It’s an Index! It’s an Income Calculator! It’s a Fund!

By Kerry Pechter *Tue, Aug 20, 2013*

BlackRock’s new CoRI helps older DC plan participants find out how large an income annuity they can afford to buy at retirement—but it stops short of helping them buy one.

BlackRock, which manages nearly 10% of the $4.45 trillion in defined contribution assets in the U.S., has tried for several years to bring novel annuity-linked solutions to the problem of converting 401(k) account balances into lifetime income.

Before the financial crisis, BlackRock promoted SponsorMatch, a two-sleeve solution that used each participant’s employer-matching contribution to buy increments of future income, in the form of an optional MetLife income annuity at retirement.

Then came LifePath Retirement Income, which is based on BlackRock’s LifePath target date funds. Substituting an annuity pool for the bond portion of the TDF, the program allows participants to build up a retirement income stream over time.

SponsorMatch was, arguably, ahead of its time. LifePath Retirement Income is a work in progress. Each met resistance from sponsors who, while seeing the importance of pivoting toward income, are reluctant to confront the fiduciary or recordkeeping issues associated with so-called “in-plan annuities.”

Now BlackRock has a new program. It too helps participants prepare for the purchase of a life-contingent annuity at retirement, but it doesn’t involve an insurance company. It creates “investable indexes” that show the current average price of $1 of annual inflation-adjusted lifetime income at age 65 for people of various ages. The indexes are tied to a yet-to-be-announced series of proprietary target-date bond funds whose NAVs correspond to the Index with the same date.

CoRI makes the scene

The latest effort is called CoRI, an evocatively nonspecific name (created in a brainstorming session, but not an acronym, said a BlackRock spokesman) that embraces a palette of related products and services. So far three components of the program have been launched or are near-launch:

- The CoRI Indexes, expressed in dollars, which shows the cost of $1 of life-contingent annuity income at age 65; there is a CoRI 2018 Index for 60-year-olds, a 2019 Index for 59-year-olds, etc. Today’s Index for a 60-year-old, for instance, is $15.41. The Index is $14.70 for a 59-year-old and $16.41 for a 61-year-old. To get the Index for each age, it takes the current price per dollar of inflation-adjusted lifetime income for a 65-year-old and discounts it to the present day, using current interest rates.
- The CoRI Tool, a web-based calculator that shows about how much annual life-contingent annuity

income a person’s current savings will buy when the user (ages 55 to 64) reaches age 65. The tool simply takes the CoRI Index for your age and divides your savings by that number to show how much annual income you could buy with your savings at age 65. It doesn’t account for any fees or premium taxes associated with the purchase of an income annuity, however.
- BlackRock Cori Funds. a prospectus for Cori 2017, 2019, 2021, and 2023 funds with the SEC July 3o, with Investor A and institutional shares.

BlackRock hasn’t revealed its entire CoRI strategy yet. The Index and the Tool are presumably intended to differentiate BlackRock’s bond fund from competitors in the 401(k) space, establish thought-leadership in the “income” trend and stimulate online “engagement” with participants, ultimately leading to sales of the CoRI Index funds by participants within 10 years of retirement.

Exactly how participants might use the funds to create income at retirement or how this strategy might help BlackRock retain those assets when participants retire and leave their plans isn’t clear. In an interview, BlackRock didn’t describe any broader plans to market CoRI to individual investors or to RIAs. Refinements to the CoRI calculator, such as the ability to include income from Social Security, were hinted at but not specified.

The CoRI Index may simply be an elaborate marketing push, one that assumes that sponsors will want to offer and participants will want to buy BlackRock’s bond funds just because they have a clever feature that helps participants calculate how much annuity income they might be able to buy at retirement. But there may be wrinkles that BlackRock hasn’t revealed yet.

The launch of CoRI is certainly timely, though Stephen Bozeman (right), director and senior investment strategist for BlackRock Defined Contribution, told RIJ that it’s largely a coincidence that BlackRock unveiled its CoRI program at the same time that the Department of Labor has set up its own retirement income calculator and solicited comments from the retirement industry on safe-harbor guidelines for offering savings-to-income calculators on their 401(k) plan portals.

The federal government is eager for plan participants to begin thinking of their account balances in terms of how much monthly lifetime income they can produce, rather than as lump sums. Asset managers are eager to keep participant money in their products as participants move from accumulation to income.

“We see people using the Index to get their bearings. It creates more certainty around income,” Bozeman told RIJ. “It’s the same concept as a TDF; it gets more conservative as you approach retirement. It serves as a glide path to a fixed deferred annuity. We think this is the best metric for translating savings to income. It’s appropriate for investors 55 to 64. Young investors are more focused on accumulation; we think the emphasis should be on savings until you reach the pre-retirement period.”

