

Building Blocks and Insights for Defined Contribution / Retirement Transformational Strategy



Financial Services

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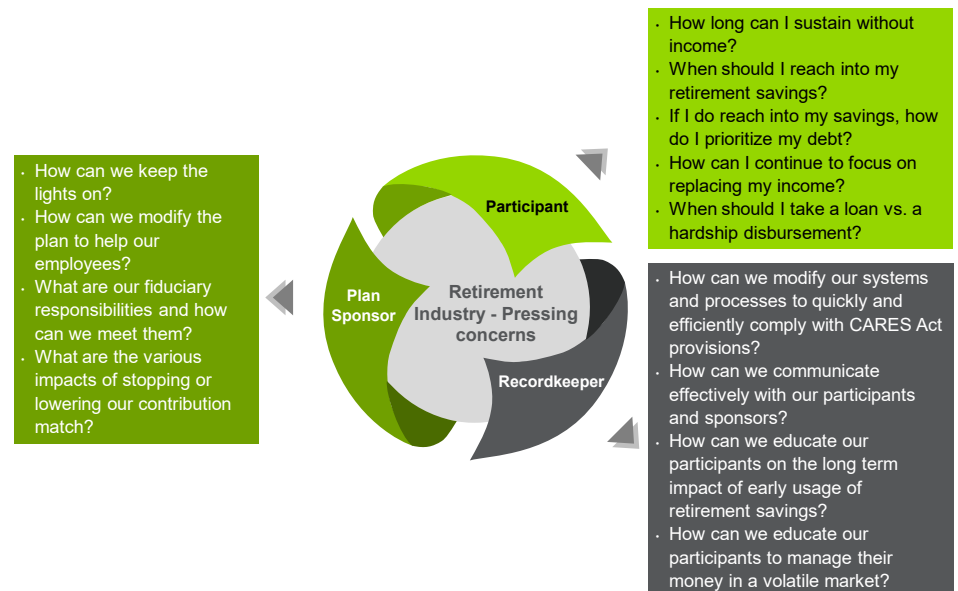
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**Thanks for key contributions from
Zachary Evans, Brian Dougherty,
and Brian Karp**

The Defined Contribution (DC) retirement market remains one of the highest-growth markets in the financial services industry, with assets under management close to \$9 trillion at the end of 2019,¹ at 8% compound annual growth rate from 2018. That said, this market is not immune to the disruption and uncertainty caused by the COVID-19 pandemic, with Employers (Plan Sponsors) evaluating cost-cutting mechanisms and Participants who have lost jobs using retirement accounts to cover income shortfalls.

Prior to the pandemic, the industry witnessed immense pricing pressure from asset concentration in interest rate products and subsequent decreased margins from a continued low interest rate environment followed by lower proprietary fund adoption for new deals. This has resulted in Recordkeepers having to look beyond asset acquisition and into either M&A or providing products across other adjacent financial needs of their Participants.

The COVID-19 pandemic has placed enormous strain on Plan Sponsors and their Employees (Participants), with the U.S. unemployment rate ballooning to 14.7%² in April. Congress has responded with the Coronavirus Aid, Relief and Economic Security (CARES) Act, which includes providing access to retirement funds. Altogether, we see that the Retirement industry and Participants are faced with several of these questions as they look towards recovery from this pandemic:



1. https://www.ici.org/research/stats/retirement/ret_20_q1

2. Trading Economics, "U.S. Unemployment Rate," <https://tradingeconomics.com/united-states/unemployment-rate>.

While certain provisions of the CARES Act are intended to help Participants utilize their retirement savings, the DC industry is positioned to play a critical balancing act between administering relief provisions and educating employees on the long-term financial impact of any rushed decisions on distributions.

How Can Recordkeepers Respond to Evolving Participant Needs?

