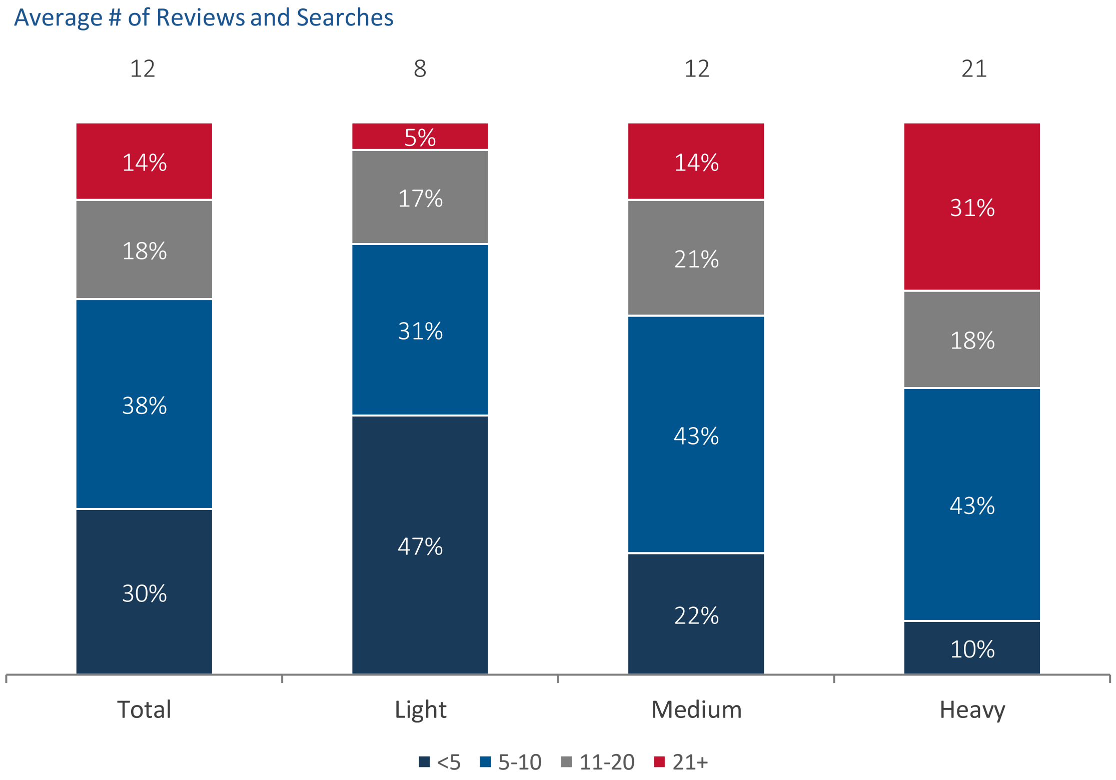
Q35 - Thinking of a sale as any account you newly acquired as a paid advisor, in the past three years, how many standard or safe harbor 401(k) plans did you newly acquire with assets of:

Sales Pipeline and Search & Review Activity by Segment

Market Value of Sales Pipeline – by Segment
$ value of pipeline and % of advisors

	Total	Light	Medium	Heavy
Average Sales Pipeline	$70.2M	$19.9M	$60.3M	$176.3M
Median Sales Pipeline	$14M	$7M	$16M	$50M
<$1M	3%	4%	3%	1%
$1M-$10M	21%	26%	21%	10%
$10M-$25M	19%	20%	20%	14%
$25M-$50M	11%	7%	15%	13%
$50M-$100M	8%	5%	8%	14%
$100M+	12%	2%	12%	36%
None	7%	9%	4%	6%
Not Sure	19%	28%	16%	5%

Volume of Due Diligence Reviews & Searches Next Year – by Segment
Average # of reviews/searches and % of advisors



The average pipeline for an advisor is approximately $70M in assets and the median is $14M. This varies widely across the advisor segments.

Heavy advisors reported the largest pipelines of all the segments, with an average of $176M in assets and a median of $50M. Over one third have a pipeline in excess of $100M.

