T.RowePrice

Executive Summary

2024 Defined Contribution Consultant Study

SEPTEMBER 2024

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More about this study

Participating firms also receive a quantitative analysis of business strategy-related questions included in the study, including trends on competition, growth and profitability, and firm-branded or proprietary retirement solutions. **Interested in participating? Please reach out to your T. Rowe Price representative.**

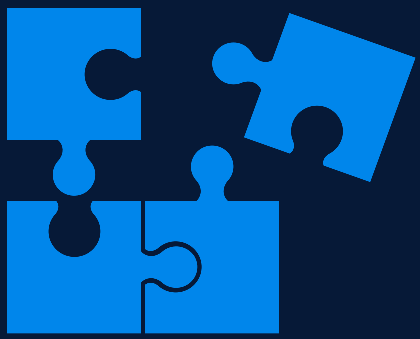
Methodology

T. Rowe Price conducted its fourth annual Defined Contribution Consultant Study to capture current retirement views from the defined contribution (DC) consultant and advisor community.

- Consistent with prior years, the study identifies key findings related to target date solutions, retirement income, investment trends, and financial wellness programs.
- New topics explored in the 2024 research include managed accounts, alternative investments, and views on the value of active versus passive management.
- Participating in the 2024 study were 35 of the leading consultant and advisor firms (71% consultant, 29% advisor) representing more than $7.5 trillion in assets under advisement.[1] The study was fielded January 12–March 4, 2024.

Respondent firms

- Aon
- Buck, A Gallagher Company
- Callan LLC
- Cambridge Associates
- CAPTRUST
- Cerity Partners
- Clearstead
- Commonwealth
- Curcio Webb
- Fiducient Advisors
- Francis Investment Counsel
- Goldman Sachs Asset Management
- Higginbotham
- Highland Associates
- Highland Consulting Associates, Inc.
- HUB RPW
- LCG Associates, Inc.
- Marquette Associates, Inc.
- Meketa Investment Group
- Mercer
- MSWM/Graystone
- NEPC
- Newport Group, Inc.
- NFP Retirement
- OneDigital
- QPA
- Russell Investments
- RVK, Inc.
- SageView Advisory
- Segal Marco Advisors
- UBS
- USI
- Verus
- Wilshire
- WTW



[1]Assets under advisement figures are self-reported.

Target date solutions

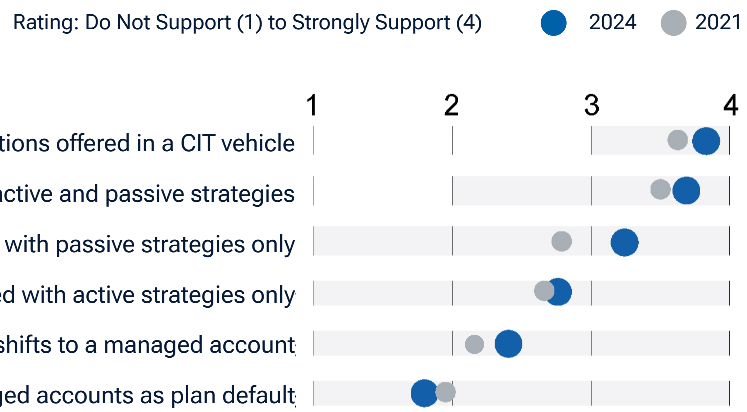
Continued focus on fees evident in push for CITs and emerging opportunity for blend solutions

Key findings

- The consultant and advisor community continues to express strong and nearly unanimous support for transitioning to target date solutions offered in a collective investment trust (CIT) vehicle. CITs can offer fee efficiencies compared with a mutual fund equivalent, which is the primary force driving the asset shift from target date solutions offered in mutual funds to CITs. (Figure 1)
- Results suggest growing support from both consultants and advisors for target date solutions that are constructed with both active and passive investment strategies. Target date solutions built with both active and passive underlying investment vehicles can offer a lower fee profile and reduced tracking error with the benefits of active management. (Figure 1)
- Consultants and advisors express moderate to strong support for adding or increasing exposure to nontraditional bond investments in target date solutions. Furthermore, when evaluating consultant and advisor implementation preferences for fixed income strategies, return-seeking fixed income approaches (e.g., bank loans, emerging markets debt, high yield, and international or global bond) are consistently viewed as best implemented using active management. (Figure 2)

