**Revamping Retirement: Episode 67: PIMCO DC Consulting Survey**

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Intro:

Covering the ever-evolving retirement plan landscape to help identify the biggest opportunities for plan sponsors. CAPTRUST Presents, revamping Retirement.

Matt Patrick:

Hello and welcome to Revamping Retirements. I am Matt Patrick and I'm joined today by Pete Ruffle. Pete, how are you today?

Pete Ruffell:

I'm great,

Matt Patrick:

Matt. Great. I can't believe they let you and I podcast together. I'm pumped that we get to do an episode, just you and me, but we are really excited we get to welcome in two guests from PIMCO today and we're going to be talking about their 2024 DC consultant survey. So we'll get into a little bit of what that is, but I'll take the opportunity to introduce our two guests. We have Joe Sole and Fedor Rah with us. How are you all doing today?

Vidur Mehra:

Doing great. Great. Thanks for having us. Thanks so much. Yeah, thanks

Matt Patrick:

For having us.

Pete Ruffell:

Yeah, and as Matt was alluding to, we're having you join us to talk a little bit about the consulting survey that PIMCO runs. A lot of learned lessons, I'm sure through that endeavor, things that have helped form what PIMCO is doing in collaborating with both advisors and plan sponsors alike. So I'd love to get a sense and give a sense to our audience what the purpose of that survey is and what it's hoping to achieve on an annual basis.

Vidur Mehra:

Yeah, absolutely. Peter, thanks. This is Joe and I guess I'll get us kicked off here. So we're in our 18th year of running the study makes it one of the longest running studies within the defined contribution space and each year what we're doing with this study is interviewing the most influential DC focused consultants, those consultants that are truly focused on the retirement space. Of course CAPTRUST being one of those longstanding participants for us. And within that study we want to understand what are the consultants focused on in the year ahead for the retirement space? What are their plan sponsors focused on? And ultimately where do they see DC evolving when it comes to things like plan design or investments or participant services. So quite an all encompassing survey when it comes to the topics within the defined contribution space.

Matt Patrick:

So it is strictly consultants filling it out, but they're keeping their plan sponsor clients in mind and that's how you can get to some of those outcomes that you're describing there.

Vidur Mehra:

Yeah, that's right. We consider this to be a very unbiased study, so we're interviewing the direct consultants themselves this year in the 2024 study, we had 28 respondents and these consultants in aggregate, they're serving over 15,000 retirement plans here in the United States. So when you look at just the assets under advisement here, it's about 7.94 trillion, so almost three quarters of all DC assets are represented. So a great cohort for us to be interviewing to truly understand what's happening in the space.

Matt Patrick:

We're really looking forward to getting into some of those big picture items that are impacting so many plans. Maybe with the plan sponsor in Mind Direct can, I can throw one over to you, but as you're looking through the results this year, what would you say the biggest priorities that you saw in the study as it pertains to plan sponsors?

Joseph Szalay:

So we actually, we had consultants essentially talk about what the plan sponsor client's top three priorities are in 2024. And we also ask them, what are your leading edge clients most focused on? Now we don't specifically define leading edge for consultants, but they generally refer to those clients that are probably most forward thinking, most likely to take some actions. So I'd say there were three to four themes that really jumped out to us in the study. By far, the top one was evaluating retirement income solutions. Now I know this has been a consistent theme in our study over the last few years. It's been a big focus for us in the DC space, but I'd say this year just the number of consultants that pointed to this being really the top priority and especially for those leading edge clients was significantly higher than it's been in years past.

Now the other couple of priorities that came through, one was navigating new regulations. Now, not a big surprise again here, given the passage of the secure act, we know that many clients have been working with direct keepers on addressing some of the mandatory provisions within the act, but there's also a number of non-mandatory provisions. A couple of things I'll mention, review managed accounts was another top three priority. I think this was the first year in the study. We've seen that be a top three priority and in many of our discussions with consultants, we've also at least anecdotally heard that consultants are really taking a much deeper look at the value for fee being offered by managed account solutions. We're seeing some RFPs come through and folks are really trying to understand the level of personalization these managed account providing and to what extent participants are really getting that value, that benefit. And then one final thing I'll mention is evaluating OCIO or delegated opportunities, and this was actually the first year in the study that we got some data on how to total DC assets, how can they be attributed to either advisory or OCIO mandates and we found that OCIO is still a very small proportion of the total DC landscape, so only about 5% of total assets and that just means there's a huge opportunity set here for consultants to grow that business.

