An Independent Approach to Managed Accounts

The Advisor's Guide

For financial advisor use only. Not for use with plan sponsors or participants.

Freedom to do business your way

At Ascensus, independence is central to the way we do business. We believe you should have the freedom to give advice that's right for your client, based on your expertise. You can design an investment strategy aligned to your retirement plan client's needs with our open-architecture format—which now includes an expanded managed account offering.

We work with industry-leading managed account providers to deliver more options, so that you can compare services from a number of reputable brands and determine the best solution for each client.

If managed accounts don't suit your business model or your firm's requirements, you can choose to exclude them completely from proposals. Whatever your needs, you'll find a comprehensive array of investment options to meet them.

What an open-architecture format means for you

Our approach positions you to meet each client's needs by giving you an array of options to choose from, and the flexibility to help your client decide what works best for their plan.

As an independent recordkeeper, we're investment-neutral. We have no proprietary investments, so we remain unbiased about the investments you choose. And because we don't generate revenue from investments, your client's lineup will have no impact on Ascensus fees.

Additional advantages

More investment options

Just as you can guide your client in selecting the investment options included in their plan, we believe you should have a say in which managed account service is offered.

An opportunity to highlight your expertise

Your client trusts you to educate them and help make the best choices for their plan. We supply you with key information about each provider and the services available, which you can use as a starting point. We'll also share contact information for the managed account providers if you need to conduct further due diligence.

A cost-effective fiduciary service you can offer your client

We have a competitive array of solutions with varying capabilities to meet your client's needs at a fair value.

The results are in

When asked about their satisfaction with the guidance or advisory services offered in their retirement plan, 100% of the plan sponsors surveyed by the Callan Institute responded that they were very or somewhat satisfied with managed accounts.[1]

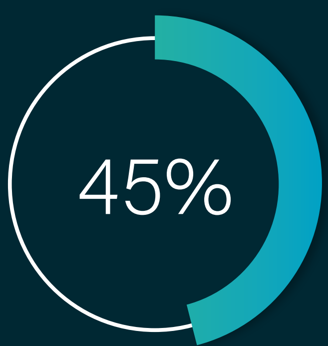
Meet growing demand with new investment and advice services

Now is an opportune time to present a new approach to managed accounts. More than half of plan sponsors (59%) already offer a managed account service to their participants,[1] and interest continues to build. Plan sponsors recognize the need for personalized financial services that support holistic strategies for generating retirement income and consider other assets outside of the retirement plan—as well as projecting future Social Security benefits and protecting against market downturns.[2]

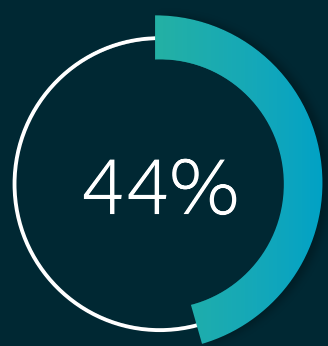
As a trusted advisor, you can help educate your client on the potential benefits of offering a managed account option. In fact, your recommendation is one of the top reasons your client may consider doing so.[2] Your advice makes a difference.

Top three drivers

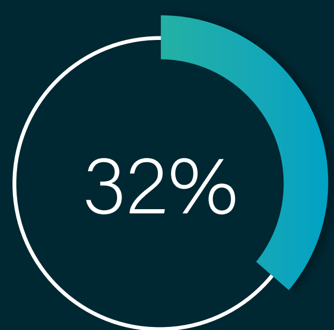
The most common reasons plan sponsors choose to offer managed accounts[2]



To help with participants' retirement income



To meet perceived participant demand for access to personalized advice



Advisor or consultant recommendation

Another layer of support

Present a service that can benefit your client and their employees:

Added fiduciary coverage

Managed accounts can help to mitigate risk with 3(38) investment fiduciary support at the participant level.

Investment and advice services at no cost to your client

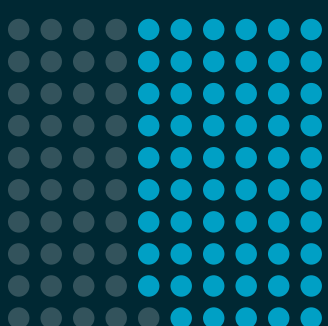
Fees are paid by the participant.

