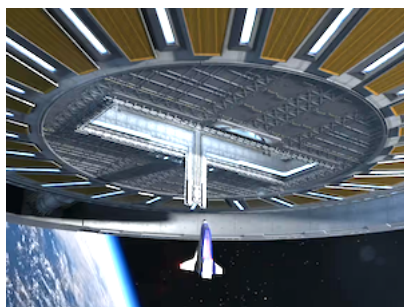


## Middleware is Central to In-Plan Annuities

By Kerry Pechter Sat, Nov 2, 2024

*Middleware is hub-and-spoke software that lets retirement plan recordkeepers and life insurers talk to each other. Steve McCoy of iJoin, a provider of managed account user interfaces, and Bill Mueller of IPX, a middleware provider, talk about their ventures with annuity issuers.*



People talk about software and hardware. They talk about firmware. But they haven't talked as much about "middleware." Yet, if or when the integration of annuities into 401(k) plans makes the leap from novelty to normal, we'll thank the middleware providers for it.

Middleware is a type of software. It bridges the gaps between the databases where plan recordkeepers, insurance companies, and investment companies store confidential participant or policyholder information. It lets those databases communicate in "the Cloud" using APIs (application programming interfaces).

When annuities were common only in 403(b) plans, a plan recordkeeper and an annuity issuer might arrange an exclusive, bilateral exchange of information. But middleware is a hub-and-spoke operation. It lets plan sponsors switch life insurers easily and inexpensively, if needed. It furnishes the annuity "portability" that most 401(k) plan sponsors will insist upon before they add annuities to the investment menus of their plans.

The three most prominent middleware providers in the DC space today are said to be Toronto-based [Micruity](#) (about whom *RIJ* has written), [SS&C Technologies](#), a global tech company with some \$2 trillion under administration, and the Investment Provider Xchange, or [IPX Retirement](#), a former 403(b) recordkeeper based in Centennial, CO.

### **iJoin provides the UI and UX**

Recently, *RIJ* had a chance to talk with Bill Mueller, CEO of IPX, and Steve McCoy, CEO of [iJoin](#), a managed account provider that gives plan sponsors a turnkey interface for messaging and educating participants about converting part of their savings to guaranteed income streams at retirement. income solutions.

The two firms are currently partnering with Allianz Life of North America on [Allianz Lifetime Income+](#), Allianz Life's in-plan solution for 401(k) plan participants. When auto-enrolled participants get close to retirement age, the solution starts funding an Allianz fixed indexed annuity with an option, income-providing guaranteed lifetime withdrawal benefit.



Steve McCoy

“Our technology spans the full plan-size spectrum, from startup plans to jumbo or mega-plans,” McCoy told *RIJ*. “Our direct customers are the plan providers, but the indirect customer are the plan advisors. A lot of our technology supports their objectives.

“Forward-thinking advisors don’t want to be boxed in. They want choice, optionality, and flexibility. Our strategy is to build out a marketplace of solutions for more personalized advice,” he said. In iJoin’s case, that means providing a managed account.

Like target date funds, managed accounts are “qualified default investment alternatives,” which means that under the Pension Protection Act of 2006 participants can be defaulted into them. Managed accounts, which compete with TDFs as vehicles for annuities within 401(k) accounts, can incorporate a participant’s personal data—a spouse’s income, assets outside the plan, real estate—into its algorithms, or what McCoy calls iJoin’s “advice equation.”

“Our first carrier partner was Allianz. We’ve also partnered with Annexus, Athene and Nationwide. We’re working on TIAA’s Secure Income program for the defined contribution market. We’ll be announcing a relationship with Capital Group to provide a personalized target date fund. We have a relationship with T. Rowe Price through an insurer.”

## **IPX provides the ‘connectivity’**

Where iJoin builds the online user-interface that determines the plan participants’ user-experience, it partners with IPX to tie the interface to the other plan service providers. IPX divested its 403(b) recordkeeping business last March in order to stake its future on the 401(k) annuity opportunity.

“We’ve developed a platform called Retirement Edge,” IPX CEO Bill Mueller told *RIJ*. “It provides connectivity between the recordkeeper, the custodian, and the insurance carriers.” The connections are product-agnostic. Retirement Edge currently accommodates fixed income annuities, collective investment trusts (CITs) with income riders, or qualified longevity annuity annuities.



Bill Mueller

“QLACs” are deferred income annuities whose assets, according to a 2014 Treasury Department action, can be excluded from retirees’ required minimum distribution calculations until age 85. Retirement Edge can execute the data exchanges for both “in-plan” annuities (which are funded during the accumulation stage) “out of plan” annuities (which aren’t funded until the participant leaves the plan).

“On the back end, we’re ‘cashiering’ the transaction,” Mueller said. “Cashiering” is one of the more complicated steps in the 401(k) annuity digital machinery. It occurs when a participant is either purchasing a small amount of future income benefits with each paycheck, or buying an annuity with a lump sum at retirement.

The middleware provider coordinates the liquidation of all or part of the participant’s

account value and the purchase of an annuity contract with the recordkeeper, the custodian of the money, and the annuity provider. “IPX is the only middleware player that has cashiering capability for the client,” McCoy told *RIJ*.

### **Plans offer multiple income options**

Each firm involved in these chains of transactions gets incremental shares of the compressed fees that 401(k) plan providers and their fiduciaries have been allowed to charge in the wake of several court rulings during the wave of “breach of fiduciary duty” class action lawsuits brought by participants and plaintiffs’ attorneys in the 2010s. Mueller nonetheless has faith in the future of the 401(k) annuity market.

“Since we divested our recordkeeping business, we are solely focused on DC,” Mueller said. He believes that there’s “no question” that the 401(k) annuity trend has legs. “Two years ago when we talked to recordkeepers, they’d say they weren’t sure about how they would approach this market. But now the conversation is, ‘We’ll do this. We’re just not sure when.’”

IPX is preparing for a future where 401(k) plans will offer not one but a choice of several lifetime income options to their participants. With that in mind, “we set out to create a marketplace,” he said. “In addition to providing portability, we think it will standard for plans to provide more than one flavor. That’s why we currently support a fixed income annuity and a QLAC. Our TDF-style annuity is a work-in-progress.”

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