For Plan Sponsor and Consultant Use Only

# The **value** of the **advisor**

AIG Retirement Services

# Executive summary

Financial advisors help drive retirement outcomes for the savers who work with them, as a growing body of research shows. Our proprietary study sheds new light on the value of advisors, validating existing research. It also reveals why some retirement plan participants hesitate to meet with advisors, while others who do meet with advisors realize a positive impact and are highly satisfied with the value advisors provide.

This research furnishes actionable findings to help retirement plan sponsors and consultants understand how best to partner with the financial advisors available through their plan providers—in order to drive behavior change among plan participants and, in turn, achieve shared goals, such as increased plan participation and contribution rates—and ultimately, retirement readiness.

This paper will provide data-based insights into:

- Trends among participants overall
- Outcomes unique to AIG Retirement Services participants
- Considerations to drive better outcomes

# Research landscape

Research shows that Americans who have access to an employer-sponsored retirement plan value in-person advice. According to a Gallup® survey, one-on-one meetings with a financial professional are the best way employers can provide employees with information about managing their retirement plan, with **71% of savers calling these one-on-one meetings highly effective.**[1]

The desire for personalized financial guidance cuts across the generations—from Boomers to Gen Xers to Millennials. Research conducted by The Center for Generational Kinetics revealed that, **across the generations, all three groups place the most value on "long-term strategic advice" and they believe the best place to get it is through a financial advisor.**[2]

Financial advisors play a valuable role in helping to drive better retirement outcomes. They help participants take important first steps to financial wellness—such as taking advantage of available retirement plans, creating detailed, written financial plans for the long term and building emergency funds.

A survey conducted by the Million Dollar Roundtable found that Americans who work with financial advisors are **more than twice as likely to have long-term financial plans** as those who don't work with financial advisors (50% vs. 19%, respectively).

Unfortunately, not everyone has taken the first step to meet with a financial advisor. Nearly eight in 10 (79%) Americans have never hired a financial professional.[3] What's more, in many instances, even individuals who do have access to a financial advisor through their employer-sponsored retirement plan fail to take advantage of the opportunity.

We believe the discrepancy—between high demand for in-person advice and low advisor use—is not a matter of what advisors can do for retirement plan participants, but rather, a problem of participant misperceptions. Prior research does not adequately identify or address the underlying problem.

Therefore, we set out to advance the current body of research in the marketplace today by exploring how participants perceive advisors, as well as testing the impact advisors have on measurable outcomes. To do this, we commissioned a third-party research firm to survey retirement plan participants currently with AIG Retirement Services, as well as those with other plan providers—asking about their attitudes and behaviors. A team of researchers also analyzed proprietary data among participants with vs. without advisor contact to measure the difference in outcomes between the two groups. (See Methodology.)

### RESEARCH QUESTIONS

- What's going well for the participants who have worked with advisors?
- What's preventing other participants from working with advisors?
- What can we (as plan providers, sponsors and intermediaries) do to optimize the experience of working with advisors and help more participants take advantage of this valuable benefit?

[1] Source: "Investors in U.S. With 401(k) Value One-on-One Advice Most," Gallup®, March 30, 2015.
[2] Source: "What Does Financial Advice Look Like Across Generations?", The Center for Generational Kinetics, 2015.
[3] Source: "Americans without advisers are far less prepared for retirement," Planadviser.com, March 28, 2017.

