Breaking News

By Editorial Staff *Fri, Jun 3, 2022*

'Constance,' a CDA, gains new investment choices; Envestnet acquires 401kplans.com; Putnam repositions its target-date series for ESG; NIRS says retirement tax breaks are unfair; Alternatives can hedge inflation risk: Cerulli.

'Constance,' a CDA, gains new investment choices

RetireOne, the leading platform for fee-based insurance solutions, and Midland National Life Insurance Company, have enhanced Constance—their zero-commission portfolio income insurance solution for Registered Investment Advisors (RIAs) and their clients.

Launched in October of 2021, Constance is a contingent deferred annuity or CDA. It allows RIAs to add a living benefit rider to client brokerage accounts, IRAs, or Roth IRAs. The rider works like the lifetime withdrawal benefit on a variable annuity, which involves a guarantee that an insurance company will provide income in an investor's later years, if needed and if certain spending limits are obeyed.

This week, RetireOne and Midland National, part of Sammons Financial Group, announced the addition of 255 mutual funds, exchange-traded funds (ETFs), and model portfolios to the lineup of investment options that can be covered by the Constance guarantee.

New fund managers include Cambria Investments, Fidelity Investments, Inspire ETFs, Invesco, iShares, Nuveen and Schwab Asset Management. Constance now offers advisers a choice of 390 total funds. Additionally, 60 new model portfolios have been added to the lineup, including strategies from American Funds, Delaware Funds, Dimensional Fund Advisors, Dynamic Wealth Management, Horizon Investments, Inspire ETFs, and WealthCare Capital Management.

Constance certificate fees have also been reduced to lower the cost of insurance. In addition to new investment options and reduced certificate fees, RetireOne said it has developed a new Portfolio Builder tool to help RIAs construct portfolios of publicly traded mutual funds and ETFs covered by Constance.

Serving over 1,000 RIAs and fee-based advisors since 2011, RetireOne, an independent platform for fee-based insurance solutions has served RIAs and fee-based advisers since 2011. It currently services over $1.5 billion of retirement savings and income investments.

Midland National has an A+ (Superior) financial strength rating from A.M. Best, the third-party independent reporting and rating company. This rating is the second highest out of 15 categories and was affirmed by A.M. Best for Midland National.

Envestnet acquires 401kplans.com

Envestnet has acquired 401kplans.com, a digital 401(k) retirement plan marketplace that facilitates retirement plan distribution and due diligence processes for financial advisors and third-party administrators. The acquisition is part of Envestnet's "Intelligent Financial. Life" initiative. Terms of the deal were not disclosed.

The 401(k) plan sponsors and their plan advisers who work with 401kplans.com can employ Envestnet's outsourced 3(38) or 3(21) fiduciary services to guide their investment selection process and their plan monitoring activities.

The 401kplans.com digital marketplace, available online and via mobile app, gives plan advisers a documented due diligence process for vetting considering plan providers. The platform eliminates manual proposal requests, quickly compares recordkeepers, and evaluates investment options. The innovative platform has direct integrations with more than 36 plan recordkeepers.

Under founder Scott Buffington, 401kplans.com has grown to nearly 28,000 advisors with accounts on the platform and working relationships with many of the largest broker-dealers. Buffington will join Envestnet as Head of Retirement Sales, reporting to Sean Murray.

Envestnet manages retirement asset data from more than 200,000 retirement plans. The 401kplans.com marketplace complements Envestnet's retirement services strategy to become a major distribution channel for recordkeepers and investment managers.

Putnam repositions its target-date series for ESG

Putnam Investments intends to reposition its Putnam RetirementReady Funds target-date series as the Putnam Sustainable Retirement Funds, employing sustainability-focused or environmental, social and governance (ESG) principles and strategies.

Putnam Sustainable Retirement Funds will offer vintages ranging every five years from 2025 to 2065, along with a maturity fund, and will invest in active exchange-traded funds (ETFs) advised by Putnam. The new ESG-focused target-date series is expected to be available in the coming months.The firm also offers a second target-date series, the Putnam Retirement Advantage suite.

Putnam has been building out its sustainable investing efforts and related investment offerings since 2017. The firm launched two ESG-focused mutual funds a year later and introduced its first sustainable portfolios in an active ETF format in May 2021.