A recent pre-pandemic survey suggests 40% of the U.S. population cannot afford an emergency expense of \$1,000 from their current savings.³ As job losses and reduced pay resulting from COVID-19 mount, desperate Participants may look to retirement savings to close the income gap. Many Recordkeepers have acted quickly to enhance processes and systems that facilitate financial access and provide fee waivers to ease financial impact. With the CARES Act enabling Plan Sponsors to distribute funds without penalty, increase maximum loan limits, and waive minimum distribution requirements, this also provides an opportunity to educate Participants about the impact of retirement asset leakage while providing alternatives for their short-term financial needs.

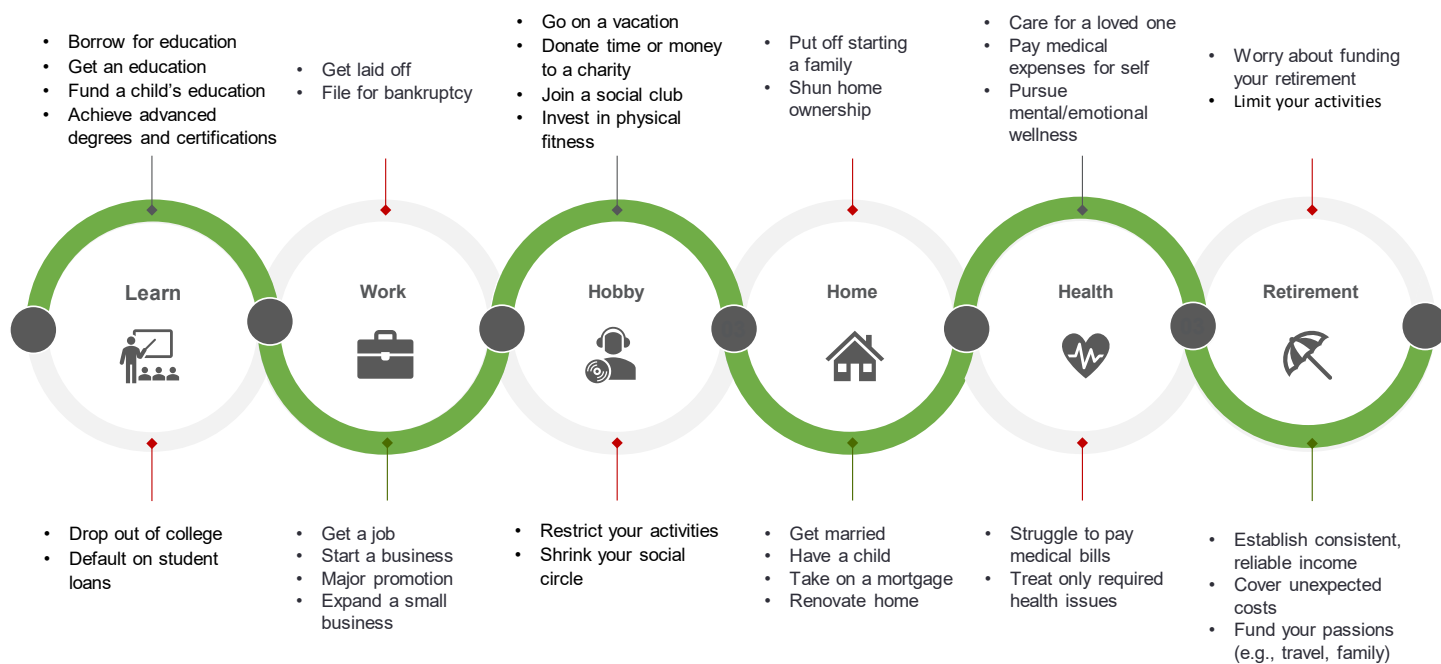
Recordkeepers that have invested in digital self-service technologies, automation, and process optimization can better serve customers, particularly when service requests are simple/transactional in nature. These companies can drive customer value by delivering tailored services and information to customers needing assistance. Building intuitive experiences that do not overwhelm participants will be a key driver to the impact and adoption of new capabilities.

