Broadridge®

# Survey of the Participant Experience in the New Fiduciary World

## Trends in the Retirement Industry and Participant Experience Design Impacted by the New Fiduciary Rule

The retirement industry has experienced its share of change over the years, especially in the current environment. Firms are responding quickly to new regulations, technological innovation and huge demographic shifts in order to stay ahead of the challenges. Most recently, the participant experience has held center stage, with retirement services providers bringing new products, services, and channels to retirement plan design in order to garner better outcomes.

> *“Change is the only constant in life.”*
>
> – Heraclitus, Greece, 500 BCE

The latest regulatory mandate, the new DOL Conflict of Interest Rule, adds to the list of changes. The combination of this new regulation and market forces are requiring retirement providers to evaluate nearly every aspect of their business model and how they engage with plan participants.

### Broadridge Research

Looking to understand the relationship between improving participant experiences and complying with the DOL Rule, Broadridge surveyed retirement industry executives in the fall of 2016. Respondents were questioned on how the DOL Rule would impact the participant experience in general, and on the potential impact at their firms.

This research was conducted in October 2016 just prior to the election, and now reported before the new Trump administration takes office in January 2017. With this transition, there are unknown impacts on regulations such as the new DOL Fiduciary Rule; however, many of the market forces driving change from the industry continue, and will remain in effect regardless of the direction of regulations.

## Market Forces

**Three of the major trends driving change in the retirement industry are:**

### 1. A Shifting Model of Advice.

There is a fundamental shift happening in the IRA marketplace. Firms are shifting business models from commission-based fee structures to fee-for-service (or percentage of assets). Some of these trends were already under way, but they have been accelerated by the DOL Conflict of Interest Rule. Recently, Merrill Lynch, Edward Jones and LPL Financial Holdings announced changes to their retirement account fee structures[1], signaling a fundamental change in business models.

Beyond regulatory change pertaining to compensation, the emergence of technology-driven robo-advisors, the ability to compare fees online, and changing demographics as tech-savvy Millennials enter the investing arena, investors are demanding more transparent fee structures[2].

### 2. Trend Toward Passive Investments and Lower Cost Funds.

The general growth in ETFs, combined with pressure on 12b-1 fees and the shifting of fund lineups and offerings, point toward retirement investors changing where they put their money. For instance, for the first three quarters of 2016, 80% of net new assets that flowed into funds went to passive vs. active products[3].

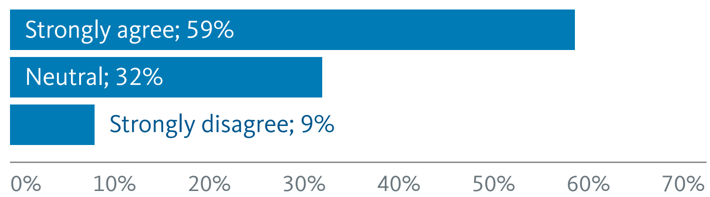
### 3. Digital Participant Experience and Engagement.

The demands of consumers for integrated experiences across channels and devices are putting pressure on retirement providers to offer new ways to interact with participants. Expectations of how information is delivered and the ease of transactions from retailers such as Amazon and Apple are bleeding over into all industries. The ability to store and retrieve important financial information directly from the cloud is accelerating, pushing retirement communications to transform as well. Therefore, firms need to arm participants with communication tools that give them the power and flexibility to meet their needs "whenever and wherever" they want.

## Survey Results

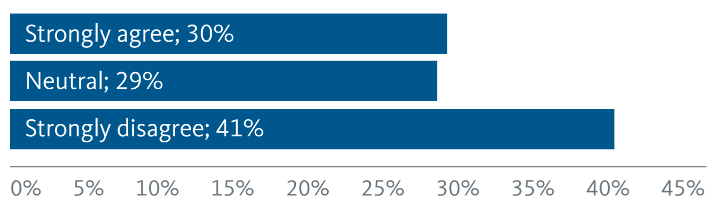
**59% of respondents agreed** that the industry was making progress in improving participant experiences prior to the announcement of the DOL Fiduciary Rule. Before the Rule came out, Broadridge identified 10 best practices that retirement providers were putting in place, from automatic programs to people-like-me benchmarks to personalized campaigns that included life-stage content and messaging.

**The retirement industry was making progress in improving participant experiences prior to the DOL's new fiduciary ruling.**



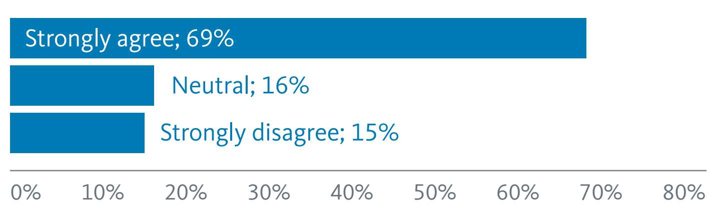

**Nearly 60% of respondents** believe the DOL Rule will have a positive or neutral impact on participant experience design. This reinforces the idea that the industry was already preparing to provide more transparency and changes in business models designed to mitigate conflicts of interest.

