October 2015

The human touch:

The role of financial advisors in a changing advice landscape

financial engines®

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EXECUTIVE SUMMARY

Financial Engines sought to better understand how employees saving and investing in their workplace retirement plans view the role of financial advisors. We commissioned an online survey in August 2015 of over 1,000 employees who participate in their employers' defined contribution plan, such as a 401(k). The following were the major findings from this survey.

A. A majority (54 percent) of retirement investors who do not currently work with a financial advisor are interested in doing so in the future, though barriers exist.

- The greatest interest (63 percent) was among investors who prefer a "do-it-for-me" approach to investing, although a large portion (44 percent) of "do it myself" investors were also interested.

- The top reasons keeping investors from working with an advisor now are concern about the cost (46 percent), a perceived inadequacy of their assets (36 percent), and not being sure how a financial advisor could help (26 percent).

B. There was overwhelming support for a fiduciary relationship between financial advisors and their clients.

- Almost nine out of ten (87 percent) retirement investors stated that it is very (69 percent) or somewhat (18 percent) important to work with a financial advisor who is legally required to act in their clients' best interest.

- The following subgroups stated that fiduciary status was very or somewhat important:

    - Investors with assets between $100,000 and $500,000 (93 percent)
    - Investors who already work with an advisor (91 percent)
    - Investors who use Target-Date Funds (92 percent)
    - And investors who do not now work with an advisor but are interested in doing so in the future (93 percent)

C. Including access to financial advisors in an online financial advisory service generated higher interest than online advisory services alone.

- Two in three respondents (68 percent) were interested in an online financial advisory service that includes access to a financial advisor compared to six in ten (60 percent) who were interested in an online advisory service alone.

- Moreover, six in ten plan participants indicate that having access to an advisor would increase their comfort with online investment management.

- Interest in online advisory services with a financial advisor was highest among young people age 18 to 34 (80 percent), and people not working with an advisor but interested in doing so in the future (84 percent).

D. Advisory services should include retirement and other financial issues.

- Retirement investors are most interested in receiving help with determining the appropriate savings rate to reach their retirement goals; converting their retirement savings into retirement income; and evaluating their overall financial wellness. Non-retirement topics where help was most needed included planning for healthcare expenses and managing debt and budgeting.

E. Many Target Date Fund (TDF) users want to work with financial advisors.

- A surprisingly large proportion—59 percent—of TDF users who do not currently work with a financial advisor stated that they are very or somewhat interested in working with a financial advisor in the future.

The findings above have the following implications:

- Strong interest in financial advisors was observed, but key barriers stop investors from seeking them out. Technology can help remove these barriers and democratize access to financial advisors so that more people can build confidence in their retirement plans.

- In addition to wanting greater access to financial advisors, the vast majority of retirement investors believe it is important to have a financial advisor who is legally required to put their clients' best interest first. Thus, regulatory focus on a fiduciary standard is well placed.

- It is important to provide advice on retirement and other financial topics in order to meet the variety of needs cited by retirement investors.

- Target Date Funds (TDFs) were designed with automatic features that should reduce the need for financial advisors, yet a large portion of TDF users are interested in working with a financial advisor. Greater use of financial advisors by TDF users could be beneficial because many of them do not currently use their TDFs as intended and suffer needlessly lower returns. A financial advisor could guide them to more appropriate use of their TDF.

See the conclusion of this report for a deeper analysis of implications.

INTRODUCTION

Financial Engines commissioned this survey to better understand how employees saving and investing in their workplace retirement plans view the role of financial advisors. We sought to discover how employees felt about their need for financial advice as they save for retirement over the long-term. The types of questions we asked included:

- Do you work with a financial advisor today? How interested are you in working with an advisor in the future?
- What are the most important attributes of a financial advisor?
- What are your preferences for advice delivery: online, financial advisors or integrated solution combining both channels?
- What are the key topics where financial advice is needed from an advisor?

Looking to the future, employees will continue to be responsible for investing their retirement savings in an often volatile market, and advisory services will continue to evolve with new companies, products, regulations and technology. Employees must make high stakes saving and investment decisions within this complex and uncertain environment.

Given this backdrop, our research found that financial advisors will continue to play a critical role in the delivery of investment advice to employees growing their retirement savings in 401(k) plans. We believe that companies that integrate two channels of advice delivery—advice delivered online and through financial advisors—will be best positioned to meet the needs of the investors of today and tomorrow.