Vidur Mehra:

I would like to just add on something since we're on sponsor priorities, one of the questions we often get is how are sponsors using this study themselves, right? Given the fact that these answers are coming directly from the consultants. And one of the things that Fedor and I do and much to my wife chagrin because I'm on a plane so much is we go and meet with a lot of these plan sponsors directly because a lot of the color and the context, while the study is super helpful, it comes out in those conversations. Some of the major ways that sponsors are using this and what's really driving the dialogue, one is they just want to understand the range of services that are being offered by other service providers, right? Seeing what else is out there that they should be asking their current consultant for. Number two is just improving plan design and just an overall benchmarking type exercise. Are they focusing on the same things that their peers are or are they missing something That might be a big trend. And then probably the most common takeaway that we see out of these meetings with sponsors directly is helping them shape their strategic agenda for the upcoming year. Generally taking one or two of the items out of this presentation and then putting that up as a priority for them to bring in front of their committee as something to focus on.

Pete Ruffell:

Obviously committees times and getting that group together for quorum, it's so hard to do. Everyone's so busy making the most out of an hour, having strategic agenda items year over year helps you have that north star guiding principles that gets you out of just reviewing the investments and then thinking about what else can we do on behalf of our participants. So I think that's always a good one to think about. And Joe, your points dovetail us nicely here, which is you're having through the lens of the plan sponsor. Hey, on the consultant side there's a lot of different approaches, different opinions, different services that could be rendered where you have 28 different consulting firms that participate in this. I'm sure you see a lot of sometimes similarities but sometimes differences. As far as those priorities go, could you give us a sense of where you might be seeing some maybe consistencies and then maybe instances where you felt like almost every option in the questionnaire that you put out there felt like it was almost even in response?

Vidur Mehra:

Yeah, so the biggest place where this comes in for us, Peter, is what are the main services that they're providing for participants? You're going to have some very common services offered here. Things like retirement income, product evaluation, fee studies, record keeping searches, governance reviews, asset allocation services, the typical services that you're going to see across basically all 28 respondents. But then when you start to dive into some of these other services, that's where you see some of the big differences in what's being offered and where we see some dispersion are in things like communication materials development or onsite participant communication offering advisor managed accounts or evaluating financial wellness. Within each of these categories you have about half of the consultants focusing on that as a main service that they're providing. That being said, one thing I'll mention Peter, and this is a great aspect of having such a long tenured study, these other services that I'm mentioning, if we looked years past, there was an even smaller amount within these cohorts that were doing these. So you are seeing some convergence amongst the group as people become more aware of the other services that are being provided and as they continue to compete for new plan business.

Pete Ruffell:

Yeah, I think that's a nice benefit for us as consultants in participating in these types of surveys is although we feel like we keep a finger on the pulse of what our clients are asking for, obviously being dynamic, those types of requests, but also seeing where the landscape is shifting because certainly it does year over year and that long tenured survey that we keep mentioning here. Joe, I think, and ura, maybe I'll go to you since you brought up retirement income originally on this, but certainly there are trends that find themselves to be topical in the DC landscape. How did you form some of the questions in the survey this year around retirement income? What were some of the takeaways that you saw related to that? Maybe obviously including what you said, which is probably the hard rock side of it, which is evaluating retirement income, but what else manifested in there around that topic?

Joseph Szalay:

Yeah, I'd say one thing we were particularly focused on this year was to really understand where we're actually seeing some movement, where we're seeing plan sponsors actually take some action because retirement income is something we've been talking about for a number of years now, and the constant kind of pushback we often get is, yeah, there's a lot of talk, but are we actually seeing plan sponsors taking any actions? And I'd say this year in our survey was the first time that we did see some meaningful movement on that front. I'll mention that some of the themes have been pretty similar to prior years, but some of the specific questions we asked around, what actions are your plan sponsor clients taking to encourage the retention of assets? We saw, I'd say pretty significant double digit increases year over year on things like, so firstly plan design and communications.

That always gets a pretty strong response and that's been even stronger this year. So that's going to include things like allowing more distribution flexibility, encouraging the consolidation of non-planned assets into your plan, working with rec keepers on education, offering more tools, and then also just being more direct in communicating the value of keeping assets in plan. From there, I'd say that the next set of actions we see is around adding some non-guaranteed investment solutions, and sometimes that just means actually looking at what you already offer within your plan and then reorienting those options and positioning them as a retirement income solution. Some of the options there would be things like personalized solutions like managed accounts, also income focused, fixed income options like an income fund. And then I'd say the final step along that journey is looking at some guaranteed options, both in plan and out of plan. I'd say that's the one area where at least to date we haven't seen quite as much movement given some of the challenges involved in getting these guaranteed options into

Vidur Mehra:

Plan. I'll just add something here. What's encouraging about the study too or surprising also is retirement income is almost embedded in every single section within this study plan, sponsor priorities, consultant priorities, how core menus are evolving, how people are thinking about evolving their QDIA, the participant services that we see, there's this underlying trend of catering to those spenders that you're seeing really bubble up in all of the evolution we're seeing in the space this year.