**The DOL's new fiduciary ruling will have a positive impact on participant experience design.**



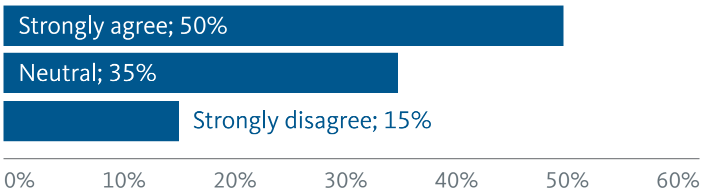

**Almost 70% of respondents** believe that Retirement Plan participants are likely to be confused by changes implemented by the industry as a result of the DOL Rule. Taken out of the context of the participant experience, changes made simply to comply with the new regulations could easily cause confusion. The key for providers will be to balance compliance with a better experience.

**Participants are likely to be confused by changes implemented by the industry as a result of the DOL's new fiduciary ruling.**



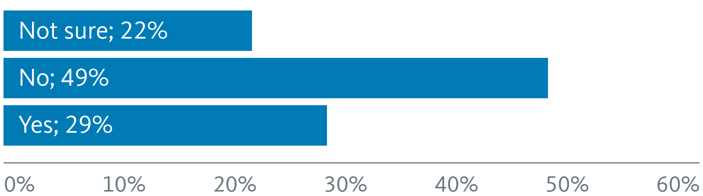
**Split down the middle,** half of firms who responded are ready for the first DOL deadline in April, 2017.

**My firm is ready for the April 2017 deadline as it relates to the BICE and participant communications.**



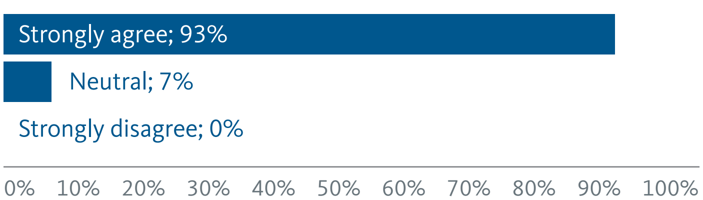

**Again, split half and half, 49% of respondents** believe the DOL Rule will not change their fiduciary status.

**Will your fiduciary status change as a result of the new DOL rule?**




**And overall, the vast majority of respondents** believe there will be major long-term shifts in the industry due to the DOL regulations.

**The new DOL regulations will result in major long term shifts within the industry.**




**About the research**

Between late October and early November, 2016, Broadridge conducted an online survey in conjunction with a company webinar and a conference sponsored by SPARK, the leading trade organization for retirement industry professionals. Between 56 and 97 firms across the retirement ecosystem responded to the questions. Respondents represented all areas of the retirement industry, and typically held the title of Manager, VP or C-level.

## The Interplay with the DOL Rule

The new DOL Conflict of Interest Rule requires that firms ensure that their customer touchpoints, contracts, and disclosures all spell out new relationships with regard to the meaning of advice and what it means to be a fiduciary. All this must be explained in light of shifting models of advice, changing preference for low-cost investments, and the growth of digital platforms. These trends must be driven by a singular goal for the industry—ensuring that participants have better retirement outcomes.

Therefore, whether or not the new administration changes the DOL Rule to any degree, firms will still need to deliver great experiences, build trust, promote transparency, eliminate obvious conflicts of interest, and put operational efficiencies in place. Ultimately, meeting the needs of the retirement participant is paramount, regardless of the regulatory environment. Successful firms of the future will be the ones proactively preparing for these changes regardless of the regulatory winds that are constantly shifting.

[1] Wursthorn, M. (2016, October 7). Merrill Imposes Fees On Retirement Accounts. Retrieved from http://www.foxbusiness.com/features/2016/10/07/merrill-imposes-fees-on-retirement-accounts.html

[2] Wealth and Asset Management 2021: Preparing for Transformative Change (pp. 15-18, Rep.). (2016). New York, NY: Roubini ThoughtLab.

[3] Broadridge Financial Solutions. (2016, October 26). Fee Based Distribution Channels Gain Market Share in 2016 According to Broadridge Financial Solutions [Press release]. Retrieved from http://www.broadridge.com/news-events/press-releases

For additional information on how your firm can keep the participant experience front and center regardless of the regulatory environment, visit us at Broadridge.com/DOLParticipantExperience, or call 1-800-353-0103.

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