



CERULLI
ASSOCIATES



401(k) Managed Accounts: A Misunderstood Value Proposition

Opportunity to improve retirement confidence through increased participant adoption

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Foreword

Employees need financial education and advice. We see that validated daily through the thousands of calls we receive. No two conversations are alike because each employee's needs are highly personal and complex. Our team of licensed advisors at Edelman Financial Engines (EFE) is consistently able to offer guidance across a range of topics and decisions, when employees need it most. Cerulli Associates' research expertly illustrates what we experience in our Advisor Center daily:

- Employees are unclear (and sometimes confused) about their goals, and about their options
- There's strong demand for the human advice we can deliver, that often can't be obtained elsewhere
- Our help instills confidence, peace of mind and other improved outcomes for participants utilizing managed accounts

A recent survey of managed account members enrolled through EFE found that 85% of those who spoke with an advisor when markets were volatile say the conversation prevented them from making a rash decision*. I could write a novel with a myriad of stories of how our advisors have helped in these moments. This is just one example of the "non-investment benefits of managed accounts" that Cerulli discusses within this whitepaper needs more formal measurement of impact.

Today, as EFE celebrates its 20th anniversary of launching managed accounts, the value of highly personal human advice and managed accounts is more evident than ever. This research provides critical insights into the barriers preventing even more employees from accessing help they desperately need. EFE is committed to continuously listening, learning and innovating to help move their financial lives forward.



David Ankrom
Vice President, National Advisor Center
Edelman Financial Engines



*Results attributed to an online survey of current Edelman Financial Engines Professional Management members in March 2024, focusing on intent and behaviors as well as subjective measures of value across 3,670 participants. Research available upon request.

Executive Summary

- Participants enrolled in a defined contribution (DC) managed account program are nearly three times as likely to state they are “very confident” in their retirement investment strategy: 47% of DC managed account users reported feeling very confident in their retirement investment strategy, versus only 16% of non-advice users.
- More than 70% of plan participants in this study were unable to identify the correct definition of DC managed accounts. Cerulli believes this poor understanding is leading to underutilization of what would otherwise be an effective solution for today’s participant needs.
- As evidenced through focus group discussions, plan participants’ poor understanding of DC managed accounts is largely driven by the need to discern numerous 401(k) plan service providers and solutions as well as an unfamiliarity with industry jargon and terminology.
- Approximately 50% of survey participants identified the ability to speak with a human advisor as one of the top-two most valuable elements of financial advice solutions. The 401(k) industry can do a better job at positioning the elements of a DC managed account that plan participants value most.
- Participants are three times more likely to pay a professional to manage their taxes than their financial investments. Cerulli believes positioning managed accounts as an “employee benefit” that offers human advice, as opposed to an “investment product,” could drive greater adoption.
- Through focus groups and individual discussions, DC managed account users expressed a strong appreciation for the core value proposition of managed accounts: delegating management of their 401(k) to a professional, the human advice component, and the fact that the solution is vetted by their employer.

Introduction

In 4Q 2023, Cerulli Associates was engaged by Edelman Financial Engines, the leading provider of workplace managed accounts and independent financial planning, to publish a white paper. The white paper aims to highlight 401(k) plan participants’ understanding of and attitudes toward investment options and financial advice solutions offered through their retirement plan, as well as plan participants’ retirement goals, investment practices, and perceived value of financial tools and resources.

For original research, Cerulli conducted three focus groups with active 401(k) plan participants. Each group consisted of a distinct subset of plan participants: managed account users, early career non-managed-account users (ages 18-45), and later career non-managed-account users (ages 45-65). Focus group interview topics ranged from broad themes (e.g., planning for retirement, investment selection processes, approaches to retirement decision-making, sources of financial advice, level of engagement/engagement behavior) to specific considerations for plan sponsors (e.g., understanding of investment options, satisfaction levels

with current approaches, sentiments related to professional management and advice, demand for financial advice, attitudes toward personalized investing). In addition to the focus group discussions, Cerulli also conducted a series of one-on-one interviews with managed account users to dive deeper into individuals’ unique experiences and perspectives.

This white paper also draws from an original survey of 823 active 401(k) plan participants, including both managed account users and non-users, who are diversified across characteristics including age, gender, total investable assets, and retirement assets. Using data from the Bureau of Labor Statistics (BLS) and the Survey of Consumer Finances (SCF), survey results have been weighted to align with U.S. population demographics. See Appendix 1 for more information on the survey sample. To maintain confidentiality, all information collected for this research is presented in aggregate form, and proprietary survey information is not directly attributed to 401(k) plan participants or their firms.

The Need for Holistic Advice

Many 401(k) plan participants exhibit confusion, low confidence, and misdirection in their attempts to secure a comfortable retirement. As the retirement industry continues its shift away from the defined benefit system, the onus is increasingly placed on end-investors to educate themselves and implement an appropriate retirement strategy. As a result, many lack a clear vision for their retirement. During focus groups, some 401(k) plan participants expressed a desire to simply “maintain their current standard of living” in retirement but did not know how much they would need to save to achieve that objective.

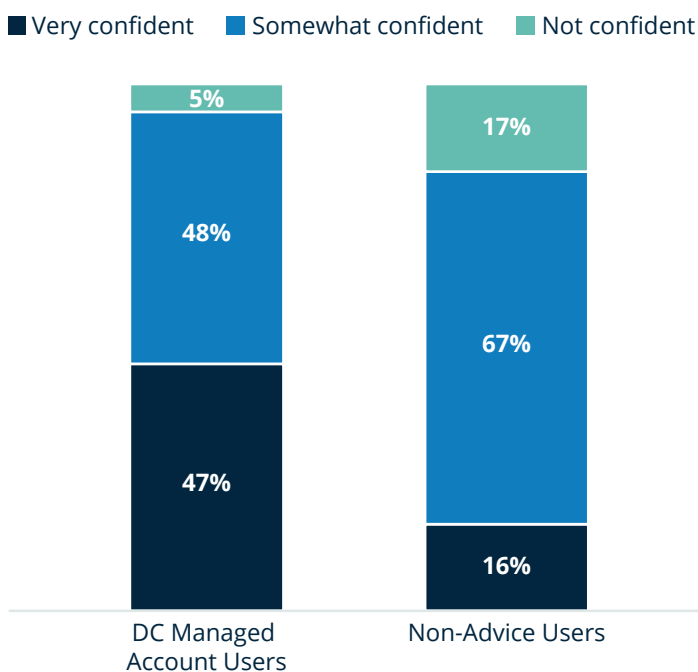
Because many 401(k) plan participants lack a trustworthy source of holistic financial advice and a clear vision for achieving their retirement goals, they exhibit varying levels of confidence in their knowledge of, and ability to allocate to, the investment products offered within their 401(k). Others lean heavily on their own faculties to make key financial decisions and manage their retirement assets. However, in more nuanced focus group discussions with Cerulli, these participants often exhibited misconceptions about retirement investing and behavioral biases that may contribute to suboptimal financial decisions and behavior. One established solution is to default participants into a target-date fund, which places them in a suitable asset allocation and glidepath. Still, these participants forgo the incremental long-term benefits of a more engaged, personalized approach to managing their 401(k) and associated financial decisions.