Matt Patrick:

Talking about the double digit year over year growth in some of those areas, was that encompassing of all of those, the repurposing your current funds or options in your plan, non-guaranteed and guaranteed. All of those have seen similar growth in terms of plan sponsors implementing?

Joseph Szalay:

So it is been more on the non-guaranteed side, so guaranteed the movement's been a lot more muted. There's a number of challenges that plan sponsors need to overcome and in fact the industry needs to overcome, right? We've got a lot of innovation happening from product providers, but I'd say the reality for most plans that many of these solutions aren't broadly available on multiple rack keeping platforms. And so I think while the industry has addressed some of the challenges a few years ago, one of the big challenges was fiduciary concerns around insurer selection. I think that was addressed through the first secure act portability I think has been addressed at the individual level, but there are still some challenges for plan sponsors around just operationally being able to get these into plans. And then what do you do if you ever want to move change racket keepers? That would be a big hurdle to keeping that same option in plan.

Pete Ruffell:

You guys said retirement income is a conversation that PIMCO has been having for many years in part because of how much you have been embedded in the American pension space, bringing that pension experience for participants in defined contributions. But I think that the common thread that I'm hearing from both consultants and clients alike is the question of who else is doing this? It's that comfort in numbers, comfort and masses because it's new, and I'm putting air quotes around that because certainly it's been around this idea of guaranteed and non-guaranteed income in a retirement plan, but in your survey you bifurcated the idea of your typical client base and those, I think you said it was leading edge type clients. And this is certainly where you're probably seeing some of that double digit numbers from anything from manage account personalization, true guaranteed style type options, something embedded into the QDIA and I wanted to see if that type of sentiment echoes in your experiences Joan ura.

Joseph Szalay:

Yeah, I'd say absolutely it. It's going to be those leading edge clients that are more open to adopting some of these newer solutions. I'd say we also saw a couple of interesting trends when we get into more of the specific options being recommended by consultants. And I'll touch on the guaranteed side first. So one interesting trend we saw this year was strong support or strong recommendations for the out of plan annuity platforms like the hula solutions. In prior years, that has not been the top choice, and I think some of what's going on there is folks have taken a look at the in plan guarantees and said, yeah, the few forward thinking or really the plan sponsors that have the governance to do it are going down that path. But then for the vast majority of plan sponsors, it's still a lot of hurdles. And so maybe the easy option here is to just put an out of plan option as a first step and then once the infrastructure's there, we can start to look at the implant options. Now from there, I will say that there is strong support from consultants for plan guarantees that are embedded into target date funds and specifically fixed annuity options like QA or even deferred fixed annuities where we've seen less support from consultants has been on the solutions that are more variable annuities embedded into target date funds, the guaranteed lifetime withdrawal benefit contracts. And I think one of the challenges there is just the higher cost and complexity that comes with those solutions.

Pete Ruffell:

I think it's one of those double-edged swords of, I think those GM WBS do a good job of keeping plan assets within the plan, whereas some of those other types of products, that's where some of that leakage of assets come out and come into play,

Joseph Szalay:

Right? Yeah, absolutely. And then I'd say just on the non-guaranteed side, again, what we're seeing the most forward looking forward thinking plan sponsors do is let's start by looking at what we have in plan today and let's reorient some of those solutions and really communicate them as retirement income solutions. And actually the number one response here was target date funds. That's the default option and plans today. So maybe you can take all target date funds, have a retirement or an income vintage, you can pair that with some sort of a distribution capability offered by your keeper and let's do a better job of just communicating that as a retirement income option.

Matt Patrick:

I think that's an interesting approach because I didn't think a question we run into is when I say retirement income, what immediately pops in your mind? Is it a guaranteed option? Is it non-guaranteed? I don't think for a lot of people thinking through the like could my target date with a through glide path provide some of that? Could a managed account provide some of that on the backend? Could the stable value option in my plan provide some of that? So I think that's an interesting way to frame it. I'm going to pivot. I want to jump to another one of the big priorities that you all highlighted, which was OCIO. So maybe I could Joe pull you back in for that. Could you start by defining that acronym, what you mean by that, and then jump into what you found on the survey?

Vidur Mehra:

Yeah, so OCIO or outsourced, the CIO, what we're referring to here are discretionary services where that consultant is truly taking on the choice of what services are, investments are going to be embedded within that plan. And instead of you as the plan sponsor selecting among the choices that are provided to you, you take what you get, right? So you're signing up, someone else is taking on that fiduciary responsibility to evolve that menu and you're hiring them for that discretionary service. As Vidor mentioned at the onset, this is a major focus, especially for consultants. In fact, it is the number one cited service that consultants are looking to grow and expand this year, which is enhancing those discretionary services. Fact, two thirds of consultants answered that as their top priority for the year, but just like Fed Dore mentioned, it's interesting because that doesn't generally match up with the amount of OCIO business we see in the DC space.

