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Bridging the Gap

How integrated retirement plan advice and wealth management strategies will power the growth of an industry

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WealthManagement IQ

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Introduction

The overwhelming majority of wealth management advisors and retirement plan advisors — 78% — believe that their two business models are converging. That statistic and other findings in this white paper are based on a recent survey conducted by Wealth Management IQ, Informa and Marsh McLennan Agency that explored these two key segments of the financial advisory business. This white paper will examine the key findings of the survey, exploring why convergence is so widely believed to be coming, what's driving it, how it is likely to unfold, and how advisors view the challenges and opportunities that lie ahead.

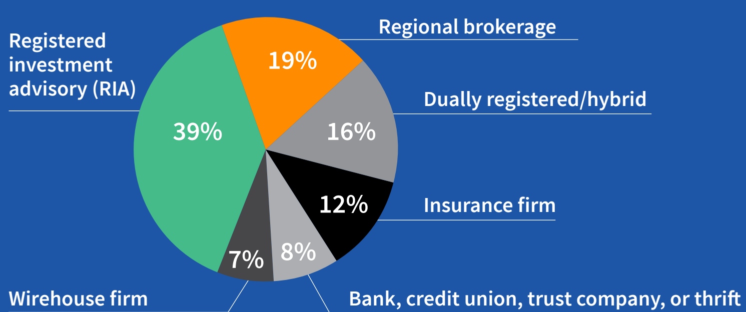
The survey upon which this white paper is based categorizes firms in the following three ways: as those that provide wealth management only, offering no retirement plan advice; those that are retirement plan advisors (RPAs) and do not pursue wealth management clients from the plans they advise; and RPAs whose business model includes seeking out plan participants as wealth management clients. Responses from representatives of the relatively small group of pure RPA firms also are included.

The implications of the survey's findings will be provided in takeaways and suggestions at the conclusion of the white paper.

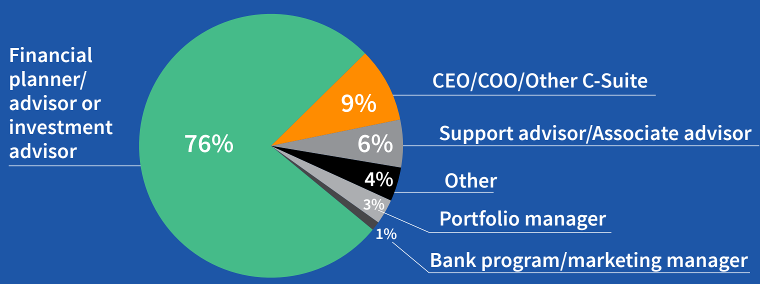
Study at a Glance

The following are some key data about survey respondents.

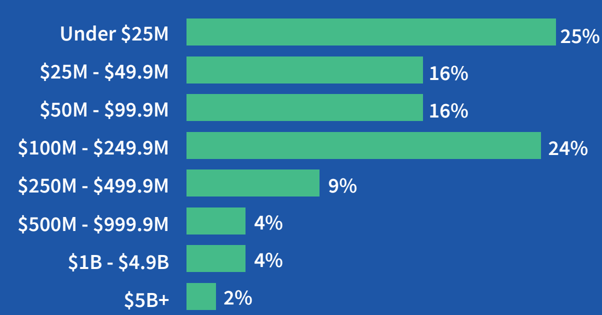
Firm Type



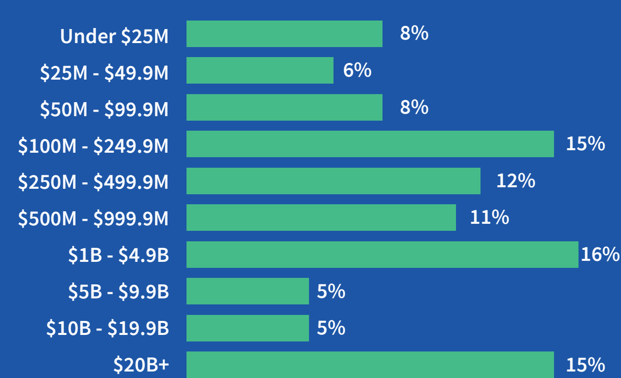
Primary Professional Role



AUM Personally Managed
Median = $75M



AUM Managed by Firm or Branch
Median = $750M



What's Driving Convergence

No matter their advisory firm specialty — wealth management, RPA or hybrid — wealth managers across the board see their models converging, with 78% of respondents saying that the coming together of these industry segments is on its way.