Focus on fees shines light on CITs and blend target date solutions

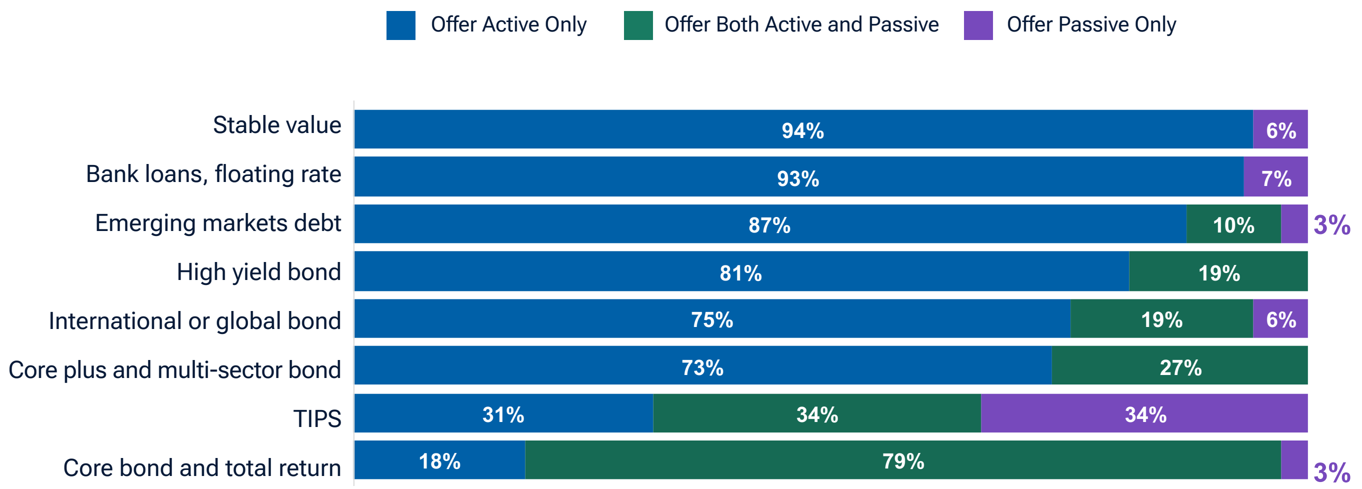
(Fig. 1) Please indicate the extent to which you generally support the following developments, enhancements, and modifications related to target date solutions or other qualified default investment alternatives (QDIAs).



Analyst note: Gray shading represents the 1–4 range of responses.

Strong conviction in active management for return-seeking fixed income strategies

(Fig. 2) What are your firm's philosophical views related to active and passive implementation by asset class or investment strategy in DC plans, either within a multi-asset or standalone investment?



Managed accounts

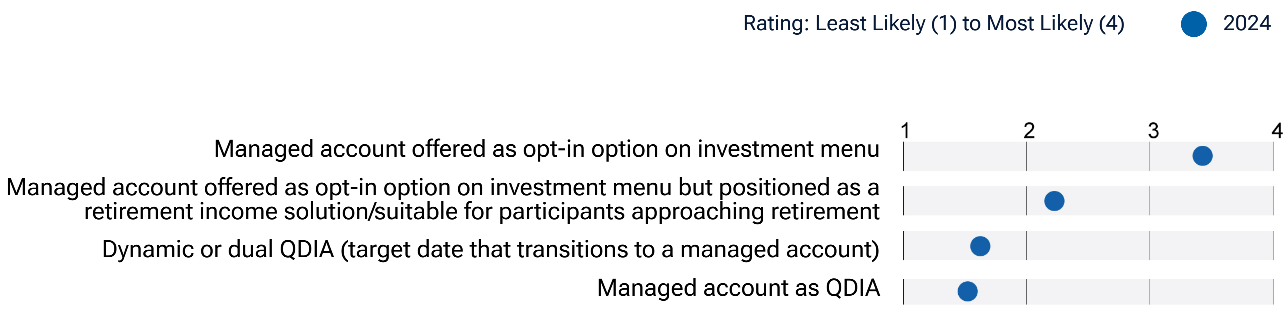
A potentially expanding role, though unlikely to be QDIA