This is still, I would say a relatively new concept for defined contribution. It's been widely adopted on the defined benefits side. So today only about 5% of total defined contribution assets are run in an OCIO way. Most are coming through in an advisory type approach That's exciting to see the potential growth that could happen here. The people that decided to go down this path, what was the main rationale as to why? The number one reason being just the desire to reduce the workload for that plan sponsor, right? There's a lot of competing priorities here for that person's time. Being able to offload some of this and take back some of their time and focus on their day job is a huge priority for many, just not having the staff available to run a plan the way they want to. Another major utilization of this is just the belief that OCIO is going to help reduce your fiduciary, having an additional layer of eyes and an additional consultant to point to help rationalize what you've done in the evolution of your plan. And then lastly, I would say another major reason is just reducing investment fees, which is I think counterintuitive. Most people might think if I'm getting additional discretionary services or more oversight, I might have to pay more for that. But what we actually see is some consultants are able to price this in a way that'll leverages the scale of themselves as an OCIO provider and really passing that scale onto the plan sponsor themselves.

Matt Patrick:

I think we've certainly seen a growth in this area across our client base and it is really, it's tied to a lot of those factors. The time savings being one where like, Hey, I hired a consultant because I'm not an investment expert myself, I want to follow your advice. Why don't we cut the step out where I have to then evaluate whether I agree with what you're giving. I think getting into some of the things like retirement income and some of the other areas that we're going to weigh on, those are time consuming conversations that you want to have. You want to evaluate your employee population, what's going to work best for them. So if you can save time on the investment decision making and you can focus on some of those initiatives, it really all comes together. I would want to get your thoughts too, Joe, if we think about plan sponsor entities that maybe had a pension plan where OCIO was really well adopted and then the DC plans start to take more prevalence going on, why do you think that discretion wasn't as adopted in that area? I'm just curious if you have any thoughts there.

Vidur Mehra:

For one, I feel like it was just a desire to retain control. I feel like many plan sponsors, especially the ones that don't want to go down this path, that was the major reason why they wanted to focus on a DC plan for many. That DV plan was set it and forget it off the table for some folks and now it's okay, now let's turn to what the future of the retirement is going to be for employees and wanting to have just more control in owning that. The second is historically there's been much higher overall fees for these types of programs relative to advisory. Now I just mentioned those have been coming down, so that will likely be less of a headwind going forward, but that was certainly a deterrent in the past for some plan sponsors that were looking at these potential services.

Joseph Szalay:

Maybe one additional point I just make, and it made me think of almost like an extension of this theme has been the introduction of PEPs and that's something that also came through our study. PEPs are pooled employee plans when they were first introduced. We were curious to see to what extent we see consultants jump into the space and looking back over the last few years of the study, we have seen every incrementally more consultants look at the PEP market as a way to provide not just discretionary investment services but also bundle sign admin.

Vidur Mehra:

And you're actually starting to see the PEP idea that pulled employer plan idea really start to move up market a bit too. Historically it's been for the smaller end of the defined contribution market, but you are seeing an increase there. And the other thing I'll just mention while we're on this topic of discretionary and OCIO, despite the fact that it's only 5% of assets today, so we've gone out and we've spoken to many of the consultants that have responded to this and what we're hearing is a very big uptick in the amount of RFPs for discretionary services happening right now. In some cases double digit growth relative to years past. So we asked why is that occurring? And one of the common themes that we're hearing back is there's a lot of staff that's retiring, a turnover of staff and it's just too hard to get people up to speed fast enough to be able to get them in that seat. So looking at discretionary as a way to keep that plan going without having to rehire another CIO certainly been a major theme.

Matt Patrick:

No, that's great. It's certainly interesting. It'll be interesting to watch to see if that number ticks up in terms of number of assets in discretionary management moving forward, sticking on the discretion theme, but less discretion at the plan level, discretion at the participant level via managed accounts, which was another big priority for the year. I guess again, could we jump into what did the survey show in that regard?

Vidur Mehra:

Yeah, so with respect to managed accounts, we asked a couple of questions. So one, we know this is the top priority for plan sponsors as far as evaluating managed accounts or evaluating personalization. So a couple of the main questions we wanted to uncover was, alright, what attributes are being evaluated in these personalized solutions? What are the major things that consultants are upgrading when they're assessing these? And then the second thing that we asked was just consultants' overall view on personalization and how they think that space will evolve going forward. So let's maybe start with that one then I'll come back to the attributes that they're reviewing today. When we ask consultants about personalization or just managed accounts in general, most consultants believe the following now most believe that qds or qualified default investments will incorporate more personalization going forward. They also believe and most believe that the fees for personalized will continue to come down as they're able to scale these and utilize more things like technology.