SURVEY METHODOLOGY

Financial Engines commissioned an online survey of full-time employees between the ages of 18 and 70 who participate in their employer's defined contribution plan such as a 401(k), 403(b) or 457 plans. We refer to survey participants as "retirement investors" throughout this report. This survey was fielded from August 18th to August 23rd, 2015 and collected responses from 1,116 survey participants. The survey sample was weighted to ensure that it closely reflected the gender, age and educational characteristics of the national population of full-time workers with employer-based retirement plans per the Current Population Survey, a product of the United States Census Bureau. All survey responses were completed before the steep stock market drop that occurred on Monday August 24th, 2015.

Financial Engines analyzed the survey responses according to a number of different variables including age, household income, asset levels, ownership of certain financial products, and whether or not participants use a financial advisor or are interested in using one in the future. When citing differences for subgroups from overall average results, Financial Engines only cites results that are considered statistically significant at a minimum of a 95 percent confidence level.

KEY FINDINGS

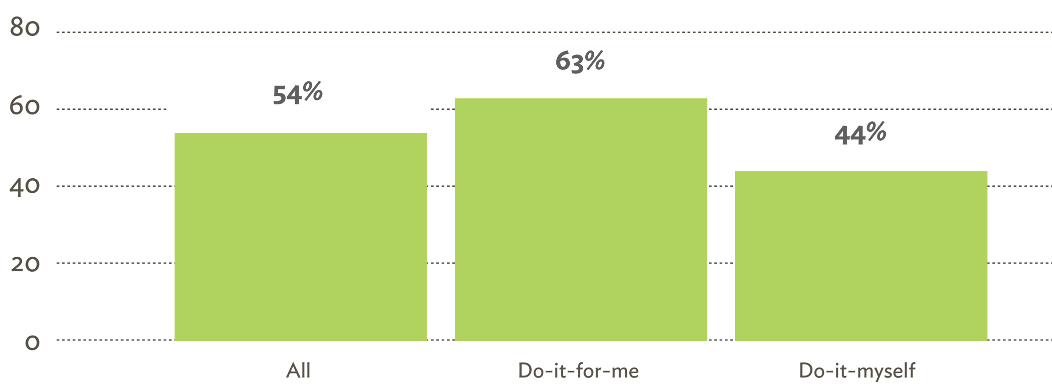
The majority of all retirement investors not currently working with a financial advisor—54 percent—are interested in working with one in the future.

In addition, 63 percent of delegators (discussed below) who do not work with an advisor today stated they were very or somewhat interested in working with one in the future.

A *delegator* is an investor who described their preferred approach to managing their investments as closer to "do it for me" than to "*do it myself.*" Conversely, a "do-it-myself" investor is one who described their preferred approach as closer to "do it myself."

Surprisingly, more than two out of five (44 percent) of the "do-it-myself" retirement investors not currently working with an advisor stated they were also very or somewhat interested in working with an advisor in the future.

Figure 1. Percent of retirement investors who do not currently work with a financial advisor who stated they were very or somewhat interested in working with a financial advisor in the future

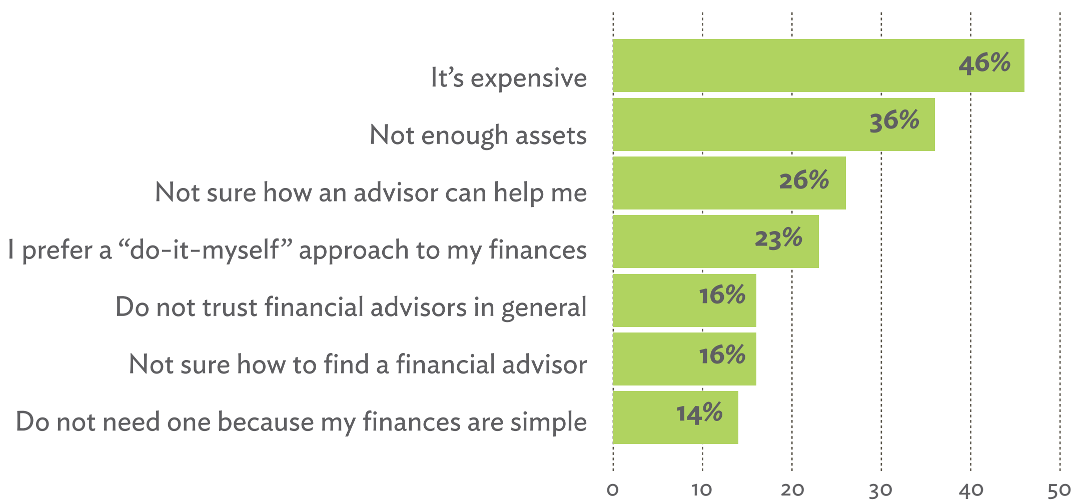


Surprisingly, a large portion of do-it-myself investors wanted financial advice. More than two out of five (44 percent) of "do it myself" investors not currently working with an advisor were also very or somewhat interested in working with an advisor in the future.

