Lion’s Share

By Kerry Pechter *Thu, Jan 19, 2012*

ING U.S. Retirement will combine its own target date funds with the AllianceBernstein three-insurer annuity platform to offer a lifetime income option to its 52,000 small and mid-sized plans.

ING’s U.S. Retirement division is the latest to join the in-plan annuity trend, offering participants in its 52,000 defined contributions plans a chance to protect the income-producing power of their account balances by wrapping them in stand-alone living benefits.

Three insurers—ING Life, AXA Equitable Life, and Nationwide Financial—will provide the lifetime income guarantees, which ING calls MGWBs, or minimum guaranteed withdrawal benefits. AllianceBernstein, which is majority-owned by AXA, provides the technology framework for the program and will manage the annuity assets.

Stand-alone living benefits, or SALBs, which were introduced in late 2007, are gaining importance for the retirement income industry. Insurance companies have long offered group annuities to retirement plans; SALBs allow them to sell guarantees to individual participants.

Asset managers like SALBs because they create a vehicle that potential keeps a participant’s assets in the plan for life—assets that might otherwise end up in a rollover IRA, to be managed by a competitor. A SALB also helps plan sponsors fulfill a perceived fiduciary responsibility to help participants prepare for a secure retirement.

The program is brand new, so none of ING’s 52,000 plan sponsors have yet had a chance to consider the ING Lifetime Income Protection program, as the new offering is called. So the level of interest on the part of sponsors and participants remains to be seen. Earlier marketers of in-plan annuities include Prudential, John Hancock, and Great-West.

Front-end and back-end

Here’s how ING LIP will work, from the participants’ perspective. First, participants invest in one of ING’s proprietary collective trust target date funds, whose glidepaths end at age 65 with a 50/50 stock/bond allocation.

Beginning at age 48, TDF assets gradually begin to migrate to variable annuity separate accounts managed by asset manager AllianceBernstein and are protected by the MGWB, which costs one percent of the subaccount assets. When the participant reaches age 65, 100% of the assets are protected, and the participant can begin drawing them down, typically at a rate of 5% a year. Alternately, participants can withdraw money from the account at any time, subject to pro rata reductions in the guaranteed income basis.

“We conducted our own research and, given the economic times, we found that many participants are concerned about financial security in retirement,” said Rick Mason, president of Corporate Markets for ING U.S. Retirement. “There are two risks that are troubling them—the risk that the market will go down, and longevity risk. We’re looking for a solution that will help participants address those risks.”

The backend of the system, which participants won’t see, is AllianceBernstein’s GATES platform (It stands for “Guarantee Aggregation, Trading and Expensing System”), where participating insurance companies—in this case, AXA Equitable Life, ING Life, and Nationwide Financial—compete on an auction-style basis to provide the variable annuity guarantee to each chunk of assets that moves from a target date fund to the variable annuity subaccount.

“The funds move from the target equity managed funds and purchase income through the multi-insurer platform. AllianceBernstein will provide the platform and management of the index portion of the portfolio,” Mason told RIJ. “Every quarter, as income is purchased, each insurer will have an amount allocated to them.

“It’s like an auction process that optimizes, for that period, the greatest amount of monthly benefits that can be purchased by each participant. ING is the recordkeeper, the investment manager and provides an insurance guarantee. We’re pulling it all together and we have responsibility for administering the program.”

In effect, ING is leveraging a critical piece of Secure Retirement Strategies, AllianceBernstein’s proprietary in-plan annuity program, which was launched in 2010. Last October, United Technologies became the first plan sponsor to adopt Secure Retirement Strategies, offering it to its $15 billion, 102,000-participant defined contribution plan.

In that deal, the three insurers were AXA Equitable, Nationwide Financial and Lincoln Financial. Lincoln’s lack of participation in the ING deal was seen as a reflection of the fact that it competes directly with ING in the small to mid-sized retirement plan market, rather than the inability of the GATES platform to accommodate more than three insurers.

Two paths to success

Mark Fortier, who leads AllianceBernstein’s Secure Retirement Strategies program, said ING Retirement could have created an in-plan annuity on its own, providing both the investments and the insurance, but chose to partner with AllianceBernstein because they believe that the open architecture approach is more likely to be embraced by plan sponsors than single-insurer programs.

“They could have gone it alone,” Fortier told RIJ, “but this is about getting adoption and traction in the industry.”

“There are two schools of thought” in the retirement income industry,” he added, explaining that some see the path to growth through competition among providers while others see a path to greater success through collaborations. “The question is not, ‘Who is better?” he said. “It’s, ‘How do we provide comfort to the fiduciary?’”

According to AllianceBernstein's research, the multi-insurer approach appeals to plan sponsors less because they're worried about diversifying the risk of insurer insolvency, than about ensuring price competition among insurers and securing ample capacity for new business.

In pitching the in-plan annuity concept to sponsors, Fortier also likes to posit a link between the availability of lifetime income options and a higher rate of contributions by DC plan participants. Before the crisis, he said, participants were motivated to contribute by watching the growth of their accounts. Post-crisis, participants will be motivated by watching the growth of their future monthly income stream.

With its big footprint, ING Retirement is in a position to vastly broaden the availability of in-plan annuities. It is a giant in the small-plan segment of the U.S. defined contribution market. Soon to be spun off from its parent, Netherlands-based ING Groep N.V., and assume a new brand name, it provides recordkeeping services for millions of plan participants, mainly at plans with fewer than 5,000 participants each and less than $150 million in assets.

Only Fidelity and Vanguard are bigger. According to the ING Retirement Plans website, the company ranks first among plan providers in number of plans with 52,000, second in number of participants with 6.4 million, and third in defined contribution plan assets under management, with $277 billion.

By comparison, Fidelity Investments reports 11.7 million participants in 20,600 plans. Vanguard is a full-service provider to 3.2 million participants in over 2,500 large plans, and provides investments to another 8,500 plans, according to the company.

Helped and hurt by the crisis

ING Retirement grew substantially in size in 2008, when ING Groep N.V. paid about $900 million for CitiStreet, one of the country's largest retirement plan recordkeepers. CitiStreet was born in 2000 as a joint venture between Citigroup and State Street Corporation. Thanks to Citigroup's need to raise cash during the financial crisis, ING became one of the top three players in the U.S. retirement plan business.

But the financial crisis also hurt ING's parent. The giant Dutch insurer required a $12.8 billion bailout from the Dutch government, which it is gradually paying back, in part by divesting assets. Last year, ING Groep agreed to sell its ING Direct banking business to Capital One, the credit card company, for $9 billion. It intends to spin off its other U.S. units, including the retirement plans division, in an IPO.

ING Groep reported last week that it would not pay a dividend to shareholders until it had repaid all of its bailout funds to the Dutch government. The firm still needs to repay about 30% of its bailout. It also has to split up its banking and insurance assets by the end of 2013 to comply with requirements attached to the bailout.

The firm reduced its holdings in Southern European sovereign debt by 1.2 billion euros in the fourth quarter of 2011, according to a company statement. In 2011, ING reduced its total exposure to the debt of Southern European countries by 4 billion euros, but still has approximately 2 billion euros of their sovereign debt on its balance sheet. Last Thursday, ING announced that it was abandoning plans for an initial public offering of its combined Asian and European businesses, citing turbulence in the equity markets.