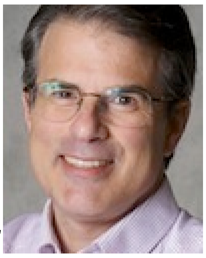
BlackRock, Microsoft & Retirement: What’s Up?

By Kerry Pechter *Thu, Dec 20, 2018*

BlackRock and Microsoft's cryptic announcement of a new partnership on a platform for plan participants has puzzled industry executives, who shared their views 'on background' with RIJ. (Pictured: A rendering of the future neighborhood of BlackRock's new headquarters in New York.)

Microsoft and BlackRock, have formed a partnership “to make it easier for people to both save for retirement and achieve the lifetime income they need through their employers’ workplace savings plan,” according to a **press release** the two companies issued December 13.

That sounds significant. An global tech firm and an global asset management firm are strategizing to analyze and manage some of the trillions of dollars of Boomer savings that reside in 401(k) funds. The *Wall Street Journal* first elaborated on the deal.

The two companies didn’t exactly commit themselves to the guaranteed lifetime income business, however. According to a report in Bank Investment Consultant that cited the *Journal* article,the envisioned Microsoft-BlackRock platform will offer “target-date funds and other investments like annuities.” “Like,” in this case, could easily mean “similar to” rather than “such as.”

BlackRock didn’t seem to announce anything very new. According to the press release the firm “intends to offer the platform” to retirement plan participants “in connection with next generation investment products that it will design and manage.” It would give participants “more regular engagement with their retirement assets so they have a clearer picture of how their contributions today will translate to long-term retirement income.”

BlackRock already is known to do those things. It offers **LifePath** dynamically managed target date funds to plan sponsors, it offers the “**LifePath Spending Tool**” that estimates how much a retiree can spend every year, and it offers the **CoRI** tool. This tool help pre-retirees figure out how much safe income (based on current bond yields rather than annuity payout rates), their savings can produce.

* * *

The newest news here may be the entry of Microsoft into the retirement space. And the catchiest part may be the *Ex Machina* sexiness that any mention of artificial intelligence (AI) implies. "Seems like [BlackRock and Microsoft are] hoping to get ahead of the AI curve," one trade group executive told me.

When I observed that neither BlackRock nor Microsoft are 401(k) recordkeepers, and don't have direct access to a mountain of big data, the executive said: "There are lots of ways to gather/access big data. The bigger question is what to do with it once you have access, which is where Microsoft comes in."

The announcement was "short on details, by design," said a DCIO executive. "This is more about positioning. It's not about making a big bet. BlackRock has been putting a bet on every chip, but this is not about making a big new bet." He was referring to BlackRock's bets on fintech with the purchase of **Future Advisor** and stake in **Acorns**, on data analysis with the creation of **Aladdin**, on institutional investments with LifePath TDFs, and on registered investment advisors with its recent purchase of 5% of **Envestnet**. BlackRock also has a new deal to integrate its **iRetire** income support service with eMoneyAdvisor, the Fidelity-owned planning software firm.

"The press release put 'retirement income' pretty strong," he added. "The moral imperative is always hard on income. But I don't believe this is a reincarnation of SponsorMatch." That was a reference to an aborted 2007 partnership between MetLife and Barclays Global Investors (purchased by BlackRock for $13.5 billion in June 2009) to offer plan participants an option that combined investments with incremental purchases of future guaranteed income.

Another source was more positive. He told *RIJ* that BlackRock CEO Larry Fink is serious about partnering with an insurance company on an investment product, such as BlackRock's target date funds, with a lifetime income benefit and piloting it in the next year or two with a plan sponsor.

BlackRock, according to that version of the story, wants to persuade at least one life insurer that its future in the defined contribution space lies in putting insurance inside a BlackRock investment wrapper, so to speak, where the insurance part isn't so visible and scary.

"The best way for the insurance industry to be successful is for the asset management industry to see [its products] as another asset class. All of a sudden, you're no longer on the other side of the fence. The advisor will see [annuities] as a natural component in the portfolio. Then the opportunity for you to grow will be ten-fold. If insurance folks are smart, like the Alliance for Lifetime Income seems to be, they will be the first in line to support the mentality we're starting to see from BlackRock."