And then also most consultants do not believe that it's the participant themselves that's engaging in adding the data to become personalized or be able to achieve that personalization. However, they do believe that record keepers do have sufficient data to achieve personalization in an automated way. So all being said, you're going to see more personalization going forward, you can expect it to be much more cost effective for the participant and the ease of obtaining that personalization will likely be easier going forward as well. Now as far as the attributes when they're reviewing these personalized solutions, one of those major items that they're looking at is that level of engagement that it takes for a participant to achieve personalization. How often do they have to come back and reengage? What do they have to actually address to be able to achieve this? They're also focused clearly on the overall cost of the program, trying to understand the value add that you're getting for the fees that you're paying. And then lastly, something that we've seen, we've actually received even personally at pimco, some RFIs to participate in these studies understanding how these personalized solutions compare to each other. So putting a very similar persona through these programs and then being able to identify what's the level of personalization provided, what are the factors that are most impacting that personalization and how repeatable is that Over time

Matt Patrick:

That information is fascinating just because we've been talking some about the spectrum of QDIA solutions and the customization within, and you have target dates maybe on the far left in terms of off the shelf, you've got a glide path for everybody, manage accounts all the way on the right in terms of most customized at the individual level and then we're starting to see just a lot more iterations in between there. So it's going to be interesting to watch that evolve.

Pete Ruffell:

I can't remember if you asked it in the survey, but did you touch on anything related to hybrid Q Dias, this idea target date fund two managed account? What was the consultant sentiment there?

Vidur Mehra:

Yeah, so this is one of the ones that I say you see a mixed reaction on and lemme just define what this is, right? So a dual QDIA being one where the most common example for the first several years of working at a company you'd be defaulted into a target date fund and then at some point later in your life, most typically around age 50, you would be defaulted into something that's a bit more personalized like a managed account. So we asked this of consultants, we said looking at the QDIA space today, taking target date funds aside, we know they're the most popular right now we where do you think this is going? Where do you think this is going to evolve? And the two themes that you saw come out were target date funds that are either going to embed more retirement income features or those that are going to incorporate more personalization.

And I would say that the dual QDIA really hits on both of those, right? You can either default somebody again into more of a retirement income type approach or maybe into something that's more personalized now, but when we asked the consultants themselves where do they think this is going and what do they expect as far as dual QDIA growth to be, it was a mixed reaction. Only about 16% of consultants thought that was going to be the QDIA with the most growth, whereas 44% thought it would be a targeted fund with an embedded guarantee. Now I think some of the hesitation in understanding if dual QDIA is going to take off comes back to record keeping functionality and capabilities, which platforms have the ability to offer this dual QDIA structure and until that becomes commonplace across most platforms, I think you'll still see the same sentiment today as far as it being potential the next generation of what QD ias are right now.

Pete Ruffell:

I think there's some obvious gaps that some consultants will point to and be like why this wouldn't work. And I think you touched on it a little bit, Joe, right at the beginning, which is the use of the participant to add more data into the experience, the idea of adding more data points for the technology provider, the managed account provider to personalize the asset allocation even more. And a lot majority of the participants that they're defaulting right into that target a fund. And so are they going to be the ones that are most active? It's tough to say because you're nearing that retirement red zone, your life is being more complicated. Something like a managed account can help not only from the asset allocation side but from the planning side as well, which I think so much managed accounts are like you mentioned too, Joe, which are leaning towards that retirement income flare, whether it's spend down or embedding some planning towards an annuity. The managed accounts in general, they're dovetailing into some interesting ways that I think are reacting to what participant and plan sponsor needs are. Now.

Joseph Szalay:

The other thing I just mentioned in terms of what might trigger more growth within this dual QDIA structure is I think something Joe mentioned, which is the fees coming down where it's offered as the default and we actually got some data on just generally what a managed account fees when it's offered as A-Q-D-I-A and when it's offered as an opt-in solution. And one of the things that was surprising to me was that discount was only around 10 basis points. And I think the feedback we get from sponsors is when it's offered as the default, there's just such a focus on fees that I think it would take the fees to come down a little bit more before that becomes the default solution.

Pete Ruffell:

Let's maybe pivot to one other thing that you brought up earlier, der, which is the regulatory environment, A lot of bandwidth in committee meetings talking about secure act one and now two. And I think financial security, although our retirement security, that rule, although I believe there's some news about it getting held off for the time being, I think there's still the sentiment there that's going to be a new dynamic that might influence the consultant and record keeper landscape working with participants in PIMCO's eyes. And when you were creating the survey, were there anything that you had in your mind on the horizon that you felt that consultants and plan sponsors alike were going to be spending a lot of their time on?