# Key findings

## 1 Meeting with an advisor works—and most participants want to do it.

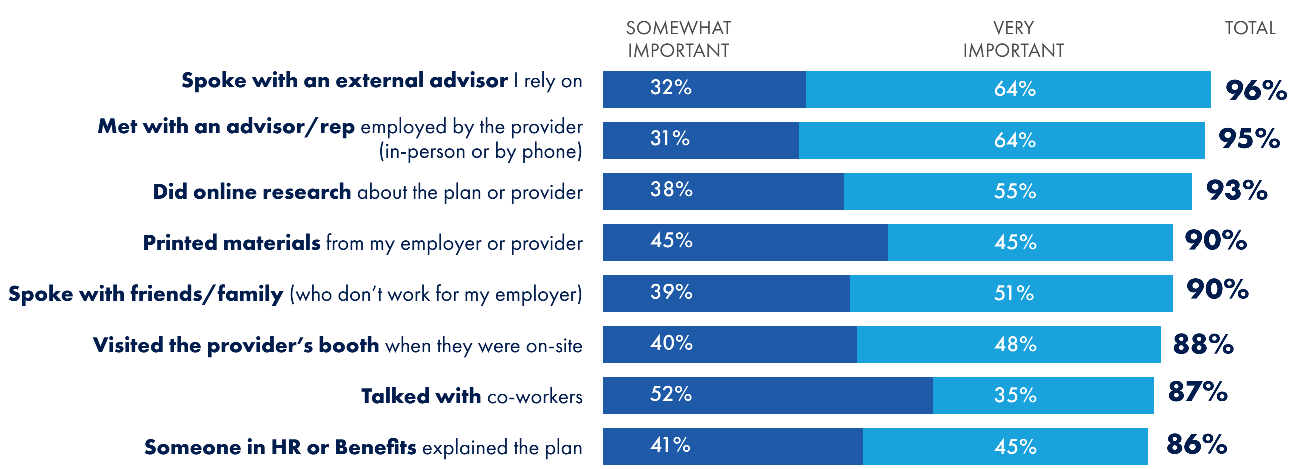
Our study validates prior research findings as it shows meeting with an advisor generally works well for retirement plan participants. It's a phenomenon that starts even before enrollment. Participants who speak with a retirement plan advisor or representative beforehand indicate the experience is highly influential in deciding to enroll; among those who did, 95% say it was somewhat or very important to their decision-making.

This positive perception continues well after enrollment, as 59% of participants who have met with an advisor consider it very important to have an advisor available to the plan. Nearly a third (28%) of participants who have met with one say they need considerable help from their plan advisor or representative.

Consistent with other national surveys, we found that more than eight in 10 participants are interested in meeting with an advisor or representative of their retirement plan (60% have met with one, and another 23% say they want to but haven't yet).

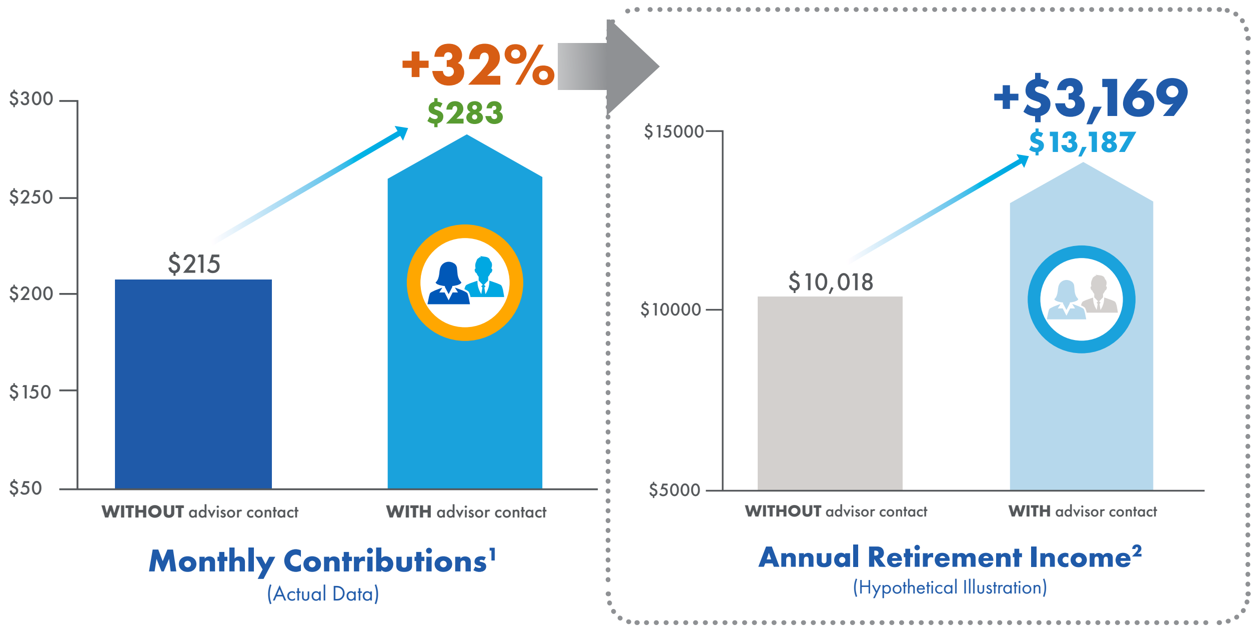
### What drives enrollment

(% of participants who used each source)



