White Paper

Defined Contribution

March 2020

The Next Generation of Retirement Plan Advisors

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Executive Summary

A generation of financial advisors is retiring en masse. According to Cerulli Associates, more than a third of advisors are expected to exit the industry in the next 10 years, resulting in an estimated $7.8 trillion in assets changing hands.[1] When it comes to succession, nearly a quarter (22%) of those close to retirement don't have a plan.[2] To compound this inflection, the industry is struggling to recruit and retain those who will be properly prepared to inherit the business.[3]

While the retirement advisory community is a subset of this population, the transitional trend persists. We spoke to top retirement advisors to gain their insight on the future of the industry, what draws and detracts young applicants and what advice they would give the rising generation of retirement advisors.

1 The Future of the Industry

Tomorrow's retirement advisory marketplace will be driven by tech, dominated by aggregators and focused on an expanded skill set in an effort to be competitive while serving evolving employer and employee needs.

Tech Trends

When looking into the future of advisory space, it's hard to avoid the topic of technology. Given the specter of artificial intelligence on the horizon, does a new generation of retirement advisors even need to be developed? Yes, agreed the advisors we consulted. Technology is a tool, not a strategy, and it can't replace empathy or experience — organic elements that are critical to a business centered on people. Says Brad Larsen, managing director of NFP, "If advisors use technology correctly, it will further their career, not threaten it."

Beyond improving efficiency and extending client reach, technology's ability to increase flexibility is particularly important to a rising generation of professionals seeking greater work-life balance and autonomy. Firms with better tech are more likely to have deeper pockets and fall within the aggregator model. With access to more resources, including the infrastructure to onboard and train new employees, aggregators are favored to win the talent war.

Aggregators Rule

Many of the advisors we spoke to, including Brandon Smith, a vice president at Qualified Plan Advisors, have experienced some level of M&A activity over the last decade, having their practice either acquired or divested — a trend that reflects recent market undulations (further detailed in *The Evolving Retirement Plan Advisory Firm Landscape* whitepaper). Smith believes there is a Goldilocks principle when it comes to talent development and firm size: at a single shingle shop, the margin of error per client is too thin to engage an unseasoned employee, but at a mega-firm, the siloed experience is equally obstructive to gaining client experience. Firms like 401(k) Advisors Intermountain, CAPTRUST, Clearview Advisory, NFP, M3 Financial and Qualified Plan Advisors believe they have struck the right balance between having the scale to offer support and the oversight to create controlled environments for failure.

> "There weren't opportunities for younger people back when I started my career. The aggregators have opened that up — and created a career path."
>
> —Tom Bastin, Managing Director, NFP

Coaching Failure

Indelible lessons and meaningful growth come from making mistakes. Says Katie Green, lead consultant at Clearview Advisory, "We want [our young employees] to fail every once in a while, otherwise, they're not thinking big enough or trying hard enough." In an industry that is by definition a competition — winning business from other providers — employees can't be so intimidated by the idea of failure that they decline to get into the arena. For many of today's young candidates, "failure" is simply a new experience, one that firms should coach to, like they would any other dimension of their training curriculum.

The Next Generation of Retirement Investing

If embracing failure is one nod to the rising generation, then so is evolving firms' employee composition and capabilities to be more reflective of the clients served and the services required. Greg Fiore, managing partner of Clearview, agrees and believes in investing in developing a skill set that goes beyond the numbers. "I think the days of a purely investment-centric advisor are fast approaching an end," Rick Sauerman, plan advisor with NFP,, adds.
"What I've seen in my own practice is that my greatest value-add is a holistic approach."

Karen Casillas, vice president and financial advisor at CAPTRUST, echoes advisors' need for a fuller toolkit given the expanded responsibilities plan sponsors face — from inspiring employee participation in workplace benefits to identifying channels of unbiased investment advice. "There's tremendous discussion right now around how to motivate employees to take positive action to address financial stress, and how to engage five generations in preparing for retirement readiness. What will resonate with participants? How can targeted messaging be used to engage specific demographics? How do you define and measure retirement success and what are the right metrics to track progress?"

Sauerman suggests that by nurturing a fuller perspective, early-career advisors can go beyond determining solutions to **known** problems to uncovering what's **unknown**. From his perspective, and others we spoke to, the problem to solve is retirement income: "There's going to be a natural need to have a solution in place that automatically transitions from the target-based funds into something that's more of a guaranteed income option," he says.

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Detractors and Draws

Given top retirement advisory firms' awareness and proactive management of key industry issues, like technology, training and a "do-it-for-me" retirement investment future, why is it so difficult to recruit and retain talent?

It seems that the elements potentially discouraging candidates are the very reasons why retirement plan advisory services is an attractive sector. With the assumption that the industry needs a marketing makeover, we have identified five main detractors and countered with the inherent draws.

1. Exploitation vs. Empowerment

The financial services industry has a tarnished reputation. Many of today's rising professionals saw the toll the Great Recession of 2008 had on their families and their job prospects, resulting in a scar of skepticism toward the profession as a whole. However, the younger advisors we spoke to saw an opportunity to be the change from within the industry, empowering plan sponsors and participants with education and advice to inform better decisions, intended to deliver better outcomes. For those advisors who experienced financial upheaval during their childhoods, they chose a career intended to create financial security for themselves and those they served.

2. Complexity vs. Mastery

From a complex and changeful regulatory environment to a vast universe of product and provider information, the retirement advisor space is intricate and evolving — and the fiduciary stakes are high. While the learning curve may appear steep and never-ending to some, for the highly curious and not-easily-daunted, the industry represents an opportunity for mastery. To be an expert in a generalist's economy can being a meaningful differentiator.

