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The Growth of Managed Accounts in Retirement Plans

Managed Account services are an increasing trend among plan sponsors. As noted in the 2017 edition of retirement industry publication *How America Saves*, 27% of plans offer managed account advice, and because larger plans are more likely to offer advice, half of plan participants have access to a service.

A managed account service identifies an investor's risk profile, assigns a portfolio that is suitable to the investor and monitors the portfolio over time, adjusting risk as needed. Unfortunately, there is no magic formula for identifying an investor's appropriate risk profile. This lack of consensus is evident when reviewing the wide range of glide paths used by the various target date managers. It's a similar struggle for managed account service providers, and their methodology may produce risk assessments and portfolio assignments with a wider range of variability than the target date glide path variability.

While the variability of advice may be wide, there is a less controversial value proposition for managed accounts. The retirement plan industry has traditionally identified two types of investors—"do it for me" investors and "do it myself" investors. "Do it for me" investors are generally served by asset allocation tools such as target-date funds and model portfolios that tend to be less expensive than managed account solutions. However, studies[1] have shown that many "do it myself" investors have poor investing habits, which include chasing performance, not diversifying properly, not periodically rebalancing and determining risk inaccurately. If a managed account service can successfully attract investors with poor habits, the potential improvements in performance may be more than enough to compensate for the additional expense.

In the past, fees, combined with portability concerns, have led plan sponsors to be hesitant to embrace managed account services. While some services still suffer from high cost barriers, we are starting to see expenses drop to a reasonable level for some offerings, and are hopeful that this trend will continue.

Contact your Newport Group representative for more information.

Disclaimers

[1]Source: Dalbar's 21st Annual Quantitative Analysis of Investor Behavior, Updated in 2015

Investment in securities involves risks, including possible loss of principal.

Diversification does not ensure a profit or protect against a loss.