The top reasons that are keeping investors from working with an advisor now are concern about the cost, and a perceived inadequacy of their assets.

We asked investors who do not currently work with a financial advisor what is keeping them from doing so. The top three reasons were: "too expensive" (46 percent); "not enough assets for financial advisor to want to work with me" (36 percent); and "not sure how a financial advisor can help me" (26 percent). The following graph shows the responses.

Figure 2. Percent of investors who do not use a financial advisor who stated the following as a reason for not working with a financial advisor



Different subgroups deviated from the average response. Fifty-seven percent of retirement investors with lower levels of assets (below $10,000) stated "it is expensive". One in three investors with asset levels above $500,000 stated "I do not trust financial advisors in general" (33 percent); and 60 percent of this asset group preferred a "do-it-myself approach". Only 10 percent of younger investors age 18 to 34 stated that "I do not trust financial advisors in general" compared to 16 percent of investors overall and 33 percent of wealthy investors.

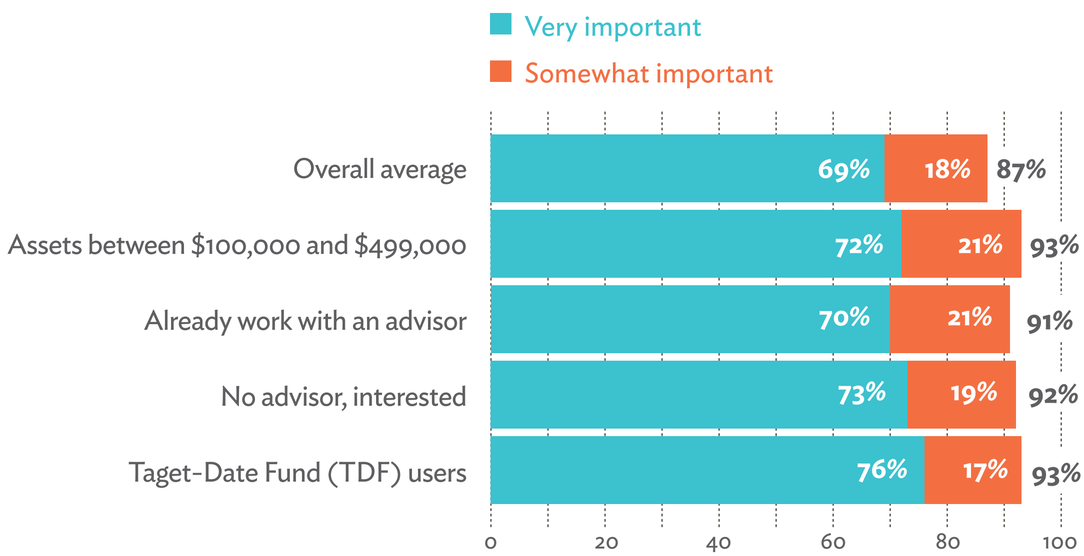
The vast majority of retirement investors stated that it is important to work with a Financial Advisor who is legally required to act in their clients' best interest.

When asked about the key attributes of financial advisors, eighty-seven percent of respondents said it was very or somewhat important that their financial advisor be legally required to act in their clients' best interest. The intensity of their responses was quite high, with 69 percent of respondents agreeing that it was "very" important. Relatively few respondents—2 percent—said it was "not very" or "not at all" important that their financial advisor be legally required to act in their clients' best interest.

This question was aimed at understanding how workplace retirement investors feel about a fiduciary standard applying to the relationships between financial advisors and their clients. Applying a fiduciary standard to financial advice means that a financial advisor would have a legal responsibility to act in their clients' best interest. For example, if the financial advisor earns more commission on one investment product rather than another, they must advise to invest in the product that is best for the client, which may be different from what is best for the advisor. If they do not, the client could pursue legal action against the financial advisor for failing to uphold their fiduciary responsibility. The vast majority of workplace retirement investors feel it is very important for financial advisors to be legally required to be "conflict free".