In addition, today's young professionals may be better suited to "complexity" than previous generations, given their aptitude for absorbing waves of information and pivoting to new technologies. Says Virginia Debbink, retirement plan account manager at M3 Financial, "The next generation is definitely more capable of adapting quickly because it's what they're used to — new iPhones every year, new technology, new resources. I don't think that constant industry change is necessarily a barrier to entry."

3. No Instant Gratification vs. Tangible Gratification

Being responsible for detailed and dynamic industry knowledge while nurturing relationships and converting long-lead sales can be overwhelming, with little immediate reward. "The *'I could make more money sooner by doing something else'* attitude is where we lose people," says Corby Dall, president and managing director of 401(k) Advisors Intermountain.

But those who will succeed must have stamina and find meaning in real results. Because while the sales aren't quick, the impact of the relationship can change people's lives for the better. With so much of finance happening on spreadsheets and in terminals, the practicality of this sector has its own unique appeal. The outcomes of retirement planning are observable, leaving those who advise in the space the satisfaction of make a tangible impact.

4. Obsolescence vs. Opportunity

For some, financial services is seen as an old man's job — a dying industry. The advisors we spoke to disagree. Says Tom Bastin, managing director of NFP, "Technology dominates everything now. We need to showcase what's going on technology-wise to get young people interested in our industry."

Karen Casillas recounts recently speaking to sophomore women at University of Colorado at Boulder: "When I talked about what I did, I could see people physically cringe. Like *'You work with stocks and bonds in business?'* And what was so funny to me was these were STEM students — applied mathematics, aerospace engineering majors. Once I started to talk about statistics, hard math, glidepath research, equity exposure — there were sparks."

The intersection of technological innovation and a growing population of STEM graduates seeking a range of applications for their degrees suggests the retirement advisory sector presents a meaningful, if somewhat overlooked, opportunity.

5. Wealth vs. Value

Several of the advisors we spoke to don't like the term "wealth management," believing it's not reflective of the work they do. Says Corby Dall, "Most people don't have the 'wealth.'" Katie Green expands on this idea, saying: "I think retirement advisors get lumped in with the financial advisory industry, which I hate because our practice isn't built around the 'wealthy.' We're helping the everyday American create wealth."

The distinction is important, particularly for young people seeking a more altruistic application of financial services. Rick Sauerman, who transitioned from the wealth to retirement space, says he did so because he was losing interest in "making really wealthy people a little bit wealthier."

Sauerman goes on to say, "Newer entrants to the job market are really interested in feeling good about what they're doing and the impact that they're having. If we are better able to communicate what our industry does, the retirement plan advisory business would be perfectly positioned to draw an influx of top talent."

The opportunity for rising professionals to create value — the sort of value that reduces personal bankruptcies, lessens homelessness, alleviates the strain on state services, empowers individuals and buoys communities — is a different proposition than managing wealth, but no less rich.

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Advice to a Rising Generation

In considering industry challenges through the lens of opportunities, we asked advisors what advice they would offer to a rising generation of retirement advisors. The overall message was consistent:

New candidates must have the ***empathy and interest*** to invest in relationships (with clients and professional peers) as well as the ***patience and discipline*** to embrace ongoing industry learning. In addition, advisors council young people to:

- Be dynamic, pivoting with the pace of industry change.
- Adopt a resolute work ethic and an appetite for competition.
- Have courage, particularly when it comes to asking questions and admitting mistakes.
- Be a storyteller, framing complex investment concepts into actionable plan decisions.
- Manage flexibility. Many advisors travel and entertain, so successful practitioners have learned how to be productive in the office and on the road.
- Take a long view. Retirement savings takes a professional lifetime to accrue and it weathers a series of market cycles. Apply that long-term thinking to the advice you give.
- Commit to serving others.

4 Closing Thoughts

If a new generation of professionals comes around to the idea that the industry isn't as dusty or deceptive as initially perceived — that in fact, there is an opportunity to do well by doing good — then what can firms do to attract young talent?

> "I don't think there's an issue with young people not having an interest in finance. I think it's an issue of the finance industry not really showing an interest in them."
>
> —Tom Bastin, Managing Director, NFP

The aggregator model offers a meaningful solution that can balance the thrill of the entrepreneurial experience (flexibility, client exposure, increased autonomy) with the security of organizational infrastructure (onboarding, training, expert resources). But beyond investing in technology and supporting professional growth, firms also have to focus on the corporate culture.

Says Greg Fiore, "We have lunch together every day. On Mondays, it's on us. The rest of the week, we reimburse for half the cost. To me, it's personal coaching, it's technical teaching. We're bringing different experiences, vocabularies and perspectives to the lunch table."

Investing in a cross-generational dialogue is critical for all retirement plan advisors. Rising professionals have an opportunity to ask questions and share their experiences, while more established advisors can gain a better sense of a younger person's worldview — what they know and don't know and what matters, from home ownership to retirement income.

Firms that focus on recruitment and retention — those that offer comprehensive training programs and prioritize building career pathways — will be better positioned to flourish in the future of the industry. But the rising professionals who are ready to own the challenge will be the true victors. "The next generation of advisors will be the ones who benefit from the supply and demand situation that we have occurring," Brad Larsen says.

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- Build from breadth
- Invest as stewards
- Invent the future

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* AUM reflects approximately $43.72 billion USD (as of December 31, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

Endnotes

1 Cerulli Associates, "U.S. Broker/Dealer Marketplace 2019," https://cerulli.com/about-us/press/2019-october-us-brokerdealer-marketplace-2019/.

2 Ibid.

3 Ibid.

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ID173559-3019787.1.1.AM.RTL 0320
Exp. Date: 03/31/2021