In addition to a large-scale quantitative survey, this report also includes findings from an impact analysis. To measure the impact of our financial advisors, researchers analyzed actual contribution data from new AIG Retirement Services participant accounts opened in 2013, narrowing to 65,000 participants with any voluntary contributions between 2013 and 2016. They compared contributions among participants who had contact with our financial advisors to contributions among those who had no advisor contact.[1] This analysis factors out other differences (i.e., salary, age, gender, marital status and employer match), which would artificially inflate the impact of contact with an advisor.

### On average, meeting with an AIG Retirement Services financial advisor has led to a 32% increase in contributions– and greater retirement income potential




The analysis shows that on average, meeting with a financial advisor has led to a **32% increase** in participant contributions ($215 monthly contribution without an advisor compared to $283 with your financial advisor financial advisor). Over 30 years of investing with a 5% rate of return, that could make a difference of $56,830 in additional retirement savings. Over a 25-year retirement, these increased savings could result in an additional $3,169 of income annually.[2]

In order to understand the impact an AIG Retirement Services financial advisor can make, consider what can be accomplished in these meetings. The comprehensive financial planning meeting culminates in a detailed, well-documented, and long-term financial plan. The financial plan offers the participant a comprehensive, personal report by capturing their current financial circumstances, retirement goals and investment strategies. Working with a financial advisor to create and review this document may improve the participant's financial literacy and help them make better retirement planning decisions (including increasing their contributions, if appropriate). Financial planning is offered through VALIC Financial Advisors, Inc. (VFA).

[1] For the purposes of the impact analysis, researchers defined "advisor contact" as one or more of the following meeting types: 1. An annual review of the participant's account, investment performance and any plan changes; 2. An ad hoc review of the participant's account and investments; 3. A working session to develop the participant's comprehensive, written financial plan. (See Methodology.)

[2] Annual retirement income is shown for illustrative purposes only. Projected hypothetical total savings over 30 years, assuming a 5% average rate of return, would be $179,681 without advisor contact vs. $236,511 with advisor contact. Based on those total savings results, projected annual retirement income for 25-year retirement, as shown, assumes a 3% rate of return with withdrawals taken at the beginning of each year.

## 2 Participants want financial advice that's holistic and personal.

Advisors can offer guidance to address a broad spectrum of financial needs, recommend action steps suitable to a participant's individual circumstances, and help to personalize communications and educational programs on a number of topics. So one of our first questions is: If we know meeting with an advisor works, what's the best use of the time—what should advisors and participants be talking about?

