CLOSING THE GAP:

Integrating 401(k)s into holistic retirement planning for financial security

Pontera

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Executive Summary:
The 401(k) advice gap

Retirement planning is one of life's most complex financial decisions. Decades of economic and regulatory shifts have led Americans to rely on employer-sponsored 401(k) plans to fund their retirement. But 401(k)s are only part of their financial picture. To achieve financial security, Americans need 401(k)s to fit seamlessly into their holistic retirement planning.

The challenge lies in a structural gap between 401(k)s and other assets: **401(k)s are "*held away*,"** because the employer, not the individual, chooses the financial institution that holds their 401(k). As a result, 401(k)s are difficult to integrate into broader retirement planning, complicating long-term financial security.

To close this gap, policymakers and the financial industry must work together to bring retirement planning deeper into the Defined Contribution (DC) ecosystem. This paper examines the structure and history of DC plans, reviews barriers that hinder holistic financial planning, explores the growing demand for personalized advice in retirement accounts, and highlights technology solutions that enable individuals to integrate 401(k)s into their holistic financial planning—to the benefit of retirement savers everywhere.

401(k)s: A key pillar of retirement savings

For much of the 20th century, Defined Benefit (DB) pensions served as the primary source of retirement income for many American workers, offering guaranteed payouts based on years of service and salary history.[1] The 1974 Employee Retirement Income Security Act (ERISA) formalized the regulatory framework for employer-sponsored retirement plans.[2] Employers' wanting to shed the responsibility of funding and managing pension liabilities led to a shift toward DC plans like 401(k)s.

By the 1990s, DC plans gained prominence due to economic and regulatory factors such as cost predictability for employers, changing workforce dynamics, and privatizing legislation. As a result, 401(k)s have become a key source of wealth-building in America. As of 2022, the median American family with retirement accounts holds nearly half their net worth in retirement savings.[3]

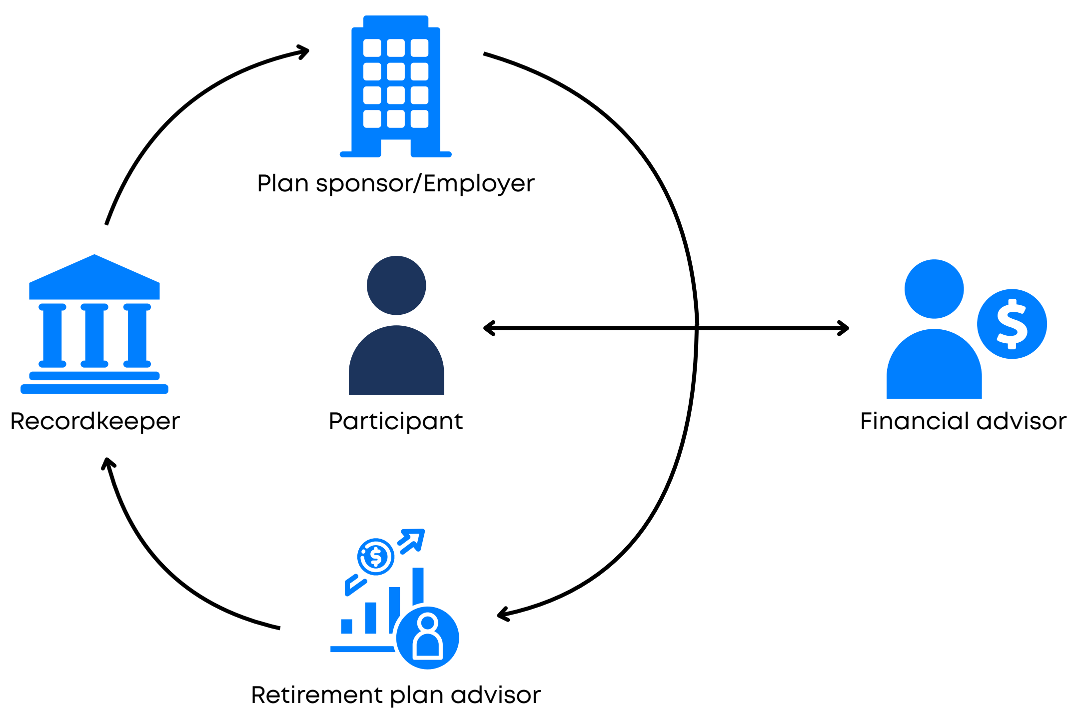
Key stakeholders of Defined Contribution retirement system

