Plan Sponsors Awaken to Leadership Role

By Editor Test *Wed, Jun 6, 2012*

The newest Retirement Planscape report from Cogent Research indicates that sponsors of retirement plans of all sizes are becoming more assertive in making sure their participants will be financially secure later in life.

As more and more Baby Boomers continue to retire without a traditional pension plan, employers are faced with the formidable task of helping their employees prepare themselves to fund their "golden" years.

A recent study conducted by Cogent Research® indicates that employers are far from shirking their responsibilities toward the welfare of their employees. In fact, automatic enrollment is embraced by 38% of all 401(k) plans, while automatic rebalancing is employed by 39%.

These and other findings are included in the annual Retirement Planscape® study, based on a representative survey of over 1,500 defined contribution (DC) plan sponsors across all plan sizes and industries.

What follows is a detailed analysis of how employers are adjusting 401(k) plans to help plan participants more easily get started and, hopefully, reach their goals, using a combination of automatic plan features, investment advice and retirement income product offerings to help employees steer the course.

Key Findings

1. Automatic enrollment and automatic rebalancing have become widely accepted practices. Automatic enrollment and rebalancing has been adopted by nearly 40% of all 401(k) plans. While the trend is consistent across the spectrum of plan size, some important variations do exist:

- Usage of automatic enrollment among Small Plan sponsors ($5 million to $20 million in assets) has increased significantly from the previous year with nearly half (48%) now utilizing this feature.
- Roughly one-third (37%) of Micro Plan sponsors (less than $5 million in DC plan assets) have incorporated automatic enrollment into their plans, compared to nearly two-thirds (65%) of Mega Plan sponsors ($500 million or more in DC plan assets).
- There is more consistency in the use of automatic rebalancing across all plan sizes, ranging from 39% among Micro Plan sponsors to 50% among Mid-sized ($20 million to $100 million in assets) and Large Plan sponsors (DC plans with assets of $100 million to $500 million).

2. The vast majority (90%) of employers offer some sort of investment advice to their DC plan participants, and a significant number offer multiple advice options. Once enrolled in a DC plan, many participants seek assistance in selecting the appropriate asset mix to meet their retirement goals, and our data indicate that employers are recognizing this need.

Common advice conduits include: An online investment model provided by the plan provider or independent third party, access to a financial advisor, and one-on-one advice provided by an independent third-party only.

Among the key findings:

- Just over half (51%) of all DC plan sponsors offer access to a single type of advice, while one-quarter (25%) provide participants with access to two methods of advice. Only a handful (14%) of plan sponsors offers investment advice via three or more channels.
- Distinct preferences can be seen among plan size segments: Micro Plans most often provide access to a financial advisor as a means for delivering advice, while Large and Mega Plans rely more heavily on online models offered by their current plan provider and from independent third parties, respectively.

Retirement Income Product Offerings

1. Interest in retirement income products is on the rise. Encouragingly, plan sponsors are recognizing that employees need help making the transition from accumulation to decumulation, and are becoming more amenable to offering DC plan participants investment options designed to generate an income stream in retirement. (See Exhibit 1 below)

- Overall, a third of all plan sponsors (35%) offer products designed specifically to help participants generate an income stream. However, Micro and Small Plan sponsors are the most likely to offer these investment vehicles. Interestingly, Mega Plan sponsors show the strongest interest in adding retirement income options, which may influence the structure and pricing of such products going forward.

About the Study

The Retirement Planscape® study was conducted by Cogent Research® last February to April 2012, surveying over 1,500 plan sponsors across Micro, Small, Mid-sized, Large, and Mega plans. Respondents were screened to ensure that they were decision makers and had sufficient levels of knowledge about key plan features. The study allows plan providers to pinpoint competitive strengths and weaknesses in brand, loyalty, and key plan sponsor experience metrics to maximize acquisition opportunities and minimize attrition. The report provides a detailed analysis of plan sponsors' needs, their selection process for plan providers and investment managers, as well as their attitudes and loyalty toward providers, investment managers, and advisors.

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business issues. Founded in 1996, Cogent Research® provides custom research, syndicated research products, and evidence-based consulting to leading organizations in the financial services, life sciences, and consumer goods industries. Through quality research, advanced analytics, and deep industry knowledge, Cogent Research® delivers data-driven solutions and strategies that enable clients to better understand customers, define products, and shape market opportunities in order to increase revenues and grow the value of their products and brands.

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