Applying a fiduciary standard was even more important to the following subgroups—over nine out of ten retirement investors in the following subgroups valued having a fiduciary standard apply to the financial advisor with whom they work.

Figure 3. Percent of retirement investors who stated that it was very or somewhat important that the financial advisor they work with "be legally required to act in their clients' best interest."



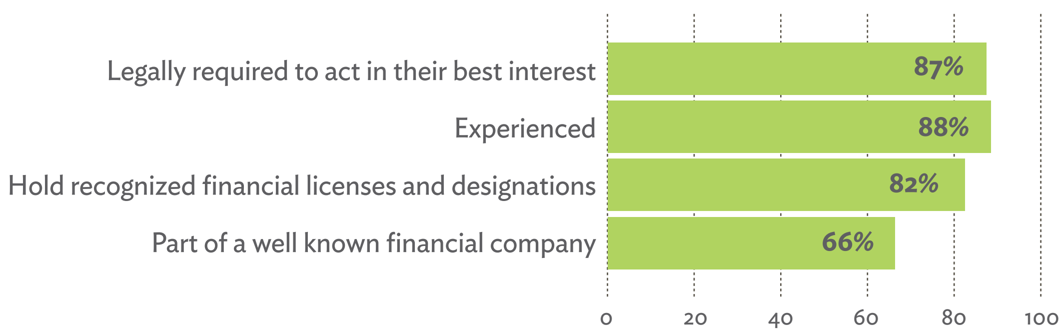
Investors wanted "conflict free" advice. Eighty-seven percent of respondents said it was very or somewhat important that their financial advisors be "legally required to act in their clients' best interest."

In addition to fiduciary responsibility, overwhelming majorities also stated that the experience and licensing of their financial advisor were critically important factors.

- Eighty-eight percent of respondents believe that having a financial advisor who is "experienced" was very or somewhat important.
- Eighty-two percent believed it was very or somewhat important that their financial advisor hold a "recognized financial license and designation."
- Two-thirds (66 percent) of respondents stated that it was very or somewhat important that their financial advisor be part of a well-known financial or investment company.

Fiduciary status, experience and licensing had higher importance levels than working with a well-known financial company.

Figure 4. Percent who stated that it *was very or somewhat* important that financial advisors have the following attributes



Including financial advisors in an online financial advisory service generated higher interest than online advisory services alone.

Two in three respondents (68 percent) were interested in an online financial advisory service that includes access to a financial advisor, compared to six in ten (60 percent) who were interested in an online advisory service alone.

The description of the "online only advisory service" shown to respondents was as follows:

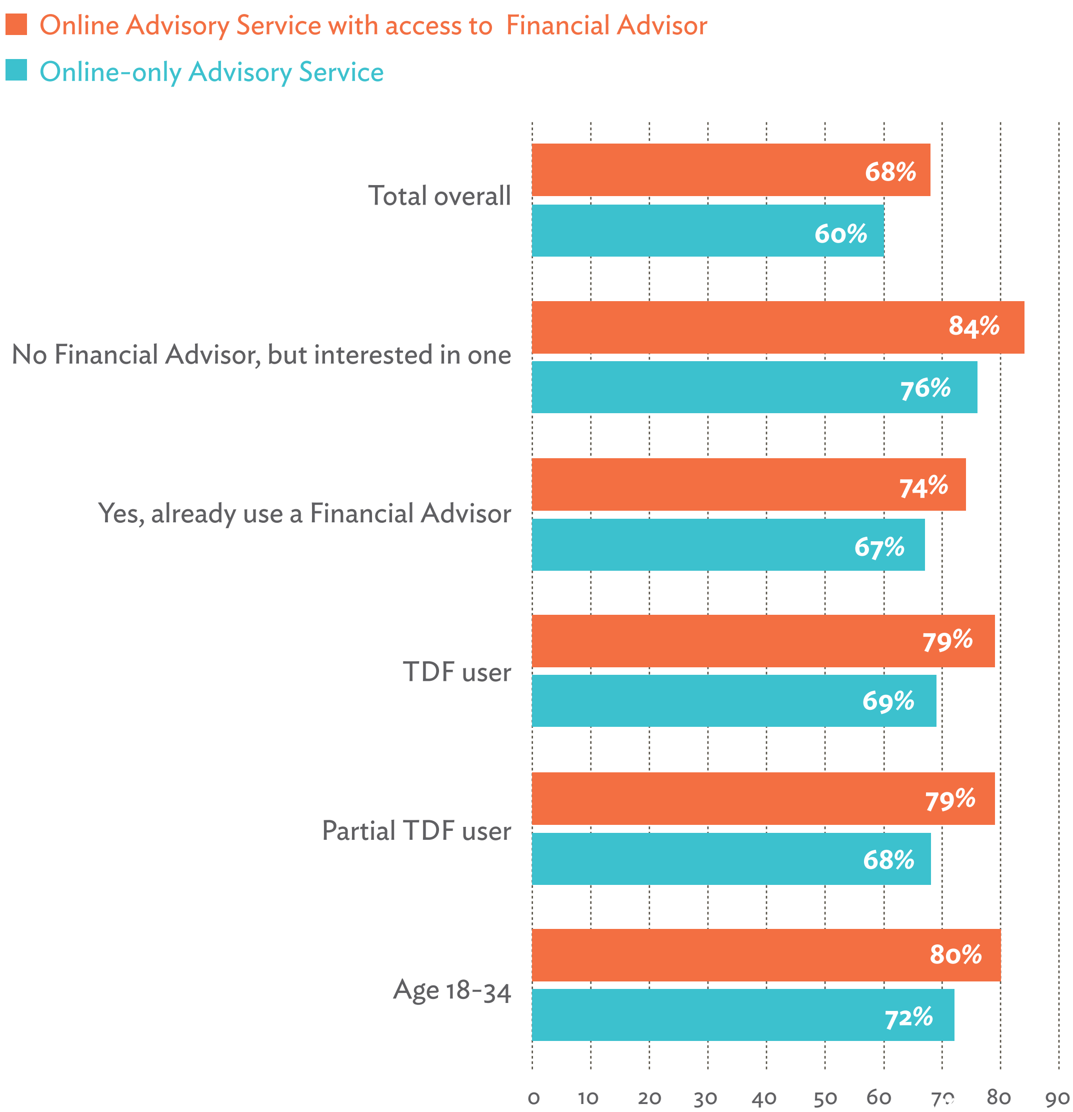
> *Some companies offer online financial advisory services and employers can make these services available to their employees. These services provide automated retirement and investment advice to each of their clients at lower cost than in-person financial advisors. How interested are you in using an online financial advisory service like this?*

The description of the "online advisory service *with access to financial advisors*" was as follows:

> *How interested would you be in using an online financial advisory service that uses high quality computerized investment models to provide automated retirement and investment advice if you also had access to professional advisors you could call for guidance?*

The subgroups listed in *Figure 5* exhibited stronger than average interest in both versions of these services. Similar to all respondents their preference for an online service with access to financial advisors was stronger than their preference for an online-only advisory service.

Figure 5. Percent who answered *very or somewhat interested* in online automated advisory services with and without financial advisors



Moreover, six in ten plan participants indicate that having access to an advisor would increase their comfort with online investment management.

Advice should include retirement and other financial issues.

The financial topics that retirement investors would find most valuable to get help with from an integrated advisory service—an online automated service with access to financial advisors—include:

- determining their appropriate savings rate,
- planning their retirement income, and
- evaluating their overall financial wellness.

Figure 6 summarizes the topics in order of their value overall (most to least).

Figure 6. Percent of *all respondents* who stated that the topic was *extremely or somewhat valuable* to get help with from their integrated financial advisory service

	Overall Average
1. Determining how much you need to **save** in order to reach your retirement goal	71%
2. Developing a plan for how to convert your savings into **income once you retire**	69%
3. Evaluating your overall **financial wellness**	69%
4. Assessing your investment **risk** tolerance and generating an overall investment strategy	66%
5. Optimizing **Social Security** claiming to maximize your benefits	65%
6. Managing **all of your investment and retirement accounts** from work and outside of work	64%
7. Managing the investments in your current **workplace retirement plan**	64%
8. Determining the **best time to retire**, stop working	63%
9. Planning for **healthcare** expenses in retirement	63%
10. Managing debt and **budgeting**	53%
11. Saving or making investments for a **child's college education**	42%

Various subgroups deviated significantly from the overall average for each topic including:

- **The youngest investor group** age 18 to 34 placed high value on getting help with several of these topics including retirement and financial wellness issues such as budgeting.
- **Investors with lower asset levels and incomes** placed a higher value on help with financial wellness topics such as managing debt and saving for a child's education and were more likely to want help with workplace retirement plans.
- **Retirement investors with a relatively high level of assets** disproportionately valued getting help with retirement income planning.
- **Investors not currently working with an advisor who are interested in doing so in the future** placed more value than the average in getting help on every topic.