Several parties play key roles in setting up Defined Contribution plans and supporting individuals' retirement outcomes:

- **Plan sponsors, or employers:** Establish retirement plans and may even contribute to employee accounts, focusing on attracting and retaining talent while ensuring compliance with regulatory standards.
- **Participants, or employees:** Contribute to their retirement accounts and select from investment options provided by the plan.
- **Recordkeepers:** Manage the administrative aspects of the plans, maintain participant records, and provide investment options and tools to facilitate informed decision-making. Some recordkeepers are also custodians holding plan assets.
- **Retirement plan advisors or consultants:** Construct investment menus and oversee the plans and compliance as a service provider for the plan sponsor.
- **Financial advisors:** Entities outside of the plan that offer personalized advice to help their clients who may participate in 401(k) plans.

While each of these stakeholders help individuals prepare for retirement, their roles are not always synchronized. *(See Figure 1.)* For example, financial advisors often do not have a relationship with the plan sponsor or 401(k) provider that administers the plans in which their clients participate. This lack of coordination can leave participants with splintered financial experiences, at risk of being unprepared to retire.

Figure 1



Growing demand for 401(k) advice

Over the past decade, the value of defined contribution (DC) accounts has climbed nearly 30%. In 2013, private-sector DC assets totaled $6.3 trillion, rising to $8.1 trillion by 2022.[4] As of September 2024, 401(k) plans alone held $8.9 trillion in assets in more than 710,000 plans, with 70 million active participants.[5] Additionally, the number of 401(k) millionaires reached a record high by the end of 2024.[6]

As 401(k) plans evolve to offer more types of investments, financial planning has become more complex. Instead of saving pre-tax money into target-date funds, then rolling out into an IRA at 59 ½, participants increasingly make complex decisions about tax-deferred contributions, asset classes in their investments, and retirement income strategies. In fact, according to the Pontera 401(k) Literacy Survey, almost 60% of Americans feel overwhelmed with the plan information in their retirement account, and half feel confused about the options offered to them.[7]

Some decisions participants must make include:

- **Contribution amounts:** Participants must determine how much of their income to contribute, balancing immediate needs with long-term goals.
- **Pre-tax vs. Roth contributions:** Choosing between pre-tax and Roth 401(k) options introduces a layer of tax planning that individuals may not be equipped to determine on their own.
- **Employer match optimization:** Many participants fail to contribute enough to receive the full employer match—essentially leaving free money on the table— but match formulas can be confusing or vary by plan.
- **Student loan repayment:** With new SECURE 2.0 provisions, employers can now match student loan payments with 401(k) contributions.[8] This introduces new planning decisions for debt-burdened employees.
- **Private equity and alternative investments**: The Department of Labor's 2020 guidance permits private equity exposure in target-date funds.[9] While these assets offer diversification, they introduce risks like illiquidity and complex fee structures that require more investor education.
- **Collective Investment Trusts (CITs)**: CITs are increasingly replacing mutual funds in plans due to lower costs and flexible structures. However, they lack the transparency and regulatory oversight of mutual funds, which can make them harder for participants to evaluate.
- **Real estate and other new asset classes**: Alternatives like real estate and infrastructure are increasingly included in target-date or custom portfolios, requiring a deeper understanding of risk-return profiles.
- **Lifetime income solutions**: Products like annuities are gaining traction as sponsors seek to provide guaranteed income in retirement. According to Fidelity, 65% of participants want guaranteed income options, and 81% of plan sponsors agree they should offer them.[10] Yet, these solutions can be opaque, with complex fees, payout structures, and portability concerns.