Did you know: A study by the Center for Retirement Research at Boston College predicts that early withdrawals may reduce overall 401(k) assets by 25% on average, demonstrating the detrimental impact of early withdrawals against overall retirement income.⁴

Holistic Wellness Addresses Underserved Needs and Opportunity to Drive Lifetime Customer Value

One in three Americans is experiencing high levels of psychological strain during this pandemic.⁵ To care for their Participants, Recordkeepers and Plan Sponsors should provide education on the long-term impact of early withdrawals in this volatile market, providing alternative strategies when possible. Investing in decision support tools and robust data infrastructure will help Recordkeepers utilize this opportunity to educate and drive holistic wellness for Retirement Plan Participants.

Tailored Products and Integrated Experiences Across the Customer Lifecycle can Help Participants Achieve Holistic Wellness (in green)



3. Amanda Dixon, Bankrate.com, "Survey: Nearly 4 in 10 Americans would borrow money to cover a \$1K emergency," January 22, 2020, <https://www.bankrate.com/banking/savings/financial-security-january-2020/>.

4. Alicia H. Munnell and Anthony Webb, "The Impact of Leakages On 401(k)/IRA Assets," Center for Retirement Research at Boston College, February 2015, Page 4, https://crr.bc.edu/wp-content/uploads/2015/02/IB_15-2.pdf.

5. Scott Keeter, "A third of Americans experienced high levels of psychological distress during the coronavirus outbreak," May 14, 2020, World Economic Forum, <https://www.weforum.org/agenda/2020/05/united-states-mental-health-pandemic-coronavirus-covid19-psychological-distress/>.

While many Recordkeepers recognize the need and opportunity for holistic wellness programs, few have successfully delivered, as they struggle to implement solutions, impeding their ability to develop a lifelong relationship with their Participants, including:

- Partnering with best-in-breed product providers to deliver tailored and holistic customer experience.
- Developing an interactive educational curriculum.
- Migrating to digital participant and sponsor communication (mobile and e-mail) from traditional paper methods.
- Creating a seamless, integrated, and customized platform-based user experience, fueled by big data.
- Providing financial wellness tools as part of standard offering to increase product access.

What are Key Digital Capabilities Recordkeepers can Invest in to Better Serve Participant Needs?



Digital Payments: Drive adoption of electronic payment methods to improve speed and security of disbursements.



Paperless Participant Communications: Develop a structured print strategy and program to reduce print footprint and costs.



Digital Self-Service: Build resiliency with strong digital self-service capabilities and evolve operating models positioning human contact as higher value consultative conversations.



Bespoke Education: Curate access and distribution of educational and sales material based on participant persona and preferences.

6. Kent Allen, "Boomers Slightly Ahead of Gen Xers in Median Income," July 10, 2018, AARP, <https://www.aarp.org/money/budgeting-saving/info-2018/boomers-highest-median-income.html>.

7. Carole Fleck, "Ready, Set, Retire," AARP, July 2014, <https://www.aarp.org/work/retirement-planning/info-2014/retirement-boomer-life-photo.html#slide1>.

How Can Recordkeepers Respond to Immediate Sponsor Needs?

The pandemic has forced many Plan Sponsors to examine cost-cutting mechanisms to stay profitable. A study indicates that 37% of companies are likely considering either suspension or reduction of contribution matches to improve short-term economics.⁸ Recordkeepers that proactively identify plan trends and provide tools to conduct plan design impact assessments will help Sponsors tie actions to plan and Participant outcomes.

Plan Sponsors also recognize their key role in maintaining employee wellness and understand the consequences of not doing so. In fact, 200 million-plus workdays are lost annually due to mental health issues, resulting in approximately \$17 billion in employee productivity loss.⁹ Prior to COVID-19, the retirement industry had begun efforts to include various financial products like “Emergency Savings,” “Student Loan Assistance,” and “Healthcare Savings Accounts” as part of Retirement Plan Design. While these products are critical to the long-term financial success of participants, they should be carefully rolled out to avoid overwhelming sponsors (and participants). A simplified product offering combined with relevant background and educational support will help sponsors make informed decisions.

What can recordkeepers double down on to engage effectively with sponsors in the new normal?



Virtual Education: Leverage scalability, repeatability, and cost advantage of virtual consultative advice.