Joseph Szalay:

Yeah, and that's exactly why one of the questions we included was to understand what sorts of non-mandatory provisions are most likely to be considered by clients and then also what are clients actually implementing today. So I'd say the first one, what's most likely to be considered it was some of the things that you'd expect. Some of the things that we've been talking about in the industry more recently, things like providing more withdrawal provisions to participants, student loan match programs emerge savings accounts and matching on a Roth basis. Now interestingly when we asked consultants, so what are your clients, what have they already implemented or what are they most likely to implement in the near future? There was less consensus there and I think some of that has to do with just the dependence on rec keepers making available. Some of these options. I'd say it's really more the keeping side that's going to drive what plan sponsors ultimately are able to adopt.

Pete Ruffell:

We're in an interesting time right now because like you mentioned, record keepers are adopting to this and implementing it and that costs capital. So there's some strategic planning on their behalf to do that. Some of that is being responsive to their client needs, so we have a lot of clients almost to give feedback to the record keepers or what they want. They're looking to see what other plan sponsors are doing and there seems to be this gray area of not real true consensus, whether it's on the consultant side, what they're hearing or what record keepers are seeing and implementing. We're starting to see some surveys come out with some of that information, but it does feel like everyone's still in the holding pattern to be like, okay, what are people looking at? And a lot of those optional provisions, like so much of what Secure 2.0 was trying to solve for is just certainly adding value and optionality to participants both on the contribution side and the distribution side. It's been valued conversations with our clients. What else has stood out to you? Things that you think are really important to the conversation for both consultants and sponsors?

Joseph Szalay:

Yeah, maybe I'll start with one on the call menu. We talked a lot about the QDIA, but just focusing on the call for a little bit when we've asked consultants, what do you typically recommend for call menus that has stayed very consistent over time. So typically six equity options, two fixed income options, one CAPA preservation and one inflation option. This year what we wanted to do was really get into some thoughts on how do consultants foresee these core menus evolving over time. And so we specifically asked what asset classes do you most expect most likely to be added removed or combined in the future? And I think we've got some pretty interesting responses. So let me first talk about what's most likely to be added, and there were two broad themes that came through here. One is more options that are going to better address the needs of retirees.

So again, reinforcing that retirement income team. And second is adding a little bit more diversification into plans. So specifically the options that were highlighted here, things like income focused multi-sector was on top of that list and I think that one actually addresses both. It can help diversify and expand fixed income menus, which traditionally have been very focused on just the core and then also potentially serve retiree needs as a non-guaranteed retirement income option. The other ones that were mentioned, so things like potentially annuity options in the future, stable value. And then on the diversification side, more private markets and potentially more multi-asset inflation options. Now where is all of this going to get sourced from because it's unlikely we're going to see menus expand considerably. So where consultants point to is essentially around consolidating some equity options, some things like a growth and value maybe into a single option, and then also potentially some consolidation on the capital preservation side where multiple options are being offered today. It's

Matt Patrick:

Interesting to think that people have been answering the question consistently for a few years. It seems like people are anchored on the number of funds in there. It feels like we are happy with the number that are in the year. We found that not too few, not too many. So if they're going to add some new options, they have to take a few out to keep that number consistent. That's interesting.

Joseph Szalay:

Exactly. Yep.

Vidur Mehra:

Yeah, I'll just jump in and answer the question as well as far as some things that stood out for us, and maybe I'll focus more on the default side. We mentioned this briefly, but the repurposing of the target date fund as the retirement income vehicle, 93% of consultants said if we're going to offer non-guaranteed income or retirement income solution, it's going to be the target date fund. So Peter, like you mentioned earlier, how dual q Dias, how the concept makes sense, it's building on this concept of automation and just keeping it very easy for the participant. So it makes a lot of sense as to why the target date fund is being seen as this preferred vehicle. So a lot of the conversations we're having right now are how to assess the retirement income capabilities of a target date fund. How is it generating income?

What kind of downside risk are you looking at retirement? How does it attack longevity? So I think that'll be a much bigger focus going forward as opposed to just looking at past performance or fees when comparing these types of solutions to each other. The other thing I'll mention and Vado mentioned it briefly, is this idea of private assets. This is something that I think as a participant myself, I would love to have access to when we ask the consultants about where that space is right now it's primarily private real estate. You do see several dozen plans utilizing things like private equity and private credit, but again, it's not a major theme that you're seeing across the space. But then we also asked the question, what do you expect out of all of these private asset classes? Where do you expect to see some growth in more adoption over the next two years? And we saw a doubling in the private equity in the private credit number. Now you're still seeing this is not a major theme across the country, but the plans that have the resources and the capabilities, I would expect to see more private assets and more diversifying return streams start to come into these programs like managed accounts or custom target date funds.

