COGENT™ WEALTH REPORTS

Tackling Uncertainty in the DC Market

Exploring the Impact of the DOL Fiduciary Ruling on the Defined Contribution Marketplace

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MARKETSTRATEGIES INTERNATIONAL

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Introduction

The Department of Labor (DOL) fiduciary ruling, despite not being fully enacted as well as the recent calls for repeal, has already altered financial services in long-lasting ways. Heightened fee scrutiny throughout the retirement industry is causing many DC plan providers to be on the defensive, focusing on ways to avoid the next potential pitfall. And although they may be trying, half of DC advisors aren't feeling support from providers with regards to the new rules and regulations. This lack of perceived support in a time of great change will undoubtedly affect advisor perceptions and loyalty of the providers they work with regardless of the future.

While many DC advisors agree with the overall concept and spirit of the DOL fiduciary ruling, the vast majority are nervous about the impact these new regulations will have on their day-to-day business practices. For example, as a direct result of the DOL ruling, 44% of DC advisors are altering their approach to rollover and distribution advice and 39% are spending more time thinking about compliance than about adding value for clients.

This research paper explores the DOL fiduciary ruling's impact on the DC market. We begin by looking at how DC advisors see the ruling changing their businesses and how it's shifting their priorities. We then turn to the participant view, examining their awareness of the ruling and how it alters their perceptions of financial advisors and the industry overall. Turning back to DC advisors, we examine their satisfaction, or lack thereof, with the support they are receiving from financial providers. We finish this exploration by looking at the advisor perspective of the ruling's potential repeal by the new presidential administration.

SOURCES: RETIREMENT PLAN ADVISOR TRENDS™, SEPTEMBER 2016; DC PARTICIPANT PLANSCAPE™, SEPTEMBER 2016.

Key Findings

DC Advisors See Change on the Horizon

It's clear that DC advisors know their business practices will be impacted by the DOL fiduciary ruling. In fact, 44% of DC advisors state that the ruling will alter their approach in advising plan participants on rollover and distribution options and 39% now spend more time thinking about compliance than adding value for their clients.

In terms of their perceptions of the impact on the industry overall, an overwhelming three-quarters (73%) of DC advisors say the ruling is steering the industry toward a fee-based compensation structure. In focus groups conducted earlier this year, we found advisors were fiercely divided on fee structure implications. While those advisors who are already fee-based see the DOL action as formalizing an inevitable market shift, many commission-based advisors are fearful that commoditizing their service puts them at greater risk of being undercut by cheaper automated advice services.

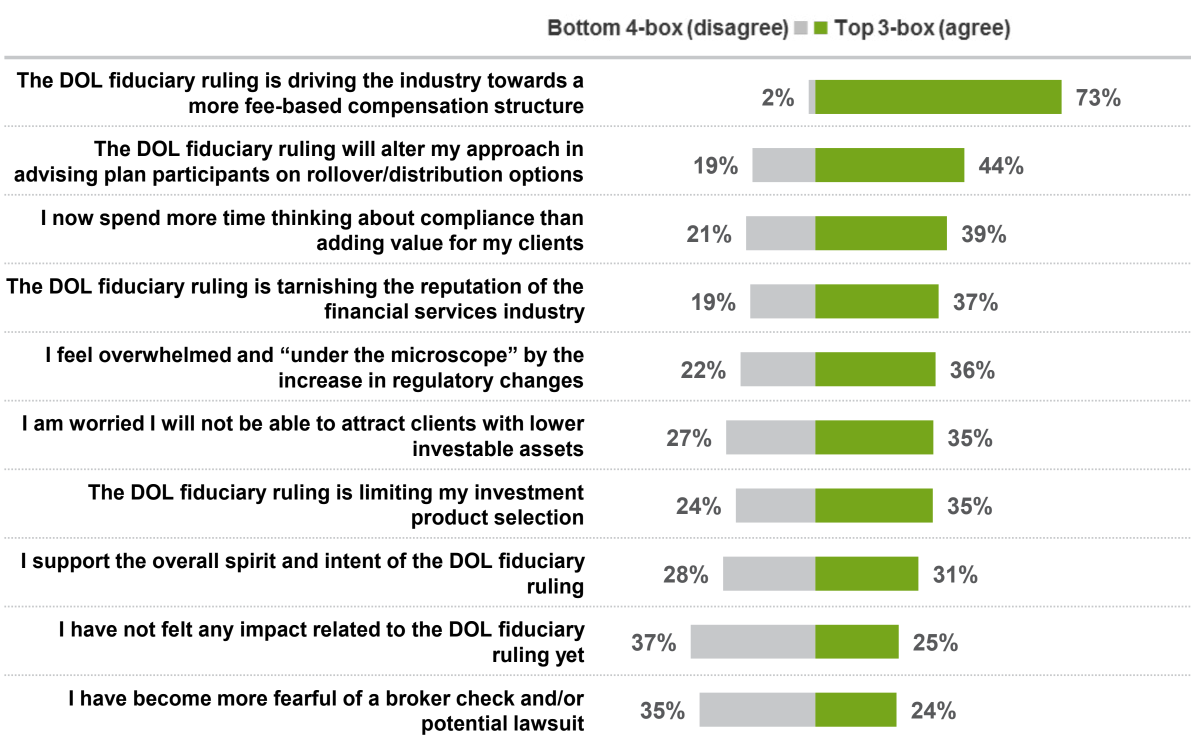
Moreover, nearly four in ten DC advisors (37%) believe that the ruling is tarnishing the reputation of the industry. Fortunately for advisors, we know from DC participant research that currently only 24% of participants report a more negative perception following the passing of the new legislation. EXHIBIT 1