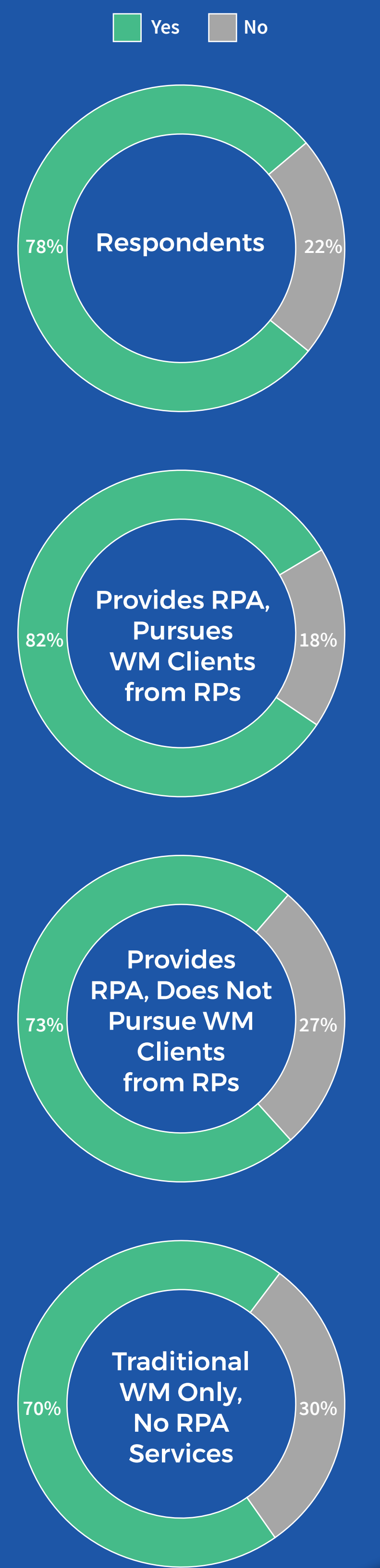
All segments also largely agree on the four main drivers of the convergence: demand among plan participants for more comprehensive advice (the response of 59% of those surveyed); technology making a combined service more feasible (54%); retirement plan advisors seeing wealth management as a growth opportunity (54%); and wealth advisors seeing the RPA business as a growth opportunity (52%). Just below that level of response, 40% noted a driver coming from RPA advisors wanting to continue serving participants after retirement — a response that recognizes the issue of an aging advisory industry and its succession-planning challenges.

In the case of convergence, as it is so often in other areas, customer demand is the key driver. When asked to describe what their clients were seeking, 78% of wealth management advisors said their clients want more advice about the investments in their workplace plans, 85% said clients want to understand how their plan investment integrate with their other holdings, 86% said clients want help in determining their retirement income from all sources, and 80% said their wealth management and plan clients would prefer to see and understand all their holdings in a unified way.

Among RPA advisors, 76% said their clients want advice about their non-plan investments, 76% want to understand how their plan investments integrate with their other investments, and 81% want help determining retirement income from all sources.

In thinking about convergence, it should be noted that the industry's segments are significantly unequal in size. The wealth management sector dominates, trailed by hybrid advisers and the pure RPA segment. This mix is represented by survey respondents, 64% of whom said they primarily provide wealth management services, 27% an even mix of wealth management and RPA services, and just 8% who identified themselves as RPAs without a wealth management arm.

Are the Wealth Management & RPA Segments Converging?

