More Plan Sponsors Want to Keep Retiree Accounts: Cerulli

By Editorial Staff *Wed, Jun 23, 2021*

For years, people have been rolling their DC plan assets over to brokerage IRAs at retirement. Many plan providers hated to lose the managed money, but plan sponsors were indifferent. That's changing, a Cerulli analyst writes. Trillions in mobile money is at stake.

Many larger plan sponsors are interested in retaining the assets of retired participants and, in conversations with analysts at Cerulli Associates, plan providers say that some large-plan sponsor clients are working to make their plans more retiree-friendly.

According to a new Cerulli report, “US Retirement End-Investor: Solving for the Decumulation Phase, 84% of 401(k) plans sponsors with more than $500 million in assets prefer to keep participant assets in-plan during retirement.

The reason: Increased scale helps them negotiate better prices with asset managers and other providers. Another plus: Participants maintain access to institutionally priced investment products and services during their retirement years.

Cerulli suggests retiree-friendly DC plans could serve as attractive retirement destinations for retirees in the lower end of the mass-affluent market ($500,000 to $2,000,000 in investable assets), middle market ($100,000 to $500,000), and mass market (less than $100,000).

To make DC plans attractive retirement destinations, plan designs will need to change, Cerulli said. The changes will require coordinated efforts by plan sponsors, consultants, recordkeepers, asset managers, and other retirement providers.

“Retiree-friendly plan features should arm participants with the planning tools, personalized advisory services, investment products, and withdrawal options necessary to support participants through their retirement years,” said Shawn O’Brien, senior analyst, in a release.

For more than half (56%) of retirees across all age and wealth tiers, Cerulli found, the “ability to withdraw funds as needed” is a retirement account’s most important feature. “Plan fiduciaries should ensure their documents allow for flexible, inexpensive distributions and a recordkeeping platform that can smoothly facilitate monthly, quarterly, ad hoc, and partial withdrawals.”

Executing decumulation-focused plan design changes will require plan sponsors to work with their fiduciary partners, asset managers, and recordkeepers to ensure participants have an investment opportunity set necessary to construct an effective investment and drawdown strategy in retirement, Cerulli said.

A likely outcome is increased innovation in in-plan decumulation solutions, such as DC managed accounts. “Over time, we think the decumulation experience in retiree-friendly plans will begin to more closely resemble the out-of-plan, retail advisory experience for many retirement investors,” O’Brien said.

“As new plan design offerings materialize, asset managers and insurers should proactively communicate the value proposition of their income-oriented investment products and illustrate how these products can help retirees achieve superior financial outcomes in an in-plan setting.”