Financial Wellness Product Adoption: Build curated financial wellness product bundles for Sponsors based on participant demographics.



Simpler Workflows: Add online forms and e-signature to replace physical forms to enhance speed of service.



Digital Self-Service Interactions: Add or enhance self-service capabilities so plan sponsors can efficiently and accurately service their own requests..

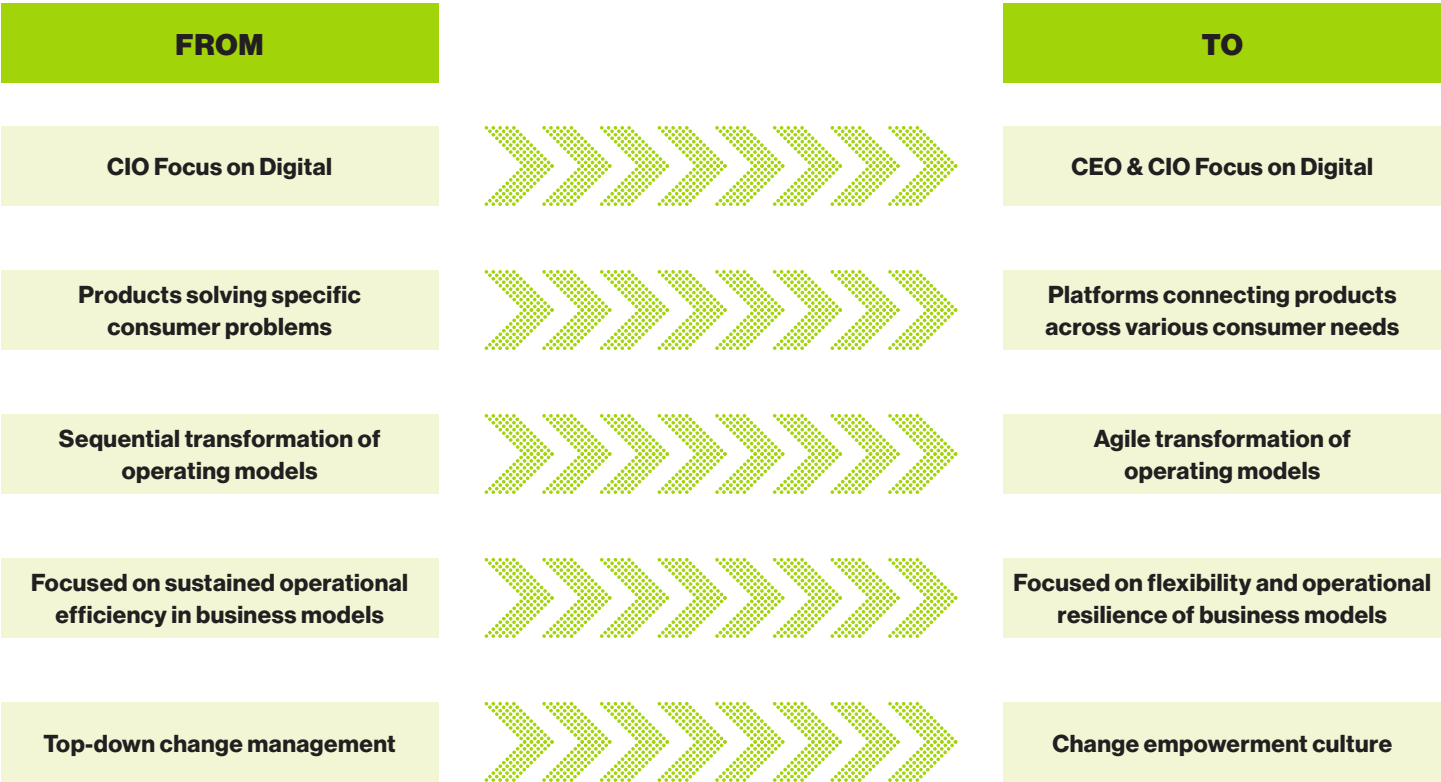
8. Andy Markowitz, “What to Do If Your Employer Suspends 401(k) Matches During Pandemic,” AARP, April 23, 2020, <https://www.aarp.org/retirement/retirement-savings/info-2020/employers-cut-match-contributions.html>.