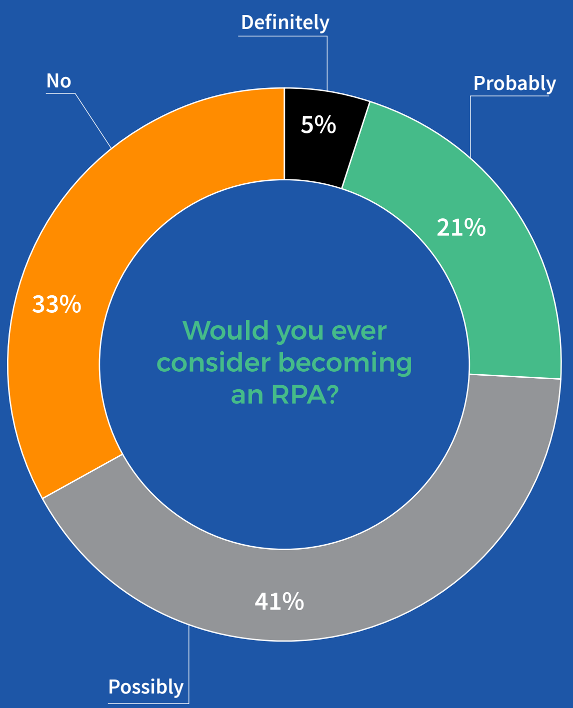


Wealth Managers' Views

Given the size of the advisory segments, convergence would imply that most of the coming changes will involve wealth managers adding RPA services. The data supports that view. When asked if they specifically would consider adding plan advisory services, 41% of wealth managers said they would consider becoming an RPA, while 21% said they probably would and 5% said they definitely would.

Among wealth managers entertaining the idea of adding RPA services, factors they found appealing about the business were the fact that it provides reliable income, cited by 49% of respondents, and that demand for RPA services is growing (46%). Almost as many, 40%, said better technology is making it easier to add RPA services. A third of respondents also agreed that being an RPA provides new market opportunities, while a similar percentage said that being an RPA would tie them closer to their best clients.

Of course, not every wealth manager is eager to become an RPA. A significant 33% of wealth managers surveyed said they are not considering that option. Chief among the reasons for not going into the plan business, wealth managers cited the different skill sets and motivations the business requires, a factor noted by 60% of respondents. A third (34%) don't see the RPA business as a growth opportunity, with 28% saying that most plan participants cannot afford wealth management services, which would obviate the need for going into the RPA business as a way to grow a firm's wealth management business.



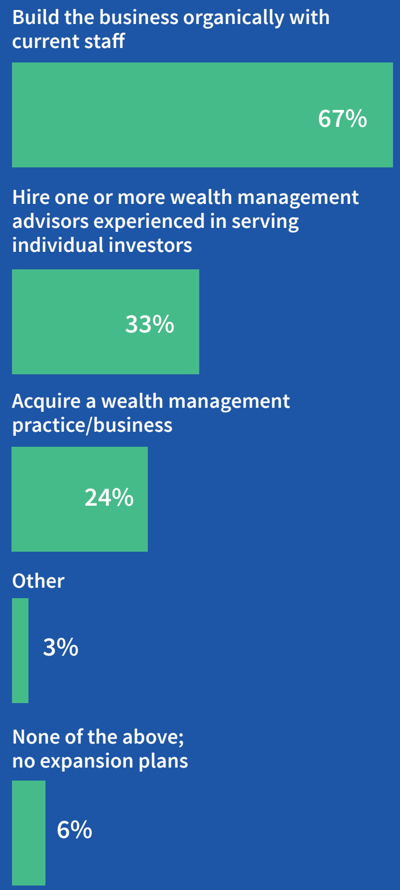
The RPA Perspective

Adding another dimension to the convergence theme are the hybrid advisors who currently provide a combination of wealth management and RPA services. Among hybrids that consider each segment strategic to their business, virtually all — 94% — plan to expand their wealth management business over the next two years, primarily by building the business organically with current staff, a direction noted by 67% of those hybrid respondents. Since respondents were allowed to provide multiple responses, another 33% said they would expand their wealth management business by hiring one or more experienced wealth management advisors, while 24% said they plan to acquire a wealth management practice or business over the next two years.