Defined contribution (DC) managed account programs can help 401(k) plan participants establish clear retirement savings and income goals, construct a retirement portfolio and long-term savings plan in accordance with these established goals, periodically assess whether 401(k) plan participants are on track to meet those goals, and make saving and investment adjustments as needed. Crucially, many of these programs give 401(k) plan participants the option to speak with a human financial advisor who can discuss how the program is managing a plan participant’s 401(k) assets, along with a wide variety of other important financial planning topics. With a clear strategy in place for helping participants achieve their retirement goals, and a trusted advisor to help them along the way, 401(k) plan participants mitigate stress and increase their confidence related to their financial situation and outlook for retirement.

Low-Resolution Goals and Plans for Retirement

401(k) plan participants lack a clear vision for their retirement, and many have not considered their retirement goals. As a result, 401(k) participants reported underwhelming confidence in their retirement investment strategy. Only 25% of 401(k) plan participants surveyed reported feeling very confident in their retirement investment strategy, and 62% felt somewhat confident. In addition, many participants, especially those early in their careers, lack a clear vision for retirement. Those who do have a vision for retirement express only vague objectives. One 401(k) participant stated, “I want to be able to maintain my current lifestyle, which is not an extravagant lifestyle. To have enough money to take care of myself in the event that I need it for some unforeseen occasion [health issues] and just to be able to enjoy and travel without thinking twice about it.” Participant uncertainty not only stems from their lack of confidence on a personal level, but also on a societal level. One plan participant noted, “Our financial goals are just to make it through whatever is going on right now in the world.”

Exhibit 1 | Plan Participants’ Level of Confidence in Their Retirement Investment Strategy, 2024



Source: Cerulli Associates

Analyst Note: Sample excludes both respondents who were unable to identify their retirement investing model and respondents who used an outside financial advisor.

A lack of confidence in one's retirement investment strategy is more pronounced among plan participants who do not work with a financial advice provider. When considering 401(k) participants who do not work with a DC managed account or outside financial advisor, just 16% reported feeling very confident in their retirement investment strategy. Conversely, almost half of DC managed account users (47%) reported feeling very confident.

In conversations with 401(k) plan participants, Cerulli observes notable differences in confidence related to retirement planning between those who work with a holistic financial advice provider and those who do not. Without specific long-term saving and retirement income objectives, participants often resort to heuristics or retirement savings mantras, such as "contributing as much as possible," blindly hoping for the best. One plan participant noted, "At this point, my husband and I always talk about how we will just really love to be able to retire at some point, because that's kind of a real concern. Right now, just with the economy and Social Security and because, for us, retirement isn't right around the corner. So, we're just kind of hoping at some point we're able to retire." On the other hand, 401(k) participants who are enrolled in a managed account also tend to have more detailed goals and plans for retirement; these plans often include spending time with their grandchildren, travel, paying down their debts (including their mortgage), covering healthcare costs, and contributing to charities.

Plan participants who use an advice provider broadly asserted that the human-to-human aspect is what makes this model most valuable. A human advisor can help participants make sense of the complexities of retirement planning and more effectively address the financial concerns and stressors than purely digital advice ("robo" advice) services—and certainly more effectively than off-the-shelf investment products, such as target-date funds. Plan participants who are enrolled in a DC managed account program often have access to a human financial advisor and, during focus group sessions, these participants repeatedly cited the benefits of engaging with a human advisor through their managed account programs. For example, one managed account user said, "We've been very methodical about savings and the company that I work with provides the opportunity for us to have a managed 401(k)...Working with the financial planner, they say we're in good shape so I believe them and so I feel pretty comfortable when that time comes." Speaking with a human advisor can not only help participants achieve greater clarity and confidence in their retirement planning, but also help participants make more sound financial decisions, contributing to superior long-term financial outcomes.

Confusion and Misconceptions About Investing

401(k) plan participants who are not enrolled in a DC managed account or do not work with a financial advisor outside of the plan face increased challenges when saving for retirement. Without a trustworthy source of professional financial advice, these participants are left to their own devices. In lieu of an advisor, some participants lean on the unprofessional financial guidance of their friends and family. For instance, one self-directed investor indicated she often relies on the advice of her father, who is a businessman and "knows everything that's going on," when selecting investments within her retirement plan. Many less engaged 401(k) participants don't know how they are invested in their 401(k).

Exhibit 2 | Plan Participants' Methods of 401(k) Account Investing, 2024

Enrolled in plan's default investment
(likely target-date fund)

38%

Self-directed

35%

Outside financial advisor

14%

DC managed account

8%

I don't know / I'm not sure

4%

Source: Cerulli Associates

Analyst Note: Categories displayed are simplified into industry's terminology; participants were given options that were descriptive and in plain language.

While many participants are confused and disengaged when it comes to their retirement investments, other more engaged 401(k) investors hold some harmful misconceptions that could hinder their ability to secure a comfortable retirement. For instance, one participant expressed a high level of confidence in active U.S. equity fund managers to outperform their respective indices, net of fees, over the long term, seemingly unaware of the fact that many of these managers fail to do so, particularly managers seeking to outperform the S&P 500 index. This participant claimed, "If you're going to be in the S&P 500, you're going to go up and down with the S&P. There's got to be some sort of benefit to working with the specialists that you know are weeding out the bad ones or whatever and kind of changing things around within the funds as they see fit. So, most of my funds are all active." According to the 2023 SPIVA U.S. Scorecard, put together by S&P Global, more than 93% of large-cap funds underperformed their benchmark over a 20-year period (based on absolute return). This metric was only slightly better over a 10-year period (87.4% of managers underperformed).

Another participant exhibited some misconceptions about diversification, indicating the S&P 500 provides an adequate amount of portfolio diversification. This investor discussed wanting to create a "simple" portfolio with "diversification" but was allocating a large portion to a technology sector fund and an S&P 500 index fund (a fund

with a notably high allocation to technology stocks), likely resulting in an unusually high portfolio concentration to the technology sector.