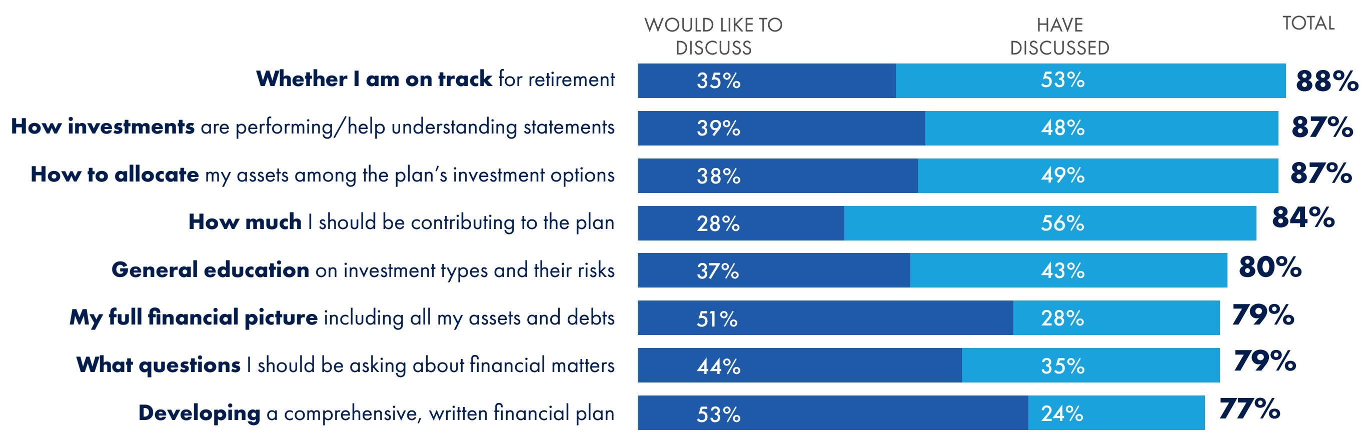
The number one topic participants want to discuss with the advisor to their plan is whether they're on track for retirement. In fact, nearly **nine in 10 (88%)** participants who have consulted the advisor for their retirement plan either have discussed whether they're on track **(53%)** or would like to do so **(35%)**. Participants who haven't met with an advisor, but want to, also list this as their highest-priority topic—with 87% saying they want to talk with a financial advisor to find out if they're on track. For an advisor to provide a retirement readiness assessment (i.e., whether an individual is "on track"), they need to have broader discussions about the participant's full financial picture. This means talking about finances beyond the retirement plan. And the good news is: Most participants say they're willing to engage in such discussions—79% who are working with advisors say they have discussed (28%) or would like to discuss (51%) their full financial picture. The same is true of 76% of participants who want to meet with an advisor, but haven't yet. In fact, there's a lot of agreement around the top conversation topics, as the graph below shows.

This research reveals a nearly universal desire on the part of participants to talk to an advisor about important topics, including seeing if they're "on track" and talking through their full financial picture, while also receiving practical guidance on how to understand performance statements, how to allocate among investment options and how much to contribute to the plan.

Why is holistic planning so important? The data strongly suggest if participants don't get holistic financial advice from the advisor representing their retirement plan, then they may not get it at all. The current employer's plan is the primary retirement savings vehicle for nearly half (48%) of participants.

### Top topics of interest to participants

(% of participants who have met with someone from the plan)



## 3 Participant misconceptions and insecurities get in the way of advisor use.

Our next (perhaps most important) research question is: Given the positive outcomes overall, why don't more participants meet with the financial advisors available through their retirement plans? To understand the answer is to tap into the mindset of participants who say they want to meet with an advisor, but haven't yet.

Of note, several reasons relate to perceived advisor character, as the participant worries about the untrustworthy advisor: what if the advisor is trying to "sell" me, what if the advisor is not someone with whom I want to share my information, what if I don't trust their guidance, what if they don't understand me, and so forth.

The participant's self-perception (and self-consciousness) also plays a role in their hesitation to work with an advisor; what if I don't know what to ask, what if they talk over my head, what if I don't have enough money, what if I look foolish?

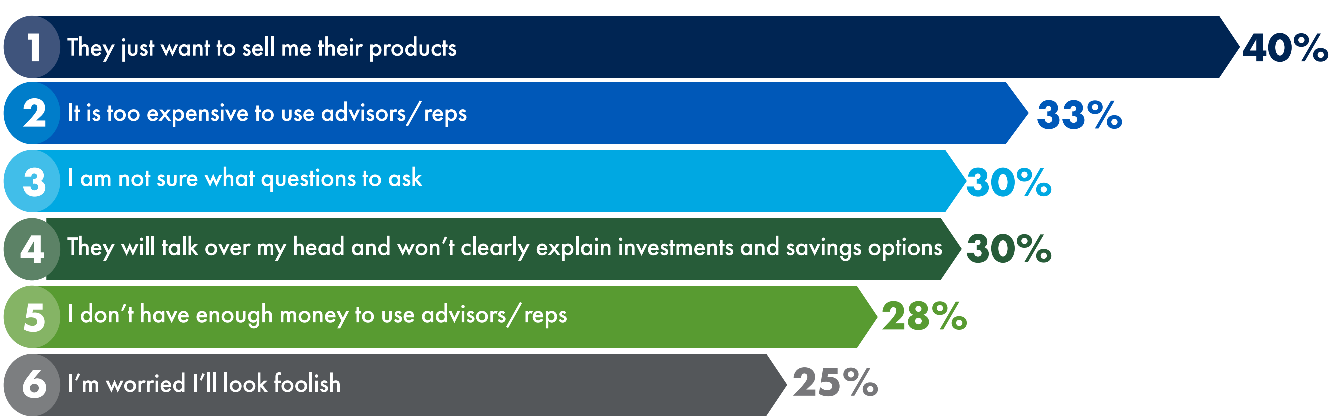
In total, the barriers represent a mixture of how participants view advisors, themselves and their finances—negative feelings about one or more of these can create hang-ups that block participants from reaching out to a financial professional for help. Paradoxically, this may mean that the participants who need the most help are the most likely to postpone or avoid getting it.