Pete Ruffell:

It doubles down on some of the thing that the doer was mentioning with multi-asset inflation. It doesn't have to come in the form of tips what people might think of or other fixed income tools. It could come in the form of the passive, excuse me, private asset way. And I think Joe, to double down on what you just said though, we're seeing it on the top end of the market space, some creativity there, some ways to wrap it into a target a fund because certainly that allows you to have something that doesn't have liquidity and wrap around some liquidities that participants can transact on a regular basis. It does seem like that's the next foray for where DC plans could spice it up a little bit is on the private side. So interesting to see that. And touching back on the idea of QDIA and involving retirement income, I like to think about it as it is difficult.

There's new jargon to be learned, but I would imagine that's so much the truth of when people were looking to add target date funds for the first time in their retirement plan. We didn't see that proliferation pick up till I would say 2012 honestly. I think when we saw surveys starting to ask consultants and plan sponsors, are you using target date funds because balanced funds were just so much more of the flavor of the month. I think committees are going to continue to get up to speed, they're going to look to potentially OCIO or 3 38 providers to help them with that investment selection process. I think we're getting closer and closer every single day. Exactly.

Joseph Szalay:

I

Matt Patrick:

Guess just for other than having Joe and Vader hit the road and come out and visit people to run through, is there anywhere that plan sponsors can access your all survey or the information that's within there if they want to take a look and get that information?

Vidur Mehra:

Yeah, absolutely. It's available on our public website@pimco.com. Just simply search for it in the toolbar there. Define contribution consulting study. There's also a webcast that we recently released. I don't know if it's going to be as cool as this podcast, but that's another way that folks can, when you're driving in the car, if you just want to listen to 30 minute update of what's going on, we have that available for folks as well.

Matt Patrick:

Perfect. Alright, well thank you all so much for running through the survey. A lot of great information there, Pete and I could certainly spend another hour conversing with you all on that. We've got a lot of good takeaways, but I guess in terms of wrapping up, want to hit you all with our standard closing question, which gets a little more personal. We want to find out what does retirement look like for you all? Der and Joe, so I'm going to throw it to Verder first. What does retirement look like for you?

Joseph Szalay:

Sure, sure. I love that question. I think about it all the time. My wife and I, we love to travel. We actually have family spread out across the world in Asia, some family in the uk, lots of close friends there, so I would love to just be able to travel live like a nomad for a little bit. Of course you want to be close to the kids, but hopefully once they're off doing their own thing, we get a little bit of time for ourselves.

Matt Patrick:

That sounds

Vidur Mehra:

Great. I was thinking about how I would answer this question the other night, I'm at the house and I hear my wife reading a story to our youngest son Thomas, and I was thinking retirement to me would be 20, 30, 40 years from now hearing that same voice, but it's my grandson or my granddaughter being read that book. That to me would be I made it.

Matt Patrick:

That's awesome. You can't beat that. Great. Thank you both so much for joining us today. Really great stuff. We look forward to it. Hopefully maybe next year around this time when you guys come out with the survey, we'd love to have you back on so we can keep track on how some of the things keep evolving over time. But appreciate y'all being on the show today.

Vidur Mehra:

Thank you for having us. Great, thanks so much.

Pete Ruffell:

All right, Matt, this is your idea, but I love it. Let's circle back up on what we just heard because I think there's some really interesting things there that obviously we got to participate in this survey, we got to answer it. In fact, you were the one that answered it. So did it feel weird to have almost the teacher go through the answers and see how wrong you were?

Matt Patrick:

It did, yeah,

Pete Ruffell:

But it is great opportunity. Obviously we spend so much listening to our clients and learning from our clients to develop what we're doing service-wise for our clients, but these opportunities to just compare and see what the industry as a whole is doing is super valuable as well. And one of those topics that they spend some time on certainly was the OCIO side or how we typically call it as three thirty eight. I feel like OCIO is that terminology that more often that gets used on the pension side and the endowment foundation side, but 3 38 investment manager, that discretionary consultant role, what did you hear from Joe and Vader that stood out to you or what did you think was consistent with our thoughts there?

Matt Patrick:

I do think a lot of it aligned with what we hear plan sponsors interested in when they look to hire a 3 38 investment manager. I think that time savings element, which we got into a little bit in the discussion, but I do think the managing a retirement plan has become a lot more complicated. I think there's a lot of these additional services that people are wanting to consider. You've got retirement income, you've got all these non-required, secure 2.0 considerations that you have going on. There's just more inputs that you as a plan sponsor need to navigate through. And so I think a lot of people who have hired consultants and had an advisor for a long time, they're like, Hey, I hired you to be the investment expert. I want to follow the advice that you're giving me. And most people, I think they do follow the advice their consultant gives 'em.