At the end of April 2022, Putnam had $180 billion in assets under management. Putnam has offices in Boston, London, Munich, Tokyo, Singapore, and Sydney.

Retirement tax breaks are unfair: NIRS

Current tax incentives fail to promote adequate retirement security for the middle class, according to “The Missing Middle: How Tax Incentives for Retirement Savings Leave Middle Class Families Behind,” from the National Institute on Retirement Security, a Washington research group.

The **report** considers marginal tax rates, retirement plan participation, and income distribution on retirement saving levels. It also offers potential solutions that could enhance retirement security for middle class families.

The analysis indicates that:

- More than half of the tax breaks for defined contribution (DC) plans and Individual Retirement Accounts (IRAs) go to those in the top 10% by income
- The top 30% of workers by income receive 89% of the present value of tax benefits for DC plans and IRAs

This leaves a “missing middle” because the tax code offers meager benefits for these working Americans to save for retirement, the NIRS said in a release. These middle class workers face rising costs in retirement, often lack retirement plans at their jobs, and need more than just Social Security income in retirement to maintain their standard of living.

The report’s key findings are as follows:

While the progressive nature of the Social Security benefit does much to prevent old-age poverty, the level of income replacement from Social Security falls off far more quickly than private savings function to provide adequate retirement income for middle class workers.

Tax expenditures for various retirement programs are heavily skewed toward high-income earners. This stems from the design of the tax breaks themselves, and from the fact that high-income earners are more likely to participate in employer-provided retirement plans and have the financial resources to save for retirement.

The value of tax incentives for saving is much greater for those at higher income levels, For those at higher income levels who face higher marginal tax rates, the value of tax incentives for saving is much greater. These incentives are weaker for much of the middle class.

Those who are able to invest earlier and at higher levels enjoy a greater advantage from the deferral of taxation on investment gains.

The tax expenditures for retirement saving, oriented around the defined contribution system, give rise to inequities beyond income and wealth. Geographic and racial inequities related to retirement are both exacerbated by the tax incentives for saving.

Solutions to these inequities should focus on increasing participation in the retirement savings system and ensuring working families also receive adequate incentives to save for retirement.

Some potential solutions could focus on building upon Social Security, either through benefit changes or allowing the program to integrate lifetime income options for savers. Reforming the tax expenditures themselves, by eliminating the deduction-based system and replacing it with a refundable credit is another possibility.

Other solutions could focus on increasing access and participation in savings plans, which some states are doing for workers who lack workplace plans, thereby making it easier to participate.

Finally, curbing abuses of the existing system would ensure that the significant sums of federal tax revenue that are dedicated to retirement security are directed at generating retirement income.

Alternatives can hedge inflation risk: Cerulli

Adviser allocations to strategies that protect against inflation and rising interest rates, including alternative investments, are discussed in the latest issue of *The Cerulli Edge–US Monthly Product Trends* for April 2022. Highlights of the report include:

Funds. The market value of mutual fund assets sharply dropped in April 2022 to $18.0 trillion, receding by more than 7% amid the broader market pullback. Since the end of 2021, mutual funds have shed 13.4% of their value.

Exchange-traded funds also shrank, as values dropped 7.3% to $6.5 trillion, a nearly $500 billion loss over the month. Both vehicles suffered outflows during April, with mutual funds losing $78.3 billion and ETFs ceding $12.0 billion.

Inflation hedges. Cerulli expects allocations to the inflation-protected sub-asset class to increase throughout 2022, after receiving only 8% of US taxable fixed income allocations in 2021. For Series I Savings Bonds issued from May 2022 through October 2022, the interest rate is 9.62%.

Investors can purchase only up to $10,000 in I bonds through TreasuryDirect.gov each calendar year, in most cases. But an individual can purchase up to $5,000 in paper I bonds using a federal income tax refund each calendar year.

Private assets. Offering alternative strategies as an inflation hedge continues to increase as an objective—58% of firms cite it as a key objective in 2021, compared to just 21% in 2019.

Asset managers that offer private capital exposures to retail investors will experience stronger tailwinds in the coming years as inflation (and inflation-related interest-rate movements) dampens returns of traditional asset exposures, Cerulli predicted.

In the long term, firms that can offer attractively priced exposures via best-fit structures—along with those that can communicate the benefits of inflation-hedges to advisors and end-investors—will be the most successful, Cerulli said.