Worse, some non-advice users, particularly self-directed 401(k) investors, exhibit signs of overconfidence bias. A false sense of confidence in one's ability to manage their 401(k) assets, when intertwined with misconceptions about asset allocation, diversification, and manager selection, can derail retirement saving and investment outcomes. The behavioral finance benefits of delegating 401(k) management to a trusted professional cannot be understated, with 13% of DC managed account users having gone as far as to state that their financial advice provider's help in breaking some of their bad financial habits is the most valuable aspect of working with a financial advisor. While loss aversion is widely cited as a behavioral bias that plagues professional and individual investors, non-advice users exhibited signs of other biases while describing their investment approaches to Cerulli, such as fear of regret, choice overload, self-attribution bias, and availability heuristics. It is important to note that the impact of these biases is not isolated to the point in time in which they are made—they can have long-term financial impacts and taint future financial decision-making. DC managed account programs can help participants mitigate the adverse effects of behavioral biases, which are inherently difficult to identify in oneself and rectify accordingly, especially for non-professional investors.



“

I made a couple of early-on, poor investment choices and now I'm much better. But, you know, that kind of crimped my time to grow because I was so afraid in the beginning that I really missed out on a lot of opportunity.”

– Non-Managed-Account User

Unpacking the Complexities of Retirement Income

In addition to confusion about the investing process, many 401(k) participants who have no source of financial advice are concerned about their expected sources of income in retirement. Some indicated they will likely roll those assets over into an individual retirement account (IRA) or “take systematic withdrawals” from their 401(k), but, in general, these participants relayed very rough ideas of what they might do with their 401(k) assets once they enter retirement. Some indicated they will likely seek out support from a financial professional as they near retirement.

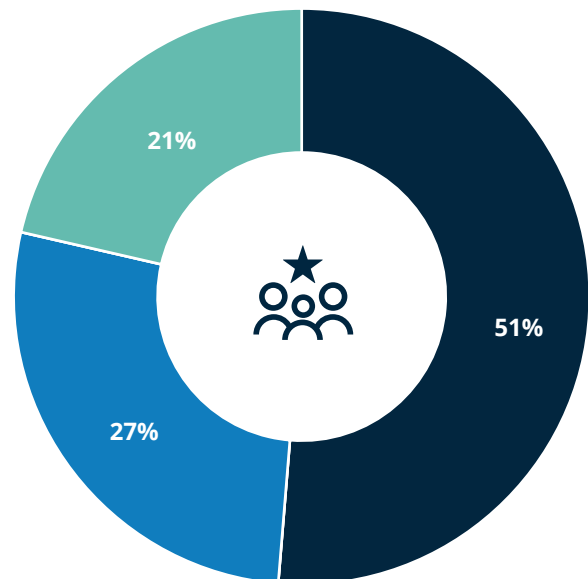
Transitioning from working into retirement is notoriously complex from a financial perspective, particularly when the time comes to convert one’s accumulated retirement savings into income in retirement. While many firms in the retirement industry continue to pursue a product-centric approach to solving for retirement income, deciding how to invest and spend down household assets in retirement is inherently personal. Accordingly, 401(k) participants cited “having a retirement income plan that is tailored to my personal circumstances and lifestyle expectations for retirement” as the most important attribute of a retirement income plan.

Moreover, 44% of 401(k) participants indicated it is very important to have a financial advisor help them create a plan for converting their 401(k) savings into an income stream in retirement.

Critically, a financial advisor can help participants with some of the major financial planning aspects of the retirement phase, such as claiming Social Security, optimizing taxes, and covering medical expenses, which can be substantial during the retirement phase. One self-directed participant noted, “If I’m in my 60s or 70s, what I really want to be educated about is Social Security—whether to take stuff early, take it later. You have some kind of mixture with spouses, you get into Medicare, and you can get a different supplementary plan. I’m kind of aware of a lot of this stuff out there, but that’s where I would really find most full usage.” Nearly half (49%) of survey participants reported not feeling confident in their ability to decide when to claim Social Security and determine a tax-efficient distribution strategy for their personal retirement assets. Perhaps most concerning, one in five reported not feeling confident but still willing to go at it alone.

Exhibit 3 | Plan Participants’ Level of Confidence in Their Ability to Decide When to Claim Social Security and Determine a Tax-Efficient Distribution Strategy, 2024

- **I feel confident** in my ability to decide when to claim Social Security and determine a tax-efficient distribution strategy for my personal retirement assets **on my own**
- **I do not feel confident in my ability** to decide when to claim Social Security and determine a tax-efficient distribution strategy for my personal retirement assets **and would need the help of a financial professional**
- **I do not feel confident in my ability** to decide when to claim Social Security and determine a tax-efficient distribution strategy for my personal retirement assets, **but I would attempt this on my own**



Source: Cerulli Associates

A Misunderstood Value Proposition

Cerulli notes a stark contrast in how DC managed account users and non-users perceive the value of DC managed account programs. Specifically, DC managed account users have a stronger appreciation for the time, energy, and stress saved by delegating management of their 401(k) and retirement planning to a professional, the human advice component, and the fact that the solution is vetted by their employer.

Cerulli suspects the difference in sentiment toward DC managed accounts between users and non-users can be attributed, in part, to non-user misunderstanding of the value proposition of DC managed account programs. Specifically, many non-users are seemingly unaware of the human advice component. When informed about this component, non-managed-account users exhibited a stronger interest in the program, as reflected, in some cases, in the fee amounts they reported they would be willing to pay to enroll in a DC managed account program.

Exhibit 4 | 401(k) Non-Advice Users' Use of Select Paid Professional Services Over the Past Five Years, 2024

Automobile repairs/maintenance



Tax preparation/planning



Travel/vacation planning



Management of finances/investments



Source: Cerulli Associates

Analyst Note: 'Non-advice users' represent 401(k) plan participants that are neither using a DC managed account nor using an outside financial advisor. Respondents were allowed to select all professional services that applied to them.

Non-advice users' incomplete understanding of the value offered by DC managed accounts is a microcosm of a broader challenge faced by plan participants: determining whether hiring a financial professional is worth the fees charged. Survey data gathered by Cerulli illuminates this as a potential source of hesitation, as a substantial portion of the non-advice users surveyed reported paying for other professional, advice-based services in the past. While just 18% of non-advice users reported having paid for the management of their finances in some form over the past five years, 56% reported that they have paid for tax preparation/planning over the same period. More surprisingly, 36% of these survey participants (or double the portion that paid for financial management) reported that they had paid for travel planning, an advice-driven service that many would argue is much less consequential over the long term. Cerulli suspects that non-advice users would be more willing to delegate management of their 401(k) to a DC managed account provider—and pay for this service—if they were more aware of the human advice component and their own behavioral biases and lack of knowledge related to retirement investing.

Fortunately, 401(k) participants exhibit an interest in learning more about DC managed accounts to determine whether they would enroll in the program and, based on their misunderstandings of how these programs work, many would likely benefit from learning more. When asked about a webinar to learn more about DC managed accounts, 40% indicated they would definitely register and another 43% felt they would likely register. Plan sponsors should use educational webinars, seminars, and other mediums to highlight the ability to work with a human advisor, and how that differentiates the managed account from other services offered with their 401(k) plan and advice solutions offered outside the plan.