Key findings

- Managed accounts are most offered as an opt-in option on a DC plan investment menu, which reflects a lack of support among consultants and advisors to position managed accounts as a qualified default investment alternative (QDIA). (Figure 3)
- Results suggest that advisors are significantly more likely than consultants to use managed accounts within a dynamic or dual QDIA structure, whereby participants are defaulted into a target date solution and moved into a managed account solution approaching retirement (e.g., approximately 15 years prior to anticipated retirement). (Figure 3)
- Overall results related to managed accounts indicate support for the value of personalization, particularly as participants near retirement; however, managed accounts appear unlikely to dethrone target date solutions as the most prevalent QDIA. (Figure 3)

Strong support for managed accounts as an opt-in option offered on the investment menu

(Fig. 3) For your DC plan clients that currently offer a managed account service, how is it likely to be positioned within the broader plan?



Analyst note: Gray shading represents the 1–4 range of responses. Question not included in 2021 study.

Retirement income

More plans taking a stance on retirement income, but not a top priority for all

Key findings

- Data suggests more DC plan sponsors are taking a stance on retirement income. In 2021, consultants and advisors described greater than half (59%) of their DC plan sponsor clients as not having a stated opinion on retirement income. In 2024, this same figure declined to 19%. While not all plan sponsors are prioritizing retirement income, they are significantly more likely today to have a view on retirement income compared to prior years.
- Consultants and advisors rate a simple systematic withdrawal capability as the most appealing strategy or solution to deliver retirement income to retired participants, which reflects a near-term focus on supporting plan sponsors in repositioning the DC plan to facilitate regular, repeatable, and predictable income. (Figure 4)
- Managed accounts with an income planning feature and target date investments that offer a managed payout feature or an embedded annuity feature round out the top solutions that consultants and advisors identify as most appealing to deliver retirement income. Results point toward a preference for a multi-asset, total portfolio solution that includes a retirement income component. (Figure 4)

Results suggest preference for multi-asset, total portfolio solutions with retirement income as a component

(Fig. 4) Which strategies or solutions are most appealing for the delivery of retirement income?

Rating: Least Appealing (1) to Most Appealing (4)

	DC Consultants and Advisors
Simple systematic withdrawal	3.3
Managed account (with income-planning feature)	2.8
Target date investment with managed payout feature (non-insured)	2.6
Target date investment with embedded annuity feature	2.6
Standalone managed payout investment	2.2
Investment that incorporates a partial guarantee	2.0
Deferred income annuity (DIA) or qualified longevity annuity contract (QLAC)	2.0
Annuity portal (access to out-of-plan annuities)	2.0
Immediate annuity	1.8
Bond ladder-based investment options	1.7

Fixed income and capital preservation

Higher rates likely to spur increased activity

Key findings

- Consistent with the 2023 key findings, views from the consultant and advisor community on fixed income and capital preservation investment options continue to rapidly evolve as interest rates move off historic lows post-global financial crisis.
- In 2021, less than half (48%) of consultant and advisor firms pointed to "greater focus on diversification opportunities" as a factor influencing their evaluation of fixed income investment options compared with 89% in the 2024 research. This finding is consistent with the results related to target date solutions, where "adding or increasing exposure to nontraditional bond investments" garnered relatively more support than other potential target date asset allocation modifications.
- Notably, "poor performance" as a key trend influencing the evaluation of fixed income investment options also experienced a meaningful increase in the percent of respondent firms selecting this response—from roughly one-quarter (26%) of consultant and advisor firms in 2021 to 60% in 2024. Data suggest that consultants and advisors may be revisiting fixed income investment options to move away from underperforming managers and toward fixed income strategies that are more diversified and less tethered to the Bloomberg U.S. Aggregate Bond Index. (Figure 5)
- Interest rates and the broader market environment have spurred consultants and advisors to anticipate increased capital preservation activity. Rapidly rising rates in the U.S. resulted in stable value performance lagging money market funds, an unusual dynamic that reignited the stable value versus money market debate. (Figure 5)
- Looking to the future, results suggest there may be a growing opportunity to consider how a capital preservation product can be repositioned within a DC plan to take advantage of higher yields and support participants in generating income while in retirement. (Figure 6)