“The timing has been good for us, but [the CoRI] project has been in the works for years,” added Bozeman, a former Barclays Global Investors principal who came to BlackRock’s LifePath division in May 2011.

“The genesis of this idea came about as a result of LifePath Retirement Income. LifePath had an imbedded liquid annuity. It had some issues; plan sponsors were concerned about someone beside themselves choosing the annuity provider. It’s also hard to put an income reporting metric on a 401(k) platform.”

An “investable index”

Bozeman described the link between the CoRI Index and the CoRI Index funds. “One of our innovations with the CoRI index has been to take the calculation into an investable bond portfolio. The movement of the value of that bond portfolio is the index. The Index represents the average price of $1 of inflation-adjusted life-contingent income.

“We’re using a generic mortality table. Each payment is mortality weighted. You’d choose the index that corresponds to the year you turn 65. By having an investable index, you can see how much income your savings buys. It’s a useful translation. If you wanted to hedge the movement in the price of an annuity, you could use the Index even if you don’t invest in the bond funds.”

A BlackRock release suggests that for every CoRI Index there’s a corresponding bond fund, each with its own NYSE ticker, for each year from 2014 through 2023. A 64-year-old participant would buy the CORI2014 fund, for instance, and a 55-year-old would buy the CORI2023 fund.

It’s as if a participant could buy a series of zero-coupon bonds, with the price discounted at current rates for the number of years until the participant reaches age 65, allowing him some assurance—based on best-estimates, however, rather than a guarantee—that the combined value of the investments will buy a predictable amount of inflation-protected lifetime income when they mature together at age 65. Asked why BlackRock hasn’t yet rolled out the CoRI Index funds, Bozeman said, “It’s important to establish that as a metric first and not have that clouded by other efforts for commercializing it.”

BlackRock distinguished itself in another way recently in the retirement income space. This week, the company announced that it would be a sponsor of the Institutional Retirement Income Council, an organization created under the leadership of Sri Reddy, head of Institutional Income at Prudential Retirement. Until now it had been funded by Prudential and John Hancock as a vehicle—it describes itself as a think tank—to advocate for lifetime income options in the DC space, but others in this nascent space have been slow to get on board. Prudential Retirement markets IncomeFlex, a program based on target date funds in a group annuity with a guaranteed lifetime withdrawal benefit.

A competitor’s view

One observer of CoRI says he likes what he sees so far. “This makes a lot of sense,” said one of BlackRock’s competitors in the DC space, all of whom stand to benefit as plan sponsors become more comfortable with income strategies. “It’s for sponsors who want to start the conversation about income but who don’t want to take the responsibility or liability of engaging with an insurance carrier. This is just the first step for BlackRock. The next step is to turn it into a product and solutions. It will be interesting to see if they use it to work with advisors or to do UMA [unified managed] accounts.”

The product most like CoRI in today’s marketplace, he said, is Financial Engines’ IncomePlus program. It gradually moves participant assets from stocks to bond funds over time, with the aim of establishing a source of reliable income for the first 20 years of retirement, while also seeking “to set aside enough bond funds so that you could purchase an annuity [at age 85] if you decide to do so,” according to the Financial Engines website.

The competitor picked a few nits with the CoRI concept, but considered them minor. “The negative aspect is that there’s an implied guarantee,” he said. “The participants may think they have protection, but there’s no guarantee that an insurer will sell them an annuity at that price.” (The CoRI Index doesn’t reflect any of the distribution fees or expenses that would be associated with the price of an immediate annuity.)

“If there’s one thing to disagree with, it’s that they’ve held the retirement age constant at age 65. I’d have made that a variable. Also, these income estimates are all theoretical. But no assumptions can be exactly right. There are two schools of thought in the comments about the DoL’s proposal [for putting a lifetime income projection in retirement plan statements]. One is, ‘Do nothing until you get the income projections perfect.’ The other is, ‘Don’t let the perfect be the enemy of the good.’”

“Kudos to them for making the conversation about income,” he added. “I give them credit for recognizing that the optics have changed for advisors and participants. They’re trying to establish a common language and standards, in much the same way that the DoL is. The more we standardize the conversation, the more [the transition to thinking in terms of income] will happen.”

The CoRI effort apparently reflects the retirement income planning philosophy at the highest levels at BlackRock. Last May, in a speech at New York University’s Stern School of Business, BlackRock CEO Larry Fink criticized the U.S. financial industry in general, and the 4o1(k) industry in particular, for being performance-oriented instead of outcome-oriented.

“Investors don’t care if they’re holding a mid-cap stock or Mexican government bond,” he told a group of MBA candidates, “but whether an investment helps them achieve long-term outcomes like sending their kids to college, buying a house, and funding a decent retirement.” CoRI funds are intended to help them accomplish that last item.

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