

View Point: Managed Accounts

Do My Employees Invest their Retirement Savings Appropriately?

Companies sponsoring Defined Contribution (DC) retirement plans are facing new and increasingly complex challenges. In the face of the DC Plan's evolving complexity, the above question has crossed the mind of many plan sponsors.

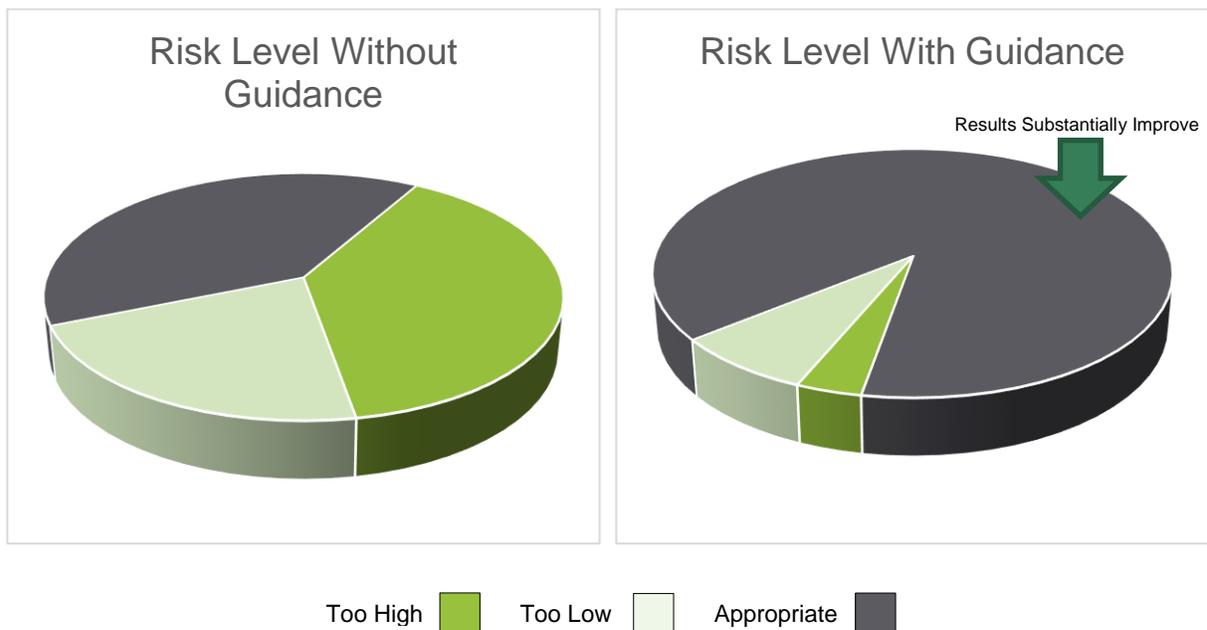
Why?

Because many retirement savers simply do not have the knowledge and experience necessary to choose an appropriate mix of investments (or asset allocation) for their retirement plan savings. A look at the recent data suggests that inappropriate asset allocation has contributed to the nation's retirement savings crisis.

- Studies have shown that 60.5% of plan participants investing their money without guidance or advice are allocating investments at inappropriate risk levels. Sadly, individuals closest to retirement have been shown to have the widest variability in risk levels.¹
- Studies have also shown that 49% of plan participants had at least 30% of their assets invested into a single fund and 31% had more than 50% invested into a single fund.² This glaring lack of diversification suggests a general absence of help available to retirement savers.

EXHIBIT A demonstrates the improved results after providing professional advice or guidance to plan participants.³

Exhibit A:



Use Managed Accounts to Address this Problem!

Professionally Managed Accounts can provide an intelligent and disciplined approach to asset allocation for retirement plan participants. Utilizing expert strategies and professional guidance, Managed Accounts are well suited to keep investors on track toward their retirement savings goals. The data surrounding Managed Account strategies suggest that they may be the most fitting solution to the asset allocation crisis outlined above.

- Persistency rates amongst Managed Account investors are incredibly high, much higher than other retirement investment vehicles. Based on a six-year study (2006-2012), 87% of those who chose Managed Accounts were still in Managed Accounts five years later.⁴
- Managed Accounts result in higher savings rates among participants. In a case study on investor behavior, individuals contributed 2.2% more of their salaries per year to their retirement plans when given the option of utilizing Managed Accounts and investment advice. This increase was found across all age groups in the sample.⁵ Higher savings rates can clearly result in better retirement outcomes. (See Exhibit B below).
- Studies have also shown that participants who elect Managed Accounts show much better diversification on average. For instance, equity allocations among a sampling of participants given access to Managed Accounts rose on average 20 percentage points, which lifted expected long-term returns by more than 2% per year for younger investors.⁵

Exhibit B:



Getting to the Point

Employees need help when saving and investing for retirement. It is incumbent upon plan sponsors to provide the appropriate tools to allow them to create the most efficient portfolio possible and as a result, allow them to reach their retirement savings goals. Offering disciplined Managed Account options coupled with input from professionals creates an unparalleled platform for enhancing retirement plan outcomes. For more information about Cherry Bekaert Benefits Consulting’s Managed Accounts and our robust and innovative suite of investment advisory services, please contact us at 516-750-7575.

*Exhibit B assumes an employee with a starting salary of \$60,000 whose income grows by 3% per year, and who contributes 6% of his or her salary per year into their DC plan. It assumes portfolio returns of 6% per year.
⁴Aon Hewitt & Financial Engines. "Help in Defined Contribution Plans: 2006 through 2012." p.6 | ²Morningstar. "Making the Case for Managed Accounts." p.3 | ³Aon Hewitt & Financial Engines. "Help in Defined Contribution Plans: 2006 through 2012." p.17 | ⁴Aon Hewitt & Financial Engines. "Help in Defined Contribution Plans: 2006 through 2012." p.7 | ⁵Morningstar. "The Impact of Advice and Managed Accounts on Retirement Savings and Investment Behaviors". p.2-3

Cherry Bekaert Benefits Consulting, LLC is a Chernoff Diamond Affiliate. Chernoff Diamond & Co., LLC is a Managing Member of Cherry Bekaert Benefits Consulting. Chernoff Diamond & Co., LLC offering Securities and Investment Advisory Services through M Holdings Securities, Inc., A Registered Broker/Dealer, Member FINRA/SIPC. Chernoff Diamond & Co., LLC is independently owned and operated. Chernoff Diamond & Co., LLC, is a member of the M Financial Group.
 [File Number 1711-2016]

ADDITIONAL INFORMATION

The information included herein is not intended or written to be used, and it cannot be used by any taxpayer for the purpose of I) avoiding penalties the IRS and others may impose on the taxpayer or II) promoting, marketing or recommending to another party any tax related matters. (The foregoing disclosure has been affixed pursuant to U.S. Treasury Regulations governing tax practice.)

For additional information about our services, please contact Cherry Bekeart Benefits Consulting at: 516-750-7575.