Retirement Income
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BlackRock relaunches its “LifePath Paycheck” retirement income tool

By Kerry Pechter *Wed, May 1, 2024*

'DCIO' asset managers like BlackRock must find ways to retain participant assets post-retirement and enrich the value of their target date funds. They must also make themselves relevant to the retirement income discussion. Mark Fortier comments.

BlackRock, which manages $1 trillion in assets and is one of the leading distributors of target date funds (TDFs) through defined contribution (DC) retirement plans, has relaunched its LifePath Paycheck program. The program would make it easy for plan participants to buy income annuities with part of their DC savings while leaving the balance in the plan and in BlackRock funds.

BlackRock is partnering with two life/annuity companies, Equitable and Brighthouse, to provide annuities to the program. Before retirement, participants would contribute to a group deferred annuity. At retirement, participants would have an opportunity to buy single-premium immediate income annuities (SPIAs). To buy the SPIA, participants would have to make an active decision to move part of their plan assets to a rollover IRA and then buy the annuity with their IRA money.

So far, 14 DC plan sponsors, with a combined $27 billion in target date fund (TDF) assets, intend to offer LifePath Paycheck as an income option for some 500,000 employees, a BlackRock release said. Avangrid, Adventist HealthCare Retirement Plans, and Tennessee Valley Authority Retirement System have signed on to place their auto-enrolled participants into the product.

Since TDFs, along with managed accounts, are “qualified default investment alternatives” under the Pension Protection Act of 2006, the contributions of employees who have been “auto-enrolled” into a 401(k) plan can be automatically invested in their plan’s TDFs.

Here’s how LifePath Paycheck works, according to BlackRock:

- When participants who have invested in a BlackRock target date fund reach age 55, a portion of their investment portfolio starts flowing into a new asset class called lifetime income, which provides participants with the option to purchase a lifetime income stream in retirement.
- Beginning at age 59½, those participants of an eligible retirement plan can, if they choose, redeem their investment in LifePath Paycheck and withdraw a portion of their retirement plan savings—about 30% of their LifePath Paycheck investment at age 65—and purchase annuities that provide lifetime income from insurers selected by

BlackRock.
- The rest of their savings stays in the plan. If they don’t make a decision on how to invest the money, it will be invested for them in a liquid portfolio of about 50% stocks and 50% bonds.

It was not immediately clear how the two insurers, Equitable and Brighthouse, would share the flow of contributions to the group deferred annuities or the flow of IRA assets into the SPIAs. It was also unclear who would educate participants regarding their decision to annuitize part of their plan savings or not.

Employers could default participants into LifePath TDFs, and into the deferred annuity inside the TDF, but no one could default them into actually buying an irrevocable annuity. Participants would have to make an active decision to do that.

LifePath isn’t new. Its first incarnation was SponsorMatch, a savings-to-income option developed by Barclays Global Investors (BGI) and MetLife before the Great Financial Crisis of 2008. At that time, insurers Prudential, The Hartford, John Hancock, and Great-West were all developing or launching savings-to-income programs, primarily using variable annuities with lifetime withdrawal riders.

BlackRock bought BGI in 2009 and introduced the LifePath brand in 2010. MetLife spun off its retail annuity business into Brighthouse Financial in 2017.

In 2013, BlackRock introduced its “CoRI” concept. This educational tool for plan participants showed how much annuity income their bond investments would buy at retirement. It included an index that tracked the cost today of $1 of inflation-adjusted lifetime income, starting when the participant reached age 65. The CoRI concept was difficult to communicate, however, and faded from view.

In 2020, BlackRock LifePath Paycheck was officially born. Like the current offering, it involved a target date fund whose assets could eventually be converted to an income annuity. Brighthouse Financial and Equitable were the designated underwriters of the annuity. Voya would be the recordkeeper. That program has now been relaunched.

As the Boomer retirement wave rolls through the financial services environment, asset managers like BlackRock have trouble controlling their own destinies. They distribute target date funds through retirement plans, but they are DCIO (defined contribution investment only) companies. They don’t administer plans or offer rollover IRAs to retirees from their plans (as Vanguard, Fidelity and TIAA do). They stand to lose assets when participants retire.

“Everybody likes Rip van Winkle when he’s asleep in the QDIA. But Rip wakes up one day and says, ‘I have to do something with this money,’” said Mark Fortier. Fortier helped the fund manager AllianceBernstein collaborate with three life insurers to integrate variable deferred annuities into the 401(k) plan at United Technologies (now RTX Corp) in 2012.

DCIO asset managers must find ways to retain participant assets post-retirement and enrich the value of their TDFs, whose fees have shrunk under pressure from participant lawsuits. At the same time, they must make themselves relevant to the retirement income discussion.

That’s especially true for BlackRock, whose LifePath TDFs are a $250 billion business. “BlackRock’s main purpose is to hold onto its franchise in TDFs,” Fortier told *RIJ*. They’re trying to counteract Vanguard and Fidelity and break their duopoly on large retirement plans. Like everybody in that space, they’re also fighting against fee compression. Fund fees are down to single digits.” That is, BlackRock might be able to charge 10 or 15 basis point more for a TDF with an annuity or income feature than for a plain vanilla TDF. “People are doing everything they can to squeeze more juice out of that lemon,” Fortier said.

By putting group deferred annuities in their TDFs and encouraging participants to buy income annuities in rollover IRAs, however, BlackRock (and other asset managers in similar positions) risk sending a mixed message to participants. They want participants to roll out about 30% of their money from the plan to buy an annuity, but leave 70% of their savings in the plan and in BlackRock funds.

Asset retention is BlackRock’s primary goal, Fortier said. “They’re not measuring success in terms of conversions to annuities,” he told *RIJ*. “This is about maintaining dominance in the mutual fund world, and slowing the downward spiral on fees.” The biggest obstacle to incorporating income solutions into qualified plans lies beyond the control of asset managers, he said. “They think these are product problems. But they’re advice and education problems.”

Michelle Richter, executive director of the Institutional Retirement Income Council, released this comment on BlackRock’s LifePath Paycheck:

“The income stream option built into BlackRock’s LifePath strategies is a material product design advancement for the field of in-plan retirement income, which is frequently more cost-effective than are retail income solutions. Target date funds could prove a way to increase retirement income accessibility for America’s retirement savers; from there, making annuitization optional within the design prevents additional costs or liquidity changes for those who do not expressly choose it. The design is clever, and is entirely consistent with BlackRock’s record of introducing in-plan income solutions seeking to weave together traditional investment with insurance approaches.”