So they just see there's a very easy way to offload some of that work where they're like, if I'm going to just follow what you're going to say anyway, do I need to take two meetings for us to sit and review all these documents and go through it when you can just keep me updated on what you're doing? There's still a little bit of, you still have to monitor your investment manager even if you turn that responsibility over to them. So you're not completely off the hook there from doing any work, but it just makes the decision making a lot more efficient where you're like it used to, we get the recommendation and then we would meet separately and then we'd come back and maybe you burn a month in there solidifying the decision before you can start the process and you're like, I can hire an investment manager and they can start the change as soon as they deem that it needs to be made and move that on.

So I think that is the primary reason. It makes a ton of sense. We do see the litigation risk coming up where you're like, I am bringing another party in who's responsible for the investment decision making? So if a question did came up, your investment manager would have to answer for those. So if you do your homework and you're hiring someone who has a really experience in that area, they have an investment process, having a consistent and robust process is very important for your decision making. And so I think that all lines up well in terms of what we're seeing and I think the numbers bear out at least what our experience has been with people looking for that type of service. I did think it was interesting that it's still only 5% of retirement plan assets or at least DC plan assets are in that model. It's certainly been an area that we have seen growing interest in, so I'd be interested to see what that number looks like as we roll the clock forward over the next few years. What do you think was interesting from what they covered?

Pete Ruffell:

You and I both spent a lot of time in investment menus, so hearing a little bit about what consultants are thinking about the core menu today and the core menu of the future, I think there's certainly that reality of, hey, what we've been doing is working. And then they asked a thoughtful question, which was like, okay, step aside from that. What do you think is the future look like? Where's the innovation going to come? And the idea of, listen, we can't let the menu get bigger, but there's new ideas that we want to bring into play here, so how do we do that? And it's that give and take mentality and that's tricky and interesting and there's a lot of room for creativity there. How do we continue to provide participants with what they're familiar with and what's going to benefit them, but also add in something new to the mix that's going to potentially add more diversification to their menu or give them more exposure to asset classes that they didn't have from before?

I thought that was very interesting, and we can't leave this without saying something about retirement income. Certainly we've spent a lot of time on it in the past few podcasts. A lot of our consultants are talking to our plan sponsors about that on a regular basis. But I think one thing that is important that isn't said often, which URA and Joe brought up, which is the reality that a lot of the investment options in the plan today are serving and solving for retirement income. You could have a target, a fund with a retirement income vintage that effectively is doing just that, providing that asset allocation, the thoughtful opportunity and way for spend down processes for participants. They've certainly employed plan design elements that allow for not just lump sum distributions, but periodic distributions, which is certainly important for thoughtful spending down of your retirement. And then also stable value funds providing some sort of guarantee or insurance wrap to a fixed income stream. Those are predictable returns that can help you prepare and plan out what your balance looks like year over year. I think reframing the retirement income conversation from this is novel and new to look what we're doing today in the plan because I think there's a victory lap to be had there with new committee members. It's important to show off what you've been doing and how it's been working for participants already.

Matt Patrick:

A lot of those conversations drift into, I have to add something to the plan to address retirement income, but maybe it is just a reframing of what you have. How do you talk about your stable value option or how do you talk about your Target-date series and do you have to rework some of the education around them and say, Hey, you could leverage them for some of these items that participants are asking about. So I agree with you. I thought that was a really interesting one. And then I think the custom QDIA parts that they talked about, I think just highlighting some of the trends we were expecting to see this year where people are looking at more customization in the QDIA space, but it felt like with a lot of these trends, still a little early to tell where the market's going to fall in terms of what's going to be the most popular option. But I think the fact that there's continued interest there, and I think just this sentiment of targeted have been great. They've addressed a meaningful need in terms of getting people enrolled in the plan and giving them something that's at least baseline appropriate. But do you need to get more customized to the individual position? At least we'll see if there's an appetite for that, but it seems like in general, people feel like that's how the market's going to move. So we'll see what comes of that, but just interesting continuation of that conversation.

Pete Ruffell:

Yeah, I think you're patting yourself on the back a little bit there, Matt, since that was your prediction at the beginning of the year of what we were going to see.

Matt Patrick:

I was trying to slip that in subtly, but thank you for bringing that up. But yeah, I will take a victory lap. Great call by me.

Pete Ruffell:

I'm just jealous because mine isn't as apparent. I thought mine was interesting, but it's not getting as much airtime as yours. But either way,

Matt Patrick:

The year's not over.

Pete Ruffell:

Yeah, that's true. Plenty of time till to be had either way. Just another thanks for the time that Joe and URA spent with us today. Really appreciate them shedding some light on this survey and the value it can bring to plan sponsors and consultants alike. I want to thank our listeners for sticking it out. Just want to remind them to like and subscribe wherever they get their podcasts. And that's a wrap for another episode of Revamping Retirement.

Outro:

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