A way to support employee retirement readiness

Managed account services combine savings rate recommendations with appropriate levels of risk to provide personalized guidance toward retirement goals.

A new option for a qualified default investment alternative (QDIA)

Like target date funds, managed accounts can be used as the plan's QDIA. This gives participants the benefit of a simple, sophisticated investment approach with no investment knowledge or involvement needed on their part.



The majority choice

59% of plan sponsors already offer a managed account service to their participants.[1]

More than an investment

Participants are seeking solutions that will address their individual circumstances and help them feel confident in their investment selections.[3] Yet many are unsure where to start. Managed accounts—with professional oversight and investment personalization—can help address this need.

With a managed account, participants receive a holistic plan designed to help them achieve their retirement goals.

One smart savings decision leads to the next

Managed accounts encourage participants to adopt other “smart” savings behaviors, including increasing their savings rate. As shown below, these decisions can lead to more wealth in retirement, which highlights the value of professional advice—and potentially introduces new revenue streams for your practice.

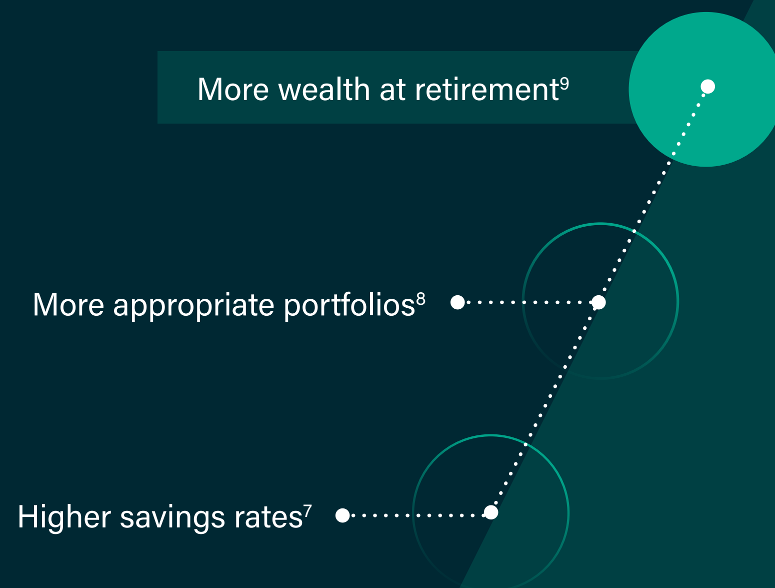
Help participants weather market volatility

Additionally, managed accounts can help your client's employees achieve better outcomes by avoiding common investing pitfalls, such as trading at inopportune times. Knowing that their account is being actively managed by professionals can help reduce an investor’s fear during periods of volatility.[4]

The potential benefits of managed accounts

Greater personalization can help participants be better prepared for retirement

Research shows that managed accounts have the potential to drive higher savings rates and more appropriate portfolios—which could lead to more wealth at retirement (even when incorporating fees) and more retirement income.[5, 6]