DC advisors know their business practices will be impacted by the DOL fiduciary ruling.

EXHIBIT 1

IMPACT OF DEPARTMENT OF LABOR (DOL) FIDUCIARY RULING

Among DC Advisors



Base: All plan participants

Source: Market Strategies International. Cogent Reports™. Retirement Plan Advisor Trends™. September 2016.

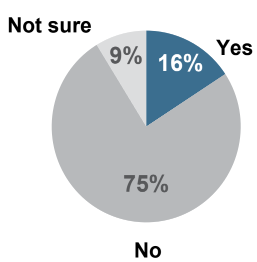
DC Participants Largely Unaware of New Legislation

Despite widespread coverage of the DOL fiduciary ruling in late spring of 2016, only 16% of DC participants report any knowledge of the new regulations. While this low awareness may seem surprising, it provides an opportunity for providers to educate their customers about the implications of the new legislation. Nearly three in ten Millennials (28%) report the greatest familiarity with the ruling, more than double the awareness level of Gen Xers, 2nd Wave Boomers and 1st Wave Boomers (12%, 11% and 13%, respectively). Meanwhile, only 7% of Silent Generation participants indicate any familiarity with the ruling. EXHIBIT 2

Drilling down into the participants who are familiar, we asked about the impact the ruling had on their perceptions of financial advisors and the industry overall. The overwhelming majority, 76%, state that the ruling has given them a more positive perception (38%) or has not affected their perception (38%) of the industry. Albeit early on, participants generally appear unfazed by the ruling, which should alleviate some of the anxiety advisors and providers might be feeling. EXHIBIT 3

EXHIBIT 2

PARTICIPANT AWARENESS OF DEPARTMENT OF LABOR (DOL) FIDUCIARY RULING



Participants familiar with the DOL ruling				
Millennial	Gen X	2nd Wave Boomer	1st Wave Boomer	Silent Generation
28%	12%	11%	13%	7%

Base: All plan participants
Source: Market Strategies International. Cogent Reports™. DC Participant Planscape™. September 2016.

EXHIBIT 3

IMPACT ON PARTICIPANT PERCEPTIONS OF FINANCIAL ADVISORS/INDUSTRY
Among Participants Familiar with DOL Fiduciary Ruling

		Generation				
	Total	Millennial	Gen X	2nd Wave Boomer	1st Wave Boomer	Silent Generation
Yes, I have a more negative perception	24%	35%	17%	16%	10%	N/A
Yes, I have a more positive perception	38%	46%	35%	29%	25%	N/A
No, my perception has remained the same	38%	18%	48%	55%	65%	N/A

Base: All plan participants
Source: Market Strategies International. Cogent Reports™. DC Participant Planscape™. September 2016.