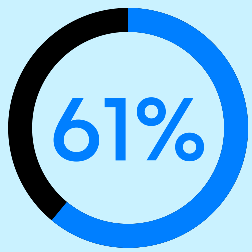
Increasing demand for personalized advice

With 401(k) plans offering more options, participants increasingly want professional help while they're still working and saving. This means demand for in-plan advice is on the rise, especially when the alternative is more expensive investment options outside the plan.

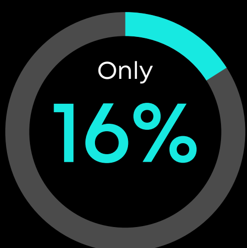
"A benefit of getting help in this way is that you can continue to take advantage of a really well designed plan," Jerry Bonnabeau, Head of DC Partnerships at Pontera, said. "The plan has gone out and negotiated really good fees on investments, covering a lot of asset classes. It's a good and cheap fund lineup that you have access to that you may pay more for outside the plan."

Studies consistently demonstrate that people seek professional guidance within their plans:

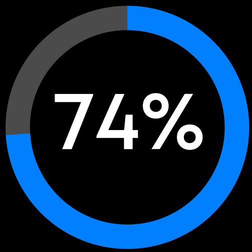
of workers expressed they would be very confident in making the right 401(k) investment decisions with the help of a financial professional, compared to **29%** who felt confident making those decisions on their own.[12]



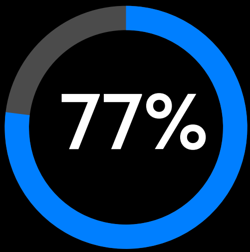
of 401(k) participants feel their financial situation warrants professional advice.[11]



of 401(k) participants without a managed account or financial advisor felt very confident in their retirement investment strategy, compared to **47%** of those using managed accounts.[13]



of Americans want expert advice on their 401(k)s, and



are willing to pay for it.[14]

Addressing this demand is essential for empowering individuals to achieve their retirement goals. As Bonnabeau puts it, "Advice and management has become much more affordable. Why not take advantage of that?"

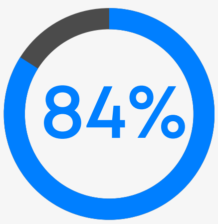
The benefits of professional 401(k) management

Professional and personalized 401(k) management offers significant advantages to both employees and employers, such as maximizing retirement outcomes. In their 2022 whitepaper, Vanguard showed that the value of an advisor can add up to, or even exceed, 3% in additional gains, net of fees, on an annual basis.[15]

Additional benefits include:

Greater peace of mind.

In a regularly fluctuating economy, many people may not have the time to stay abreast of changes.

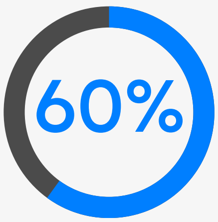


of Americans are much more confident in their financial future with the assistance of a financial advisor.[16]

Increased contributions.

Advised participants contribute 50% more to their retirement accounts than their non-advised counterparts, which strengthens plan health for the employer and increases lasting financial security for the participant.[17]

Less frequent IRA rollovers.



of advisors chose **not** to rollover their 401(k)s due to better plan benefits when using the capability to manage clients' DC accounts.[18]

When DC plans were first introduced, plan sponsors provided participants with basic education about the plan's funds. Digital tools later emerged, offering generic allocation recommendations as the plans grew more complex and participants sought greater guidance.

"Over the years, plan sponsors have become more and more proactive, enhancing the program so that there's more help for those that need it, like adding managed accounts, retirement income solutions, and financial wellness programs at the very end of that spectrum," Bonnabeau said.

