IGNITES Research
RETIREMENT

Adapting DCIO Strategy for the Fiduciary Rule

How DCIO managers can navigate the Dept. of Labor's fiduciary rule and strengthen relationships with plan advisors.

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Executive Summary

In April 2016, the Department of Labor released its long-awaited Conflict of Interest Rule, commonly known as the fiduciary rule. By mandating that advice to retirement accounts adhere to the fiduciary standard, the rule is already driving significant changes to the DCIO market even though full compliance isn't necessary until the start of 2018. For DCIO managers, most of these changes will revolve around the new needs of DC plan advisors and what they must do to ensure compliance with the Dept. of Labor rule.

As DC plan advisors adapt to these changes, this will have implications for DCIO managers' sales strategy and the products they recommend. This report addresses the main ways DCIO managers will need to reassess and adjust their business practices. The disruptive nature of the fiduciary rule will cause more work and a fair share of nuisances. Yet from this disruption come opportunities for DCIO firms to succeed in the new post-fiduciary rule era — an era that is already upon us.

This report explains how the fiduciary rule will really affect the business of specialist plan advisors, the most important audience for DCIO teams. The good news is that these advisors view the pursuit of growth as their top priority in the wake of the new regulation; managing costs that stem from the rule is the second priority. We explain how DCIO firms can help these advisors play a mix of offense and defense.

We also delve into how the new rule will shape plan advisors' investment decisions. The need to avoid potential conflicts of interest and the heightened attention to cost are going to affect product categories such as equity funds and target risk funds, but active management is far from dead. It's also clear that DCIO firms expect informal limits on expense ratios to develop, with 73% of DCIO executives having strong views on the most they'll be able to charge for actively managed equity funds under the fiduciary rule.

The impact of the fiduciary rule will be sending ripples through the DC market well beyond 2018. To help DCIO managers think through how to navigate the era of the fiduciary rule, this report addresses three main questions:

1. What help will plan advisors need to make the most of the fiduciary rule?

2. Which investment products and vehicles/share classes are really going to get a boost from the fiduciary rule and which are realistically going to lose ground?

3. Where can DCIO firms adjust their strategies to focus on the most urgent opportunities and provide the most valuable support?

— Matthew Van Wagenen, Rita Raagas De Ramos and Loren Fox, report co-authors

Methodology

This report is based on proprietary surveys of two main audiences conducted by Ignites Retirement Research:

1. We solicited the opinions of **the Financial Times 401 Top Plan Advisors**, a select group of DC plan advisors from across the U.S. with an average of $770 million in DC plan assets under advisement. Advisors applied for inclusion in the list, which was published in the *Financial Times*. Ignites Retirement Research ranked the 401 plan advisors, and our research partner, Broadridge Financial Solutions, provided unique data from its proprietary databases to help identify advisors who specialize in serving DC plans. These are true specialists: the average advisor on the list has 71% of his or her total practice's assets under management concentrated in DC plans. For this report, we surveyed 281 of the FT 401 advisors in June–August of 2016.

2. For the perspective of DCIO asset management sales executives, we drew on a June–August 2016 survey of leaders of DCIO teams. The survey covered 23 DCIO firms managing a total of roughly $1.01 trillion in retail DCIO assets as of Dec. 31, 2015; in terms of retail DCIO assets, eight of the firms had under $10 billion, eight of the firms had between $10 billion and $40 billion, and seven of the firms had $40 billion or more.

Ignites Retirement Research is dedicated to helping DCIO teams optimize their exposure and use in employer-sponsored retirement plans.

Using proprietary surveys, interviews, and analysis of third-party data, our specialized reports provide a 360-degree view of a key topic in the industry, yielding valuable insight and actionable recommendations.

Core topics of coverage include:

- DCIO sales strategy
- DCIO marketing
- DC plan advisors
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