Retirement topics:

Figure 7. Percent of *investors in each subgroup* who felt the topic was *extremely or somewhat valuable* to get help with from their integrated financial advisory service*

	Age 18 – 34	Low Income < $50K	Low Assets $10K - $49K	High Assets $100K - $499K	No Advisor, interested
1. Determining how much you need to **save** in order to reach your retirement goal	78%		79%		81%
2. Developing a plan for how to convert your savings into **income once you retire**				76%	81%
3. Assessing your investment **risk** tolerance and generating an overall investment strategy	72%				76%
4. Managing **all of your investment and retirement accounts** from work and outside of work	73%				76%
5. Managing the investments in your current **workplace retirement plan**		72%			76%
6. Determining the **best time to retire**, stop working	70%				74%

*Only showing figures statistically higher than the overall average at a minimum 95 percent confidence level.

In order to meet the needs of different subgroups—for example, younger investors and those with lower incomes or assets—it is important to offer advice on a range of financial topics.

Financial Wellness topics:

Figure 8. Percent of investors in each subgroup who felt the topic was extremely or somewhat valuable to get help with from their integrated financial advisory service*

	Age 18 – 34 (Age 35-44)	Low household income: <$50K	Low assets $10K-$49K	High assets $100K-$499K	No advisor, interested
1. Evaluating your overall **financial wellness**					80%
2. Planning for **healthcare** expenses in retirement	72%	69%			74%
3 Managing debt and **budgeting**	64%	67%	65%		64%
4. Saving or making investments for a child's college education	60% (53%)	55%		49%	49%

*Only showing figures statistically higher than the overall average at a minimum 95 percent confidence level.

The top advantages of having access to a professional financial advisor *(in addition to online automated advice)* were to avoid costly mistakes and to gain peace of mind and confidence.

The most important advantage of having the ability to call a professional financial advisor in addition to having access to an online advisory advice was "to ensure you don't make costly mistakes," selected by 27 percent of respondents as their top advantage. The other top advantages included "for peace of mind" and "to further personalize financial plans". The other advantages are ranked by importance to respondents.

Figure 9. Most important advantages of having access to financial advisors in addition to online automated advice

	Most Important Advantage	2nd Most Important Advantage
1. To ensure you don't make costly mistakes	27%	16%
2. For peace of mind or to feel more confident	14%	14%
3. To further personalize your financial plans/strategies	12%	13%
4. To discuss additional financial goals and issues	11%	13%
5. To help you stay the course during ups and downs in the stock market	10%	11%
6. To get a second opinion or to get reassurance of your choices	9%	14%
7. To build a trusting relationship with the company	7%	8%
8. To confirm/validate what an online tool suggested for you	6%	8%

The majority of retirement investors (60 percent) who do not currently work with an

advisor stated that working with a financial advisor in addition to an online advice service would cause them to experience a variety of benefits such as increased confidence and higher savings. The following subgroups had responses that were higher than the overall average: investors age 18 to 34, "do-it-for-me" investors who prefer financial advisors, those not now working with a financial advisor who are interested and TDF users. These benefits are listed in the table below.

Figure 10. Among those who do not now work with a financial advisors, percent who felt it was *very or somewhat likely* that working with financial advisor would cause the following to occur*

