J.P. Morgan Asset Mgt Joins the 401(k) Annuity Race

By Kerry Pechter *Wed, Sep 4, 2024*

To educate participants, JPMAM's 'My Retirement Income Planner,' an online tool for 401(k) participants, will help them decide whether to cover 25% of their plan savings with an Equitable or Prudential lifetime income guarantee at retirement.

J.P. Morgan Asset Management (JPMAM) has followed its target-date fund (TDF) competitors into the newborn 401(k) "in-plan" annuity market, partnering with A-list life insurers Equitable and Prudential on a new TDF/annuity product line called **SmartRetirement Lifetime Income**.

The new series, announced August 15, is based on the $2.9 trillion asset manager's existing SmartRetirement TDF series. It will compete for plan sponsor clients against similar TDF/annuity hybrids from BlackRock, State Street Global Advisors and AllianceBernstein.

For those new to this phenomenon: The SECURE Act of 2019 encouraged 401(k) plan sponsors to offer annuities, issued by life insurers, to their participants, either as savings vehicles during their working years and/or to be purchased for immediate income at retirement.

Several large asset managers and insurers have since grafted annuities onto TDFs which, with $3.5 trillion in assets industry-wide, are the most common 401(k) savings vehicle. TDFs, like managed accounts, are admitted as qualified default investment alternatives (QDIAs) in 401(k) plans by the Department of Labor.

Participants who don't choose their own investments can therefore be defaulted into a TDF. Once invested in a TDF/annuity hybrid that can generate lifelong income throughout retirement, participants are likelier to leave their savings in the plan instead of rolling them over to an IRA.

"By offering in-plan lifetime income, the product design aims to mitigate the need for rollovers by giving participants access to institutional-quality products and pricing and helping the plan sponsor, recordkeeper, and J.P. Morgan retain in-plan assets," JPMAM head of retirement Steve Rubino told *RIJ* in an email.

"We're focusing on the larger plan universe of U.S. defined contribution plans eligible to invest in collective investment trusts (CITs), initially targeting large and mega plans as their QDIA [qualified default investment alternative]," Rubino wrote. (CITs are an increasingly popular vehicle for TDFs; they entail less paperwork and lower costs than mutual funds.)

J.P. Morgan ranks 7th in Target Date Fund AUM

"Looking only at mutual fund and CIT-based TDF series, J.P. Morgan Asset Management (JPMAM) managed $102 billion as of the end of June 2024," Chris Sway of Sway Research told *RIJ*. "This was good for a 2.7% asset share in non-custom TDFs, which totaled $3.78 trillion."

J.P. Morgan also managed $46 billion in custom TDF assets, which brings its TDF management to $148 billion, or 3.6% of total TDF assets, Sway said. He puts total TDF assets at $4.08 trillion, of which $295 billion is custom, but noted that his survey doesn't yet capture the entire custom TDF market.

"Whether custom TDF assets are included or not, J.P. Morgan ranked 7th overall at mid-year 2024, between State Street ($213 billion overall, including $26 billion custom) and Nuveen ($98 billion in mutual funds and CITs and no custom TD assets)," Sway said.

JPMAM had the fifth-highest TDF inflows in 2024 (through July), according to *PlanSponsor* magazine, at $21.7 billion. BlackRock led with $141.7 billion.

The income guarantee

One of investment sleeves inside the SmartRetirement Lifetime Income TDF will be a stable value fund (SVF), a type of low-volatility bond fund often used in 401(k) plans for capital preservation, and in which about $870 billion in defined contribution plan assets are currently held.

Ten years prior to a participant's target retirement date, some his or her savings will begin migrating to the SmartRetirement Lifetime Retirement Income Fund, which " will invest in group annuity contracts issued by unaffiliated insurers to finance the optional lifetime income feature during the participant's retirement spending phase."

