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The Next Generation of Retirement Plan Participants

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Market Forces Are Shifting

Over the past several decades, the landscape of the retirement marketplace has undergone a variety of formative alterations — not only within the products and services offered — but also related to the system's primary base of consumers. As the population and workforce of the U.S. continues to age, it was necessary for the industry to adapt to adjacent themes, such as delayed retirement, longer retirement time frames and the transfer of financial responsibility to individuals. Coupled with differing generational preferences, changes to the household life cycle and competing savings priorities, younger plan participants present a different challenge to sponsors, providers and managers than those participants with retirement in their sights.

Notably, it's these younger workers whose overall investing experience has differed greatly from that of previous generations of workers due to factors largely out of their control. Changes in underlying economic conditions and the ongoing transition to a "gig economy" within the labor market are just two examples of such influences. Additionally, the increasing costs associated with higher education and the necessity for some to carry heavy student loan debt into the workforce has had a significant impact on the ability of many younger employees to participate in workplace retirement plans.

There are three main topics that help illustrate how the industry can build stronger DC offerings that address more directly the needs of this shifting demographic and ensure the ongoing success of plans for the next generation.

1. Help navigate the savings spectrum

The greatest influence on retirement savings trends has been the need to maintain balance within an individual's overall household savings spectrum, while a general lack of investing experience and a lack of urgency related to saving for retirement also can be linked to the reduced deferral and participation rates younger participants are exhibiting. Though this savings dynamic consists of a variety of fundamental needs as well as lifestyle desires, three necessities sit at its core: health, education and retirement. For younger individuals learning to navigate the financial landscape, establishing a healthy balance can present a challenge.

2. Simplify investment options

In addition to the changing demographic considerations affecting younger plan participants, this generation of investors has exhibited a preference for simplified investment options while also keeping their fundamental values in mind. Traditional advice models and investment products may prove to be less than ideal for a group of individuals more in tune with technology than any other preceding cohort.

The last decade made more headway related to the automation of plan features, such as enrollment and escalation, leading to increased participation and deferral rates across the board. While these automations have led to an explosion of assets in default products, such as target date funds (TDFs), their popularity also can be attributed to the way they have been marketed as simple "set it and forget it" type investments.

Simplification is not, however, limited to automated investment products such as TDFs and managed accounts. Outside of those who prefer the single-step approach that these tools offer, many participants favor the ability to take a hands-on approach to investing and allocation adjustment. What these individuals prefer to do without, however, is the research and due diligence of the multiple investment options available on their plan's menu.

3. Leverage behavioral finance

In order to accomplish this menu simplification outside of the traditional target date box, several solutions can be implemented. Taking a page out of the behavioral finance handbook, the adoption of a condensed core lineup consisting of several white-labeled, multi-manager investment strategies can alleviate much of the stress experienced by participants when first presented with a plan lineup.

A further spin on this method of menu creation is to take a goals-based approach, where rather than presenting participants with investment options labeled as broad asset classes, goals such as growth, income and stability are highlighted. Though this type of plan menu design strategy hasn't yet gained traction in the marketplace, the potential benefits in terms of participant engagement and outcomes are significant.

Any of these simplified investment menu design approaches can be constructed to include the ESG/impact holdings that are becoming increasingly popular with younger investors. However, these types of investments have yet to capture significant attention in the DC market as individual investment options and have only begun to appear as part of TDFs.

Three essentials for asset managers to keep in mind

As asset management firms look to the future, building on the advancements made over the previous decade will aid in both appealing to a younger demographic of participants, and continuing to meet the needs of an aging workforce. In preparing for this ongoing shift in market dynamics, it is essential for asset managers to consider the following three key themes and ask themselves how they are addressing them.

- The savings landscape will become more complicated. Plan sponsors will seek help in simplifying their messaging and offering higher value solutions. Has your firm consulted clients about how best to address their evolving needs?
- A new generation of savers will not know what it's like to pick individual funds. Younger savers are increasingly investing in products with embedded advice. How has your firm sought to broaden exposure to nonproprietary, custom, multi-manager products?
- Simplified solutions will require more flexible vehicles. Custom TDFs, CITs and other structures may be more appropriate than off-the-shelf solutions. Does your firm currently offer a full range of investment vehicles across all available strategies?

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