9. Centers for Disease Control and Prevention, Workplace Health Promotion, “Depression Evaluation Measures,” <https://www.cdc.gov/workplacehealthpromotion/health-strategies/depression/evaluation-measures/index.html>.

Key Success Factors for an Effective Transformation

Recent trends in the retirement industry, such as pricing pressure, increased transparency, and the focus on ease of doing business, have motivated Recordkeepers to invest in digital transformation. The 2008 Great Recession changed the banking industry and led to the growth in digital banking and leaner operations. As customers today open bank accounts, they are looking beyond traditional levers such as branch presence or ATMs to digital experiences. The COVID-19 pandemic may result in many such inflection points. Utilizing this time to setup an agile and transformative culture will enable quick response to customer needs and ultimately greater profitability. While the desire to make transformative changes is universal, the ability to do so can vary greatly by institution.

Key Transformation Trends in the Post-pandemic World



“While the need for transformation across the Retirement industry is undeniable, all Recordkeepers have obstacles to overcome in their journey. A comprehensive strategy, investment, and transformational mindset around product innovation, digital customer experiences and intelligent automation can build more profitable and sustainable business models for the future.”

- Jonathan W. Berry III, Partner

Challenges and Opportunities for Recordkeepers to Differentiate Through Transformation:

Future-back Digitization: Retrofitting a digital strategy based on current operating models and customer needs will limit the organization's ability to respond to unforeseen market changes. Digital leaders should play a critical role in defining the business vision and strategize to bridge the gap between current and emerging needs of both the company and its customers.

Simplify to Digitize: Insufficient and imbalanced simplification of end-to-end processes across the value chain can lead to unsatisfying customer experiences. Establishing process accountability and balancing the need for operational efficiency with customer experience will set up a strong foundation for digitization and customer growth.

Scaled Agile Transformations: Speed (and success) of change is strongly correlated with innovative companies, enabling competitive advantage and the agility to respond to evolving customer needs. Due to their inherent scale and complex organizational structures, large companies struggle to rebuild new foundations for customer-centric productivity. Business leaders can share control on existing siloed transformation agenda, shifting to an agile multidisciplinary transformation fueled by rapid prototyping, design thinking, and lean concepts.

Know Your Data: Prioritizing the customer needs and curating customer experiences is only possible with robust data infrastructure. Guiding participants through their financial journey, or sponsors through their participants' benefit journeys, requires rigor and discipline around data quality and integrity. Recordkeepers should be mindful of machine-learning biases that may result in improper customer profiling and preferential marketing.

Strategic and Purposeful Employee Engagement: Happy employees lead to happy customers. Deliberate efforts to manage employee expectations can be a critical success factor in turning the current crisis into a rapid transformation opportunity. Managers across the organization should help incentivize and align employees' goals to specific outcomes aligned to the organization's future of work-model implementation and execution.

Transcending the Status Quo Mindset: Organizations often face behavioral challenges when implementing rapid transformations. Implementing a robust change management program that includes socializing a clear vision, designing strong accountability structures, and developing open communication channels will empower middle-management teams to drive and sustain transformational change with the benefit of employee buy-in.

How Can Guidehouse Help?

While the pandemic has participants and sponsors scrambling for near-term financial answers, Recordkeepers have an opportunity to re-evaluate their business vision and truly transform toward a customer-focused and operationally sound business model. Companies that adopt a methodical approach founded on principles of customer service, intelligent risk-taking, clear accountability, and open communication can turn this crisis into opportunity and differentiate themselves strongly.

Leading financial institutions are reimagining organizational structure to better address customer demands, attract and upskill talent, and embrace a culture of innovation. Guidehouse understands the challenges of organizational evolution and has substantial experience working with financial services companies like yours to build agile and resilient platforms that enable quick response to market changes, redesign and rethink processes, envision the future of work, and execute on how your company delivers products and services to meet evolving customer demands.





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