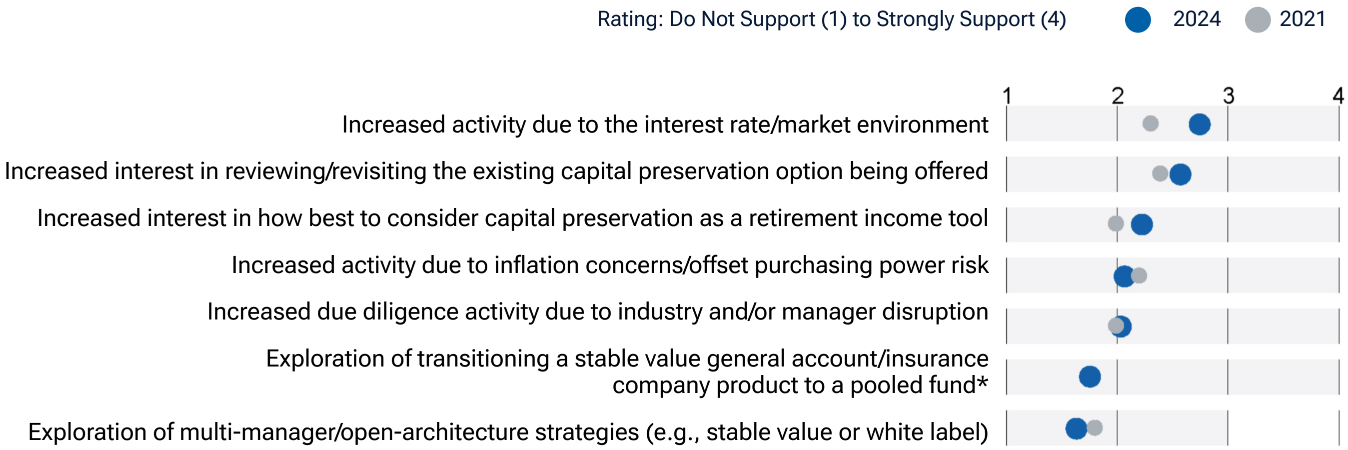
Growing need for diversification and performance challenges influence evaluation of fixed income investment options

(Fig. 5) To what extent have the following trends influenced your evaluation of fixed income investment options?

	2021	2024	Change
Greater focus on fixed income diversification opportunities	48%	89%	41%
Current interest rate environment	89%	86%	-3%
Interest rate expectations (i.e., duration risk)	81%	77%	-4%
Inflation concerns (i.e., seeking inflation mitigation, higher yield to combat deteriorating purchasing power)	70%	63%	-7%
Poor performance	26%	60%	34%
Manager instability	22%	37%	15%
Increased plan sponsor focus on retirement income	48%	29%	-19%
Increased interest in multi-manager fixed income investment options (i.e., white label)	19%	20%	1%

Expectations for increased capital preservation activity

(Fig. 6) What capital preservation activity do you expect from clients in the next 12–18 months?



Analyst note: Gray shading represents the 1–4 range of responses.
*Statement not included in 2021 study.

