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Leaning Into the Retirement Tier

By evolving with work trends and retirement plans, advisers can distinguish themselves in a competitive era.

Over many years, we've witnessed an amazing evolution among workers: from serving as near lifetime employees, to changing jobs 12 times in a career, to participating in the "gig economy." Over this time, corporate retirement plans have also evolved. Defined contribution plans like 401(k)s have morphed from supplemental arrangements to companies' primary retirement vehicle. In my view, the next evolution will be how these plans can change to help in the "decumulation" phase of retirement.

DC investment menus have been simplified over time, with a majority of assets now going into qualified default options as a result of autoenrollment. Target date funds and managed accounts aim to provide favorable options for participants who prefer to have professionals manage their money. Plan sponsors and advisers can also help people with retirement income choices, which may be accomplished in part through "retirement tiering" and introducing different types of plan design and investment options.

Underlying Drivers

A few trends are influencing company choices in this area.

First, plan sponsors are becoming more comfortable allowing retired employees to stay in their plans, and thus are introducing retirement income solutions to accommodate older participants. Retaining higher asset levels in this way may help them obtain better pricing and services. Adding to their comfort level, the SECURE Act has provided sponsors with a degree of fiduciary due diligence relief around retirement income products.

In addition, the pandemic-related lockdowns showed that employees can be productive working remotely with the aid of technology. Workers who are nearing retirement may be convinced to stay on longer if afforded dual benefits of work-from-home and appropriate retirement savings options, which may provide better pricing than what they could obtain on their own, and more fiduciary protections (despite the relief to plans noted above).

Standing Apart

Whether specialists or "dabblers" in the DC market, I believe advisers can distinguish themselves by introducing retirement-tiering ideas to their plan sponsor clients. Offering retirement income solutions can open up opportunities with participants who could be attractive personal clients. Advisers with greater experience in the decumulation phase may have a particular advantage.

Product availability and acceptance remain a challenge. Transferability is limited if a participant changes recordkeepers, while plans have sometimes balked at the high cost and complexity of annuities. Regardless, advisers can start by providing a tier of simple and flexible investment solutions. The easiest way is by expanding the fixed income options since many plans offer only a money market and core bond fund. The simple addition of a multi-sector bond fund can give participants broader fixed income exposure.

In cooperation with the plan sponsor and record keeper, advisers can create a communication strategy around retirement income solutions and how participants can benefit—often as part of a "financial wellness" campaign.

In sum, advisers that evolve with the changing workforce and retirement schemes can distinguish themselves to DC plan sponsors and potentially identify and work with rewarding clients in an age of extreme competition and fee pressure.

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