RIAs, who are already predominantly fee-based in their compensation structure, are most supportive of the spirit and intent of the DOL fiduciary ruling. In sharp contrast, National and Independent producers report the greatest negative impact, indicating they now think more about compliance than about adding value to clients, fear they won't be able to attract clients with lower investable assets and feel limited in their investment product selection. EXHIBIT 4

Half of DC Advisors Don't Feel the Support

As a collective group, roughly one in two DC advisors is satisfied with the range of DOL fiduciary support he or she is receiving from providers. National and Independent producers, along with DC advisors managing $10 million to under $25 million in DC AUM, are generally the most satisfied with the education, communication and business support they are receiving from DC plan providers.

Conversely, regional advisors, RIAs and those managing less than $10 million in DC AUM feel the least supported by providers. This could be an opportunity for providers to strengthen relationships with advisors going forward, as they're all struggling to understand what the DOL ruling means for them and their business. EXHIBIT 5

Majority of Advisors Favor a Repeal of the DOL Fiduciary Ruling

At present, the advent of the new presidential administration is casting doubt on the future of the DOL fiduciary ruling. Interestingly, recently collected data from our Cogent Beat™ Advisor portal show six in ten financial advisors (60%) support the repeal of the DOL fiduciary ruling. Advisors employed in the Bank (82%) and Independent (69%) channels are the most likely to favor repeal. In contrast, RIAs, most of whom already consider themselves fiduciaries, are more likely to oppose repeal (45%) than support it (29%). EXHIBIT 6

Roughly one in two DC advisors is satisfied with the range of DOL fiduciary support he or she is receiving from providers.

EXHIBIT 4

IMPACT OF DEPARTMENT OF LABOR (DOL) FIDUCIARY RULING: TOP 3-BOX

	Total	National	Regional	Independent	RIA
The DOL fiduciary ruling is driving the industry towards a more fee-based compensation structure	73%	75%	79%	77%	52%
The DOL fiduciary ruling will alter my approach in advising plan participants on rollover/distribution options	44%	48%	45%	49%	14%
I now spend more time thinking about compliance than adding value for my clients	39%	45%	34%	40%	22%
The DOL fiduciary ruling is tarnishing the reputation of the financial services industry	37%	43%	42%	37%	10%
I feel overwhelmed and "under the microscope" by the increase in regulatory changes	36%	44%	33%	33%	22%
I am worried I will not be able to attract clients with lower investable assets	35%	39%	22%	42%	13%
The DOL fiduciary ruling is limiting my investment product selection	35%	39%	44%	37%	6%
I support the overall spirit and intent of the DOL fiduciary ruling	31%	27%	20%	29%	54%
I have not felt any impact related to the DOL fiduciary ruling yet	25%	21%	27%	24%	39%
I have become more fearful of a broker check and/or potential lawsuit	24%	26%	20%	28%	12%

Key: Low ≤20% | 21% to 35% | 36% to 49% | 50% to 64% | ≥65% High

Base: All plan advisors

Source: Market Strategies International. Cogent Reports™. Retirement Plan Advisor Trends™. September 2016.

EXHIBIT 5
SATISFACTION RATINGS: DOL FIDUCIARY SUPPORT: TOP 3-BOX

		National	Regional	Independent	RIA	<$10M	$10M–<$25M	$25M–<$50M	$50M+
Provider education and outreach regarding the DOL fiduciary ruling	46%	47%	33%	50%	39%	38%	53%	47%	45%
Provider communication regarding new fiduciary changes	50%	54%	42%	51%	34%	41%	59%	46%	50%
Provider willingness to partner and support advisor business modifications	50%	53%	39%	53%	41%	44%	57%	47%	48%