Upon examination, what researchers find is a list of concerns, biases, misconceptions and even insecurities on the part of the participant. Accurate or not, participants' own perceptions (e.g., of who an advisor is, what an advisor might do, and how a participant is expected to engage or supply information to an advisor) create barriers that cause them to postpone or entirely avoid meeting with an advisor—even when they say they would like to do so.

### Top reasons for not meeting with their advisor

(% of participants who want to meet with an advisor, but haven't yet)

**Q:** "Some people are hesitant to use an advisor/representative. Which of the following, if any, are the top three reasons you would hesitate to use an advisor/representative from your organization's voluntary retirement savings plan?"



Researchers also explored advisor attributes from the perspective of plan participants, and have found that participants value advisor character. The attributes "acts in my best interest," "provides good advice and recommendations," and "is moral and ethical" outrank all else. Other essential parts of the role of the advisor, such as explaining investments and savings strategies and advising on asset allocation, fall lower on the list. While capability is a basic expectation, character is what separates the valued advisor from all other advisors and representatives.

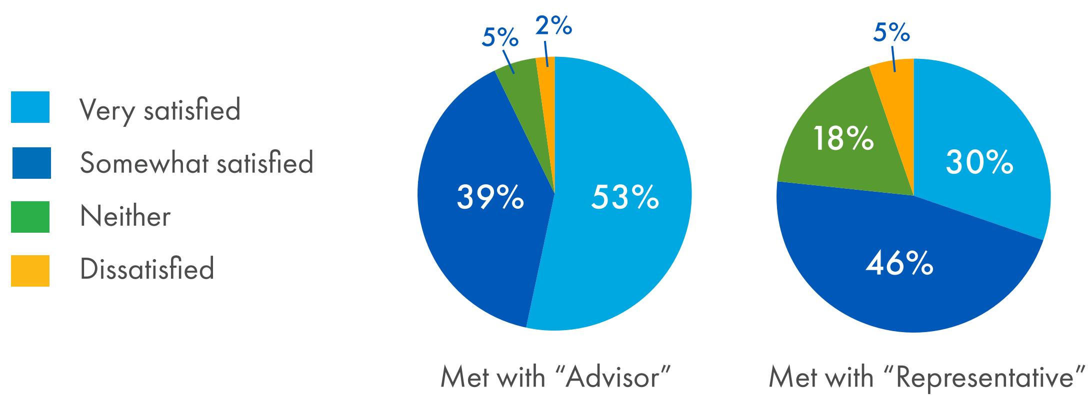
## 4 More valued services drive greater satisfaction.

To help address negative participant perceptions and misperceptions about advisors, consider what drives participant satisfaction. We asked participants how they would describe the person they met from their organization's voluntary retirement savings plan. They could select one of the following:

- **An advisor** who offers guidance, education and helps you with your savings and investment needs
- **A representative** who generally helps with enrollment and helps with customer service, answering questions, resolving problems

### Satisfaction with advisors and representatives

(% of participants who have met with someone from their plan)




Note: Numbers may not total 100 due to rounding.

Participants are generally satisfied with both advisors and representatives. Participants who work with people they call "advisors," however, are different in three key ways: how much they save, how satisfied they are, and what they want to discuss. More than **52% of participants who said they met with an "advisor" from the plan have plan balances over $50K,** compared with just 41% for those who met with a representative from the plan. Participants are also more satisfied with advisors than representatives. Indeed, more than half (53%) of participants who met with a plan advisor report being very satisfied with that person, compared with less than a third (30%) who are very satisfied with the plan representative. Our research also reveals that **participants are more inclined to discuss important topics (such as "whether I am on track for retirement") with an advisor (93%) vs. with a representative (83%)**.