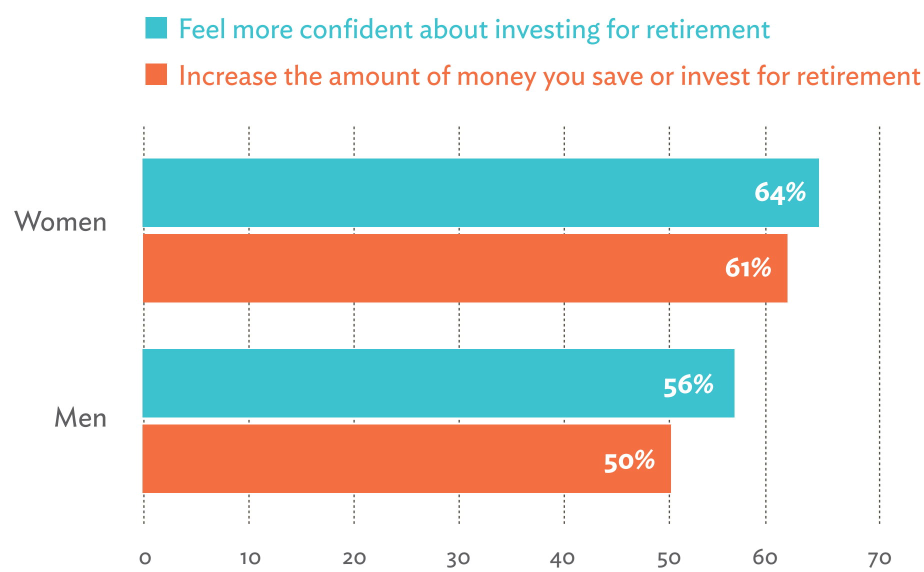
	Overall Average	Age 18-34	"Do it for me" & prefer Advisor	No Advisor, Interested	All TDF Users
1. Feel more confident about investing for retirement	60%	70%	75%	81%	70%
2. Be encouraged to address other key retirement decisions	60%	69%	72%	80%	74%
3. Feel more comfortable managing your finances in general	60%		73%	78%	
4. Be more confident about your ability to retire when you want	59%		72%	78%	72%
5. Increase the amount of money you save or invest for retirement	55%	65%	67%	72%	

* Only showing figures statistically higher than the overall average at a minimum 95 percent confidence level.

In addition, the genders differed from each other at a statistically significant level on

the topics related to confidence and savings rates. Women were more likely than men to state that working with a financial advisor would cause them to "feel more confident about investing for retirement" (64% versus 56%). And women were more likely than men to state that working with a financial advisor would cause them to "increase the amount of money you save or invest for retirement" (61% versus 50%).

Figure 11. Percent of each gender who felt it was *very or somewhat likely* that working with financial advisor would cause the following to occur



What we found about TDF users and Financial Advisors.

A surprisingly large proportion—59 percent—of TDF users who do not currently work with a financial advisor stated that they are very or somewhat interested in working with a financial advisor in the future. Typically, investors of TDFs are expected to invest all their retirement assets in the TDF and not have the need for financial advisors. Surprisingly, the interest in working with a financial advisor in the future amongst these TDF users is similar to the average investor (54 percent) who does not currently work with an advisor.

A surprisingly large proportion—59 percent—of TDF users who do not currently work with a financial advisor are interested in working with one in the future.

In addition, TDF users who do not now work with a financial advisor were more likely than the average investor to state that working with a financial advisor would cause them to experience the following positive outcomes (see Figure 10):

- 70 percent said they would feel more confident about investing for retirement
- 74 percent stated they would be encouraged to address other key retirement decisions
- 72 percent shared they would be more confident about their ability to retire when they want

CONCLUSION AND IMPLICATIONS

This survey reveals key findings about how employees saving in their workplace retirement plans view the role of financial advisors. Our major finding was that retirement investors have a strong desire to work with a financial advisor to help them prepare for retirement. In other words, the human touch still matters when it comes to financial advice.

In the study, retirement investors demonstrated a desire for online delivery of investment advice as well as the human connection and sense of comfort that comes with speaking to a financial advisor. Thus, a strategy that combines advice delivered online and through financial advisors may be best suited to meet these needs.

The findings from our study have the following implications:

Strong interest in financial advisors was observed, but barriers exist. New delivery models can help democratize access to financial advisors so more people can build confidence in their retirement plans.

There is a strong desire among retirement investors for more help with their retirement plans—more than half (54 percent) of retirement investors who do not currently work with a financial advisor stated they were interested in working with a financial advisor in the future.

Yet, barriers exist. For example, the biggest barrier is that retirement investors perceive financial advice to be "too expensive". The second stumbling block is investors' belief that their portfolio balance might be deemed too low to attract interest from financial advisors.

Companies that provide financial advisory services should find ways to remove these barriers in order to help more people achieve their retirement goals. Financial advisors who leverage technology can address both of these barriers since scalable technology can make it feasible to provide low cost advice to investors with modest assets.

Democratizing access to financial advice can result in important benefits. Our survey showed that most retirement investors (60 percent) who are not currently working with a financial advisor believe that working with one will help them improve their confidence about investing for retirement.