Delegating Responsibility to a Professional

DC managed account users expressed a strong appreciation for delegating investment management of their 401(k) to an investment professional. Seven out of every 10 plan participants agreed that a financial professional could do a better job at managing their retirement assets than they could. Several DC managed account users conceded they lack the knowledge to confidently manage their retirement assets and planning on their own and are unwilling, or unable, to dedicate the time and mental energy necessary to attain the knowledge necessary to do it effectively on their own. Non-advice users also noted the hands-off approach to managing and rebalancing their 401(k) as a meaningful benefit to potentially enrolling in a DC managed account. This aligns with sentiment from existing managed account users, as they also expressed this is a major benefit.

Another benefit of offloading 401(k) management duties to a DC managed account provider is having a professional actively engage the participant to review their goals, retirement plan, and broader financial picture to see if changes need to be made or simply to ensure they are still “on track.” Cerulli finds DC managed account users are more likely to engage with their retirement plan on a regular basis—more than 70% log in at least monthly, with 26% logging in at least weekly. By contrast, 60% of non-users log in at least monthly, with only 16% logging in at least weekly. This is something that some non-user focus group participants felt they would find beneficial, while, in contrast, several current users indicated the proactiveness of their DC managed account program provider is something they value.



The biggest benefit is that you’re leaving your retirement in the hands of an expert that knows how to safeguard your money so that you’re not worrying, ‘Oh my God, am I going to have enough for retirement by the time I hit retirement?’”

– DC Managed Account User

The Human Advice Component

Participants enrolled in a DC managed account program cited the ability to speak with a human financial advisor as a major benefit to using a managed account. Those not using DC managed accounts reported feeling the same way; they value the potential benefit of speaking with a human advisor but are not enrolled in a DC managed account. In fact, when surveyed, all participants overwhelmingly cited the human-to-human interaction as the most valuable aspect of a financial advice solution. Approximately 50% identified it as a top-two most valuable element of a financial advice solution, well ahead of comprehensive financial planning (26%) and sophisticated or unique investment strategies and products (22%), the next-closest options. Once engaged with an advisor (in plan or out of plan), survey respondents are generally satisfied with the financial advice they receive—51% of respondents stated they are very satisfied, while another 46% are somewhat satisfied.

Cerulli found participants not enrolled in the DC managed account are typically unaware of the human advice component that some managed account programs offer and the benefits that affords them. Once the full value proposition of DC managed accounts has been made clear to them, including access to a human financial advisor who can walk them through questions related to their financial

wellness and planning, many participants exhibited a stronger interest. For employers, effectively communicating the human advice component to their participants is critical.

Exhibit 5 Plan Participants’ Top-Five Most Valued Features of Financial Advice They Receive, 2024



Source: Cerulli Associates

Analyst Note: Sample includes respondents who either have an existing relationship with a financial advisor or are in the process of starting a new relationship with a financial advisor. Respondents were allowed to select their two most valuable features. Other options were presented to respondents but were not included in this chart for display purposes.



[On the biggest benefit of managed accounts] They’re setting up the one-on-one appointments to talk with someone. If there is a change...say you want to retire here instead of there, or you want to have this much in your account by the time you retire. They know how to set that goal. They know what percentage you should have taken out, and what type of risk you want to be at in order to get there.”

– DC Managed Account User

Moreover, the fee amount participants are willing to pay for the program is often tied to the human advice component. In focus groups, some non-managed-account users revised upward the amount they would be willing to pay for a DC managed account program after the moderator clarified that they would be able to speak with a human advisor through it. One self-directed investor stated, “I think that there are certain things that are worth the cost. I think that makes more sense for specialized advice that’s not just picking investments from a menu.”

While it is clear that 401(k) participants generally value the ability to speak with a human advisor, many participants believe they lack the assets necessary to work with a financial advisor, or they believe it is too expensive. For this large swath of participants, DC managed accounts provide a plausible antidote, offering many of the benefits of an outside advisor, but accessible to everyone regardless of asset levels—most DC managed account programs have ultra-low investment minimums and a low price point relative to advice solutions offered outside of DC plans.

Exhibit 6 | Plan Participants: Reasons for Not Reaching Out to a Financial Advisor, 2024

I don’t have enough investable assets to merit hiring a financial advisor

41%

Hiring a financial advisor is too expensive

30%

I am nervous about paying too much

27%

I don’t need a financial advisor

24%

I wouldn’t know how to find a financial advisor

14%

I am overwhelmed by the number of financial advice offerings

13%

The process of vetting a financial advisor is too time-consuming

10%

I don’t trust financial advisors

7%

Source: Cerulli Associates

Analyst Note: Sample includes respondents who selected “no” to the question “Have you sought out a financial advisor in the past year?” Respondents were allowed to select all reasons that applied.

An Employer-Vetted Solution

Asked how they would proceed if they needed financial advice regarding their retirement, more than half (53%) of 401(k) plan participants indicated that they would prefer using a service offered through their 401(k) plan to finding a financial advisor on their own. With 21% indicating that they are indifferent between the two approaches, the portion that prefers the employer-vetted solution roughly doubles the portion that prefers the go-it-alone approach (see Exhibit 7). In focus groups with Cerulli, DC managed account users expressed feelings of trust and comfort in knowing their employer vetted and selected their managed account program. These participants recognized that their employer was able to conduct a more thorough, rigorous due diligence process than they could on their own. Non-managed-account users expressed less appreciation for the employer vetting component. Still, survey data suggests 401(k) participants overwhelmingly prefer advice solutions offered by their employers over finding an advisor on their own.



For my company to back this management firm... I know that they are looking diligently at whatever options they’re providing to us. So, there’s a level of comfort.”

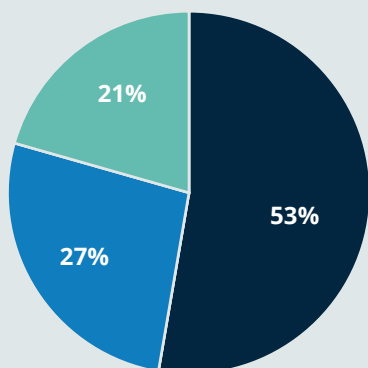
– DC Managed Account User

When Cerulli asked DC managed account users who participated in focus groups if they would consider rolling their assets out of their employer-sponsored DC plan (and the managed account program) into an IRA to be managed by an outside financial advisor, one DC managed account user stated: “I would not. I feel like I’ve been with [this company] for 35 years. They trust [this managed account program] enough to run this thing. And that’s who I’m going to trust, too. I feel like it’s almost something that’s an extra benefit for being an employee that I’m taking advantage of that other companies probably don’t have. So that’s why I think it’s something that I have never thought about moving to somebody else.”