Investment trends

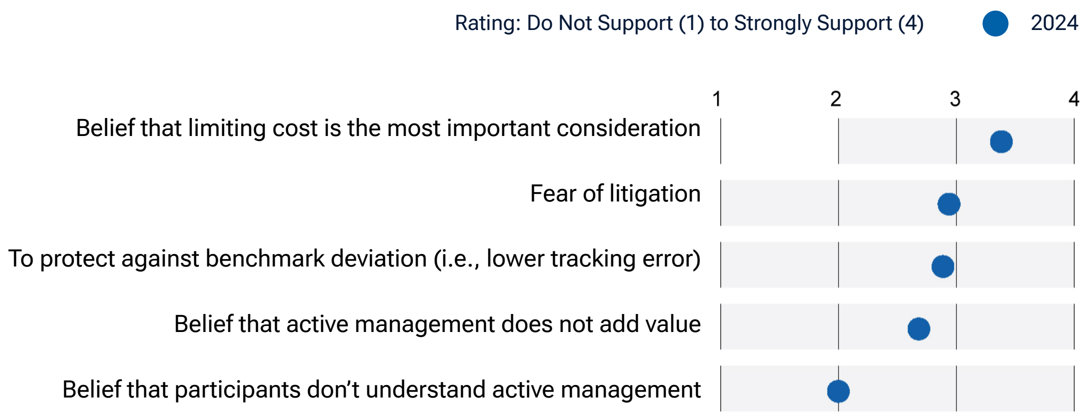
Active and passive implementation beliefs, alternatives in DC, and ESG challenges

Key findings

- Consultants and advisors point to the "belief that limiting cost is the most important consideration," followed by "fear of litigation," as the most influential factors driving increased use of passive management. These two data points reflect the unfortunate, but common, misconception in the DC market that selecting the lowest-cost option can shield plan fiduciaries from excessive fee allegations—a view that is false and not supported by ERISA, which focuses on value for cost. (Figure 7)
- Results also suggest that increased use of passive management can be motivated by the desire "to protect against benchmark deviation (i.e., lower tracking error)." This data point appears to align with growing interest in strategies that are actively managed, but with an explicit objective of maintaining low tracking error. (Figure 7)
- While "alternative investments in DC" appears to be coming back into vogue as an industry topic, results suggest that the consultant and advisor community does not identify any of the five categories of alternative investments offered in the survey as likely to be widely implemented in DC plans. A custom target date solution is the most likely vehicle for implementation of direct real estate, private credit, private equity, and hedge funds, while commodities are considered as most likely to be implemented in an off-the-shelf target date solution. (Figure 8)
- ESG integration is identified by most respondents (71%) as the best method of implementation within DC plans; however, the consultant and advisor community continues to view the evolving regulatory and legislative developments related to ESG as challenging.

Focus on cost and fear of litigation are primary drivers of increased use of passive management

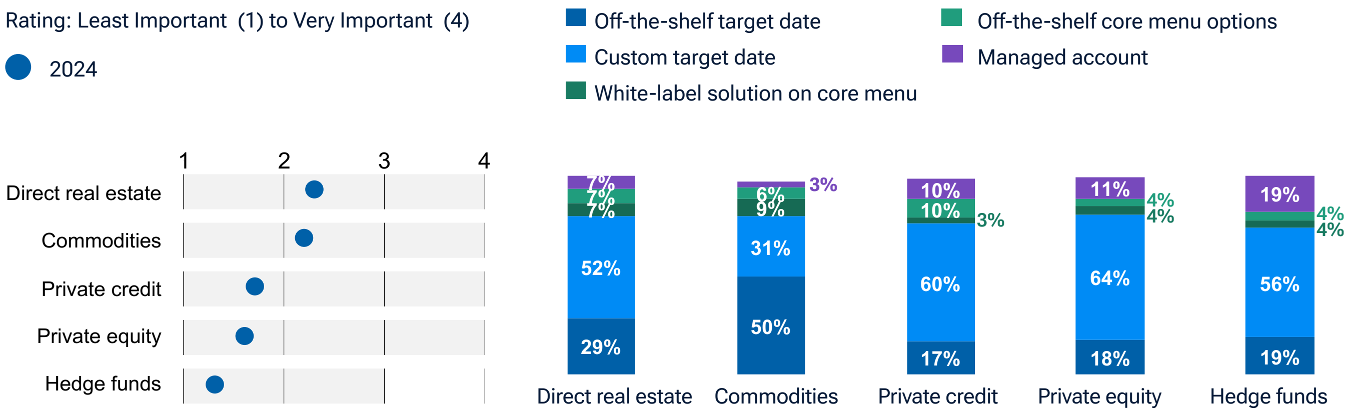
(Fig. 7) What is motivating plan sponsors to modify or change DC investment options with respect to passive management?