Regulatory focus on a fiduciary standard is well placed; the vast majority of retirement investors believe it is important to have a financial advisor who is legally required to put their clients' best interest first.

There is an increased regulatory focus on the importance of investment advisors who adhere to a fiduciary standard of care with their clients' retirement savings. This dovetails with our survey finding that 87 percent of retirement investors stated that it is very or somewhat important to work with a financial advisor who is legally required to act in their clients' best interest. Again, technology can play a role in helping more financial advisors serve as fiduciaries while continuing to help clients with modest assets.

While we do not yet know the outcome of the proposed new regulation as of the publication date of this report, we know that many companies like ours will continue to embrace our fiduciary role and provide investment advice in the best interest of their clients. We hope that a new fiduciary rule will encourage more financial advisors to find ways to also serve as fiduciaries.

It is important to provide advice on retirement and other financial topics.

We found that interest among retirement investors for advice spanned retirement as well as other financial topics. Various sub-groups in the study had interests in financial topics beyond retirement. For example, interest in getting advice on addressing debt and budgeting was especially strong among younger investors and those with lower incomes, while wealthier investors were more interested in determining how to convert their savings into retirement income.

Some groups—especially those that are not working with a financial advisor—would like to get advice on financial topics that can help them achieve their financial wellness goals, as well as retirement goals. This is an important topic to consider for employers who are in a position to facilitate availability of financial advice and advisors to their employees.

TDF users have a high interest in receiving help from financial advisors.

TDFs have been a fast growing investment product since the passage of the Pension Protection Act in 2006, which made it possible for employers to automatically enroll their employees into TDFs. TDFs were generally intended to be a "one-stop" investment product in which investors were expected to invest all their retirement assets and not have the need for financial advisors. Yet we found that a large portion (59 percent) of TDF users who are not currently working with a financial advisor showed interest in working with one in the future.

This is good news because in a previous study by Financial Engines entitled "Help in Defined Contribution Plans" we found that the majority of TDF users were not using their TDFs as intended by holding only part of their retirement assets in their TDF.[1] Most of these partial-TDF users also had inappropriate risk levels and lower returns compared to those who either used their TDF correctly or received advice through a managed account. If more TDF users were able to get high-quality financial advice they could potentially be guided to use their TDF correctly.

[1] Help in Defined Contribution Plans: 2006 through 2012 (Sunnyvale CA: Financial Engines, 2014), p. 30, 38 http://corp.financialengines.com/employers/FinancialEngines-2014-Help-Report.pdf.

DEFINITIONS

Do-it-for-Me Investors (or Delegators): A delegator is an investor who described their preferred approach to managing their investments as closer to "do it for me" than to "do it myself."

Do-it-Myself Investors: A "do-it-yourself" investor is one who described their preferred approach to investment management as closer to "do it myself."

Target Date Funds (TDF): A TDF is an investment option available to investors. A TDF is an investment fund that includes a diversified mix of investments that adjust automatically based on your age and the target retirement date or year. TDFs are generally intended to be a "one-stop" investment product, with a participant's entire portfolio invested in a single TDF.

TDF user: A TDF user is a retirement investor who has chosen to put at least a portion of their workplace retirement assets into a TDF.

Partial TDF user: A partial-TDF user is a retirement investor who has allocated greater than 0% and less than 90% of their workplace retirement assets to a TDF.

Online Advisory Service: An advisory service accessed only online that utilizes computerized investment models or algorithms to provide automated retirement and investment advice to each of its clients. An investor can provide information about their age, financial goals, assets, investment risk tolerance and other information so that the investment advice may be personalized for them.

Integrated Advisory Service: An integrated advisory service is an online advisory service (see above) that also provides access to professional financial advisors whom investors may call for guidance.

About Financial Engines

Financial Engines is America's largest independent investment advisor. We help people make the most of their retirement assets by providing professional investment management and advice. Headquartered in Sunnyvale, CA, Financial Engines was co-founded in 1996 by Nobel Prize-winning economist Bill Sharpe. Today, we offer retirement help to more than nine million employees across 600+ companies nationwide (including 144 of the Fortune 500). Our investment methodology, combined with powerful online services, dedicated advisor center and personal attention allow us to help more Americans get on the path to a secure retirement.

financial engines®

1050 Enterprise Way, 3rd Floor
Sunnyvale, CA 94089

www.financialengines.com

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