Exhibit 7

Plan Participants' Preferred Source of Financial Advice, 2024

- I would prefer to use a financial advice and portfolio management service offered **through my 401(k) plan** (i.e., a managed account)
- I would prefer to find a financial advisor **on my own**
- I am indifferent



Source: Cerulli Associates

Analyst Note: Respondents were asked to assume no difference in financial advice fees when selecting their preference between a service offered through their 401(k) plan or finding one on their own.

Peace of Mind

By providing participants with a retirement savings plan, managing their 401(k) in a professional manner, and helping participants with difficult financial planning questions, DC managed account programs can not only put participants in a better financial position, but also alleviate much of the stress and uncertainty, improving participants' mental and emotional well-being. Approximately one in three 401(k) participants who work with an advisor indicated that the most satisfying aspect of working with a professional is the fact that they provide reassurance and alleviate stress related to finances, the most common response and well ahead of "generating high investment returns" (18%).

During focus group discussions, many early-career plan participants expressed apprehension about their retirement savings journeys. Because they have such a long way to go until retirement, many are fearful of the short-term disruptions that could occur over that time and potentially knock them off track. Conversely, DC managed account users regularly expressed a greater sense of comfort and confidence in their retirement planning as a result of speaking with an advisor affiliated with their managed account program.



I was watching the market drop off and I called my financial advisor, and he gave me peace of mind. He explained how this was just a temporary thing and how everything would level back off, and that these were long-term investments, not short term. It was good because I was kind of nervous watching the numbers and he told me, 'You have to just stop watching the numbers and think long term like we do.' So that was very helpful."

- DC Managed Account User

Exhibit 8

Plan Participants: Most Satisfying Aspect of Working with A Financial Advice Provider, 2024

The financial advice provider provides assurance and helps alleviate stress related to my finances

31%

The financial advice provider helps me through difficult financial decisions

19%

The financial advice provider generates high investment returns

18%

The financial advice provider allows me to invest in sophisticated or unique investments

11%

The fees I pay to work with this financial professional are low

10%

The financial advice provider helped break some of my bad financial habits

9%

Other

2%

Source: Cerulli Associates

Analyst Note: Sample includes respondents who are either somewhat satisfied or very satisfied with the level of financial advice they currently receive.

Demystifying The 401(k) Participant Experience

For 401(k) participants, grasping the different services their employer, recordkeeper, asset managers, managed account programs, and plan consultants provide—and determining who is responsible for providing them—can be daunting. This confusion extends to the investment options and services within their 401(k) plans (e.g., target-date funds, managed accounts), as well as thematic concepts such as personalization and what it means to be a fiduciary. While these terms are commonly used within the retirement industry, many 401(k) participants are unfamiliar with them.

A Value Proposition Lost in Translation

Many 401(k) participants lack a basic understanding of investment products that are commonplace within the retirement space, such as a “target-date fund” and a “managed account.” The generic naming convention of “managed accounts,” coupled with the fact that managed accounts are offered both within DC plans and in the wealth management space, adds a degree of confusion when discussing DC managed accounts with participants.

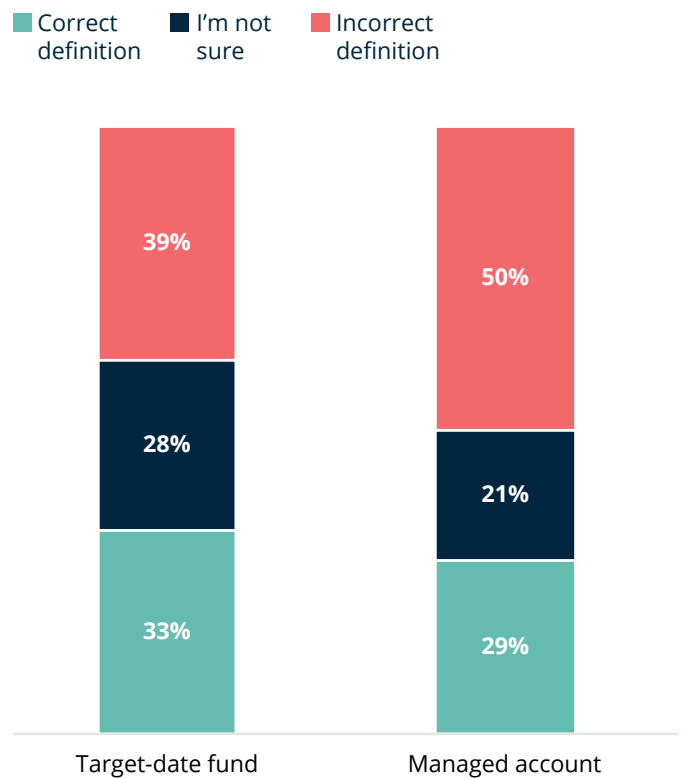
When asked about using DC managed accounts, without first seeing a definition, one focus group participant claimed to be enrolled in one. However, upon further probing into their use, the respondent indicated that they “customize the allocation to mutual funds proactively based on the advice they get.” This participant also has an outside financial advisor, and they were conflating the consultative service they get from their outside financial advisor with a DC managed account.

This scenario is not unique, as 401(k) participant survey data compiled by Cerulli indicates that most 401(k) participants cannot correctly discern DC managed accounts from other advice solutions and asset allocation approaches. Prior to seeing a definition, more than 70% of 401(k) participants were either “not sure” (21%) or selected an incorrect definition (50%) when asked to select the correct definition of a DC managed account. Slightly more than one-third of respondents indicated they are “not sure” whether their 401(k) plan even offers a managed account. 401(k) participant awareness of target-date funds is only slightly better, with 66% of participants selecting “not sure” or an incorrect definition.

Compounding this lack of awareness is widespread confusion about the services offered by the myriad service providers (e.g., recordkeeper, managed account program, target-date managers) associated with their retirement plan. In a conversation with Cerulli, one DC managed account user, who was largely satisfied with his managed account program

experience, said he was still confused about what types of services his managed account program could offer that his recordkeeper could not. By using simple, everyday terminology to describe the roles and responsibilities of recordkeepers, managed account programs, plan advisors, and asset managers, plan sponsors can help participants more easily discern between the numerous service providers associated with their retirement plan. Plan sponsors should also use simple, succinct phrasing to describe the services these providers offer, being sure to clearly distinguish between the services offered by the plan’s managed account program (e.g., “managed your 401(k) assets for you,” “provide ongoing advice that is in your best interest”) and

Exhibit 9 | Plan Participants’ Perceived Definition of Target-Date Funds and Managed Accounts, 2024



Source: Cerulli Associates

Analyst Note: This question was provided to survey respondents before seeing the definitions for a target-date fund and a managed account; respondents were given five proposed definitions of target-date funds and seven for managed accounts and asked to select the correct definition. For specific definitions provided to respondents, see Appendix 2.

recordkeeper (e.g., “administer your plan, but will not manage your 401(k) for you or provide you with ongoing advice”).