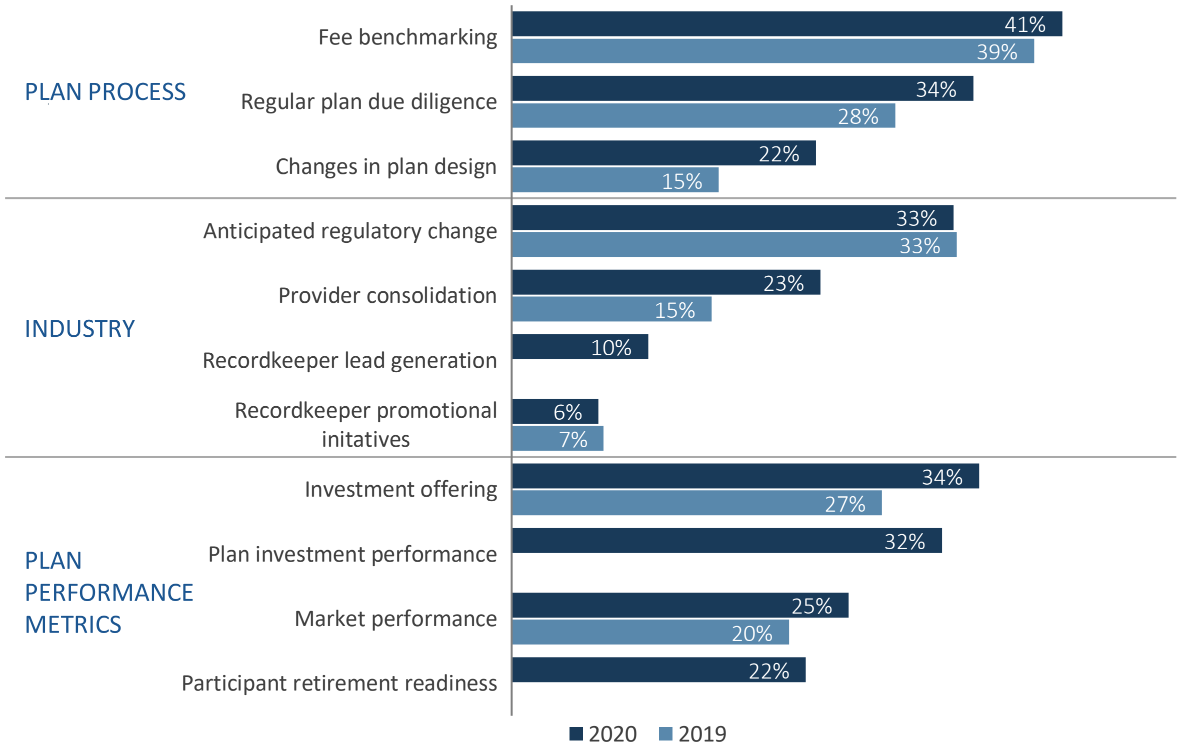
Meanwhile, about half of Light and Medium advisors reported pipelines of $25M or less. A small proportion, 12%, of Medium advisors reported pipelines in excess of $100M.
Looking at the number of potential reviews and searches in the next 12 months, the average advisor expects to conduct 12. Most advisors expect to conduct between 5 and 10.

Heavy advisors reported nearly double the average expected review activity. Most expect to conduct between 5 and 10 reviews. However, approximately 50% are expecting to conduct more than 10 reviews in the coming 12 months.

Q8: What is the market value of 401(k) proposal activity in your pipeline?
Q7b: How many 401(k) recordkeeper due diligence reviews or searches for new recordkeepers do you expect to perform in the next year?

Drivers of Reviews and Searches
All Advisors and by Segment

Drivers of Reviews and Recordkeeper Selection Trend – By Segment
% saying *Major impact*



Drivers of Reviews and Recordkeeper Selection – By Segment
% saying *Major impact*

Category	Driver	Total	Light	Medium	Heavy
PLAN PROCESS	Fee benchmarking	41%	34%	37%	62%
	Regular plan due diligence	34%	28%	34%	49%
	Changes in plan design	22%	20%	25%	23%
INDUSTRY	Anticipated regulatory change	33%	31%	38%	29%
	Provider consolidation	23%	15%	20%	47%
	Recordkeeper lead generation	10%	10%	12%	8%
	Recordkeeper promotional initiatives	6%	5%	9%	6%
PLAN PERFORMANCE METRICS	Investment offering	34%	33%	41%	28%
	Plan investment performance	32%	33%	39%	17%
	Market performance	25%	27%	29%	14%
	Participant retirement readiness	22%	16%	21%	37%

Fee benchmarking and regular plan due diligence will have the largest impact on the rate of plan reviews and new provider selection. Both drivers are up slightly from 2019.

The percentage of advisors citing provider consolidation as a driver of reviews jumped nearly 10 points, from 15% in 2019 to 23% in 2020. The changes in plan design increased a similar amount.

Heavy advisors indicated fee benchmarking will be the largest driver of activity along with due diligence. Nearly 50% cited provider consolidation as a driver as well, putting this driver on a similar level to the plan processes.

Compared to Heavy advisors, Light and Medium advisors were more likely to cite plan performance metrics related to investments as a driver for reviews and less likely to point to plan process.

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