That might be overestimating both the enthusiasm of the life insurers for the defined contribution space, where Prudential's IncomeFlex has gotten little penetration, as well as their appetite and capacity for a lot of new equity-linked risk. While the big variable annuity issuers support the Alliance for Lifetime Income's public relations effort, the variable-annuity-with-lifetime-income-rider business has been shrinking since 2014.

Others are not convinced that BlackRock wants to take on the complexities of retirement risk mitigation. "On first pass, it looks RINO—retirement in name only—a defined contribution savings and investment (for retirement) play, not a process to manage risk exposures in retirement," said Francois Gadenne, chairman and executive director of the **Curve Triangle & Rectangle Institute** and a long-time observer of the retirement industry landscape.

"I think BlackRock's deal with Microsoft is similar to [Ric] Edelman's deal with Financial Engines as well as Envestnet's deal with Yodlee. All three cases are efforts to pair a monetization engine with client-data fuel. The next question becomes: Who in the financial industry will do the matching deals with Facebook, Apple, Netflix, Google, etc.?"

An executive acquainted with the challenges of introducing income solutions into the define contribution space told *RIJ*, "The news release doesn't say much beyond the fact that Fink and Nadella met and agree that there's a retirement crisis and that by using investments and technology they might be able to solve for it. But there's a bunch of tools out there already; the issue isn't tools but utilization.

"Also, BlackRock doesn't have a retirement platform, so I don't know how they can get access to participants. If they want to partner with someone, it would have been better to partner with Intuit, which owns **Mint.com**. Microsoft got rid of Microsoft Money [in 2009]; if it wanted data it wouldn't have done that. I'm not sure what the point of the press release was. Maybe just to cause distraction."

*   *   *

BlackRock's announcement could also be interpreted as a cry for help. The big DCIO [defined contribution investment-only] mutual fund and ETF firms are at risk of being marginalized out of the $27 trillion retirement income space. Their skills are getting automated and their fees are being compressed. In contrast to Vanguard, Fidelity and other full-service plan providers, they are razor blade makers without their own razor.

But, while they fit well into the pre-retirement space, they don't line up as well against the post-retirement challenge. That's because the asset managers are by nature risk sellers, and retirees, whether they know it or not, are inherent risk sellers too. They need a counterparty that will buy some of their risk.

The beauty of the asset management business is that the customer owns the risk. (This is not true for asset managers who also invest on their own behalf; that's another business.) The asset managers can offer retirees products that diversify risks (balanced mutual funds), that carry smaller risks (bonds and bond ladders), that hedge risks (managed-volatility, dynamically-allocated funds), and that charge almost nothing for risk (exchange-traded funds).

But asset managers don't *buy* risk. They *can't* buy risk; it's not how they make money. That hinders them in the retirement income space, where millions of mass-affluent retirees arguably need to sell some of their longevity risk. (The asset managers have, it's true, entered the longevity game via variable annuities with living benefits. But the life insurers themselves have retreated from that game, preferring to wrap income riders around less volatile indexed annuities.)

Life insurers, on the other hand, are longevity risk buyers. They match up well with longevity risk sellers. Instead of upside potential, they offer mortality credits. So far, it's mainly the mutual companies with career agent forces, like New York Life, that have a big appetite for the risk inherent in plain vanilla income annuities.

That reflects a difference in business models. Publicly held life insurers must sell products with bigger profit margins than conventional income annuities generate. Those same insurers also tend to distribute through third-parties, most of whom don't earn enough on the sale of life annuities to take a big interest in selling them. But that's fodder for another day.

In short, retirees need long-term counterparties who buy or share longevity risk. The DCIO asset managers like to date their clients, and even go steady. But they shy away from deep commitments. They’re not the marrying kind. The life insurers are better equipped to form long-term relationships with Boomers. Ironically, they have an even tougher time getting into the defined contribution space than asset managers do.