In a similar vein, participants cited confusion over terms that have become common industry jargon within the defined contribution ecosystem. “Personalization” is a widely discussed theme, but when asked to explain what personalization means to them in the context of their personal finances, several participants replied with bewilderment or provided responses that are conceptually inconsistent with the industry’s general interpretation of personalization in a financial context. For instance, one participant expressed concern over the effectiveness of personalized financial services, fearing the advice and investment management would not change when their life circumstances change, leading to negative investment outcomes. In actuality, personalized financial services are intentionally created to address changes in life circumstances. Furthermore, when asked about personalization in the context of personal finance, participants regularly confined the application of personalization to investment preferences. For example, one non-managed-account user explained, “I don’t know how you can personalize it. My fund has 80-some choices, so you can choose what you want now. So, I don’t really see what more you can personalize out of that. They tell you based on age, already, how aggressive you should be and everything. So, I don’t see anything else that can be done.” As a result of sentiments like this one, many felt personalization would be only somewhat valuable to them.

Separately, when asked about what would improve their overall experience, some of these participants described examples of greater personalization, just without using the term. In other words, these participants expressed

demand for a more personalized experience but fail to tie the elements of what they want back to the term “personalization.” Plan sponsors and recordkeepers might find greater success using more direct, colloquial terminology to describe the personalized services offered by their DC managed account programs, highlighting the ability for participants to speak with a human advisor who can take “their whole financial picture” into account and provide advice and guidance that “matters to you most at that time.”



Everybody’s situation is different, right? So, it’s not just age. It’s not even risk tolerance... [It’s] the cost of living is different in different areas. I may live a lifestyle and so my needs are going to be different than someone that may look exactly like me but lives a different lifestyle. So, I think having a more macro view of the individual beyond just looking at numbers and statistics is really important...if it is more customized to me, I would be more interested in being involved, and feel like it’s about me, working with someone that is tailoring it to me.”

– *Non-Managed-Account User*



A Call to Action for Plan Sponsors, Consultants, and Managed Account Providers

Plan sponsors have a clear incentive to promote simpler, more effective participant messaging and positioning of their DC managed account programs within their broader employee benefits strategy. DC managed account programs can not only improve plan participants' retirement readiness and reduce financial stress (crucial issues faced by many 401(k) participants), but they may also help drive stronger participant engagement with the 401(k) plan.

Effectively Communicating the Value Proposition to Participants

Exhibit 10 | Key Pillars of DC Managed Accounts



A valuable “employee benefit,” not just an “investment product”

Employers offering DC managed account programs with a human advice component need to emphasize this component of the program and clearly differentiate this from speaking with a recordkeeper call center representative.



Lower cost

Frame DC managed account program as a lower-cost alternative to the advice solutions that participants could reasonably expect to access outside of their 401(k) plan.



Employer approved

Highlight the sense of comfort and trust that comes with using an advice service their employer selected following a rigorous evaluation process, and that their employer is held to high regulatory standards when selecting the program.

Source: Cerulli Associates

A Valuable “Employee Benefit,” Not Just an “Investment Product”

When communicating the value of DC managed accounts to their participant base, employers need to frame their managed account program as not just an “investment product,” but an employee benefit that can improve participants' financial and emotional well-being. DC managed accounts can help participants establish clear retirement planning objectives, better assess their savings adequacy and retirement readiness, and execute a professionally managed investment strategy, bringing clarity to the retirement planning process. Ultimately, this instills confidence into the plan participant and helps alleviate the financial stress associated with saving and investing for retirement—the most important aspect of working with an advisor for 401(k) participants.

The human advisors offered through some DC managed account programs play a major role in bringing clarity, comfort, and assuredness to the retirement planning process. Employers offering DC managed account programs with human advice need to emphasize this feature of the program and clearly differentiate this from speaking with a recordkeeper call center representative. The human advice component of DC managed account programs can deliver value to these participants, going beyond traditional investment metrics that investment committees and consultants use to select the investment options for their 401(k) plans, but to date, have been difficult for plan sponsors, consultants, and managed account program providers to quantify.

Lower-Cost, Employer-Approved

Participants cited the high cost of financial advice as one of the top barriers to working with a financial advisor. Therefore, plan sponsors should frame their DC managed account program as a lower-cost alternative to advice solutions participants could access outside of their 401(k) plan. Moreover, when given the choice between using a financial advice and portfolio management service offered by their employer or finding a financial advisor on their own, 401(k) participants overwhelmingly prefer to use the advice solution offered by their employer. Employers should highlight the sense of comfort and trust that comes with using an advice service their employer selected following a rigorous evaluation process, and that their employer is held to high regulatory standards when selecting the program.

Messaging and Terminology

Participants indicated they are open to receiving information on financial topics that are most relevant to them, but, as noted by 401(k) participants in focus groups, they also don't want to be bombarded with messaging from their retirement plan service providers or employers. As employers think about their targeted messaging campaigns, they should focus on the participants in their plan who are most likely to exhibit an interest in the value that DC managed account programs deliver. Cerulli finds circumstances that are most likely to incent non-advice users to enroll in a plan's managed account program are the accumulation of a larger 401(k) balance as they age, an upcoming retirement, receipt of an inheritance (or other dramatic increase in assets), and a workplace promotion. Cerulli also notes participants who prefer a less hands-on approach to managing their 401(k) may be more inclined to enroll in the program and may place more value on the ability to offload this responsibility to a professional solution.

Plan sponsors and recordkeepers should translate industry jargon into everyday terminology when describing DC managed accounts. The "custom portfolio management" and "fiduciary advice" components should be distilled down to terms to which the majority 401(k) investors can more easily relate. For instance, by framing the DC managed account as an "opportunity to speak with a financial advisor who will listen and discuss your financial situation" and "help you make a plan for investing to reach your retirement goals," employers are more likely to elicit a reaction from their participants as compared to describing their DC managed account program as, for instance, a "customized asset allocation and advice service."



Recommendations for Driving Increased Adoption and Understanding of Managed Accounts

401(k) plan sponsors can communicate their employee benefits, including retirement plan services, through several channels. Participants often receive information related to retirement plan services through the plan's recordkeeper (e.g., call center conversations, recordkeeper website, seminars); in addition to communicating through this channel, plan sponsors should also leverage their employee benefits and wellness seminars, open enrollment periods, and internal employee benefits websites to keep participants informed of available services and potential advantages of each approach.



