BlackRock Makes a Bundle (with Annuities)

By Kerry Pechter *Thu, May 28, 2020*

BlackRock, the giant asset manager, is adding a lifetime income dimension to its LifePath target date funds by partnering with Brighthouse, Equitable and Voya on a service that will help 401(k) participants buy individual immediate annuities at retirement.

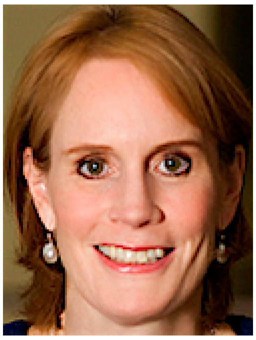
BlackRock, the $7.43 trillion asset manager, is bundling an optional income annuity with its LifePath target date funds (TDFs). With Brighthouse Financial and Equitable as the first annuity providers and Voya as one potential recordkeeper, it aims to offer plan sponsors a complete pension-like solution for their participants.

"We've brought together all the necessary players in the ecosystem to provide participants with an all-in-one solution," a BlackRock spokesperson told *RIJ* this week.

The new program is called **LifePath Paycheck**. BlackRock, which manages $1.1 trillion in DC assets, told *RIJ* that it's currently talking with specific plan sponsors about offering LifePath Paycheck to participants.

Here's how the program will work, according to BlackRock's website:

- A participant in an employer-sponsored retirement plan invests in (or is defaulted into) an age-appropriate LifePath TDF, which uses the standard TDF allocation strategy of starting with a high equity allocation and gradually shifting toward 60% fixed income by the time the participant reaches age 55.
- At age 55, part of the participant's bond allocation begins moving into a group annuity contract (presumably underwritten by Equitable or Brighthouse). The gradual transfer process, which takes five to 10 years depending on when the employee retires, mitigates interest rate risk. Eventually it amounts to about 30% of the employee's TDF assets.
- When participants retire (at age 59½ or later), BlackRock makes it easy for them to use the group annuity assets to buy an individual income annuity (single or joint, life-only or cash refund) out of plan. (BlackRock selects the allocation to each insurer, not the individual, and is expected to expand the number of insurers over time.) The employee's remaining assets will stay in the 401(k) plan in a 50% stocks, 50% bonds LifePath PayCheck Retirement Fund. An important goal here is to retain assets that might otherwise be rolled over to a brokerage IRA.



Anne Ackerley

“We know that if we ask someone if they would like guaranteed income, they say yes. This removes the complication of having to find an insurance company, figuring how much to annuitize and when to buy,” said Anne Ackerley, head of BlackRock’s retirement group, in a release. “All of that has been decided for people.”

It was only a matter of time before new methods to turn 401(k) plan assets into lifetime income hit the market. A provision of the SECURE Act of 2018 reduced a plan sponsor’s potential liability for partnering with an annuity provider that later goes bankrupt—thus relieving one of the anxieties that prevent 401(k) plan sponsors from offering annuities as a plan option.

With LifePath Paycheck, BlackRock will serve as the fiduciary in choosing the annuity providers. There’s an in-plan group annuity inside the LifePath TDF that acts as a bridge to the individual income annuity. The individual annuity—the essential new piece—sits outside the plan as a rollover option.

BlackRock is also taking advantage of the fact that TDFs are QDIAs (qualified default investment alternatives); participants can be auto-enrolled or defaulted into TDFs—and into retirement solutions that are attached to them, such as Prudential’s IncomeFlex GLWB (guaranteed lifetime withdrawal benefit).

SponsorMatch was the seed

BlackRock was looking for a solution like Paycheck. For all its strength as an asset manager, BlackRock was at risk of being left out of the retirement income business as Boomers migrate into retirement. Its **CoRI** wizard, a calculator that expressed the cost of retirement income, has educational value, but is not a financial product per se.

Larry Fink

BlackRock doesn't have a life insurance subsidiary, so it couldn't follow the example of TDF competitors like Empower and Prudential, both of which have been able to add income-generating "guaranteed lifetime withdrawal benefits" to their TDFs. Even so, BlackRock CEO Larry Fink had tasked his executives with enhancing BlackRock's presence into the retirement income space.

"Retirement income must be part of DC's next evolution," says BlackRock's website. "Fortunately, many of the plan design tools and best practices used by today's highly evolved DC system can help drive adoption of lifetime income solutions by giving participants a sense of ownership of their growing income stream."

Within BlackRock's institutional memory lay the seeds of a retirement income product. In 2008, MetLife (which spun Brighthouse Financial off as an independent company in 2017) and Barclays Global Investors (acquired by BlackRock in 2009) co-created "SponsorMatch."

SponsorMatch involved ongoing contributions to an optional income annuity. But the two solutions are not identical. SponsorMatch segregated employee contributions and employer matching contributions, with the latter going into the income sleeve. At retirement, participants could choose whether to take the contents of the sleeve as a lump sum or an annuity.

Like SponsorMatch, Paycheck is optional. At no point does it limit participants' access to their money or prevent them from choosing lump sum distributions at retirement. It mainly simplifies the purchase of an annuity for TDF-owning participants, and it reduces the volatility of the participant's pre-annuity account during the period leading up to the annuity purchase.

Participants would be expected to resist a mandatory annuity, but there's a cost to letting people keep all their options open. There's no *illiquidity premium*. Annuities are able to offer guaranteed rates and protection from risk only when the life insurer can sequester your money and/or pool it with other people's money.

With Paycheck, participants don't appear to get an illiquidity benefit until or unless they buy an (illiquid) income annuity from Brighthouse or Equitable. It's interesting, nonetheless, that participants pay no fee (other than the TDF fee) for Paycheck. With the competing TDF/GLWB model, the TDF provider might charge an annual GLWB fee of perhaps 0.3% of the entire TDF value, starting at age 45 or so. A participant might pay the fee for decades and never receive a tangible benefit.

The main advantage of Paycheck might be convenience. It facilitates the often-complex process of learning about, choosing and buying an income annuity. That may also be why BlackRock is touting its use of Microsoft's multi-purpose cloud-based Azure technology as the platform for Paycheck. Azure will presumably facilitate integration with the life insurers, recordkeepers, and potentially other third-parties.

Solutions like LifePath Paycheck are likely to get the most traction at large companies. The people who allow themselves to be passively defaulted into a TDF may not be those with the biggest balances. And it will take a big TDF balance to buy a LifePath Paycheck annuity that generates more than a few hundred dollars of monthly income in retirement.

For the record

As of the end of 2019, according to BlackRock's most recent **10-K filing**, the firm reported pension plan assets of which $2.6 trillion in long-term institutional AUM (assets under management) for defined benefit and defined contribution plans and other pension plans for corporations, governments and unions.

Defined contribution represented $1.1 trillion of BlackRock's total pension AUM. Its defined contribution channel had $16.7 billion of long-term net inflows for the year, driven by continued demand for the LifePath target-date suite. Multi-asset strategies, including the LifePath target-date suite, had net inflows of $28.8 billion.

BlackRock's target date and target risk products grew 11% organically in 2019, with net inflows of $23.5 billion. Institutional investors represented 90% of target date and target risk AUM, with defined contribution plans representing 84% of AUM. Flows were driven by defined contribution investments in the LifePath offerings, which consist mainly of index funds.