Retirement Income
JOURNAL

An In-Plan Annuity with Three Life Insurers

By Kerry Pechter *Tue, Jun 4, 2024*

Asset manager AllianceBernstein and three life insurers—Jackson National, Lincoln National, and Nationwide—are offering their Secure Income Portfolio deferred variable annuity (with income rider) to plan sponsors as a retirement drawdown tool.

In 2012, then-United Technologies Corporation embarked on a grand retirement income experiment. The giant defense contractor closed its defined benefit pension and began offering participants in its 401(k) defined contribution plan a deferred variable annuity (VA) instead.

The new "in-plan" annuity was built for UTC (now RTX Corp.) by investment company AllianceBernstein (AB), which managed the participant savings. AB engaged three life insurers to share the risks and rewards of underwriting the VA's pension-like retirement income feature.

AB calls the product, "Secure Income Portfolio" or SIP. Despite its complex internal machinery, it worked. In 2014, AB adopted SIP for its own 401(k) plan. In 2019, the Illinois State Universities Retirement System signed on. According to AB, there's currently about $4 billion in the SIP variable annuity.

"This is the most flexible in-plan retirement income solution on the market today," Kevin Hanney told *RIJ*. A former senior director of pension investments at UTC and now consultant at CapitalArts Global, Hanney helped onboard the first version of SIP and Lifetime Income Strategy (LIS), AB's target date fund, at that company.

Now, AB and its life insurance partners—Jackson National, Lincoln National, and Nationwide—are pitching SIP and LIS to the wider plan sponsor market. Like other insurers and asset managers, they're counting on the 2019 and 2022 SECURE Acts to encourage the integration of retirement income solutions into 401(k) plans.

Secure Income Portfolio

SIP works much like any deferred variable annuity with a guaranteed lifetime withdrawal benefit rider, except that the annuity gets funded incrementally instead of at one time. As participants of the same age gradually shift savings from other 401(k) funds to SIP, the life insurers periodically cover those discrete clusters of contributions with guarantees that entitle participants to a certain amount of future income.

SIP is a collective investment trust (CIT) rather than mutual fund. Its assets consist of 50% equities (33% US and 17% non-US) and 50% fixed income (30% core bonds and 20% US Treasury Inflation-Protected Securities). These asset allocations remain fixed, even after participants retire.

When participants retire, the SIP's income rider kicks in. At 65, give or take a few years, retirees can start receiving an income stream—a percentage of the SIP's highest value—that's guaranteed to last as long as the owner is living. The owner may be a single person or couple.

For insurers, annuities with income riders are hard to price. Contract owners can drop the rider at any time. They can move money out of SIP, before or during retirement. SIP's 120 to 129 basis-point fee pays for the management of SIP assets, the floor that the insurer put under the income-generating value of SIP assets, and the cost to the insurer of keeping the money liquid for the participant (as pension law requires).

AB gives plan sponsors two way to adopt SIP. Plans can use SIP as a component inside AB's own Lifetime Income Strategy (LIS) target date fund (TDF) series (into which auto-enrolled participants can be directed). Alternately, plans can offer SIP as a stand-alone option in their investment menu. Plan sponsors can keep their current TDF and still add SIP to the menu.

"This solution is designed for flexible implementation, adapting to plans' diverse needs and preferences—whether it's alongside a plan's existing target-date fund, as an allocation in a managed account or in a 'do-it-yourself' approach, with participants selecting AB's Secure Income Portfolio from their plan's core menu," AB said in a release.

If SIP is inside the AB LIS TDF, money will start moving automatically to the SIP when the participant reaches age 50 or so. If SIP is outside a TDF, participants decide when and how much money to move into—or out of—SIP. Some participants will start contributing to the annuity at age 50. Others might wait until just before they retire.

The sooner participants start putting money in SIP, the sooner they start paying its fee. Lest plan sponsors worry that auto-enrolled participants might someday object to having paid 120 basis points in fees every year for 15 years for a benefit they'll never use, AB gives them sponsors control over SIP start date.

"Plan sponsors can set the buy-in period," said Andrew Stumacher, managing director, Custom DC Solutions at AB, in an email to *RIJ*. "The plan sponsor may only want participants to begin purchasing the guaranteed income component one year prior to retirement so that participants are much less likely to pay fees on an income benefit they did not want."

Multiple annuity providers

The AB program's key distinction is its use of several annuity providers (life insurers) at once. The multi-insurer approach means that plan sponsors aren't putting all their eggs in one insurer's basket. AB assumes "fiduciary" responsibility for vetting and selecting the specific annuity providers. Plan sponsors can remove or replace an insurer if they wish.

Participants, meanwhile, get the benefit of competition. Each quarter, when insurers enter bids on SIP assets, they are effectively offering future retirement income to cohorts of same-age participants for different prices. The bids are driven by current interest rates, market volatility, and the insurers' own desire or capacity for the business.

In an illustration found in AB's website, one hypothetical insurer offered to pay participants 3.9% of a specific tranche of savings for life starting at age 65. A second insurer bid 4.1%. A third bid 4.4%. The bids were added together to produce a weighted average payout at age 65 of 4.2% for a single quarter's block of business.

In retirement, SIP contract owners would receive an annual payout calculated by multiplying the average of all the bids by the highest value of their SIP portfolios. If a participant decides to start receiving income later (or earlier) than age 65, their payout rates would be adjusted up (or down) according to their life expectancy.

Based on the insurers' bids, an AB algorithm metes out a proportionate share of the business—and of the fees—to each participating insurer. In the hypothetical scenario above, the insurers who bid 3.9% were awarded 26% of the quarterly tranche, the bidder of 4.1% got 32%, and the bidder of 4.4% got 42%. The auctions occur every quarter.

A competitive, pre-retirement bidding process allows participants to "dollar-cost average" their way into an annuity. "They're buying a little bit of income at a time over a multi-year period. They're not waiting to make a single big purchase, which could happen at an inopportune time or right after a down market," Stumacher said.

The bidding process also lets the life insurers manage their costs under the threat of unpredictable market conditions. If the insurers' cost of writing SIP guarantees rises—because of interest rate changes or market volatility—the insurers can't pass the cost along to the plans; SIP fees are fixed at 120 to 129 basis points. Within limits imposed by the competitive bidding process, the insurers can share the changes in their own costs with participants by raising or lowering their bids.