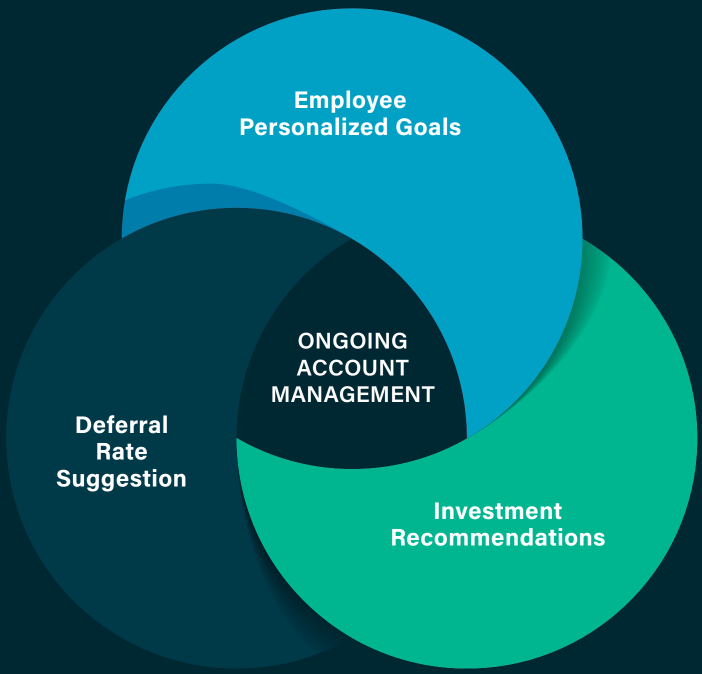


A turnkey solution

Adding a managed account option is easy. There's no time commitment or headache for you or your client. Participants can easily navigate from the employee website to the managed account provider's website to establish and monitor their account.

Using information already in our recordkeeping system—such as age, gender, and salary—participants receive a comprehensive ongoing strategy through their savings journey, from enrollment to retirement.

Participants can add information—including any outside retirement savings—to further tailor their strategy.



How it works

- An appropriate savings rate recommendation
- Investment strategy execution, using the fund menu you recommend
- Quarterly progress updates
- Ongoing monitoring and communication of necessary changes

Your client, your advice

As an independent service provider, we provide a neutral, open-architecture platform so you can guide your client to build an investment strategy that works for their employees.

We believe all plans can benefit from the inclusion of advice, which is why we're offering you the freedom and flexibility to make the best recommendation for your client.*

For more information or to request a proposal, contact our sales team. 800-345-6363, option 2.

*Firm or product restrictions may apply.

[1] Callan 2019 DC Trends Survey

[2] The Cerulli Report: U.S. Retirement Markets. 2019.

[3] PlanSponsor. Majority of 401(k) Participants Would Like Online or Financial Professional Help. August 2018.

[4] Barney, Lee. The Pull of Managed Accounts: Protection in Downturns. May 2020. https://www.planadviser.com/exclusives/pull-managed-accounts-protection-downturns/

[5] Managed Accounts on Participant Savings and Investment Decisions. https://www.morningstar.com/lp/impact-of-managed-accounts

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This research is for informational purposes only. The information, data, analyses, and opinions presented within do not constitute investment advice, are provided solely for informational purposes and therefore are not an offer to buy or sell a security.This research contains certain forward-looking statements. We use words such as "expects", "anticipates", "believes", "estimates", "forecasts", and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

A total of 60,825 retirement plan participants were included in Morningstar Investment Management's study, "The Impact of Managed Accounts on Participant Savings and Investment Decisions". Participants were selected for use based on available information and various filters and include those participants that used the Morningstar Retirement Manager Managed Accounts service between the dates of January 5, 2007 and June 4, 2018.

In no way should any performance shown be considered indicative or a guarantee of the future performance of an actual DC plan participant's portfolio with the same investment option or viewed as a substitute for an investment option recommended to an individual participant. Actual results of an individual participant may differ substantially from the historical performance shown for an investment option and may include an individual participant incurring a loss. Past performance is no guarantee of future results.

Performance returns were calculated using a time weighted, geometrically linked rate of return formula. Returns for periods over one year are annualized.

Morningstar Investment Management does not guarantee that the results of their advice, recommendations, or the objectives of an investment option will be achieved. In no way should the results of this analysis be considered indicative or a guarantee of the future performance of an actual participant using Morningstar Retirement Manager or considered indicative of the actual performance achieved by an individual participant using Morningstar Retirement Manager.

To download the full research paper, please go to: https://www.morningstar.com/lp/impact-of-managed-accounts

[6] More Retirement Income

The amount of annual income a participant could receive in retirement was determined by calculating the expected geometric return for each participant's portfolio prior to and after using the Morningstar Retirement Manager managed accounts service using the portfolio's asset class exposures. The difference between these results was then projected forward to the participant's assumed retirement at age 65. Participants are grouped by (i) age, (ii) Self-Directors versus Allocation Fund Users, (iii) whether they are "on track" or "off track" for meeting the retirement goal, and (iv) annual managed account investment management fee. Each portfolio's fund allocation and the participant's savings rate is assumed to remain constant over time and a retirement age of 65 is assumed. In reality, these would likely change over time and would differ by individual participants.