One reason those hybrids are enthusiastic about expanding their wealth management offering is that they are successful in capturing as clients those plan participants who are retiring and exiting their workplace plan. Four in ten respondents (41%) believe they are highly successful at capturing rollovers into individual retirement accounts after participants in their defined contribution client base leave their employers, and another 54% believe they are somewhat successful.

Among hybrids which offer RPA services as an accommodation to wealth management clients, 19% said they are considering a significant expansion of that business over the next two years and 36% are planning an expansion to some degree — a total of 55% who plan a further move into the RPA business.

How are your planning to expand your wealth management businses within the next two years?



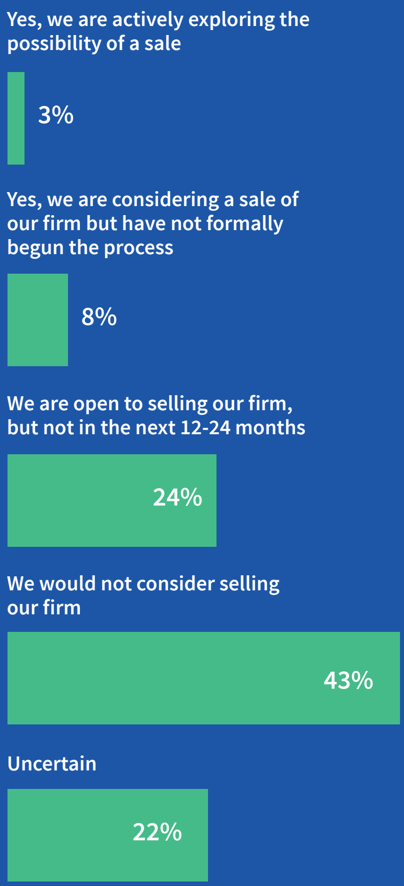
Convergence scenarios

There are several ways in which convergence can occur. Organically, wealth managers and RPAs who don't already offer the other segment's services could start adding them and have their current workforce begin to perform those services. They also may choose to hire advisors with the experience and knowledge their current team lacks. Among RPAs who pursue wealth management clients from the plans they manage, 44% said they plan to hire more advisors to scale their business, while 58% of RPAs who don't pursue wealth management clients from the plans they manage said they would be hiring, as did 49% of wealth managers who don't currently provide RPA services.

A bigger opportunity may come from inorganic growth. A third (35%) of RPA advisors who pursue plan clients are open to the possibility of an acquisition by a larger firm or advisory practice. They say that providing continuity and access to high quality advice for current clients is the most important element of a successful deal, followed by maximizing firm valuation.

Among all respondents, roughly one quarter are open to the sale of their firm, but not within the next two years. A similar percentage are uncertain about selling their firm, while about four in ten would not consider a sale.