"In the accumulation phase, the TDF will make purchases of a stable value fund as part of the participant's fixed income allocation," Keith Namiot, head of institutional markets at Equitable, told *RIJ* in an interview. "That is, a portion of what would have been in bonds will be in stable value.

“The target allocation at retirement is 25% of the account value,” he added. “A ‘synthetic GIC’ (guaranteed investment contract) provided by us and by Prudential will wrap around the SVF during the accumulation period. Participants can elect guaranteed income for life at retirement,” he added. Participants will be able to move money out of the SmartRetirement Lifetime Income TDF if they wish—pension law requires that 401(k) assets be liquid for the participant.

Pulling the trigger

Though defaulted into the TDF, participants cannot be defaulted into the annuity. They must actively choose it. “At retirement the participants can choose to buy a guaranteed withdrawal benefit for life and make withdrawals that are linked to the life expectancy of the policyholder and possibly the spouse. Participants must actively choose to trigger the lifetime income benefit; they can’t be defaulted into it. They can increase their payment by delaying the commencement of benefits.

The TDF/annuity concept is still too new for anyone to know what percentage of participants who reach retirement will pull that trigger. A lot will depend on how well that decision is supported by the plan sponsor and product providers. “When there’s education at moment of retirement, there’s a noticeable difference in the take-up rate,” said Equitable’s Namiot.

To educate participants, JPMAM said, “We are designing an intuitive digital experience, ‘My Retirement Income Planner.’ It is intended to provide education that plan participants can use in their decision-making, including whether to opt into the lifetime income feature. There will not be any additional fees—for plan sponsors or participants—for accessing this digital education.”

Given the participant’s account value, years of life expectancy when income starts, and the anticipated growth rate of the SVF, the insurer will be able to calculate not only the monthly payments during retirement, but also project the date when the account will be depleted.

“Usually, in a variable annuity with a GWB, the payment is a percentage of the guaranteed income base, Namiot said. “Due to market volatility, it is not possible to know what year the account will be depleted. For this product, the guaranteed payment is based on mortality and the payments are designed to deplete the account value at a specific date in the future. We adjust the payment each year based on the net-of-fees performance of the account.”

If retirees die before reaching that date, their beneficiaries will receive what’s left in the account. If retirees outlive their life expectancies, one of the life insurers will continue paying them by purchasing a life-contingent, single premium immediate annuity (SPIA). "At a certain date in the future that is known to us and to the participant, if still living, Equitable will begin making guaranteed payments to the policyholders in amounts equal to their last monthly payout check," he told *RIJ*.

The SPIA is financed by the annual insurance fees that the participants start paying as soon as they opt into the program at retirement. Retirees will continue to pay investment fees on the 75% of their savings that remains in the 401(k) plan, under JPMAM management. Specifics about these fees were not available to *RIJ* at deadline. The current fee for the JPMAM SmartRetirement Income Fund, the most final fund in its TDF series, is 69 basis points (or 88 bps without the current waiver).

The annuity features known as "guaranteed withdrawal benefits" have been around for more than 25 years, initially as riders on deferred variable annuities and later on other types of deferred fixed, fixed indexed, and registered index-linked annuities. The value proposition sounds like a win–win: the monthly payout can't be less than a certain minimum, and retirees can always take out more than that for unplanned or unforeseen expenses.

But that type of "withdrawal benefit" has always presented a trap of sorts for retirees, no matter which insurer offers it. The *minimum* withdrawal rate is, in effect, also a *maximum* withdrawal rate. If retirees over-withdraw from their accounts, they could, depending on how much they withdraw, forfeit past fees and receive proportionately smaller monthly payments until they die. Since their "excess withdrawal" would reduce the providers' asset-based fees, that makes sense.

At retirement, participants in the SmartRetirement program also have an opportunity to choose a non-guaranteed distribution service, JPMAM's "Flexible Retirement Income Fund. JPMAM's website describes it as "a balanced portfolio of stocks and bonds that offers higher growth potential and supports a flexible withdrawal strategy."