Analyst note: Gray shading represents the 1–4 range of responses. Question not included in 2021 study.

Unlikely that alternative investments will become broadly offered in DC plans

(Fig. 8) Left chart: Which alternative investment strategies are most likely to be incorporated into DC plans over the next 12 months?
Right chart: Where are these alternative investment strategies most likely to be implemented?



Analyst note: Gray shading represents the 1–4 range of responses. Question not included in 2021 study.

Financial wellness programs

Accumulation savings goals are most important, but emergency savings a topic of increasing emphasis

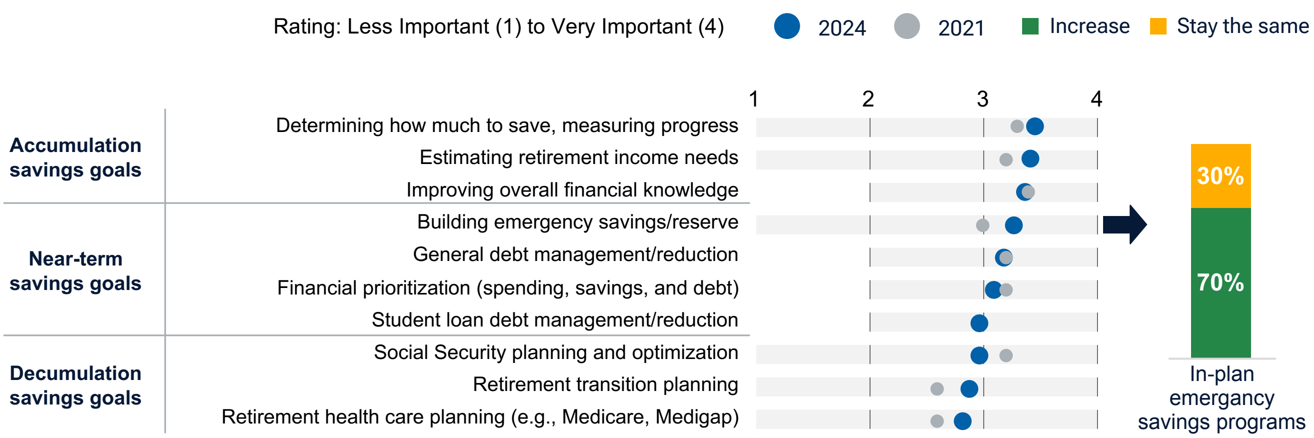
Key findings

- Consultants and advisors cite “improve overall worker satisfaction and retention” as the top objective motivating plan sponsors to invest in financial wellness programs. Notably, this objective was also identified by nearly all respondents (90%) as the most measurable. Other objectives such as “reduce employee financial stress” or “increase employee productivity” received high scores in terms of objectives that motivate plan sponsors to offer a financial wellness program, but they were described by fewer respondents as generally proven to be measurable in terms of impact and return on investment (58% and 38%, respectively).[3]
- Under the broad umbrella of financial wellness topics, consultants and advisors point to "building emergency savings" as increasing in relative importance for plan sponsors. Furthermore, 70% of consultant and advisor respondents believe that in-plan emergency savings programs are poised to increase in prevalence within the next three to five years. (Figure 9)

Building emergency savings is a growing area of emphasis within financial wellness

(Fig. 9) Left chart: What financial wellness topics matter most to plan sponsors?

Right chart: How do you think this may increase, stay the same, or decrease within three to five years?



Analyst note: Gray shading represents the 1–4 range of responses.