Openness to Being Acquired by a Larger Firm or Advisory Practice



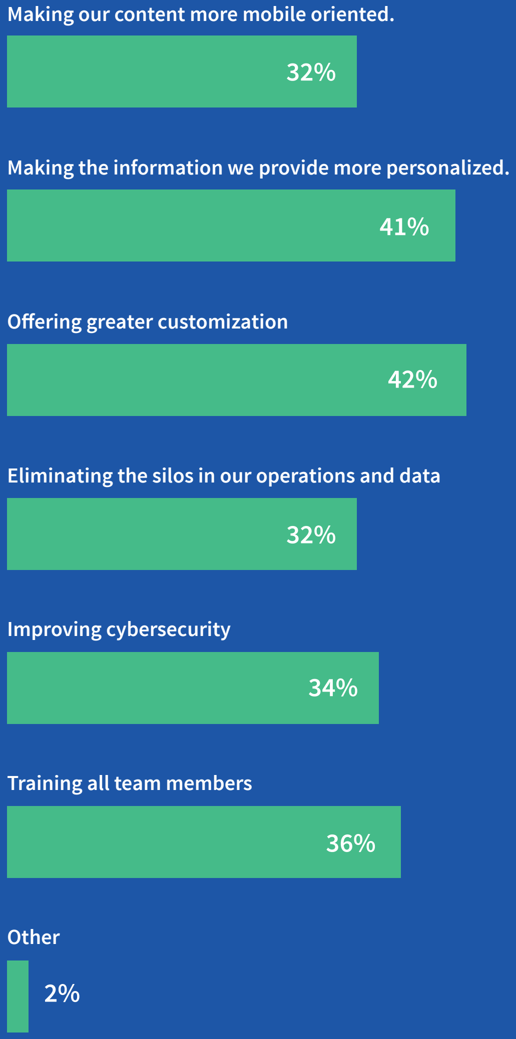
Technology's Important Role

When asked about their primary challenges over the next three years, 51% of respondents said it would be organizing their business to be more efficient. That response was the choice of the largest number of respondents, underscoring the need for advisory firms to put in place standardized processes and procedures and to automate them. And that, of course, means greater investments in technology.

On average, while about six in ten respondents said while they have the technology tools and people they need to scale their business, roughly two thirds said they plan to invest more in technology in the coming years. Roughly a third also said they would switch broker-dealers if that firm offered better technology and support. What's more, by an average of about 10 percentage points, respondents are more likely to weigh technology needs ahead of HR needs when deciding whether to remain independent or consider a merger/acquisition or business sale.

The most commonly cited technology challenges facing their firms, respondents said, are offering greater customization, cited by 42%, and personalizing information, cited by 41%. Other notable challenges include training all team members (36%), improving cybersecurity (34%) and making more mobile oriented, which along with eliminating silos in operations and data was cited by 32% of respondents.

Biggest Technology Challenges



Takeaways and Suggestions

- Provide a holistic view. Driving convergence is consumer demand, and driving that demand is the need among plan participants as well as wealth management clients for a holistic view of their investments, no matter where it is held and in all its varieties. Advisors willing and able to provide that 360-degree perspective are more likely to succeed in the competitive environment ahead.
- Don't ignore retirement income planning. While more than half of respondents, 54%, said their firm provides its greatest value in helping assure a secure retirement for clients and/or plan participants, the complexities of decumulation and the investor confusion surrounding it mean that advisors can't just lead clients and participants into the promised land of retirement and stop. They also should provide advice about decumulation strategies to near-retirees and those in retirement.
- Investments in technology are a must... Advisors of all types recognize that efficiency is the key to maintaining margins and achieving scale. For both, the right mix of technology and people are necessary, and advisors are intent on making investments in both areas. Investing in technology can be a time-consuming and confusing process, so input from broker-dealers, custodians and peers can be invaluable.
- …as are investments in people. On the human resources side, slightly more than half of survey respondents said they plan to hire more support staff. This would free advisors to spend more time with clients/participants and bolster efforts to become more process driven. It also would be an opportunity for firms to become more diverse, providing potential for more success in recruitment and retention.
- Succession planning should not be ignored. As is the case throughout the wealth management industry generally, succession planning among survey respondents is widely neglected. Only 50% of those surveyed said they had a formal succession plan in place. One driver of convergence are the exit strategies of many veteran advisors. Having a plan can result in better outcomes for advisors, firms and clients/participants alike.

Few advisory firms have "cracked the code" and consistently leveraged their retirement plan clients to cultivate more profitable wealth management and financial planning clients. However, aligning these two businesses through strategic M&A, human capital and technology approaches can accelerate the next wave of industry growth.

Methodology

Beginning on October 26, 2022, WealthManagement.com — on behalf of Marsh McLennan Agency —emailed invitations to participate in an online survey to active users. To encourage prompt response and increase the response rate overall, email invitations and survey materials were branded with the WealthManagement.com name and logo to capitalize on user affinity for this valued brand. Each respondent was afforded the opportunity to receive a $10 Starbucks gift card as a token of appreciation for their participation in the survey. By October 31, 2022, WealthManagement.com had received 447 completed responses. Methodology conforms to accepted marketing research methods, practices and procedures.

MarshMcLennan Agency

Marsh McLennan Agency (MMA) provides business insurance, employee health & benefits, retirement, and private client insurance solutions to organizations and individuals seeking limitless possibilities. With over 9,500 colleagues and 170 offices across North America, MMA combines the personalized service model of a local consultant with the global resources of the world's leading professional services firm, Marsh McLennan (NYSE: MMC).