

Plan Sponsor Perspectives: Managed Accounts

October 2024

In February 2024, DCIIA hosted roundtable discussions with a diverse group of plan sponsors, bringing together nearly two dozen employers to explore the dynamic topic of managed accounts within defined contribution (DC) plans. The conversation took a broader perspective on the benefits and challenges of managed accounts, rather than focusing on specific providers or offerings. This complex topic elicited varied perspectives, demonstrating that managed accounts are far from one-dimensional.

Adoption

More than half of the plan sponsors in attendance currently offer managed accounts to their employees. This is consistent with broader survey work, such as Alight's 2023 "Trends & Experience in DC Survey," that found 60% of plans currently offer managed accounts. PSCA's plan sponsor survey found nearly half (49%) of plans offer managed accounts, although that number is higher among larger plans, at 64% of employers with more than 5,000 participants.

Across the employers not offering managed accounts, there was discussion around assessing the appropriateness from a broad perspective—do managed accounts make sense from our total benefits offering? One employer suggested, ***"start at the end and work backwards—what are the objectives and goals of the plan and do managed accounts fit into that?"*** They also indicated they were looking for proof points of the benefits before implementing.

One interesting challenge discussed was the role of internal decision-makers in shaping attitudes toward managed accounts. Several employers noted that if someone in leadership holds a negative view of managed accounts, it can be difficult to change their perception, which complicates efforts to implement or manage these services effectively.

The remainder of this summary focuses on employers currently offering managed accounts. Among the employers offering managed accounts, most provide them on an opt-in basis, and do not utilize them as their default qualified default investment alternative (QDIA). While few default to managed accounts, there was consensus that bridging older employees into managed accounts could be appropriate, through a dynamic QDIA, although this is not in place by many today.

Organizations view managed accounts as a valuable service for participants, particularly the personalized support and the ability to directly interact with an advisor, at a reasonable cost. Most plan sponsors indicate that managed accounts are not necessarily appropriate for all individuals and make more sense for older employees or those with more complex financial needs—aligning the additional costs to the additional needs and customization theoretically needed. However, there was consensus that a broader part of the workforce may benefit from the managed account offering, throughout any part of their retirement savings journey.

Managed accounts are defined as a customized discretionary portfolio managed for a DC plan participant. The value proposition is that a personalized portfolio is created to optimize outcomes, after fees. Beyond portfolio allocation, additional services offered by the program may include guidance or advice, savings rate guidance, social security recommendations, projections on retirement readiness, distribution planning/withdrawal strategies, as well as broader financial wellness tools including financial planning. Advisors can be accessed to directly assist with personalized planning.

DCIIA did a series on Managed Accounts, providing a framework for plan sponsors. Full details can be found DCIIA Managed Accounts Series.

Integration and Financial Wellness

A common theme throughout the discussions was the importance of viewing managed accounts as part of a broader benefits strategy. Employers emphasized the need to understand how managed accounts interact with other features, such as the core investment lineup and retirement income solutions. One employer aptly noted, ***“We’re building a house, and we need to think about what rooms and additions we’re adding onto it.”***

Employers acknowledged a growing interest in retaining assets within their plans, particularly as more participants remain in the plan post-retirement. Managed accounts were seen as a valuable tool in helping participants navigate the transition into retirement, potentially keeping assets within the plan and benefiting all participants through economies of scale.

The need for financial wellness support was also a key point of discussion. As employees increasingly seek financial guidance, managed accounts were viewed as a supportive tool that complements the broader financial wellness journey by providing personalized advice and the option to speak with an advisor. One employer indicated that “Maybe it’s (managed accounts) recommendations are too simplistic, people really need a comprehensive financial plan.” While there was agreement, many plan sponsors noted that engagement is challenging, it is difficult to get workers to customize their managed accounts, let alone engage in an evaluation of their entire financial profile.

Participant Engagement and Fees

Fees were a major topic of discussion. While some employers noted that the cost of managed accounts has decreased due to increased competition, others expressed concern about participants paying for services they don’t fully utilize as some do not leverage the available personalization.

Engagement remains a challenge, with most employers noting that it can be difficult to get employees to fully, or even partially, customize their managed accounts recommendations. All agreed, and then also discussed the influence of this limited personalization on the cost-benefit of the services. Employers stressed the importance of metrics to track the level of engagement and personalization, and many actively collaborate with managed account providers to refine messaging and ensure appropriate communication with participants. There was significant discussion about managing communication, and mitigating some “advertising” to nonparticipants, and proactively working with the managed account provider in a way that meets their organization’s goals and needs.

While personalizing recommendations was important, several noted there is an intangible value of managed accounts -- as one employer stated, ***“comfort is value.”*** For some participants simply having access to personalized support is worth the cost, and as an employer said, “who are we to say that’s wrong if it brings peace of mind.”

Litigation in DC plans was a topic of conversation, as lawsuits continue to emerge, many around fees and some pertaining to managed accounts. However, this was not a large concern or roadblock for employers, as many organizations indicated the inevitability of being a subject to a lawsuit for any number of reasons among large plan sponsors.

Conclusion

The discussions at the roundtable highlighted the need for employers to carefully consider how managed accounts fit within their overall benefits strategy. While managed accounts offer valuable support to certain participants, particularly older workers and those with more complex financial needs, not all employers view them as a universal solution. Employers emphasized the importance of seamless integration with other plan offerings, active management of communication with participants, and ongoing evaluation of fees and engagement metrics. Ultimately, managed accounts remain a valuable tool in supporting employees, but their success depends on thoughtful implementation, and ongoing management and appropriate employee engagement.