Additional Information

Alternatives: Financial assets that do not fall into one of the conventional investment categories, such as stocks, bonds, and cash; can include direct real estate, commodities, private credit, private equity, or hedge funds

Annuity: An insurance contract issued and distributed by financial institutions; requires the issuer to pay out a fixed or variable income stream to the purchaser, beginning either at once or at some time in the future

Bank loans, floating rate: A form of debt financing common between banks and corporate customers, the total interest rate paid by the issuer is decided by adding (or, in rare cases, subtracting) a spread or margin to a specified base rate, such as the U.S. prime rate, or the London Interbank Offered Rate (LIBOR); the interest rate paid by the issuer is reset at predetermined intervals

Bloomberg U.S Aggregate Bond Index: A broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds as a benchmark to measure their relative performance

Bond ladder: A portfolio of fixed-income securities in which each security has a successively different maturity date

Collective investment trust: A group of pooled accounts held by a bank or trust company

Commodities: A strategy that invests in raw materials, primary agricultural products, energy products and/or metals

Core bond: A strategy that includes a broadly diverse set of U.S. bonds including Treasury bonds and corporate bonds

Core-plus bond: A strategy that includes core bonds and may be augmented by investments in other market sectors, for example high yield bonds and/or international bonds

Direct real estate: Acquiring an ownership interest directly in a residential or commercial real asset

Environmental, Social, and Governance (ESG): Broad term for investment management approaches that are consistent with a set of thematic ethical or social principles, such as environmental, social, or company governance structures

Global bond: A strategy that invests in U.S. bonds as well as non-U.S. bonds

Hedge fund: A limited partnership of private investors whose money is pooled and managed by professional fund managers

High yield bond (below investment grade): A strategy that invests in below-investment grade bonds; involves higher risk of default than investment-grade bonds and offers investors a higher yield as potential compensation for this additional risk

International bond: A strategy that invests in non-U.S. bonds; may or may not be hedged to the US dollar

Managed account: In the context of a retirement plan, a managed account is a professional service that manages a participant's investments based on their financial plan and preferences; a financial expert or investment manager makes investment decisions on behalf of the investor

Multi-sector: A strategy that may invest opportunistically in various sectors of the market

Private equity: Capital investment made into companies that are not publicly traded

Private credit: Privately negotiated loans between a borrower and a non-bank lender

Qualified default investment alternative (QDIA): A default investment for defined contribution employer-sponsored retirement plans

Stable value: A unique asset class available only in corporate and governmental tax-qualified defined contribution plans, as well as some tuition assistance plans; stable value seeks to offer capital preservation, liquidity, and returns typically higher than other options focused on capital preservation, such as money market funds

Total return: Strategy that pursues capital appreciation as well as current income

Tracking error: Divergence between the price behavior of an investment and an index

Treasury inflation-protected securities (TIPS): A type of Treasury security issued by the U.S. government indexed to inflation to protect investors from a decline in the purchasing power of their money

Risks

Annuities Risk: Guarantees are subject to the claims paying ability of the insurer. Riders may be available to help customize policies and provide additional benefits. Riders are optional and available at an additional cost. There is no guarantee that the benefits received under the terms of rider may not exceed the cost to include the rider on a policy. All withdrawals or partial surrenders will reduce the death benefit. Additionally, once in the income phase, excess withdrawals will reduce subsequent future payments. An annuity is a contract between you and an insurance company. You should read contract(s) carefully before purchasing to review the terms, fees, and charges that apply. An annuity isn't intended to replace emergency funds or to fund short-term savings goal. There may be a 10% federal tax penalty on withdrawals before age 59½.

Commodities Risk: Commodities are subject to increased risks such as higher price volatility, geopolitical and other risks.

Target Date Investing Risks: The principal value of target date strategies is not guaranteed at any time, including at or after the target date, which is the approximate date when investors plan to retire (assumed to be age 65). A particular level of income is not guaranteed. Diversification cannot assure a profit or protect against loss in a declining market.

All investments are subject to market risk, including the possible loss of principal. Mid-cap stocks and small-cap stocks generally have been more volatile than stocks of large, well-established companies. International investments can be riskier than U.S. investments due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments. These risks are generally greater for investments in emerging markets. Fixed-income securities are subject to credit risk, liquidity risk, call risk, and interest-rate risk. As interest rates rise, bond prices generally fall. Investments in high-yield bonds involve greater risk of price volatility, illiquidity, and default than higher-rated debt securities. Investing in alternative assets involves various risks, in addition to those encountered by investing in traditional asset classes. These risks include, but are not limited to, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

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