For this calculation, forty (40) basis points was used as a proxy for the average fee assessed by a managed account provider. This analysis does not account for all portfolio costs such as fees, taxes, or expenses other than the annual investment management fee. If included, these fees would lower the potential amount of additional wealth at retirement shown in this analysis.

Overall, an average 25 to 34-year-old participant in this scenario could potentially realize an additional $5,548 in annual retirement income. (In this age group, Not-on-Track Self Directors could realize an additional $8,212 by enrolling in managed accounts; Not-on-Track Allocation Fund users could realize an additional $3,279, and On-Track Self Directors could realize an additional $3,418. On-Track Allocation Fund users were found to potentially realize $496 less by using managed accounts than by using an Allocation Fund.)

The average amount a participant could realize in annual retirement income by enrolling in managed accounts with an annual 40 basis point investment management fee varies across age groups, with an average 35-44-year-old having the potential to realize an additional $2,566 and an average 45-54-year-old has the potential to realize an additional $690. A 55-65-year-old could potentially realize $66 less by using managed accounts.

[7] Higher Savings Rate

This figure quantifies the change in savings rates for participants prior to and after using the Morningstar Retirement Manager managed accounts service. (Total savings rates include employee deferrals and employer matching contributions. If an employer matching contribution rate was not available for a plan, an assumed match rate of 50% on the first 6% of deferrals was assumed.) The majority of participants who were Not-on-Track increased their savings rate (71.5%) while the majority of participant who were On-Track did not change their savings rates (64.8%). Changes in savings rates were not constant across age ranges, with younger participants having larger average changes than older participants. Total savings rates increased more than employee deferral rates because Morningstar Retirement Manager considers whether a participant is achieving the maximum employer match, and recommends a deferral rate increase up to the employer match amount regardless of whether the participant is On Track or Not-on-Track to meet their retirement goals.

[8] **More Appropriate Portfolios**
This figure represents the estimated alpha cost of being invested in a portfolio that is not appropriate given the participant's target risk level. The median absolute difference between the Morningstar Retirement Manager Managed Accounts service's recommended asset allocation and the participant's portfolio prior to the use of Managed Accounts is calculated for each participant. The Managed Account service recommendation assumes that Morningstar Investment Management uses all of the known information about a given participant and the participant is ultimately assigned to the ideal asset allocation. Using Morningstar Investment Management's Capital Market Assumptions and solving for the implied risk-aversion coefficient, the utility of the allocations for the participant's portfolios before and after using the Managed Account services are compared.

[9] **More Wealth at Retirement**
The impact of higher returns and increasing savings rates assumed to be experienced by managed accounts users was estimated by analyzing participants' expected wealth at retirement. A time value of money (i.e., future value) calculation was used which included the expected geometric return of a participant's portfolio, total savings amount (total savings rate times income level), and the portfolio's current balance. The expected geometric return of each participant's portfolio prior to and after using the Managed Accounts service is calculated using the portfolio's asset class exposures. The difference between these results was then projected forward to the participant's assumed retirement at age 65. Income, savings rates, and portfolio risk level were assumed to remain constant until retirement. In reality, these would likely change over time and would differ by individual participants. Participants were grouped by (i) Self-Directors versus Allocation Fund Users, (ii) whether they are "on track" or "off track" for meeting the retirement goal, and (iii) annual Managed Accounts investment management fee.

For this calculation, forty (40) basis points was used as a proxy for the average fee assessed by a managed account provider. This analysis does not account for all portfolio costs such as fees, taxes, or expenses other than the annual investment management fee. If included, these fees would lower the potential amount of additional wealth at retirement.

Not-on-Track Self-Directors were found to have the highest median increase in projected wealth at retirement at 15%, followed by Not-on-Track Allocating Fund users (14%), On-Track Allocation Fund users (0%), and then On-Track Self-Directors (-1%). In addition to impact of managed accounts varying by participant group, the results were also found to vary by age and managed account fees.