Let’s Get This (Income) Party Started!

By Kerry Pechter *Thu, Sep 30, 2021*

I watched a webinar this week on 'Key Trends in Defined Contribution Plans,' hosted by the Georgetown Center for Retirement Initiatives. Regarding demand for income options in 401k plans, a BlackRock executive said, 'It's big. It's here.' So why is progress so slow?

“It’s big. It’s real. It’s here. It’s now. The demand is strong.” So said Matt Soifer of BlackRock a webinar this week. It was hosted by the Georgetown Center for Retirement Initiatives. The topic was “Key Trends in Defined Contribution Plans.”

The virtual discussion was led by Angela Antonelli, Research Professor and Executive Director, Center for Retirement Initiatives, Georgetown University’s McCourt School of Public Policy. The panelists included Kathleen Kelly, founder and managing partner, Compass Financial Partners, a Marsh & McLennan Agency LLC Company, Michael Kreps, Partner, Groom Law Group, Soifer, who is managing director, Retirement, BlackRock, and Tina Wilson, senior vice president and Chief Product Officer, Empower Retirement.

BlackRock recently completed its annual Retirement Pulse Survey, which elicits plan participants’ desires from their retirement plans and employers, as well as how plan sponsors and financial advisors are responding. The panel explored:

- The systemic weaknesses of the current retirement system
- The need to address demographic inequality, improve outcomes, and secure the financial future of millions of American workers
- The importance of financial wellness and resiliency
- The demand for access and savings options
- Plan design
- Retirement income

In truth, the topic of retirement income was the last topic up for discussion. But it generated a spirited, if somewhat nebulous, discussion.

Soifer pointed out the need for certainty in retirement. “When you have more uncertainty, you have to hedge more, and when you have to hedge more, you have a suboptimal retirement,” he said in support of protected or guaranteed income products. Hear, hear.

The BlackRock survey found that 89% of participants want their employers to provide a retirement income option, and almost all plan sponsors want the same. The mission of such products should be to “maximize spending, minimize volatility, and address longevity,” Soifer said.

“You need to focus on all three and embed lifetime income in a target date fund,” said Michael Kreps of Groom Law Firm, an expert on retirement-related legislation. Exactly how that might be done, he did not elaborate. But he noted, “All the pieces are there on the regulatory front” for the inclusion of retirement income solutions in retirement plans.

We’ve been in this holding pattern for a long time, with respect to income options in retirement plans. Life/annuity companies would like to capture defined contribution assets before participants roll them over. Some asset managers would like to see assets stay in the plan.

For the plan sponsors, choosing an income option doesn’t just involve picking a financially strong annuity provider. The challenge for employers trying to serve a diverse audience is that every retiree needs a customized solution. No single size fits all. The SECURE Act gave plan sponsors more flexibility in choosing an income solution. But plan participants are likely to need a much wider range of options than any individual employer can provide. Participants are likely to have to roll their assets out of the plan to get the range of options and degree of customization they need. Yet rollovers to retail brokerage IRAs drawbacks too. They’re usually more expensive than in-plan solutions.

In Australia and Israel, to name two examples of countries with mandatory DC programs, employees can choose their own financial service providers instead of limiting themselves to the employer’s choice. Our system would have to change radically to adopt that policy. But Australia also struggles with making it easier for participants to convert DC assets to lifetime income. (See today’s Research Roundup for more on that.)

The webinar was engaging but, as such discussions often are, inconclusive.

When I shared my thoughts about the webinar on LinkedIn, however, many people quickly joined the discussion. Some recommended specific solutions to the income puzzle. Richard Fullmer, a former senior executive at Russell Investments and T. Rowe Price, recommended tontines as a solution. He’s now in that business at **Nuovalo**. Similarly, actuary Larry Pollack spoke in favor of “a 401(k) longevity pooling option to provide lifetime income without insurance company guarantees, like **VPLAs** in Canada, the **QSuper** superannuation fund in Australia and US 403(b)(9) annuity plans” such as CREF at TIAA.

Many people are eager to see the DC income party finally get started. And maybe it has. Prudential Financial this week announced the launch of a DC Solutions group in its PGIM (Prudential Global Investment Management) division.

PGIM named eminent retirement income researcher David Blanchett (lately of Morningstar) as one of the new group’s five senior team members. And here’s what the new CEO of DC Solutions, Linda Gibson said in a release this week: “The market is increasingly demanding a comprehensive approach to retirement income, which requires a range of new thinking and solutions, deployed in a flexible way,” Gibson said. “We have created PGIM DC Solutions to spearhead that effort and target market leadership in this new arena.”

We’re watching and waiting to see what develops there.