More valued services—particularly the services associated with being an advisor—drive higher levels of participant satisfaction. Moving from a representative to advisor relationship may have a positive impact on the participant in terms of higher satisfaction and potentially better retirement outcomes.

## 5 AIG Retirement Services participants, more than others, realize the value of working with advisors.

As part of this study, we asked researchers to compare retirement plan participants with AIG Retirement Services to those with other providers. The AIG Retirement Services participants were demographically similar to the other participants in terms of average employment tenure, employer size, age, generation, income and marital status.

**Results show AIG Retirement Services participants are more likely to ...**

Meet with an advisor before deciding to participate in the plan

- **47% AIG Retirement Services** vs. 34% Other

Meet with an advisor at least twice per year

- **49% AIG Retirement Services** vs. 33% Other

Prefer working one-on-one with an advisor for savings and investments

- **75% AIG Retirement Services** vs. 67% Other

These results speak for themselves and provide strong, empirical proof of the difference financial advisors make when it comes to engaging and motivating retirement plan participants.

# Considerations to drive better outcomes

In general, plan sponsors can work with providers to develop communications and educational programs that highlight the benefits of working with advisors. Content should put forth examples of advisor services, challenge common misconceptions, supply practical tools (such as "questions to ask your advisor in your first meeting"), and provide some basic education to boost financial literacy and confidence.

Efforts to improve financial literacy should be evaluated by a "litmus test" based on confidence in addition to financial acumen, rather than financial acumen alone, as lack of confidence is one of the reasons participants avoid or postpone working with advisors. This means education should be focused on developing a practical, working knowledge of one's personal finances going into that first advisor meeting—with the understanding that the financial advisor can help fill in the gaps and direct participants to other educational opportunities as needed.

When you partner with AIG Retirement Services, you can count on our commitment to helping participants understand the unique benefits of working with a financial advisor. Financial advisors are dedicated to serving AIG retirement plans through activities that support participant financial wellness, and in turn, plan health.

We know from six decades of experience and anecdotal evidence that financial advisors can have a positive impact on your employees' financial wellness, which benefits your organization overall. With this report, we are now better able to understand and quantify the value of the financial advisor. Financial advisors facilitate enrollment and engagement, educate participants about the topics that matter most, and motivate positive actions such as increasing contributions—all of which can help improve retirement readiness.

# Methodology

## Value of the Advisor Study

- The Value of the Advisor Study was fielded from April to May of 2017. AIG Retirement Services commissioned a third-party research firm to oversee the online survey and analysis of 403(b), 401(a) and 457 retirement plan participants employed in higher education, healthcare, K-12 school districts and government organizations. The researchers surveyed 1,096 total respondents, including 184 AIG Retirement Services participants and 912 with other (non-AIG) retirement plan providers.

## AIG Retirement Services Financial Advisor Impact Analysis

- The AIG Retirement Services Financial Advisor Impact Analysis is based on proprietary data. Researchers used actual contribution and asset data from new AIG Retirement Services participant accounts opened in 2013, narrowing to 65,000 participants with any voluntary contributions between 2013 and 2016. They compared participants who had advisor contact to those who had no advisor contact.* To quantify advisor value as accurately as possible, the rigorous analysis isolates the impact of advisor contact, without the influence of other factors (e.g., salary, age, gender, marital status, employer match), which would artificially inflate the impact of contact with an advisor. (To do this, researchers used a statistical modeling technique called multivariate regression using gradient boosting.)

* Note: For the purposes of the analysis, researchers defined "advisor contact" as one or more of the following meeting types: 1. an annual review of the participant's account, investment performance and any plan changes; 2. an ad hoc review of the participant's account and investments; 3. a working session to develop the participant's comprehensive, written financial plan.

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*Source: LIMRA SRI Not-for-Profit Retirement Market Survey 12/31/2018.
Based on total assets in a survey of 25 major companies.

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