Hope, Despair: SPARK Forum Has It All

By Kerry Pechter *Thu, Nov 9, 2017*

At SPARK's retirement conference, Millennium Trust, Paychex and GuidedChoice announced a new workplace IRA plan. Bill Meyer pitched his Social Security-centric planning tool. And BlackRock hinted at new TDFs with a deferred annuity sleeve.

Give President Trump credit for this: There have been no dull retirement industry conferences this fall. By throwing health care policy, retirement policy and tax policy into states of confusion, he has helped boost conference turnout and infused ordinarily dry panel discussions with a blend of hope and despair.

This week, the SPARK Forum, a trade show and retirement industry conference, was held at The Breakers in Palm Beach, FL. SPARK serves the defined contribution recordkeeping community, which includes life insurers, banks, mutual fund companies, third-party administrators, benefits consultants and the information technology vendors that serve them.

There was much political speculation, to be sure. But a bunch of hard news also came out of the conference. Millennium Trust, Paychex and GuidedChoice have introduced a new nationwide workplace IRA program. William Meyer pitched his Social Security-centric income planning tool for plan participants. And BlackRock hinted that it’s been tinkering with a design for target date funds (TDFs) with a deferred annuity sleeve.

Opportunity from mandates

A fairly significant event in the world of small-plan 401(k)s was announced at the conference. Millennium Trust, a Chicago-area firm that custodies orphaned 401(k) accounts as rollover IRAs, Paychex, the $2.3 billion provider of outsourced payroll, benefits and retirement plan services to small companies, and GuidedChoice, the 401(k) and IRA managed account provider, said they plan to offer SIMPLE IRAs to small companies.

The new venture is a response to the wave of activity in more than 20 states to make workplace savings plans available to the millions of U.S. employees who don’t currently have access to one. California and Oregon are even mandating most employers to start offering a plan or to let workers enroll in a state-sponsored Roth IRA program. (In a reversal of Obama administration policy, the Trump administration is thwarting the creation of state-sponsored workplace IRA programs, which some private sector providers regard as unfair competition.)

A SIMPLE (Savings Incentive Match Plan for Employees) IRA differs from, for instance, a traditional IRA, a SEP (Simplified Employee Pension) IRA or a Roth IRA. At $12,500 ($15,500 for those over age 50), the

SIMPLE IRA has a higher limit on tax-deferred contributions than a traditional or SEP-IRA. In contrast to a Roth IRA, contributions to a SIMPLE IRA are taxed on distribution rather than contribution. As in 401(k) plans, SIMPLE IRAs can accept employer matching contributions and employees can be automatically enrolled.

The rationale for the Millennium-Paychex-GuidedChoice partnership is that if small company owners are forced to offer retirement plans, many will prefer to partner with a familiar name like Paychex than to adopt an untested state-run plan. "The state-run programs are driving the conversation," said Ken Burtnick, senior product manager at Paychex. "If the state plans weren't a threat, we'd still be at 'business as usual.'" Paychex, Millennium Trust and GuidedChoice also think they can underprice the state-run plans. They also think they can compete with Vanguard, a direct seller of SIMPLE IRAs.

Optimizing Social Security

Plan sponsors and their advisors, Social Security expert William Meyer told SPARK attendees, should think about offering software to participants that will help them maximize their Social Security benefits and minimize their taxes during retirement. He gave a presentation on the Social Security claiming strategy software that his company licenses.

Meyer and frequent collaborator William Reichenstein are widely recognized experts and authors on Social Security optimization. With respect to maximizing income in retirement and ensuring that savings last for a lifetime, Meyer eschews the conventional wisdom about safe withdrawal rates or life annuities. He also rejects the rule of thumb that retirees should spend down taxable money, tax-deferred money, and Roth IRA money, in that order.

Instead, he focuses on the benefits of delaying Social Security benefits, using Roth IRA conversions where beneficial, and employing dynamically-adjusted, ultra-tax-efficient decumulation strategies that, as he tries to demonstrate in his presentations, will enable retirees to make their money last up to ten years longer and/or save them hundreds of thousands of dollars.

Although his methods implicitly deliver the most savings to the wealthiest retirees, Meyer says his methods will help people across the wealth spectrum. Because his software is user-friendly enough for the typical plan participant, he said, it will give advice-hungry participants an alternative to leaving their plans and rolling over to an advisor-managed IRA. "If you don't provide this kind of service, people are going to leave your plan," Meyer said.

In-plan annuities?

At institutional retirement plan conferences like SPARK, there's always an obligatory discussion on in-plan annuities. The topic keeps coming up because recordkeepers (10 of the 20 largest are owned by insurers) would like to reduce the flow of large accounts out of 401(k) plans to rollover IRAs when employees retire.

"Are We Ready for Income Distribution at Retirement?" was the name of the next-to-last panel discussion at the conference. The three panelists were Doug McIntosh from Prudential Retirement, Stacey Ganina of

BlackRock Defined Contribution Investment Strategy, and Bransby Whitton, a product strategist at PIMCO. The short answer to the question is “No.”

BlackRock, according to Ganina, has been studying the possibility of creating a version of the firm’s LifePath TDF series that includes a multi-premium deferred income annuity sleeve. Before retirement, participants would gradually move part of their money into the annuity and receive lifelong payments at retirement. But the product is still in the design stage. “It’s not on offer yet,” she told *RIJ*.

Prudential Retirement has been selling its Income Flex product for ten years, said McIntosh. It’s essentially a variable annuity with a guaranteed lifetime withdrawal benefit (GLWB), but institutionally priced and tied to a Prudential TDF. Ten years before retirement, TDF investors begin paying 100 basis points for an income guarantee that, if switched on during retirement, would provide income for life with liquidity for emergencies. McIntosh said the product has half the in-plan GLWB market and gains a few new plan sponsor clients per year, but Income Flex so far hasn’t fulfilled its initial promise. The financial crisis may have had something to do with that.

The in-plan annuity concept faces headwinds, and not just because plan sponsors are afraid of getting sued because they picked the wrong life insurance provider. There’s no strong evidence that, except perhaps at Fortune 500 plans, more than a modest percentage of participants leave their companies for retirement—as opposed to leaving for a different job—or that, of those, more than a modest percentages of those who retire have plan balances large enough so that 30% or even 50% would fund a meaningful annuity. In short, there’s no critical mass of participants clamoring for in-plan annuities.

Sizzle switch

The sizzle in the retirement plan business has historically been on the investment side, where selling risk is the agenda. The administrative side of the business, including SPARK’s constituency of technology vendors to the big recordkeepers, has generally been a quieter, less sexy part of the world. It’s a world of long-term relationships rather than hot dates.

But today, the sizzle is moving. Plan sponsors are spending less on investments and more on supporting participants with digitized education efforts. Joe Ready, who runs Wells Fargo Institutional Retirement & Trust, said this stems from the shift to low-cost index investing in plans and the new focus on “financial wellness” and income planning. The economics of the plan business may be turning upside down.

© 2017 RIJ Publishing LLC. All rights reserved.