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RISING PLAN COMPLEXITIES CREATE OPPORTUNITIES FOR GREATER ADVISOR IMPACT, ACCORDING TO FIDELITY® STUDY

14th Fidelity® Plan Sponsor Attitudes Study Finds:

- *22% of Plan Sponsors are Actively Looking to Switch Advisors*
- *95% of Plan Sponsors Anticipate Making Changes to Plan Design, The Most Active in Years*
- *37% of Sponsors' Employees Have Been Hired in the Past Two Years, with 58% at or Under a Five-Year Tenure*

BOSTON, August 28, 2023 -- Fidelity Investments® announced today findings from its Plan Sponsor Attitudes Study, which characterizes 2023 as a year of opportunity for the retirement plan industry. Most notably, rising plan complexities – ranging from investment menu changes to evolving plan designs – are creating avenues for greater advisor impact.

Fidelity's study, which launched in 2008 and surveys employers offering retirement plans using a wide variety of recordkeepers, found that plan sponsors are relying on advisor guidance more than ever, with merely 6% not using an advisor or consultant. In fact, the percentage of sponsors actively searching for a new plan advisor is creating opportunities for advisors to demonstrate their knowledge of sponsors' needs, such as employee financial outcomes and overall plan education. As the retirement landscape becomes increasingly complex, drivers of plan advisor value continue to be employee focused. Therefore, if advisors work with sponsors to help improve employee outcomes as well as provide administrative support and objectivity when making plan recommendations, they can better demonstrate their value and alleviate burdens.

"While we see the relationships between plan sponsors and plan advisors evolving, employee communication and education remains at the forefront, with sponsors looking to advisors to offer a more holistic experience," said Liz Pathe, head of Defined Contribution Investment Only (DCIO) Sales at Fidelity Institutional. "With plan designs, investment lineups, and the benefits landscape all evolving, advisors have an opportunity to showcase their impact and service-centered mindset."

Plan Sponsor and Advisor Relationships

Ninety-four percent of plan sponsors work with an advisor and/or consultant, with a primary focus on employee education and plan improvement. In fact, plan advisors offer a broad range of services, including education around industry, legislative and fiduciary issues; help with developing and monitoring the investment lineup; and employee education on retirement plans and investment options. The research revealed plan sponsors value improved participant outcomes (44%) over any other service offered by their plan advisor. Other notable drivers of value were time spent on plan and administrative support (43%) and providing objectivity when making plan choices (41%).

Although 76% of sponsors were extremely satisfied with their advisor (a level maintained from 2022), 22% reported they were actively looking to switch and 35% noted they were merely searching due to external factors and/or benchmarking. For those actively searching, the motivations behind their interest include: the new advisor offered a strategy with more extensive services (38%), the need for an advisor who is more effective in dealing with servicing issues (36%), and the new advisor offered a strategy with better employee communication and education (34%). Those who were searching due to an external/benchmarking lens reported: merger or acquisition of the company the advisor works for (43%), the current advisor retired/left the business (38%), and merely wanting to review other services being offered (31%).

Evolving Investment Menus

Investment menu changes continue to be on the rise. The study found that, within the past two years, the most notable enhancements include increased number of investment options (30%); increased number of collective investment trusts (CITs) (29%); and offering CITs for the first time (28%). In fact, the percentage of sponsors beginning to offer CITs had a 10% annual growth rate from 2018 to 2023. When asked about future planned changes, the rise of CITs remains prominent. Sponsors are considering offering CITs for the first time (29%); increasing the number of CITs (28%); as well as increasing the number of index funds offered (28%).

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"We're seeing an increase in small plans preferring advisors to have autonomy when managing investments and overall design," said Pathe. "In an evolving investment landscape, it's not surprising to see sponsors lean on advisor expertise to strengthen overall knowledge and make modifications to product lineups."

Retirement Plan and Participant Engagement

The study also examined changes in plan designs and found that 95% of sponsors are expecting to make adjustments in the remainder of the year. The most notable include increasing the matching contribution (26%); increasing the auto-enrollment deferral rate (26%); and beginning to offer an income replacement fund (26%). These remain relatively consistent with those made over the past two years: increased matching contribution (38%); increased auto-enrollment deferral rate (30%); and began offering a matching contribution (28%).

Seventy-four percent of sponsors are very satisfied that plans are meeting company objectives, with the primary goal of providing adequate retirement savings to successfully replace working income (30%). On the other hand, the most notable concerns include whether the plan is helping attract and retain top talent (27%), financially preparing employees for retirement effectively (26%), and reducing retirement plan costs for employees (16%). Almost one-quarter (23%) of plan sponsors are measuring the success of plans based on industry benchmarks for employee participation/savings rate goals, while others measure based on employee happiness (21%) and contribution/saving levels (15%).

Seventy-two percent of plan sponsors believe employees are saving enough for retirement, up from 70% in 2022, with 71% believing the auto-enrollment deferral rate/company match are sufficient retirement savings rate for employees (up from 46% in 2018). However, there are competing financial priorities that are affecting employee savings. When asked what these were, 47% of respondents say current living expenses are too high, 38% reported high heath care costs, and 36% reported lack of discipline in saving for future needs. Sponsors noted more than half of employees (56%) retire early, some by choice and others by necessity, with 30% due to reasons within their control and 26% due to reasons beyond their control. To combat these competing financial priorities, and to attract and retain talent, 61% of sponsors made changes to employee benefits and 74% actively promoted their retirement plans.

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Sponsors are, however, facing challenges when it comes to employee turnover. On average, plan sponsors reported hiring 37% of employees in the past two years, with 58% of tenure at or under the five-year mark. In fact, 71% of sponsors noted such high turnover has created 401(k) plan education challenges within the past year.

Fidelity's Plan Sponsor Attitudes study is an example of how Fidelity's interconnected, yet diverse business model gives the company unique insights into the industry. Additional information on the survey, as well as resources and tools, can be found at go.fidelity.com/attitudes.

Plan Sponsor Attitudes Study: Methodology

The 2023 Plan Sponsor Attitudes Study was an online survey of 1,351 plan sponsors on behalf of Fidelity. Fidelity Investments was not identified as the survey sponsor. The survey was conducted during the month of March 2023. Respondents were identified as the primary person responsible for managing their organization's 401(k) plan. All plan sponsors confirmed their plans had at least 25 participants and at least $3 million in plan assets. Though the survey is broad in scope the experience of the plan sponsors participating in the survey may not be representative of all plan sponsors. Previous Fidelity surveys were conducted in 2008, 2010, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, and 2022.

About Fidelity Investments

Fidelity's mission is to strengthen the financial well-being of our customers and deliver better outcomes for the clients and businesses we serve. With assets under administration of $11.7 trillion, including discretionary assets of $4.5 trillion as of June 30, 2023, we focus on meeting the unique needs of a diverse set of customers. Privately held for over 75 years, Fidelity employs over 70,000 associates who are focused on the long-term success of our customers. For more information about Fidelity Investments, visit https://www.fidelity.com/about-fidelity/our-company.

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