Employee benefits and wellness seminars, open enrollment:

Given the strong emotional and psychological benefits of using a managed account—as voiced by participants in focus groups and evidenced in survey data—plan sponsors should leverage employee benefit and financial wellness seminars to frame the DC managed account program as an employee benefit rather than simply an investment product. Critically, these mediums present opportunities for plan sponsors to maintain control over that messaging without interference from the recordkeeper. To further solidify this framing as an employee benefit, plan sponsors should incorporate DC managed account enrollment as an option during their annual benefits enrollment period, highlighting the program's ability to improve employees' financial and emotional well-being, and further positioning the program as an "employee benefit" as opposed to an "investment product" (as suggested previously across other mediums). Annual open enrollment periods are a prime opportunity for plan sponsors to showcase the benefits of their managed account program given that a relatively large swath of the employee population will be in the process of evaluating other key benefits, such as their healthcare plan.



Employee benefits website: In focus group discussions with non-managed-account users, participants highlighted their appreciation for the human-to-human interaction component of financial advice solutions, yet they were largely unaware of the ability to engage with a human advisor via managed account programs. Employee benefits website links and icons should lead with the advice and planning component of these programs, using phrases such as "Work with an advisor" or "Stressed about your finances? Speak with one of our advisors to address your financial planning questions," as opposed to leading with language that emphasizes the portfolio management component (e.g., "Personalized

investment strategy" or "Manage my 401(k) for me"). Imagery used to showcase the plan's managed account offering should feature one-on-one phone calls with a financial advisor and should invoke feelings of trust, comfort, and peace of mind, with supporting text that focuses on "planning."



Fine-tuning recordkeeper call center discussions:

A 401(k) plan's recordkeeper is usually the first point of contact for participant inquiries related to their 401(k). Often, large 401(k) plan sponsors monitor and control which financial topics their recordkeeper's call center representatives can discuss with their participants and how they are allowed to discuss these topics. Plan sponsors should urge their recordkeepers to have their call center representatives use specific phrasing and emphasize certain features of DC managed account programs when discussing this option with their plan participants. Moreover, plan sponsors should push for their recordkeeper call center representatives to emphasize that DC managed account programs take responsibility for managing the participant's 401(k) investments, articulating the difference between "advice" (offered by managed account programs) and "guidance" (typically offered by recordkeeper call centers).



Automatic re-enrollment as an antidote to residual disengagement:

While crafting more effective messaging and participant communications related to the value proposition of DC managed accounts (and 401(k) service providers more broadly) may help drive more successful engagement with managed accounts, implementing an automatic re-enrollment program can help mitigate the residual effects of disengagement and confusion related to managed accounts, 401(k) plan service providers, and the plan's investment products. For example, plan sponsors could target participants with less than sufficient projected retirement income replacement ratios or imprudent asset allocations. In short, an effective automatic re-enrollment program can ensure the participants most likely to benefit from being in a DC managed account program actually enroll. Nevertheless, plan sponsors that enact automatic re-enrollment should accompany these re-enrollments with communication notifying participants that they have the ability to opt out after being automatically enrolled in the managed account if they choose.

Measuring the Full Value of DC Managed Account Programs

To date, many plan fiduciaries have used more traditional investment risk, return, and asset allocation metrics to evaluate DC managed account programs. In this vein, fiduciaries often end up evaluating DC managed account programs alongside target-date funds, despite the stark differences in these qualified default investment alternative (QDIA) options. While many plan sponsors and consultants are aware of the non-investment-related benefits of managed accounts detailed in this white paper (e.g., greater confidence—and lower stress—related to participants' financial situations), measuring these non-investment-related benefits remains a challenge.

Constructing a Methodology for Measuring Impact

In the years to come, the retirement industry will need to craft new evaluation criteria and methodologies for quantifying the non-investment benefits of DC managed account programs. Ideally, there will be an emotional/psychological component to these methodologies and a financial success component—a monetary measurement of the financial benefits.

Notably, crafting a financial success component will be subject to greater levels of objectivity. Providers and fiduciaries should strive to develop measurement techniques that directly attribute increases in participants' financial well-being. Moreover, DC managed account providers and plan sponsors will need to establish appropriate dependent

variables to measure “financial success.” Examples of these variables might include measurements of retirement readiness, retirement savings levels, contribution rates, emergency savings levels, financial solvency, or other personal financial metrics to DC managed account usage or engagements (as opposed to metrics that infer impact from DC managed account usage and engagement but can't directly attribute).

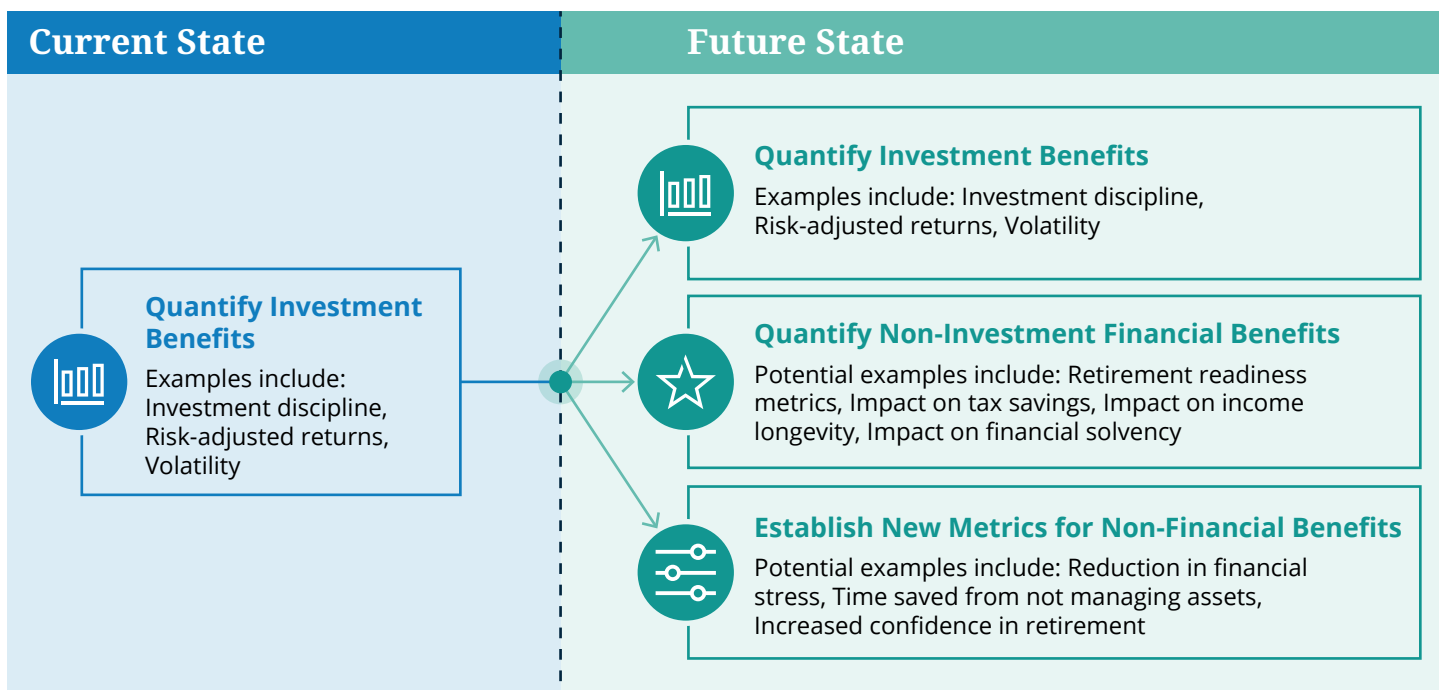
Collaboration Between Fiduciaries and Providers