"There are a lot of studies out there about workforce management: that people who are stressed about finances don't perform as well, take more sick days, and spend a lot of time at their desk working on their finances."

Bringing 401(k) advice into the 21st century

Because investment advisors tend not to have relationships with their clients' 401(k) custodians, they've historically had limited options for helping their clients. Typically when clients ask their advisors for help with their 401(k), advisors have three options:

- **Do nothing:** Leaving the 401(k) out of the holistic retirement plan can lead to missed opportunities and under-preparedness for retirement.
- **Offer ad-hoc advice:** Advisors would have their clients print out paper statements or email PDFs, and the advisor would review those documents and write down instructions for the client. But the client might not follow through on those instructions, and there's no audit trail or oversight of that recommendation.
- **Log in with credentials:** Many advisors will take their client's username and password to their 401(k) recordkeeper website, and log in that account to make changes. But not all advisors have cybersecurity to protect those sensitive credentials, and there is no audit trail of those recommendations for supervision purposes.

In the early 21st century a tool arrived called data aggregation, which allows advisors to gather information from their clients' accounts with their permission. These tools digitized the manual process of clients bringing in paper statements to their advisors, by getting authorization from the client to take their credentials and retrieve data from their 401(k) account. Advisors have been able to incorporate these tools into their holistic portfolio management tools. But these data aggregation tools have left out a significant step - while they can help the advisor see the client's information, they don't solve the problem of how advisors can actively manage 401(k) assets on behalf of their clients.

Pontera: A FinTech solution

Pontera is one example of a technology solution that addresses the demand for in-plan advice. The technology service allows a participant's preferred financial advisor to actively manage their 401(k), complementing plans' solutions and providing freedom of choice to plan participants.

"We applaud the industry for all the various ways they're helping people. Through the plan you get a whole spectrum of investors of what kind of help they want, and Pontera sits at the far end of that. We're helping people who have an advisor. If you already have someone who is willing to provide help, why shouldn't you be able to get that help?" Bonnabeau said.

Kevin Amoruso, Director of DC Strategic Relationships at Pontera, adds that by offering participants the best advice possible on their 401(k)s, employers will benefit by seeing an uptick in employee productivity and retention.

"Before Pontera, there wasn't a means for an advisor to give holistic financial planning. They might be able to advise properly on assets that are custodied or held at their own firm, but when there are assets held at retirement plans, the insight and visibility into that information is limited. The responsibility would be on the employee to go into the system themselves and make changes," Amoruso said. "With Pontera, advisors can manage the 401(k)—which most often is the biggest asset of that employee— and give holistic advice. Having peace of mind that your trusted advisor manages your accounts holistically helps you sleep better at night."

Closing the gap requires industry coordination and regulatory support

As we look to the future, technology stands at the forefront of unlocking the full potential of the convergence between wealth management and employer-sponsored retirement plans. By integrating 401(k)s into holistic financial planning, we empower individuals to take charge of their financial futures with greater confidence and clarity. This integration is not just a possibility—it's key to ensuring that people are equipped to make informed, proactive decisions that will shape their long-term financial security.

Industry can coordinate on solutions that enable 401(k) participants to bring their own advisor to their assets. This can involve partnering with firms like Pontera to enable consumers to share their information and management with their advisor in a safe and secure manner, with cybersecurity and supervision built-in.

Regulators are increasingly considering expanded investment options within 401(k) plans, to better meet the needs of the investing public. As they do so, it's critical they support 401(k) participant demand for personalized advice. Regulators should support consumer choice and control over their retirement assets, regardless of who their employer chooses to hold their 401(k).

The demand for a more comprehensive approach to retirement planning is undeniable, and the solutions to meet this demand are rapidly emerging. Through personalized advice, cutting-edge technology, regulatory support, and increased industry collaboration, we can transform the retirement planning experience, ensuring that every American has access to the resources and expertise necessary to retire securely and confidently.

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More questions? Reach out to

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