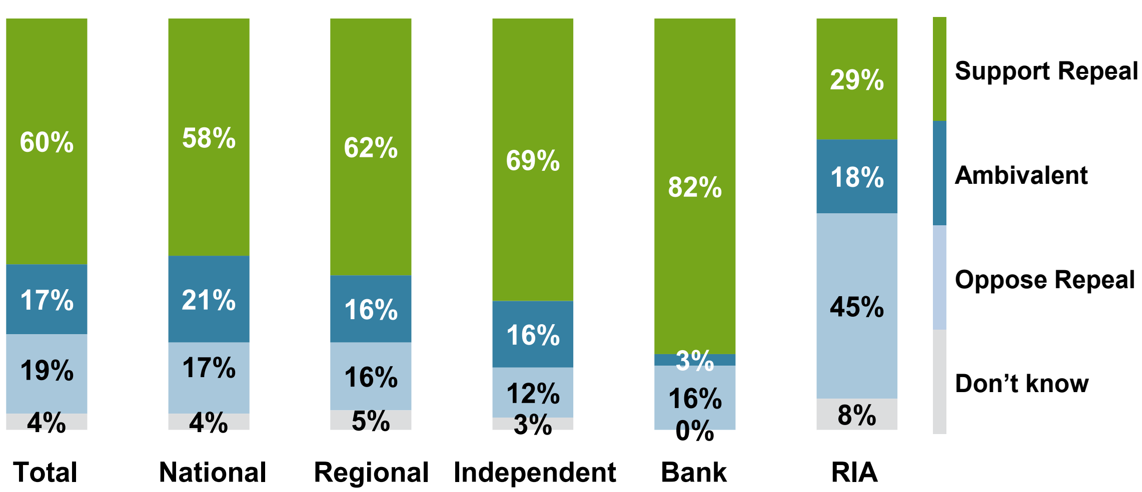
Low — High

Key: ≤38% | 39% to 43% | 44% to 48% | 49% to 53% | ≥54%

Base: All plan advisors

Source: Market Strategies International. Cogent Reports™. Retirement Plan Advisor Trends™. September 2016.

EXHIBIT 6
ADVISORS WEIGH IN ON DOL FIDUCIARY RULING



Base: All advisors

Source: Market Strategies International. Cogent Reports™. Cogent Beat™: Advisor. November—December 2016.

Strategic Implications

With all the tightening regulatory forces in play, it is more important than ever to keep a pulse on the attitudes and behaviors of DC plan advisors and participants and for providers to understand how they can best support and educate everyone to safeguard brand satisfaction.

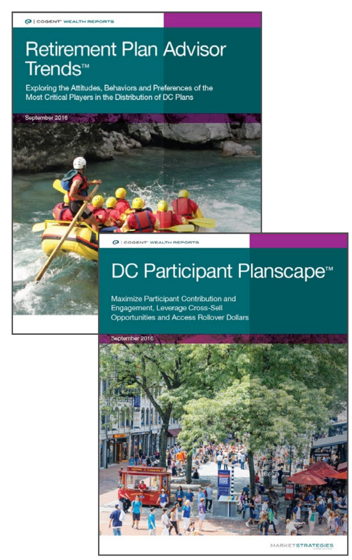
In addition to our 2016 DC Participant Planscape™ and Retirement Plan Advisor Trends™ reports, Cogent Reports has launched The Future of the Financial Advisor™, a multipart study designed to quantify and monitor the impact of key issues facing the financial advisory marketplace. This effort includes two rounds of follow-up tracking in 2017 to help monitor how advisors are adapting to the DOL fiduciary ruling or the fallout from its potential repeal.

The resulting insights will provide asset managers a better understanding of advisors' challenges in order to strengthen advisor relations and will arm advisory firms with insights into employee retention and acquisition.

Insights shared in this white paper are derived from our Retirement Plan Advisor Trends™ and DC Participant Planscape™ reports.

Retirement Plan Advisor Trends examines the role of advisors across all channels, with a specific focus on retirement plan specialists. It enables plan providers and DC investment managers to pinpoint competitive strengths and weaknesses in brand, loyalty and key plan advisor experience metrics to maximize acquisition opportunities and minimize attrition.

DC Participant Planscape looks in-depth at the DC participant experience. The report benchmarks the top plan providers using critical participant satisfaction measures and examines the attitudes and perceptions that inform and define participant behavior. The study helps subscribers maximize participant contribution and engagement levels, leverage cross-sell opportunities and access rollover dollars.



Methodology

This research paper is derived from two online surveys. DC Participant Planscape™ was fielded in July and August of 2016 and contains a representative cross section of 4,635 DC plan participants contributing at least 1% to a current plan and/or having $5,000 or more in at least one former plan. Retirement Plan Advisor Trends™ was fielded in August of 2016 and includes 508 financial advisors managing defined contribution plans.

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