Implementing these new methodologies may require plan sponsors to partner with DC managed account providers and share detailed employee-level data with them in order to measure (and potentially control for) the impact of engagements and other factors on the financial well-being of participants, but the benefits of doing so could significantly enhance the financial well-being and, consequently, the emotional well-being and productivity of the employer's workforce.

Leveraging Impact Metrics to Empower Decision-Making and Messaging

Plan sponsors and their consultant partners could subsequently convert impact metrics into brief illustrations, showing participants the real, tangible benefits of enrolling in a DC managed account program. From a fiduciary standpoint, plan sponsors and consultants could use these impact measurements—particularly the financial impact measurements—to better compare DC managed account programs to target-date funds and other investment products when evaluating QDIA and dynamic QDIA options.

Exhibit 12 | Current vs. Future State: Measuring The Full Impact of DC Managed Accounts, 2024



Source: Cerulli Associates

Conclusion

As retirement investors increasingly lean on their DC plans to fund their retirement, it is imperative that 401(k) plan sponsors and their consultant partners revisit how DC managed account programs could improve their participants' financial outcomes, free up time that can be reallocated to their work or personal life, and reduce financial stress. It is clear that DC managed account programs can help participants achieve a greater sense of confidence in their retirement planning situation and, ultimately, drive superior long-term financial outcomes for 401(k) participants who would otherwise be managing their 401(k) and associated financial affairs on their own.

Moving forward, it will be imperative for plan sponsors, consultants, recordkeepers, and managed account providers to communicate these programs in a way that connects, translating retirement industry jargon and terminology into terms and phrases to which everyday Americans can relate to ensure they grasp the full value proposition of these programs.

Further, framing DC managed account programs as low-cost employee benefits that can improve overall well-being, and accompanying this framing with messaging that appeals to the true desires of 401(k) participants—namely, to speak with a human being who can listen to them, relate to them, empathize with their situation, and articulate a clear path forward for their retirement planning—will be key to driving engagement from the participants who need these services the most.

Given how deeply 401(k) participants appreciate the non-investment-related benefits of DC managed account programs, it will be important for the retirement industry to create new ways to measure these benefits. By constructing new, intellectually rigorous methodologies for quantifying the benefits of DC managed account programs that go beyond traditional investment returns and volatility measures, managed account program providers and plan fiduciaries will be able to more effectively articulate the full value of these programs, driving stronger plan-level and participant adoption of these programs, thereby enhancing the financial well-being of the 401(k) participant population in the United States for years to come.





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For over 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights.

Cerulli Associates is an international research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.



This research was conducted with support from Edelman Financial Engines. This study was blind and did not reveal Edelman Financial Engines as the sponsor. Edelman Financial Engines, LLC is an independent investment advisory firm and is not affiliated with Cerulli Associates.

Appendix 1

Plan Participant Demographic Databank, 2024

Household Investable Asset Range	All Respondents	
	%	Sample Size
Less than \$49,999	33%	124
\$50,000 - \$99,999	35%	129
\$100,000 - \$249,999	12%	194
\$250,000 - \$499,999	7%	175
\$500,000 - \$999,999	5%	73
\$1,000,000 - \$1,999,999	4%	54
\$2,000,000 - \$4,999,999	2%	53
\$5,000,000 or more	1%	21

Retirement Asset Range	All Respondents	
	%	Sample Size
Less than \$10,000	15%	55
\$10,000 - \$49,999	35%	152
\$50,000 - \$99,999	24%	147
\$100,000 - \$249,999	11%	195
\$250,000 - \$499,999	6%	129
\$500,000 - \$999,999	4%	64
\$1,000,000 - \$1,999,999	2%	42
\$2,000,000 or more	2%	39

Age Cohort	All Respondents	
	%	Sample Size
<30	20.5%	108
30-39	23.6%	185
40-49	21.5%	186
50-59	19.7%	201
60-69	11.6%	108
≥70	3.1%	35

Account Type	All Respondents	
	%	Sample Size
401(k) plan	100%	823
Roth IRA	26%	284
Traditional IRA	26%	294
Defined benefit (DB) plan	6%	71
403(b) plan	4%	59
Federal Thrift Savings Plan (TSP)	2%	21
401(a) plan	2%	30
457 plan	1%	13
Other	0%	5

Source: Cerulli Associates | Analyst Note: This exhibit shows an unweighted segmentation of survey responses by count. Percentages displayed have been re-weighted to align with U.S. population demographics; percentages presented differ from the unweighted percentage (i.e., category response divided by total response) calculations. For all other exhibits in this report, percentages exhibited reflect the re-weighting to match U.S. population demographics.

Appendix 2

Plan Participants' Perceived Definition of Target-Date Funds and Managed Accounts, 2024

■ Correct definition ■ I'm not sure ■ Incorrect definition

Target-Date Fund

A fund that invests in a mix of stocks and bond funds based solely on your age—as you age, the fund allocates more to bonds and less to stocks



I'm not sure



A fund that pays interest until it distributes its principal back to shareholders at a specified future date



A fund that invests in a mix of stock and bond funds and rebalances on the same day every year



A fund that only invests in stocks or only invests in bonds that are picked by an asset manager focused only on capital appreciation



None of the above



Managed Accounts

A managed account is a retirement solution offered through your 401(k) plan where your retirement investments are managed by a professional according to your personal profile and circumstances



I'm not sure



A managed account is a program offered by a financial advisor separate from your 401(k) plan that manages your 401(k) assets directly; this advisor may offer financial planning and advice



A managed account is a type of mutual fund that invests in both stocks and bonds and is professionally managed by an asset management firm



A managed account is a type of mutual fund that invests in stocks and is professionally managed by an asset management firm



A managed account is a type of mutual fund that invests in bonds and is professionally managed by an asset management firm



A managed account is a financial wellness program that provides you with financial guidance but does not invest money for you



None of the above



Source: Cerulli Associates | Analyst Note: This question was provided to survey respondents before seeing the definitions for a target-date fund and a managed account.